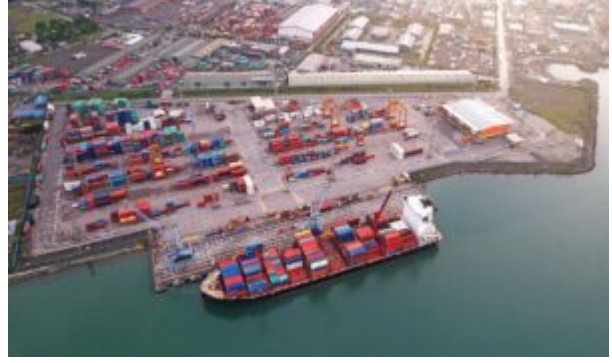


AIFFP oblivious to excessive PNG port charges

by Stephen Howes and Bobby Kunda

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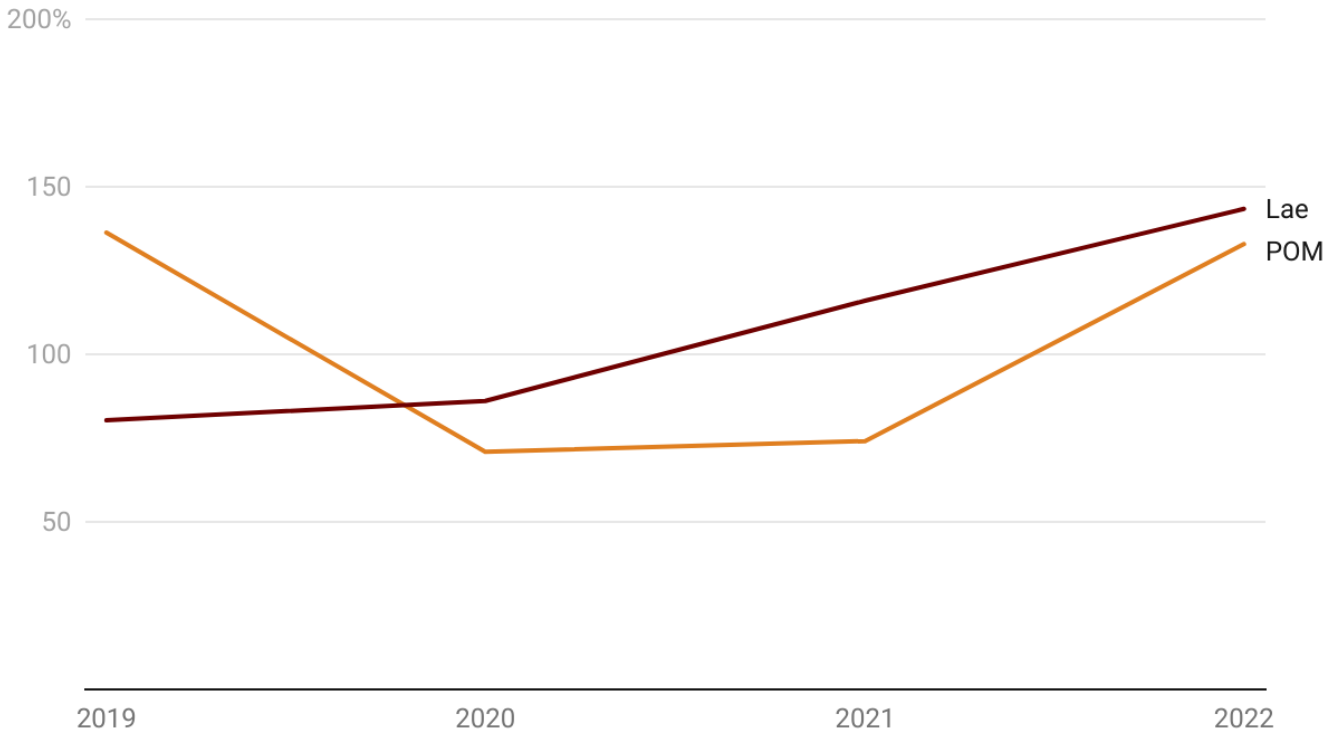
PNG's busiest port in Lae, Morobe province
Photo Credit: PNG Ports Corporation/Facebook

PNG's Independent Consumer and Competition Commission (ICCC) recently undertook a review of the stevedoring and handling market for shipping containers. Its [report dated 4 December 2023](#) found that PNG's domestic container handling market was competitive, and that there was no need for any intervention. However, in the international market, the situation is quite different.

