

SUBMISSION ON PUBLIC BENEFIT BY AIR NIUGINI IN SUPPORT OF APPLICATION FOR VARIATION OF CAPACITY ALLOCATIONS TO ENABLE RECIPROCAL AIR PASSENGER CODE SHARING BETWEEN AIR NIUGINI AND QANTAS ON THE PORT MORESBY AND CAIRNS/BRISBANE/SYDNEY ROUTES

1. SUMMARY

This submission is made by Air Niugini Limited (**Air Niugini**) in support of the public benefit (under paragraph 5 of the Minister's Policy Statement) of an application by Qantas Airways Limited (**Qantas**) for variation of capacity allocations on the Papua New Guinea route to enable reciprocal code sharing with Air Niugini (**Proposed Variation**) on passenger services operated by Air Niugini between Port Moresby and Brisbane/Sydney/Cairns while Air Niugini plans to code share on Qantas operated passenger services between Brisbane and Port Moresby (together, the **Proposed Code Sharing**).

Qantas has unilaterally determined that it intends to withdraw its existing operations on the Port Moresby – Cairns route (**Cairns Route**) from 30 October 2016 (at the beginning of the northern winter season). This will leave Air Niugini as the only operating carrier on the Cairns Route. In the absence of the Proposed Code Sharing, Air Niugini will also be the only marketing carrier on the Cairns Route following Qantas' withdrawal from the route.

Further Qantas has unilaterally determined that it intends to operate its own narrow body (B738) aircraft daily (ie, 7 return flights weekly) between Port Moresby and Brisbane, commencing on 30 October 2016, at the beginning of the northern winter season. In the absence of the Proposed Code Sharing, Air Niugini will also be the operating and the only marketing carrier on the Port Moresby – Sydney route (**Sydney Route**) as Qantas has indicated its intention to terminate the existing codeshare arrangements on both the Port Moresby – Brisbane (**Brisbane Route**) and the Sydney Route.

Under the Proposed Code Sharing, Qantas will code share on Air Niugini operated passenger services on the Cairns, Sydney and Brisbane Routes and Air Niugini will code share on Qantas operated passenger services on the Brisbane Routes, on a free sale basis.

Air Niugini submits that there are strong grounds for the IASC to grant the variation on the basis of the criteria in paragraph 5 of the Minister's Policy Statement, including on the basis that it is likely to lead to the public benefits, relative to the likely future without the Proposed Code Sharing, including the following:

- competition benefits including
 - an increased number of carriers offering services on particular routes and therefore increased choice of services for customers;
 - increased competition in fares;
 - increased choice and frequency of services;
- tourism benefits, including increased route service possibilities;
- consumer benefits, including increased choice of carrier, service, fares and associated benefits; and
- trade benefits, including as a result of the increased potential to carry freight.

These matters are described in further detail below.

