



# Aviation Industry Inquiry



**ISSUES PAPER**

**JUNE 2025**

## FOREWORD

The Independent Consumer and Competition Commission ('**ICCC**') is a statutory body established under the provisions of the *Independent Consumer and Competition Commission Act 2002* ('**ICCC Act**'). The ICCC is vested with responsibilities under the *ICCC Act* to promote fair trading, regulate prices of certain goods and services, protect consumers' interest and undertake other related responsibilities.

| Stage of Inquiry                         | Tentative Date                   |
|--|----------------------------------|
| <b>Release of the Issues Paper</b>       | <b>13<sup>th</sup> June 2025</b> |
| Close of submissions to the Issues Paper | 14 <sup>th</sup> July 2025       |
| Publish Draft Report                     | 30 <sup>th</sup> September 2025  |
| Close of submissions to the Draft Report | 30 <sup>th</sup> October 2025    |
| Release of Final Report                  | 31 <sup>st</sup> December 2025   |

Submissions to this Issues Paper should be received by the ICCC no later than **14<sup>th</sup> July 2025** and should be directed to:

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Authorised by:



.....  
Mr. Paulus Ain  
**Commissioner & Chief Executive Officer**

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## 1. BACKGROUND

In 2006, the Government directed the ICCC to undertake a public inquiry into the aviation sector. In the Final Report for this review, the ICCC made recommendations amongst other things on the impediments and suggested areas of improvement on the operating efficiency and cost competitiveness of the aviation sector. Post ICCC inquiry Final Report, the notable changes were the structural separation of Civil Aviation Authority with the creation of three new entities: the National Airport Corporation (NAC), the Civil Aviation Safety Authority (CASA) and the NiuSky Limited (NiuSky) (formerly PNG Air Services Limited).

The ICCC has since undertaken number of internal assessments of aviation market structure, however these have not resulted in substantive reforms to regulate pricing regimes or establish clear consumer protection mechanisms within the aviation industry. Consequently, high airfares, lower service standards of airport service infrastructures, and poor customer services and complaints handling mechanisms have been persistent over the years and are still continuing.

Despite the ICCC's efforts to investigate market conditions in aviation, there remains no dedicated oversight mechanism for monitoring airfares, assessing anti-competitive behaviour, or guiding consumer redress. Consequently, PNG's aviation services generally operate with limited checks on pricing and quality of service. This stands in contrast to the broader objectives of the *Independent Consumer and Competition Act (ICCC Act)* and the anticipated National Competition Policy, which emphasize efficient market structure, monopoly regulation, fair market conduct, consumer protection, and competitive neutrality.

The PNG Government has directed the Department of Transport to spearhead the development of the PNG National Aviation Policy (2023 -2028) (Policy). A Discussion Paper was released in April 2023 which covered a wide and comprehensive aviation sector shortcomings and issues that has been recognised by the Government to address and in the long term promote socio economic developments as well as encourage economic growth in PNG.

Pending the development and uncertainty surrounding the finalisation of the National Aviation Policy, the ICCC considers it imperative to conduct an independent inquiry into the aviation industry in the country due to the ongoing challenges. The ICCC is mandated under Part VIII of the ICCC Act to conduct such inquiries.

Therefore, the ICCC is launching an inquiry into the aviation industry to assess the need for economic regulation and consumer protection in a sector characterized by monopolistic structures and limited competition through the release of this Issues Paper.

This Issues Paper seeks stakeholder feedback on 24 key issues, ranging from aviation market and cost structures, pricing transparency and service quality, consumer experience and institutional governance and regulatory framework. The inquiry is driven by concerns over the monopolistic control of airport infrastructure by the National Airports Corporation (NAC), the limited competition in the airline market dominated by Air Niugini and PNG Air, and the sole provision of aviation fuel by Puma Energy.

## 2. OBJECTIVE OF THE INQUIRY

The main objective of the Inquiry is to assess the current aviation industry market in PNG to determine if there is a need for some form of economic regulatory oversight by the ICCC.

The inquiry also examines the cost structures of airlines, identifying key drivers such as fuel, maintenance, leasing, and airport fees, and raises questions about the fairness and transparency of current pricing methodologies.

### 3. TERMS OF REFERENCE

- Review the current state of the aviation market. This includes understanding and assessing market competition between domestic and international carriers, barriers to entry, opportunities for growth, current capacity and bottlenecks, and other constraints the industry might face.
- Review and assess the current pricing practices within the industry, including the existence and rationale for any cross-subsidy arrangements, the comparative price attractiveness of PNG as a tourist destination, and pricing and access arrangements for essential airport infrastructure (that is, pricing of both aeronautical non-aeronautical services, including landing fees, terminal charges, retail operations, and other commercial services). Are prices acceptable? Do prices reflect the underlying costs of providing services?
- Evaluate whether the market is efficient and identify any barriers to driving increased efficiency.
- Examine the regulatory environment governing the aviation industry in PNG including licensing, air traffic control, air space allocations and access to essential airport infrastructure.
- Examine the setting of fees for regulatory services and the extent to which government fees or charges are incurred by the industry.
- Review government subsidies, taxes, and investments in the aviation industry and their impact on the market and competition. While at it, identify issues relating to government engagements in such areas and ways to mitigate such issues.
- Evaluate the impacts of the COVID-19 pandemic on the aviation industry.
- Review and report on the implementation of recommendations in the ICCC's 2006 Final Report on the "Review of the PNG Air Transport Industry", and past studies by the National Research Institute (NRI) and other relevant institutions on this area. By revisiting these previous inquiries and reports, the inquiry will:
  - Outline why these recommendations have not been implemented; and
  - Explore the possibility of implementing these past recommendations in the near future.
- Suggest recommendations on whether there is a need for Government to introduce some form of regulation in the industry. If so, include in detail what form of regulation is needed and the implications of its implementation.

