



**TRANSCRIPT  
OF PROCEEDINGS**

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**PRODUCTIVITY COMMISSION**

**INQUIRY INTO INTERNATIONAL AIR SERVICES**

**PROF R.H. SNAPE, Presiding Commissioner  
MRS H. OWENS, Commissioner**

**TRANSCRIPT OF PROCEEDINGS**

**AT MELBOURNE ON WEDNESDAY, 29 JULY 1998, AT 9.05 AM**

**Continued from 28/7/98**

**PROF SNAPE:** Welcome to this continuation of the public hearings of the Productivity Commission's draft report on international air services. You would all be aware that the inquiry started as an Industry Commission inquiry but since then the Industry Commission has been absorbed into the new Productivity Commission. The implications of this change, of which I don't think there are any which should cause any concern to participants, are set out in chapter 1 of the draft report. As you know, the hearings are recorded for a transcript and we ask that, if participants are unsure of any facts which they provide during the hearings, they would get in touch with a member of staff after the hearings to provide an accurate version. Transcripts will be provided from the relevant participants, and if participants would like transcripts of the hearings that involve other participants then they should get in touch with staff. I now ask representatives of Ansett International to identify themselves for the record.

**MR WALLACE:** Craig Wallace. I'm the general manager of Ansett International.

**MS BUTTSWORTH:** Anne Buttsworth. I'm manager of regulatory and international affairs.

**MR KIMPTON:** James Kimpton, manager aviation policy in Ansett Australia.

**PROF SNAPE:** Thank you very much, and thank you very much for the submission which you made and the comment on the draft report. Craig, I'd ask you or your colleagues whether you'd like to speak to it.

**MR WALLACE:** Thank you, if I could. Thank you for the opportunity to appear before you today. We've certainly read with interest the commission's reports. I should say from the outset that we support a large number of the recommendations made in the report. There are, however, some issues and difficulties that we would like to specifically make mention of. Ansett's comments are primarily based on our experience as a very new international airline in Australian terms and certainly very new in terms of obviously our major competitors. As you would be aware, multiple designation was introduced in 1992 by the Australian government, essentially to provide a more competitive international aviation industry, and Ansett International has been the only airline that has taken up this challenge since then in any significant way.

As we've indicated to you previously, establishing an international presence has not been easy, and particularly with the current economic conditions, which make it even more difficult. Having only just under 4 and a half per cent of the international passenger market, we don't have the flexibility as our major competitor does to shift resources to more profitable routes, given that our major competitor has in the order of 40 per cent of the international market into and out of Australia. As you'd be aware, Ansett has a major business recovery program in place to return the airline to sustained profitability and, as mentioned, every aspect of the airline's operations is being examined at the present time as part of this program.

Our alliance with Air New Zealand and Singapore Airlines has just been approved by the ACCC and is absolutely critical to our business recovery and will shape the way in which we operate in the future. It's interesting to note that, in its final determination, the ACCC said that there was a substantial public benefit for Ansett International continuing operations and that the alliance will assist in achieving this. Government aviation policy is obviously another key factor and the outcomes of this inquiry are also of considerable importance to us.

I would like to address a few of the recommendations which from our perspective are central to an effective international aviation framework for Australia. Firstly, under the heading of further liberalisation of international air services, as the commission has noted, international aviation is governed by a complex set of bilateral agreements which have been developed over many years. The agreements reflect differences both in national interests and in Australia's relationships with bilateral partners. Some bilaterals are of great importance in terms of Australia's commercial interests, while others are not so important. In recent times the bilateral system has become increasingly more liberal. It is in Australia's interests obviously for this to continue. However, it will be quite some years before an open international aviation regime has been attained, and during this period of transition it is important that we achieve the best possible outcomes for Australia. This includes the continuing development of strong Australian tourism and aviation industries.

Ansett strongly supports liberalisation but does not consider that a single approach to all bilaterals will achieve the best outcomes. In this regard we are very pleased that the commission has rejected a unilateral open skies approach. We believe the process of liberalisation needs to be managed on a case-by-case basis, a country-by-country basis, and this enables a balanced and equitable package to be achieved for both sides. Such an approach can accommodate the interests of relatively conservative countries but still achieve a useful outcome. It can take into account the different impacts that agreements with third countries can have on the use of rights agreed between bilateral partners. The sequence with which liberalisation is achieved can be managed to minimise any disadvantages to Australia from restrictions imposed by third countries. Although Ansett supports multilateral approaches to liberalisation, we consider that progress is more likely to be achieved through the bilateral system, at least in the short to medium term.

In the area of regional reform package, Ansett supports moves to enhance services to regional Australia and supports most of the elements of the commission's proposed package. As we indicated in our letter to you, much of the package is already offered by Australia in air service talks. As a matter of principle we feel strongly, however, that the package should not be offered on a unilateral basis without considering whether the proposals from our bilateral partner are in any way reasonable. As an airline which has suffered commercially from the restrictive policies of other countries, as we've spoken about previously, we think Australia should use any leverage it can to achieve an outcome which maximises the benefits for Australia.

Finally I would like to make comment on cabotage. At this stage cabotage is a right which is most unlikely to be granted by our bilateral partners. You are aware of our concerns relating to cherry picking and unfair price competition if foreign carriers are granted unfettered access to the Australian domestic market. Particularly at the current time, where carriers are facing little or no growth and declining yields, this has the potential to create enormous instability in the domestic market. We strongly believe that Australia needs to follow international developments very closely and ensure that we maintain the best possible outcomes for Australia from an increasingly liberal local market.

**PROF SNAPE:** Thank you very much, Craig. Do your colleagues wish to add at this stage? Thank you very much. It's a very helpful submission and we're pleased of course that you are generally on side with the way that we are going, or shall I put it the other way round, that we're pleased that we are recommending things which do not cause too much alarm in general. As you say that you endorse the progressive liberalisation and so on, I'm just wondering how much that really does differ from what we have recommended in our principal recommendation, which you might say is in 8.2 and 8.3. The 8.2 is the package which we've called "Negotiate bilateral open skies agreements with like-minded countries". It's on page XL actually in the draft report. The core package included unlimited third, fourth, fifth freedom traffic and code shares, no route restrictions, removal of ownership restrictions for airline designation, including the regional package as well, no price regulation, restrictions on subsidies and then negotiable rights on seventh freedom and cabotage, which would be individually negotiated and wouldn't be across the board at all

We also mention that sequencing would be very important, and that which countries this was put to first, a sequence occurring. So one gets the best outcome possible. We also said in the next recommendation that countries for which these bilateral open skies agreements can't be negotiated can go as far down that track as possible in that negotiation. With those qualifications on the sequencing and also if it's not possible then you get as much as you can, I wonder how really different it is from what you're suggesting. We do see this, and perhaps we could have emphasised it more, as a continuation and extension of the liberalisation that has been going on in recent years. So it's not a whole new game but rather an extension, a continuation of it, opening it up more, saying, "This is what Australia wants. What are you prepared to negotiate?" So is it very different from what you're endorsing?

**MR WALLACE:** I guess as an observation firstly, as I've mentioned, we clearly believe that the current process in place with the bilaterals achieves what Australia wants, if you like, in terms of the benefits to be achieved there. Our major concern really lies with the concept of a blanket approach to open skies and that it need to be looked at on a country-by-country basis. You would be aware obviously that it really does depend on which country you're talking to at the time in terms of what the impact of open skies means. If you look at it from the point of view of some of the countries, for example, such as the USA, where they have enormous domestic markets upon which they have built themselves very strong businesses, they can then

aggressively move into the international arena. For them open skies with Australia would offer a lot of benefits. What does it offer for Australia in return?

I guess the second component of countries that would cause concern is the likes of small countries, frankly, very small if any domestic networks, but are geographically well placed and the benefit for them in terms of having open skies with Australia is not in terms of building the market between Australia and that country but obviously the beyonds and that would place them in a significantly different position to ourselves. The concern that we would have is that, if you go to a blanket open skies approach on that basis, what points of leverage does Australia have in terms of achieving what it wants to? That would in itself present some challenges as well.

**PROF SNAPE:** Yes, I guess that's why in a sense we haven't gone for the unilateral open skies but very much a bilateral. You could call this a template, I suppose, that Australia makes it clear that this is what it would like to have; this is its preferred outcome.

**MR WALLACE:** I guess it depends on which way you're looking at it. From our point of view, rather than starting with a template of open skies and working back, our preference would be to be starting with "what are the benefits for Australia?" and working it up from there rather than the other way round.

**PROF SNAPE:** I'm not sure operationally it might not differ very much, but I take the different emphasis that you're giving to it.

**MRS OWENS:** Can I ask, why do you think New Zealand has adopted the policy that they have, which is the open skies template and then work from there? They are fairly discriminating still. I mean, they are doing it on a bilateral basis.

**MR WALLACE:** I frankly could only hazard a guess at that. That question would need to be put to New Zealand. As I mentioned, given Australia's size and position there are some points of leverage that Australia would have. My guess would be that New Zealand doesn't even have those points of leverage to the same significance, for example. As I say, that's a question that would really need to be put to New Zealand.

**PROF SNAPE:** One of the reasons that we went for what's in the regional package is that we thought the components of that, if they were to be of benefit to Australia - that there probably wasn't a great deal of negotiating clout attached to the things in it, "So if there isn't much negotiating clout and there's going to be a benefit, let's go ahead." But I think you're probably saying a little bit more, "Don't give anything away even if it's only worth 5 cents, unless you're going to get something in return for it."