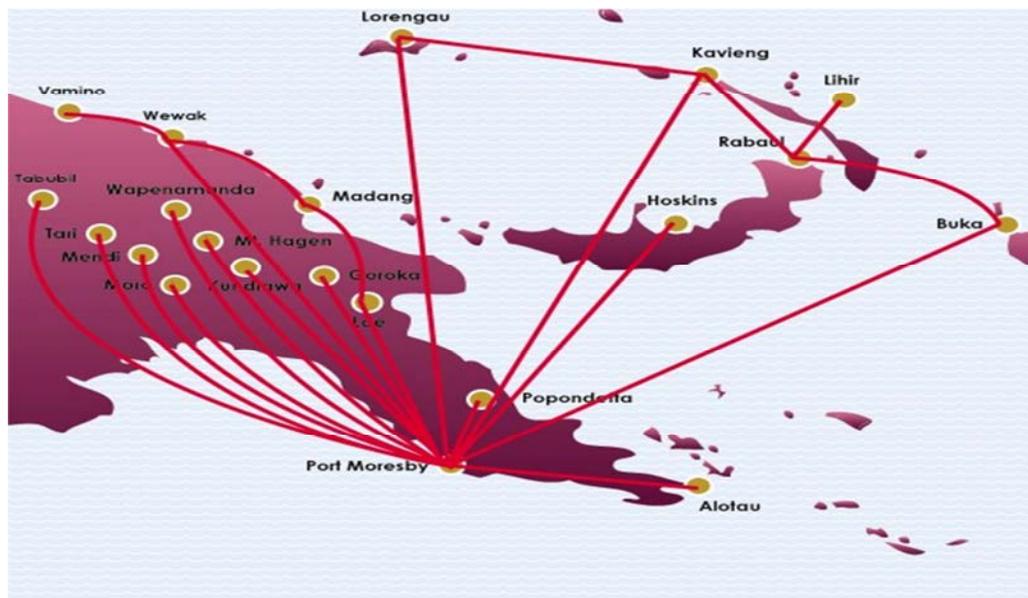
2. DESCRIPTION OF THE PARTIES

2.1 Air Niugini

Air Niugini was incorporated and began operating in 1973 as the national airline of Papua New Guinea, and is one of Papua New Guinea’s largest and most respected companies. Air Niugini is 100% owned by Kumul Consolidated Holdings of Papua New Guinea. Air Niugini employs over 2200 people worldwide and is Papua New Guinea’s largest airline.

Air Niugini’s core business is the transportation of passengers and air freight domestically and internationally. In addition, Air Niugini maintains 22 retail sales offices throughout Papua New Guinea, provides in-flight catering for its own operations, operates a tours division packaging holidays for its customers and travel agent’s customers around Papua New Guinea, and maintains offices in Brisbane, Cairns, Sydney and Manila. Additionally, Air Niugini has general sales agents in the UK, Italy, Malaysia, Indonesia, Hong Kong, China, Taiwan, the USA, Fiji, Solomon Islands, New Zealand, Singapore, Japan, South Korea and Cebu. Air Niugini provides its own ground handling throughout PNG. Air Niugini also maintains an engineering facility for Fokker 100 and Dash 8 Aircraft types and provides line check services for the B767, ATR72, B737 and Falcon Jet aircraft.

Air Niugini through its wholly owned subsidiary, Link PNG Limited, operates domestic services between Port Moresby and 21 ports throughout Papua New Guinea as shown in the figure below:



In addition to domestic air services as displayed above, Air Niugini operates international services between Port Moresby and 11 ports around the world, as follows:

- Sydney, Brisbane and Cairns International Airports, Australia;
- Narita International Airport, Tokyo, Japan;
- Changi International Airport, Singapore;
- Hong Kong International Airport, Hong Kong;
- Honiara Henderson International Airport, Solomon Islands;
- Nadi International Airport, Fiji;
- Bauerfield International Airport, Port Vila, Vanuatu;
- Denpasar International Airport, Bali, Indonesia; and
- Ninoy Aquino International Airport, Manila, Philippines.

Air Niugini’s domestic and international fleet consists of 20 aircraft: 2x B767, 3x B737, 7x Fokker F-100, 5x F70 jets (plus 4 on order), and 1x Dash Q400 next generation aircraft.

Link PNG operates 7 Dash 8 aircraft on domestic routes.

2.2 Qantas

Information about Qantas is publicly available on Qantas' websites and in its reports to the ASX. The Qantas Group comprises two complementary flying brands, Qantas and Jetstar, the Qantas Frequent Flyer and Qantas Freight businesses, and a portfolio of supporting businesses and investments. Qantas is Australia's largest domestic and international airline and is one of the world's leading premium carriers. Jetstar is one of the world's fastest growing and most successful low cost carrier brands, operating in Australia, New Zealand, the Pacific and throughout Asia.

The Qantas Group is one of the world's largest airline groups by passenger numbers and distance flown. It employs approximately 27,000 people¹ and offers services across a network spanning nearly 90 destinations in approximately 15 countries (including those covered by codeshare partners) in Australia, Asia and the Pacific, the Americas, Europe and Africa.² QantasLink operates around 2000 flights each week to more than 58 destinations across Australia and Papua New Guinea.³ Jetstar operates 4000 flights a week serving 60 city and regional destinations across Australia, New Zealand, Asia and the Pacific.⁴

At 30 June 2015, the Qantas fleet totalled 299 aircraft⁵ including Boeing 747-400s, Airbus A380s, Airbus A330-300s and Q400s.⁶ Qantas is a founding member of the One world alliance.

3. CURRENT ARRANGEMENTS

Air Niugini and Qantas currently have code share arrangements in place in relation to the Brisbane and Sydney Routes. Air Niugini operates flights on the Cairns, Brisbane and Sydney Routes and Qantas operates flights on the Cairns route only.

3.1 Current position on the Cairns Route

Air Niugini currently operates 9 return flights per week on the Cairns Route (using F70 narrow body aircraft) and Qantas operates 12 return flights per week flights a week (using Q400 narrow body aircraft). Load factors (seat occupancy) for both airlines have been poor, and **[CONFIDENTIAL INFORMATION REDACTED]**.

