



HOUSE OF REPRESENTATIVES

**STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND
MICROECONOMIC REFORM**

Reference: Air freight review inquiry

SYDNEY

Thursday, 8 August 1996

(OFFICIAL HANSARD REPORT)

CANBERRA

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND
MICROECONOMIC REFORM

Members:

Mr Vaile (Chair)

Mr Albanese	Mr Peter Morris
Mr Bob Baldwin	Mr Neville
Mr Ross Cameron	Mr Randall
Mrs Crosio	Mr Tanner
Mr Hardgrave	Mr Wakelin
Mr McArthur	Mr Willis
Mr McDougall	

The air freight inquiry is to examine the opportunities to improve efficiency in the exports of Australian products, particularly perishable produce, through enhancing Australia's air freight services and developing infrastructure and to make recommendations on changes that are required.

The committee should consider:

The opportunities for the growth of air freight exports

The extent to which airlines are able to meet the existing and projected needs of Australian exporters, in particular the needs of exporters of perishable and time sensitive produce

The extent to which regulatory procedures and current export industry operating practices and procedures impact on the development of air freight opportunities

Opportunities for improved coordination and linkages in the export air freight chain

Opportunities to improve market development and access

The need for, and the viability of, additional infrastructure, particularly to meet the needs of regional exporters for access to air freight centres

The ability of exporters to meet the cost of the provision of dedicated air freight capacity.

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Air freight review inquiry

SYDNEY

Thursday, 8 August 1996

Present

Mr Vaile (Chair)

Mr Ross Cameron

Mr Randall

Mr McDougall

Mr Tanner

Mr Peter Morris

Mr Wakelin

Mr Neville

Mr Willis

The committee met at 9.06 a.m.

Mr Vaile took the chair.

BOWERING, Mr Grant Lindsay, Consultant, Federal Airports Corporation, Airport Control, Sydney Airport, New South Wales

ROBERTS, Mr Brian Victor, General Manager and Director, DHL International (Aust.) Pty Limited, 15 Bourke Road, Mascot, New South Wales 2020

CHAIR—We reconvene the hearing being conducted by the Standing Committee on Communications, Transport and Microeconomic Reform on air freight exports. We had a full day yesterday, and we have three more witnesses this morning. DHL did make a submission to this inquiry. Do you have a statement you would like to make this morning?

Mr Roberts—I would like to articulate what we see as the opportunity to develop exports. As people may be aware, we are in time sensitive door-to-door delivery, and primarily we try to do it overnight to the world wherever possible, where time zones do not impede it or customs regulations do not impede it.

We are seeing the global trade shifting towards centralisation of stockholding and using organisations such as ourselves to provide overnight delivery to key markets. What we have is a network of 200 aircraft throughout the world. We have centralised hubs through Europe, the US and the Middle East, and we have just started a hub for Asia based in Manila. We operate aircraft to and from those hubs—say, close of business pick-up in markets right throughout Europe or the US and Asia onto one of our aircraft, into the hub, sorted and back out to the market by 0500 the next morning.

What we are seeing is a move away from the slower modes of transport—sea freight and air freight consolidation—into warehousing in every market, into much more centralised stockholding, and using an integrator such as ourselves or TNT to provide the overnight capability. I guess we are in a lucky industry in that it is a growth industry which grows in kilo terms at about 40 per cent per annum.

Me being responsible for Australia, we are looking to see how we can best take advantage of that. We do not have a large manufacturing base so, looking out to the future, what are the opportunities for the integrator operating in the Australian environment? What we see is that Australia, although not top of mind, can position itself as a warehouse for Asia. Geographically it does not make sense but, if you look into the numbers, when you look at line haul cost—because we are a back haul country, there is more inbound than outbound—and the warehousing cost; when we look at our typical competitors in Asia—organisations are wanting to centralise for Asia; when we look at Singapore or Hong Kong, the warehousing cost is perhaps tenfold of what we can warehouse for here. Labour cost is where we are becoming increasingly competitive with regard to, say, Singapore and Hong Kong. I guess that we, as an organisation, would have two or three multinational organisations that we would be quoting on against DHL and our counterparts in Singapore, Hong Kong and Malaysia for centralised warehousing for Asian distribution.

Even though it is not top of mind and it is a hard sell, we believe there is a significant opportunity for Australia to position itself as the warehouse for Asia. We are typically the second largest market in Asia for high value goods, the first one being Japan. If you are looking at computer software, peripherals and that sort of thing, we are the second largest market. Japan is price inhibitive to position your warehousing. Australia then becomes the No. 2 slot with regard to volume if you are going to locate for Asia. And, as I say, our line

haul cost and our time to market is not impeded.

So we built a distribution model where we factor in the organisation's current cost—whether they are warehousing on the west coast of the US, whether they are doing it in Europe or whether they are actually doing it in Asia somewhere—the line haul cost from that centralised warehouse, or from their warehouses at the moment; the cost of inventory and the time to market, and we have positioned a model that compares Australia with that. Typically Australia will come out with a 40 per cent advantage over somewhere else in Asia in a cost sense without significant impediment to time. There is really only about four hours. We cannot meet close of business for Singapore because they are closing at five o'clock their time, which is already eight o'clock our time. So there is about a three to four hour difference.

So what do we see as the opportunity? That is what we are trying to do—position Australia as a warehouse for Asia. There are some impediments. The impediments are customs compliance costs. If organisations are going to import material into Australia, at the moment there is a transaction-based cost. Every item that comes in has to be customs cleared. Then, when it goes out, it has to be customs entered again. If you look at Singapore or Hong Kong, the countries that we are competing against, they do not have that compliance cost problem; they operate free trade zones. So an article coming in can be held in an area and not entered officially unless it comes onto the domestic market.

I guess what we are looking at is streamlining the customs procedures so that we can be competitive in customs compliance cost. Other impediments, I have nominated those in the submission and I will not go into detail but, yes, customs compliance cost is a significant impediment for what we see is a big market for developing Australia as a warehouse into Asia.

CHAIR—Who owns DHL? What is the ownership structure?

Mr Roberts—The significant owners are Japan Airlines, Lufthansa and Nisho Iwai. They own about 64 per cent, and there are about three private individuals that own the remainder.

CHAIR—There has been a fair bit of criticism about the lack of cold storage facilities at Australian airports. What is your company's attitude towards that?

Mr Roberts—We are not really in that end of the market. Ours is more the high value computer peripheral parts, that sort of area. So, yes, I really cannot comment on that.

CHAIR—What is your company's attitude to the cargo terminal operations in Australia?

Mr Roberts—We believe that there needs to be more competition in Sydney. We actually are a cargo terminal operator in Sydney, so we are on-airport. We have the ability to load and unload our own aircraft and we can retrieve and intercept airside from other airlines.

CHAIR—In Sydney, how many freight carriers are in that situation?

Mr Roberts—There are only four CTOs—that is, AAE, Qantas, Ansett and ourselves.

CHAIR—So you are a CTO yourselves here?

Mr Roberts—Yes.

CHAIR—You do not have to deal through Qantas or Ansett?

Mr Roberts—We do if we are lodging for their aircraft, and that is an impediment. We do have to lodge through them. At the moment we are trying to negotiate, being a CTO and having the sort of access, so that we can draw down and lodge at the tarmac side of the airside. Ansett has agreed to that; Qantas is yet to still decide.

CHAIR—How many freight services a week do you have in and out of Sydney?

Mr Roberts—We use commercial primarily from Asia and the US and Europe. We run our own aircraft between here and New Zealand, and that is seven days a week.

Mr NEVILLE—Do you charter them or do you own them?

Mr Roberts—We own the aircraft.

Mr NEVILLE—What are you flying?

Mr Roberts—The 727-200.

Mr NEVILLE—You were saying to the Chairman that you were not into food or frozen products. Would that not be advantageous with a New Zealand market, I mean, if you fly in 727s?

Mr Roberts—The airline carries it as a sort of filler, so we have a base load of our time sensitive stuff and we carry perishables between Australia and New Zealand as well—full containers.

Mr RANDALL—Through you, Mr Chair, can I pursue this for my own benefit. You say you have your own aircraft but you also use commercial aircraft?

Mr Roberts—Yes.

Mr RANDALL—And that you are a stand-alone CTO?

Mr Roberts—Yes.

Mr RANDALL—There has a been a good deal of criticism that Ansett and Qantas are reluctant participators as CTOs as a result of not enough competition, and you have alluded to that. It could be far more efficient. I suppose my question to you is: do you agree then that greater competition would bring better efficiencies?

Mr Roberts—Yes.

Mr RANDALL—Could you suggest how this competition could take place?

Mr Roberts—I do not know whether CTO operators have approached the FAC with regard to having space on-airport and operating an independent CTO function on-airport at Sydney. We are on-airport in Brisbane, Adelaide and Sydney and could get on in Melbourne and Perth if the requirement was there. To me there is not a barrier. It took us a while. With the old FAC management there was a barrier. With the new FAC management, we were able to get on and we have been operating there for 18 months.

We took a premise that was not air side and made it air side. We constructed a road. So there was a fair bit of initiative used. I do not know what the barrier is with regard to other organisations wanting to get on-airport and build facilities because there is a space problem. But we have not had a problem.

Mr RANDALL—Why do you think you have not had a problem and others say they have?

Mr Roberts—I do not know. I guess we were persistent.

Mr RANDALL—I would like to pursue this a little bit: you seem to be in agreement that the two main handlers, Qantas and Ansett, do not provide a peak service?

Mr Roberts—Correct.

Mr RANDALL—So great improvements could be made there and that is what we, as a committee, could be pursuing even more.

Mr Roberts—Yes.

Mr ROSS CAMERON—You mentioned Japan and Hong Kong in relation to the customs requirements. They have an arrangement whereby if you are just holding cargo you can sit it somewhere without having to run it in and out, and we do not have that capability.

Mr Roberts—No. There is a big compliance cost. It is an item by item entry. There is about \$30 of admin cost importing it and there is about another \$30 outbound. If you are talking low cost and a large volume of small items, it is a significant cost to the end article and that is where we are disadvantaged. I have submitted some press releases that we have put through. What we are trying to do at Brisbane airport is that we have taken over about 14,000 square metres at the old passenger terminal at Brisbane airport and we are working with the state government and with the FAC to try to make that a free trade zone.

We believe that, if we can get multinational organisations comfortable with the idea that Australia can be a warehouse and supply the Asian market as if it were local, they will put their investment here. Once they are comfortable with that then they will bring manufacturing here. The big problem with bringing manufacturing for computer parts is the huge set-up cost but the tiny domestic market. If we can convince them with our networks that we can provide an overnight service into Asia and therefore they are local in

that market, we believe that we can bring that investment to Australia.

Mr WILLIS—You say in your submission that we have 300 organisations which have relocated their warehouses into Australia.

Mr Roberts—No, that is their headquarters.

Mr WILLIS—The regional warehousing scheme?

Mr Roberts—Yes. The regional headquarters scheme is for relocating of head office functions into Australia. I guess if we look back five years ago, Australia was not top of mind for regional headquarters. But with the work that has been done by the federal government and Austrade, et cetera, RHQ is a very successful program. So now it is top of mind that Australia can be a place where organisations could put head office functions.

Mr WILLIS—I am aware of the regional headquarters, but your submission is slightly ambiguously worded and I read that as 300 warehousing, which I must say amazed me because I had no idea that was happening and obviously it is not happening.

Mr Roberts—It is not happening, no.

Mr WILLIS—As you see it at the moment, has anyone actually moved their warehousing to Australia? What scope is there, do you think, for this to be developed by any change?

Mr Roberts—We have just secured two organisations and increasingly we are being looked at. We are doing presentations in the United States trying to sell Australia. We have Austrade out there throughout Asia talking to multinationals, presenting our computer model that demonstrates significant cost saving for them to put their warehousing into Australia.

Mr WILLIS—With the regional headquarters, part of the way in which that has been attracted here has been through tax concessions. Are you envisaging anything like that for warehousing operations as well?

Mr Roberts—Yes, I guess that is what we would like. We see it as powerful if we can go in and say, ‘This is the distribution capability and that is the cost saving. Here is the regional warehousing package, so to speak, to pull your investment out of where you have got it at the moment and relocate it to Australia.’ So I would see a regional warehousing package and a regional manufacturing package to come in behind that, and organisations such as ourselves and TNT, et cetera, being able to give that overnight capability into Asia.

Mr WILLIS—Those tax incentives have been given at the federal and the state level, and the state has probably been more important. One downside probably has been that there has been a lot of competition between the states, so there has been a lot of giving away of pretty large tax concessions. I guess my concern would be if we are going to get into this area with regional warehouse operations, we would want to be pretty sure that we do not start a competitive round of tax concessions by the states in relation to warehousing, as has happened with regional headquarters.

Mr Roberts—Maybe it is just a federal package that needs to be put up.

Mr WILLIS—Sure, that is your point: that you need an overall package put together and agreed by federal and state governments.

Mr Roberts—Yes.

CHAIR—Mr Roberts, you would be aware of the submission and the proposal to develop an international freight airport at Parkes in New South Wales that has been proposed by the Inland Marketing Corporation. If that came to fruition and was developed, would there be any prospect of DHL operating out of there?

Mr Roberts—At the moment we are pretty much tied to the commercial aircraft as well. I guess we are a significant customer of all the commercial airlines that run into and out of Australia. So at the moment, no, we would not. We would have to centralise our operations on the key airports.

CHAIR—Going back to an issue that you touched on earlier. In your submission, you were fairly scathing of Qantas and Ansett's cargo handling operations. You make accusations on page one of manipulation of lodgment times, of Qantas charging exorbitant and unjustified premiums, as well as premiums for late lodgment and quick retrieval, and of Qantas and Ansett using their position to gain an unfair advantage. Would you like to elaborate a bit more on that?

Mr Roberts—Yes. I guess we see ourselves as the lowest cost supplier to Qantas or Ansett. We book container space every day to destinations such as Singapore, London, Los Angeles or wherever. We pay for that space whether we do or do not use it. We always put a container on there. It does not matter what the weight is, we will always pay a fixed price. We can lodge it airside. We can take it across with our dolly and dump it at the plane so that all they have to do is lift it up and put it on, and we can do that within 30 minutes of flight departure.

We measure our service in minutes and seconds as opposed to hours and days. Because we need the absolute latest cut-off and the absolute earliest retrieval to get it to and from market as fast as possible, we are disadvantaged in that they make us come through a terminal and will charge us a premium for handling that material quickly, even though we could dump it at the plane. There is manipulation of our situation there where we need that absolute latest cut-off and earliest retrieval. Even though we are the lowest cost provider, we get the premium charge.

CHAIR—So even though you are a cargo terminal operator yourselves, you still have to go back through the Qantas process if you are going onto a Qantas jet?

Mr Roberts—At the moment, yes. Except when they want to put stuff on our plane.

Mr WILLIS—What is an ECN that you refer to in your submission?

Mr Roberts—Export control. There is a document for when we are over a certain value and have to

notify Customs prior to export. We have to do that about 120 minutes prior to departure.

Mr WILLIS—This is a Customs requirement?

Mr Roberts—It is Customs, but it is more statistics and prohibited items. We send out 6,000 shipments a day, I would guess, and we have never had one stopped that I am aware of. We have a requirement that necessitates our having this document into Customs 120 minutes prior to departure, whereas we could still be out there in the market, picking up the material, coming back and creating the paperwork. I am suggesting post-lodgment of ECNs. Because there has never been a case of us actually having to stop anything, why put a two-hour impediment in the market for statistical purposes?

