



## Australian Government

### International Air Services Commission

#### DECISION

**Decision:** [2008] IASC 218  
**The Route:** Papua New Guinea  
**The Applicant:** Pacific Blue Airlines (Australia) Pty Ltd  
(ACN 097 892 389) (Pacific Blue Australia)  
**Public Register File:** IASC/APP/200823

#### 1 The application

1.1 On 10 September 2008, Pacific Blue Australia applied to the Commission for authorisation to code share with Airlines of Papua New Guinea (Airlines of PNG) on Pacific Blue Australia's new services between Brisbane – Port Moresby, which commence in November 2008. Pacific Blue Australia referred to its earlier application to the Commission for an allocation of capacity on the Papua New Guinea (PNG) route to enable it to operate four B737-800 services per week on the sector. A fifth weekly service was planned to be operated by November 2009. (In response to that earlier application, on 12 September 2008 the Commission issued Determination [2008] IASC 114, allocating 900 seats per week to Pacific Blue Australia as requested).

1.2 Pacific Blue Australia proposed to allocate a “hard block” (a fixed number of seats on each flight) to Airlines of PNG under the code share arrangements between the two airlines. Each party would independently determine fare levels and no revenue would be pooled.

1.3 Pacific Blue Australia stated that its entry to the PNG market would bring much needed competition to the route which was currently characterised by entrenched and less than optimal arrangements. This would be in the public interest. The airline said that the proposed code share arrangements would help maintain and strengthen Airlines of PNG's presence in the Brisbane – Port Moresby market and Airlines of PNG's participation would complement Pacific Blue Australia's entry to that market.

1.4 The Commission published a notice on 15 September 2008 inviting submissions about the Pacific Blue Australia application. No submissions were received.

1.5 All material supplied by the applicant is filed on the Register of Public Documents.

#### 2 Provisions of relevant air services arrangements

2.1 The Australia–PNG air services arrangements permit the designated airlines of both parties to perform any of their agreed services through code sharing, blocked spaced or other co-operative service arrangements with any designated airlines of either party.

### **3 Commission's assessment**

#### The draft decision

3.1 On 8 October 2008, the Commission issued Draft Decision [2008] IASC 218, proposing to vary Determination [2008] IASC 114 to authorise code sharing by Airlines of PNG on Pacific Blue Australia's services between Australia and PNG.

3.2 Interested parties were invited to make a submission in response to this draft decision. No submissions were received.

#### Detailed assessment

3.3 When considering applications to vary determinations, the Commission must decide whether the determinations, as varied, would be of benefit to the public. Under paragraph 6.3 of the Minister's policy statement, where a carrier requests a variation of a determination to allow it flexibility in operating its capacity and no submission is received about the application, only the criteria in paragraph 4 of the policy statement are applicable. 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. For an established carrier such as Pacific Blue Australia, this means there is public benefit arising from the use of the entitlements.

3.4 Under section 15(2)(e) of the *International Air Services Commission Act 1992* (the Act), a carrier cannot use allocated capacity to provide joint services with any other carrier without the prior approval of the Commission. Under the Minister's policy statement, the Commission is normally expected to authorise applications for the use of capacity to code share where this is provided for under the relevant air services arrangements. As noted above, the Australia–PNG air service arrangements provide for code sharing between designated airlines of either party. However, where the Commission is concerned that a code share proposal may not be of benefit to the public, it may subject the application to detailed assessment against the paragraph 5 public benefit criteria in the policy statement.

3.5 In this case, the Commission does not have concerns that the proposed code share arrangements might adversely affect benefits to the public. The Commission has arrived at that position after careful consideration of the likely impact of the arrangements, particularly in relation to effect they might have on the extent of competition on the route.

3.6 The Commission previously examined the competitive framework on the route in detail in late 2007. This was in the context of the Commission's consideration of an application from Qantas to continue code sharing with Air Niugini on the PNG route.

Under those code share arrangements, Air Niugini operates between Sydney, Brisbane, Cairns and Port Moresby (details below). Qantas does not operate services on the route in its own right, but participates in the market through the code share by purchasing hard blocks of seats on Air Niugini's services. Qantas also has an option to purchase a further soft block of seats on each Air Niugini flight.

3.7 The Commission undertook a detailed public benefit analysis in that case because Qantas and Air Niugini were the dominant market participants and the Commission wished to ensure that the code share arrangements were not detrimental to public benefits. At that time, Airlines of PNG was the only competitor for Qantas and Air Niugini on the route.

3.8 Air Niugini, and Qantas through the code share, remain the largest carriers on the PNG route. Air Niugini operates:

- five B767, one B757 and two Embraer E190 return services per week between Brisbane and Port Moresby;
- one B757 return service per week between Sydney and Port Moresby
- one B757 service per week on a Port Moresby – Sydney/Brisbane – Port Moresby routing; and
- eleven Embraer E145 and three Fokker F100 return services per week between Cairns and Port Moresby.