Qantas has unilaterally determined that it will withdraw its existing operations on the Cairns Route from 30 October 2016. As a consequence:

- Air Niugini will be the only operating carrier on the Cairns Route; and
- Air Niugini will be the only marketing carrier on the Cairns Route (unless the Proposed Code Share is authorised).

3.2 Current position on the Sydney Route

Air Niugini currently operates 2 weekly return flights between Port Moresby and Sydney with narrow body (B738) aircraft under code share arrangements with Qantas. There are no other airlines operating on this route.

¹ <http://www.qantas.com/travel/airlines/people/global/en>

² http://www.qantas.com.au/flightinfo/qf_pdfTimetable.pdf

³ <http://www.qantas.com/travel/airlines/qantaslink/global/en>

⁴ <http://www.jetstar.com/au/en/about-us>

⁵ <https://www.qantas.com.au/infodetail/about/investors/2015AnnualReport.pdf>

⁶ <http://www.qantas.com/travel/airlines/media-room/qantas-fleet/global/en>

Qantas has unilaterally determined that it will terminate its code share arrangement with Air Niugini from 30 October 2016 (unless the Proposed Variation is granted). There are no other marketing carriers on the Sydney Route. As a consequence, Air Niugini will also become the only marketing carrier on the Sydney Route (unless the Proposed Variation is granted).

3.3 Current position on the Brisbane Route

Air Niugini currently operates 13 return flights weekly between Port Moresby and Brisbane, comprising 8 flights with wide body (B767) aircraft and 5 flights with narrow body (B737 or B738) aircraft under code share arrangements with Qantas. Virgin also currently operates 6 services per week on this route.

4. SUMMARY OF THE PROPOSED CODE SHARING

In the modern aviation industry, code sharing agreements are common, with recognised potential for delivering a lower seat cost to the operator and lower airfares to the travelling public.

Under the Proposed Code Sharing for the Cairns, Sydney and Brisbane Routes:

- Qantas will code share as marketing carrier on Air Niugini passenger services on the Cairns, Sydney and Brisbane Routes on a free sale basis, with each carrier having access to the whole seat inventory;
- Air Niugini will code share as marketing carrier on Qantas passenger services on the Brisbane Route on a free sale basis, with each carrier having access to the whole seat inventory; and
- Each carrier will continue, independently from the other, to set its own prices, determine its own fare classes and rules, operate its own independent yield management systems, and sell its product through its respective independent sales networks.

Qantas will only agree to a code share with Air Niugini on the Cairns, Sydney and Brisbane Routes on a free sale basis.

5. THE FUTURE WITH AND WITHOUT THE PROPOSED CODE SHARING

When assessing the public benefits associated with the Proposed Code Sharing, it is necessary to consider and compare the likely outcomes if the Proposed Code Sharing is implemented, with the likely outcome if the Proposed Code Sharing is not implemented because the Proposed Variation is not granted.

5.1 With the Proposed Code Sharing

Cairns Route

Following the withdrawal of Qantas' 12 weekly services, Air Niugini intends to increase the number of return flights it operates on the route from 11 to at least 14 return flights per week (on F70/F100 aircraft). These flights will be subject to code sharing arrangements which will mean that there will be two marketing operators on this route.

Sydney Route

Air Niugini will increase the number of weekly return flights between Port Moresby and Sydney with narrow body (B738) from 2 to 3. Therefore, there will continue to be one operating carrier and 2 marketing carriers on this route.

Brisbane Route

Following the introduction of an additional 7 weekly return narrow body flights by Qantas on the Port Moresby to Brisbane route, it will not be commercially sustainable in a shrinking market for Air Niugini to continue to operate 13 return services weekly on that route. To be commercially viable, Air Niugini will need to **[CONFIDENTIAL INFORMATION REDACTED]**. With the Proposed Code Sharing, Air Niugini considers that it will be able to continue to operate **[CONFIDENTIAL INFORMATION REDACTED]** return wide body services per week on the Port Moresby to Brisbane route (while code sharing as marketing carrier on Qantas' 7 new return narrow body services per week).

With the Proposed Code Sharing, there will be three operating and marketing carriers (ie, Qantas, Air Niugini and Virgin) on the Port Moresby to Brisbane route. The total number of services between Port Moresby and Brisbane will include **[CONFIDENTIAL INFORMATION REDACTED]** services per week offered by Air Niugini/Qantas pursuant to code share arrangements (currently 13), and we assume 6 services per week offered by Virgin (same as currently).