Mr WILLIS—Why is there this differential between the post office and everybody else?

Mr Roberts—I do not know.

Mr WILLIS—Do you know who sets that differential?

Mr Roberts—It is part of the act, I think. Ours is \$500. For post it is \$2,000. On import, ours is \$250 and theirs is \$1,000. So people can use the post to come in and do not have to put an entry in under \$1,000 and we have to do it for \$250. Australia Post has significant competitive advantage. We are trying to work with the minister to try to get that changed.

Mr McDOUGALL—We often hear that in the airlines there is a bit of double booking going on by some freight forwarders. We have heard from others that there is the potential for being off-loaded. Obviously you have some reasonable deals because of continuity with commercial airliners on the basis that, as you said a moment ago, you put a container on every day whether it is full or not. Do you have any problems in relation to being off-loaded? Have you had that experience?

Mr Roberts—No, we do not. I guess the freight forwarding industry has a reputation of booking and then cancelling at the last minute. We never do that. We book a container and it goes every day on that day to that destination.

Mr McDOUGALL—What is your impression of that double booking by freight forwarders? What does that cause to continuity to other exporters?

Mr Roberts—I cannot really comment on that.

Mr McDOUGALL—You mentioned in your submission that when the British Airways and Qantas 'merger' took place, the Trade Practices Commission ensured that passenger rates would be constant but there was an immediate freight rate increase of \$3.50 to \$7 per kilo. Do I read in that that anyone moving freight was then penalised because of the freezing of the passenger rates? Does that penalty still exist, to your knowledge?

Mr Roberts—Yes, it does. What happened was that you took the competition out of the market.

There was competition between BA and London. We have to go for certain slots that give us that overnight capability. There are only two aircraft we can use for the latest flight out of Sydney, Melbourne or Brisbane flying overnight to Europe to land at 0500. At that point it was BA and Qantas. There was significant provision put for passengers to make sure that rates did not go up, but there was nothing that addressed freight, so within one month of the TPC clearing it we had a 100 per cent increase in our rate.

Mr McDUGALL—In general terms, this concept seems to be growing in Australia where they have the deal with Qantas and the deal with Japan Airlines in relation to co-sharing of passengers. These co-sharing operations may be effective in some areas of the industry. Do you see that becoming a continual impediment to freight?

Mr Roberts—I guess our experience with BA would indicate that.

CHAIR—When you are loading freight onto BA, does that come straight out of your CT operation or does it have to go through someone else's?

Mr Roberts—We lodge it through Qantas. At the moment we are not able to lodge to any airline. Ansett is just letting us retrieve from JAL and CX Cathay.

Mr WILLIS—There are other airlines that fly to London. Why can't you use those?

Mr Roberts—Because of the time frame of when they arrive. If we are trying to do an overnight into London, we are trying to head there at 0500 or 0600 and it is out in the market by 0900.

Mr WILLIS—But Singapore Airlines, for example, would have flights which would go to London, Melbourne or Sydney. Singapore to London is pretty direct. It is just another timeslot.

Mr Roberts—We are the only two. We had competition and it was taken out of the market. That is historic, but I am saying that, when government is looking at these things or the TCP, freight needs to be taken into consideration because it does have an impact. The passenger overrides and freight is the poor cousin and is not taken into consideration.

Mr McDUGALL—Would I be correct in saying that at this stage your freight volume, in the sense of weight, is not your big problem—it is more about time and a smaller item? Would I be right in saying that at this stage you do not see a capacity problem out of Australia in relation to being able to get space on aircraft where the bigger volume exporters seem to be having that problem?

Mr Roberts—I do not know whether there is a big capacity problem; maybe only on one or two sectors.

Mr McDUGALL—If you come to this headquarters centralising system that you are going to do and what the Brisbane structure is all about, do you see that increase of business as hubbing to Asia will create a capacity problem?

Mr Roberts—I see that we will have to have dedicated uplift ourselves to answer the market, passenger aircraft or not. We have a need now to go to Manila to hook into our hub to give the overnight Asia. At the moment the only aircraft leaving are leaving at 10 o'clock in the morning, so we are disadvantaged by 24 hours versus somebody placing a warehouse in Singapore, Hong Kong or wherever.

We need to position uplift out of Australia—Melbourne, Sydney, Brisbane or wherever—at 0700 or 0800 to head our hub by 0130 to then meet all the other aircraft and then get into Asia, meet the aircraft through Europe and meet the aircraft to the US. I see that we will have to go with dedicated uplift or convince a commercial operator that there is a market there.

I think there is a market with the 747s operating northbound empty. We are working with the Queensland government and perishable exporters to try to move that capacity into Manila. Unfortunately, there is not a big perishable market to Manila. We need the International Air Services Commission to really go for the fifth freedom rights that give us the ability to operate onward from there and pick up from there so that we can make it viable.

There is an opportunity to run these 747s into Manila and then on to Japan, but the operators—the Polars, et cetera—will not do it because they cannot operate out of Japan. So they have got a dead leg and it is a very expensive handling point. They have to go to Hong Kong or somewhere where they have got rights to pick up a commercial load.

There is a big opportunity for organisations such as ourselves, TNT, et cetera that have a need for the high value, that are time sensitive and that can give a base load into Asia to get together with the perishable people to use this vacant capacity that is going up there and to work with the International Air Services Commission on the fifth freedom rights that give us what the market requires.

It may be that our networks throughout Asia can provide an opportunity for perishables to be put as base load or fill-up load on our aircraft. So we drag it to Manila and then run it to Hong Kong, Singapore, Malaysia or wherever on our aircraft as filler. It is what we do trans-Tasman and are increasingly doing in Europe and the US.

Mr WILLIS—Do you know precisely where these dead legs go to?

Mr Roberts—Primarily Hong Kong.

Mr WILLIS—We heard yesterday that there are about eight.

Mr Roberts—I think there are 12.

Mr WILLIS—Twelve?

Mr Roberts—Twelve 747s a week with nothing in them.

Mr WILLIS—And almost all to Hong Kong?

Mr Roberts—Yes, they position over there to pick up a high yielding load out of Hong Kong, but they do not have the rights to carry the perishables into Hong Kong out of here. The International Air Services Commission is doing a great job and is being very commercial, but it is being stymied by foreign governments.

Over the last four years we would have liked to get an airline to operate to our time frames to provide overnight into New Guinea and to provide a daily service into the Pacific, but we cannot get the rights. Likewise, we would have liked the fifth freedom rights to run into an Asian country and then on to another Asian country that could use the time sensitive base as well as the perishable base, but the perishable base is not going where the time sensitive base is going.

Mr McDOUGALL—You raised the question that those fifth freedom rights were not available for the empty freighters going out of here to go into Japan. Is that because of the North West agreement?

Mr Roberts—I do not know whether that is the case.

Mr McDOUGALL—To my knowledge there is a large freighting agreement with North West Airlines out of Japan to the US. It just seems crazy that, even if you got them to Hong Kong, there is no link to get them into Japan anyway.

Mr Roberts—No, you would have to use commercial and that is a pretty expensive freight rate.

Mr ROSS CAMERON—I am still grappling with the various freedoms. But you are saying that there are dead legs not because of a lack of a commercially attractive cargo but because people do not have the legal right to carry cargo?

Mr Roberts—It is the lack of the commercial paying cargo to that one point. The problem is that we have a need to go to one point and the perishable people have a need to go to various points in Asia. So it is no use us getting these 747s and dumping them in Manila because they cannot pick up anything in Manila so they have to dead leg to Hong Kong. It then becomes an incredibly costly exercise. If you can get fifth freedom rights over Manila, then you can start to put together a commercial load that these guys can operate.

Mr ROSS CAMERON—If you have got these difficulties time wise with the Philippines, why did you go with Manila as your hub?

Mr Roberts—Sorry, there are no difficulties, time wise, for DHL. Geographically, Manila is a reasonable location. It is reasonably central—

Mr ROSS CAMERON—But you are flying your own aircraft.

Mr Roberts—In Asia we are. We only started on 28 February this year. We have seven aircraft up and running and we will have 12 within the next six months.

Mr ROSS CAMERON—Just in terms of the fundamentals of your business, with the warehousing

concept, my understanding is that most corporations are looking to reduce their warehousing function, if they can, by a tighter linkage between manufacture and getting something to the point of sale. Is it just a reality that if they are manufacturing in, say, the US or Europe and they want to put product into Asia they have to have a warehousing point somewhere in the region?

Mr Roberts—Yes. What typically happens at the moment is that because of customs problems in Indonesia, Malaysia, et cetera, and the delays getting into there, they have to have local warehousing. They have warehouses stuck in Indonesia, Malaysia, Seoul and right throughout Asia. They have all this stock held there. What we are trying to do is break down the barriers—be they customs, flight arrival and departure times, whatever—to give them the confidence to pull that warehousing out, centralise it, cut back on the inventory that they have held throughout Asia and then distribute from that central point.

It saves them a hell of a lot of money, a lot of double handling. Instead of moving it to Indonesia, getting customs clearance, putting it into a warehouse, pilfering, whatever, and then repacking it and distributing it to win customers, we can go from the centralised warehouse, whether it is in Sydney, Perth or wherever, directly to the end customer. So it cuts down on a lot of double, treble, quadruple handling and it cuts the cost of carrying that inventory that may not be used in those countries.

CHAIR—The committee notes that you have made representations to the Minister for Small Business and Consumer Affairs regarding the creation of a free trade zone in Brisbane. Do you just want to elaborate on that proposition a bit for us and outline the benefits that would flow?

Mr Roberts—It is pretty critical if we are going to develop this concept of Australia being the warehouse for Asia because the compliance cost is inhibited. If we are able to streamline the customs regulations and be encumbered only when the administration required, if it comes onto the domestic market, we believe we can attract this business. As I said, even without that, we have attracted two organisations to put their warehousing into Asia just recently.

What flows from that? I think there is a big opportunity to merge in transit. I guess one of the opportunities with Brisbane is that the port is very close and you can bring in the VDU bulky things. So you bring in the processing units, hold it there, bring it in, merge it and then send it to the end customer out in Bekan Baru in Indonesia or wherever it is. So you can go to repair and return, merge in transit and perhaps even manufacturing so that they can bring all the components in, not encumber it with customs import, manufacture it and re-export it without that administrative cost.

CHAIR—Have you had any response to that proposition?

Mr Roberts—Not yet. It is pretty recent, but favourable.

Mr NEVILLE—So you see that as being a full trade zone, not just a freight handling trade zone?

Mr Roberts—Yes.

Mr NEVILLE—What do you mean by repair and return? Does Australia have some competitive

advantage on servicing electronics or something of that nature? Is that what you mean by that?

Mr Roberts—Yes. One of the companies we have just picked up is Erikson. Historically, Erikson's radio parts were sent back to Sweden for repair and then brought back to Asia. This is going to be operating out of Melbourne. What is going to happen is that all radio parts for Asia that need to be repaired will come into Melbourne, be repaired and then go back out again. So, yes, there is a significant opportunity.

Mr ROSS CAMERON—One of the issues we have been looking at, particularly in the perishable market, but it probably affects you just as much in a time sense, is the question of reliability of the distribution network and that if it fails you can spike the whole market or destroy a relationship. It is obviously important to you to be able to deliver a service regularly and reliably. The argument is that the government ought to be willing to make an up-front potentially loss leading investment in infrastructure on the basis that unless you have that reliability you cannot build a market around it. It is the chicken and the egg thing—if you keep waiting it just never happens. Does DHL run many routes that are non-profitable? How did you deal with that issue at the start? Did you just take a punt, dump a lot of capital in it and just hope the market would follow you?

Mr Roberts—I guess, with regard to the infrastructure side, what we need is control. If we are measuring in seconds and minutes, we need maximum control. That is why we have gone the way we have with CTOs. We have just taken 49 per cent in an Australian airline. It is the control factor. If you do not have the control it will fall over. It is something you have to be responsible for. So we have invested in premises in Sydney, we are investing in Brisbane and Adelaide and in Melbourne and Perth we have off-airport facilities. We invest in those. We are investing on the trans Tasman.

Qantas and Air New Zealand tried to run an overnight operation catering to our business about six or seven years ago. They started with a Westwind jet taking about 1,500 kilos. It was never successful. We saw the market there because what happened was that the freight forwarders and integrators cherry picked it because it was a high cost. They would use it only if they had to.

We saw the opportunity there to really get behind it and develop a sort of warehousing. What we do now is that we offer overnight distribution to New Zealand and vice versa—giving organisations the confidence to pull their warehousing out of New Zealand and put it into Australia and vice versa. We invested in the aircraft up front, and now we have a full aircraft.

Mr WILLIS—Which airline did you say you took 49 per cent of?

Mr Roberts—Asian Express Airlines. It is pretty new. It came two months ago. Three Australian businessmen have 51 per cent and we have 49 per cent.

Mr WILLIS—What does that do?

Mr Roberts—At the moment it will operate the trans Tasman and then ultimately it will be, I guess, the vehicle we look at with regard to applying for the rights into Asia as an Australian airline and using the capacity on the shelf.

Mr WILLIS—Which are the two organisations which have moved their regional warehousing to Australia?

Mr Roberts—There was Erikson, which was repair and returns, and Microsoft is another organisation that we looked to supply all of Asia, except Japan, out of here.

Mr PETER MORRIS—Your company is domiciled where?

Mr Roberts—The Australian organisation?

Mr PETER MORRIS—The parent organisation?

Mr Roberts—The headquarters are in Brussels.

Mr PETER MORRIS—This is an Australian off-shoot of the Brussels company?

Mr Roberts—Yes.

Mr PETER MORRIS—You operate aircraft yourselves?

Mr Roberts—Yes.

Mr PETER MORRIS—You provide ground handling services yourselves?

Mr Roberts—To our own aircraft.

Mr PETER MORRIS—Only to your own aircraft?

Mr Roberts—Yes.

Mr PETER MORRIS—Do other operators use your ground handling services at times?

Mr Roberts—No, only in an emergency. We only handle our own aircraft.

Mr PETER MORRIS—Are there mirrors of the kinds of complaints you make in your submission about Ansett and Qantas, where other organisations have to use your services?

Mr Roberts—Sorry?

Mr PETER MORRIS—You make complaints in your submission about Ansett and Qantas manipulating timetables and lodgment times. Does the reverse operate? Are there locations where you are providing ground handling services or where your services have to be used by other operators elsewhere in the world?

Mr Roberts—No, they do not.

Mr PETER MORRIS—Are you quite sure about that? What I am looking for is a mirror. You are quite strong in your complaints—and it is pretty strong language. You state, ‘Through the manipulation of lodgment times, Qantas . . . ‘.

You say the same about Ansett. You say that they are exorbitant and unjustified. That is pretty strong language in a commercial world. What I am trying to understand is: are there other locations where your company operates where the reverse is the case and you are providing ground handling services?

Mr Roberts—No. We only handle our own aircraft. It is for our own customers.

Mr PETER MORRIS—When you have a situation where outbound cargo exceeds the space that is available, how do you prioritise that? What stays on the ground and what goes?

Mr Roberts—If we are operating our own aircraft, I guess it will be our business. Where we have a closed network, generally we have our own time sensitive stuff—

Mr PETER MORRIS—Let’s say there is a demand for more space than you have available. How do you decide whether to take his or mine?

Mr Roberts—On any given night, we have filler cargo that is not guaranteed for uplift.