**MR WALLACE:** I think that's the logical place to start negotiations from.

**MS BUTTSWORTH:** I think probably we don't think that it should be tit for tat, but on the regional package there are some important benefits that we're offering other countries, and I think that before we say, "Here's a free gift to you," we ought

to at least listen to what they're going to say. For example, we have had enormous difficulty in getting what we want out of Hong Kong, and I think that Ansett would have considerable objection to saying in our negotiations with Hong Kong, "Look, here's a whole lot of benefits you can have and we don't mind what you give us." We mind intensely. We really want more capacity out of Hong Kong, and I don't think Ansett would see the point of giving them anything unless we got more capacity.

**MRS OWENS:** But what about the regions? What happens if there are benefits to the regions?

**MS BUTTSWORTH:** Presumably more capacity wouldn't come with it, so why would Cathay decide to fly to the regions if it's not already doing so?

**MRS OWENS:** So it's not really a problem one way or the other: let them decide but at least give the regions some opportunity to try and compete for those airlines to come to them.

**MS BUTTSWORTH:** I'm not sure exactly at what points though Cathay has. They may well have those points in any case.

**MR WALLACE:** And the issue whether they fly there or not will obviously be based on the financials of it. But, again, does that not come back to a point of leverage that Australia has to achieve what it needs to get itself to a position where it's financial viable. Certainly in the case of Ansett International, to use the Hong Kong example, there's things that we are desperately keen to obtain to get ourselves to financial viability. On a route like Hong Kong, we need to look at any points of leverage we can to achieve that in return for Hong Kong carriers wanting something they can use in Australia.

**PROF SNAPE:** I guess that brings it to what I was going to ask. As one looks through the regional reform package and the four points that we have under it were the removal of restrictions on the city designation of secondary gateways and we define the secondary gateways as all airports except Sydney, Melbourne, Brisbane and Perth - mind you we've had several submissions saying that we should change that definition to all ports except Sydney - and secondly, that there should be unrestricted rights for foreign airlines to code here on Australian airlines to all points in Australia - both of those constrained by having the capacity to come into Australia at all - unrestricted rights for foreign airlines to carry their own stopover traffic, and unrestricted rights for foreign airlines to offer freight services within Australia.

Would you judge any of those as having significant negotiating clout vis-a-vis Cathay for what you want with respect to Hong Kong? I think what you want with respect to Hong Kong is daily - do you have daily already?

**MR WALLACE:** We don't have daily.

**PROF SNAPE:** You want daily. You wouldn't be so interested in fifth freedom though would you? Qantas would be.

**MR WALLACE:** The issue for Ansett International is really frequency, so daily is a starting point.

**PROF SNAPE:** So what you want, anyway, out of Hong Kong is daily. Would any of those points in the regional package have any significant negotiating clout vis-a-vis getting daily service to Hong Kong?

**MR WALLACE:** You don't know. That's a question that I guess would need to be put to the likes of Cathay. But you could speculate on any of those, even the freight services, for example, in terms of an opportunity for a carrier such as Cathay. But, as I say, that's a question that would really need to be put to other carriers.

**PROF SNAPE:** It has been put to us that all of those could - would - have some significant benefit to the regionals in Australia. So one would only want to hold them back if in fact there was going to be some significant potential benefit in negotiation.

**MS BUTTSWORTH:** But the regionals would also gain considerably by having extra capacity. The regionals will gain by having a better deal for Australian carriers. As a matter of principle, we don't think that you should give anything on a unilateral basis until you've heard what the other side is offering. As we said in our submission, most of these - except for freight cabotage, which we regard as a pretty serious issue - the other three are pretty common in bilateral agreements already. But it really is a matter of principle. You shouldn't offer something on a unilateral basis unless you know what the package is from the other side. We're not arguing that there should be tit for tat. We accept Australia's position in which they offer a package of rights and probably they would include at least the first three of those. Freight cabotage is quite different, though.

**PROF SNAPE:** I suppose one always has to measure up what is the cost of holding something back with the potential gain that one may in fact obtain. When one says we don't give anything until we find out what we can get for it, of course I think no-one deals that way because some things that you retain may have significant costs upon yourself, and do you want to give those up unless they're going to get very, very substantial benefits from it. So it's a matter of judgment. But I'd have thought that for Ansett as a whole - not just Ansett International, but Ansett as a whole - that taking the restrictions off code sharing would have been very beneficial, so that it wouldn't just be four flights that I fly up to Canberra upon when I fly Ansett, it could be many others that were code sharing on it as well or code sharing elsewhere. The Ansett group as a whole might have thought that would be very beneficial.

**MR WALLACE:** Again, it may well be beneficial, but it needs to be looked at on a country-by-country basis in terms of what the market is and where the customers want to travel to. Our belief is that the existing system well accommodates those requirements when you do look at them on a case-by-case basis.

**PROF SNAPE:** Yes. I suppose you can never be sure of what demand is going to come until you allow that demand to exercise itself. There may be all sorts of code shares that you may not be able to anticipate in advance of offering.

**MR WALLACE:** I think you can make assessments of each of the markets and where the passengers are travelling to in advance of the code share, in any case. So it's not as black and white as "they don't travel" or "they would travel" based on code share. It's an incremental basis, so you can still see the flow of the passengers in any case.

**PROF SNAPE:** You would have noted the new UK policy. It has been announced last month, I think, that "It was decided that open access to all UK airports, except Heathrow and Gatwick, should be offered to all of our bilateral air service partners as long as UK airlines are also allowed to operate on the same routes." Do you think that Australia should do something similar with respect, say, to all airports except Sydney?

**MR WALLACE:** I'm sorry, I missed the first part of the question.

**PROF SNAPE:** The UK's policy, as stated in their press release by Glenda Jackson, was "We've decided that open access to all UK airports, except Heathrow and Gatwick, should be offered to all our bilateral air service partners as long as UK airlines are also allowed to operate on the same routes." Would that be attractive to Ansett if Australia were to make a similar statement but substituting Sydney, perhaps, for Gatwick and Heathrow, so that it would be open for all routes to any airport except Sydney with any of our bilateral air services partners as long as Ansett or Qantas - an Australian airline - was able to operate the same route.

**MR WALLACE:** Different scenarios, I guess. There's a couple of comments there. One is obviously Ansett doesn't fly to the UK so what would the benefit be for Ansett in return for that arrangement, and given the size of the airline that we are, the financial situation, the markets as they are at the present time - - -

**PROF SNAPE:** If we could leave the UK out of it and just say if Australia were in fact to make this same offer to all of its bilateral partners. So it would be offering to China and it would be offering to Japan and to Korea and to Hong Kong and to anyone else, that they would in fact be prepared to offer open access, unrestricted flying.

**MR WALLACE:** You come back to the same issue that we were talking about before, that it really needs to be looked at on a country-by-country basis. If we were to offer that to Hong Kong, it is unlikely to achieve much on a bilateral basis. It may well be accepted on a unilateral basis. If you talk about somewhere such as Singapore, then the same situation I mentioned before, I'm sure they would welcome it with open arms but would receive the benefits that we don't have access to in terms of their access then to the rest of the world over Singapore.



**PROF SNAPE:** That would depend upon the fifth freedom rights.

**MR WALLACE:** It does. That's right. Obviously geographically placed, to use Singapore as an example, they have access to rights through the rest of Europe. The question becomes, from an Australian carrier point of view, would we have access, do we have access, to those same sort of rights to go beyond Singapore. That's why it is important to look at it on a country-by-country basis.

**PROF SNAPE:** You've just formed an alliance with Singapore and with that alliance with Singapore you don't need fifth freedom rights out of Singapore. So long as you can come to an arrangement with your alliance partner, they can fly them for you. So you would then be feeding in, under this sort of thing, from Perth, Broome, anywhere else, to Singapore for them to fly passengers on. Under that UK arrangement, Singapore would equally have the right to fly to Broome, Perth etcetera etcetera from Singapore. It seems to me it might be a pretty good arrangement for you.

**MR WALLACE:** And on a country-by-country basis, one would need to assess that. I guess I could also argue that the current bilateral negotiations in place, how different would that be for Singapore Airlines from the situation that you're talking about. Could it still be achieved under the current arrangements, and that may well be the case. But, again, it will differ significantly depending on whether it happens to be Singapore, Hong Kong, Bangkok, for example. I mean, it will just vary enormously and that's why it needs to be looked at, not on a blanket basis but country by country.

**PROF SNAPE:** This would be pretty attractive for you with China, wouldn't it?

**MR WALLACE:** Down the track, China may offer opportunities. So you'd then have to question as to whether that's something that should be done now or is it going to be better served for an airline, such as Ansett International, that is small and growing in a challenging way, is it better to approach it on a more structured basis to be able to grow over time and for the reasons I mentioned in terms of where Ansett International as I think it is at, I think it would be better achieved on a structured growth basis rather than opening it right up, if you like.

Of course, in the example of China, it's also dependent on the issue of being able to have the Chinese marketplace fly down to Australia on tourism visas in a much more accessible way than what it is at the present time. So there are other dependencies there again, which again leads to the fact that it needs to be looked at on a country-by-country basis.