With the Proposed Code Sharing, Air Niugini will be able to continue to operate wide body services on the Port Moresby to Brisbane route. This is because Qantas' support (via its extensive Australian and international customer network and customer base which mean that it is able to sell seats on Air Niugini's services which Air Niugini could not sell on its own) is critical to Air Niugini's ability to achieve sufficient passenger loads and frequency of services on its Australian routes to make wide body aircraft operations viable.

5.2 Without the Proposed Code Sharing

Cairns Route

If the Proposed Code Sharing is not implemented following the withdrawal of Qantas' 12 weekly services on 30 October 2016, Air Niugini would initially seek to independently operate 15 return weekly services on the Cairns Route (on F70/F100 aircraft) and there will be only one marketing carrier on this route. However, Air Niugini would need to carefully review the ongoing sustainability of these services in the absence of ongoing contributions towards operating costs of those services, which would otherwise be earned from Qantas as marketing carrier on this route if the Proposed Code Sharing occurs.

Sydney Route

The immediate impact will be the loss of Qantas as a competing marketing carrier on this route, leaving Air Niugini as the only operating and marketing carrier. There is also a material risk that, without the contribution of revenue from Qantas seat sales towards operating costs of Air Niugini's services, Air Niugini will need to withdraw from the route as there is insufficient demand on the Sydney route to maintain an independent operation, which will mean that customers will not be able to fly directly between Port Moresby and Sydney.

Brisbane Route

Following the introduction of Qantas' 7 weekly return narrow body services between Port Moresby and Brisbane (which will have the immediate effect of increasing existing capacity on the route by around 36%) it will not be sustainable for Air Niugini to maintain its current frequency of 13 return services per week in a shrinking market. Air Niugini would **[CONFIDENTIAL INFORMATION REDACTED]**. In the medium to long term, Air Niugini would be likely forced to substantially withdraw from operating wide body aircraft (see further below). In the absence of a code share on

this route, there will also be a loss of customer choice and competition as Air Niugini and Qantas will only be able to offer seats to customers on aircraft for which they are the operating carrier.

6. PUBLIC BENEFITS OF THE PROPOSED CODE SHARING

6.1 Competition Benefits

Air Niugini considers that the Proposed Code Sharing will:

- Result in an increased number of carriers offering services on particular routes and accordingly increased choice of services for customers, relative to the position without the Proposed Code Sharing. As noted above, customers will have the choice of:
 - one operating carrier (Air Niugini) and two marketing carriers (Air Niugini and Qantas) on the **Port Moresby to Cairns** route (same as currently), rather than only Air Niugini;
 - three operating and marketing carriers (ie, Qantas, Air Niugini and Virgin) on the **Port Moresby to Brisbane** route. The total number of services between Port Moresby and Brisbane will include **[CONFIDENTIAL INFORMATION REDACTED]** services per week offered by Air Niugini/Qantas pursuant to code share arrangements (currently 13), and we assume 6 services per week offered by Virgin (same as currently). There will be increased customer choice and competition relative to the likely future without the Proposed Code Sharing because Air Niugini and Qantas will be able to offer seats to customers on either carrier's aircraft. Further, as noted above, in the absence of the Proposed Code Sharing on this route, in the medium to long term, Air Niugini would be likely forced to substantially withdraw from operating wide body aircraft on this route (see further below).
 - one operating carrier (Air Niugini) and two marketing carriers (Air Niugini and Qantas) on the **Port Moresby to Sydney** route (same as currently). As noted above, due to the low passenger volume on the Sydney route, if the Proposed Code Sharing does not proceed, there will be an immediate loss of Qantas as a competing marketing carrier on this route, and the potential withdrawal of air services between Port Moresby and Sydney altogether. However, with the Proposed Code Sharing, Air Niugini proposes **[CONFIDENTIAL INFORMATION REDACTED]**;
- Generate competition in fares between Qantas and Air Niugini on the Cairns, Sydney and Brisbane Routes, which will likely result in greater customer choice and lower fares than in the absence of the Proposed Code Sharing:
 - As noted above, each carrier will continue to independently set its own prices, determine its own fare classes and rules, operate its own independent yield management systems, and sell its products through its own independent sales networks;
 - On the Cairns and Sydney Routes the Proposed Code Sharing will allow Qantas (as marketing carrier) to continue to compete with Air Niugini. Absent the Proposed Code Sharing, Air Niugini will be only operating and marketing carrier on the Sydney and Cairns Routes. This would likely result in less customer choice and higher fares compared with the position if the Proposed Code Sharing is implemented, including because Air Niugini is likely to have higher operating costs if operating independently and will face no direct competition on the route;

