INDEPENDENT STATE OF PAPUA NEW GUINEA

Independent Consumer and Competition Commission

Act, Sec 70

Form ICCC-1

To: Independent Consumer and Competition Commission

Application is made under Section 70 (1) of the Independent Consumer and Competition Commission Act 2002 for Authorization, for,

an agreement, arrangement or understanding that substantially lessens competition, (Sec 50) – application pursuant to Sec 70 (2);
a covenant that substantially lessens competition (Sec 51) — application pursuant to Sec 70 (3) and (4);
an exclusionary provision, (Sec 52) application pursuant to Sec 70 (5) and (6);
resale price maintenance by supplier (Sec 59) — application pursuant to Sec 70 (7);
resale price maintenance by others, (Sec 60) — application pursuant to Sec 70 (8).

(Strike out whichever is not applicable)

1. (a) Name of Applicant: Refer Attachment A
   (b) Address in PNG for service of documents: Refer Attachment A
   (c) Brief description of business carried on by applicant Refer Attachment A

2. (a) Brief description of agreement or practice and, where already made, its date;
   Refer Attachment A
   (b) Names and addresses of other parties to the proposed agreement of practice;
   Refer Attachment A

3. (a) Grounds for grant or authorization: Refer Attachment B
   (b) Facts and contentions relied on in support of those grounds; Refer Attachment B

3. If you require confidentiality for any material provided as part of the application specify:

Confidential matters marked in RED

Date: 22nd April 2013

[Signature]

Applicant
1. (a) Name of Applicant: Air Niugini Limited

(b) Address in PNG for service of documents: 4th Floor,
Air Niugini Haus,
Jacksons Parade
Jacksons Airport
Port Moresby

(c) Brief description of business carried on by applicant:
Air Niugini is the National Airline of PNG and undertakes regular scheduled passenger and freight transportation throughout PNG and to overseas destinations.

2. (a) Brief Description of agreement or practice and, where already made, its date:
Air Niugini had two code share agreements with Qantas Airways Limited for air passenger and freight services between PNG and Australia. The first agreement covered Air Niugini services between Port Moresby and Cairns and ceased following formal notification from Qantas in July 2010. The second agreement covers Air Niugini services between Port Moresby and Brisbane / Sydney. This agreement was first made in 2002 and has been the subject of a number of authorizations by the ICCC since that time. The ICCC in its decision A2012/13 dated 28 September 2012 granted authorization for code share services between Air Niugini and Qantas between Port Moresby and Brisbane / Sydney until 1 October 2015. One of the conditions of granting that authorization was as follows:

10.1(b) As the cargo space sharing arrangements are under negotiation, existing arrangements are authorized for a period of 8 (eight) months from the date of this determination, after which period the authorization for those arrangements cease, unless a separate authorization is granted in respect of a separate application therefore.

This application is to allow Air Niugini to continue to codeshare cargo on flights between Port Moresby and Brisbane / Sydney, Australia. This application to renew the Cargo code share agreement with Qantas will allow the parties to continue to share belly space on services to Australia whilst competing for freight sales against each other.

(b) Names and addresses of other parties to the proposed agreement or practice:
Qantas Airways Limited
Qantas Centre Building A
203 Coward St.
Mascot 2020
Sydney
NSW
Australia

3. (a) Grounds for grant of authorization:

Please refer to the submission provided by Air Niugini in Attachment B.

4. If you require confidentiality for any material provided as part of the application please specify:

Air Niugini has supplied two copies. One is marked Confidential Version and has sections in Red font and headers in RED font clearly illustrating information provided which is considered commercially confidential. It would be appreciated that this information is not made publicly available generally as it could commercially damage Air Niugini (please refer to our covering letter). The second copy marked Non Confidential Version has these RED font areas deleted.

Dated this 23rd day of April 2013

[Signature]

Applicant
APPLICATION FOR AUTHORISATION

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EXECUTIVE SUMMARY

Application for Authorisation

This submission is made by Air Niugini in support of an application for authorisation to enter into and give effect to the renewed freight codeshare agreement with Qantas included in Annexure 1 (Renewed Freight Codeshare Agreement) from 28 May 2013 until 1 October 2015. This timeframe is consistent with continuing air passenger codeshare arrangements with Air Niugini on Sydney and Brisbane Routes that were authorised in the ICCC's Determination A2012/13 dated 28 September 2012 (2012 Passenger Codeshare).