**MRS OWENS:** I was going to go back to the core package that we had for open skies, and one of the elements of that package which I think you're somewhat concerned about is the removal of ownership restrictions for airline designation, and you tend to be somewhat concerned because of the practical difficulties in terms of the existing air service agreements. I suppose the question is whether, if you didn't

have those practical difficulties, that would be of any benefit to Ansett if there were greater flexibility in terms of ownership restrictions, or if they were removed altogether. Would there be a benefit to your airline?

**MR WALLACE:** The practicalities as you identified is the immediate concern. Frankly, the removal of ownership restrictions - the restrictions that are there at the present time have not disadvantaged Ansett in any way, and frankly in terms of any further comment on that it's really one for the shareholders to comment on, given the shareholding situation with Ansett.

**MRS OWENS:** But you do have fairly unwieldy structures, don't you, so you can comply with this.

**MR WALLACE:** In respect of?

**MRS OWENS:** Between Ansett Holdings and Ansett International. There are some sort of fairly artificial constructs.

**MR WALLACE:** I think the arrangements in place, I wouldn't refer to them as unwieldy. I think that it certainly serves the purposes for Ansett's international flying. I again come back to the comments that, you know, it's really the practicalities that are there at the present time that we see as the concern.

**MRS OWENS:** But what happens if you could address those practicalities over time? What I'm suggesting is NewZealand for example - I always hate using New Zealand as an example, but they have become much more flexible in terms of ownership and control. It's not going to necessarily affect their agreements as of now but it means that in the future they can say in their bilateral negotiations, "We are flexible on this issue," and it may not have any effect for 5 years but over time it may have, who knows? I would have presumed that for Ansett there may be some benefits in terms of your relationships, for example with Air NewZealand.

**MR WALLACE:** Look, I think we'd need to ask the question as to what additional points of leverage that would give us in negotiations and, you know, that's something we'd need to give some thought to. I'm not sure that that's too clear at this point in time, as to what additional leverage there would be.

**PROF SNAPE:** I wonder if now that the alliance has been approved, at least by the Australian authorities - though I understand there is one little problem still to be sorted out with respect to it, but whether you would like to comment any more about the implications of it for you and the implications in terms of what Australia should be pursuing. I mean, last time that you - when you gave your major submission of course that hadn't been decided and you may have felt inhibited about it. I wonder if there's anything that you wish to add now that it has actually been pleaded through the competition authorities, with one small exception which I'm sure you'll find a way of overcoming.

**MR WALLACE:** I think the benefits in terms of the customer benefits that can be offered have been pretty well versed, if you like, previously and of course through all of the submission details that have gone to the ACCC. The only additional comment that I would make is that in respect of Ansett International we have said that there are benefits there in terms of ensuring the financial viability and I would be happy to share those with you in a private environment if you wanted to pursue those further in terms of understanding the details.

**PROF SNAPE:** But it has not affected your basic positions in relation to - - -

**MR WALLACE:** No, it hasn't.

**PROF SNAPE:** Yes, thank you.

**MRS OWENS:** Another issue that you only very briefly mention in the submission but you have given us more detail on is your views on the plurilateral open club and in the correspondence that you sent to us in May you again express some reservations about following a plurilateral approach because you felt that it would run into problems with third countries in such circumstances. I was wondering if you'd like to expand on that further. You did give an example at the time about if the US was a member of the group and Japan was not, the US carriers would have unrestricted access to the Australian-Japan market because of the US agreement with Japan etcetera etcetera. Is that your main concern with the club approach?

**PROF SNAPE:** Yes. Look, I think that is the main concern and it's one of practicalities as well and we believe that the current bilateral liberalisation will in practical terms allow you to move towards that in any case as time goes on. So if you're talking about plurilateral it's going to take quite some time to get there. We believe that the path to go forward towards that is the existing bilaterals liberalisation will take us down that same path in any case.

**MRS OWENS:** You don't think that there are other countries - we talked about like-minded countries - that may be prepared to take some short cuts to get there sooner.

**MR WALLACE:** We haven't looked at all parts of the globe, if you like, in that respect, but a challenge to find a meaningful club that would have like minds on the issue, if you like, that would allow it to be achieved on a short-term basis

**PROF SNAPE:** Finding the like-minded countries is a real challenge. I wonder if you have the same sort of concerns that we have to some degree. I know we expressed it at one point in the draft report, that the open skies arrangement which the United States has entered into, where it has got open skies, bilateral open skies, of 28 or 29 countries and that of course gives the United States airlines a very great advantage because within the whole set of 29 - or is it now 30 - countries they have the full networking possibilities. No other member, unless it also has the full set of bilaterals with every other member, has the same networking possibility.

So the United States has not only got all that it could achieve with a multilateral agreement or a single plurilateral agreement going on over all of those countries, it has got an additional advantage because the other members of it don't have the same networking possibilities, and if you've got 28 countries then you need - I think it's about 410 bilateral arrangements for each of those countries to have the same networking advantage as the United States has with it and it's the disadvantage of that hub and spoke system. Now, that seems to me to in fact give the United States air carriers an incentive to resist a more embracing system, that is, even a multilateral or a plurilateral system because by having themselves at the centre of this hub and spoke network they've got all the advantages of the other system plus more, because of the difficulties of the others of getting the same networking arrangements. Now, do you see that as a black cloud on the horizon?

**MR WALLACE:** A black cloud on the horizon, yes. I mean, I do see it as a challenge certainly and that's part of what we talk about with the practicalities that are there. It's about negotiating like rights, if you like, with a number of countries that are there and so yes, it is a challenge to ensure that you do receive the right balance in that respect and not allow in that example the United States to achieve greater benefits than Australia would. I guess the other comment that I go back to as well before is that early on in that - to use the US as an example, it's allowing them to come off a huge base in terms of their domestic network as well, frankly, that they have the strength there too.

**PROF SNAPE:** But if we accept the desirability of ultimately - and I think you do - going to a multilateral system with trade rules similar to other trade in other products, if that is our objective and we've got this hub and spoke developing there, then the US airlines could in fact obstruct the movement to the bigger system because they're getting more out of it than they would out of the bigger system.

**MR WALLACE:** That may well be the case, yes.

**PROF SNAPE:** If I could turn to slots perhaps and one view around in talking about slot management and - well, particularly slot management, is that it's not so much as to whether there should be a market in slots but rather as demand increases for landing there will be a market in slots. The only question is whether it's going to be above the table or under the table and for example at Heathrow there is a market in slots. It's under the table and airlines have told us that they've been in fact transacting in it, that it's under the table.

If you want a good slot at Heathrow then, as we are told, the technique is that you get a slot that's at an absurd time and then you find someone who has got a slot of the time you wanted and you trade it and of course that trading is legitimate and allowed, but you also put a few million pounds under the table - and by few I don't mean less than 10. So the market does develop. The question is, is it going to be an efficient market where people know the prices and they're able to trade openly or is it going to be under the table?

**MR KIMPTON:** Mr Chairman, Ansett International doesn't fly to Heathrow so I don't think we can comment one way or another on what you've just said about that market. But I did listen yesterday to what Mr Strong of Qantas said on that. I think our experience in the international markets to which we do fly where slots are constrained in most notably Hong Kong until the opening of the new airport - I don't think we've ever had the opportunity to pay money and be better accommodated than we already are. That's not to say that those things mightn't exist but rather to say that we have no experience or knowledge of them.

The regime that we are experienced in, in those international markets to which we fly where there are constraints, is the IATA international schedule coordination mechanism which doesn't really at all revolve around the payment of moneys but rather finding, in our case as a new entrant, slots as other operators vacate their slots. Once you obtain a slot under that mechanism you have rights as an incumbent. Over time generally you can progressively improve your position and I guess from the point of view of a relatively new entrant in the international market we've seen that as a mechanism that balances both the interests of incumbents in having relative certainty of access but also making provision for new entrants.

**PROF SNAPE:** So you're satisfied with basically the IATA type system?

**MR KIMPTON:** I think the answer to that is yes. I mean, there are times when you wish it would deliver exactly what you wanted earlier. But over time we've been able to make it work for us.

**PROF SNAPE:** It wouldn't have been better if you'd been able to go and pay \$10,000,000 to get the spot that you wanted tomorrow?

**MR KIMPTON:** It's all a question of where you might obtain that \$10,000,000 from to pay for slots. Relative to Ansett International's capitalisation it's quite frankly a struggle to achieve break-even point. That sort of money would make it very difficult for us.

**PROF SNAPE:** It's a realisable asset, however, if the property rights to it were well defined - and I realise that there is some difficulty of getting a specification. But the fact that they're traded anyway does suggest that there are some property rights and a bankable asset. It is a bankable asset in the US?

**MR KIMPTON:** I'm not sure that we're necessarily conceding that they are traded. I mean, I think at the high density of all airports in the US there is some very limited trading for money. But there is a question of who owns the slot and that has been very much a matter for discussion in the US and in the international arena that certainly has been a matter for discussion. Without saying I can recall the precise details it became a matter at issue between British Airways and the United Kingdom government when Virgin Airlines wanted to fly to Tokyo and I think in the end it was

decided that the slots weren't of the airline's property but rather the government's property.

I guess if one looked forward at an environment where these issues were resolved, one might think differently about it, but I think at the moment having regard to the fact that the issues are not resolved, having regard to what quite frankly it takes to set up an international airline with all the other costs that you've got to meet. I mean, bear in mind here we are a new entrant. We have difficulty with the concept of a totally market-driven concept of prices for slots. It was interesting to hear Mr Strong yesterday make comments that we might have ourselves made, that if you move to that sort of regime, it does give an advantage to those who are big and strong relative to those who are newly emerging.

