



16 February 2018

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

Dear Ms Tucker,

**Application for Variation – Papua New Guinea route**

I refer to the letter from the International Air Services Commission (the Commission) inviting Qantas to apply for an extension of the authorisations permitting it to code share with Air Niugini on the Papua New Guinea (PNG) route.

Qantas wishes to continue to place its code on Air Niugini services between Sydney and Port Moresby, and Brisbane and Port Moresby, and vice versa, and Air Niugini to place its code on Qantas services between Brisbane and Port Moresby. Further, Qantas plans to add its code to Air Niugini services between Port Moresby and Cairns, and Port Moresby and Townsville, and vice versa.

Accordingly, Qantas requests a variation to Determinations [2016] IASC 110 and [2014] IASC 105, as varied, which allocate a total of 1,888 seats per week for passenger services on the PNG route, to permit the utilisation of capacity for code share services with Air Niugini for the duration of the determinations.

A copy of the confidential code share agreement between Qantas and Air Niugini will be provided separately to the Commission.

Qantas believes that the continuation of existing code share arrangements and the proposed expansion offers maximisation of the public benefit. Qantas' application which addresses the Paragraph 5 criteria of the Minister's Policy Statement, as requested, is attached.

We would be pleased to provide further assistance to the Commission in relation to the attached material should it be required.

Yours sincerely,

**Rohan Garnett**  
Executive Manager, International Affairs



Australia – PNG Passenger Market<sup>1</sup>

The Australia – PNG market exhibits many characteristics that make it unique amongst Qantas' routes.

In contrast to the strong growth historically experienced on the PNG route, total origin-destination (O/D) passenger traffic between Australia and PNG has fallen in recent years. In financial year 2017 (FY17) 274,324 passengers, or approximately 2,638 passengers each week, travelled each way. These FY17 numbers are equal to total passenger traffic in financial year 2012. Passenger numbers have fallen by three per cent in FY17, following a seven per cent decline in financial year 2016 (FY16).

Australian traffic on the PNG route represents 61 per cent of the O/D market in FY17. The mix of travellers has remained reasonably consistent during FY17 compared to the previous financial year. The purpose for outbound resident travel continues to be dominated by business and employment travellers – totaling 57 per cent in FY17 down from 65 per cent in FY16 – while inbound visitors are mainly split between holiday and visiting friends and relatives (VFR) traffic – 42 per cent and 22 per cent respectively.

The Australia – PNG route is largely a point-to-point market, whereby 86 per cent of travellers with an Uplift/Discharge (U/D) of PNG also have an O/D of PNG in FY17. While the volume of Australia–PNG traffic carried beyond Australia is relatively small, it has grown by nine per cent since financial year 2012, with the largest third country traffic flows being to/from New Zealand and Singapore.

#### **Paragraph 5 Criteria – Minister's Policy Statement**

The Minister's Policy Statement provides that, in assessing the extent to which applications will contribute to the development of a competitive environment for the provision of international air services, the Commission should have regard to:

##### **5.1 (a) Competition Benefits**

Air Niugini, Virgin Australia and Qantas currently operate services between Australia and PNG.

According to the International Airlines Timetable Summary prepared by the Department of Infrastructure, Regional Development and Cities, Virgin Australia operates up to six return services each week between Brisbane and Port Moresby. Virgin Australia holds allocations totalling 1,232 seats per week on the PNG route, which provide for the ability to operate up to seven services per week on the PNG route using B737-800 aircraft.

Qantas operates up to seven return services per week using B737-800 aircraft between Brisbane and Port Moresby. In addition to its own aircraft services, Qantas' allocations of 1,888 seats per week on the PNG route support the code share arrangements between Qantas and Air Niugini.

From a total entitlement of 3,520 seats per week, 400 seats per week remain unallocated and available to any Australian airline to take up for new or expanded services on the PNG route. These seats have been available for allocation to Australian carriers since February 2015.

---

<sup>1</sup> Data sourced from either BITRE or ABS. ABS Calendar Year 2017 was not available at the time of lodgement.

