Service, Choice, Competition or Monopoly

The State has extensive duties to perform and, as has become only too obvious in recent years, many of PNG's state institutions have not been performing them well, and in some cases not at all.

Over history the limited functions of states (formerly rulers and chiefs) around the world expanded from merely providing protection to their population, in exchange for in-kind contributions, to the concept of 'social contract' between state and population, and eventually the all-embracing state espoused in the former Soviet Union, Cuba to this day, and to a lesser extent manystates post-WW2. Even in staunchly liberal western societies, followingcapitalist models of free enterprise, a major portion of their GDP and employment is tied up in State and para-statal bodies.

What forms the best model for economic development remains a matter for hot debate in bars and tea houses worldwide, partly geared toideologicalpositions. New concepts are introduced, such as privatisation in the 1980s (as a flip to nationalisation from the 1940s, or hitherto), or latterly Public Private Partnerships (PPPs), but they're rarely new; States used to farm out core functionsto the private sector, as with the Dutch or British East India companies virtually running states, or funding State functions, like defence, through'privateering'.

Theory and history havesuggested that capitalist models generate more innovation, investment and economic growth, through their application of free choice bylarge numbers,investing their private resources and competing in open markets,than relatively inflexible State-controlled, command economies, relatively unresponsive to market conditions and opportunities. China and latterly even Cuba have recognised that restraining the drive and entrepreneurial spirit of their population has limitedinvestment and capacityto meet the needs and expectations of growing populations.

On the other hand unrestrained markets, entailing both large and small entrepreneurs driven by greedor need, is neither equitable, nor necessarily socially responsible, and may not ensure sustainable outcomes, asbusinesses strive to extract renewable or non-renewable resources before their competitors. Businesses may save costs bydumping their raw waste at wider social cost to communities and the environment, or securingunfair advantage, if given the opportunity, at other businesses' and consumers'expense. Command economies may be better at sharing and ensuring full employment and perhaps adjusting to finite resources and low growth rates, but, they found it hard to remain competitive in a world geared to growth, innovation, increased expectations and opportunity (however inequitable).

The need for States to impose constraints upon their citizens and regulate businessbehaviour dates far back, but grew from the early 19^{th} Century when business were extending reachworldwide. Campaigns against slavery and dangerous and unhealthy workconditions, led both by participants and social (often faith-based) activists, drove programmes of social reform, includingnational and international regulations, standardsand social protection programmes, including on workplace practise and opportunity, (e.g.women in Saudi Arabia given the right to work just this week).

The process of nationalisation was launchedin PNG post-war, with the Copra Marketing Board established to protect local producers from dominant trading companies, and local cooperatives encouraged to support development of local production and entrepreneurship, and generate local revenue for a growing State. The early cooperatives and marketing boards played a valuable role, but poor management of many cooperatives and savings and loans societies, especially with appoint of wantoks, undermined confidence in these entities, with cooperatives also having to compete with foreign and dynamic new PNG businessmen.

With independence PNG inherited or created various State owned enterprises, providing utilities or commercial services. Utilities, like water supply and sewerage were universally seen as state functions, effectively extensions of health and sanitation programmes and forming core state infrastructure like roads. Telephones were also widely seen as part of national infrastructure, along with postal services. Airlines mostly started off as private entities, but it became tied to national prestige with national 'flag carriers', and PNG established its own, Air Niugini, although sharing market from the start with private airservices, notably Talair and Douglas, although largely marginalized to secondary and tertiary routes, and subjected to tight fare controls. Like many countries, includingAustralia, PNG also commenced its own state-owned bank, PNGBC (plus Development Bank), to ensure services reached rural outposts, largely through agency arrangements in District Offices.

The SOEs started life, like various departments and public authorities, with great leases of life, and in some cases, as with PTC, state of the art infrastructure. Unfortunately, over subsequent years under-capitalisation, combined with increasing nepotism in appointments to boards and then management, right down to middle-levels, pressure for benefits from an increasingly powerful political class for 'loans' from, houses, free tickets, cars etc, badly undermined these organisations, which became cash cows, seriously diverted from their core functions and underfunded for serious new investment in new hydros, grid, watersupplies and sewerage, and even basic maintenance, and many were teetering on insolvency or ongoing drains on the State, rather than providers of revenue.

Many were upset in the 1990s and early 2000s at the State selling off commercial assets. It is true that various assets, as of the Investment Corporation were flogged cheap. However,althoughoft-maligned,the argument which former PM Morauta espoused, was valid, namely, that, if the State had allowed these organisations to fall into such disrepair, no longer performing effectively, and, if leaders couldn't resist cronyism in appointments and systematic operational corruption, then it was better removing temptation and selling these commercial entities, earning some revenue (not much, as most weren't worth much in their condition) and letting the private sector run them better according to commercial practices, whilst imposing various community service obligations on the new owners. The State should then step back and concentrate upon core functions and perform them much better.

Privatisation did not progress far before the change of government in 2002, whereupon it was put on hold. Over the next years the economy improvedwith strong global demand for PNG's export commodities, but governance and the capacity of many government entities, including SOEs did not, with the State and its enterprises an increasing drag on the economy, but particularly on smaller businesses and the wider public, more dependent upon public services and less able to afford private infrastructure and support, from gensets to health care. Put frankly, these problems are not going to be resolved overnight, but, given suitable management, effectivepublic accountability mechanisms, investment and operating funds, core public services can and must be turned around to serve the people of PNG, providing training, supervision and support to the thousands of honest and committed front-line public servants and co-funded workers in church provided facilities.