There has been experience in Australia with peak period pricing and internationally with peak period pricing, but we see that as a qualitatively different issue.

**PROF SNAPE:** Actually I read here that you are in fact fairly comfortable with peak period pricing.

**MR KIMPTON:** I think our view has been that - and again it's not so dissimilar to that that Qantas expressed yesterday, but we'd first of all like to see whatever can be done to maximise capacity at an airport done before you start managing demand, and sometimes we get the impression, as I think Mr Strong was saying yesterday, that people think first about rationing or managing demand rather than expanding capacity, but if you've exhausted all avenues for managing demand, peak period pricing is not out of the question. It avoids bureaucrats having to pick winners. It allows operators to decide for themselves in light of their own interests whether paying the price is worthwhile.

There's the world of difference between paying a price that is perhaps set to clear the market at a congested airport which perhaps might be measured in some hundreds of dollars, nevertheless a significant amount on a per annum basis, versus paying very large once-off sums. Having said that, the situation in Sydney as I presume you're well aware is one where until relatively recent times there was a peak period pricing structure, but in the process of bedding down the committee-based system for slot allocation and gaining acceptance from regional airlines to a new charging system proposed by the FAC, the peak period pricing mechanism has been abandoned.

**PROF SNAPE:** Yes. That I think is a fairly short-term decision, at least it's a decision that can be reviewed within a fairly short period, isn't it?

**MR KIMPTON:** Look, I think as a matter of sheer legalities or practicalities that is right. Having said that though the politics, if I can call it that, of the issue of regional airline access are very severe, and whether the government or the airport operator would move to reinstate peak period pricing is another question. I mean, the regional

airlines have been grandfathered - at least not grandfathered. I think the word is "ring fenced" - - -

**PROF SNAPE:** Ring fenced.

**MR KIMPTON:** - - - under the slot management regime for Sydney. They service country areas of New South Wales which are capable of expressing their views strongly through the political mechanism. It will be interesting to see whether peak period pricing is restored, but I don't disagree with the proposition in your question.

**PROF SNAPE:** It of course is still possible to ring fence a certain number of slots and yet have peak period pricing for the rest.

**MR KIMPTON:** Look, I think that is correct, and that was I think what most of us thought would be the outcome until the adjustment to the FAC's charges sort of brought that issue into play.

**MRS OWENS:** Was Ansett consulted on that?

**MR KIMPTON:** Very much so, on both; on both the design of the slot system and the Sydney Airport charges regime, but it's perhaps a salutary lesson in the divergent interests that can be involved in what appear to be single issues, and I guess from our point of view operating larger rather than small aircraft. We saw some sense in some of the charging changes that were made particularly as they eliminated cross-subsidies from domestic operators to international operators, but they did involve an increase in the minimum landing charge in Sydney which was of some discomfort to regional operators operating very small aircraft.

So with a view to nevertheless getting some rationality into that in the long term, peak period pricing was abandoned in the short term. With the design of the slot systems, we were extensively consulted as again were others, and what flowed out of that I guess with its ring fencing for regional airlines again reflects sort of the endeavour to accommodate a divergency of view and a specific government policy commitment to preserve regional airline access to Sydney Airport.

**MRS OWENS:** One of the other issues that we discussed with Qantas yesterday was the issue of consultation in the context of bilateral negotiations, and I think we talked about whether the airlines had undue influence in that process. I'm wondering to what extent Ansett does get involved. Are you equal partners with Qantas in these consultation processes? Have you had difficulty establishing a niche in that area or is it - as far as you're concerned do you see that you have - this is a direct question, but do you think that the airlines have more influence in other parties in establishing negotiating position?

**MR WALLACE:** I don't know whether that's been a factor of the past. Let me assure you that we're not partners with Qantas in terms of the discussions that take place, but whether that's been different in the past or not I don't know. What I can

say is that we believe we have the appropriate amount of input into discussions leading to negotiations, and when I say the appropriate amount of input, we have a lot at stake frankly, and we believe that in the interests of Ansett and ultimately the Australian marketplace that it's important that we do have the input that we have.

You're talking about issues - as we spoke about Hong Kong before, issues that are affecting the financial viability or otherwise of Ansett International. It is important that we have the appropriate level of input.

**MRS OWENS:** Do you go to the negotiation table?

**MR WALLACE:** If the negotiations involve a country that is of significance to us, then we would have someone representing our interests there.

**PROF SNAPE:** At what stage of the negotiations?

**MR WALLACE:** At what stage of the negotiations? They're there for the period of time that the actual negotiations are taking place with the other countries, but there is obviously in some cases a lengthy period of consultation beforehand in terms of having a clear understanding as to our views and what our requirements are.

**MRS OWENS:** Do you feel that you get listened to as much as Qantas? Is there any differential?

**MS BUTTSWORTH:** I don't believe so, no. I think that sometimes we have the same objectives and sometimes we don't, but I don't think there's any discrimination against Ansett. I also don't think that the airlines have any undue say. I think that the Australian negotiating position is developed having regard to a whole range of interests including tourism interests and interests of the states, and clearly the government has a policy position in some areas - for example liberal freight regimes. There's absolutely no point in - if they wanted to - the airlines arguing against that because it's clearly government policy and you know it will be part of the package.

So I think the airlines have a good opportunity to express their views, but I certainly don't think that they can override the broad range of views that are taken into account and the policy objectives of the government.

**MRS OWENS:** New Zealand - you've listed actually a lot of very, well, what seem to be significant practical difficulties to setting up a common aviation market which is one of our recommendations, but you do say that you note some advantages - you note the advantages of establishing such a market. Do you see that there'd be any advantages for Ansett if there was - if we were to move further in that direction or even within the context of the single aviation market, lifting some of the restriction on fifth freedoms?



**MS BUTTSWORTH:** Well, we believe that the rights to New Zealand are clearly an issue that's still on the table and that will be addressed by both governments in the current framework.

**MRS OWENS:** So you're happy to see that happen incrementally rather than saying, "Well, we'll finalise the single aviation market." At the moment I think it's limited to 12 for each.

**MS BUTTSWORTH:** Yes.

**MRS OWENS:** One option is just to say, "We'll drop all limitations; just let it go."

**MS BUTTSWORTH:** Yes.

**MRS OWENS:** Another is to do what you're suggesting which is to just incrementally negotiate more.

**MR WALLACE:** And frankly that issue at the present time doesn't seem to be an issue as in you're right in terms of - I think it's 12 747 equivalents. In practical terms that's not all being utilised, and as such we don't see it as a major issue at this point in time. I obviously can't speak on behalf of New Zealand.

**MRS OWENS:** I was in New Zealand a couple of weeks ago, and the New Zealanders suggested that although at either end they're not all being utilised, but they said that they felt it was important I suppose symbolically to get rid of those restrictions, and they said that in terms of future planning with Ansett, it would help in terms of planning for future markets and so on if there wasn't a restriction of that nature.

**MR WALLACE:** I'm not prepared to comment on the New Zealand view frankly.

**PROF SNAPE:** But it's not inhibiting Ansett. That restriction is not inhibiting Ansett.

**MR WALLACE:** No, it's not.

**PROF SNAPE:** I mean, the sort of thing that one could envisage, even though it is not being fully used, but it could be that you were wanting to establish a daily service somewhere so and so you would want to have seven of them and there aren't seven available. So even though it's not up to the limit, nevertheless it could be in fact binding on certain proposals. For example if you wish to fly a daily service - Melbourne-Auckland-Los Angeles and you can't fly Melbourne-Los Angeles without stopping somewhere or more particularly you can't fly back without stopping somewhere, and Auckland is a very convenient stop to do it. But in order to make it commercially viable you may need beyond rights out of New Zealand. But I'm just illustrating something that you may have wanted to do but you couldn't have done

because of the unavailability of enough fifth freedom rights. But you haven't seen those constrained.

**MR WALLACE:** No, we haven't, not at all, and nor do we envisage in the shorter term that that will be a constraint.

**PROF SNAPE:** I think that I've got through my list and I think Helen has got through her list and I thank you very, very much, not only for your contributions and help today but also for the very substantial contributions and help that you've given us earlier. We're pleased to hear that you're not firing too many arrows at us.

**MR WALLACE:** Thank you for the opportunity for the input and we look forward to the final report.

**PROF SNAPE:** Thank you. We'll now adjourn for a little while and after morning tea we have got the South Australian Government and Adelaide Airport. Perhaps we will adjourn for morning tea and resume about 20 past, thank you.

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**PROF SNAPE:** We have now the South Australian Government and Adelaide Airport and one written submission covering both. We would ask the representatives to identify themselves for the purpose of the tape please.

**MR MILLN:** I'm Mike Milln from Transport South Australia.

**MR McDERMOTT:** And I'm Tim McDermott from Adelaide Airport Ltd.

**PROF SNAPE:** Thank you very much, and thank you very much for your submission, and also for your earlier submissions. Mike, I'm not quite sure, you will be leading off, will you? I will ask you to make a short statement.