Since the Commission authorised the code share arrangements in November 2016 (2016 Decision), total capacity operated by Air Niugini between PNG and Australia has remained relatively stable with a total of around 3,000 seats per week. As previously noted positively by the Commission in its 2016 Decision, Air Niugini operates three weekly Port Moresby-Sydney services, along with daily Port Moresby-Brisbane services operated using B767-300 aircraft and services between Port Moresby and Cairns/Townsville.

Against the background of weakening passenger demand, the presence of other competitors and the potential for new entry continues to act as a competitive constraint on both Qantas and Air Niugini. Following speculation by the CAPA Centre for Aviation in August 2016, PNG Air commenced services between PNG and Australia in August 2017 with the launch of charter flights three times per week under a contract with Newcrest Mining. PNG Air is reportedly looking at resuming scheduled passenger services to Cairns<sup>2</sup>.

In its 2016 Decision, the Commission questioned whether code sharing on parallel services by Qantas and Air Niugini would swing the balance in favour of Air Niugini at the expense of Virgin Australia. However, Air Niugini's market share fell by 3.4 percentage points in FY17 to 54 per cent compared to FY16 while Qantas' share grew by an equal amount to 19.9 per cent during the same period.

In FY17, Virgin Australia's market share fell by the same amount as the market share of third country carriers grew. Virgin Australia's market share decreased by 2.5 percentage points to 11.5 per cent compared to FY16, whilst third country carrier traffic grew by 2.5 percentage points to 14.6 per cent total market share in FY17.

Bureau of Infrastructure, Transport and Regional Economics (BITRE) statistics show that total market seat factor (ie all carriers between all city pairs) between Australia and PNG was 52.2 per cent in FY17, similar to the prior financial year.

The PNG Independent Consumer and Competition Commission (ICCC) approved the passenger code share and freight arrangements on the Brisbane and Sydney routes on 19 August 2016. Following a separate request for authorisation on the Cairns route, approval was received from the ICCC on 9 November 2016.

Qantas and Air Niugini independently price and sell services on the PNG route with each operating its own yield management systems, creating a genuinely competitive dynamic. Each airline offers separate fare structures and rules resulting in varied fare levels and fare conditions, giving passengers more choice and flexibility.

## **Other Benefits**

### **5.1 (b) Tourism Benefits**

In its 2016 Decision, the Commission considered that in the case of PNG the tourism criterion was not a significant factor overall in its assessment of the application. Given the traveller mix has remained relatively stable in FY17 compared to FY16, despite declining total O/D passenger numbers, we anticipate the Commission will adopt a similar approach for this application for authorisation of the code share.

Notwithstanding this, Qantas notes that the Qantas/Air Niugini code share arrangements provide passengers with better connectivity and more schedule options than would be available absent the code

---

<sup>2</sup> PNG Air resumes int'l operations, ch-aviation, 16 August 2017, <https://www.ch-aviation.com/portal/news/58710-png-air-resumes-intl-operations>

share. With the code share on Air Niugini's Port Moresby-Brisbane services, Qantas passengers can connect to 11 additional destinations from Port Moresby within four hours, further to direct links with the Qantas Group domestic and international services.

### **5.1 (c) Consumer Benefits**

Consumers are able to experience three differing onboard products on services between Brisbane and Port Moresby. Qantas and Virgin Australia both operate B737-800 aircraft, while Air Niugini continues to operate daily B767-300 aircraft, fitted with flat beds in the business class cabin. The Qantas/Air Niugini code share arrangements support the viability of each other's services and, as a result, continuation of a wide degree of choice.

The proposed arrangements will continue to maximise consumers' choice on the Sydney/Brisbane-Port Moresby sectors and expand these benefits to Cairns and Townsville services by providing access to frequent flyer schemes offered by Qantas as well as Air Niugini. Access to Qantas' frequent flyer program and the benefits this brings in terms of opportunities to earn status credits, attain tier recognition and benefits, along with access to Qantas lounges for tiered passengers would not be available to consumers absent the code share.

Access to Qantas' frequent flyer program under the code share provides consumers with access to promotional frequent flyer activity, such as a 50 per cent points campaign to Pacific codeshare routes.

Prospects for lower tariffs and improved route possibilities have been addressed above in the 'Competition Benefits' and 'Tourism Benefits' sections respectively.