### 3.1 Key Stakeholders

The ICCC invites feedback from a broad range of stakeholders, including government agencies, aviation operators, consumer groups, and industry experts. The goal is to ensure that the aviation sector operates efficiently, transparently, sustainably, profitably, and in the best interests of consumers in PNG. Amongst the general public and others, the ICCC invites the following stakeholders to respond to the issues raised:

- *Department of Transport*
- *National Airports Corporation, Civil Aviation Safety Authority, NiuSky Limited*
- *Airlines and Aviation Operators*
- *Passenger and Consumer Advocacy Groups*
- *Provincial Governments and Local Authorities*
- *Chambers of Commerce, Tourism Boards, and Industry Associations*
- *Donor Partners and Technical Assistance Agencies*
- *Regulatory and Legal Experts*

### 3.2 Legal Requirements

The ICCC is responsible for the administration of the *Independent Consumer and Competition Commission Act 2002* (ICCC Act) and related legislations.

The ICCC Act provides the instruments through which regulated industries are overseen, consumers are protected, and competition is enhanced. Competition drives efficiency, economic growth, and improved living standards. In the absence of competition, the ICCC protects consumer interests through economic or price regulation.

Part VIII of the ICCC Act empowers the ICCC to conduct inquiries into any market(s) deemed necessary for fulfilling its functions. This includes market studies, industry reviews, and investigations to ensure efficiency and competitiveness. The ICCC may also conduct inquiries as directed by the Minister responsible for Treasury matters or by Parliament.

Consistent with these mandates, the ICCC is undertaking this Inquiry to appraise whether the current state of market affairs of the sector is inconsistent with competition principles and, should failures exist, examine potential reforms for regulatory oversight that might lead to an increase in sector efficiency and productivity.

#### 3.2.1 Legal Requirements to Provide Information

It is important to note that the ICCC is empowered, under section 128 of the ICCC Act, to demand any information from any industry participant relevant to this Inquiry. Failure to provide this information or to cooperate fully with the ICCC is an offence under the ICCC Act. Offenders can be prosecuted and fined.

In the course of this enquiry, the ICCC will be approaching the following types of organizations for information:

- Relevant government agencies;
- Aviation agencies/regulators; and
- Aviation operators.

## 4. FOCUS OF THE INQUIRY PROCESS

Airports and aviation services are typically considered essential infrastructure with natural monopoly characteristics. These are sectors where it is inefficient to duplicate infrastructure, and where economic regulation is necessary to simulate competitive outcomes and ensure fair access, pricing transparency, and efficient service delivery.

In PNG, several State-Owned Enterprises (SOEs)—such as PNG Ports, Motor Vehicle Insurance Limited, Post PNG and Water PNG—operate under some form of regulatory supervision by the ICCC. The first four are governed through regulatory contracts, while the last one falls under the purview of the *Prices Regulation Act*.

Unlike these sectors, aviation—and particularly airport infrastructure services—has not been subject to similar economic oversight. It's important to note that airfare pricing reflects cumulative cost structures, including airport usage fees, which are a major input. Therefore, targeting airline ticket prices alone is insufficient for cost control; regulatory oversight should transcend economic principles which frame institutional relationships to address market failures, uncertainties, externalities and government interventions.

Furthermore, airfares continue to be one of the main concerns for air commuters. Ticket prices for both airlines have increased overtime and are among the highest in the region, relative to income levels. The ICCC understands that both airlines have incurred costs in ensuring the functionality of their airplanes as safety is of paramount importance. However, there may be instances of reoccurring costs that the ICCC would need to look at, as all these costs incurred are passed on to consumers.

- Review of the NAC Charges.
- Cost Allocations (airside and landside)

All airports in Papua New Guinea are owned and operated by NAC, which holds exclusive control over the country's airport infrastructure, reflecting clear monopoly traits. This presents a compelling rationale for the introduction of economic regulation to oversee airport charges and ensure appropriate service quality standards.

The objective is to enhance cost efficiency, with the expectation that any reductions in input costs will ultimately benefit consumers through lower airfares.

### 4.1 Understanding Consumer Experience

Consumer challenges in PNG are determined by PNG's unique geography, limited infrastructure, market concentration and regulatory constraints. Common challenges include:

- High Airfare Prices;
- Unreliable and Infrequent Services;
- Poor Consumer Protection and Redress; and
- Barriers for People with Disabilities.

