



02<sup>nd</sup> March 2018

Marlene Tucker  
Executive Director  
International Air Services Commission  
GPO Box 630  
Canberra ATC 2601

Dear Ms. Tucker,

**QANTAS APPLICATION FOR VARIATION OF DETERMINATIONS [2016] IASC 110  
AND [2014] IASC 105 - PAPUA NEW GUINEA ROUTE.**

We refer to the Qantas request on the IASC Website for variation of Determinations [2016] IASC 110 and [2014] IASC 105, as varied, dated 16 February 2018, to permit the continuation of code share arrangements between Qantas and Air Niugini on their respective flights between Australia and Papua New Guinea. Since 2002, Air Niugini and Qantas have had a code share relationship which over the years has contributed to successful air operations between Australia and Papua New Guinea.

Our submission is attached. Air Niugini strongly believes that the code share arrangements continue to foster greater public benefit by offering passenger and freight customers a wider range of products on the Port Moresby-Brisbane and Port Moresby-Sydney routes than either airline could offer separately.

The code share has allowed both Air Niugini and Qantas to maintain robust schedules, with frequent services during weak passenger demand periods and economic challenges such as Papua New Guinea is currently experiencing, caused by a drop in world commodity prices and the shift of the Oil & Gas mobilization phase during 2008 to 2013, to the production phase during 2014 to date.

Current code share operations by Qantas and Air Niugini have been welcomed by the business communities in Australia and Papua New Guinea with encouraging engagement with clients who appreciate the choice of ticketing carrier on multiple departures, the re-entry of Qantas metal on the Brisbane route, and the expansion of Air Niugini nonstop services on the Sydney route.

**Air Niugini Limited**

Air Niugini House Jacksons Airport Port Moresby Papua New Guinea  
Telephone: (675) 325 9000, 327 3200 Telegrams: 'Air Niugini' PO Box 7186 Boroko Telex: Ne2225 AJRNG  
Facsimile: Head Office (675) 327 3482 Engineering (675) 327 3534

The code share has assisted in developing Air Niugini's reach into the Australian domestic market providing for greater distribution and travel to other Australian cities of Melbourne and Perth, allowing Air Niugini customers to access seamless travel to and from these centres on one airline ticket.

Qantas has further applied to include a code share on Air Niugini's direct services between Port Moresby-Cairns and Port Moresby-Townville. Air Niugini is confident that this will assist the viability of these services, and broaden opportunities for business activity between North Queensland and Papua New Guinea.


Air Niugini is the sole scheduled operator of wide body aircraft from Australia to Papua New Guinea, providing daily services between Brisbane and Port Moresby with the capacity to carry bulk cargo and/or palletized cargo, thereby providing a frequent and cost effective palletized freight solution which supports both Australian exports and PNG services. This continues to facilitate and create opportunities for customers who are dependent on frequency of service to move specialized time sensitive cargo and fresh produce.

On the Brisbane route, the Boeing 767 also provides convenient connections from Papua New Guinea to North America and elsewhere. The code share agreement continues to support the viability of wide bodied aircraft operations on the Brisbane route, and Air Niugini considers both components – passenger and freight – to be mutually supportive and vital to the ongoing provision of wide body services for Papua New Guinea, and for Australian passenger customers and freight shippers alike.

In conclusion, Air Niugini supports the Qantas application, and is happy to provide further assistance to the Commission in relation to the attached submission should it be required.

Yours Sincerely,



 **Dominic Kaumu, ML**  
**General Manager Commercial**  
**Air Niugini Limited**

**SUBMISSION ON PUBLIC BENEFIT BY AIR NIUGINI IN SUPPORT OF APPLICATION FOR  
VARIATION OF CAPACITY ALLOCATIONS TO ENABLE RECIPROCAL CODE SHARING  
BETWEEN AIR NIUGINI AND QANTAS ON THE PORT MORESBY AND  
CAIRNS/TOWNSVILLE/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 Qantas to continue code sharing with Air Niugini (**Proposed Variation**) on passenger services operated by Air Niugini between Port Moresby and Brisbane/Sydney, and for Air Niugini to continue code sharing on Qantas operated passenger services between Brisbane and Port Moresby. In addition Qantas plans to add its code to Air Niugini operated services between Port Moresby and Cairns, and between Port Moresby and Townsville (together, the **Proposed Code Sharing**).