Competition Analysis: competitive effects with the Freight Codeshare

The Renewed Freight Codeshare Agreement will result in a significantly more competitive outcome than if the Agreement was not authorised:

- The Renewed Freight Codeshare Agreement will continue to incentivise Air Niugini and Qantas to aggressively compete for the provision of freight services on Air Niugini's high frequency widebody services on the
Brisbane Route. This will result in significantly lower freight prices and better services than if the Agreement was not authorised.

- The codeshare facilitates the continued operation of widebody aircraft by Air Niugini, which provide for significantly higher volume and lower cost air freight movement than narrowbody aircraft. Papua New Guinea would lose a substantial proportion of the commercial air freight services and revenue to the economy in the absence of these widebody operations.

- The parties will continue to face competitive constraint from a number of actual and potential competitors, including Virgin, Airlines of PNG, Pacific Air Express, Skyforce and Heviliift.

**Competition Analysis: competitive effects without the Freight Codeshare**

There is a material risk that if the Renewed Freight Codeshare Agreement is not authorised, Qantas will also withdraw from the 2012 Passenger Codeshare.

However, even if Qantas did not withdraw from 2012 Passenger Codeshare, a decision not to authorise the Renewed Freight Codeshare Agreement will result in higher prices and a potential reduction in freight services in the Australian Air Freight Market than if the Agreement is authorised:

- Unless Qantas commenced its own dedicated air freight services, it would be forced to substantially withdraw from the provision of air freight between Papua New Guinea and Australia.

- Even if Qantas commenced its own air freight services using (higher cost) dedicated narrowbody dedicated freighters, this would be likely to result in higher prices for consumers than under the Renewed Freight Codeshare Agreement.

If Qantas did withdraw from the 2012 Passenger Codeshare if the Renewed Freight Codeshare Agreement was not authorised:

- In the short term, unless Qantas commenced its own dedicated air freight services, it would be forced to substantially withdraw from the provision of air freight between Papua New Guinea and Australia, leading to a reduction in competition in the Australian Air Freight Market.

- In the medium to long term, it would likely be unviable for Air Niugini to continue to operate widebody aircraft on Australian or Asian Routes. Papua New Guinea would be forced to rely on the entry of dedicated narrowbody air freighters (either by Qantas or another carrier), inevitably leading to higher prices and lower frequencies of air freight services. This
would not only reduce competition in the Australian Air Freight Market compared to the position if the Renewed Freight Codeshare Agreement was authorised, but also in Asian Freight Markets and Australian and Asian Air Passenger Markets.

Public benefits

The Renewed Freight Agreement provides substantial public benefits, including:

- Significantly higher freight revenues to Papua New Guinea.
- Significantly lower prices for air freight services, which has important implications for a number of sectors of the PNG economy.
- A number of other important public benefits, including as set out in Air Niugini's 2012 Codeshare Application.

These help to boost the Papuan New Guinean economy and make Papua New Guinean products more competitive in international markets, as well as increasing the profitability of Papua New Guinean industry.

A decision not to authorise the Renewed Freight Codeshare Agreement may also place additional strain on the 2012 Passenger Codeshare, such that it becomes commercially unviable. This would be a perverse outcome, as the ICCC concluded in its 2012 Determination that these arrangements provided a net public benefit to PNG.

A. BACKGROUND TO THE PROPOSED FREIGHT CODESHARE AGREEMENT

1. APPLICATION FOR AUTHORISATION

This submission is made by Air Niugini Limited (Air Niugini) in support of an application for authorisation pursuant to section 70(1) of the Independent Consumer and Competition Commission Act 2002 (ICCC Act) to enter into and give effect to the Renewed Freight Codeshare Agreement with Qantas Airways Limited (Qantas) in the terms set out in Annexure 1. Authorisation is sought from 28 May 2013 until 1 October 2015, to coincide with the continuing authorisation for the codeshare between Qantas and Air Niugini to carry passengers on routes between Port Moresby and Brisbane (Brisbane Route) and Port Moresby and Sydney (Sydney Route) as contained in Determination A2012/13 dated 28 September 2012 (2012 Determination).

