



**Australian
Competition &
Consumer
Commission**

GPO Box 3131
Canberra ACT 2601

23 Marcus Clarke Street
Canberra ACT 2601

tel: (02) 6243 1111
fax: (02) 6243 1199

www.accc.gov.au

Our Ref: C2000/1742-03
Contact Officer: Clare McGinness
Contact Phone: (02) 6243 1049

10 September 2009

Mr Michael Bird *MB 21/9*
Executive Director
International Air Services Commission
GPO Box 630
Canberra ACT 2601

Dear Mr Bird

**Re: Application from Qantas for extension of authority to code share
with Air Niugini**

Thank you for your letter of 11 August 2009 inviting the ACCC to comment on Qantas' application for an extension of its authorisation to code share with Air Niugini on services between Australia and Papua New Guinea.

Extension of the code share arrangements in 2007

The ACCC notes that the IASC undertook a detailed public benefit analysis of the route in late 2007, given that Qantas and Air Niugini were the dominant market participants at that time, with Airlines PNG the only other competitor.

In its submission to the IASC in that case, the ACCC indicated that it would be concerned if the code share arrangements were to prevent or constrain the further expansion and consolidation of an efficient operator on the route, and that the financial situation of Air Niugini needs to be carefully considered.

The ACCC notes that, in deciding to authorise the code sharing arrangements in 2007, the IASC concluded that removal of code share approval could potentially lead to a less competitive situation than that prevailing at the time.

Competition on the route in 2009

Air Niugini, and Qantas through the code share, remain the largest carriers on the Australia-PNG route.

Based on the 2009 Northern Summer Timetable Summary¹ published by the Department of Infrastructure, Transport, Regional Development and Local Government, Air Niugini and Qantas clearly hold the majority of capacity on the route. In this regard, the ACCC notes Qantas' submission that Air Niugini has substantially expanded its services on the route since 2007.

The key development since 2007 has been the entry of Pacific Blue in November 2008, flying four times a week from Brisbane to Port Moresby. Airlines PNG code shares on these services, pursuant to Decision [2008] IASC 218, where the IASC noted that the carrier would be unlikely to have a presence on the route in any form if it were not permitted to code share with Pacific Blue.

Data from the Bureau of Infrastructure, Transport and Regional Economics (BITRE) shows that in 2008, Pacific Blue and Airlines PNG had a combined share of passengers of 19.5% on the Australia-PNG route.

The ACCC understands that Pacific Blue operates its service using B737-800 aircraft with a capacity of 180 seats. In Decision [2008] IASC 218, the IASC noted that the introduction of Pacific Blue's larger capacity aircraft significantly increased the number of seats operated per week and considered that this could be expected to lead to a range of attractive fares being offered.

The ACCC notes that air fares offered by Pacific Blue on the Brisbane-Port Moresby service are considerably lower than those offered by Qantas and Air Niugini, suggesting the airline has introduced price competition on the route.

The ACCC acknowledges that there is increased direct competition on the route, but would still be concerned if the code share arrangements between the largest carriers were to prevent or constrain the further expansion and consolidation of other operators on the route.

If you wish to discuss any aspect of this matter, please do not hesitate to contact Darrell Channing on (02) 6243 4925 or Clare McGinness on (02) 6243 1049.

Yours sincerely



David Hatfield
A/g General Manager
Adjudication Branch

¹ For the Northern Summer period from 29 March 2009 to 24 October 2009.