Air Niugini is currently the only operating carrier on the Cairns, Townsville and Sydney routes. Qantas is a marketing carrier on the Sydney route. In the absence of the Proposed Code Sharing, Air Niugini will continue to be the only marketing carrier on the Cairns and Townsville routes, and will become the only marketing carrier on the Sydney route.

On the Brisbane route Air Niugini is currently an operating carrier, and Qantas is a marketing carrier on the Air Niugini flights. Qantas is also an operating carrier, and Air Niugini is a marketing carrier on the Qantas flights. With regards to the movement of air freight, Qantas is a marketing carrier on Air Niugini's wide body Boeing 767 flights on the Brisbane route.

Under the Proposed Code Sharing, Qantas will code share on all Air Niugini operated passenger services on the Cairns, Townsville, Sydney and Brisbane routes and Air Niugini will code share on all Qantas operated passenger services on the Brisbane route, on a free sale basis. With regards to air freight, Qantas will continue to be a marketing carrier on Air Niugini's wide body flights on the Brisbane route.

Air Niugini supports the Qantas application, and 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. 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, Townsville, Sydney and Brisbane routes and Qantas operates flights on the Brisbane route only.

### **2.1 Current position on the Cairns Route**

Qantas unilaterally determined to withdraw its existing operations on the Cairns Route from 30 October 2016, comprising 12 return flights per week (using Q400 narrow body aircraft). As a consequence:

- Air Niugini became the only operating carrier on the Cairns Route; and
- In the absence of approval for a previously proposed code share, Air Niugini became the only marketing carrier on the Cairns Route.

From 30 October 2016, Air Niugini unilaterally increased services from 9 to 15 return flights per week on the Cairns Route using narrow body (F100/F70) aircraft. Cairns remains a difficult market, due to declining passenger numbers, high operating costs, and significant variation in demand by day of week and direction. As a result Air Niugini has gradually decreased services from 15 return services effective 30<sup>th</sup> October 2016, to 9 return services effective March/April 2018. Air Niugini is the only carrier providing scheduled services on the Cairns / Port Moresby route.

### **2.2 Current position on the Townsville Route**

From 31 March 2017 Air Niugini introduced 2 weekly return flights between Port Moresby and Townsville with narrow body (F70) aircraft. Air Niugini is the only operating and marketing carrier on the Townsville / Port Moresby route, and for that matter is the only carrier providing scheduled international air links from Townsville.

### **2.3 Current position on the Sydney Route**

From 30 October 2016 Air Niugini increased its services between Port Moresby and Sydney from 2 to 3 return flights per week, using narrow body (B737) aircraft under code share arrangements with Qantas. There are no other airlines operating on this route.

### **2.4 Current position on the Brisbane Route**

Air Niugini currently operates 7 return flights weekly between Port Moresby and Brisbane with wide body (B767) aircraft under code share arrangements with Qantas. Qantas operates up to 7 return flights weekly between Brisbane and Port Moresby using narrow body (B738) aircraft under code share arrangements with Air Niugini. Virgin also currently operates up to 6 services per week on this route.

## **3. SUMMARY OF THE PROPOSED CODE SHARING**

In the modern aviation industry, code sharing agreements are common, with recognised potential for delivering consumer benefits including choice of ticketing carrier, choice of schedules, choice of frequent flyer programmes, and lower airfares to the travelling public. Code share agreements enable airlines to offer their customers a much wider choice of schedules and other benefits than they could afford to provide by themselves.

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

- Qantas will code share as marketing carrier on Air Niugini passenger services on the Cairns, Townsville, Sydney and Brisbane Routes on a free sale basis, with each carrier having access to the whole seat inventory. Additionally on the Brisbane Route, and with regard to Air Freight, Qantas will continue to code share on Air Niugini's wide body aircraft services;
- 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.