However, government must focus its limited capacity on core government functions (including regulatory oversight), sometimes contracting out or in partnership withthe private sector, whilst generally letting the private sector deliver purely commercial services, which it can perform more efficiently and profitably (but using CSOs, as a condition, or in places subsidies for services to non-viable remote areas; e.g. air, river freight).

Although most private businesses operate with integrity and commitment to their customers and local communities upon which they depend, they operate to generate profits (i.e. provide a positive return on investment capital to their owners or shareholders –i.e. the basis of capitalism). To ensure the State shares some benefits from profitable businesses (partly to provide infrastructure and services) and to ensure acceptable business practices, companies are subject to a wide range of taxes, workplace, environmental and other rules and requirements. Where these rules are applied in a non-transparent and discretionary manner, unscrupulous firms and officials readily abuse them, with rules are not applied, waste dumped, safety gear not provided, counterfeit drugs served, customary land stolen or,for example, buildings constructed without meeting specifications, collapsing on occupants during an earthquake.

Competition is about the strongest mechanism for keeping businesses efficient and providing reliable and affordable services to consumers. Companies will always say they support competition, but in reality most would prefer the easier conditions of monopoly, or at least collusion (as with some airline code-sharing), effectively setting prices and not be undermined by nimbler or better financed competitors. Effective anti-monopoly and competition watchdogs are crucial to ensure markets remain competitive, in the best interests of business and household consumers. In 2007 PNG experienced the arrival of Digicel which shook up the sleepy telecommunication market, initially for basic mobile phones and diversifying into a wide range of other products. They extended services, improved reliability and reduced costs, investing in towers right out into rural areas, hitherto deemed non-viable for mobiles. They provided needed pressure on the incumbent provider (Telikom) also to invest and improve services, but to keep all services on their toes and meeting the customer needs requires competition prevails, includingDigicel, B-Mobile, Telikom and other ICT service providers. These services are also crucial for extending financial services back to rural areas, withdrawn over the years by PNGBC/BSP owing to crime, poor infrastructure and closure of District finance offices.

Many monopolists, including old State enterprises and marketing boards, argue that their's is a 'natural' monopoly, which is indivisible, or that competition would only cherry-pick the best bits, leaving the marginal operations, like remote ports, to the incumbent, which would then no longer afford to support them. That was an argument with mobile phones, which was subsequently disproven, as the new investor went far further into the bush than the more cautious (and under-capitalised) incumbent. The case can be made in some situations for natural monopolies, but technology change and other factors change scenarios, as between fixed line infrastructure and use of satellites and mobile technology.

The pro-monopoly argument might also be being made by government over the proposed airlines merger or Air Niugini and Airlines PNG, namely that with a larger fleet and more capital, and greater control over main domestic services they could better cross-subsidise more marginal services. They could also argue that smaller airlines are getting squeezed outworldwide, as fuel , aircraft and other costs rise progressively, and greater scale could help the combined airline to compete regionally, have more clout with suppliers, and, by being, at least partially privatised, trim costs and cut out some overheads, like free travel for MPs/MPs, and cut down political appointments and other interference.

On the other hand, Air Niugini always chose not to be a third level airline, and stuck to main international and domestic routes, with larger aircraft, lower unit costs, better safety record, lower insurance rates etc. Third level services were always provided by private and church run enterprises, covering all the remote strips, despite the lack of funding for their maintenance by authorities over recent years. APNG, by contrast, commenced as a third level airline (MBA), slowly graduating to international, main domestic routes and (mining) charter services. Airlines in recent years have not been making much money, if at all, as fuel prices and other costs soared. Third level services, particularly in rugged PNG, invariably entail some higher risk, which raise insurance rates, and can damage corporate reputations and discourage clients. Travellers to and from PNG from Australia have benefitted substantially in recent years from competition, replacing the cosy and uncompetitive duopoly between ANG and Qantas. As economist Aaron Batten et al highlighted in 2009,AirlinesPNG was too small to influence the ANG/Qantas fares, which were only slashed when Virgin entered the field. By contrast, ANG's monopoly routes to Asia, saw compensatory increases n already high fares. Nevertheless, APNG has slowly built up its fleet and offered more domestic main services (even whilst phasing out its third level services). The dash 8 services are providing increasing competition to these main ports, as evidenced by the range of discount fares available on the ANG and APNG websites. This customer benefit comes about thanks to competition. If it wasn't there nor would all these discounted prices; some, yes, to help fill seats, especially on certain flights, but not as great, nor as many alternative flights per day.

So, unless, APNG was about to foreclose in the absence of a merger, or a serious new competitor commenced operations on main domestic routes, it's hard to see potential benefits to customers from a merger, even though it's clear that there'd be potential benefits for the two companies themselves in combining, in the absence of further competition. In any case, a rigorous assessment by ICCC on the competition and consumer impact of a merger is essential, as these interestsand choice should be paramount, over and above levels of profitability or share price. Government has some responsibility to encourage viability of airline services, however, in terms of setting operator conditions (fees, charges and any subsidies) at such levels to give any airline (1^{st}, 2^{nd} or 3^{rd} level) a prospect of viability for a service, if managed reasonably efficiently(i.e. not imposing prohibitive landing fees and taxes on genuine 3^{rd} level operators)

The time might not be right for opening all markets to competition, but good State-run services can be complemented by other services, whether radio or airlines, without jeopardising their existence. However, enabling market competition allows consumer choice and the probability of more responsive and affordable products, whether providing goods, like staple foods (like rice or fish), fuel or services like ICT, banking and other financial services (including pensions and superannuation) or airlines, portsand aspects of power provision (where practical). It also ensure a more competitive overall economy and with it more diverse employment and other prospects for its growing population.