



17 August 2009

Mr Michael Bird
Executive Director
International Air Services Commission
PO Box 630
Canberra ACT 2601

Dear Mr Bird,

RE: Draft Determination 117/2009 – Papua New Guinea Route

On 6 August 2009 the Commission issued Draft Determination 117 allocating 16.5 MT of freight capacity to Heavylift Cargo Airlines.

We wish to present our comments concerning the Draft Allocation. We have reviewed the performance of the current holders of freight capacity on the PNG route during the last two year period August 2007 to July 2009. This period averages the last 10 months economic contraction with the preceding 14 months of robust economic activity, to present a fair perspective of freighter operations on this route.

Our review noted:

1. The total freight capacity on the Australia – PNG route is 100 MT per week. Over the last two year period August 2007 – July 2009 the available freight capacity on the route was 10,400 MT.
2. During this period Heavylift operated 191 services to Port Moresby from Brisbane and Cairns (ref. AirServices Australia), including charter flights.
3. Heavylift operated 109 services with B727-100F aircraft with 20 MT payload, and 82 services with B727-200F aircraft with 26 MT payload.
4. The aggregate freight capacity used by Heavylift during this period was 4312 MT which represents 63% of its 6864 MT allocated freight capacity for the period. Over one third of its freight capacity was unused during this period.
5. The 16.5MT that has been allocated to Heavylift in the Draft Determination represents only 67% of its current unused freight capacity during the period.
6. Heavylift could achieve all of its commercial objectives outlined in its application without requiring any additional freight capacity, by simply utilizing the existing 37% unused freight capacity. After adding the additional 16.5 MT of freight onto its existing operations, Heavylift would still have 12% unused freight capacity available for its own business growth on the PNG route.
7. For the last 7 months (Jan-Jul 09) Heavylift has operated two flights monthly through Cairns, and is therefore already covering 50% of its proposed new route development, with approximately 24.5 MT of unused weekly capacity already available for its Cairns service within its current 66 MT allocation.

8. The allocated freight capacity actually used by Qantas during this period has not been determined, however we understand the number of B733F services operated by Qantas on the PNG route during the two year period were minimal. Therefore, of the 10,400MT of allocated freight capacity available to the current capacity holders during the period, less than 5000MT was actually utilised (including an allowance of 670MT for Qantas services during the period).

In summary, we believe the Commission's Draft Determination has created a situation whereby:

- one freight airline has been given an effective monopoly over the PNG route, as there is no more available capacity;
- the decision to not allow the entry of another freight airline onto the route means competition has been prevented;
- if the Draft Determination is finalised: even after allocation of the additional 16.5 MT weekly freight capacity to Heavylift, our review indicates that only half of the total 100MT weekly allocated capacity on the PNG route will actually be utilised by the current capacity holders.

We believe the Minister's policy statement and the Commission's own objectives are not adequately served in Draft Determination 117. In contested allocations we also believe the Commission should seek objective validation of an applicant's supporting data to ensure a fair outcome is achieved.

We would be pleased to provide supporting data to substantiate our review, if requested.

Yours sincerely,



PER

Gary Clifford
Managing Director
Pacific Air Express Australia Pty Limited