To some extent, however, it is reasonable to observe that airfare comparisons between PNG and countries like Australia should be undertaken with care because large-demand routes and lower prices in those countries benefit from better infrastructure, larger aircraft, longer runways, advanced airport equipment for all-weather and night operations, reliable ground support, competition among service providers – all of which are largely absent in PNG.

Nonetheless, in general, consumer grievances in PNG's aviation sector are rarely addressed. Consumer complaints about poor services reflect a boarder failure to ensure accountability among aviation service providers, leaving little leverage to demand improvements. The absence of centralised performance monitoring and dedicated consumer protection mechanisms means that service disruptions – such as delays, safety concerns, or cancellations – often go unpenalized, with affected consumers left without effective recourse or compensation.

## 5. STRUCTURE OF THE AVIATION INDUSTRY

The ICCC seeks the following stakeholders to provide to the ICCC their views and comments on the number of issues listed below. The Issues 1-17 are specific sectoral and operational issues whilst issues 18-24 are more general perspective on institutional governance and regulatory frameworks.

### 5.1 Aviation Services Industry

The Civil Aviation Authority (CAA) of Papua New Guinea began operations on 1 January 2001, taking over from the former Office of Civil Aviation (OCA). Initially, CAA combined multiple roles—regulation, airport operations, air navigation, and aviation safety—which created conflicts of interest, as it was both a regulator and service provider. Due to these conflicts, the CAA underwent a major restructuring, resulting in the establishment of:

- Civil Aviation Safety Authority (CASA) – responsible for aviation safety and security regulation.
- PNG NiuSky Limited – the air navigation service provider (NiuSky); and
- NAC – the owner and operator of PNG's 22 national airports.

These entities now operate independently but under the umbrella of the Civil Aviation Act 2010 (as amended), with NAC and NiuSky incorporated under the Companies Act 1997.

### 5.2 National Airports Corporation Limited

The NAC holds a monopoly position as the sole entity responsible for owning, managing, and maintaining all major airports across PNG. Established in 2010, NAC's mandate includes operating airport infrastructure and providing a range of services such as passenger screening, landside security, terminal cleaning, and other maintenance functions.

NAC collaborates with various stakeholders to meet both operational demands and compliance obligations, including standards set by the International Civil Aviation Organization (ICAO) and CASA. Most of its revenue is budgeted for maintaining daily operations of the 22 airports, however large-scale capital works are typically financed through government budgetary allocations and donor support.

Currently, NAC operates operations at 22 airports, comprising 13 jet-capable and 9 non-jet airports. Operating these facilities involves significant costs. Most airports function on a cost-recovery basis, with only four (Port Moresby, Nadzab, Mt Hagen, and Tokua) generating profits. These profitable sites effectively subsidize operations at the remaining airports. It is also understood that some of these airports now have the status of being international airports but have yet to fully operate international flights.

In terms of the provision of ground and air services at the airports, NAC, Air Niugini and PNG Air are the key major players. It is, however, understood that there are also minor players associated with the provision of ground services at these airports.

NAC's pricing strategies are generally influenced by key costs and operational drivers such as traffic volume, operating and capital expenditure, and overheads.

Several factors influence the structure of NAC's charges, including:

- Passenger and aircraft volumes;
- Costs related to maintenance of facilities, equipment, and spare parts;
- Fluctuations in foreign exchange rates;
- Consumer Price Index (CPI);
- Labour-related costs;
- Fuel prices.

NAC applies uniform aeronautical charges across all 22 airports, with identical rates for both domestic and international services. Price adjustments are generally indexed to CPI annually, although this approach may not align with international best practices. For instance, NAC often lags adjusting aeronautical tariffs annually, despite rising compliance costs associated with meeting ICAO and CASA standards. Charges vary based on the types of services provided and the pricing methodology employed—ranging from single-till to cost-recovery models.

Operating even one airport involves high costs—often in the hundreds of millions of kina—making the management of a 22-airport network a capital-intensive endeavor. These costs are passed on to airlines and passengers through fees that cover infrastructure such as runways, taxiways, terminals, power systems, security installations, aerobridges, and navigation aids.

Operational costs per aircraft movement, while significant, remain difficult to quantify, though they impact overall charge efficiency. NAC's aeronautical fee schedule, last updated in May 2017, includes safety, facility, and service-related charges.

Unlike other monopoly providers of essential services in PNG—such as WaterPNG and PNG Ports—NAC is not subject to economic regulatory oversight by the ICCC. As a result, NAC determines and implements its fees independently, raising concerns around transparency and the robustness of its pricing methodology. This is particularly noteworthy given that a significant portion of its infrastructure has been funded through public and donor grants.

Airlines often absorb NAC charges into their cost structures or pass them through to consumers via airfare pricing.

NAC also imposes transit fees—even for passengers who do not disembark—and has significantly increased non-passenger fees, such as terminal rental charges, without industry consultation. Airline stakeholders have raised concerns that airport rental fees, even in remote towns like Goroka or Hoskins, are sometimes higher than those charged in central Port Moresby, distorting real estate cost benchmarks and further inflating operational costs.

Further, the airport infrastructures (in other notable locations) are also in a deteriorating state and require immediate repair and is costly to NAC.

Maintenance work on these infrastructures must ensure quality-based longevity and suitable to withstand weather changes. These should reduce the cost incurred to the airlines, resulting in reduced airfares and efficient service provision.