Mr PETER MORRIS—Is it by rate?

Mr Roberts—Yes.

Mr PETER MORRIS—What is the range of rates? Are you saying in your submission that the rates to London were doubled from \$3.50 a kilo to \$7 when BA came into Qantas?

Mr Roberts—Yes.

Mr PETER MORRIS—What is the range of your rates? What is the rate if I want guaranteed space?

Mr Roberts—We really only have one rate structure with a given customer. We would go in and quote on your business versus your volume, and that would ride. Our customer’s business would ride.

Mr PETER MORRIS—If I pay that rate. If I come along on a standby and say that I just want a casual rate—filler space, as you referred to—how does that compare?

Mr Roberts—It would be a fraction.

Mr PETER MORRIS—Would it be one-tenth, a half, a quarter?

Mr Roberts—Generally our business is door-to-door, so we are quoting on what it would be to pick up from you and deliver it door-to-door. The filler freight is generally airport to airport only. It may be the mail or whatever.

Mr PETER MORRIS—Help me a little bit more. The point is made in a number of submissions that when you want to move the freight you cannot get the space; or, you have been promised the space and you have an arrangement to have the space but, when the time comes, you are bumped off and somebody else's cargo goes on.

Mr Roberts—We do not have that problem. Typically, we are at the higher end of the market. I guess we are paying much more than anybody else. It is on a guaranteed basis. We pay for that space if we use or not. So we are there 365 days a year with a fixed container and we pay for it whether or not we use it.

Mr PETER MORRIS—There are times that aircraft go out empty, or parts of the aircraft are empty. If you do not use the space then the space is obviously empty, is it not?

Mr Roberts—Yes.

Mr PETER MORRIS—But you are charged for it.

Mr Bowering—I think you are talking about two different things.

Mr PETER MORRIS—Would somebody help me?

Mr Bowering—DHL are in control of 100 per cent of their own business, so they do not actually have that situation.

Mr PETER MORRIS—Yes, but the strain that runs through some of the complaints in the submissions is that you want to get your cargo on an aircraft and you know that space is not being used. It may be booked and paid for, but that does not enter the mind of the person who wants to get his cargo on. He knows there is space on the aircraft but he cannot get his produce on, and there is the aircraft going out part empty.

Mr Roberts—Typically, we will always use that container; on any given day, the weight we put in it will fluctuate maybe by 15 to 20 per cent.

Mr PETER MORRIS—So sometimes there is empty space and sometimes there is not. But, anyway, you pay for it and it is yours, whether you fill it or not?

Mr Roberts—Yes.

Mr PETER MORRIS—At Singapore, where there is only one ground handling operator—

Mr Roberts—Two.

Mr PETER MORRIS—Which are those two?

Mr Roberts—CIAS—Changi International Airport Services—and SATS.

Mr PETER MORRIS—Are those rates pretty reasonable?

Mr Roberts—I could not comment on that. I think they are pretty reasonable, as is the service quality.

Mr PETER MORRIS—It would be useful to get some sort of comparison. It is very easy to make criticisms here, but we could easily do that to the exclusion of what is happening elsewhere in the market.

CHAIR—There is also the cost of the ground handling.

Mr PETER MORRIS—We would want to know the cost and the nature of the service and whether you are required to use it so that we get a real comparison, not just a look at the Australian situation. You have got a worldwide organisation. It would be no trouble for you, would it?

Mr Roberts—No, not for our end of the market.

Mr PETER MORRIS—The part in your submission which worries me is that which deals with the question of security. That issue was raised yesterday by members of the committee. Your submission suggests ease of access, as though it is just a case of trucks running in and trucks running out. It seems, globally, that the most vulnerable section of the whole transport chain for aircraft is in freight. You do not have any problems with that in the things you are proposing or in the way in which things are operating?

Mr Roberts—No. We have access on airport. We can drive our trucks on to Sydney airport or Brisbane airport. We are passed by the FAC. All the people that are allowed on airport are all FAC pass holders. If you adhere to the requirements, it is not an issue. We are on airport in most major countries of the world.

Mr PETER MORRIS—Given what is happening elsewhere in the world at the moment and the concern about aircraft security, do you have anything in mind or do you foresee any particular problems in that area?

Mr Roberts—I guess the security will only get tighter. In Frankfurt, London, Tokyo, et cetera, we are operating on airport and loading and unloading our own aircraft.

Mr PETER MORRIS—Have you had a chance to look at the submission from Lufthansa?

Mr Roberts—No.

Mr PETER MORRIS—It is only one page, but it makes a comment which I think you are probably in a very good position to respond to. It states that some perishable commodities that are currently being

exported by air are not air freight items, i.e., some fruit and vegetables. It states that these commodities cannot sustain air freight pricing and should not be flown. It goes on to talk about value adding and various other products. It is very pertinent. Can you comment upon that or do you want a bit more time to read it and think about it?

Mr Roberts—Yes, I would like some time. Where we have to get smarter in the Australian market is packaging for ‘in use’. What we are doing at the moment with the Japanese market is sending it over in bulk and then paying exorbitant rates to have it packed up and put on to shop stands. We need to add the value at this end as opposed to the other end.

Mr PETER MORRIS—Yes, I can see the merit of that. Lufthansa also makes the very relevant comment that a review of air freight arrangements should not take place in October; it should take place during the April to October period, which is the low season. They say that there is a need to fill empty airline capacity during the low season from April until October. Is that your experience with the traffic that is moving? Is that the downside of the season?

Mr Roberts—Yes, the most difficult season to get freight capacity for us is in the November-December period.

Mr PETER MORRIS—November-December?

Mr Roberts—Yes.

Mr PETER MORRIS—Lufthansa is saying April-October is the low season; that is when there is a lot of unused capacity.

Mr Roberts—Yes, that is right.

Mr PETER MORRIS—Thank you, Chairman.

CHAIR—I thank Mr Roberts for appearing before the committee this morning. There was some information that Mr Roberts was going to get back to us with.

Mr Roberts—I can give you the handling rates in Singapore.

CHAIR—If you would not mind, that would be much appreciated. The secretariat will send you a proof copy of your evidence as soon as it is available from *Hansard*. Thank you very much.

[9.54 a.m.]

CORK, Mr Rodney John, Chairman, AIPA Air freight Sub Committee, Australian and International Pilots Association, 68 Moncur Street, Woollahra, New South Wales 2025

STUDDERT, Mr Wayne Bruce, Member, AIPA Air freight Sub Committee, Australian and International Pilots Association, 68 Moncur Street, Woollahra, New South Wales 2025

CHAIR—I welcome the representatives from the Australian and International Pilots Association. We note that you made a submission to the beginning of this inquiry in the last parliament. We have just received a supplementary submission this morning, which we will take in evidence as submission No. 67. We will deal with it at the end of your evidence. Gentlemen, would you like to make an opening statement?

Mr Cork—On behalf of the AIPA President, Captain Bill Pike and the AIPA members, we would like to thank the committee for allowing us the time to put the AIPA position on the subject of international air freight.

Australia is an island and, if we want to trade with the rest of the world, we can only achieve this by using ships or aircraft. Therefore, it seems to us a strange state of affairs that the Australian long haul international air freight fleet does not exist.

When I started working as a flight engineer in 1970, of the 23 Boeing 707 aircraft in Australia's international fleet, three were freighters. Today, of the approximately 56 international aircraft in the combined Ansett and Qantas international fleet, we do not have one aircraft with upper deck freight capacity. In the meantime, in South-East Asia the current 747 freighter and combi fleet stands at 70 aircraft.

Another point that should be noted is the growing trend for Asian airlines and companies, particularly oil and mineral companies, to long-term wet lease medium sized aircraft like the DC8 and the L100, which is the civil version of the Hercules. This has resulted in UK L100s and Boeing 707 aircraft operating out of Jakarta and Hong Kong on long-term leases and US DC8s operating out of Singapore on long-term leases. There is not one Australian aircraft available for this lucrative foreign exchange area of enterprise.

Indeed, while Australia has vigorously pursued export service industries like telecommunications, we have failed to realise the potential of air freight operations as an export oriented service industry, with the ability to earn foreign exchange in the same manner as any other export industry.

So how did this state of affairs come to be? Probably the most likely cause was the two-airline policy that existed in Australia until recently. It was, in fact, misnamed because it was a three-airline policy, with Qantas as the only designated overseas airline. It is very easy to attempt to rewrite history and criticise the decision that led to those policies, but no-one can deny that they came about at the end of World War II when our government realised that we were isolated from the rest of the Western world and also realised that for the first time we had to look after ourselves. To do this we needed a strong airline industry.

As a result of the war, the international segment of that airline industry was badly fragmented and in a

poor financial state. At the time there were four airlines operating on international routes. The policy appears to have achieved its stated aims because in 1995, based on group sales, the Qantas group was No. 14 in the world ranking for schedule airlines and the Ansett group was No. 29.

Rightly, Australia has realised that a protected airline industry is no longer suitable to meet this country's aviation needs and has deregulated both domestic and international aviation. But is deregulation enough?

In the case of international air freight, AIPA would put the position that removing single designations for air freight carriers is not enough to result in a suitable infrastructure. This is because while Australia was busy establishing its tourist industry based on passenger aircraft other countries had already realised the world trade would require a large amount of freight aircraft. They set about putting in place policies that would give their operators distinct advantages.

Australia has a problem in many areas of endeavour and, in reality, many of our previous areas of production in our now globalised economy should be better produced elsewhere. One area where there is no dispute that we are at the forefront is the art of flying and repairing aircraft. Why then have recent developments in international air freight all centred around foreign aircraft? Indeed, the situation is so bad that up until recently we had to rely on foreign aircraft, including a Swaziland registered DC8, for our domestic and trans-Tasman air freight.

AIPA has no problem with Australian air freight operators having to compete on a level playing field, but we do have a problem when virtually every foreign air freight operator has a downhill run. We believe successive Australian governments have failed to realise the national importance of air freight to our nation and have put in place a series of ad hoc policies which have resulted in making the situation worse. These policies have lost our nation large amounts of trade and had a major impact on our balance of payments problems. It is not enough to simply remove the restrictions by deregulating. The Australian government needs to put in place initiatives that allow any potential Australian air freight operator to overcome current barriers caused by foreign governments unfairly assisting their local carriers. The Australian government also needs to seriously examine its own rules to determine if those rules unfairly affect operators. This need was clearly spelled out in the 1985 Scully Butcher report, but it was never seriously addressed.

A further problem is that both primary and secondary industries in many cases have unrealistic expectations of air freight conditions. Similarly, the airline industry has an unrealistic view of potential customers. This has probably resulted in the policy which continues today which places the air freight forwarder between the manufacturer, the producer and the aircraft operator. We believe that the only way to establish a viable, regular air freight operation is to establish industry-wide marketing and coordination organisations who have direct and long-term relationships with the aircraft operator. This conclusion would tend to be at odds with recent decisions to allow more liberal charter rules. The continuation of the current policy which gives a short burst of a particular product or crop, coupled with the use of charter aircraft, will in the long term achieve a minimal advantage to the nation.

AIPA supports the current inquiry and, indeed, lobbied hard for such an inquiry to be set up. We hope that at the end of this inquiry the committee will have established enough facts to allow the government to

put in place long-term conditions to allow air freight in this country to flourish. A flourishing air freight industry will serve Australia well, both as a necessary vehicle for our unique trade conditions and as a valuable foreign exchange earner in the act of providing air freight services.

Mr Studdert—I would just like to make a few points, if I may. The mode of transport within Australia is important. We talked about the infrastructure in the last few days between the gate and the airport. We want to address the area from the airport to destination. As Rod has said, we do not have an in-house air freight industry operating aeroplanes. We are not pointing to any of the major operators as being the operators of those air freight aeroplanes, but nevertheless they have the infrastructure to maintain and operate those aeroplanes.

I would like to point out that in the submission that was given to the Prime Minister there are various weights available for aeroplanes. We have reviewed information from Boeing, and a Dash 200 aeroplane, which we have referred to as a classic aeroplane, has up to 110,000 kilos capacity. The 400, which is a later aeroplane, has up to 120,000 kilos of capacity. As far as engine for engine operation is concerned, the aeroplanes are comparable in fuel burn, the difference being that the 400 has a little bit more range—and of course the price. We are talking \$20 million to \$30 million for a classic aeroplane versus \$150 million to \$180 million for a 400.

Just to clarify those points in the Prime Minister's report, I believe that those numbers refer to the payload capacity of a passenger aeroplane, which of course has a higher what we call minimum or empty operating weight because of seats, galleys, et cetera which you do not have on a freight aeroplane. They are the comments I would like to make.

CHAIR—What you are saying is that a dedicated freighter in that configuration has more capacity as far as payload is concerned than a passenger configuration?

Mr Studdert—Undoubtedly.

CHAIR—But is the capacity you just spoke about in a pure freight configuration?

Mr Studdert—The 110,000 kilos for a 200 series is a pure freight configuration.

CHAIR—We presume you are talking about a 747-200 series.

Mr Studdert—Yes, that is correct.

CHAIR—You are not saying that one of the existing operators should be a designated freight operator. All you are saying is that there should be an Australian designated freight operator. How do we then address the issue of our bilateral agreements where we negotiate flights per day or per week? You are saying that in some specific areas some of that capacity that is being presently utilised for commercial passenger aircraft should be taken away and dedicated to freight?

Mr Cork—No. In our submission—both the new one and the old one—we have made the statement

that we believe Australian rights should be operated by Australian aircraft. What is occurring right now is that Australian rights are being picked up by Qantas in particular and then there is what we call wet lease. A wet lease is where an aircraft and crew is bought, as distinct from a dry lease where an operator may lease an aeroplane and then supply the crew.

Currently you have the situation where Qantas is operating the typical service using Evergreen International, which is an American based company. It predominantly uses 100 and a few 200 series 747s. It starts off in New York and it calls itself Qantas, even though it is an American crew with an N registration. They will use a Qantas call sign, which I think is 7559 from memory, but that changes. They will do New York and then Chicago. For those of you who do not know, 'ORD' in our submission is actually Chicago. Then it goes to LA, Honolulu, then maybe to Nadi depending on the payload and the range, maybe to Auckland, maybe to Melbourne, maybe to Sydney and then on up to Hong Kong—all this time using a Qantas call sign.

CHAIR—What you are saying is that that is a Qantas right.

Mr Cork—That is right. They are currently being flown and it is a Qantas right. They are using everything that Qantas has got out of the Air Services Commission.

CHAIR—Is that a dedicated freight aeroplane?

Mr Cork—That is a dedicated freight aeroplane. It happens two to three times a week. On top of that, since about 1975 Qantas had three and then two 747-200 combis. A combi has a freight door in the back upstairs, just like a freighter in the back quarter. It depends on how you configure it. In the case of our combis it was about a quarter. We had two combis with 35 tonnes of upper deck freight space. For the last five years they have been dedicated across the Pacific. They have been doing five services a week from Sydney via Honolulu or Tahiti to LA and back.

Last year Qantas, in their wisdom, decided to bolt the doors closed and turn them into passenger aeroplanes. There were some problems with fire compliance, but we believe it was not a major problem. To replace some of that capacity they have now chartered Southern Air Transport, which is an American operator and it operates two DC8-73 services a week from LA to Sydney via various ports and back again.

CHAIR—Again they are Australian rights that have been lost.

Mr Studdert—Yes.

CHAIR—They have been leased out, basically.

