



## Australian Government

### International Air Services Commission

#### DETERMINATION

<b>Determination:</b>	<b>[2006] IASC 104</b>
<b>The Route:</b>	<b>Papua New Guinea</b>
<b>The Applicant</b>	<b>Queensland Regional Airlines Pty Ltd (ACN 100 751 139)</b>
<b>Public Register File:</b>	<b>IASC/APP/200610</b>

#### 1 The application

1.1 On 28 July 2006, Queensland Regional Airlines (Q7) applied for an allocation of 216 seats each way each week of capacity on the Papua New Guinea (PNG) route. Q7 proposes to operate six return services per week between Cairns and Port Moresby using Dash 8-102 36 seat aircraft.

1.2 In response to Q7's application, the Commission published a notice on 5 July 2006 inviting other applications for all or any part of the capacity from interested parties. No applications were received.

1.3 All public material supplied by the applicant is filed on the Register of Public Documents. Commercial in confidence material provided by the applicant is filed on the Commission's Confidential Register.

#### 2 Current services and unused allocations

2.1 The PNG route is served by Air Niugini (which code shares with Qantas), Airlines of PNG and HeavyLift Cargo Airlines (HeavyLift). Air Niugini flies:

- four B767-300 passenger services per week between Port Moresby and Brisbane (rising to five services per week on occasion);
- two B767-300 passenger services per week between Port Moresby and Brisbane/Sydney; and
- nine F100 passenger services per week between Port Moresby and Cairns.

2.2 Airlines of PNG operates six passenger services per week between Cairns and Port Moresby using DeHavilland Dash 8 aircraft. HeavyLift operates various all-freight services between Cairns and Brisbane in Australia and Port Moresby and Lae in PNG.

### **3 Provisions of relevant air services arrangements**

3.1 The proposed operations by Q7 are consistent with the air services arrangements between Australia and PNG. Under the arrangements, the designation of multiple airlines is permitted. According to the Register of Available Capacity, there are 2,200 seats each way each week available for allocation to Australian carriers. Q7 has sought 216 seats each way per week.

### **4 Commission's assessment**

#### Overview

4.1 Q7 is the only applicant for capacity. Under paragraph 6.2 of the Minister's Policy Statement (No.5), of 19 May 2004, the Commission is required only to apply the criteria in paragraph 4 of the policy statement. Under paragraph 4, the use of Australian entitlements by a carrier that is reasonably capable of obtaining the necessary approvals (4(b)(i)) and of implementing its proposals (4(b)(ii)) is of benefit to the public. In relation to obtaining the necessary approvals, Q7 must be designated by, and obtain an international airline licence from, the Department of Transport and Regional Services (DOTARS) and safety approvals from the Civil Aviation Safety Authority (CASA) before it has authority to commence services. The Commission makes its own assessment of whether the applicant is reasonably capable of implementing its proposals, having regard to various matters including the applicant's experience, business plan and other information provided to the Commission by the applicant.

#### Necessary approvals

4.2 In line with its normal practice for new entrant airlines, the Commission sought advice from DOTARS as to whether it considered Q7 to be reasonably capable of obtaining the approvals necessary to operate on the PNG route. DOTARS advised that it considers it more likely than not that Q7 will be able to meet the requirements for the issue of an International Airline Licence, noting that an application has been lodged, a number of requirements have already been met and Q7 is working towards meeting remaining requirements.

#### Ability to implement proposals

4.3 Q7 is an established company, with a well-established operational presence in north Queensland. It has operated domestic services between Townsville and Palm Island since the second half of 2003.

4.4 Q7 has provided the Commission with commercial-in-confidence material supporting its claim that it is capable of implementing international services.

4.5 Q7 plans to offer fares that would make it competitive on price with existing operators and may stimulate additional travel on the route. The airline has marketing plans aimed at capturing a share of the different market segments. While the plans

appear to be founded on a good understanding of the market, the Commission is aware that the security situation in PNG continues to be a concern and this may limit the willingness of Australian residents, in particular to travel to PNG for leisure purposes. Currently only a small proportion of travel on the route is by leisure travellers. Q7 considers that it can stimulate VFR travel, noting that there is a significant population of PNG nationals resident in Cairns who may have been deterred from travelling by high air fares.

