ICCC OPPOSES LINK PNG’S PROPOSED ACQUISITION OF SHARES IN PNG AIR

The Independent Consumer and Competition Commission ("ICCC") announces that it has DECLINED authorisation for the proposed acquisition of forty per cent (40%) shares of NASFUND in PNG Air Limited ("PNG Air") by Link PNG Limited ("Link PNG").

ICCC General Manager, Brian Ivosa said the ICCC, after assessing the application and taking into consideration stakeholder submissions and comments on this application, was not satisfied that, if the acquisition proceeded, will not cause any serious harm to the current level of competition in the airline services.

Mr. Ivosa added that the ICCC was also not satisfied that greater public benefits are likely to result, if it authorises the proposed transaction.

The ICCC has considered the Proposed Acquisition would affect the following relevant markets:

- The markets for the provision of domestic regular passenger transport services in PNG;
- The markets for the provision of domestic air freight services in PNG;
- The markets for the provision of air charter services in PNG;
- The markets for the provision of international Regular Passenger Transport services between PNG and Australia; and
- The markets for packaged tours in PNG and overseas.

Mr. Ivosa said in the country, the two major providers of the above domestic airline services are Air Niugini and PNG Air:

"Whilst Link PNG argued that, post-acquisition, the two airlines will remain as separate entities, the characteristics of the domestic markets are such that, if the acquisition proceeds, the separate management of the two major competitors in relevant markets would combine or at least act in concert to become an effective monopoly." Mr. Ivosa said.

He added that if authorized the following are likely effects of the Proposed Acquisition on competition:

- The markets are currently highly concentrated, especially the domestic regular transport services market and domestic airfreight markets. The proposed acquisition will remove the
only competitor in the relevant markets. The acquisition would effectively create a monopoly and would give Air Niugini the market power of a monopolist in those domestic markets.

- Import competition would not be possible. Thus, the price levels and services provided post-acquisition would be dictated by Air Niugini because there would be no, or if any, very limited, competitive constraints from potential entrants into domestic markets.

- The Proposed Acquisition would effectively remove any competitive constraints; hence strengthen the ability of Air Niugini to unilaterally set airfares and service standards.

- The ICCC considers that it would see the exit of the only competing player in the domestic markets, with high barriers to entry, and would thereby remove the only competitive constraint against Air Niugini. The likelihood of Air Niugini extracting monopoly rents and reducing service standards is high.

"Therefore, the ICCC, is not satisfied that this Proposed Acquisition, if authorized, would not have, and would not be likely to have, the effect of substantially lessening competition." Mr. Ivosa said.

In terms of public benefit and detriment assessment, the ICCC is of the view that if the Proposed Acquisition is authorized and proceeds, it would result in the following:

1. Creating a monopoly that would be a disincentive to innovation and efficiency, which is often true in monopoly markets where actual and potential competitive pressure is lacking. If there is competition, the market can correct itself resulting in a viable domestic aviation industry which is important to economic progress in developing countries like PNG.

2. There will be inefficient services because of the absence of competitive pressure which may result in flight delays and less attention to customers’ queries and a reduction in the quality of services.

Apart from the above, the ICCC also considered other arguments and is not satisfied with the submissions provided by Link PNG.

The ICCC therefore declines to authorise the proposed share acquisition of all of NASFUND’s interests in PNG Air.

Public copies of the Determination can be obtained at the ICCC Office upon request.

Approved for release by,

[Signature]

MR. BRIAN IVOSA
General Manager
Note to Editors:

Apart from the two (2) negative results, that would result if the Proposed Acquisition were to proceed; the ICCC also considered other arguments but since these are confidential, they are not covered in this media statement.