The multinational International Container Terminal Services Incorporated (ICTSI) is the sole operator for PNG's two international wharves – Motukea in Port Moresby and Lae Tidal Basin. ICTSI has exclusive rights to operate both wharves under a Terminal Operating Agreement (TOA) signed with the PNG Ports Corporation Limited in 2017.

ICCC found that the prices ICTSI was charging under the TOA were exorbitant, so much so that it earned a rate of return in excess of 100% in 2022. As shown in the figure below, in the other years studied, the return ranged from 70% to 140%. A normal rate of return might be in the 10-20% range. A rate of return of more than 100% means that in a single year your profits exceed your total investment.

Figure 1: ICTSI returns on economic capital



Source: Table 12 of ICCC report • Created with Datawrapper

ICCC accordingly ruled that ICTSI’s prices should be greatly reduced, in fact approximately halved. In 2022, in Lae, ICTSI’s average handling price was K656 per standard container. ICCC ruled that this should be more than halved to K293 in 2024. In Port Moresby, the recommended reduction is from K572 to K308.

ICCC’s maximum prices for 2024 were **gazetted in December**, but ICTSI has gone to the courts and **obtained a stay order**, meaning that ICCC’s recommended tariffs have not come into force. **ICTSI says** that it “contests most of the financial calculations, assumptions, assertions and claims” made by the ICCC. According to the ICCC report, ICTSI failed to make a submission to the review and questioned its legality.

The ICCC report raises many questions.

First, how was it that regulatory approval in relation to the ICTSI contract was not sought prior to approval?

Second, the ICSTI contract has been mired in corruption allegations ever since **leaked bank documents revealed** that ICTSI made large bank transfers to an Australian businessman who in turn, around the same time, made some very generous gifts to the PNG Ports CEO. Although a recent enquiry **cleared PNG Ports** of any impropriety, the question remains how to explain the allegedly excessive prices ICSTI is allowed to charge through its agreement with PNG Ports.

Third, Australia is funding [an expansion of the Lae port](#) through the Australia Infrastructure Financing Facility for the Pacific (AIFFP), and there is the obvious prospect that ICTSI will end up operating the enlarged port at the same apparently exorbitant rates currently prevailing. Indeed, the PNG Minister for State-owned Enterprises was [recently quoted](#) as saying that “the terminal operator appointment was part of a PNG Ports redevelopment plan support for the AIFFP”. The TOA was signed (2017) well before the AIFFP investment (2021). Has AIFFP analysed the TOA?

AIFFP has in fact recently posted [some information](#) about the PNG ports investment. Remarkably, the 14-page business case contains not a single word about port pricing or policy risks more generally. This is despite the fact that infrastructure success is ultimately a matter not of adequate financing but of sound policy.

Rubbing salt into the wound of policy neglect (a risk one of us [highlighted for AIFFP back in 2019](#)) is the fact that AIFFP’s published business case for its PNG ports investment lists as its “key reputational risk” the fact that another, much smaller wharf whose rehabilitation AIFFP is financing may be used by a palm oil exporter with a dubious reputation. Environmentalists may protest. Not a word on the far more important and obvious reputational risk that this Australian government investment will become a source of excessive profits for a foreign multinational.

In the light of the scathing ICCC review, AIFFP should revise its business case and explain what it is doing to ensure that any port expansion financed by Australia is operated for the benefit of PNG, not a foreign multinational. It should also insist that its borrower, PNG Ports, release all details around the ICSTI contract, and any defence that it or the multinational has in support of its port handling charges.

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