Mr Studdert—The Pacific between Australia and the US is not a big problem with rights. As I understand it, it is basically free rights. If the carrier is either a US registered or Australian carrier, there is no limitation on the rights.

CHAIR—Is there any experience of that happening up into Asia at all?

Mr Cork—We go as far as Hong Kong, and beyond that there is the particular case of Evergreen. There are no fifth freedom rights out of Hong Kong. Evergreen actually pick up some US rights out of Hong Kong and operate in their own right or on charter to other operators.

We might backtrack a bit and discuss what has been going on with the wet lease and freight operators, and refer to government policy. In the early 1980s, it became apparent that the US identified freight as a lucrative market. At that stage Flying Tigers, who ultimately merged with Fedex, had about 10 jumbo freighters, and Northwest had eight. That was basically the fleet. Pan Am had two which they used spasmodically. If you look at today, there are about 50 from about seven operators, most of whom did not exist in those days; or, if they did, Evergreen, for instance, was a fire bombing and crop dusting company, and now operate about 12 jumbos. They specialise in doing this wet leasing to other airlines, and they are slowly taking over the market in Asia, the reason being that their wage structure and operating structure compared to, say, China Airlines, which is the Taiwanese operator, is dramatically different.

CHAIR—Where they wet lease that aircraft and use the Australian rights, with whose crew and whose aircraft?

Mr Cork—The aircraft is an Evergreen aeroplane—N whatever it is, and then EV, which designates it is owned by Evergreen, there are US crews on board, and they are maintained by US maintenance people.

CHAIR—And they pay Qantas to use the rights?

Mr Cork—No, Qantas charter pays them to come. Qantas hires them on an hourly basis.

CHAIR—Right. It is the other way around.

Mr Cork—Yes, it is the other way around. Evergreen is an interesting situation because they actually had some work flow down from Qantas. As I understand it, and we have discussed this with Peter Frampton, the air freight manager, they used up some of the Qantas slack so that they could keep coming. In fact, I think there is an arrangement where Qantas may book for them. One of the aircraft is now in a slightly different arrangement, but currently Qantas is leasing two per week under that arrangement from New York through to Hong Kong.

Mr TANNER—So what is in it for Qantas—lower wages?

Mr Cork—We have had a running argument with Qantas on this. We actually believe that, if we were given the opportunity to operate it, we could do it for equal cost. Qantas challenged us on that. We started the research on that and then they dropped the challenge. Both Wayne and I are flight engineers. We fly the aeroplanes. We have limited commercial knowledge, but we had some figures that would indicate it was close. I suspect that Qantas does not want to buy a freighter. That is part of the problem. They have a fleet of this size and they do not want to go out and buy a freighter. But that is only a suspicion.

Mr TANNER—They cannot lease them and run their own crews?

Mr Cork—They could. We put that proposal up, exactly.

Mr TANNER—Surely, it is not that difficult to demonstrate the cost structures one way or the other.

Mr Cork—Yes, but nobody is willing to do it. We cannot do it. With regard to the \$13,300 that we have used in our latest submission, to get an accurate figure, we had to wait for Qantas to provide their submission in the 1995 inquiry. We do not know how much fuel costs. Everything is on a customer basis, so we do not know.

Mr TANNER—Is there going to be any differential in fuel costs depending on who is actually flying the plane?

Mr Cork—There can be, but there is a huge—

Mr TANNER—It is like going to the wrong service station or something.

Mr Cork—No, it depends on how you operate the aeroplane. When you talk about a 747-200, it is a bit like talking about a Ford Falcon or a Holden Commodore. Going through the noise limits which the department of transport produce, there are 33 different models of 747-200. There are three different engine combinations. You can have Rolls Royce, Pratt and Whitney or GE engines. Of those, there are umpteen different models. The current Qantas 200 classics, as we call them, have Rolls Royce engines and basically the core is the same core as in a 747-400. Their fuel efficiency is dramatically better than the Pratt and Whitney aircraft we operated five years ago. So there really is a big difference. These freighters tend to be the very early model 200s, or the 100s; predominantly still 100s.

Mr RANDALL—You have been sitting here for a while, and you might have noticed I am pursuing one particular line—that is, it appears that Qantas and Ansett find freight a nuisance. Would you agree with that?

Mr Cork—I think they see it as supplementary to passenger operations.

Mr RANDALL—As a result, they are trying to off-load their commitment to freight. Would you agree with that?

Mr Cork—I suppose that is the conclusion you could draw. As I said in my statement, they used to operate freighter aircraft. As recently as last year we had upper deck freight capacity; now they do not have it. So I would have to draw that conclusion.

Mr RANDALL—Just continuing on that line a little, with regard to the fact that we have heard through this committee that 90 per cent of freight that leaves Australia leaves on passenger airlines, there does not seem to be much justification for dedicated freighters.

Mr Cork—The big problem with freight is that—I do not know whether it has been spelt out clearly; I have not heard it in the last few days—unlike passengers, it does not do a two-way journey. So the problem

is there is a good market, particularly in computer goods, which is what has been coming across. So the market across the Pacific is reasonable because of the kinds of goods that come across. There is not a great demand back to LA, so by sending the aircraft to Hong Kong they then pick up the loop. But a lot of it is marketing—what you are prepared to market. But fifth freedom rights are a major problem, too; there is no doubt about that.

Mr RANDALL—What we are hearing, though, is about all these empty aircraft. Some say eight or 12 leaving empty and it has got to do with freedom rights, et cetera, I know. But then we hear from some of the producers in inland Australia, et cetera, who say they believe they could provide markets to fill these aircraft. We seem to have a little bit of a problem in justifying that.

Mr Cork—No, there is a problem of timing. Part of the problem with the market for aircraft coming in with electronics goods is that it is the DHL problem over again. It is not the same market. Saturday is a big arrival day for electronics goods because they want them delivered by Monday. But Saturday is not a good day to deliver fruit and vegies to the market in Hong Kong because nobody buys on Sundays.

Mr RANDALL—But, on a backloading type of mentality, you would get a lower rate if you wanted to ship out chilled beef, pork bellies or whatever. Couldn't there be some arrangement like that done?

Mr Cork—It is outside our sphere of what goes on. This gets back to what I say—there needs to be a long-term relationship. The whole thing does not make sense to us. I cannot answer your question. I do not know why.

Mr NEVILLE—With regard to the wet chartering of Evergreen aircraft, in that circumstance, are Qantas doing their own surface handling or are they contracting part of that out as well?

Mr Cork—You mean the actual repairing of the aircraft?

Mr NEVILLE—No, the ground handling of the freight itself.

Mr Cork—No, the ground handling is handled through the normal Qantas terminals as if it is a Qantas aeroplane. The aircraft is treated totally as a Qantas aeroplane in the system. Flight planning is done by Qantas. Everything is done by Qantas except for the fact that it is an Evergreen aeroplane, flown by Evergreen crews.

Mr NEVILLE—As much as we might like Australian pilots to be crewing those aircraft, is there anything wrong with that from a commercial angle if Qantas is making a good profit, or is getting the freight around at the right price?

Mr Studdert—Using the Qantas figures of \$13,300 per operating hour, this is a net loss of something like \$105 million a year to Australian industry. This is value being taken away from commodities that we are importing or exporting. If it were done by an Australian crew with an Australian aeroplane, that \$105 million would stay within the country, and in fact add value to the commodities we are exporting. It would also enable an operator—a dedicated freight operator—to hawk his wares in other parts of the world. Being the

Southern Hemisphere, we are out of phase. It is a great advantage to our primary producers that we are out of phase with the Northern Hemisphere. He could hawk his wares in freight capacity to the Northern Hemisphere in that period of time.

Mr NEVILLE—Why wasn't that happening when Qantas did have freighters?

Mr Studdert—I cannot answer for Qantas, except to say that Qantas seems to have the mentality that they are a passenger airline. I think this has been brought forward in this committee over the last couple of days.

Mr TANNER—Is Qantas leasing the whole route or just the first leg?

Mr Cork—Qantas is hiring the aircraft from when it leaves New York to when it gets to Sydney. The arrangement from Sydney to Hong Kong is really hard to fathom; sometimes they talk about a lease and other times they talk about booking freight in for Evergreen and Evergreen operating it in their own right. So, if the aircraft uses a Qantas call sign, it would indicate that it was flying on Qantas rights between Sydney and Hong Kong, otherwise it would use an Evergreen call sign.

Mr TANNER—What about back to the States?

Mr Cork—When it gets to Hong Kong or wherever else it goes, it then picks up Evergreen rights because of the lack of fifth freedom rights out of South-East Asia for Australian carriers.

Mr TANNER—Would that be a reason why Qantas is not interested in taking the whole show?

Mr Cork—It is their excuse. Like Mr James, we have been working on this for seven years, too. We asked seven years ago why fifth freedom rights were not being pursued—at that stage they were not—and basically they were not interested.

The other thing, as has quite rightly been pointed out by one of our presidents when we discussed this, is that there is no reason why Qantas could not then pick up somebody else's rights—maybe US rights—and charter for somebody else. The whole point of a freighter is that it is a truck with wings that makes money and there is really no reason why, if the work is not there, you cannot charter for another country and do the reverse of what is being done by seven or eight aircraft operators in the states that are doing the work now.

Mr TANNER—If your hypothesis is correct, isn't there a prospect of an independent Australian operator bidding with the Air Services Commission for those rights and saying, 'We want these rights because we can do it better than Qantas and we will not be contracting out the crewing and stuff'? Is there a possibility of that?

Mr Cork—Yes.

Mr TANNER—Has anything happened?

Mr Cork—Remembering that all these things have occurred only over the last 18 months—you cannot look at it in isolation. It is a bit like if somebody had been restricted from running a truck between Sydney and Melbourne because TNT had the monopoly for umpteen years and they were suddenly told, ‘You can start now,’ and TNT has got 10,000 trucks. This is the whole problem.

Mr TANNER—You are at a disadvantage.

Mr Cork—You are at a major disadvantage. Polar Air is an interesting one. Polar Air is operating at the bottom end of the market and really cutting into the market. They just seem to be operating at cost plus a minute amount until they take over the market. The big problem with all the American operators is that their cost structure cannot survive. They are operating on 100 series aircraft that were built in 1969-70 and a lot of their crews are the fellows who were out of work from the demise of Eastern and Pan Am. They are all pushing 60. Ultimately, they will have to go into better equipment and their price will go up, but in the meantime they will have totally dominated the market.

So, if an Australian operator wants to come in, they really need a reasonable amount of backing, and probably apart from the two major airlines—Ansett and Qantas—nobody really has got the resources to do it.

Mr ROSS CAMERON—But Evergreen started up as a crop dusting and fire bombing operation.

Mr Cork—Yes.

Mr ROSS CAMERON—It sounds to me like, taking Mr Tanner’s point, you have got an international, very global marketplace out there which consists of a bunch of freedom and tradeable rights.

Mr Cork—Yes.

Mr ROSS CAMERON—You have got some guys with a few aeroplanes who said, ‘We are going to go out into that market’—not just at Qantas, but I presume to anyone who is prepared to pay the rate—‘and we are going to provide a service that will soak up excess capacity basically anywhere in the world.’

Mr Cork—Yes.

Mr ROSS CAMERON—It seems to me that you are saying, ‘We are Australian pilots. We love our country. We like flying aircraft, and we like to see Australians adding value.’ There could be a whole range of power cogent commercial reasons why Evergreen is able to do it at the rates that they can do it, couldn’t there?

Mr Cork—There is—the main one being major government assistance, and we would argue unfair assistance. The first assistance that we are aware of was what was called the civilian reserve air force scheme. That was a scheme in the early seventies where the US government took basically derelict 100 series aircraft sitting in the desert, put a freight door in the side and effectively gave them to these operators at a very low cost. So to start with you have got that unfairness because nobody has given us an aeroplane, so we have to compete with that. That is slowly disappearing as those aircraft get old, but it allowed them to be

established.

The second one was that the US government went out—and anybody who has looked at their negotiations on air rights, and particularly recently freight rights, would know this—and really vigorously negotiated fifth freedom rights and reciprocal rights, so Evergreen for a while was chartering for JAL, Japan Airlines. A lot of that appears to have come out of the fact that the US government basically backed them to the hilt.

Another problem we have—and NASA is trying to address it now—is that, under US government tour of duty laws, if the aircraft is not carrying passengers or freight, in other words a ferry, crew limitations do not come into it. So they can use three-man crews for up to 24 hours, which means they do not get a break for 24 hours. We just cannot compete with that, but we do not believe that is right. NASA is addressing that now in their crew study, but it still has not been resolved. So these operators have been able to get going with a whole raft of government backed schemes that were not available to an Australian operator and, as far as we can see, it is an unfair trading.

Mr ROSS CAMERON—But doesn't that underscore the problem? What it means is that, even if we went out and aggressively sought the freedoms, they are still going to have a cost competitor.

Mr Cork—No, we do not believe that.

Mr ROSS CAMERON—What about if their crews are going 24 hours and ours are—

Mr Cork—Those hours are finishing up. The timing is right. NASA is coming down on it. There have been some incidents involved. There is a big argument between the EEU and NASA in the US right now, because they do not want to have differences in their crewing times. It is quite clear that a number of things are coming into play. The ageing aircraft are going to be a real problem in the next few months. A lot depends on what happens in TWA, and we do not know that. The TWA incident was caused by either a bomb or structural problems. If it comes out as structural, there will be a huge problem with 100 series aircraft.

Mr PETER MORRIS—I think you need to explain what you mean rather than just dismiss it like that.

Mr Cork—In what respect?

Mr PETER MORRIS—You say it is just a structural problem. You are talking about J41 and the section—

Mr Cork—Okay. The 747, if you look front-on, is different to any other aeroplane in existence. Every other aeroplane is circular. On the 747 we have the hump on top, where the crew and the cabin are. It has developed a problem in an area called the section 41. Each section has a number. Section 41 has a major fatigue problem on aircraft. Unlike the normal round aeroplane which expands evenly, because the Jumbo has the extra hump it actually is a problem where the two circular bits meet. It involves fairly major structural repairs, including ripping out the flight engineer station, re-riveting and doing all kinds of things. It is a very

expensive operation. It has not been done on a lot of aircraft and on a lot of them it has.

Where the TWA aircraft split is in the section 41 area. So we do not know what the answer is—nobody does yet—but if it throws up a structural problem it could see the grounding of all the early 100 series freighters, which is about half the world's fleet of freighters. So what I am saying is there is a whole raft of things coming into play now where, if an Australian air freight operator were to go in, we believe we could compete.

Mr McDOUGALL—It is actually that area that I just wanted to ask a couple of questions about, and it was on page 4 of this document you gave us today. You talked about the world air freight fleet as an average age of in excess of 25 years.

Mr Cork—Yes.

Mr McDOUGALL—You have talked about how predominantly the Americans are using 100s and 200s as freighters. We know that Qantas has had a pretty stringent replacement program in relation to passenger aircraft. On a cost basis—and you have introduced the other argument that the US gave some unfair advantage by using some old paddock aircraft and putting them back on the road for freighters—it really begs the question. If Qantas were to go into a pure freighter operation, they would have to make a decision to either buy new aircraft—and there would be a cost disincentive there because of the price they would have to pay for it up-front—buy old aircraft to compete or charter aircraft to be able to compete.

Do you know the answer? What are you recommending to them? You live with this problem. Maybe we will get a strike, a bolt of lightning, we will be put through some failure, and all of a sudden the whole ball game changes and we are back in a different situation. I wonder whether I can have some further comments in relation to that.

