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Department of Agriculture and Livestock – Technical Input and Sector Analysis on the Proposed Poultry Industry Acquisition

Proposed Acquisition of Mainland Holdings Limited Poultry Business by Associated Mills Limited

1. PURPOSE

This document presents a comprehensive and structured consolidation of internal technical commentary and inputs from officers of the Department of Agriculture and Livestock (DAL), sector advisors, and relevant stakeholders regarding the proposed acquisition of the poultry business of Mainland Holdings Limited (MHL) by Associated Mills Limited (AML), through its subsidiary Seabreeze Poultry Limited (SPL).

The purpose of this document is to clearly articulate and evaluate the pros and cons of the proposed acquisition, drawing on sectoral expertise, stakeholder consultations, and relevant policy considerations. It provides a balanced, evidence-informed review of the transaction by outlining key technical, economic, and structural issues arising from the proposed acquisition.

Specifically, this document presents a summarised assessment of core review areas, including: **(i)** *the potential benefits associated with increased investment, operational efficiency, and strengthened domestic production capacity*; **(ii)** *the competition and market structure implications, including possible shifts in market influence and vertical integration effects*; **(iii)** *the broader food security considerations, particularly in relation to affordability, accessibility, and supply stability of poultry products*; **(iv)** *the implications for smallholder participation, out-grower systems, and inclusive rural development*; and **(v)** *the longer-term sectoral impacts relating to sustainability, resilience, and equitable market participation*.

In doing so, the document outlines both the anticipated advantages, such as enhanced production capability, improved supply reliability, and potential consumer benefits, as well as the potential risks, including market concentration, reduced competitive dynamics, and impacts on independent producers and existing industry arrangements.

This consolidated input is intended to support informed and balanced decision-making by the Independent Consumer and Competition Commission (ICCC) by presenting a clear and comprehensive Departmental perspective on the transaction, consistent with national policy

objectives, sector development priorities, and the long-term interests of consumers, producers, and the agricultural economy.

2. POTENTIAL BENEFITS

2.1 Investment and Economic Impact

The proposed acquisition represents a significant inflow of foreign direct investment (FDI) into PNG's agriculture sector. This investment is particularly important in the current economic context, where foreign exchange constraints and global market volatility continue to impact domestic production systems.

The injection of capital is expected to:

- *Strengthen domestic production capacity and reduce reliance on imported poultry products*
- *Improve foreign exchange reserves by supporting import substitution*
- *Stimulate broader economic activity through multiplier effects across the agriculture value chain*
- *Reinforce investor confidence in PNG's agribusiness sector*

2.2 Production Efficiency and Technology Transfer

Associated Mills Limited, through its parent group (Wilmar/GFI), brings extensive regional experience in vertically integrated poultry production systems. This includes:

- *Advanced breeder and genetics management systems*
- *Improved biosecurity frameworks to manage disease risks*
- *Automation and modern processing technologies*
- *Integrated supply chain management systems*

These capabilities are expected to address some of the historical inefficiencies observed in MHL's operations, particularly those relating to genetics, management, and production consistency. Over time, this may result in lower unit costs and improved product quality.

2.3 Food Security Enhancement

Poultry remains the most affordable and widely consumed animal protein source in country. Increased production capacity resulting from the acquisition is expected to:

- *Improve national availability of chicken meat, eggs, and day-old chicks*
- *Stabilize supply chains and reduce supply shortages*
- *Enhance affordability for low-income households*
- *Contribute to national food security objectives*

Given global disruptions in food supply chains, strengthening domestic production capacity is strategically important.

2.4 Employment and Value Chain Development

The poultry sector supports a wide range of employment opportunities across:

- *Farm production (broiler and layer operations)*
- *Processing and packaging*

- *Feed manufacturing and distribution*
- *Logistics and retail networks*

Expansion under AML may generate additional employment opportunities and stimulate the growth of micro, small, and medium enterprises (MSMEs), particularly in rural and peri-urban areas.

2.5 Market Stability and Consumer Benefits

Improved efficiency and scale may contribute to more stable pricing in poultry products, even in the face of rising input costs. Consumers may benefit from:

- *More consistent supply*
- *Improved product quality*
- *Potential price moderation over time*

3. POTENTIAL RISKS AND CONCERNS

3.1 Market Concentration and Competition Risks

A major concern is the potential increase in market concentration. AML already holds a dominant position in stockfeed production and distribution. By acquiring MHL's poultry operations, AML may significantly increase its influence across the entire poultry value chain.