While Air Niugini's codeshare authorisation application of 27 April 2012 (2012 Application) for the Brisbane and Sydney Routes included both passenger and
freight arrangements, the existing freight arrangements were only authorised for a period of 8 months from the date of the 2012 Determination, as the cargo space share allocations between Air Niugini and Qantas were still being negotiated at the time of the 2012 Determination.

The Renewed Freight Codeshare Agreement will be on similar terms to the existing freight arrangements authorised in the 2012 Determination. However, as Air Niugini replaced its wide body aircraft services on the Sydney Route with narrowbody aircraft services\(^1\) subsequent to its 2012 Application, the Renewed Freight Codeshare Agreement only provides for codesharing of freight on the Brisbane Route (see Annexure 1). In the event that there is sufficient future demand for Air Niugini to recommence widebody operations on the Sydney Route, it is likely that the parties would seek to vary the Renewed Freight Codeshare Agreement to also include freight allocations on the Sydney route.

This submission and its annexures include certain commercially confidential information. Disclosure of this information could result in material financial loss and prejudice the competitive position of Air Niugini. Air Niugini requests that this information be kept in strict confidence by the Commission and excluded from the register kept by the Commission in accordance with section 131 of the ICC Act. For convenience, the confidential information is indicated by the use of highlighted . This information has been deleted and replaced with (CONFIDENTIAL INFORMATION DELETED) in the non-confidential version of the submission provided to the Commission.

Air Niugini requests that the ICCC raise any issues or questions it may have in relation to this Freight Codeshare Renewal Application with Air Niugini through Ms Benneth Kome, Company Secretary of Air Niugini.

As this application is supplementary to and closely linked with the 2012 Application which was authorised in the 2012 Determination for a period of 3 years, it does not repeat the considerable background provided in relation to the parties nor exhaustively set out the full arguments about the benefits that the codeshare more generally brings to Air Niugini and PNG, which remain relevant to the Renewed Freight Codeshare Agreement. In particular, the freight arrangements between Qantas and Air Niugini have always been part of the broader agreement and many of the benefits (as described in our 2012 Application) to the country and consumers are predicated on Air Niugini having the capability to transport goods in an efficient and cost effective manner.

\(^1\) As discussed below, widebody passenger services can carry a significant volume of containerised and palletised freight, whereas narrowbody passenger services can only carry a significantly lower volume of loose freight.
2. THE PARTIES

2.1 Air Niugini

Air Niugini was incorporated and began operating in 1973 as the national airline of Papua New Guinea, and is 100% owned by the Papua New Guinea government. Air Niugini undertakes regular scheduled passenger and freight transportation throughout PNG and to overseas destinations. It employs over people worldwide and is Papua New Guinea’s largest airline.

2.2 Qantas

Qantas is Australia’s largest domestic and international airline and is ranked among the world’s leading premium carriers. The Qantas Group comprises two complementary flying brands, Qantas and Jetstar, the Qantas Frequent Flyer and Qantas Freight businesses, and a portfolio of supporting businesses and investments.

B. LIKELY EFFECT OF FREIGHT CODESHARE ON COMPETITION

1. MARKET DEFINITION

The relevant freight markets affected are:

(a) the market for the provision of air freight services between Papua New Guinea and Australia (the Australian Air Freight Market); and

(b) relevantly defined markets for air freight services between Papua New Guinea and other international destinations currently serviced by Air Niugini’s B767 (the Asian Air Freight Markets),

(together, the “Air Freight Markets”).

2. COMPETITIVE EFFECTS WITH THE CODESHARE

The Renewed Freight Codeshare Agreement will enable Air Niugini and Qantas to continue to aggressively compete for the provision of freight services on Air Niugini’s high frequency and efficient widebody services on the Brisbane Route. This will result in significantly better freight services and lower prices for consumers than if the codeshare for cargo was not authorised.