### **Issue 1. NAC's Monopoly Status**

- Do you believe NAC's monopoly position justifies the introduction of formal economic regulation for airport services?
- Has NAC's monopoly status adversely affected the affordability, transparency, or quality of airport services?
- How should NAC be held accountable for service delivery and pricing including quality of service (e.g. deteriorating terminal infrastructure), given the absence of competitive pressures?
- Why aren't some airports with international status like Nadzab Tomodachi International Airport receiving direct international flights?
- Do you think NAC should provide some form of incentives to attract direct international flights to these airports? If there are no incentives, what do you think NAC needs to do to ensure these airports are well positioned to receive international flights?
- Do you think the provision of ground services at the airports is competitive? Please explain your answer.
- Do you think it would be economical for NAC to allow other players operate the ground services operation? What are the pros and cons?

### **Issue 2. NAC's Pricing Methodology**

- What is the methodology NAC uses to determine aeronautical and non-aeronautical charges?
- What pricing structure should NAC follow?
- Should aeronautical charges be tied more closely to operational and infrastructure costs at each airport?

### **Issue 3. Economic Regulation of NAC**

- Should NAC, like other SOEs such as PNG Ports or Water PNG, be brought under ICCC oversight or another independent regulator?
- Which regulatory model would best suit NAC's oversight?
  - Price control regime (approval of fees before implementation)
  - Price monitoring with post-hoc review and reporting
  - Performance-based pricing tied to service benchmarks
  - Other.
- How transparent and effective are NAC's approaches to setting, revising, and communicating airport charges? Are improvements needed in stakeholder consultation regarding the same?
- Should airports developed with public, or donor funding be subject to stronger pricing controls or disclosure obligations?

### 5.3 NiuSky Limited

NiuSky (then PNG Air Services Limited) was established in 2008 and is the sole air navigation service provider in PNG. NiuSky is mandated to manage the PNG's sovereign airspace which spans 1.6 million square kilometer, From East to West, North to South and from the sea level up to 60,000 feet.

The regulations and laws that governs NiuSky operations are:

- International Civil Aviation Organization (ICAO) Standards;
- Civil Aviation Act – Regulations; and
- Companies Act.

NiuSky is required by relevant and applicable rules and regulations to ensure its operations are in line with technologies required for current aviation industry developments. NiuSky aims to deliver safe and efficient services to the aviation industry using global standards. Since 2014/15 it has embarked on a modernization program which is about 90%-95% complete at this stage. It has invested in global standard systems and infrastructure such as the Air-Traffic Management (ATM) facility.

The main costs that attribute to its operations are skilled labour needed to operate the systems and other equipment.

NiuSky's has undertaken a number of costs saving measures overtime improving its service levels to the airline companies. It uses an internationally recognized formula that takes into account maximum take-off weight and total distance flown within PNG's airspace. A flat rate is applied to all aircrafts irrespective of the sizes of aircrafts. The factors that influence NiuSky's charges are cost of capital and labour. In addition, its international en-route airspace charge is supposedly higher compared to comparable economies in the region, due to scale.

#### **Issue 4. Review of NiuSky's Performance Standard**

- How would you rate NiuSky's overall service delivery (e.g., reliability, timeliness, technical responsiveness) over the past 5-10 years?
- Has NiuSky's modernization program (e.g., ATM systems, surveillance upgrades) led to measurable improvements in safety, efficiency, or coordination of air traffic?
- Do current technologies and systems used by NiuSky meet ICAO performance standards and regional benchmarks?

#### **Issue 5. Economic Pricing Oversight of NiuSky**

- Are you aware of how NiuSky calculates its air navigation charges (e.g., based on aircraft weight and flight distance)?
- Do you find the flat rate structure (regardless of aircraft size) to be equitable and cost-reflective?
- Are NiuSky's charges (both domestic and international en-route) reasonable relative to the quality and scope of services provided?

- How do NiuSky's en-route airspace charges compare to those in similar economies in the region (e.g., Fiji, Solomon Islands, Samoa)?
- Do you believe NiuSky is achieving operational efficiency in terms of cost management, staffing, and asset utilization?
- Have NiuSky's cost-saving measures or system upgrades translated into lower user charges or improved service levels for airlines?
- Should NiuSky be required to publish annual performance reports detailing service quality, cost structures, investment, and user satisfaction?
- Is there a need for an independent regulatory mechanism to monitor the cost-efficiency and pricing fairness of NiuSky's services?
- What indicators should be used to assess the economic quality of NiuSky's services?

## 5.4 Airline Services Market

PNG's domestic aviation market is duopolistic in nature, with two main airlines (PNG Air and Air Niugini serving key routes across the country. An airline business is a highly technical and capital-intensive industry to operate hence airline utilization is paramount to ensure the business continues to remain viable.

PNG Air, a privately owned carrier, operates 16 aircraft—mainly ATR 72–600s and Dash 8-100s—primarily on domestic routes, with some international charter services to Cairns.

Air Niugini, the larger and state-owned airline, operates 26 aircraft across domestic and international routes, including through its subsidiary Link PNG. The fleet includes a mix of owned and leased aircraft, with the government-owned Falcon jet used for official purposes.