The other part I would like to ask about is whether there are any crewing difference requirements between your organisation and what you would require Qantas to do if they were operating their own freighters as opposed to the American crewing differences.

Mr Cork—Can I answer the last question first, and then we will get into the other one. AIPA recognises that you cannot crew a freighter in the same way as we crew a passenger aeroplane, and there is a number of reasons why. One of them is the long transit times: we are talking two to three hours to transit a freighter versus 45 minutes for a passenger aeroplane, mainly because your freight does not walk off.

The other reason is that, in most cases, there are various areas in the aircraft where heavy freight is. So every time you transit you have to unload the whole of a jumbo freighter and reload it. We accept that rather than carrying a four-man crew, which we currently do on long legs, we would seriously look at a three-man crew. That already takes us into the American crewing area. Basically, on a three-hour transit, we would all have a sleep for the first hour of the transit which gives us our in-flight break and meets the ANO regulations on times.

We have used innovative approaches before on other Qantas work—the Hajj pilgrimages we have

done over the last couple of years, the Air Pacific lease we did before that. We recognise that we have to meet worldwide requirements, as long as they are safe.

To answer your first question, as I said earlier, they made 747-200s over a period of probably 10 to 15 years major production. I have heard only recently that Singapore Airlines referred to what we thought were their 200s as 300s. The aircraft we are suggesting that Qantas should use are VHECC and ECB, which are the former combis, which still have the freight door in the side. There is \$5 million of your conversion already done. It is there; it is bolted closed.

They are late model aircraft with Rolls Royce engines, they are basically compatible with the 400 engines, they are the lower time aircraft and they have had the section 41 mods done on them. Also, because they were combis, they have a higher weight. This is part of the problem with the 200. There is something like 20 different weight patterns depending on what you have bought.

Interestingly enough, Cathay Pacific are doing exactly the same thing with their 200s, and Malaysian—even though they have moved away from the classic aircraft—have taken back 200s they had leased to Air New Zealand and have sent them to Boeing to have freight doors put on them. They are operating as freighters as well.

The beauty of the Rolls Royce aircraft is that they meet the full stage 3 noise requirements—which is the noise limits we require in Australia now—without having to reduce pay load, land at reduced flat weights or all the other things. The later model 200 is a good aircraft. The early model 200s are starting to get a bit suspect.

Mr McDOUGALL—Do you know how many Qantas has?

Mr Cork—Qantas has two at this stage. We have another three 200s which could be converted. They are sequential numbers all delivered in 1979-80. They are the last of the 200s before they moved onto the 300s. On top of that, KLM have just sent an aircraft to Boeing which is a 300, which is a stretched upper deck. Boeing has just approved and designed a cargo conversion for 300s which is very new. So they are available. Qantas has six 300s as well. As Qantas purchases more 400s, there are certainly aircraft there to move into that market.

CHAIR—It has gone past 10.30 a.m. If there are no further questions, I propose to break for 15 minutes for morning tea. I thank the witnesses from the Australian and International Pilots Association. Is it the wish of the committee that the document entitled ‘Australian International Pilots Association submission to the House of Representatives Standing Committee on Communication, Transport and Microeconomic Reform 1996 Air freight review inquiry’ be taken as evidence and included in the committee’s records as submission No. 67? There being no objection, it is so ordered. The secretary will provide you with a copy of the evidence given this morning.

[10.53 a.m.]

MACKAY, Mr Norman Farquhar, Managing Director, Skytraders Pty Ltd, Hangar 85, Ross Smith Avenue, Mascot, New South Wales 2088

CHAIR—I welcome the next witness from Skytraders Pty Ltd. Skytraders made a submission to the previous inquiry. Do you have an opening statement that you would like to make this morning?

Mr Mackay—Yes. I think that most of the background to our position on the various issues remains unchanged, as per the submission of whatever number of months ago. There are still probably a few issues which we would like to touch on and maybe emphasise. Accordingly, I might just run through some dot points.

Firstly, I think the minister's statement of 10 June was an excellent move and very much in the right direction. In our submission we emphasised the importance of separating freight from passenger issues in Australia's various bilateral agreements. It has now been adopted as government policy. As the various bilateral agreements now come up for renegotiation, I guess that is exactly what will happen. As it is a bilateral rather than a unilateral process, clearly, it is the case that this will be a process which will take some time. We are not going to see an overnight change.

I think the minister's media statement was a little bullish in the way in which he anticipates a very significant change to the level of charter activity. I am not sure that we forecast that as a result of the actions which he has taken. However, it is undoubtedly a move very much in the right direction.

An issue that still remains to be addressed is that of single designation agreements in bilateral agreements. New Guinea is perhaps the most clear example, where only Qantas or Air Niugini can provide services on a regular basis. So the opportunity to operate scheduled services for other Australian carriers is denied. That is not a result of Australian government policy; it is very much the reverse. It is New Guinea's own. Attempts have been made by our department of transport to renegotiate that aspect. Air Niugini seems to be fairly intransigent in regard to it.

I think that there is probably more that the Australian government can do in order to pressure Air Niugini to remove that clause from the bilateral agreement and thereby provide access, both for Australian exporters to ports beyond Port Moresby and also for Australian express operators to provide a level of frequency and a level of scheduling which suits the market demand. At the moment, obviously with this single designation policy, the only services which can be accessed are those passenger services of Air Niugini and Qantas. In the majority of cases, they do not meet the industry's demand.

In regard to bilaterals, we are of the opinion that the government has moved about as far as it readily can. It accepts the fact that passenger and freight requirements are radically different. One is a uni-directional traffic while the other is a bi-directional traffic. Passengers want to go somewhere and then come back. Freight is not like that. Freight, once it has gone, stays gone. Therefore, we have situations like the one which was discussed by the AIPA where Qantas operate subleased aircraft which fly in a triangulation from the US to Australia then up to Asia, and then from Asia back to the US and so on. That is a commercially viable

business.

The operation of freighter aircraft from the US to Australia and back to the US is not really a commercially viable business, or it is certainly not for 747s. Qantas sublease a couple of small DC8 aircraft which provide service of that type. That adequately meets the demand for Australian exports by air from here to the United States when combined with passenger belly hold capacity.

We are of the opinion that the government should move towards the introduction of incentives to enable Australian exporters located beyond Sydney and Melbourne to gain access to the 1,000 tonnes per week of freighter capacity which departs Australia empty on ferry flights to Asia. We propose a system whereby all pure freight aircraft, once having discharged their inbound cargoes, should be allowed to position empty on any domestic sector for the purpose of uplifting export cargoes. This ferry flight would not incur air navigation or landing fees in addition to those involved in its inbound operation. This would create a level playing field for exporters not fortunate enough to be located close to Sydney or Melbourne airports.

CHAIR—Can I just interrupt you for a second. So what you are suggesting is that, if we had the advent of a freight terminal at Parkes as proposed by the Inland Marketing Corporation, the government should allow an inbound freighter to come into Sydney, unload the freight that it is bringing into Australia, reposition to Parkes, load up and leave. Is that the sort of thing you are proposing?

Mr Mackay—Yes. I think the concept of Parkes is a complete financial folly. It has no commercial merit whatsoever. The issue of selection of airports in Australia is all made as a result of one or two factors: those factors being either the requirements of passenger movement; or, alternatively, the requirements of inbound freight. So we have a situation in which—take again the 747 that was being discussed before the break for morning tea—the 747 comes in from the US, with an average yield of circa \$US3 a kilo, carrying high value electrical goods and the normal sorts of freight that one associates with air cargo.

Once having arrived in Australia, it has then got to deposition to its next port, which, in this instance, is Hong Kong. The only cargoes which we have available to us are, of course, primary produce. That primary produce yields, on average, less than \$A1, so less than US80c. Obviously, in an environment in which you have one paying \$US3 and the other paying US80c, the aircraft is going to operate via the port which suits the \$3 cargo, not the airport that suits the 80c cargo.

Mr WILLIS—Why do you say the only products are primary? We have had rapid growth of manufactured exports—14 per cent per annum over the last decade. It must be going up somehow.

Mr Mackay—But we are not going to export car gear boxes to Europe with General Motors.

Mr WILLIS—Obviously not.

Mr Mackay—No. So you cannot identify any—

Mr WILLIS—One expects diversification and, presumably, some reasonably light weight, high value products would be part of what we manufacture and export.

Mr Mackay—If you look at the statistics, that is not the case.

Mr PETER MORRIS—Kodak are saying that they export 30 containers every day out of Melbourne by air freight.

Mr Mackay—What do they pay for it?

Mr PETER MORRIS—I do not know what they are paying for it. That is commercially confidential. We have tried to find out that information. We would be very grateful if you could tell us what their rates of pay are.

Mr Mackay—They pay about the same as the apples, oranges and pears—not actually apples and oranges, but about the same as the strawberries and the asparagus.

Mr PETER MORRIS—Kodak—high value, low weight, low volume cargo.

Mr Mackay—Kodak is middle range value. I would not exactly call it high value. I mean, it is film.

Mr PETER MORRIS—Nice bit of business—30 containers every day of the week.

Mr Mackay—Absolutely, but it is not traditional air freight on the long haul carriage. It is not of that value. It is the sort of traffic that normally moves by surface transport. However, in an environment such as we have in Australia where there is but limited product available to fill—

Mr PETER MORRIS—The point that Mr Willis makes is the growth in manufacturing. I mean, Kodak is servicing that market in North Asia that previously was not being serviced out of Australia.

Mr Mackay—Absolutely, and I applaud them for doing so. There is no doubt that it is far better that they utilise the air freight capacity which is available and they utilise it at a price which works for them, than that that space is unused. That is my point. We have this enormous resource and 1,000 tonnes a week of space which is not being used. These aircraft are coming in from the US.

Mr PETER MORRIS—What do you say to the commercial principle: if it is not commercially viable why should the taxpayer be stepping in to fund it?

Mr Mackay—He is not stepping in to fund it.

Mr PETER MORRIS—That is what you are asking. You want the taxpayer to fund out of their pockets what is not a sound business.

Mr Mackay—No, that is absolutely not the case. Where is the cost? The cost is simply a marginal cost. We have an air traffic control system which is able to process a certain number of flight applications per day.

Mr PETER MORRIS—Yes, but the cost of air traffic control services in the total cost of an operation is a few per cent. It is not 50 per cent.

Mr Mackay—What I am suggesting is that the service does not incur a charge when de-positioning. The only loss to the Australian government as a result of that is the marginal cost of processing that piece of air traffic control procedure. There is not a direct loss because the aircraft otherwise would not have flown that sector.

So the income to the Australian government is exactly the same as if the aircraft had gone empty from Sydney to Hong Kong, let us say, which is what it would otherwise have done. If this in turn causes it—instead of going empty from Sydney to Hong Kong—to go from Sydney to Brisbane, let us say, then unload cargo in Brisbane and go to Hong Kong there is no loss. There is no taxpayer subsidy involved in that. However, it has enabled the Australian exporter to access some of that 1,000 tonnes of freight space which is currently unused.

Mr WILLIS—What are you saying should be forgone?

Mr Mackay—ANCs, air navigation charges, and landing fees. So, unless the aircraft actually flew this additional sector, these charges would not have been incurred and therefore would not have been available.

Mr WILLIS—The landing fee would go to the airport operator, would it not?

Mr Mackay—To the FAC.

Mr WILLIS—When the airports are sold—

Mr Mackay—When the airports are sold that becomes a slightly different situation, but the air navigation charges are a major part of that cost rather than the landing fee.

CHAIR—Is the cost that critical between encouraging that freighter to do that?

Mr Mackay—It can be. For a long time we operated 707s from Sydney up to Hong Kong. We used to fly Sydney-Hong Kong with a 22-tonne payload, rather than stop in Darwin and pick up the balance of our load of a further 18 tonnes because the costs in Darwin outweighed our available revenue. So it was cheaper for us to go out with 22 tonnes from here rather than stop in Darwin, pick up another 18 and land in Hong Kong with 40 tonnes of export product.

CHAIR—Just because of those charges. That would have made the difference.

Mr Mackay—Yes. There are obviously other charges. There is the additional cost of actually handling and loading the aircraft. Fuel is marginally more expensive when you have to climb and descend and so on. But at the end of the day my point is that there is this enormous wealth of untapped export capacity being wasted. How can the government provide access to that? It is not going to be by way of subsidy, by way of throwing taxpayers money at it, because that does not make any sense. Going to Parkes is

throwing taxpayers' money into a great big black hole that will never come back.

CHAIR—With that spare capacity you are talking about is that? What percentage of that is on dedicated freight?

Mr Mackay—I am only talking about dedicated freighters, absolutely. There are at the moment about 12 dedicated freighters each week that transit in Australia, mostly from the US although some from Europe. That probably pretty much ties it up. Of those aircraft, probably two-thirds are ferrying out empty.

CHAIR—Mr Mackay, can you just give us a quick outline as to where your organisation fits into the freight chain?

Mr Mackay—We have a number of interests. We are aircraft charter brokers. We provide people who wish to charter heavy jets with such aircraft, specifically in the freight arena. We represent a number of all cargo airlines who do not themselves have offices in Australia. We are 50 per cent owners of Premier Airlines, a company which provides aviation services to DHL. We act as aviation consultants. So we cover a fairly broad range of aviation activities.

CHAIR—But you are basically on the transport end of the chain.

Mr Mackay—Absolutely, yes. Everything that we do relates to air freight.

CHAIR—As far as organising the transport rather than actually booking and handling the freight itself, the commodities.

Mr Mackay—We have acted in other roles. Throughout the 1980s we were joint venture partners, as we still are, with Marubini Corporation of Japan and in that role we were the biggest exporter of air freight from Australia. We were operating to Japan with up to three 747s a week in our own right. Aircraft were leased from Federal Express, predominantly. A few were leased from Qantas but they were predominantly from Federal Express. In that role we were ourselves an exporter.

CHAIR—They were Australian rights you were using going into Japan?

Mr Mackay—No, American rights.

CHAIR—Through Australia.

Mr NEVILLE—That was in the 1980s, was it?

Mr Mackay—That was throughout the late 1980s.

CHAIR—You were the largest air cargo operator.

Mr Mackay—The largest shipper of air cargo. We did not operate our own aircraft in that regard; we

used other people's aircraft.

Mr TANNER—I just wanted to follow through on a proposition. Have you thought through what the implications of privatisation of the airports are?

Mr Mackay—A valid point. I guess we still have the issue of when, and there may be some hurdles in regard to whether or not Sydney and Melbourne can be sold together. I do not know where the government process is at in that regard. Clearly, with privatisation, the concept of waiving landing fees would then become a concept of taxpayer subsidy, because the private company would have to be reimbursed for its foregone revenue; so that probably does not work. But the concept of waiving of ANCs does.

I am on the Victorian Air Freight Council which directs itself very similarly in its desire to promote Australian exports and to create the environment most conducive to Australian exports is directed down channels where we are looking to avoid taxpayer subsidy but to create an environment which is conducive to the promotion of exports. The idea of creating new airports does not get to first base. There is a small part here in the preamble that may give a clearer picture of the positions in regard to the issues.

Mr TANNER—How would you see that fitting in with potentially flying a bit of domestic freight in there as well? In other words, you pick up your 40 tonnes in Sydney and 20 tonnes that is bound for Brisbane, you drop that off in Brisbane and pick up another 20 tonnes there.