Without such widebody operations, Papua New Guinea as a nation would lose a substantial proportion of the commercial air freight services and face significantly higher prices.
2.1 Advantages of widebody passenger aircraft in providing air freight services

In broad terms, a widebody aircraft is one with two aisles in the passenger cabin rather than one. Widebody aircraft have a wider fuselage diameter and are larger aircraft than a single aisle narrowbody aircraft.

Widebody passenger aircraft can carry a significant volume of containerised and palletised freight in addition to passenger luggage, whereas narrowbody passenger aircraft can only carry a relatively small volume of additional loose freight. For example, Air Niugini can carry up to around 18 tonnes of freight on its widebody passenger B767 aircraft, compared to around 1.2 tonnes of freight on a narrowbody B737 or 400kg on a Q400 passenger aircraft.

In addition to the advantages that transporting freight in the belly hold of widebody passenger aircraft compared to narrowbody passenger aircraft, it also has the following advantages over dedicated "freight only" narrowbody aircraft:

(a) Because the costs of each flight can be allocated across passenger services as well as freight services, freight carried in the belly hold of passenger aircraft can be provided at a significantly lower cost than possible with dedicated freight only services.

(b) Papua New Guinea air freight flows are directional, with significantly higher volumes of freight carried north from Australia to Papua New Guinea than south from Papua New Guinea to Australia. For example, in 2011, 81 percent of total freight volumes flowing between the two countries was carried from Australia to Papua New Guinea, and only 19 percent from Papua New Guinea to Australia. A dedicated freighter must price its freight at a level sufficient to make up for having a lower load factor on the southbound leg of each service. This problem does not affect a widebody passenger based service in the same way because the costs of such a service are underwritten by passenger revenue, which is much less directional (ie. over time, nearly all passengers travel on a return basis).

(c) A dedicated freighter must also generally operate a much lower frequency of service than a wide-body passenger based service because, unlike the passenger based service, for efficient operation a dedicated freighter must wait to fly until it anticipates its hold will be close to full.

Air Niugini estimates that in order to be viable, a dedicated freighter would have to recover an average of at least  for air freight in each direction between Australia and Papua New Guinea.2 By contrast, as at the date of this submission,

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2 This estimate assumes the use of a B737 freighter with an operating cost of  per block hour, achieving average freight load factors of  and applying a mark-up on direct operating costs of just  to cover all management and overhead costs and return on capital. In practice, it is likely
Air Niugini’s average yields on freight services in the Australia Air Freight Market were around just   .

2.2 The parties will continue to aggressively compete for freight services on widebody aircraft

Under the Renewed Freight Codeshare Agreement:

(a) Freight allocations are agreed in advance as set out in Annexure 1; and
(b) Each carrier, independently from the other:
   (i) sets its own prices;
   (ii) operates its own independent freight tracking and yield management systems; and
   (iii) sells its products through its respective independent sales networks including websites.

The structure of these arrangements, and the fact that Air Niugini’s widebody operations on the Brisbane Route provide more than sufficient capacity to meet demand, give Air Niugini and Qantas a strong incentive to continue to market their respective freight allocations aggressively in competition with each other.

Air Niugini has observed the following in respect of its existing codeshare operations, and expects these to continue under the Renewed Freight Codeshare Agreement:

(a) The high frequency widebody services on the Brisbane Route made possible by the codeshare provide more than sufficient air freight capacity to meet demand. This gives the parties strong incentives to price their air freight services competitively.

(b) These incentives are borne out in practice, with the relative shares of sales varying between the parties substantially from year to year as each party competes to win customers from the other.

For the reasons set out in section 3 below, the prices paid by consumers for freight services in the Australian Air Freight Market would be significantly higher if the Renewed Freight Agreement was not authorised.

2.3 The parties will continue to be constrained by a number of other competitors

In addition to Qantas and Air Niugini continuing to compete vigorously with each other for the provision of freight on services under the Renewed Freight

that these estimates may be overly aggressive and actual charges required establishing a viable freighter business may be significantly higher.
Non-Confidential Version

Codeshare Agreement, they will each continue to be competitively constrained in the provision of freight services by existing competitors such as:

(a) Scheduled RPT service providers such as Virgin (Brisbane Route) and Airlines PNG (Cairns route);
(b) Dedicated freight service providers such as Pacific Air Express (operating Toll aircraft twice weekly with a B737F), and other freighters such as Skyforce and Haulift that offer services on an ad hoc basis.

