

Competition and Regulatory Policy Reforms in Papua New Guinea

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1. Competition Policy and Principles of Competitive Neutrality

The Government of Papua New Guinea recognizes the important role played by competition policy in improving economic development and strengthening market forces. In this regard, the Government is promoting competition in the hope of increasing economic efficiency as well as to reduce pressure on the Government's limited capital funds.

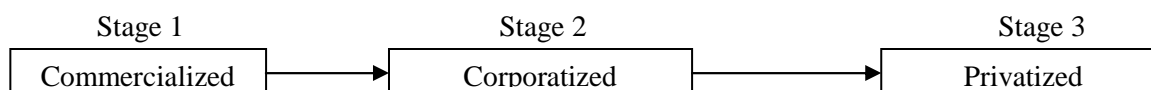
Reforms in the competition and regulatory policies for the financial sector and the State Owned Enterprises (SOEs) constitute a major part of the Government's Structural Adjustment Program, which began in 1999. The reforms were based on three sets of principles, which are set out in the table below.

Competition and Industry Structure Principles	Regulatory Policy Principles	Regulatory Institution Principles
Viable Size	Promote competitive market conduct	Competence
Maximize Competition	Prevent misuse of monopoly power	Independence
Separation of policy, regulatory and operational functions	Facilitate entry into markets	Transparency
Separation of monopolistic activities from (potentially) competitive activities	Promote efficiency	Accountability
	Ensure users benefit from competition	Consistency
	Opportunity to earn returns	

The reforms intend to strengthen market forces and encourage effective competition in the interest of efficient resource use and maximum community benefit. The Government, however, is also equally concerned about the relatively small size of each of the markets in PNG, which present a very real constraint on the ability to disaggregate existing monopolies and create competition to the extent that might occur in other larger economies.

The Government has adopted 3-stage approach in transforming the SOEs from commercial enterprises to corporate entities and eventual privatisation (see diagram A). All of the SOEs are currently operating as corporate entities, and will eventually be privatized as part of the government's privatisation exercise. One of the SOEs (Commercial Bank) was privatized in 2001.

Diagram A: Process of Transforming SOEs



The Government has also developed a structural control to encourage the development of a market structure that mirrors competitive conditions in the case of the monopoly utility sectors such as electricity; telecommunications; ports services; postal services; water; aviation; and third party motor insurance.

In the financial sector, particularly in regard to superannuation industry, the monopoly rights of the two major funds (National Superannuation Fund of Papua New Guinea for the private sector and the Public Officers Superannuation Fund for the public sector) have been removed to create an environment for competition.

Principles of Competitive Neutrality

Papua New Guinea does not have a Competitive Neutrality Framework in place, but the principles are practiced by the SOEs. In particular, all SOEs:

- (i) have been corporatised with their own legal structures;
- (ii) required to make commercial returns to at least sustain retention of assets in the business and to pay dividends;
- (iii) pay same company tax as private entities and are not exempted from any form of tax, including fringe benefit taxes; and
- (iv) economic and market conduct is regulated by one independent regulator.

2. REGULATORY POLICY REFORM

Papua New Guinea has unique political, cultural, economic and geographic characteristics that may limit the application of some principles in developing efficient industry and regulatory structures for each sectors of the economy.

The strategy adopted by the Government was to put in place a strong regulatory framework in situations where it is not possible or practical to introduce or strengthen competition, to ensure that the incentive for firms to abuse their market power are eliminated, and thereby encouraging the firms to act in a more competitive manner.

As part of the regulatory reforms, the regulatory functions have been placed in the hands of independent regulators, which are governed by their own legislation, while the role of the Government is to develop policies that will promote competition.

In the financial sector, the Central Bank of Papua New Guinea regulates the market behavior of financial institutions such as commercial banks and credit unions, superannuation funds and life insurance companies and also issue licenses for these entities to operate.

There are no restrictions on entry (domestic or foreign) into the financial sector business activities (banking, credit unions, superannuation and life insurance) so long as the licensing requirements are fully met.

The Central Bank Act 2000 makes the status of Central Bank independent from political influence while the relevant Acts for each financial sector industries give the regulatory powers to the Central Bank to regulate them.

The Independent Consumer and Competition Commission (ICCC) was formally established in 2002 to replace the Consumers Affairs Council and the Price Control Unit of the Department of Treasury. The ICCC controls price quality and reliability of basic and essential goods and services. It also administers regulatory contracts with the SOEs to determine how prices are set and specify minimum service standards.

In addition to its role as the regulator of monopoly industries, the *ICCC Act* (which came into force in March 2003) enables the ICCC to control and monitor anti-competitive behavior such as price-fixing and ensures competitive industries by preventing any industry structure that would substantially lessen competition.

Corporate Governance Issues

Much of the reform in the regulatory framework also intends to incorporate the principles of corporate governance arrangement as a key element of the regulatory policy.

In the case of financial sector, particular in regard to superannuation and life insurance industries, the regulatory framework provides for corporate governance arrangement, where the duties and responsibilities of the trustees/directors are clearly articulated in the *Superannuation (General Provisions) Act 2000* and the *Life Insurance Act 2000*, which requires them to be transparent and accountable in performing their duties.

Future work plan (starting in 2004) of the Central Bank will include extending the corporate governance arrangement to all the other financial institutions under its regulatory control.

For the SOEs, the *Companies Act* does have some provisions concerning directors' duties and responsibilities but there is need for legislative refinement to incorporate corporate governance issues.

Future work plan of the reform process would include refining the *Companies Act* to incorporate the corporate governance arrangement.