- On the Brisbane Route:
 - as both Air Niugini and Qantas will be operating their own aircraft under the code share (7 return flights per week each for Qantas and Air Niugini on the Port Moresby to Brisbane route), they will each have a very strong incentive to compete vigorously to sell tickets to customers in order to recover their costs of operating their respective aircraft. Free sale code share arrangements will enable the operating carrier to more efficiently manage capacity, and allow the respective marketing carrier uncapped access to the full inventory;⁷
 - Air Niugini and Qantas will continue to be competitively constrained by strong competition from Virgin, which Air Niugini expects will continue to operate 6 return flights weekly between Port Moresby and Brisbane;
- Enable Air Niugini to operate more efficiently on the Cairns, Sydney and Brisbane Routes, including because code sharing will allow Air Niugini to achieve higher load factors than operating independently, as seats can also be sold through Qantas' wider network and marketing channels, to reach customers that Air Niugini is unlikely to access on its own (ie, the Proposed Code Sharing has a market expanding effect). Increased efficiency may also enhance customer choice by enabling Air Niugini to respond to fare competition.

6.2 Tourism Benefits

Air Niugini considers that the Proposed Code Sharing will result in increased route service possibilities to and from points beyond the Australian gateway(s) or beyond foreign gateway(s). In particular, Qantas has indicated that if the Proposed Code Sharing is implemented, it is willing to agree to Air Niugini code sharing as a marketing carrier on connecting Australian domestic flights between Brisbane and Melbourne, Brisbane and Perth, Sydney and Melbourne, and Sydney and Perth. Customers will therefore have a higher number of origin and destination pairs available, and it allows for more efficient scheduling (eg, code sharing relating to connecting flights is likely to minimise transfer times). For example, Air Niugini will be able to market a journey to customers all the way from Port Moresby to Melbourne via Brisbane or Sydney on an Air Niugini ticket with Air Niugini (PX) flight numbers (compared to the current position where it cannot ticket the Australian domestic leg from Brisbane or Sydney to Melbourne with a PX flight number), thereby improving customer choice. These benefits are conditional on the Proposed Code Share proceeding.

6.3 Consumer Benefits

Air Niugini considers that the Proposed Code Sharing will result in:

- increased consumer choice in terms of carrier, service and fares, as described above;
- more competitive fares (than would be the case absent the Proposed Code Sharing) in light of the greater choice of carrier and the efficiencies due to higher load factors, described above;
- increased opportunity for passengers to earn benefits (eg, Qantas frequent flyer points) when code sharing on Air Niugini flights, which they would not otherwise earn if Air Niugini operated independently;
- continued operation of wide body services on the Brisbane Route (as described above). Wide body aircraft are appreciated by consumers for their greater range than narrow body

⁷ Under existing arrangements, Qantas is capped by the hard block allocations as to the number of seats it can sell on Air Niugini services, and Air Niugini cannot sell seats allocated to Qantas under the hard block. As noted above, Qantas will not continue to participate in the code share arrangements unless they are on a free sale basis.

aircraft, providing better customer comfort, and, if sufficient passenger loads can be achieved, more efficient operations with lower greenhouse emissions per passenger kilometre; and

- increased route service possibilities for consumers travelling to Port Moresby or beyond from Australian origins other than Brisbane. Under the Proposed Code Sharing, these customers will be able to book a Qantas ticket which includes a Qantas domestic leg with an Air Niugini operated code share service.

6.4 Trade Benefits

As noted above, Air Niugini considers that the Proposed Code Sharing will enable Air Niugini to continue to operate wide body services on the Port Moresby to Brisbane route. Wide body passenger services can carry a significant volume of containerised and palletised freight, whereas narrow body passenger services can only carry a small volume of loose freight (eg, a B767 can carry around 20 tonnes of containerised and palletised cargo, whereas a B737 can carry around 2 tonnes of loose cargo). As the cargo is carried as supplementary revenue, passenger carriers have the ability to offer lower cargo rates than dedicated freighter service providers. Accordingly, Air Niugini's wide body services will promote international trade between Australia and Papua New Guinea, by virtue of the increased availability of lower cost, high frequency and reliable freight movement for Australian exporters and importers. As described above, Air Niugini considers that it would need to substantially withdraw from operation of these wide body services if the Proposed Code Sharing is not implemented, which would result in Papua New Guinea as a nation losing a substantial proportion of commercial air freight services, and facing significantly higher prices for air freight;

7. CONCLUSION

For the reasons set out above, Air Niugini considers that there are strong grounds for the IASC to grant the Proposed Variation, on the basis that it is likely to result in significant public benefits, relative to the likely situation if the Proposed Variation is not granted.