Barriers to entry or expansion by existing air freight operators into the Australian Air Freight Market are also relatively low:

(a) No regulatory Barriers. There is more than adequate freight capacity available under the air services agreement between Papua New Guinea and Australia to allow either a new Australian or Papua New Guinean carrier to enter any or all of the codeshare routes and both countries allow multiple carrier designation.
(b) No slot constraints. There are no slot constraints at any Port Moresby, Cairns, Brisbane or Sydney airports that would be likely to hinder the entry of a new carrier on any of these potential routes between Papua New Guinea and Australia.
(c) Ground Facilities are available. Freight ground handling facilities are available at all airports relevant to any of the codeshare routes. Alternatively, there is no shortage of space at Jackson’s International Airport for competitive carriers to build their freight handling facilities.
(d) Aircraft are available. There is an active international market for appropriate aircraft. This means that a new entrant could acquire appropriate aircraft at competitive prices. Sunk costs are minimal, as aircraft can be readily resold. Alternatively, if a new entrant wanted to minimize start-up capital requirements, active markets exist to enable a new entrant to lease appropriate aircraft with minimal capital outlay.

Accordingly, a range of companies would readily be able to enter the Australian Air Freight Market or expand their existing freight operations between Australia and Papua New Guinea if freight prices charged by Air Niugini and Qantas were to rise above competitive levels.

3. COMPETITIVE EFFECTS WITHOUT THE CODESHARE

The precise impact on competition if the Renewed Freight Codeshare Agreement is not authorised will vary depending upon whether:

(a) Qantas continues its ongoing passenger codesharing arrangements with Air Niugini on Brisbane and Sydney Routes under the 2012 Determination (2012 Passenger Codeshare); or
(b) Qantas consequently withdraws from its 2012 Passenger Codeshare with Air Niugini.

However, for the reasons set out below each of these alternatives will result in a substantial lessening of competition (including higher freight prices and a potential reduction in freight services for customers), compared to the position if the Renewed Freight Codeshare Agreement is authorised.

3.1  Competitive effects if Qantas continues 2012 Passenger Codeshare

A decision not to authorise the Renewed Freight Codeshare Agreement would have a significant detrimental impact on competition in the Australian Freight Market, even if Qantas continued to participate in the 2012 Passenger Codeshare (and as set out in section 3.2 there is a material risk that it would not).

In particular, if Qantas was no longer authorised to carry freight on Air Niugini codeshare services on the Brisbane Route, it could either:

(a) Substantially withdraw from the Australian Air Freight Market (save for very small volumes of loose cargo it could carry on its own narrowbody passenger operations between Cairns and Port Moresby). The loss of Qantas as a significant competitor in the Australian Air Freight Market would inevitably result in upward pressure on freight prices and a reduction in customer choice. Air Niugini also considers that there would be a proportion of freight carried by Qantas via PNG (eg, for onward international destinations) which could be re-routed via Qantas' substantial network such that potential freight volumes would be "lost" to Air Niugini and PNG.

(b) Enter the Australian Air Freight market with its own dedicated narrowbody freighter services. As set out in section 2.1 above, even "well run" narrowbody dedicated air freight services are likely to be significantly higher cost and lower frequency than widebody passenger services. Accordingly, Qantas would likely provide less competitive constraint in the Australian Air Freight market and freight prices would be expected to be higher overall, than if the Renewed Freight Codeshare Agreement was authorised.

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3 This section proceeds on the untested assumption that it would be economic for Air Niugini to continue to run widebody services in the absence of Qantas freight codeshare revenue on the Brisbane route, assuming the 2012 Passenger Codeshare continued in its current form. If this is not the case, the loss of widebody operations would have a further significant detrimental impact of the kind set out in section 3.2.

4 As detailed in our 2012 Submission, there is insufficient passenger and freight demand to justify two operators with frequent widebody services between PNG and Australia.
In either case, PNG freight customers (and the PNG economy more generally) would likely be worse off and face higher freight prices than if the Renewed Freight Codeshare was authorised.