**MR MILLN:** I'll make a short statement if you wish, yes.

**PROF SNAPE:** Yes, thank you.

**MR MILLN:** Mainly we consider ourselves here at the commission's pleasure to question us rather than for us to make any long statements. I would like to say that in our first submission we made the statement that the South Australian government is focused on the development of international throughput through Adelaide Airport. We had a number of dot points of how we were seeking to set about doing that. One of the ways was by ensuring by liaison with the Commonwealth that an operator was selected for Adelaide Airport with the same focus so - that was back in February. I am very happy that on 29 May, Adelaide Airport Ltd took over Adelaide Airport and Tim McDermott is with me today representing Adelaide Airport Ltd. So they are bringing the expertise and experience of Manchester Airport to the development of Adelaide.

They're markets of vastly dissimilar size of course but some of the dynamics are really quite similar and Manchester, in part at least from the comment this morning - professor, it sounds like they have succeeded - but at least up until recent times Manchester had the same job we have of convincing the UK government to implement or act on policies to encourage the growth of regional gateways. So we can say at least that one of our strategies have been successful in that Adelaide Airport Ltd is now in place - although I suspect it wasn't the efforts of the South Australian government, it was the price they were prepared to pay that did the trick.

We're very happy to see the regional reform package of course in your report. Our original submission argued for many of the features that you have included in your regional reform package, with one glaring exception though and that of course is the issue of capacity. Our concern is that implementation of the regional reform package giving unrestricted code share rights and own stopovers and so on without the allocation of capacity on a specific basis, could in fact result in further concentration of services at the major gateways because some carriers of course might find it to their advantage to utilise the code sharing provisions rather than implementing or expanding their own services. So we're a little nervous about the recommendations as they now stand.

Our current submission argues strongly that the granting of capacity in most cases to Adelaide in our view doesn't significantly lessen the leverage of the Commonwealth. We certainly don't want the interests of South Australia to be contrary to national interests but we feel that in most cases that it has been done in the past, it has been successful, and we feel that what little leverage on a national basis we would be giving up, could very well work to the advantage of expanding direct flights to regional gateways. So we support the regional package but we would like to see the addition of the capacity suggested under recommendation 8.2, I think it was, of third and fourth freedom, capacity to be extended on a unilateral basis unless there are compelling reasons of national interest that it should be otherwise, that that should be extended to the regional package.

So the lack of capacity in the regional reform package puzzles me a bit because the commission clearly recognised the need for it in your statement in section 5 and our latest submissions suggested some ways in which the capacity issue could be addressed. So with that I will - unless, Tim, you want to say something, I'll wait for questions.

**MR McDERMOTT:** I have nothing to say.

**PROF SNAPE:** Thank you very much. As I understand you, you would in fact support a unilateral expansion of capacity to secondary gateways.

**MR McDERMOTT:** Yes.

**PROF SNAPE:** Within that, without any quid pro quo, and that would be done on a general basis, that we would just go out and offer to anyone, any airline of any country the capacity to fly into the secondary gateways without restriction.

**MR MILLN:** In principle, yes.

**PROF SNAPE:** Without reciprocity.

**MR MILLN:** We recognise that in some cases reciprocity may be necessary and I think Ansett made the case with - when you are dealing with an intransigent bilateral partner, then perhaps you do need all the leverage you can get. But what we're saying is that the leverage you forsake in giving that to secondary ports is fairly minimal.

**PROF SNAPE:** You would be then content to say that with the definition of secondary ports as we have got it, that is, everything except Melbourne, Sydney, Brisbane and Perth, that we would go out and say, "It's unilateral expansion, generally unreciprocated for all the airports except Melbourne, Sydney, Brisbane and Perth."

**MR MILLN:** Yes.

**MR McDERMOTT:** Yes.

**PROF SNAPE:** There have been some people who have argued that our definition of secondary gateways is too narrow and that we should - in fact everything except Sydney as a secondary gateway. Do you have a view on that in the context of what you're advocating?

**MR MILLN:** It's a predictable view and I'm sure our friends in Western Australia would be the main advocates that Perth should certainly be considered a secondary airport. I mean, the fact is they have - - -

**PROF SNAPE:** And Melbourne.

**MR MILLN:** - - - something like 78 international services to our what - 21 or something.

**MR McDERMOTT:** Yes. I think the key issue is what do you mean by the regional package. Is it for those areas, and naturally the airports that have, one could say, a relatively fragile aviation network on the international marketplace, and not a comprehensive aviation market network which, for example, Melbourne does have, so there is a judgment call to say what is a region and what isn't a region? We would say that naturally South Australia, Adelaide in particular, has a relatively fragile international aviation marketplace and if the market wants it, and if the consumers are prepared to use the direct international services, they are hindered because either an airline wants to expand or a service wants to inaugurate a service but for bilateral reasons they can't. Then we would see that as the barrier that needs to be broken down.

That's the sort of context that we see the assistance in the regional package giving Adelaide Airport that, let's say, advantage; not so much an advantage compared to what the other airports have at the moment but certainly allows us to put in place the building blocks to develop incrementally what is a very small marketplace compared to other Australian airports.

**PROF SNAPE:** So suppose that you rightly draw attention to opportunity costs based on your original submission and in this one.

**MR MILLN:** Yes.

**PROF SNAPE:** I suppose if we throw it open to all secondary gateways as we have defined them, that that means that people may choose - it would be open for Townsville and Cairns as well as for Adelaide and in using scarce fleets etcetera, valuable assets, that they may choose to fly to Townsville and Cairns rather than Adelaide.

**MR MILLN:** I think we would be more comfortable competing with them than Sydney, Melbourne, Brisbane and Perth.

**PROF SNAPE:** Okay. So you're not tempted to go the other way and say that in fact that the city designation of Adelaide is a priority - specifically Adelaide.

**MR MILLN:** I think that would be a hard case to sustain quite frankly. I mean, there are limits to our parochialness.

**PROF SNAPE:** Okay.

**MR MILLN:** But we also recognise that, as Tim rightly said, Adelaide is a small and fragile international market and it needs to be linked with bigger markets. We need our flights in a lot of cases to be linked with the bigger airports so we're suggesting that there are features of that that can be included in a regional airport package so that you remove the opportunity costs of operating to Adelaide by - one of the suggestions has, I think, long been advocated by the Northern Territory government is making access to the high value ports contingent on servicing the secondary port. I don't mean that you say to an airline, "You can't come to Sydney unless you go to Adelaide," but you could discount the cost of its capacity to Sydney if it was linked with Adelaide. So instead of using a unit of capacity for instance that would be counted as half a unit.

**MRS OWENS:** You could do that on a unilateral basis but if you were still within the bilateral context that might be a little bit tricky, wouldn't it, with your bilateral partner at the other end. It's not something that's done now, is it?

**MR MILLN:** It's not but I don't see why it can't be done in the bilateral context. It depends I suppose on how much a carrier wants access to the bigger market and what price it's prepared to pay for it.

**PROF SNAPE:** I suppose that what we have done in a sense is in the past to say, "You can only fly to Sydney if you also fly to Adelaide or to Brisbane or whatever," and in that sense the Sydney one is wholly discounted, not just 50per cent.

**MR MILLN:** But it's not totally unheard of. The freight capacity for Malaysia Airlines, its access to Melbourne is contingent on operating to other- - -

**PROF SNAPE:** Yes, that's what I was thinking of.

**MR MILLN:** It has worked well for 2 years.

**PROF SNAPE:** I think what you're advocating is going further than what the UK policy would be that is announced but nevertheless I ask you for your reaction to it as another possibility. Just to read it again, "We have decided that open access to all UK airports except Heathrow and Gatwick should be offered to all of our bilateral air service partners as long as UK airlines are also allowed to operate on the same routes." So that's reciprocal, and it's reciprocal with respect to routes, not just (inaudible) but cities, if it in fact is accurately written here. Now, the Australian possibility might be - instead of Heathrow and Gatwick - to substitute Melbourne,

Sydney, Brisbane and Perth or for that matter just Sydney. What would your reaction be?

**MR MILLN:** Tim, you're best qualified to answer that one.

**MR McDERMOTT:** I think comparing the UK scenario and Australia it's not really comparing like with like. The market is completely different flight times and different population basis, and the sort of comprehensive network of whether it's terminating flights in Europe which may want to fly then on to Manchester, Birmingham, Scotland, is a completely different scenario from looking at either the Asian market or the North American market serving - needing an aircraft that will at least fly 7 to 10 hours to get to the Australian markets. So on your second point, should an option be, yes, you can serve any market excluding Sydney, Melbourne, Brisbane, Perth, to a certain extent that's almost what was recommended in the regional package. It's not a million miles away from that, is it?

**PROF SNAPE:** It is in the sense that this is not within the existing capacity negotiated for Australia whereas our regional package was in fact given the constraints of the capacity that has been negotiated, you can fly anywhere- - -

**MR McDERMOTT:** True.

**PROF SNAPE:** - - - except the restricted ones.

**MR MILLN:** Yes. What we're suggesting is more or less the changes we're suggesting to your regional package.

**PROF SNAPE:** Which I think is not quite the same because this UK one has got reciprocity.

**MR McDERMOTT:** Reciprocity, if it means that the UK carriers can serve, that's fine. Whether they want to serve it's up to the carrier.

**PROF SNAPE:** Of course.

**MR McDERMOTT:** That's always the debate. Certainly anything that can be put in place which assists South Australia and Adelaide Airport, we very much welcome and we think that would certainly give us an advantage over what we currently have to, one could say, work with.

**PROF SNAPE:** It would mean for example that Indonesian Airlines would be able to fly Bali-Adelaide, so long as an Australian airline could fly Adelaide-Bali.