### **5.1 (d) Trade Benefits**

Total freight volumes on the PNG route have increased from 4,300 tonnes in 2017 to 3,900 tonnes in 2016. Freight is carried on combination passenger/cargo services operated by Qantas and Virgin Australia between Brisbane and Port Moresby, using narrow body aircraft. Air Niugini also operates a daily combination passenger/cargo services between Brisbane and Port Moresby using wide body B767 aircraft, as well as narrow body aircraft on other PNG routes. Pacific Air Express operates twice weekly dedicated freighter services between Brisbane and Port Moresby using B737-300F aircraft.

The Qantas/Air Niugini code share arrangements contribute to the availability of frequent, low cost and reliable freight movements on the PNG route. Under the arrangements, Qantas obtains a hard block of capacity on B767 services operated by Air Niugini on the PNG route

Air Niugini is the only carrier (passenger or all cargo) to operate widebody aircraft and the frequency of its services are vital for the regular export of time sensitive express products (including urgent mining parts), live animals, airmail and general goods that would not be able to be carried on the other available capacity in the airfreight market between Australia and PNG.

The efficiencies of combined passenger/cargo services are evidenced through more competitive cargo rates for consumers than dedicated cargo providers. Further, the operation of regular, widebody B767 services is vital to the carriage of commercial volumes of palletised and containerised freight, given narrow-bodied aircraft used on this route have limited space for freight.

The B767 aircraft can carry up to 24 tonnes of freight compared to a B737 aircraft which is typically limited to approximately 1.5 tonnes of "loose" cargo. In addition, the widebody B767 aircraft enables the use of

Unit Load Devices which allow for the export of individual pieces that can weigh up to five tonnes, compared to a maximum weight of 32kgs per piece on a narrow-bodied aircraft.

Qantas offers its freight customers access to a global route network of 135 countries and territories covered by the oneworld alliance. Domestically, Qantas Freight has partnered with Australia Post to provide freight and mail services, and seamless transfer between international and domestic networks.

Under the Australia - PNG air services arrangements, a separate capacity entitlement is available for the operation of all-cargo services. For Australian carriers, 60 tonnes per week is available from a total entitlement of 130 tonnes per week.

### **5.1 (e) Industry Structure**

As outlined the above sections, the proposed code share will impact positively on the Australian aviation industry through increased competition and efficiencies, providing a wider range of services and choice for consumers.

#### Absent the Code Share Arrangements

Regulators recognise that code sharing is a mechanism that can result in material public benefits by stimulating market growth and competition and offer passengers greater flexibility and choice. The benefits of code sharing are acknowledged in the Minister's Policy Statement which stipulates that the Commission is "generally. . . expected to authorise applications for use of capacity to code share".

Absent the code share arrangements, it is unlikely that the public benefits resulting from the continuation and proposed expansion could be maintained. The more likely outcome would be a reduction in the number of services and competitors on the PNG route and the flow on effects of this including reduced capacity, less flexible scheduling and a more limited range of fares for consumers.

The code sharing arrangements have supported the ongoing viability of Air Niugini and, as such, are of vital importance to the PNG economy. The additional traffic generated by the marketing carrier contributes toward operating costs and allows the operating carrier to maintain and/or operate more services.

A reduction in Air Niugini's schedules would be an almost certain consequence of the existing code share arrangements ending and the proposed expansion not receiving authorisation. For example, according to recent reports, Air Niugini is considering dropping its Port Moresby-Townsville flights due to low passenger numbers. However, if the Qantas code was added to these services, the resulting access to Qantas' distribution capability and marketing would assist in ensuring the benefits from this service are not lost.

Air Niugini is the only carrier to provide regular wide-body services on the PNG route. Qantas doubts that Air Niugini would be able to maintain a wide-bodied aircraft on these services absent the code share arrangements with Qantas.

A move to the use of narrow-bodied aircraft on the route has significant implications for the transport of cargo. The operation of a B737 in place of a B767 would significantly reduce belly hold space available for the carriage of freight. It is unlikely that alternative freighter operators would match the regular schedules from the Qantas/Air Niugini code share arrangements.