3.2 Competitive effects if Qantas withdraws from 2012 Passenger Codeshare

Air Niugini considers that there is a material risk that Qantas could withdraw from the 2012 Passenger Codeshare if the Renewed Freight Codeshare Agreement is not authorised. As the freight component has been an integral part of the overall codeshare arrangements between Qantas and Air Niugini since 2002, these arrangements have been renegotiated on an ongoing basis on the commercial assumption that a freight component will be included.

A decision not to authorise the Renewed Freight Codeshare Agreement may place additional strain on the Passenger Codeshare Agreement, such that it may become commercially unsustainable. This outcome would be a perverse result, as the ICCC concluded in its 2012 Determination that the arrangements contained therein provided a net public benefit to PNG.

**Short term**

If the Renewed Freight Codeshare Agreement was not authorized and this led to the loss of the 2012 Passenger Codeshare, the likely competitive effect would be consistent with that set out in the 2012 Application. In the short term:

(a) Air Niugini may continue to offer widebody air freight services to minimize losses under current aircraft lease arrangements. However, the frequency of those services and total air freight capacity made available in the Australian Air Freight Market (and correspondingly the Air Passenger Market) would be substantially reduced compared to if the Renewed Codeshare Agreement were authorised.

(b) Unless Qantas decided to commence their own dedicated freighter services, Qantas would be forced to substantially withdraw from the provision of air freight services between Papua New Guinea and Australia. For similar reasons to that set out in section 3.1, this would lead to a substantial lessening of competition compared to the position if the Renewed Freight Codeshare was authorised.
Medium to long term

In the medium to long term, if the Renewed Freight Codeshare Agreement was not authorised and this led to the abandonment of the 2012 Passenger Codeshare, PNG would likely be forced to rely on the entry of dedicated air freight services (either by Qantas or another entrant) for the nation's air freight needs.

In particular, it would not be viable for Air Niugini to continue its widebody operations in these circumstances.

Having regard to the higher freight cost of dedicated narrowbody freighters compared to the carriage of freight in widebody air passenger services, Air Niugini estimates that air freight prices for consumers in the Australian Air Freight Market would be likely to increase by at least.

The result would not only be a substantial lessening of competition in the Australian Air Freight Market, with customers facing reduced freight services and substantially higher freight prices, but for the reasons set out in the 2012 Application would also substantially lessen competition in:

(a) Asian Air Freight Markets, since the removal of widebody operations on Australian Routes by Air Niugini would mean that widebody operations on profitable Asian routes would no longer be viable.6

(b) Australian and Asian Air Passenger Markets.

In summary, under any potential scenario, if a decision not to authorize of the Renewed Freight Codeshare Agreement also led to the loss of the 2012 Passenger Codeshare, it would result in lower levels of competition and higher prices in the Australian Air Freight Market (and potentially other related markets) than would be the case if the Renewed Codeshare Agreement were authorised.

C. PUBLIC BENEFITS

Air Niugini submits that, if the Renewed Freight Codeshare Agreement is not authorised, it would result in the loss of significant public benefits which would otherwise result from that Agreement. This loss of public benefits will be even more significant if the 2012 Passenger Codeshare was discontinued as a consequence of the Renewed Freight Codeshare Agreement not being authorised, for the reasons set out in the 2012 Codeshare Application.

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6 As previously submitted by Air Niugini, as routes between PNG, Australia and Asia are "thin", efficient and sustainable timetabling of widebody aircraft across the network requires any B767 to be used on multiple routes to achieve sufficient utilisation.
1. FREIGHT REVENUES TO PAPUA NEW GUINEA

As well as causing significant harm to those sectors of the PNG economy which rely on air freight services, loss of the Renewed Freight Codeshare Agreement would result in the loss of air freight codeshare revenue to Air Niugini.

On the basis of its existing freight codeshare arrangements with Qantas on the Brisbane Route, Air Niugini estimates that it will directly lose approximately PGK per year in freight Codeshare revenue on the Brisbane Route if authorisation is not granted for the Renewed Codeshare Agreement.

Since Air Niugini is a national carrier, any such additional losses represent a direct loss of government funds that would otherwise be available for welfare, infrastructure or other spending for the benefit of the nation.