**MR McDERMOTT:** As long as that's not dependent on an Australian carrier flying it. It has the right to fly it, that's one issue. If they can fly then one could say that's reciprocity.

**PROF SNAPE:** Yes. It does say "allowed to". It doesn't say "do".

**MR McDERMOTT:** Exactly, yes.

**PROF SNAPE:** I mean, China which would be another possibility- - -

**MR McDERMOTT:** It's certainly my experience with Manchester Airport is that's exactly what we would have in place at Manchester and we have developed our international network at Manchester using non-British carriers because they had, one could say, strategies and we have to go out and get that in place. So it's there if they want it and it's purely a commercial decision from an airline carrier.

**PROF SNAPE:** So you would be very happy with this. I mean, it's not- - -

**MR MILLN:** But you're right. It is different in the exchange of capacity, that if the Australian capacity was fully utilised, then of course the foreign carrier would be restrained.

**PROF SNAPE:** Under our suggestion, yes. Under this one - - -

**MR MILLN:** Under the UK suggestion, yes.

**PROF SNAPE:** No, the UK wouldn't be because the UK is saying, as I understand it, that it would be unrestricted so long as it's reciprocated.

**MR MILLN:** But what I am saying is that it's the bilateral partner didn't free up additional capacity for the Australian carrier, then the- - -

**PROF SNAPE:** That's right. They have to agree to the same thing.

**MR MILLN:** What we're suggesting is that the suggestion in 8.2 should be shifted to recommendation 5.

**PROF SNAPE:** Yes.

**MRS OWENS:** One of the other issues that you raise is in relation to recommendation 5.2. It's about the consultation process in getting feedback and so on. You support a formal approach to providing feedback from the consultation processes. One of the issues that we have been looking at is how do you bring into the process all the interests, all the competing interests, and have we got the process right now. We have a TAG and we have all these other committees. There's going to be an airport consultative committee and so on. So is there any way that we could be suggesting to improve that process so that it best picks up your interests as well as those of the airlines. I was wondering if you had any suggestions. I take your point here about you don't necessarily want formal consultative meetings with large



numbers of stake holders but my understanding is there's a fair bit of repetition between the different committees and - - -

**MR MILLN:** There is but I think it's largely up to the states to undertake their own consultations to make sure their own stakeholders are fully involved in the process. We do that and we're reasonably satisfied with the existing consultative mechanisms. I mean, we talk directly to the department. We established an "agree to disagree" type of relationship, and we have absolutely no quarrel with the free flow of information to and from the Commonwealth department. We also participate in the TAG group but prior to either of those consultations it's up to me to make sure that the interests of other parties in the state that I'm representing their views so that we don't need the Tuna Boat Owners Association and the South Australian Farmers Federation independently to consult with the federal department.

**MRS OWENS:** Yes.

**MR MILLN:** We now have formed a liaison committee with our new airport operator to ensure that Adelaide Airport Ltd and the South Australian government sing from the same hymn book.

**MRS OWENS:** They're not crossing each other along the way.

**MR MILLN:** No. I think that's very important but I'm not sure what the federal department's intentions are with regard to consultation. I don't think they have got it very wrong at the moment, quite frankly. I think the gist of my comments in our later submission was that the consultation is good but that the feedback after negotiations, we would like to see improve.

**MRS OWENS:** Yes. I think the department has actually acknowledged that and I think has said to us that they probably will be doing something about that but we're really just wondering if there was anything else that needed to be done to make sure that the stakes and the airport are - - -

**MR MILLN:** I don't think we need to form another national group or anything.

**MRS OWENS:** No, we wouldn't be suggesting that.

**MR McDERMOTT:** No. I think we, certainly in South Australia, try and put forward the voice of all the various groups. Whilst one could say that tourism looking for inbound tourists to Australia and the export market, one could say have had the major say so far as major stakeholders, we as the airport would be putting forward the voice of, one could say, a consumer, "What does the consumer want? Does the consumer want direct services?" Predominantly for the residents of South Australia is almost usually a market for people who forget about - it's always about bringing people in and bringing in and taking exports out. We as the airport operator are keen to facilitate the travel arrangements of passengers from South Australia out of

the country as we are seeing imports coming through the airport, so we always try and give it that roundedness approach as well.

**MRS OWENS:** How do you get those people?

**MR MILLN:** We get to those people predominantly by looking at the surveys in terms of where passengers are travelling to and travelling from, and at the moment there's something in the region of less than 5 per cent of passengers out of the 4,000,000 leaving out of Adelaide travelling internationally. We know that that's only half the market that's actually travelling internationally. We appreciate the hub and spoke effects of the major airlines in this country. However, if the consumer wants direct services and they are not getting direct services, then is the volume there to sustain it and if so how can that case be made to airlines.

It's only at that time if the barrier is a bilateral issue that we would seek, one could say, the open skies for Adelaide to be in place, that the consumer gets what they want. So we know that at this moment in time an awful amount of passengers are having to route via Melbourne and Sydney to get to their end destination which isn't Melbourne and Sydney. If there is the volume there to fly direct they're the consumers we would be lobbying for hard - you know, in a hard way to make sure that direct services can develop.

**PROF SNAPE:** Direct services would include, for example, having to go out of Singapore.

**MR McDERMOTT:** If it's better for consumers that are backtracking to another point and then having to go to Singapore, then of course we would want to encourage growth in the, as I say, relatively fragile network that we currently have at Adelaide Airport and working closely with the existing carriers to grow incrementally and facilitate their needs as well.

**PROF SNAPE:** I am thinking particularly of the way that Qantas hops out of Singapore Airport at the moment to various parts of Australia including Adelaide, I think, yes. Then maybe there's a new opportunity for that with the alliance, Ansett and Singapore.

**MR MILLN:** We think there is. The risk with code sharing of course is it's a double-edge sword. Like, what we're hoping of course is that, and what Ansett have assured us - is that the alliance between the carriers will result in Ansett feed to Singapore Airlines out of Adelaide rather than Singapore Airlines feeding domestically to their own flights out of Melbourne or Sydney for instance.

**PROF SNAPE:** Yes. What I was meaning was the same sort of fanning out that Qantas gets from Singapore or you may get with Ansett out of Singapore.

**MR MILLN:** Yes.

**MR McDERMOTT:** But at the end of the day we're aware of the relatively small population in South Australia so it's not going to grow exponentially or anything like that, but it could over the next number of years hopefully double from a very relatively small base.

**MRS OWENS:** Air service charges, you mention here, and I just want some clarification as I don't understand it. You mention that the air service charges for landing a Boeing 747 - this is page 3 - in Adelaide is double those of Melbourne and Sydney. I was wondering why it's so much higher at Adelaide.

**MR MILLN:** These are not airport operator charges. These are charges by the air traffic control provider.

**MRS OWENS:** Yes, I understand that, but I couldn't understand why it is double. It's a lot.

**MR MILLN:** Because they basically have a cost of service which is spread over the throughput of the airport.

**MRS OWENS:** Okay. So it's throughput related.

**MR MILLN:** The airport throughput is low in terms of tonnes landed rather than numbers of movements. Then the charge is relatively very high.

**MRS OWENS:** Yes. I just wanted that clarification.

**MR MILLN:** I think our point there was that that seems to me that whereas it's an excellent economic principle for charges to be transparent, and that costs should be related to the cost of delivery of the service, nevertheless that has resulted in an outcome that is thoroughly at odds with federal policies which are to spread aviation benefits to the regions.

**PROF SNAPE:** Does that principle apply throughout the system?

**MR McDERMOTT:** Yes.

**PROF SNAPE:** In which case it must be very expensive to land at Broome.

**MR MILLN:** I haven't got all my - it's based on tonnes landed. So for instance Darwin you expect to be high but in fact is quite low because of the number of - - -

**MR McDERMOTT:** Movements.

**PROF SNAPE:** Movements, yes.

**MR MILLN:** But Coolangatta for instance is very high.

**PROF SNAPE:** We haven't, I think, encountered up to this stage - I don't think we have had comment on that before.

**MRS OWENS:** No, we haven't. That's why I was interested in how it was calculated. You don't support the - in terms of the IASC we had a recommendation relating to the IASC not being involved in assessing viability of airlines and you haven't supported that.

**MR MILLN:** I was curious as to how you arrived at that recommendation. It seems to me very sensible in terms of assuring that a public benefit is delivered; that some assessment of the carrier's ability to deliver that benefit is made before awarding the capacity. So the point was that if you wait for the airline to fall over, you have wasted that capacity for however long that takes.

**MRS OWENS:** I think our concern was about duplication of processes. If there's another part of the system that is considering that in the context of licensing and so on, do you have to think about this twice? I think that's what we were getting at.

**PROF SNAPE:** It's two parts. It's viability and anticipating approvals by government agencies. I think that the view that we formed, rightly or wrongly, was that viability is best left to the capital market - either they will get the capital or they won't - and that for want of a better word bureaucrats are probably not the best class of people to be judging the viability of commercial enterprises.

**MR MILLN:** I think part of the problem is that it's a chicken and the egg situation; that the new start carrier can't raise capital until it can assure the capital market that it has the capacity to operate, and the IASC won't award the capacity until it's assured of the airline's financial viability.

**PROF SNAPE:** Yes. On the other hand it could no doubt get it conditional on the approval and that could in fact be brought to the attention. But then the anticipating approvals by government agencies, it was really - it seemed to us that you were running around the mulberry bush a bit here; that you could get one if you could get that one; and you could get that one if you could get this one.

