

COVID-19 and challenges to PNG's aviation industry

by Desmond Narongou

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Aircraft at Port Moresby International Airport
Photo Credit: Asian Development Bank

Worldwide, the aviation industry has been hit hard by the COVID-19 pandemic. PNG is no exception. Despite domestic routes being open for travel, both domestic and especially international travel to and from PNG has been significantly affected.

On **22 May 2020**, the state-owned airline, Air Niugini, through its subsidiary Link PNG submitted a proposal to the PNG consumer watchdog, the Independent Consumer and Competition Commission (ICCC), to acquire about 40 per cent of shares in its rival, PNG Air. These were shares held by the superannuation fund Nasfund, which had agreed to sell them to Link PNG.

Nasfund released an unfavourable **assessment** of PNG Air when it announced its decision to sell its shares. It said that it had not received a single dividend payment from PNG Air since its initial investment 12 years ago; and that PNG Air's share price had dropped from its initial value of K1 per share to only 2 toea per share before its suspension from trading on the PNG Stock Exchange in 2018 (**for non-submission of annual accounts**). Nasfund didn't hold back, describing PNG Air as a "non performing, illiquid and non-yielding investment".

Air Niugini's Managing Director Bruce Alabaster delivered a similarly negative **verdict**, noting that "PNG Air has lost K93 million over the last four years and now has K143 million in carried-forward losses." He promised that PNG Air would be "retained as a separate corporate entity", that prices would not be increased, and that no jobs would be lost.

However, ICCC was not impressed and rejected the proposal. In a **media statement** on **10 September**, ICCC general manager Brian Ivosa stated the obvious: that this sale of a large ownership stake in one of two airlines in PNG to the other would not only harm competition, but would create a monopoly, resulting in higher prices and worse services.

Others have also been sceptical, with Opposition MP Richard Maru **questioning** why Air Niugini would want to buy a loss-making airline. State Enterprises Minister

Sasindran Muthuvel **conceded** that the government-owned airline was itself loss making, and suggested that the share purchase hadn't yet been approved by the National Executive Council.

What PNG is facing is not unique. Airlines around the world are bleeding cash. In Australia, Virgin Australia, the second major airline, declared bankruptcy **in April 2020**. What is different about the PNG situation, however, is the fragile state of the country's two airlines before the pandemic. The challenge in PNG is not to restore the health of the country's two airlines, but to tackle longstanding problems that have debilitated the sector.

If crisis is good for reform, then the time for reform in PNG's aviation sector is now. Tough decisions will be needed by both airlines, and by the government. If reforms are undertaken, COVID-19 will be looked on as a period of pivotal change for the industry. If this opportunity is missed, COVID-19 could be one blow too many for a sector that was in deep trouble before the pandemic. There is no time to waste introducing major reforms to guarantee the long-term survival and health of the aviation sector.

*This post is part of the **#COVID-19 and the Pacific** series.*

Disclosures:

The author is writing in his personal capacity.

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