If a decision not to authorise the Renewed Freight Codeshare Agreements led to a withdrawal from the 2012 Passenger Codeshare, this would likely lead to a significant loss of additional freight revenue for PNG. This is because Air Niugini would likely need to discontinue its high frequency widebody passenger services both on the Brisbane Route and on profitable Asian Routes (including direct air freight services to any of Japan, Singapore, Hong Kong or the Philippines). This would leave the nation without the majority of its current air freight services.

The air freight movement from Australia generates around PGK a year (excluding codeshare revenue) whilst Asian routes generate around PGK a year. In the absence of Air Niugini's codeshare arrangements with Qantas, there is a material risk that this freight business may be operated by other overseas carriers and PNG will lose this economic opportunity at a time the resource sector's future potential demand is very high.

2. PRICES FOR AIR FREIGHT SERVICES AND RELATED EFFECTS

The economy of Papua New Guinea is highly dependent on air freight services. Most of the nation's fresh dairy products, fruits and vegetables are imported by air freight. Similarly, the nation's seafood and other exports rely on the availability of efficient air freight services. Continued growth in the resources

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7 As explained in the 2012 Codeshare Application, this is because wide-body aircraft leases require a certain minimum block of flying in each month to be sustainable. As routes between PNG, Asia and Australia are "thin", efficient and sustainable timetabling of wide-body aircraft across the network requires any B767 be used on multiple routes to achieve sufficient utilization. Due to network effects, the removal of a wide-body aircraft from Australian routes would mean currently profitable wide-body operations on Asian routes would become unsustainable.

8 By way of example, Air Niugini estimates that during 2011, it carried around kg of freight weekly from Hong Kong to Australia, kg of freight weekly from Japan to Australia and kg of freight weekly from Singapore to Australia.
sectors will potentially add further demand to the air freight market. The availability of efficient and frequent air freight services is therefore critical to the growth of Papua New Guinea’s economy and the welfare of its people.

As demonstrated in Section B above, authorisation of the Renewed Freight Codeshare Agreement is likely to result in significantly lower freight prices and potentially higher frequency of services compared to if it is not authorised, regardless of whether the 2012 Passenger Codeshare also continues.

The price at which air freight services can be provided is important for the growth of the economy. For example, higher cost and lower frequency air freight services will lead to higher import costs in Papua New Guinea, including on staple items such as fresh diary, fruit and vegetables.

Higher basic food costs will mean consumers spend less on other products (reducing sales of other products in the economy) or demand higher wages, with corresponding multiplying effects throughout the economy and an increase in CPI. This imposes a cost on the whole economy and makes Papua New Guinea less competitive in international markets.

Conversely, low cost air freight services as would continue to occur if the Renewed Freight Codeshare Agreement is authorised make Papua New Guinean products more competitive in international markets and increases the profitability of Papua New Guinean industry.

3. OTHER PUBLIC BENEFITS

Other public benefits that Air Niugini’s codeshare arrangements with Qantas deliver to the nation are significant. These benefits and the reasons for them are explained in Part D of Attachment B of the 2012 Codeshare Application, and include (among others):

- other benefits to the PNG economy and balance of payments;
- improvements to services and customer choice;
- access to other potential air freight or passenger markets;
- more efficient use of resources;
- increased employment; and
- strengthening the position of Air Niugini as the nation's national carrier.

The ICCC in its 2012 Determination concluded that net public benefits were likely to result from that 2012 Codeshare Application. In addition to those benefits which flow directly from the provision of freight services pursuant to the Renewed Freight Codeshare Agreement, if a decision not to authorise this Agreement led to the withdrawal by Qantas from the 2012 Passenger Codeshare,
any remaining public benefits outlined in the 2012 Codeshare Application would also be lost to PNG.

CONCLUSION

Air Niugini submits that its Renewed Freight Codeshare Agreement with Qantas with lead to very substantial public benefits, whilst resulting in either no substantial lessening of competition, or a higher degree of competition in all affected markets compared to the position if the Codeshare is not authorised.

Air Niugini therefore requests that the Independent Competition and Consumer Commission authorise the Renewed Freight Codeshare Agreement pursuant to section 70 (1) of the Independent Consumer and Competition Commission Act 2002.