



Spotlight with NRI

Development Issues, Policies, and Trends

July 2007

Vol.1 No.2

THE AIR NIUGINI-QANTAS CODE-SHARE ARRANGEMENT: AN APPRAISAL

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The code-share arrangement between Air Niugini and Qantas for the Australia-PNG market segment is due to be reviewed by the Independent Consumer and Competition Commission. Under the agreement, Air Niugini sells pre-allocated seats on the flights between Port Moresby—Brisbane—Sydney to Qantas, which sells those seats to its customers, rather than operating flights on this route.

Air Niugini argues that the code-share arrangement allows it to:

- be profitable;
- operate large jet airline services and frequent flights, and offer cheaper airfares;
- offer international freight services; and
- earn foreign exchange for its operations.

However, *we argue* that the code-share arrangement:

- increases the market power of Air Niugini, frustrates competition, and adversely impacts fair pricing;
- may affect the efficiency of Air Niugini, whose flights are frequently delayed; and
- undermines competitive pricing, such as the one which has recently occurred between Air Niugini and Airlines PNG for the Port Moresby-Brisbane route.

Appropriate *alternative* policies are needed, in the spirit of Papua New Guinea's 'Open Sky Policy', in order to attract new entrants into the airline industry. This would promote competition, improve efficiency, and lead to fairer pricing.

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Introduction

In the aviation industry, code-sharing is a legal practice in which two airlines share the same two-character code and sell seats on each other's flights. The code identifies carriers in computer reservations systems that are used by travel agents and the airlines. In this case, the code-share arrangement is between Air Niugini and Qantas for the Papua New Guinea-Australia market segment.

The current Air Niugini-Qantas code-share arrangement

Air Niugini is 100 percent owned by the Papua New Guinean Government, and since 2002 it has been operating a code-share arrangement with Qantas on the PNG-Australia market segment (Port Moresby—Brisbane—Sydney). Under the code-share arrangement, Air Niugini provides the airline services, while Qantas sells pre-allocated seats on the same flight. Qantas purchases the allocated seats and resells them to its customers. The two companies price their seats independently.

The rationale behind the current code-share arrangement was that the PNG-Australia market was large enough for only two airlines. At present, Air Niugini, Qantas, and Airlines PNG are competing in terms of marketing, but it is only Airlines PNG and Air Niugini that provide flight services. It is argued that although the market is small, it remains competitive, and the code-share arrangement does not lessen competition.

Air Niugini claims that the code-share arrangement enables it to operate a larger aircraft and remain profitable. The perceived benefits to the public include cheaper airfares, high-capacity airline services, and frequent flights. The PNG economy is said to benefit from international freight services, employment opportunities, and foreign exchange earnings.

In its submission to the Independent Consumer and Competition Commission (ICCC), Air Niugini painted a scenario that if the code-share agreement was revoked, Qantas would resume flight services to PNG, and as a result Air Niugini would have to downgrade to smaller aircraft, and Airlines PNG would cease to operate. Further, Air Niugini would no longer operate large aircraft profitably, and its passengers would not enjoy the services that the current planes were providing. Air Niugini also claimed that reductions in jobs, foreign exchange earnings, and freight services would follow suit.

An analysis of the code-sharing arrangement

In theory, code-sharing provides a larger market share and power to two airlines that combine to exclusively operate set routes and flights. Such a monopoly frustrates fair pricing. This is the outcome of the code-share arrangement that Air Niugini and Qantas currently enjoy, and which they want to continue. This is not in the best interest of the travelling public and fair pricing.

The entrance of Airlines PNG into the PNG-Australia market shows that there are economically viable opportunities for competition. For example, Air Niugini launched a series of special airfares in 2006 — the same year that Airlines PNG entered the PNG—Australia market. Being competitive, Airlines PNG also offered a range of innovative packages and initiatives.