#### **4. 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.

Air Niugini considers the Proposed Code Sharing to be a whole proposition, covering passenger services on the Cairns, Townsville, Sydney and Brisbane routes, as well as air freight services on the Brisbane route. In discussing the likely outcomes with and without the Proposed Code Sharing, it is important to note that different outcomes may result should the Proposed Code Sharing only be partially implemented.

##### **4.1 With the Proposed Code Sharing**

###### ***Cairns Route***

These flights will become subject to code sharing arrangements which will mean that there will be two marketing operators on this route instead of only one. With a second carrier marketing the route, particularly a carrier with the marketing and distribution strength of Qantas, it is likely that the viability of the route will be improved allowing for an earlier increase in services in the future than might otherwise be possible. Air Niugini is confident the Proposed Code Share will assist in broadening the business and trade opportunities between Far North Queensland and Papua New Guinea.

###### ***Townsville Route***

These flights will become subject to code sharing arrangements which will mean that there will be two marketing operators on this route instead of only one. With a second carrier marketing the route, particularly a carrier with the marketing and distribution strength of Qantas, it is likely that the viability of the route will be improved allowing for an earlier increase in services in the future than might otherwise be possible. Air Niugini is confident the Proposed Code Share will assist in broadening the business and trade opportunities between the Townsville region in particular and Papua New Guinea.

###### ***Sydney Route***

Under the existing code share arrangements, Air Niugini has increased the number of weekly return flights between Port Moresby and Sydney with narrow body (B737) from 2 to 3.

Continuation of the code share ensures there will continue to be one operating carrier and 2 marketing carriers on this route.

### ***Brisbane Route***

With the existing code sharing arrangements, Air Niugini considers that it is able to continue to operate up to 7 return wide body services per week on the Port Moresby to Brisbane route, while code sharing as marketing carrier on Qantas' 7 return narrow body services per week.

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. Customers of both Air Niugini and Qantas continue to benefit from choice of operating carrier, while continuing to enjoy the benefits of choice of schedule, loyalty programmes, and air fares. Freight shippers and exporters continue to enjoy the benefits of a daily, wide body and palletized solution for the movement of time sensitive and perishable freight.

## **4.2 Without the Proposed Code Sharing**

### ***Cairns Route***

If the Proposed Code Sharing is not implemented there will continue to be only one marketing carrier on this route. Air Niugini would need to carefully review the ongoing sustainability of these services in the absence of ongoing contributions towards the operating costs of the services, which would otherwise be earned from Qantas as marketing carrier on this route if the proposed Code Sharing occurs.

### ***Townsville Route***

If the Proposed Code Sharing is not implemented there will continue to be only one marketing carrier on this route. Air Niugini would need to carefully review the ongoing sustainability of these services in the absence of ongoing contributions towards the operating costs of the 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 the services, Air Niugini will need to either reduce services or withdraw from the route completely if there is insufficient demand on the Sydney route to maintain an independent operation. This will mean that customers will not be able to fly directly between Port Moresby and Sydney as frequently as they can now, and possibly not at all. This will almost double customers' travel time from Sydney to Port Moresby via a connection in Brisbane, Cairns, or Townsville. Air Niugini considers that the direct services offer valuable time saving for business travellers in particular, which stimulates business and trade opportunities between Australia and Papua New Guinea.

### ***Brisbane Route***

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.

In a mature and stagnant PNG/Australia market, Air Niugini considers the contribution of both passenger and cargo demand to be crucial to the viability of wide body aircraft on the route. In the absence of a code share on this route – be it either the passenger or cargo component – Air Niugini would likely be forced to substantially withdraw from operating wide body aircraft. Due to

insufficient volume and directional imbalance of air freight demand it is unlikely that a daily dedicated freighter service could be sustained. Prices would need to substantially increase in order to recover the cost of operating a daily dedicated freighter to cater for essentially one way demand.