3.9 Competition for Air Niugini/Qantas is provided by Airlines of PNG, with which Pacific Blue Australia proposes to code share. Airlines of PNG operates:

- three B737s return services per week between Brisbane and Port Moresby, although the Commission understands informally from Pacific Blue Australia that it anticipates Airlines of PNG will withdraw these services upon commencement of Pacific Blue Australia's services on this sector; and
- daily DeHavilland Dash-8 services between Cairns and Port Moresby. These services will continue to operate and will not involve code sharing with Pacific Blue Australia.

3.10 As noted above, Pacific Blue Australia will introduce new competition to the route with the introduction of four B737 services per week between Brisbane and Port Moresby from November 2008. A fifth weekly service is planned for introduction in November 2009.

3.11 The Australian carrier Queensland Regional Airlines was allocated a modest amount of capacity (216 seats per week) by the Commission in 2006 to operate on the PNG route, but it has never done so.

3.12 Pacific Blue Australia's entry and Airlines of PNG's anticipated withdrawal from the Brisbane – Port Moresby sectors means there will be a net gain of only one

extra B737 service per week. However, there should still be a significant rise in public benefits for travellers on the route. Firstly, the additional frequency is itself a significant improvement, providing travellers with an extra choice of day of travel.

3.13 Secondly, Pacific Blue Australia will be operating B737-800 series aircraft with a capacity of 180 seats. This compares with the smaller B737-300 aircraft currently operated by Airlines of PNG, leased from the Nauruan carrier Our Airline. The Commission understands that this aircraft is configured with 128 seats. With Pacific Blue Australia's large capacity aircraft, the number of seats operated will rise by nearly 90% from 384 to 720 per week, and expand to 900 seats per week in November 2009. This extra capacity creates an incentive for Pacific Blue Australia, and its code share partner Airlines of PNG, to compete strongly for market share and to achieve profitability. Consequently, there can be expected to be a range of attractive fares on offer. In this respect, the Commission notes that Pacific Blue Australia is offering one way economy fares ranging from \$175 between Brisbane and Port Moresby. This represents a significant discount to fares that have typically been offered by Qantas and Air Niugini on the sector. As these incumbent airlines respond to Pacific Blue Australia's entry with new fare initiatives of their own, this can be expected to result in increased public benefits.

3.14 The participation of Airlines of PNG through the code share means its presence on the Brisbane – Port Moresby sector is maintained, once its own services were withdrawn, as appears likely. The hard-block nature of the code share agreement places a financial imperative on Airlines of PNG to compete strongly with Qantas, Air Niugini and Pacific Blue Australia. The combined efforts of Pacific Blue Australia and Airlines of PNG in marketing and selling the services is likely to increase the likelihood of the services being sustained and the associated competitive benefits being maintained in the form of lower fares, increased tourism and enhanced consumer benefits. If Airlines of PNG was not permitted to participate in the market through code sharing, it is unlikely to have a presence on the route in any form and public benefits are likely to be less than if code sharing was authorised. Accordingly, the Commission will vary Determination [2008] IASC 114 to authorise code sharing by Airlines of PNG on Pacific Blue's services between Australia and PNG.

3.15 The Commission notes that its authorisation of the Qantas/Air Niugini code share arrangements expires on 31 December 2009. The Commission anticipates that, in the latter part of 2009, Qantas will seek continued approval of the arrangements for a further period. Clearly the competitive behaviour of the various airlines on the route from November 2008 until the time of that review will be a major factor in the Commission's assessment of the public benefits likely to be associated with a continuation of those code share arrangements beyond 2009.

## **4 Decision [2008] IASC 218**

4.1 In accordance with section 24 of the Act, the Commission varies Determination [2008] IASC 114, as requested by Pacific Blue Australia, by adding the following conditions:

- “the capacity may be used by Pacific Blue Australia to provide services jointly with Airlines of PNG in accordance with:
  - the finalised code share agreement between Pacific Blue Australia and Airlines of PNG, subject to that agreement being approved by the Commission, with such additional conditions (if any) as the Commission may require, prior to the commencement of services; or
  - any subsequent code share agreement between Pacific Blue Australia and Airlines of PNG for operations on the Australia – Papua New Guinea route, with the prior approval of the Commission;
- under any code share agreement with Airlines of PNG
  - Pacific Blue Australia must price and sell its services on the route independently of Airlines of PNG;
  - Pacific Blue Australia must not share or pool revenues on the route with Airlines of PNG;
  - Pacific Blue Australia must take all reasonable steps to ensure that passengers are informed of the carrier actually operating the flight at the time of booking”

Dated: 27 October 2008

John Martin  
Chairman

Philippa Stone  
Member

Ian Smith  
Member