Mr Mackay—That is fine, but then from a charging standpoint, I had in mind that one would charge for the leg flown and then, on presentation of an aircraft manifest showing that no cargo was carried on that leg, one would get a refund. Immediately you start putting other cargoes on, it is probably impossible to effectively control such a system. Because when do you not give the refund if you are giving the refund when other the cargoes are being carried? It seems essential that it needs to be a clear result of an airline having gone off route in order to access export cargoes—only in that circumstance.

Mr TANNER—You could do something like have a global charge for an aircraft that is coming into the country for landing at any airport. Rather than charging per airport, you could do it on a global basis.

Mr Mackay—That is exactly what I am saying. The result is the same—that you have a level playing field, which enables—

Mr TANNER—It could stop at three.

Mr Mackay—No, you would not stop at three.

Mr TANNER—Why not? Why not do Melbourne-Sydney-Brisbane?

Mr Mackay—The people in South Australia would probably have a fair bit to say about that, would they not? And similarly, Darwin. The Ord River scheme and some of those areas need improved access to air freight capacity up into Asia. It is up there, it is in the sky, it just is not getting down here on the ground.

Mr PETER MORRIS—One submission says:

The problem with perishable exports by air is that exporters are not prepared to pay the price that is necessary to provide the quality of capacity they want at the times they want it.

Is that your observation?

Mr Mackay—I agree with that.

Mr PETER MORRIS—Is that the end of the story? Rather than coming in and foregoing the revenue and giving handouts to try to prop up something that commercially will not stand up anyway?

Mr Mackay—It depends how proactive the government wants to be in getting exports up and running. If one wants to take that attitude then, absolutely, I agree completely. End of story.

Mr PETER MORRIS—It depends how deep Santa Claus's pockets are.

Mr Mackay—Who is Santa Claus? The government?

Mr PETER MORRIS—Whoever is going to make up the deficit.

Mr Mackay—But I am saying there is no deficit because no revenue is foregone. That is my very argument, that the revenue—

Mr PETER MORRIS—You and I should talk later by ourselves.

Mr RANDALL—I know you would like to finish your submission, but while it is current in the conversation—it is nearly not current now, but anyway—you nearly gave Mr Ferguson a coronary over there, that the Inland Marketing Corporation has been saying that Parkes is a dead loss. So can you identify inland or other ports that would be viable places to uplift?

Mr Mackay—No. Pass. There are none.

Mr RANDALL—But you said if a freighter came into Australia—

Mr Mackay—I am looking at that maybe from two issues. Yes, you could maybe make some sense of taking the aircraft to Parkes if the infrastructure were already there, the infrastructure were privately owned and all of these enormously expensive high-loaders and all the rest of the equipment that would be running around the place were being provided at cost to the private organisation who believed that that operation may one day be profitable.

The airport at Parkes is not about to handle a 747. So somebody—Santa Claus over there—is going to have to get his chequebook out and pay for the upgrading of Parkes airport, which would be an enormously expensive operation. I am confining what I am saying to airports that already exist Brisbane, Darwin, Cairns,

Townsville, Adelaide and Perth. None of those airports are currently being serviced by these 747 aircraft.

Mr RANDALL—Okay. I want to take that a little bit further, if you do not mind, and I am glad you mentioned Perth. Could you then extrapolate that into the fact that because there is an airport that is capable, for example, Karratha—

Mr Mackay—Nothing there.

Mr RANDALL—They used to ship out chilled beef from those airports many years ago. You are saying there is nothing there. If you wanted to top up your tonnage, why would you not go there, if you had these costs taken off?

Mr Mackay—Take chilled beef, for example, an area in which we are fairly knowledgeable. To evidence that knowledge, we designed a product called the Skybox which won the Austrade award for the most significant contribution to export packaging of 1990, the Australian Institute of Packaging silver star award et cetera. A specific box designed to provide environmental control for the carriage of chilled beef between Australia and Japan. It is now pretty much the standard unit for the carriage of such cargoes on scheduled services. So we know a lot about chilled beef.

Chilled beef moves just as well on the ground as it does in the air providing you put it in a reefer container. In order to warrant taking an aircraft off track, you have to have a cargo which is so fragile that it suffers in its future value as a result of having been surface transported as opposed to air freighted on that internal leg. So you have to have a situation in which the real cost is less to fly the aeroplane than it is to move it by truck.

We move salmon out of Tasmania up to the mainland by air for on-forwarding to Japan. There are many such circumstances. Another very good example is when the tuna industry in Whyalla recovers from the heavy losses of those storms a few months ago. That product is of sufficient value and suffers sufficiently as a result of extended transit times to warrant flying from Whyalla to its export port, be it Melbourne or be it Sydney.

Beef does not fall into that category. You just get your beef and put it on your reefer truck and send it off to the airport. You cannot take the aeroplane there, even when Santa has written his cheque for the provision of the infrastructure and everything else at Karratha because of the enormous cost in handling it. So even when you have the airport, the cost of the main deck loaders, the tugs, the dollies and everything else that is required to turn around a 747 is horrendous.

CHAIR—Talking about that freight handling chain, what is economical and what is viable and what is not, the other element that seems to have arisen in evidence we received yesterday and today is the problem of getting through the system and onto the aircraft at the major gateways.

Mr Mackay—Absolutely.

CHAIR—Would you expand on that a little bit with regard to cargo terminal operators?

Mr Mackay—Yes. We do believe that an opportunity exists for government to act as a catalyst in the improvement of existing air freight handling infrastructure at major airports. Low freight values, driven by the reluctance of foreign buyers to pay increased CIF prices, has meant that perishable handling facilities at the majority of Australia's international airports are inadequate.

The vital cool chain, which ensures export quality, is often broken by lack of refrigeration facility and the complete absence of fast-track handling. Current coolroom capacity at Sydney airport totals less than 20 aircraft pallets equating to around 70 tonnes of product. With Boeing 747 passenger aircraft each normally laid out in a six pallet freight configuration, there is little space available for in-transit cargoes or delayed shipments.

Normal airline cut-off times are two hours prior to flight departure. Therefore, provision of a safety buffer will normally require produce to leave forwarders' coolroom facilities no less than three hours prior to ETD. Whilst environmental control facilities are readily available once the cargo is loaded on board an aircraft, the concept that a 10-hour air transit to Japan should be preceded by a three-hour period in which product is exposed to Australian summer temperatures is clearly unacceptable.

We believe that government should look at the ways in which it can provide the necessary incentive for cargo terminal operators to construct environmentally secure perishable freight handling systems which offer adequate coolroom resources in tandem with a fast track cargo acceptance function. The latter objective has already been achieved by Qantas in relation to courier and express freight by way of its mail handling unit. It now remains for the same principles to be applied to perishable cargoes by way of the provision of a specialist late lodgement facility for perishable cargoes.

That seems to me like a much better way to deal with the issue if freight is out there and your airport is here. At the moment the enormous inefficiencies, particularly at Sydney, cause cargo to sit around on the airport for too long before it is being shipped. In the case of extremely fragile cargo, there is not much point in flying the bloody stuff from Whyalla to Sydney if it is then going to sit out on the tarmac because there is not enough room in the limited chiller space that is available there. The problem, as I see it at the moment, lies with the FAC and Sydney is the clearest area of difficulty. The FAC has failed to make room available for other cargo terminal operators to commence business.

Mr WILLIS—What is the arrangement with mail that is different from the others?

Mr Mackay—With mail you pay a premium in order to lodge late in order to retrieve early, so instead of the freight coming through the normal cargo shed it comes through what is called the mail handling unit. The mail handling unit, I guess, is a system which produces a very high yield for its operator—Qantas—in return for enhanced service. It is difficult to relate the actual cost incurred in providing that enhanced service with the yield produced as a result. It seems to me that, if one is to find ways in which to improve Australian export activities in the perishable arena—and one must recognise that perishables are what we do most of by air—then that area needs very urgent attention.

Mr PETER MORRIS—That is not correct.

Mr Mackay—What is not correct?

Mr PETER MORRIS—Perishables are not our major air freight, if you look at what the statistics show.

Mr Mackay—In tonnage terms?

Mr PETER MORRIS—In value terms it is \$750 million out of \$14 billion.

Mr Mackay—Yes, in value terms. We are talking about maybe a piece of fine precision engineering that weighs half a kilo and has a value of a million bucks. I think we have to look at it in terms of what we actually produce. I think tonnage terms is probably of much greater interest to the matters being addressed than value terms.

Mr PETER MORRIS—It is less than one-fourteenth in value.

Mr Mackay—Yes, okay. So we then look towards perhaps IBM as being a major manufacturer of higher value—

Mr WILLIS—How practicable is it for perishables to have the same kind of treatment?

Mr Mackay—Absolutely practical.

Mr WILLIS—If they were a large part of the cargo, which you say they are, presumably you have to start loading some time and something has got to go first.

Mr Mackay—Yes, but if one were to have a purpose-styled organisation which sought to address the needs of exporters and shippers, I would suggest that certainly a 60-minute cut-off time would be realistic. One's trucks could come out of the forwarder's facility complete with chiller, get to the airport and load within one hour of aircraft departure, as opposed to the current sort of three-hour close-off times.

Mr WILLIS—If that is practicable, why does that not happen now?

Mr Mackay—You need to ask the existing CTOs that question. I guess it is because the facilities which are available are inadequate to meet existing needs and neither of the existing CTOs recognise this piece of the business as being good healthy profit centres. They generally do not seem to want this piece of the business.

Qantas is pretty much on the record as saying that they do not want to handle additional airlines' freight through their shed. They have reached capacity. I understand the fundamental philosophy to be that it is a non-core activity, a non-profitable activity and, therefore, the provision of such service is in turn deemed to be the provision of a subsidy to their competitors.

CHAIR—For instance, Qantas is predominantly basing its operation on passenger services and it tops

up with underfloor cargo and freight going out of Australia. We understand it is one of the two cargo terminal operators, is that right?

Mr Mackay—Effectively, yes.

CHAIR—If there were some other party running that CTO operation, would the interface between those two areas become messier and more inefficient?

Mr Mackay—No, I think the introduction of a third CTO operator would relieve the pressure on the incumbents and allow them to better service the carriers that they currently have. This would afford the opportunity for somebody else who is a specialist, who does recognise it as being their core business and who does recognise it as having profit potential to provide the service that the market wants. The whole thing would trickle down. It would let those carriers who may wish to shift to enjoy this perhaps superior level of cargo handling to do so. I am sure the thing would rapidly find its own equilibrium.

Mr TANNER—Is there space on the airports for that?

Mr Mackay—It depends on whom you talk to. With regards the FAC, yes, there is at the moment. The general perception is that there are other areas which could perhaps be reclassified and be rendered suitable.

Mr TANNER—In Sydney there would be a problem with space, wouldn't there?

Mr Mackay—I guess it is a question of how much emphasis the FAC puts on the provision of such space. At the end of the day I believe that there would be space available. I understand that it is also the thinking of the FAC that they need to address a reclassification of some areas of the airport before it can be rezoned for building purposes.

Mr McDOUGALL—So you are saying in simplistic terms that Qantas have a shed out there, they run an air freight operation based on how much freight they get on their own planes rather than on all the other potential freighters that they could fill. When you said earlier that they are full to capacity, do you mean that they are full to capacity to service their own planes and are not worrying about the others?

Mr Mackay—They are full to capacity to service their own planes and to service those carriers with whom they have strategic alliance. They do not wish to expand their operations to attract new customers in this area.

Mr McDOUGALL—I go in a slightly different direction. I read from your earlier report that in 1984—and I know it goes back further; obviously, you have done a fair bit of activity in niche marketing—you did some specific work in relation to Jakarta, Singapore, Perth and Brunei.

Mr Mackay—Yes.

Mr McDOUGALL—And then you went on to do quite considerable work in Japan with some live

beef cattle, which to me is extremely interesting. One of the things that concern me greatly in this whole question is that we have got plenty of freighters; they are empty. We have got producers who think they have got a market but really do not know what they are making. They do not know where the market is. They do not know what the tonnage is, or what the demand is over what period of time. Where is the linchpin that is going to pull all this together and who is the linchpin, in your opinion? I think it is out there. I believe it is. To me, the New Zealanders have proved that it is out there.

Mr Mackay—Yes.

Mr McDOUGALL—But we as a nation—government and private enterprise collectively—are wandering around the place trying to work out where to go. Since 1984, and probably well before, we have been doing it spasmodically. How do we bring all that together?

Mr Mackay—A very difficult question to answer. You are certainly right inasmuch as New Zealand has made a much better job of ‘value added’ to its primary produce than we have done. When you travel up into Asia, you see New Zealand cuts of meat, prepackaged, the bar coding on, and ready for the consumer to pick up out of the supermarket shelf. You will not find that—or I am not aware of it, anyway—being produced by Australian suppliers.

I am not aware of a ready, easy fix. Obviously, Austrade and its various offices should be at the forefront in trying to develop trade in this sort of area. We have organisations such as AMLC, who actively promote, in the case of beef, our products overseas. But there is a general misunderstanding by perishable exporters as to what their role is and what the role of an airline ought to be. And the harsh reality of airline operating economics are such that there is a minimum revenue which must be required for the carriage of freight. Otherwise, it is better to take the plane—as everyone does now—empty and not incur the cost of loading and of off-loading at the other end, which can be very expensive. In Japan, for example, off-loading a 747 costs around \$US25,000—just to land and off-load.

The perception by many primary produce exporters is that Qantas has a responsibility to provide export capacity at a rate which makes their product commercially viable in its market overseas. I do not believe that is the case. The thrust of what I have been saying this morning is that, if there is something which the government can move to do, it is to try and create the most friendly environment to the development of exports. There are a number of areas left in which that can be done. I do not think there is a great deal more that goes beyond Sharp’s statement of 10 June in regard to renegotiating bilaterals. I think that is all pretty much in place.

As to tying the thing together, I suppose if I had the answer to all of that I would not be here today. I would be on the Riviera with a pina colada in my hand or something. I would be in Surfers Paradise with a Fourex in my hand!

Mr NEVILLE—You were saying before that you felt it was a responsibility of Qantas to provide that facility. We received in another submission today the comment that the freight rate to the UK has gone from \$3.50 a kilo to \$7. Is that a major impediment to—

Mr Mackay—That is a specialist area you are referring to.

Mr NEVILLE—Yes, but two major players merged and we hear all these arguments, when governments allow such things to happen, about economies of scale and providing a better and more cost effective service. People quite rightly feel cheated then when the cost doubles.

Mr Mackay—The economies of scale seem to have swung in a diametrically opposed direction.

Mr NEVILLE—Is there a need for some type of productivity commission type inquiry into the nature of the air freight cost itself, from your experience over such a wide range of air freight operations?

Mr Mackay—I am aware of the example that you are referring to. Certainly it does appear most unfortunate that the strategic alliance between British Airways and Qantas has resulted in variations of that type. I am not aware of a great number of such variances, but I think that the corporate strategy of Qantas now, maybe since privatisation, is to identify areas that they believe can produce high yields and institute strategies to see whether those yields can in fact be extracted. But in the words of the Empress of China, one cannot both slaughter the cow and milk it. It certainly is the case that it will cause traditional utilisers of services to see whether they can access similar services at a lower cost elsewhere.