#### 4.3 Competition Benefits

Air Niugini considers that the Proposed Code Sharing will:

- Result in an increased number of carriers offering services on all the 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** and **Port Moresby to Townsville** routes, rather than only Air Niugini;
  - three operating and marketing carriers (ie, Qantas, Air Niugini and Virgin) on the **Port Moresby to Brisbane** route. 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.
  - 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, resulting in a likely reduction, and potentially a withdrawal of air services between Port Moresby and Sydney altogether.
- Generate competition in fares between Qantas and Air Niugini on the Cairns, Townsville, Sydney and Brisbane Routes, which will likely result in greater customer choice and lower fares than in the absence of the Proposed Code Sharing
- Enable Air Niugini to operate more efficiently on the Cairns, Townsville, 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.
- 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, Townsville and Sydney Routes
    - the Proposed Code Sharing will allow Qantas (as marketing carrier) to continue to compete with Air Niugini on the Sydney route, and will add a level of competition on the Cairns and Townsville routes. Absent the Proposed Code Sharing, Air Niugini will be the only operating and marketing carrier on the Cairns, Townsville, and Sydney Routes. This would likely result in less customer choice and higher fares compared with the position if the Proposed Code Sharing is implemented, because Air

Niugini is likely to generate lower passenger loads if operating independently, and will face no direct competition on the routes;

- the Proposed Code Sharing on these relatively thin routes will improve patronage, and therefore the viability of the routes, making them more sustainable over the long term, which in turn may allow for service frequency to be increased soon than will be possible absent the Proposed Code Share;

o On the Brisbane Route:

- as both Air Niugini and Qantas operate 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 each have a very strong incentive to compete vigorously to sell tickets to customers in order to recover the costs of operating their respective aircraft. Free sale code share arrangements enable the operating carrier to more efficiently manage capacity, and allow the respective marketing carrier uncapped access to the full inventory;
- Air Niugini and Qantas will continue to be competitively constrained by strong competition from Virgin, which Air Niugini expects will continue to operate up to 6 return flights weekly between Port Moresby and Brisbane;

#### 4.4 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, Air Niugini is already code sharing as a marketing carrier, on connecting Qantas Australian domestic flights between Brisbane and Melbourne, Brisbane and Perth, Sydney and Melbourne, and Sydney and Perth. Customers 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 its customers all the way from Port Moresby to Melbourne via Brisbane or Sydney on an Air Niugini ticket with Air Niugini (PX) flight numbers. Under the Proposed Code Sharing it is possible for these benefits to be extended to include other city pairs in future.

#### 4.5 Consumer Benefits

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

- Increased consumer choice in terms of carrier, frequency & preferred times of services 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 on individual city pairs and the efficiencies due to higher load factors, described above;
- increased opportunity for passengers to earn benefits (eg, Qantas frequent flyer points and tier status) 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. Wide body aircraft are appreciated by consumers for their better customer comfort than narrow body aircraft and, when 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.

#### **4.6 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 & 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 less than 2 tonnes of loose cargo).

There is an extreme directional imbalance in demand for air freight on the Australia / Papua New Guinea route. However as the cargo on wide body passenger flights is carried as supplementary revenue, passenger carriers have the ability to offer lower cargo rates than dedicated freighter service providers who have to recover the cost of a virtually empty aircraft in one direction. Accordingly, Air Niugini's wide body services promote international trade between Australia and Papua New Guinea, by virtue of the increased availability of lower cost, higher frequency and reliable freight movement for exporters and importers.

As described above, Air Niugini considers the Proposed Code Sharing – both the passenger and air freight component – to be crucial to the sustainability of wide body operations on the Route. The airline would need to substantially withdraw from operation of wide body services if the Proposed Code Sharing is not able to be implemented in full (ie. Both Passenger and Air Freight). This would result in Papua New Guinea as a nation losing a substantial proportion of commercial air freight services, as well as businesses in Australia and Papua New Guinea facing significantly higher prices and lower service frequency for air freight;

#### **5. CONCLUSION**

For the reasons set out above, Air Niugini considers that there are strong grounds for the IASC to grant the Proposed Variation in full, 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.