PNG Air and Air Niugini depend on volume and fleet utilization to generate revenue to cover their costs.

Until recently, due to scale, there has been limited competition for some routes in the aviation market. It is presumed that PNG's aviation market currently faces high barriers to investment with high capital costs, regulatory uncertainties, and limited airport infrastructure in remote areas making market entry difficult.

### Issue 6. Competitiveness of Airlines Market in PNG

- Do you consider PNG's domestic aviation market sufficiently competitive given the dominance of only two main carriers (Air Niugini and PNG Air)?
- What do you consider to be the main barriers to increased competition or new entrant airlines in PNG's domestic market? Please list them.
- What do you consider to be the main barriers to increased competition or new entrant airlines in PNG's international market?
- There are 4 designated international ports of entry in PNG, but only one with full-time Customs, Immigration and Quarantine presence: Jackson's

International Airport in Port Moresby. Are there any foreign entry barriers resulting in underutilisation of these international airports?

- What do you consider are the factors that may encourage new entrants (or operation of new airlines) into the market?
- Indicate the competitive level of the aviation market pre and post covid-19? Are there any structural changes to the aviation market post-covid 19? Please list and explain your answer.
- What sort of impact has the covid-19 pandemic had on the aviation industry? Please list and explain.
- Do you think it would be economical for airlines such as Air Niugini and PNG Air to allow other operators/service providers to operate their ground services? Please explain and list the pros and cons?

#### **Issue 7. Code Sharing**

- Should the government or regulator promote code-share arrangements between PNG Air and Air Niugini/Link PNG on low-demand or subsidized routes to improve efficiency and coverage?
- What risks or concerns would you associate with increased coordination or code-sharing between the two dominant airlines?

#### **Issue 8. Economic Regulatory Oversight of Airlines Market**

- Do you support the introduction of economic pricing oversight (e.g., fare monitoring, price ceiling mechanisms, or cost benchmarking) in PNG's aviation market?
- Which routes (if any) should be subject to airfare monitoring or pricing regulation due to limited competition or monopoly control?
- Would transparent cost and fare disclosure by airlines help improve public confidence and accountability in PNG's aviation market?
- Should ICCC or another body have authority to review airfare structures cost-recovery justifications, and capacity dumping practices in PNG's aviation market?
- What policies or incentives could be introduced to promote cooperative yet competitive behaviour (e.g., code-share with pricing safeguards, route-sharing tenders)?
- Would a formal route performance review system (e.g., load factor, service frequency, fare level) help identify where pricing oversight or operational collaboration is most needed?

## 6. COSTS STRUCTURE

### 6.1 Cost Structures

The aviation industry in PNG faces persistent challenges due to its complex and high-cost operational structure. Key cost components such as fuel, insurance, air navigation charges, maintenance, crew salaries, engineering, aircraft leasing, overheads, and financial costs (including interest and depreciation) collectively exert significant pressure on airline profitability.

These cost drivers vary in proportion depending on the size, fleet composition, and ownership structure of individual airlines. For instance, smaller or leased-fleet carriers may experience higher leasing and engineering costs, while larger operators with owned fleets may incur greater maintenance and overhead expenses. Despite these variations, the cumulative effect of these costs is substantial across the industry.

Ultimately, most of these expenses are embedded into the airlines' cost base and passed on to consumers through airfares. This cost burden not only affects airline competitiveness and sustainability but also has broader implications for affordability and accessibility of air travel, particularly in markets with limited competition or infrastructure.

### 6.2 Cost Drivers

In assessing the cost structure for the airlines, there are various costs that are typically incurred by airlines around the world. These costs are unavoidable to ensure we have sufficient flights servicing the country whilst at the same time maintaining appropriate safety standards.

Therefore, in trying to identify why airfares are so expensive in PNG, it is appropriate to focus on all cost elements including those costs factors that are unique to PNG. The costs factors may include;

- The costs of Jet Fuel, which is primarily influenced by the Napanapa Project Agreement between the State and Puma Energy (PNG) Limited, foreign exchange movements, the world market price for crude oil and freight charges.
- Fees imposed by airport authorities which are pass through to passengers in the air fares;
- Fleet utilization and Maintenance
- Security and high rental
- Taxes imposed by the Government.

#### 6.2.1 Aircraft Maintenance

The ICCC understands that in the last few years, many instances of prolonged flight delays and cancellation have been attributed to technical and mechanical issues affecting the availability of aircraft. To maintain continuity of service and ensure passenger safety, affected passengers are transferred to other available aircraft or their flights get delayed for up to 24 hours or longer. However, in many cases, these rescheduled flights lead to further delays or eventually cancellation.

Aircraft maintenance is currently within the mandate of CASA. Nonetheless, the Inquiry considers that aircraft maintenance performance may warrant inclusion in the broader

performance monitoring framework for the aviation sector, given its impact on service reliability and consumer experience.

**Issue 9. Aircraft maintenance**

- The ICCC invites comments on the role of aircraft maintenance in ensuring reliable air services and whether aspects of maintenance performance should be considered within the scope of economic regulatory oversight.

