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Mr Thomas Abe
Commissioner & CEO
Independent Consumer & Competition Commission

Dear Mr Abe,

**Review of the PNG Air Transport Industry
Draft - Aug 2006**

The dive industry is a small sector of the tourism community comprising 20 dive resorts and live-aboard operators, yet it is responsible for more than 50% of current tourism numbers, and as much as 70% in the past. The PNG Divers' Association represents the interests of this sector. As well as dive tourism, at least half the membership of PNGDA is in the business of land accommodation, while many also offer other land and marine experiences.

Collectively, members of the PNGDA represent the longest established sector of the tourism industry with the average length of time in the tourist business overall in excess of two decades.

Much of what has been achieved in tourism development in recent years has come as a result of initiatives and expenditure by the national airline. We recognise that our futures are dependent on a healthy and sustainable airline industry, and we suspect that the converse is probably true - the airline industry is dependent on the healthy and sustainable development of the tourism industry. We also believe that the development of a healthy and sustainable PNG depends very much on the development of two key industries: tourism and agriculture.

The current climate in the airline industry has led to a considerable reduction in airfares, especially on the PNG/Australia routes and very considerably reduced tourist fares on these sectors. The code-share agreement in particular has enabled the national carrier to strengthen and stabilise, which in our view is absolutely vital for the country at large, not only for international access but equally for domestic traffic. While this agreement may not be the most competitive environment, we are aware that competition does exist between Air Niugini and Qantas. We believe it to be in the interests not only of tourism but business generally, to support an agreement which provides the basis for a long-term sustainable airline industry.

While the opportunities are there for other carriers to enter the field, no-one has taken up the offer. We believe that any expansion of air services should only come about as a result of increased demand through normal market forces.

We are very cautious about the effect that a short-term low-cost operator would have on the future development of the tourism industry. While the idea may be appealing, there is a very real risk of adversely affecting the industry instead. PNG can ill afford a situation of a low-cost carrier which starts and then withdraws from the market for reasons such as low demand. These situations have occurred in the region in recent years (eg. Australian Airlines withdrawing from Sabah, Malaysia), much to the detriment of the destination.

As industry operators of long-standing we are very aware that all business in PNG operates under considerable handicap which is reflected in the only way it can be - high costs of operation which lead to high costs of services provided. This is true for all business and comparisons with costs in other countries should carefully take this into account.

High costs of operation of business in PNG will remain high until a plethora of issues are altered and that will not be possible in the short term. Cross-country comparisons should not be ignored, but they should be treated with great caution and awareness.

Yours sincerely,



MAX BENJAMIN
PRESIDENT

Cc: PNGDA Executives