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Office of the Director

November 13, 2018

Mr. Paulus Ain  
Commissioner  
Independent Consumer & Competition Commission  
P.O. Box 6394  
Port Moresby,  
National Capital District

RECEIVED  
14 NOV 2018  
BY: J. Dauta

Dear Mr. Ain,

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

Thank you for the opportunity to respond on the above.

We note that the applicant (Air Niugini) intends to seek the ICC's authorisation to enter into and give effect to codeshare arrangement with Philippines Airlines for passenger services only on free 'sale basis' on flights operated by both carriers along the Port Moresby and Manila route. The proposed codeshare flights aim to increase choice of traveling times and connectivity flights, thereby increase frequency of passenger services for business and leisure travelers. As it is, both airlines operate independently serving that route - Air Niugini operates B737-800 aircraft five (5) times while Philippines Airlines employs A320 aircraft four (4) times in a week.

The PNG National Research Institute (NRI) supports markets that promote fair and effective competition where better outcomes including increased capacity, choice and quality of air service, are expected. This results in positive impact on tourism and export sectors, enhancing PNG's economic prosperity in the long run. We are mindful of the challenging environment that airline companies operate in, and generally supports initiatives aimed at improving their business performance and viability, provided these considerations are taken into account and that passenger and freight services are provided efficiently at affordable rate.

The disclosure of information in the application is positive. However, we note that a number of elements in the application remain confidential and that the materials made available to us contain significant redactions, limiting the scope of our analysis. In addition, the narrative in the application hardly shows the likely factors responsible for unimproved frequency of passengers along the route, and the projected economic scenario which would trigger increased passenger flow. This begs the question whether the concerned trend is consistent with the partner's traffic. Further, the fundamental commercial rationale for such alliance is not well articulated. There is no indication that Air Niugini has existing partner(s) in long-haul destinations in Asia markets, where the proposed partnership will potentially feed into to enhance international service of the airline. How will the proposed code-share impact its international presence, besides being a dominant player in domestic market, and what are experiences or lessons of

its existing code-share arrangements in other international segments? This information is critical to enhance understanding and allay concerns that the proposed codeshare may impose on air service capacity and competition on the concerned route.

The best approach to promote fair and effective competition in freight and passenger markets for maximum benefit of traveling public and businesses is through independent operations by Air Niugini and Philippine Airlines. Routes served by more than one carrier in a competitive environment have been shown to deliver higher levels of capacity at lower prices. However, there is a possibility of favourable outcomes from such codeshare arrangement between airlines. In particular, the proposal exhibits a parallel codeshare arrangement where it can lead to higher capacity provided on the Port Moresby – Manila route, as the codeshare enables airlines to attract connecting passengers via inward or outward international flights.

There is a risk that in the counterfactual the existing service frequency may not continue, or the codeshare may fail to deliver on the anticipated consumer and public benefits. For this reason, we recommend that the ICCC grant the application on short term basis that is commercially practicable. The concerned airlines would have a period to measure progress against the anticipated benefits and this would allow the ICCC to assess an application for renewal of the codeshare arrangement at the end of the initial period on the basis of hard evidence on improved outcome.

Given that some information has been concealed, we may not be able to provide well-informed analysis of the options presented. Nonetheless, we hope that the few points provided will assist the ICCC in its deliberation on this matter.

Should you require further information or clarification, please contact Mr. Ronald Sofo, Research Fellow (Economic Policy Research Program), via email [Ronald.Sofe@pngnri.org](mailto:Ronald.Sofe@pngnri.org).

Yours sincerely,



Dr. Osborne Sanida

**DIRECTOR, PNG NRI**