## 6.2.2 Aging Terminal Infrastructure

The airport infrastructures in most airports in PNG are also at a deteriorating state which are costly to NAC and the State to repair. Repeated maintenance of these infrastructures is burdensome and costly.

**Issue 10. Aging terminal infrastructure**

- Please identify and list some of the efficient ways in which basic infrastructures such as toilets, waiting and boarding areas, customer check in counters, car park space, food canteens in the terminal can be well maintained and conducive for the travelling public at all times.

## 6.2.3 Provision of Jet A1 Fuel

PUMA Energy is currently the sole provider of Jet A1 in the domestic aviation fuel market in the country.

With the recent Forex issue with Puma and BPNG on Jet A1 fuel supply in PNG, this has had major impact on the airline industry, particularly on the operations of Air Niugini, as it greatly depends on the Jet A1 fuel to operate. The unavailability of Jet A1 fuel has caused flights to be either delayed or cancelled causing inconvenience to the travelling public.

The ICCC welcomes comments on the monopolistic nature of Puma Energy in supplying Jet A1 and the suggestion to increase competition in this service area. In addition, to avoid shortage of Jet A1 fuel supply, whether there is a need to create more storage tanks facilities in certain domestic airport facilities subject to its viability.

**Issue 11. Overall Cost Structure and Airfare Formation**

- Do you believe current airfares in PNG fairly reflect the actual cost structure of airline operations?
- What are common significant cost drivers for airlines in PNG? *Please select from list given below.*
  - Aircraft leasing
  - Fuel (Jet A1)
  - Maintenance and engineering
  - Crew and staffing costs
  - Insurance
  - Air navigation charges
  - Overheads and depreciation

- Airport fees (NAC)
  - Government taxes or levies
  - Other
- To what extent are operational costs (such as those listed above) passed on to consumers through base airfare pricing?
  - Which cost factors are unique to the PNG aviation context and contribute most significantly to higher airfares? Do you believe current government policies (e.g., fuel pricing agreements, taxes, terminal charges) fairly balance industry sustainability with consumer affordability?
  - How effective is the current arrangement for aircraft maintenance—both internationally and domestically—in ensuring service reliability and safety?
  - Should there be more investment in domestic aircraft maintenance capabilities and engineering training to reduce costs and delays?
  - Do you believe the lack of competition in Jet A1 fuel supply (with Puma as the sole provider) is significantly inflating airline operational costs?
  - Would introducing alternative Jet A1 fuel suppliers improve fuel price competitiveness and supply reliability?
  - Should the government invest in fuel storage facilities at strategic domestic airports to ensure uninterrupted supply and pricing stability?
  - Should fuel subsidy encourage market efficiency in the aviation sector?
  - To what extent do ageing terminal infrastructure and recurring maintenance costs at airports contribute to high charges imposed on airlines (and ultimately on passengers)?
  - Would you support reforms that mandate quality-based, durable infrastructure upgrades to reduce lifecycle maintenance costs at airports?

## 7. COMPARATIVE INSIGHTS

Australia offers a useful comparison. In the early 2000s, the country undertook substantial reforms in the aviation and airport sectors. These reforms transitioned major airports to more commercially oriented operations supported by a regulatory framework designed to enhance efficiency and service quality. The Australian Productivity Commission's 2002 report, *Price Regulation of Airport Services*, found that the reforms led to increased aeronautical investment and operational improvements. Further, the 2012 Commission report, *Economic Regulation of Airport Services*, noted that service quality was generally rated 'satisfactory' to 'good', demonstrating the benefits of structured economic oversight.

Approaches to airport economic regulation vary across countries. For instance, in Australia, regulatory oversight is applied to the four major federally leased airports—Sydney, Melbourne, Brisbane, and Perth. The Australian Competition and Consumer Commission (ACCC) is responsible for monitoring pricing and service quality across a range of areas, including

aviation services, ground transport, and car parking. This oversight is carried out under the provisions of the *Airports Act 1996* and the *Competition and Consumer Act 2010*.

In India, on the other hand, has established the Airports Economic Regulatory Authority of India (AERA), which is tasked with determining tariffs for aviation services at major airports, setting related charges, and assessing service performance. The structure of regulatory models in these jurisdictions is shaped largely by the degree of market competition and the nature of the airport operating environment.

Further, in NZ, the Commerce Commission controls airport landing fees, but not the fees charged by Air NZ. They control anything that is airside and, on the ground, but not outside the terminal. For example, parking is not controlled, on the basis that people can avoid paying for parking if they want to.

#### **Issue 12. Relevance of International Experience**

- *Which regional airports should this Inquiry use as benchmarks for assessing PNG's aviation sector?*
- *Which aspects – such as price monitoring, tariff setting, or service quality benchmarking - are most relevant or adaptable to the PNG context)?*

#### **Issue 13. Appropriate Pricing Oversight Model**

- *What pricing model should PNG adopt for its aviation industry?*

#### **Issue 14. Potential Regulated Services**

- *Which airport services should be subject to economic oversight in PNG?*
  - Aeronautical charges (landing, passenger handling)
  - Ground transport and car parking
  - Terminal access and retail leases
  - All of the above.
  - Or others (please list).