This raises concerns regarding:

- *Reduced competition in both poultry production and feed supply markets*
- *Potential emergence of a dominant or duopolistic market structure*
- *Barriers to entry for new or smaller producers*

3.2 Vertical Integration and Market Power

The integration of feed production and poultry operations under one entity creates the risk of:

- *Input foreclosure (restricting access to feed for competitors)*
- *Preferential pricing structures*
- *Reduced transparency in cost structures*

Given that feed constitutes a significant proportion of poultry production costs, control over feed supply may provide AML with a substantial competitive advantage.

3.3 Impact on Stockfeed Market

The acquisition may result in the removal of MHL as an independent stockfeed producer. This could:

- *Reduce the number of players in the feed market*
- *Increase dependency on a single dominant supplier*
- *Lead to potential price distortions*

3.4 Smallholder and Out-Grower Participation

MHL historically operated a strong out-grower model that supported rural livelihoods and smallholder participation. There is uncertainty regarding whether AML will:

- *Maintain existing out-grower arrangements*

- *Expand or reduce smallholder engagement*
- *Shift towards more centralized production systems*

Any reduction in out-grower participation could negatively impact rural incomes and inclusive development.

3.5 Long-Term Food Security Risks

While short-term production may increase, long-term risks include:

- *Reduced competition leading to higher prices*
- *Dependence on a single dominant supplier*
- *Vulnerability to strategic business decisions that may not align with national interests*

3.6 Geographic Concentration and Logistics Risks

The poultry industry remains heavily concentrated in Morobe Province. This presents challenges including:

- *Supply chain vulnerabilities due to transport disruptions*
- *Increased logistics costs for distribution nationwide*
- *Risk of regional supply imbalances*

Decentralization of production remains a critical need.

3.7 Biosecurity and Genetic Risks

PNG's poultry sector relies on a narrow genetic base and imported inputs. Risks include:

- *Disease outbreaks affecting limited genetic stock*
- *Biosecurity threats from international supply chains*
- *Limited resilience to external shocks*

3.8 Strategic Control and Sovereignty Concerns

The increasing role of foreign-owned entities in a critical food sector raises questions about:

- *Long-term control of domestic food systems*
- *Reinvestment priorities*
- *Alignment with national development goals*

4. ADDITIONAL STAKEHOLDER OBSERVATIONS

Stakeholders have emphasized:

- *The importance of broad-based consultations across government and industry*
- *Concerns regarding SPL's historical inactivity and future commitment*
- *The need to maintain a competitive market with multiple independent producers*
- *The importance of preserving community-based production models*
- *The potential alternative of AML establishing new operations rather than acquiring MHL*

5. SAFEGUARDS RECOMMENDED

To balance benefits and risks, the following safeguards are recommended:

- *Ensure fair and non-discriminatory access to stockfeed markets*
- *Protect and promote out-grower and smallholder participation*
- *Maintain transparency in pricing and operations*
- *Monitor and regulate market concentration*
- *Encourage decentralization of production facilities*
- *Require binding commitments on investment, employment, and reporting*

6. OVERALL POSITION

The proposed acquisition presents a balance of both opportunities and risks that warrant careful and measured consideration. On one hand, the transaction has the potential to deliver tangible benefits to the poultry sector and the broader economy, including increased investment, improved production efficiency, strengthened domestic supply capacity, and positive contributions to national food security objectives. On the other hand, it raises important considerations relating to market concentration, competition dynamics, vertical integration, and the long-term sustainability and inclusiveness of the sector.

Given the strategic importance of the poultry industry to Papua New Guinea's food systems and rural livelihoods, DAL considers that a cautious and consultative approach is appropriate. In this regard, it is recommended that further structured consultations be undertaken with key stakeholders, including industry players, relevant government agencies, and regulatory bodies, to ensure that all potential implications of the acquisition are fully understood and addressed prior to any final determination.

DAL remains supportive of initiatives that promote investment and sector growth; however, it emphasises that such developments must be balanced with the need to maintain fair competition, protect smallholder and out-grower participation, and safeguard long-term consumer interests.

The overall outcome of the proposed acquisition will ultimately depend on the design, implementation, and effective enforcement of appropriate safeguards to ensure that the anticipated benefits are realised without undermining competitive market structures or inclusive sector development.

The Department of Agriculture and Livestock remains available to provide further technical, policy, and sectoral advice, clarification, and support to the ICCC and relevant stakeholders as required throughout the assessment process.

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