**MR MILLN:** Yes, I see your point.

**PROF SNAPE:** You are trying to short circuit that process. Although it has been brought to our attention that it does run up against some international problems and that the other parties to agreements will want to be assured that the airlines are capable of running it so there is a bit more to be looked at in that one. You're worried in your 3.5.3 that New Zealand might get more of the benefits than Australia from arrangements with New Zealand. I suppose our position on this has been that we're not concerned whether one country would get more of the benefits than we would but rather whether there is a positive net benefit for us. I used yesterday the analogy of marriage in that context.

**MR MILLN:** Yes.

**PROF SNAPE:** It doesn't go into it on the basis of saying that, "The other party is going to get a bigger benefit than I am, well reject it because of that."

**MR MILLN:** I suppose we were an interested bystander only in that argument because it's difficult to see any benefit for South Australia coming out of the suggestion. At the same time - I mean, the benefits to carriers are obviously sort of one-sided, one has to have a certain amount of sympathy for the Australian carriers in giving away access to a market of 18 million people or whatever it is as opposed to three.

**PROF SNAPE:** I think I keep coming back to thinking of Los Angeles via Auckland. Just as at the moment Singapore is a hub for Qantas from Australia; that is, it feeds into several parts of Australia into Singapore and then flies on to Europe from there. So one could envisage that with more fifth freedom rights, for example, that Auckland could be a hub to join from various parts of Australia to fly on to Los Angeles. That may or may not make sense commercially but just as one contemplates it - in which case, if that were to be feasible, then providing that option would be a benefit to Adelaide, because they would then be feeding directly from say Adelaide to Auckland.

**MR McDERMOTT:** I think the first stage we in South Australia would like to see would be direct services reinstated between Adelaide and New Zealand in the first place. That's available; it's just a commercial decision.

**PROF SNAPE:** But this might facilitate that.

**MR McDERMOTT:** Exactly. If the benefits of that are better connection onward, greater choice; then great. If the consumer gets a better deal from it, then we fully support it.

**PROF SNAPE:** It may or may not be a good example commercially, but that's the type of arrangement that one could think of if there was a closer integration.

**MRS OWENS:** Peak-load pricing: I presume that Adelaide Airport's peak-load pricing is not really a major issue. You wouldn't have a problem at peak periods, would you?

**MR McDERMOTT:** No. We wish.

**MRS OWENS:** I'm not really clear from the submission whether you support the idea or accept it. I think you're probably leaning away from using a peak-load pricing approach.

**MR McDERMOTT:** Yes. We don't envisage it, to be perfectly honest, certainly not in the near future, but in terms of pricing we naturally want to be as transparent as possible, and peak load is usually a value add that doesn't really bear any relationship to the cost of the airport operator in terms of pricing. It's usually an opportunity cost or a value add that the airline had to pay.

**MRS OWENS:** Does it have to be that way?

**MR McDERMOTT:** No, there are lots of different choices for pricing your peak demand.

**MRS OWENS:** I don't know whether it's applied at Manchester but - - -

**MR McDERMOTT:** No, we don't.

**PROF SNAPE:** I think I've got through my list of questions. Would you like to make any other statement or just leave it as it is?

**MR MILLN:** I think I'm done, thank you.

**MR McDERMOTT:** No. Thank you for your time.

**PROF SNAPE:** Thank you very much, as I say, for this submission. It's nice when something is, shall I say, 95 per cent supported. It would be better if it were 100 per cent but we - - -

**MR McDERMOTT:** We look to the next step. We look forward to your revised recommendations.

**PROF SNAPE:** Thank you very much for it. You know the process from now on. I think our final report goes to the Treasurer on 12 September, it is due, and then it's up to the government within certain legislative constraints as to when they release it. So thank you very much. We'll now adjourn and we'll resume at 1.30, when we're going to have the Australian Services Union and then following that Australia Word Airways, and then finally we'll have the Australian Tourism Commission.

(Luncheon adjournment)

**PROF SNAPE:** We will resume our hearings on the air services draft report and we welcome very much this afternoon the Australian Services Union and we thank them very much for their appearance, appearing before us, their submission and also the submission which they gave earlier, which has been very helpful to us, and we thank you also for the articles which you have enclosed with it as additional information. We notice that one of those is on modelling with the Quiggin one and because of that we should mention what was mentioned in the draft report, that there's a seminar on Friday afternoon here to go over the modelling and, Brendan, you may wish to pass that on to your colleagues, to remind them of that - as I say, particularly in the view that one of the papers that you attach does have comments on modelling in general.

Now, our normal procedure is of course to tape the proceedings for the transcript and we'd invite you, Brendan, to identify yourself and the organisation for benefit of the tape please.

**MR O'CONNOR:** Yes, thank you, commissioner. My name is Brendan O'Connor. I am assistant national secretary and I appear for the Australian Services Union.

**PROF SNAPE:** Thank you very much. We realise that you were expecting Tim Lee to be here today and that unfortunately he's sick - and give him our best wishes for good recovery - but that you were at quite short notice in carrying this and we recognise the disadvantages that might put you under, but we're also very happy if there are things that you think that you don't have the background knowledge of because you haven't been involved in it - very happy if you take things on notice and give it back to us in writing at an appropriate time. I wonder then with those caveats, Brendan, whether you might like to speak to the submission.

**MR O'CONNOR:** Yes, commissioner, and thank you for summing up the position that the ASU finds itself in this afternoon. It is the case that a number of officials, in particular Tim Lee who has put in an inordinate amount of work in this area, were unfortunately ill this morning and for that reason, as you've indicated, the ASU would like to foreshadow our intention to respond if it's possible this afternoon to any particular questions that are raised by you to me at a later date, within the time constraints of the hearings that you're conducting. Having said that, this is not particularly my area but I think it is fair to say to this commission that the Australian Services Union is an organisation which has a direct interest in the proceedings and clearly is concerned about the recommendations of the commission and the effects of those recommendations.

It's also fair to say, commissioner, that we have put together our position in response to a draft report and clearly you have that before you. I think the ASU has attempted to focus on those salient issues that we believe have direct bearing on the matters before us today and so as it's indicated in page 2 of the report we have, whilst accepting some of the contentions, in fact argued that there are some deficiencies in that we believe that there hasn't been special attention or enough attention paid to the already structural changes that have occurred in recent history in the airline industry

due to deregulation and also due also to the Qantas Australian merger and privatisation and the impact it has on our members, those employees.

We also believe it hasn't taken fully account of improvements that have occurred as a result of the many obligations that our organisation has accepted industrially, at least since 1987, in terms of the industrial changes that have occurred pursuant to the Industrial Relations Commission's decisions in the last seven or eight or nine wage cases. We think arising out of those obligations there have been certainly direct benefits to the way in which operations occur in the industry and we believe that hasn't been fully acknowledged to the extent that we believe it could be.

We are certainly concerned with the safety of the industry. I would think that when one person talks of airlines or the airline industry safety is never far from one's thoughts, one would hope. It would seem to our organisation to be a key issue, both in terms of safety to those employees that work in and around the area but of course also to the community and to the users of the service. Now, we hold the view - and I think it's shared by most commentators - that the Australian airlines industry is a very capable one and has a reputation of impeccable safety when compared perhaps to other areas. What we are concerned is that if there are to be changes within the industry that safety isn't forfeited for what would be perceived to be short-term gain. So we do point out that that is an issue of utmost concern to us, as I'm sure it is to the consumers of the service.

We're also concerned that if there is to be a benefit arising from the recommendations of the report, particularly in relation to the employment growth, that that be fully shown. We're not of the view that it has been fully substantiated that there can be a net benefit of employment growth as a result of further deregulation. We would say that there has to be clearly firstly a gain in employment and further a net gain in employment, to argue that that's one of the benefits that may arise out of changes to the current regulations. It's those issues and a number of others that are of most concern to us and I believe we have attempted to refer - under each sub-part we have referred to those points I now raise.

Commissioner, as I say, as I'm not fully aware or fully au fait with the details of this submission, it's not for me really to go further. But I'm happy to answer questions if I feel that I'm in a position to do so. Otherwise, as I said earlier, commissioner, I'm happy also to respond at a later date at the convenience of the commission.

**PROF SNAPE:** Thank you very much, Brendan. That's a helpful statement and we realise the position that you're in. Of course the transcript does get sent to the participants, that is the relationship participants, and so you should get a transcript of these proceedings fairly soon. So I think that possibly some of the things that Helen and I might make on a comment, you possibly would like the comments that we might make. You might wish to take the transcript to your colleagues so that they could see how we've reacted.

**MR O'CONNOR:** I'd be happy to.



**PROF SNAPE:** During the course of this inquiry of course the Industry Commission disappeared and it was absorbed into the new Productivity Commission, and of course it is the new act which is defining our obligations. In the submission you quote a section of the act with a number of points under it. One thing I would just emphasise a little bit, that in the first sentence or the lead sentence of the section which is quoted it says, "In the performance of its functions" and I think that it's "functions" which is an important word there. It doesn't mean to say that in every report it must be explicitly addressed. It says, "In the performance of its functions the commission must have regard to the need." Now, there are also I think interesting words in the way that they're expressed, "must have regard to the need," and then there are a number of points which are listed under there and you're indicating that there are four of those to which we gave inadequate attention, in your view.