4.6 Q7's main challenge, and possibly the key to success, is likely to be whether it can capture a significant share of the business market. Business travel comprises the major component of travel between Australia and PNG. Q7 is likely to be very competitive on price with the existing operators, but it may be difficult to convert this relatively price insensitive market to the slower single class Dash 8 Q7 aircraft from the faster Air Niugini two-class F100 jet planes. Q7 intends to target companies which have frequent travellers on the route and offer them a loyalty program and other incentives.

4.7 The carrier plans to introduce a fairly small amount of capacity into the Cairns – Port Moresby market. Its assumptions about load factors on its services are conservative.

4.8 Taking account of all of these factors, the Commission considers that Q7's projections of likely carriage and associated revenue yields are realistic, if challenging.

4.9 Although Q7 has recorded financial losses in its early years of operation, it has been moving towards profitability. Sufficient sources of funding are available to support the expansion necessary to establish the proposed international services. In this regard, the Commission notes that the proposed operations are small in scale and incremental to existing domestic operations with their established infrastructure and staffing. As a result, relatively modest amounts of funding are required to implement the proposed services. The financial projections assume profit growth over coming years and the Commission is satisfied that the projections are reasonable. The principal personnel appear to have sufficient relevant experience to implement the planned operations, again bearing in mind that domestic operations are well-established.

4.10 The Commission notes that the Cairns – Port Moresby sector is already served by Air Niugini and Airlines of PNG. This means that if Q7 was to commence operations on this route, but subsequently to withdraw, there would be ample services to cater for passengers holding forward bookings on Q7.

4.11 In this case, the Commission considers that Q7 is likely to be capable of implementing its proposals. Whether services are sustainable in the longer term will depend on a range of factors, especially Q7's ability to divert business traffic from existing services and to generate new traffic.

## Conclusion

4.12 The information provided by Q7 satisfies the Commission that the carrier has the financial and logistical resources, skills and experience necessary to implement its

proposals. The Commission is also satisfied that Q7 is reasonably capable of obtaining the necessary approvals. The Minister's policy statement makes it clear that use of capacity by Australian carriers is of benefit to the public. An allocation of capacity to Q7 would therefore be of benefit to the public and the Commission will make the allocation sought.

4.13 The Commission notes that Q7 proposes to commence services on the PNG route in October 2006. The Minister's policy statement gives the Commission discretion in specifying a period within which a carrier must fully utilise allocated capacity. In line with the Commission's practice of providing reasonable flexibility for new entrants in fully utilising allocated capacity, the Commission will require Q7 to fully utilise its capacity by 31 March 2007.

4.14 Consistent with its usual practice for new entrant airlines (including in previous cases on the PNG route) and the discretion available under the Minister's policy statement, the Commission will issue an interim (three year) determination. Should the carrier exercise its capacity in accordance with the conditions of this determination, it will have the opportunity to obtain a full five year determination at the renewal stage.

## **5 Interim Determination allocating capacity on the Papua New Guinea route to Queensland Regional Airlines Pty Ltd ([2006] IASC 104)**

5.1 The Commission makes an interim determination in favour of Queensland Regional Airlines (Q7), allocating 216 seats of passenger capacity per week in each direction on the Australia – Papua New Guinea route, in accordance with the Australia – Papua New Guinea air services arrangements.

5.2 The determination is for three years from the date of the determination.

5.3 The determination is subject to the following conditions:

- Q7 is required to fully utilise the capacity from no later than 31 March 2007 or from such other date approved by the Commission;
- only Q7 is permitted to utilise the capacity;
- Q7 is not permitted to utilise the capacity to provide services jointly with another Australian carrier or any other person without the approval of the Commission;
- changes in relation to the ownership and control of Q7 are permitted except to the extent that any change:

- results in the designation of the airline as an Australian carrier under the Australia – Papua New Guinea air services arrangements being withdrawn; or
- has the effect that another Australian carrier, or a person (or group of persons) having substantial ownership or effective control of another Australian carrier, would take substantial ownership of Q7 or be in a position to exercise effective control of Q7, without the prior consent of the Commission; and
- changes in relation to the management, status or location of operations and head office of Q7 are permitted except to the extent that any change would result in the airline ceasing to be an airline designated by the Australian Government for the purposes of the Australia – Papua New Guinea air services arrangements.

Dated: 21 July 2006

John Martin  
Chairman

Vanessa Fanning  
Member

Michael Lawriwsky  
Member