



**OFFICE OF THE DIRECTOR OF CIVIL AVIATION & CHIEF EXECUTIVE OFFICER**

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25 October 2018.

Ref: DIR 4.26/73a

Mr. Paulus Ain,  
Commissioner and Chief Executive Officer  
Independent Consumer and Competition Commission  
P. O. Box 6394, Boroko,  
Port Moresby,  
National Capital District

Dear Mr. Ain,

**RE: AUTHORISATION APPLICATION BY AIR NIUGINI LIMITED FOR CODE-SHARE ARRANGEMENT WITH PHILIPPINES AIRLINES INC.**

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I refer to your letter dated 17<sup>th</sup> October 2018 on the above subject matter.

CASA PNG's previous comments in my letter dated 23 October 2018 (Ref: DIR 4.26/72a) are deemed also applicable to the Authorisation Application by Air Niugini ('PX') for a Code Share arrangement with Philippine Airlines ('PR') on the Port Moresby – Manila ('POM/MNL') routes.

There are however some additional comments as outlined in the following responses specific to the question numbers.

1. Some anti-competitive (or potential anti-competitive) aspects of the proposed code share are:
  - (a) Competition  
Relaxation of competition between PX and PR as code-share partners.
  - (b) Collusion  
Opportunities may arise for collusion between PX and PR on seat capacity allocations, fare pricing, frequent flyer programmes, travel agent commissions and other marketing options.
  - (c) Consolidation  
Consolidation of PX and PR marketing and operational strategies to gain a dominant market position.
  - (d) Entry Barriers  
Instituting entry barriers (such as gate availability, ground support etc.) to make it difficult for any new airline operators to enter the code share market. Philippine based carrier Cebu Pacific ('5J') have previously indicated their desire to fly this route.

(e) Hub Operations

Operations from each airline's own primary hub airport (POM for PX and MNL for PR) already provides a dominant market position which, under a code-share arrangement might be further exploited and synergised for greater market share and control.

2. The pro-competitive (or potential pro-competitive) aspects are:

(a) More seats and lower fares

Increased seat inventory will mean more choices resulting in wider range of airfares both at the high and low end, and improved services and offerings.

(b) Customer Service

Improved customer service quality including the use of the partner airline's lounges, airport facilities and services, baggage interlining etc. on flights for all passengers.

(c) Expanded network options.

New and expanded online and interline international and domestic destinations for code-share passengers.

(d) Flight Schedules

Increased flight schedule flexibility and selection for the flying public.

3. The social and economic benefits for PNG as a whole:

(a) expanded network for domestic connections at both POM and MNL destinations provide increased business, social and economic opportunities,

(b) improved interline and online connectivity for passengers, cargo and trade both on the outward and inward sectors provides an economic simulant and increased connectivity to and from Asian markets,

(c) Improved flight connections at both destinations will encourage increased passenger traffic and economic growth.

4. PX and PR currently operate the route to and from MNL as non-code share operations and the social and economic benefits noted in paragraph 3 above are only minimally realized.

5. Other observations are as follows:

In order to ensure the "free sale" code-share arrangement between the operating carrier and marketing carrier is adhered to, the following restrictions may be considered:

(a) PX and PR must independently determine its own airfares and inventory, and must not coordinate each other's activities to effect anti-competitive strategies such as commonality in fares or capacity inventories,

(b) PX/PR code-share flights must not be listed more than twice (one for each airline) in each airline's computer reservations system (CRS) to prevent 'crowding out' the code-share partner's flights,

(c) The code share partner operating out of the other's hub airport (PX in MNL and PR in POM) must be provided with similar service levels and support services as if its own aircraft was operating the service.

Finally, a review and assessment of the overall effects of the PX/PR code-share arrangement on market share, airfares and traffic (including cargo) should be conducted after a 12 month period based on data provided by each code share partner PX and PR.

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This will help ensure the code-share benefits, fair competition and service improvements continue to be delivered to the travelling public, and if required, changes made accordingly for betterment.

I trust the above comments meets with your requirements.

Yours sincerely



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**Tom Waqa (Capt.)**

Deputy Director of Civil Aviation.