



OFFICE OF THE COMMISSIONER
Date: 10/01/2011
By mail

Telephone: (675) 325 6080
(675) 325 6099
Direct Line: (675) 301 2507
Facsimile: (675) 325 6108
Email: Address: vkehi@dci.gov.pg

DEPARTMENT OF COMMERCE AND INDUSTRY

2nd Floor, Moale Haus
P.O. Box 375
WAIGANI
National Capital District
Papua New Guinea

Office of the Secretary

3rd December, 2010

Assoc. Prof. Billy Manoka, (PhD)

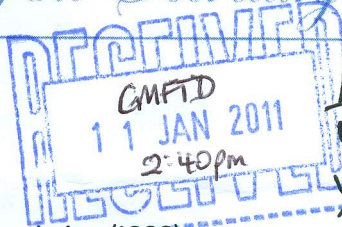
Commissioner & CEO

Independent Consumer & Competition Commission (ICCC)

P.O. Box 6394

BOROKO,

NCD



Nancy
Input from CI for
your consideration.

[Signature]
10/1/11

Dear Professor Manoka,

SUBJECT: COMMENTS ON AUTHORIZATION APPLICATION BY AIR NIUGINI FOR ITS CODE SHARING ARRANGEMENT WITH QANTAS AND PHILIPPINES AIRLINES.

Thank you for giving my Department the opportunity to comment on the authorization application by Air Niugini for its code sharing arrangements with QANTAS and Philippines Airlines as per your letter dated 22nd November, 2010. We regret for the delay in providing our comments.

At the outset, we note and acknowledge the changing market environment in which Air Niugini, the National Flag Carrier of PNG is currently operating under in servicing both the domestic and selected international destinations. In the domestic front, it contributes immensely to nation building as business and general public still rely heavily on air transportation as the main link. As a state owned entity, Air Niugini, is also a profit driven, whereby it has an obligation to serve both the interest of the general public and at the same time compete in the market with other commercial airlines (Airlines PNG & Qantas) operating within and abroad PNG borders to make profit.

The Application by Air Niugini for its Code sharing Arrangements with Qantas and Philippines Airlines (PAL) is seen to be a critical and beneficiary move for the betterment of Air Niugini in the future. It is a stepping stone for Air Niugini to increase number of flights per destination with a view to expand its passenger and freight traffic volume/capacity as demand is sustained. Careful considerations are needed to be made when this comes into effect because it has both gain and drawbacks. In light of the above, please find attached our two separate comments on the two Commercial Airline Company's and their Code sharing Agreements with Air Niugini Limited. Should you require any clarification and/or further information, please contact our Policy Planning & Information Division on phone 301 2540/ 301 2527/325 6099.

Yours sincerely,

[Signature]
JOHN ANDRIAS
Acting Secretary

*Ministry of Commerce and Industry
Guiding Papua New Guinea towards maximizing its potential in trade, commerce and industry
for greater integration in the world economy*

INTROCUCTION

Airlines frequently use code-sharing agreements allowing them to market seats on flights operated by partner airlines. Current studies argue that with complementary networks this generates positive welfare effects because fares for interline passengers who rely on the service of multiple airlines are supposed to fall. However, with codeshare agreements airlines can price discriminate between interline and other passengers. This might harm the latter which has been ignored so far. On the other hand, Code-share agreements can also lead to welfare losses in the case of complementary networks.

Air Niugini is Papua New Guinea's National flag carrier and National Airlines. It is 100% owned by the government and the people of Papua New Guinea. Incorporated and began its operations in 1973 as the national airline of PNG made Papua New Guineans very proud. It was previously core owned by the Government of PNG and others like Qantas and Trans Australia but PNG Government bought off all the shares.

The entry of Qantas & Philippines Airlines (PAL) into Papua New Guinea and other pacific nations will bring positive results in public benefits like what has happened with Virgin Blue's Code sharing Agreements in the Pacific especially Samoa. The three main positive changes brought about by Virgin Blue's experience included;

- (1) Generation of increased capacity and traffic volume;
- (2) Growth of tourism; and
- (3) Boost of tourism related and other infrastructure services, leading to increased employment.

Virgin Blue's entry has fundamentally changed the behavior of incumbent airlines, to their benefit and the consumers. PNG market has the potential to grow, and the entry by these two airlines will cause positive increase in traffic flow on the route.

Under a code sharing agreement, participating airlines can present a common flight number for several reasons, including:

For Passengers

- Connecting flights – This provides clearer routing for the customer, allowing a customer to book travel from point A to C through point B under one carrier's code, instead of a customer booking from point A to B under one code, and from point B to C under another code. This is not only a superficial addition as cooperating airlines also strive to synchronize their schedules and coordinate luggage handling, which makes transfers between connecting flights less time-consuming.
- Shared responsibility between the carriers – When flying between two cities without a single-airline connection, the passenger can pick a codeshared flight over two airlines or two flights booked separately. If the flights are not codeshared, then the second airline has no responsibility if the passenger or luggage misses the second flight due to a delay with the first. Under a codeshared flight, the second airline is unlikely to charge extra fees or deny boarding should the first, cooperating airline cause a delay.