Certainly, if one takes Qantas's responsibilities, I am saying on the one hand that Qantas does not have a responsibility to provide freight transport services at less than cost for the carriage of perishable goods. On the other hand, I would have thought that maybe Qantas has a responsibility to not unnecessarily exploit those areas where its past monopoly status has given it advantages not currently enjoyed by others. Those advantages relate to frequency and so on, and obviously the IASC is doing a tremendous job in breaking down traditional monopoly positions and dealing in a fair and proper manner with the distribution of entitlements.

Mr NEVILLE—You lead me very readily to my second question: if government is to subsidise in the way that you suggested earlier the waiving of air navigation charges, in that sort of climate that now exists, a somewhat exploitative climate by some of the airlines, even our own, how can you be sure that that would flow to the operators? What discipline would there be to make sure that the landing of that aircraft in Brisbane from Melbourne or Sydney—

Mr Mackay—He would only benefit from the refund as a result of having positioned in order to pick up an export load. He would not go there for any other reason. If you are sitting in Sydney empty and about to fly to Hong Kong, the only reason you would go to Brisbane, Perth, Darwin or Karratha, for example, would be in order to pick up a load of export cargo. There is no other purpose for doing it. Therefore, it is self-regulating. It only becomes a problem if one then says that in some circumstances you can carry some domestic cargo.

Mr NEVILLE—I take your point.

Mr ROSS CAMERON—My understanding is that, while the outbound freight is growing at about six per cent per annum, inbound freight is growing at 17 per cent per annum. How is that going to affect it over

the next decade?

Mr Mackay—We will probably see our current 1,000 tonnes a week of empty air freight capacity become 1,100 and 1,200 and so it continues. It is certainly the case that additional air freight capacity will for the main part be provided by freighter aircraft because the trend in passenger aircraft is towards a very long range capability. Passengers do not want to stop. They do not want to go via B in order to get from A to C; they just want to go direct. With that demand by the passenger industry one has to carry more fuel. You carry more fuel; you carry less freight. Therefore, supplemental freight capacity would be provided or can be anticipated as being provided by pure freighter aircraft. Therefore, a strategy which captures that freight capacity for export potential seems to bear further merit.

CHAIR—We are going out to the airport to have a look. What should we look for when we go there? Ansett are following you. What is the most pertinent question we should put to Ansett in light of what you have had to say?

Mr Mackay—If you are going out to the airport, I would have a look at the infrastructure, at the volume of freight which is being put through the existing facility, at the lead times and ask how long has that been sitting there: how long do you normally need? In the event that an aircraft breaks down where do you put this highly perishable cargo? Generally see whether in your opinion the facilities there are suitable for the job that needs to be done. Maybe—I can feel the eyes from Ansett coming—one should ask Ansett for clarification of their position in regard to the handling of additional freight through their sheds.

CHAIR—You have been very helpful. Thank you very much.

Mr McDOUGALL—You talked about the agreement with BA and Qantas. On the basis that you said that to land and unload an aircraft in Tokyo was \$25,000, do you see the agreement between Qantas and JAL in relation to the operation between Australia and Japan having any detrimental effect on freighting availability to Japan?

Mr Mackay—Are you suggesting that—

Mr McDOUGALL—I am suggesting it is a nice little sweetheart agreement. Should it be opened up?

Mr Mackay—We are limited under the bilateral as to the number of frequencies that can be operated between Australia and Japan. Japan is a very good example of the requirement for passenger and freight to be separated and for a negotiation of a freight entitlement under the bilateral. It is a seasonal market and during the asparagus season and the salmon season there is not sufficient supply of capacity. We cannot operate the charter services that we wish to operate during that time because the process in Japan is one whereby JCAB requests a telex of non-objection from the incumbent carriers. So if we want to turn around and say, 'We will put a Polar 747 on the Sydney-Tokyo route tomorrow to provide additional lift during the asparagus season,' for example, we make application to JCAB. JCAB go to JAL and to ANA and say, 'Have you any objections?' They will look at their own situation and answer yea or nay.

Also we are required to go to Qantas and ask Qantas whether they have any objections to our

operating this service. Whereas we do get such approvals for the carriage of live cattle—in the past chilled beef—which neither JAL nor Qantas can carry, I have little doubt that if I approach the JCAB and say, ‘I have about 50 tonnes of asparagus, 20 tonnes of salmon and 20 tonnes of cattle; I want to put it all together, put it on a 747 and take it to Japan’ I am going to get fairly short shrift in the reply.

CHAIR—Thank you, Mr Mackay, for your attendance this morning.

[11.47 a.m.]

BUTTSWORTH, Ms Anne, Manager, International and Regulatory Affairs, Ansett Australia, 8 Thesiger Court, Deakin, Australian Capital Territory 2600

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WALLINGA, Ms Genine Louise Vurtheim, Corporate Advocate, Ansett Australia, 501 Swanston Street, Melbourne, Victoria 3001

CHAIR—We have received two submissions to the inquiry—one during the life of the previous parliament and now this one. Would you like to make an opening statement?

Ms Buttsworth—We would like to make a couple of brief opening comments. We have indicated in our submission that Ansett has only fairly recently commenced international operations. We now fly to eight destinations. With the draft determination from the International Air Services Commission that was issued last week we are hoping that we will also be flying to Shanghai by the end of the year.

Freight revenue, as we have indicated, is an important element in the viability of our international operations. We have set out in our submission some of the problems we perceive, most notably the low returns on freight out of Australia and its seasonality.

As you requested in your press release announcing the resumed inquiry, we read the working group's report that was prepared for the former Prime Minister, and we have commented on its recommendations. We see there is value in a lot of the recommendations, including the need for improvements in the entire export chain. This includes identification of the demand in the overseas market, developing a product to export quality, and then marketing and distributing it.

I feel that I am reiterating some of what Mr McDougall was saying earlier, that the fundamental aim is to enhance exports, particularly exports of primary produce. Our concern is that, if the focus is primarily on the air freight segment of the chain, the problem will not be resolved.

CHAIR—Do any other representatives want to make a comment? Members of the committee, any questions?

Mr RANDALL—Can I ask a question to start off, Mr Chair? I will get in early. I am objecting to the fact that Qantas has not bothered to turn up. Mr Chairman, the fact that Qantas is so insolent about its appearance here might be one of the reasons why we have got a problem with air freight. I cannot see anywhere in the previous Prime Minister's report or submissions here where Qantas has made a submission.

CHAIR—Representatives from Qantas were invited to appear to give evidence, Mr Randall, and I think the representative from Qantas was away over these couple of days. There will be a further hearing in Canberra where they will be giving evidence.

Mr RANDALL—Qantas has been somewhat lambasted over these last two days and, as I said, unless somebody can correct me, I think Qantas seems to be reasonably culpable in a number of the problems. But, given the fact that Ansett and Qantas are the two main CTOs from especially Sydney airport where the problem seems to be, you seem to have a fair bit to answer for yourself, don't you, as regards the criticism about handling procedures and possibly the prioritising of freight?

I have said through this line of inquiry that both Qantas and Ansett seem to see freight almost as a nuisance and certainly not very important to the overall operation, and I can understand that from a commercial point of view—passengers are more profitable, easier to shift, et cetera—but what that possibly leads to is that we may have to try and find measures, possibly as a government, to compete with you to get best practice. How do you respond to that?

Mr Serbutt—I would just like to say, from Ansett's point of view, that—and let us focus upon Sydney because that is where our international services depart and arrive—the Ansett cargo terminal at Sydney airport was set up, I guess, 10 or 12 years ago as a venture presumably to make money to provide services to foreign carriers. Ansett certainly did not fly internationally at that time or when we entered into that venture, and capital and resources and people were put into that shed at Sydney airport and it was designed from the ground up. I guess the day that it opened it was a fairly sophisticated and efficient terminal.

Ansett would have bid for foreign carriers' business during that time, and would have won some and would have lost some to Qantas. Of course, in the last two years Ansett commenced its own international operations and is a client of that shed, just as all the other clients that we have in that particular shed are. I am responsible for the revenue that is on the bellies of those Ansett aircraft flying to Asia and, as such, at times can be very critical of our own operation.

But, as I made the comment to the Victorian state government people, handling generally around Australia is a joke. I mean, let us not bullshit about the whole thing: it is a joke around Australia. You look at most of our airports around Australia and then get an aeroplane and go to Hong Kong or to Singapore, or have a look at what Malaysia is doing with its new airport and have a look at what is happening in the Middle East; we have never really taken this seriously. It is no good firing bullets at the airlines, at Qantas or at Ansett; the whole thing around Australia really has never had the focus on it. We build a couple of tin sheds, we put a few roller beds in there, we get a couple of trucks and tractors and think we are in the export business.

We have this criticism of the cool rooms and all this sort of thing. Sure, we do not have adequate cool rooms in Sydney or anywhere else around Australia. But, at the end of the day, it has got to be a return on investment and Ansett now, being an international player, has got to seriously look at what it is going to do in terms of cargo handling, particularly in Sydney. And as we start to introduce aircraft into other ports in Australia, what are we going to do in Melbourne, what are we going to do in Brisbane, what are we going to

do in Perth, et cetera, as time goes on? We are looking at it.

But Ansett does take freight very seriously. If we did not have the freight revenue on our new international venture it would be a marginal business on many occasions. We have to have that freight business; we are focusing on it—very much so. We are quite a player in it. We get enormous support from customers and freight forwarders in Australia on our operations.

Let me just add a few other little things. You talked about the Evergreen aircraft flying to Hong Kong. That aircraft flies out of Australia, and nine times out of 10 it flies empty. Let us turn around and load it up with perishable product which we get a dollar a kilo for. Our friends from the pilots association said that that aircraft costs \$13,000 an hour to run, so it is going to cost \$130,000 to fly it to Hong Kong. We put \$100,000 worth of revenue on it, so we just burn up \$30,000. I think you have got to get through your minds that it is, as Norm has stated on many occasions, a very costly thing to do, and it is just not that easy to turn around and fly that aircraft from Sydney to Hong Kong and say we will put all this fruit and vegies on it at a buck a kilo.

I have been in the business for nearly 20 years; 15 or 16 years of that was as a freight forwarder and the last few years in the airline, so I have seen it from both sides. About the only thing I know that is cheaper today than what it was 20 years ago is a kilo of freight going somewhere. As to the comments about Qantas increasing their prices, really they have only increased prices on their express product, and I guess that is why DHL raised that subject—it affects them more than most because that is their prime business.

Mr PETER MORRIS—That was express guaranteed space freight then?

Mr Serbutt—It is express business; it is not what this inquiry is all about at the end of the day. Let us get down to tintacks. You can fly a kilo of freight to Singapore for less than a dollar today—and maybe 65c. Ten years ago it was 85c.

Mr PETER MORRIS—It is cheaper than your rate from Canberra to Newcastle for a document.

Mr Serbutt—Absolutely. We have got to make a buck somewhere.

Mr RANDALL—Mr Chairman, can I just pursue something? Maybe I have missed the drift; please tell me if I have. If you can get an aircraft that flies back with some freight, isn't that far better than flying back empty? You have just said to me it costs you \$130,000 to get back to Hong Kong. Isn't it better to have it half paid for than not paid for at all?

Mr Serbutt—We are not in the business of flying freighters, but you will see people who are flying freighters on occasions. I guess they work out the mathematics of it and say, 'If we put on 30,000 kilos, that will pay for the gas to get us halfway home, so we are better off taking that than nothing at all.' In terms of handling charges, landing fees, et cetera, as Norman stated before, they might turn around and say, 'We have got to put on added fuel to carry that 30 tonnes.' They would work out the economics of the equation and say, 'No, we are better off to leave the 30 tonnes on the ground.' I am not an expert in costing out freighters, but on the fringes you see that happening quite often, and that is why that aircraft nine times out

of 10 flies to Hong Kong airport. The yield that it will get out of Hong Kong flying back to the United States could be \$3 a kilo.

Mr McDOUGALL—In your submission, there are a couple of comments. You said that at present air freight represents approximately 10 per cent of Ansett's revenue internationally, of which 35 per cent is represented by freight ex Australia. You have made the extra point that it is particularly important for Hong Kong and Japan. I can understand that because they are your new routes.

On the next page you highlight this. For the year ending June 1996, your international total cargo tonnes were split 55 per cent export and 45 per cent import. Yet, while you carried more export freight, you earned only 35 per cent of your revenue from the export freight, which backs up what you were saying a moment ago in relation to whether you take it or whether you do not. As only 10 per cent of your revenue of freight is international, how does that equate to profit?

Mr Serbutt—It is a significant amount of money; it is 10 per cent of what. We are new guys on the block. We are growing our business. At the moment, it represents 10 per cent of our revenue. There are airlines in the world which could probably state that their cargo component represents 35 per cent of their overall revenue, and some are even higher than that. Many airlines are hiving off their cargo divisions to make them dedicated profit centres with their own boards, general managers, et cetera.

We can see that 10 per cent increasing year on year. We hope that it will very soon become 20 per cent and, therefore, an even more significant contribution to the profits of Ansett International. But even now 10 per cent is a very important contribution to—

Mr McDOUGALL—To your revenue.

Mr Serbutt—Absolutely. To the bottom line, too. If it were not there, the international operation as a whole would be extremely marginal.

Mr McDOUGALL—So we derive from that that there is a real incentive for you to go into the freight business.

Mr Serbutt—Absolutely, which is contrary to some of the comments that were passed before.

Mr WILLIS—If that is so, why is it a joke?

Mr Serbutt—It is a joke that I just get so frustrated. I have lived in Asia and I have lived in the States. To me price is not a factor in terms of improving the net worth of the perishable exports going out of this country. The price of getting a kilo from Australia—and I can only talk on the Asian markets—is not a factor. It is our marketing at the other end, our control of the distribution, or lack of control, at the other end and the way we put our stuff together. We have talked about New Zealand and you look at Israel, which is another country that is very clever and very good at what it does in terms of its perishable exports.

When I see state governments having little trade shows in Asia, it looks like the Country Women's

Association half the time. There is a stand out there with a pile of jams on it, and we have to sell these jams to Asia. Are we really fair dinkum about what we are trying to do? I just think we are missing the whole picture; we really are.

We have a great country with good soil and a good climate and we grow good things. We are very bad at trying to sell that to other people. I do not believe that the air freight part of it, or the airlines, are a major problem in why we are not doing better. We can improve things on airports, we can build better facilities, we can build better coolrooms and hopefully then ask for a few extra cents per kilo to move the product and the thing will be much better than it is today.

Mr Daff—We make a point in our submission about the New Zealanders and the fact that the freight rates ex-New Zealand are quite substantially higher than they are ex-Australia. They manage to do all that which we cannot.

Mr NEVILLE—In your letter of 28 September 1995, you said that our freight rates are approximately 150 per cent below the rates out of Auckland. What is the reason for that?

Mr Serbutt—I don't know. Basically, it just tends to reinforce what I have said—that the product that is coming out of New Zealand, as Norman said, is packaged properly and does have a bar code on it. They do have better facilities at their airports than we do in Australia. Therefore, the quality of the product is more likely to be maintained that it is currently in Australia and they sell it better. They can demand a far better price for it. Therefore, they can afford to pay a better price on the aeroplane and they do. They have been doing it for 10 or 15 years. It is not like something that has just happened. They have not just woken up about this.

Mr NEVILLE—Looking at the other end of the spectrum, what is your comment on the suggestion made that there should be a waiving of air navigation charges for drop-ins?

Mr Serbutt—I do not think that is going to turn around and all of a sudden double the amount of perishable exports out of this country. It is a factor. Perhaps in running charter freighter operations it would come into play, as Norman stated, but in terms of the normal commercial operators nine times out of 10 we are going to be passenger driven on where our aircraft are going to go. To me it is not a major issue.