#### **Issue 15. Market Environment and Regulatory Design**

- *How should PNG's regulatory approach be shaped by its market environment, particularly considering the low competition and public ownership of key airports?*

#### **Issue 16. Performance Monitoring and Benchmarking**

- *Would you support the introduction of formal performance standards and benchmarking (e.g., service quality ratings, complaint resolution, passenger satisfaction)?*

#### **Issue 17. Capacity for Reform**

- *What institutional or capacity constraints might PNG face in implementing structured airport regulations? How can these be addressed?*

## 8. REGULATORY ARRANGEMENTS

The Issues Paper of this Inquiry into the Aviation Industry (Inquiry) seeks stakeholder feedback on the appropriate regulatory arrangements required to support an efficient, transparent, and accountable aviation market.

### Issue 18. Regulatory Authority and Mandate

- *Do you think there is sufficient regulatory oversight in terms of airfare pricing, service standards and pricing of airport services, and consumer protection enforcement in the aviation sector?*
- *What roles and responsibilities should the regulator be empowered with to ensure the aviation sector is efficient, transparent, sustainable, profitable, and in the best interests of consumers in PNG?*

### Issue 19. Legal and Institutional Barriers

- *What legal, institutional, or political barriers currently prevent the regulator from exercising full oversight of the aviation market?*
- *How could these be addressed through legislative reform, inter-agency coordination, or policy directives?*

### Issue 20. Consumer Protection and Redress

- *What mechanisms should be established (e.g., airfare transparency, passenger rights, complaint resolution processes) to enhance consumer protection in aviation services?*
- *How can the regulator strengthen its consumer protection role in the absence of effective competition, particularly in route monopolies or underserved regions?*
- *What regulatory instruments should be considered to address fare affordability, service quality, and redress mechanisms for air travelers?*

### Issue 21. Airfare Monitoring and Anti-competitive Conduct

- *Domestic airfares in PNG are among the highest in the region, relative to income levels. Do you think it is necessary for a regulator to provide some form of regulatory oversight on the airfare pricing? If so, what sort of mechanisms or strategy should the regulator apply to ensure efficient pricing, that is, affordable but sufficient enough to ensuring sustainability of airline businesses?*
- *Should the regulator be responsible for routinely assessing anti-competitive behaviour by dominant carriers or airport operators?*
- *How can this be implemented without discouraging private investment or essential air services to remote areas?*

### Issue 22. Limited Market Competition

- *What role should the regulator play to alleviate these barriers to entry and allow more competition in the sector?*

- *Should PNG establish a dedicated aviation economic regulator, or expand ICCC's mandate to include proactive monitoring and tariff setting for airports?*

### **Issue 23. Sectorial Coordination and Coherence**

- *How does the ICCC coordinate with sector regulators like NAC, CASA, and NiuSky to align market oversight with safety, infrastructure, and service delivery goals?*

## **9. STRUCTURAL CHALLENGES**

Under Section 147A and 147B of the *Civil Aviation Act 2010*:

- NAC is the exclusive provider of airport services in PNG.
- No other entity may own, operate, manage, or improve airports, unless authorised by the Minister and the Director (of CASA).
- NAC has broad authority to:
  - Provide and manage airport infrastructure;
  - Operate airports commercially;
  - Set charges for services;
  - Enter into contracts for service provision;
  - Develop policies that benefit the State and people of PNG.

This makes NAC a legally protected monopoly in airport service provision, with limited exceptions (e.g., private airstrips operated by mining companies, or contracted services with ministerial consent).

Given the importance of air travel in PNG due to geographical constraints, NAC's operations significantly impact airline costs, airfares, and overall service quality. The NAC's monopolistic position is reinforced by:

- The absence of alternative airport service providers.
- A lack of close substitutes, as airline companies cannot switch to competitive airports for particular routes.
- Compulsory reliance by consumers (including airlines) on NAC's services, often with concerns regarding service standards and pricing structures.

The above appears to suggest that the introduction of an economic regulatory oversight of NAC, may be necessary to ensure transparency and accountability in NAC's pricing practices. Given its monopoly status and essential service role, this Inquiry should explore the reasonableness of NAC being subjected to similar oversight mechanisms as other regulated SOEs in PNG.

## **10. RATIONALE FOR ECONOMIC REGULATION**

The ICCC provides economic regulatory oversight through either a regulatory contract under Part 3 Division 2 of the *Independent Consumer and Commission Act 2002* (ICCC Act) or price regulation through the *Price Regulation Act* (Chapter 320) (PRA).

## 10.1 Form of Regulation

The form and shape of economic regulation in the aviation sector can be dependent upon the level of market competition dynamics. The ICCC has used various price regulation mechanisms from price monitoring (light handed) to direct price control (heavy handed) in declared State Owned Enterprises under the *Independent Consumer and Competition Commission Act 2002 (ICCC Act)* and declared goods and services under the *Prices Regulation Act ('PRA')*. In the price monitoring approach, the supplier of the declared goods and services is allowed to change (increase/decrease) prices according to cost movement but reports to ICCC on price increases.