In order to increase the international passenger traffic, which is a requirement for competition, we need to market and promote Papua New Guinea's International Airport (Jackson's, Port Moresby) as a point of transit (link) between the 'North' (Asia) and the 'South' (Australia and other South Pacific countries) and not only as a final destination.

A good example is Singapore's Changi Airport, which links many international flights.

The lowering of airfares by Air Niugini shows that the current prices are high. This implies that, although the current operators may lower their fares, they will still be profitable. Interestingly, the reduction in the cost of airfares is occurring at a time when fuel prices are rising.

Furthermore, current operations have been profitable. These facts negate the argument that the market is too small for more than two airlines.

Anecdotal evidence further contradicts Air Niugini's claim to be a provider of quality service. For example, Air Niugini is popularly known for its frequent delays which have been costly for passengers on connecting flights to other destinations. In addition, the frequent downgrading of flights has resulted in Qantas passengers being diverted to other routes.

Technically, Air Niugini is supposed to operate as a smaller airline. However, because of the code-share arrangement and extensive government funding, it continues to maintain its current status. The airline continues to be of cost to the public and the national economy. The tax-payers money is supporting an inefficient airline at the expense of essential services, such as health and education. The travelling public will continue to pay higher airfares in return for poor services. Frequent flight delays and cancellations also cause more harm to the economy.

The need to promote competition

Code-sharing creates a monopoly, and Air Niugini which operates the flights has the market power. The code-share arrangement brings about high prices. The limited number of seats in one aircraft is shared between two airlines and this translates to high prices per seat.

The entrance of Airlines PNG and the recent price cuts by Air Niugini demonstrate that there is potential for more than two airlines. However, the monopoly that the code-share provides and promotes will curtail this competition and maintain high prices. The code-share arrangement also goes against the government's 'Open Sky Policy', which advocates competition, efficiency, and lower fares.

The benefits to the public should not only be measured on the services provided by a large aircraft. The real benefits accrue from lower airfares and reliable flights. The code-share arrangement is not delivering on both fronts, and will not likely do so in the future.

The removal of the code-share arrangement and the subsequent privatisation of Air Niugini would deliver substantial benefits to the national economy. Maintaining the status quo appears to be a burden on the economy.

Conclusion

The preceding analysis show that the current Air Niugini-Qantas code-share arrangement is anti-competitive, maintains high airfares, and is detrimental to the overall economy. Hence, it should be discontinued. In place of the code-share arrangement, appropriate policies in the spirit of the country's 'Open Sky Policy' should be instituted to attract new entrants into the international routes of our airline industry. This will promote competition and consumer welfare through the delivery of efficient services and lower airfares.

About the authors

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Announcements

The National Research Institute (NRI) is advertising an **Open Call for Research** proposals to be considered for funding. The Institute is specifically looking for **desk-top, systematic reviews** concerning issues which affect Papua New Guinea's development, including, but not limited to:

- Promoting basic education;
- Issues in population growth;
- Supporting the informal sector—promoting production linkages between the informal and formal economies;
- Improved governance—political and administrative structures in the Melanesian context, and the capacity of local level governments; and
- Analyses of economic growth constraints and possibilities.

Open Call projects will require budgets to be less than K10 000, and projects will commence from August 2007. NRI will cover the costs of necessary travel and consumables, and will consider payment of a small honorarium.

Applications are invited from individuals who can demonstrate that they can conduct rigorous, methodical research and can critically evaluate and report on their findings, or can arrange to collaborate with others who can. Organisations can also apply on behalf of nominated researchers, under the same conditions.

An Open Call proposal requires the submission of a completed three-page application form, which can be downloaded from the NRI website. www.nri.org.pg.

Proposals will be assessed by the Selection Panel against the following weighted criteria:

- Merit and relevance of the proposed research to PNG development needs (40 %);
- Quality of the research methodology to achieve the outcomes (20 %);
- Track record and quality of the researcher/research team (20 %); and
- Cost and value (20 %).

Contributions to Spotlight should be addressed to the Director, NRI:

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