Mr ROSS CAMERON—Picking up on Mr Willis's question, I have to say I found your opening statement a bit internally inconsistent. In your words, what we have in Sydney and around Australia in terms of the whole ethic in terminal handling and the infrastructure is a joke. On the other hand, you say it is no good shooting bullets at the airlines because the problem is out there somewhere—in the Country Women's Association, or whatever it is. As we have sat here, a lot of people have been firing bullets very directly at Qantas and Ansett. I think that has happened because you are the two key players determining that critical point of access in what is, we all recognise, a much bigger chain.

There is a powerful argument being lodged that, even though you are saying now that in these new markets you are moving into freight as a key component of the business, there is a feeling everywhere that passengers are the sexy part of the business and that freight is the add-on bit that you have to do because you

want to fill the aircraft. There are only two of you in the market anyway. Historically, there has not been a perception culturally within the organisation that says that this is a critical part of our business and delivering best product at lowest cost is important to us. My question is: where do you say the culture is inside the organisation in relation to the importance of freight and how do you respond to the idea that the markets should be fairly quickly opened up to allow specialist freight CTOs to operate?

Mr Serbutt—I think Ansett has had to become far more focused since it started to fly internationally. As I said, all of a sudden it is a customer of its own subsidiary company. We as a customer demand high standards. We do not want our clients waiting in a truck line for five hours to put freight on our aeroplane. We want those sorts of situations to improve. So we have to look at it in a totally different light today from what we did, say, pre-two years ago when the business was purely servicing foreign carriers coming into this country, either making money out of the venture or losing it. I can tell you now that for most of the 10 years it probably lost a lot of money. So Ansett has a decision to make now that it has to support its new international cargo product through either its own facilities, who may act for itself and other client carriers or in the future may act only for itself.

Mr ROSS CAMERON—It seems to me that what has happened is that over the last 10 years you have had a loss making aspect of the enterprise, which would not have been a problem necessarily if it just affected Ansett. But because everybody else, the other 56 carriers, are all reliant on that aspect of the business, they are in a sense all paying a price because of the inevitable feeling within Ansett that this is a badly performing part of the business and is not one that we really want to invest a lot of resources in or commitment to.

Mr Serbutt—Maybe those foreign carriers never pay a reasonable amount of money for Ansett to perform the services in the first place. I think it is something that was never looked at enough and I guess, now flying internationally and being exposed to the costs of having our aircraft and our cargo handled in other cities around Asia compared to those same national carriers, some of whom may happen to be clients of ours in Australia, there are huge differences.

Mr ROSS CAMERON—So what about the competitive question?

Mr Serbutt—Between CTOs in Australia?

Mr ROSS CAMERON—Yes, should there be more CTOs, for example, off-airport if necessary or on-airport?

Mr Serbutt—On Sydney airport it is extremely difficult; and the comment was passed before that there is not much room on Sydney airport. We are seriously looking at that now. The FAC has proposed something to Ansett. The FAC has told Ansett that its leases will expire in less than two years, so we have to start to decide very quickly where we are going to start pouring concrete; and there are not too many options.

Mr ROSS CAMERON—What about off-airport?

Mr Serbutt—Again, you see it in other parts of the world, but it gets a little bit back to what Norm

was saying about that critical time factor. We all know what Sydney airport is and, once you move off that airport in terms of trucks arriving to an off-airport facility, okay, they can arrive to an on-airport facility or an off-airport facility, but then there is that function of moving that cargo, at probably a lower speed, to get it onto the airport through some entrance way and then through the airport, tarmac side, to a waiting aircraft. So you may all of a sudden find out that, although the time taken now is three hours, it may be 3½ hours. It may work against you.

Mr ROSS CAMERON—If they could do it in say 2½ hours, if somebody else is willing to take the risk and invest the money—I am not so much talking about logistics but the principle of competition in this part of the business?

Ms Buttworth—If I could add two further comments to that. Mr Serbutt in his opening remarks did talk about the need to get some return on infrastructure and that, if the returns are not there, people are not going to invest in high standard infrastructure. Mr Edwards yesterday made comments about off-airport or competition in the cargo terminal area. He clearly was talking about high value products and, as I understood it, his proposition to you was based on the fact that there would be returns from investing in this quality infrastructure. So I would not think that he is looking at exporting lettuces. He is looking at the value added that is coming through Auckland, and he mentioned that in his talk. I think that is what we are all saying. It is a problem.

Mr WILLIS—Whatever it is he is looking at, is it a problem for Ansett to have an off-airport cargo terminal operator?

Mr Serbutt—On that particular point, if Qantas remained on-airport and Ansett was forced off-airport, and we felt that was a commercial disadvantage to us, then we would certainly not want to be in that position.

Ms Wallinga—We would be in the situation that we would just compete. I do not think we have any moral position on competitors. The market is a free, deregulated market.

Mr WILLIS—But at the moment those people cannot compete with you. They are not allowed to because there are no off-site operators and obviously there are only one or two others who are on the airport.

Ms Buttworth—But to be fair to us, we are not going to bend over backwards to resolve that situation.

Mr WILLIS—What we are asking is if you have any objection to others coming into the game.

Ms Buttworth—I was simply saying that, of course, anyone does not welcome a competitor, but if there is competition introduced, we would still be involved in that business.

Mr Serbutt—If somebody wants to go to downtown Botany and invest \$20 million on a cargo handling facility, fine. That is part of doing business. In Taiwan, for instance, you have an old government warehouse sitting there that has handled most of the freight out of a country that just exports like nothing on

earth.

Mr PETER MORRIS—To take it one step further, Ansett, and TAA before that, has directly fiercely competed with Qantas and Australian Airlines for the ground handling rights contracts for all of the foreign operators coming in. The cream is the actual ground handling of the passengers and their luggage, and the freight is another segment of it. We are talking about ground handling; we are talking about both of those services.

We have not raised it previously, but I assume that, in the contribution which has been made to date, you are able to clearly allocate those revenues and those expenditures that relate solely to the handling of air freight, as distinct from the other ground handling. If you are doing ground handling for JAL, if you have got a different rate for the ground handling of JAL's air freight, in the same aircraft, and a different rate for the ground handling of their passengers' luggage and the passengers, how do you allocate that and differentiate that? This is the conundrum, isn't it?

Mr Serbutt—I am not an expert on that, and I see it from the reverse side when we go into another country in Asia and negotiate similar sorts of contracts. At the end of the day, you are normally hit with a price, and it is going to cost you this much for passenger cargo, ramp, et cetera, and a thousand US dollars to turn around your aeroplane.

Mr Daff—It is not the sort of thing you can split up. You cannot have one operator loading luggage and one doing cargo. Because of the way the aircraft is, you have to do all the filing and all the paperwork. It is very hard to have two people doing separate things. You need almost the one operator.

Mr PETER MORRIS—You are ground handling for ANA, aren't you?

Mr Serbutt—Yes.

Mr PETER MORRIS—So when you competed with Qantas for the rights to do the ground handling for ANA, you put it altogether and you come up with a number. What we are looking at here now, as you have heard from all the other contributions, is just the freight segment of that figure. You can see that there is a great deal of grey area. People are starting to be asked, 'Did you pay too much?' They are being exploited, they are being manipulated. But the reality is that there is no clear, precise figure on what portion of the charges you are collecting is applicable to freight and what portion is applicable to ground handling of passengers and their luggage.

Mr Serbutt—And again we may have a cross-utilisation of labour there, which is to our benefit. A certain person could be handling baggage on a particular morning, and then that afternoon he could be doing work in the cargo shed. And that is an advantage to us.

Mr WILLIS—Can I ask you a question which was made the element of a joke. You describe the current operations as having a lack of cooler capacity, compared, for instance, with New Zealand. You are partly responsible for that, as one of the major operators.

Mr Serbutt—True.

Mr WILLIS—Presumably that is because you do not see it as a profitable investment to put more money into greater cooler capacity. What are you saying to us is required for you to make that additional investment? I take it to be your position from what you said that it would only be worth while if there was more high value product to be put into those things. You would not do it for lettuces, but you might do it for bar-coded lamb chops or something that is more high value than a basic perishable.

Mr Serbutt—We might do it for lettuces if the lettuce which currently might go for 90c all of a sudden went for \$1.10. It does not necessarily have to work the way you stated. In terms of the Sydney facility, there is virtually no room. This is the whole point. There is no room in that facility to build additional coolroom space. Our business has outgrown that facility and there is no room to expand that facility. We are certainly not going to invest money in that facility when the FAC is saying, ‘You have to be out of there in two years.’ We now have to look elsewhere.

Mr TANNER—Would you build it at Sydney West?

Mr Serbutt—It has been offered to us, but it has been offered as a shared facility.

Mr TANNER—Is it costed as a common user or a shared?

Mr Serbutt—Shared.

Mr McDOUGALL—In your submission you listed your internal freighters. Bearing in mind that we have talked over the last couple of days about the possibility of some internal freighters being used to collect and deliver to a hub point to put on to the 747s to get it away, I note in your submission that you have one 727 which on my calculations represents 42 per cent of your freight capacity of dedicated internal freighters. In light of the fact that that 727 is a bit of a problem in relation to noise around this country, what are you doing in relation to future dedicated freight capacity, which may help to create this hub system?

Mr Serbutt—I can only comment from the fringe on this particular one.

Ms Buttsworth—Perhaps we could take that on notice.

Mr Serbutt—We could take that on notice but, as you know, that aircraft is predominantly based in Perth. It does a Perth-Melbourne-Perth run. That is the only part of Australia that aircraft tends to operate in. It operates in the middle of the night and it never really operates during the day. We could certainly find out what the intentions of Ansett Air Freight, our domestic division that controls that aircraft, are in terms of replacing that aircraft, if that is what they intend to do, and if so with what.

Mr McDOUGALL—I think it would be helpful to know that on the basis of what we have talked about in respect of hubbing.

Mr Serbutt—I just might add though that in the movement of perishables from, say, Western

Australia, or if you have a need for a freighter in the eastern part of Australia, it is never economically viable to turn around and fly that aircraft from Perth to Melbourne or down to Hobart to pick up some salmon or whatever and bring the salmon back up to Melbourne or from Hobart up to Sydney because the product will not handle the repositioning costs of that aircraft, which is a problem that we face in this country.

Mr NEVILLE—If, as you say, that freight handling in Australia is a joke—that we could be exporting better and that there is no ability to expand horizontally, be that on or off the airport, or it is not practical off the airport—it would seem to me the only way we are ever going to get more efficient and become more serious operators in the business is by some form of vertical integration and better equipment, better handling practice and all that. Is there a case for government, perhaps with a sunset clause on this, to get involved by way of tax concession or by way of some sort of kick-start arrangement to position Australia better so it could be a more effective competitor?

Mr Serbutt—I would like to think so. When I look at some of these new airports going up around the world, it is certainly not all private enterprise money.

Mr NEVILLE—No.

Mr Serbutt—Seeing some of these state-of-the-art facilities, these countries are so export driven. These are the countries with the 747, DC10 and MD-11 freighters going absolutely flat-chat. They are willing to spend these huge amounts of money on these new airports and create those sorts of facilities at the end of the day for the benefit of their own country. So I tend to agree with you. Yes, some thought should or could be done on that respect.

Mr ROSS CAMERON—I take the points made. I do not think anyone expects Ansett to make investments because they are in the national interest or something. You have indicated that you are at maximum capacity at Sydney airport and that your customers are not prepared to pay high amounts of money for the service at the moment, or sufficient amounts to make it profitable for you. Presumably, on your planning analysis of that market, there is not a business to be run off-airport. It certainly is not something you have ever explored as an organisation.

Mr Serbutt—Again, we are probably being very much focused on Sydney. It is not to say that in some of the other capital cities around Australia, and the way the airports are physically positioned, an off-airport facility in Perth or Adelaide—you have an awful lot of room down there at Tullamarine, but you have also a lot of room on-airport at Tullamarine, so you may not be considering it there—may not work extremely efficiently and well. When you say off-airport, again it depends on how far off-airport. I mean, we know of some land and some proposals to do something off-airport but very close to the airport in Sydney.

Mr PETER MORRIS—Mr James's proposal.

Mr Serbutt—Yes. I was not here for that the other day.

Mr ROSS CAMERON—My question is: however close, far, near or whatever, you have said that you are at maximum capacity on-airport. You have got the duopoly situation. Presumably, your analysis must

be, as a commercial matter, that a proposal to establish site off-airport is not good business. Why haven't you, for example, explored it as an option? Do you just not believe you could deliver it in a sufficiently attractive way to the market to make it worth doing?

Mr Serbutt—To be totally honest, I do not think we would have researched an off-airport facility in enough detail to give you a valid answer on that. Traditionally, being an airline, we are always looking at an on-airport facility. If that means the current one can no longer remain as it is, then we have to look at another facility, preferably on-airport, to do all the other things that we need to do on-airport as part of being an international and national carrier for this country. We would first choose to be on-airport. If our second choice is off-airport, then we would have to have a look at it.

Mr PETER MORRIS—Mr Serbutt, your company was in pure freighter operations with 707s. You have got it from both directions: you were in the business and now you are on the other side. Have you got any information with you on that, on the background to that and on why you pulled out of that? Am I asking too much for you to give us a note on that?

You are the only one in this position. You were providing that kind of dedicated service and you pulled out. You have experienced doing that. I know there was a seasonality factor and I know you lost a lot of money in it, but now you have all other claims made of you. If you have any information on that, it would be useful. I do not want to hold up proceedings now.

Mr Serbutt—You have answered the question really. The venture was never viable and we lost too much money.

Mr PETER MORRIS—That was just a generalisation on my part. Far be it from me to accept that.

Mr Serbutt—It is going back a long time. Certainly I was not—

Mr PETER MORRIS—The factors appear to be the same. I think it would be useful to the committee and this whole inquiry because the same expectation is coming from the same part of Australia.

Mr Serbutt—We can try to extract some information on that.

CHAIR—Could you take that on notice and give us some information on that situation?

Mr Serbutt—Certainly.

CHAIR—Mr Morris is quite correct in that it would be helpful on some of the broader issues that we have been covering in this inquiry. We are running a little bit late. We are going for an inspection at the airport this afternoon. There being no further questions from the committee, I would like to thank the witnesses from Ansett Australia Ltd. The answers to those couple of issues that were taken on notice can be provided to the secretariat. The secretariat will also send you a proof copy of your evidence as soon as it is available.

Mr RANDALL—Before we finish, can I request that Qantas appear before the inquiry and that that be done as soon as possible because I do not believe the inquiry is going to be anywhere near complete or satisfactory until Qantas do appear before the inquiry.

CHAIR—Qantas did make a late submission and Qantas will be appearing to give evidence.

Mr RANDALL—Where?

CHAIR—Canberra.

Mr PETER MORRIS—Let me say to the committee I do not agree with you that Qantas are culpable. In the absence of their submission, which I have not seen, or of their presence, one cannot ascribe that kind of behaviour.

CHAIR—No. There was a late submission and there was a submission to the previous inquiry. The opportunity will be there to question representatives from Qantas. I thank everybody for their attendance over the last couple of days for the public hearing.

Resolved (on motion by Mr Peter Morris):

That this committee authorises publication of the proof transcript of the evidence given before it at public hearing this day, and at public hearing on Wednesday, 7 August 1996.

Committee adjourned at 12.30 p.m.