The ICCC also uses independent price comparator to monitor the price movement of the supplier mainly at the factory gate (for example, Ramu Sugar, Roots Rice and Floor). If monitoring indicates that further investigation is required, the Government can direct the ICCC to undertake a public inquiry, which could result in the reintroduction of stricter price controls. In the case of aeronautical services, price regulation could be any one of the two or a combination of the two forms of regulation depending on the level of competition. A detailed assessment of the level of competition and the regulatory framework should be established through this Inquiry.

## 11. ECONOMIC REGULATOR

The type of economic regulator for the aviation sector should meet certain criteria including being independent, transparent, flexible and provides for neutral dispute settlement mechanism. ICCC having oversight in economic regulation of many other industries and SOEs and having the necessary resources and capacity can easily perform regulatory oversight for aeronautical services.

This Issues Paper considers that the role of economic regulation in aeronautical services in PNG should be encouraged. This is because all airports in PNG, owned and operated by NAC appear to exhibit monopoly characteristics. As in other PNG SOEs, economic regulation has provided a level of certainty in investment and cost recovery which ultimately improves productivity and efficiency. Economic regulation is an important catalyst that encourages timely and cost-effective new investment that stands to benefit all stakeholders from regulated airports to airport users and the wider PNG economy.

### Issue 24. Regulatory Institutional Design

- What qualities do you believe are most critical in an economic regulator for aeronautical services?
- Given PNG's economic and institutional context, is ICCC is best positioned to assume the economic regulatory role for aeronautical services or do you think a specific industry regulator would assume the role?
- Do you believe PNG's small market size justifies having a multi-sector regulator (like ICCC) rather than a dedicated aviation economic regulator?
- Has economic regulation in other PNG SOEs (e.g., Water PNG, PNG Ports, PNG Power) helped improve service delivery, pricing transparency, and investment planning?

- Should the same regulatory certainty (e.g., in cost recovery, investment return, pricing structure) be extended to aeronautical services through economic regulation?
- What specific benefits do you expect from introducing economic regulation of NAC-operated airports?
- What regulatory functions should ICCC perform if it were to oversee aeronautical services?
- How frequently should the economic regulator review aeronautical tariffs and service performance?

## 12. SUMMARY OF ISSUES

The Issues Paper outlines 24 key issues grouped into thematic areas:

### *Monopoly and Pricing Concerns*

1. NAC's Monopoly – Should NAC be subject to economic regulation?
2. Pricing Methodology – Is NAC's pricing transparent and cost-reflective?
3. Regulatory Models for NAC – What model suits NAC oversight?

### *Air Navigation Services*

4. NiuSky Performance – Has modernization improved service quality?
5. NiuSky Pricing – Are charges fair and efficient?
6. Regulatory Oversight of NiuSky – Should NiuSky be regulated?

### *Airline Market Dynamics*

7. Market Competition – Is the duopoly limiting competition?
8. Code Sharing – Should code-sharing be promoted?
9. Airfare Regulation – Should certain routes be price-regulated?

### *Cost Structures and Drivers*

10. Cost Transparency – Do airfares reflect actual costs?
11. Aging Terminal Infrastructures – How should NAC account for its minimum service standards requirements?
12. Fuel Supply Monopoly – Should competition in Jet A1 supply be increased?

### *Regulatory Arrangements*

13. Regulatory Authority and Mandate – Is there sufficient regulatory oversight to regulate pricing and service quality in aviation or a specific sector regulator should have regulatory oversight?
14. Legal Barriers – What legal or institutional barriers hinder a regulator from overseeing the above?
15. Consumer Protection – What mechanisms are needed for airfare transparency and passenger rights?
16. Airfare Monitoring – Should a separate regulator monitor airfares and anti-competitive behaviour?
17. Sector-Specific Regulation – Should PNG have a dedicated aviation regulator or expand ICCC's role?
18. Coordination with Sector Regulators – How should ICCC align with NAC, CASA, and NiuSky?

### *Comparative Benchmarking*

19. International Benchmarks – Which regional models are relevant for PNG?
20. Pricing Oversight Models – What pricing models should be adopted?
21. Regulated Services – Which services should be regulated (e.g., aeronautical, ground transport)?
22. Market Environment – How should regulation reflect PNG’s low-competition environment?

### *Performance and Accountability*

23. Performance Standards – Should formal service benchmarks be introduced?
24. Institutional Capacity – What constraints exist in implementing regulation?

## **13. CONCLUSION**

The aviation sector in PNG is a vital enabler of national connectivity, economic development, and social inclusion. Yet, it operates under monopolistic conditions with limited regulatory oversight, resulting in high airfares, inconsistent service quality, and minimal consumer protection. This Inquiry by the ICCC is a timely and necessary step toward addressing these systemic challenges.

The core objective is to determine whether the current market structure aligns with principles of fair competition, efficiency, and consumer welfare. By exploring regulatory options and drawing on the best international practices, the ICCC aims to propose a framework that ensures transparency, accountability, and affordability in aviation services.

Stakeholder feedback is critical to this process. The insights and experiences of airlines, regulators, service providers, consumers, and industry experts will shape the future of aviation regulation in PNG. Their input will help identify practical solutions, ensure balanced reforms, and build a regulatory environment that supports sustainable growth, protects consumers, and enhances service delivery across the country.