I would say that we have in fact given regard to the need to address these questions. The weight that were to be given to each of them will differ from inquiry to inquiry and fairly obviously, depending upon the subject matter of the inquiry. We've got one which is, for example, to promote regional development. Well, it's quite possible that the commission will receive an inquiry that refers something specifically to cities and in which case it may be entirely irrelevant in the way that the terms of reference were cast, and that's just an example. So the emphasis will differ from inquiry to inquiry. I would say that we have in fact given regard - -

**MR O'CONNOR:** May I just - sorry. No, I was just going to make that point in respect of, as you said you could be more specific and not include certain areas, and that's entirely proper so long as something focusing specifically on an area such as cities doesn't have an indirect result that may affect the broader areas and they haven't been considered. I suppose that's maybe what we were considering when we made the submission.

**PROF SNAPE:** Yes, I take that point. But the emphasis must of course differ from inquiry to inquiry. But then going on to the various points which you make and which are summarised on the page 2 and then addressed in detail later on, with respect to the first two, that is, the structural changes which have occurred due to various things that have occurred in the last years - privatisation, deregulation etcetera, etcetera - and the effect they've had on employees and also for the improvements in productivity and efficiency etcetera, and again we are drawing attention to the efforts of employees, similar points have been made to us by the Department of Transport and by Qantas in particular and we take those points.

I think that particularly at the beginning of chapter 4 we do address them but we address them over two or three pages as a backdrop to what we then go on to examine and I think it's quite fair to say that change and the adjustment to that change and the improvements in productivity and the efforts of the employees etcetera do not permeate the report. We regard it as a backdrop and went on, and we take that point and will address it in the final report, that we may not have given the credit that was due. It was not due to any lack of will to do so, but we take that point.

**MR O'CONNOR:** It's just a matter of emphasis I suppose to the extent that those matters are considered.

**PROF SNAPE:** That's right. It is emphasis and the way it comes out, in a sense, and we took it as a backdrop and went on and I think that the fact that the changes that we are recommending to a significant extent are in fact a development of the way that the things have been going in the past and the department was particularly concerned that we didn't give that emphasis to it, and we take that point.

I'll skip the third point and go to the fourth one, I think, because I'll come back to the third one. "Does not address the net employment impact of its recommendations," was the next one. As we indicate at quite some length in the report, this industry is not like other industries. Because of the nature of the regulations etcetera, the manner in which this product, this service, is traded differs very, very much from others. It is not like many industries that the commission has looked at in the past in which we can say if we lower the barriers at the front here, for example, then we can make some estimates of the increased imports, we can make some estimates of the effect that it might have on domestic production, on employment and so on. In many cases we're able to do that.

In this case the whole structure is different. It's different because anything that we do is in a negotiating context. We have not, as you acknowledge in this, gone for unilateral liberalisation. It's not just us opening it up and then seeing what happens. It's in fact going for a negotiated liberalisation. Therefore the effects that will happen in terms of the structure of the industry - in this very rapidly-growing industry, I might say, not contracting industry like many of the industries we look at - the structure that will emerge is not going to just be determined by what we do but it's also going to be determined very much by what we're able to negotiate with our partners and what other countries do too. Therefore we're not able in fact to be making the same sort of analysis of the effects specifically on the Australian industry when what is going to emerge is far from being within the degree of control it is in most industries, because of that negotiating framework.

As I said, this is a rapidly growing industry in the world and in Australia, so it's in a growth context. It's in a context where a huge host of changes are going on, with alliances and various other things, all of these, and as I say, a negotiated aspect of it too, so that it's not in our control. We can't even produce an international air service in this country unless another country lets us do it, and that is even for Australians, which is essentially Qantas supplying it to Australians as a domestic transaction. Not even that can be done unless the country at the other end is agreeing to it. So it's for that reason that we're not really able in this case to make any estimate of, as you say, the net employment impact of its recommendations. That's not to say that there may not be implications for the employment conditions etcetera etcetera as you refer to, but I think one has to see that it is different from many others.

As to the balance of payments, that was not put in the list of the things that we have to take regard to, and I would say that that's very fortunate because I don't think that one can do this. In a day of floating exchange rates and very volatile capital movements one does not know and one really cannot estimate what any change in the regulatory structure for a particular industry will have on the balance of payments. So you don't really go on to expand on that much elsewhere, but I'll say we didn't address that and in fact I would argue that we should not address that in this case of floating exchange and in the type of economy that we've got these days.

That brings us to safety, which is the third point. I think actually there might be a typo in the third point as it stands because, as it reads, the report is deficient in that it does not adequately make the case that its recommendations will damage Australia's internationally renowned record for airline safety. I take the point but not quite the English I think in that case, but we of course have not suggested that it would damage it, let alone make a case for it. But, taking the point that is elaborated on later, we had a very lengthy discussion yesterday with the Pilots Association and they spoke quite at length about safety implications and gave us a number of articles.

We do have a sentence or two in the draft report where we say that we haven't seen any evidence that the sort of liberalisation that we are suggesting would in fact have implications for safety. There are a number of arguments that one can put why it might and so on, but when we come to hard evidence and we are trying to make comparisons with other countries where there has been liberalisation, for example, the articles which were supplied to us on this subject - and they're academic articles. There has been quite some sophisticated testing of the proposition with respect to the United States, and the evidence does not support the proposition that liberalisation or, in the case of the United States, deregulation, has had a significant effect upon accidents or incidents.

On what we've heard so far in terms of hard evidence we would not I think wish to change the thrust of what we said. We are still open to being convinced on it by evidence rather than by arguments, and we've had the analytical arguments put to us of what might be neglected etcetera etcetera, but nevertheless when it comes to the hard evidence we have yet to see any substantial evidence. We would take the point that we probably should address this question in rather more detail than we have so far, but I think that in terms of changing the position that we stated we yet have to be convinced.

**MR O'CONNOR:** Is it the commission's view that the industry in the United States and the industry in Australia have comparable safety standards today?

**PROF SNAPE:** I'm not quite sure that we have a view on that as such. The Australian industry, as you point out, has got an exemplary safety record, and that safety record, when we're talking about the type of airlines that we're talking about in this report, in terms of incidents or accidents, we have not had any evidence which would show that the changes in Australia so far have had effect on incidents or accidents. So there are anecdotes, but there are always anecdotes, but when one

looks at hard statistical evidence we haven't had that, and in the United States, just looking at the changes in the United States also, looking at it in aggregate again we don't see any significant evidence.

Part of the problem in this is that fortunately accidents, particularly accidents rather than incidents - the evidence on accidents is very much stronger - are very infrequent events. When you've got infrequent events like that you can easily get blips on the data, so that one needs a significant series in order to be able to discover trends. But so far the evidence that we have from these academic studies, which seem to be very soundly based analytically and which were supplied yesterday - or our attention was drawn to them by the pilots' union - would not lead us to change our view.

**MR O'CONNOR:** We may wish to respond particularly with respect to the matters you raised in relation to gleaning from the United States figures after their liberalisation, where there's been in your view, if anything, a negligible effect on safety. We may want to respond to that, and we may also need to respond I think as to whether we should be comparing Australia with the United States. If I can just proffer a view now, it may be the case that, given the differences that may have already existed in both countries, if it is the case that there's been no major effect to safety in the United States, it may well be the case that liberalisation wouldn't have affected their existing arrangement. That may not be the case, however, in Australia, given the standard and given the relative difference in safety. But if we see it's reasonable to focus and respond on that particular issue, if it's of assistance to the commission, we certainly will do so in relation to that point.

**MRS OWENS:** In terms of your question about Australian safety versus the US, we haven't actually been looking at that, as Prof Snape said, but the Pilots Association submission that we got the other day has got some very interesting attachments which compare whole loss accidents annual rates between US operators and non-US operators, and it basically shows what's been happening between 1960 and 1996. There's a downward trend for both US and non-US. There was a significant difference early on but "non-US operators" has got to be everybody.

**MR O'CONNOR:** I was about to say there could be a few non-US airlines that would bring that area into disrepute; I'm not sure.

**MRS OWENS:** So the trend lines are actually higher for the non-US but you've got everybody else lumped into that.

**MR O'CONNOR:** Yes.

**MRS OWENS:** But it would be really interesting - - -

**MR O'CONNOR:** If you could break it down further.

**MRS OWENS:** - - - if you could have that sort of information for Australia and the US.

**MR O'CONNOR:** Yes, it would. I think it would make it easier to compare, given the comments made.

**MRS OWENS:** There has been a very significant downward trend nevertheless, and the articles that Prof Snape referred to also show in the context of the US this downward trend as well.

**MR O'CONNOR:** Downward trend in terms of accidents?

**MRS OWENS:** Accidents and fatalities.

**MR O'CONNOR:** Which is of course welcome. That seems to us as a result of improvements to technology and improvements to systems of operation, but- - -

**MRS OWENS:** Yes, there's a lot of other things going on at the same time and it's very hard to disentangle the effect of deregulation and the effect of just structural change in the industry, the technological change and so on. It's an interesting exercise to be done, I think.

**MR O'CONNOR:** It's hard to work out who's responsible for the good and bad, but certainly there have been more things happening than just the liberalisation of the airline industry in the US that may have produced safety results, if that is the case, I would think.

**MRS OWENS:** But I think we take your point that, whatever comes out of an inquiry such as this, it's one of the issues that you certainly can't afford to ignore. I don't think we intend to do that; just to recognise the difficulties that we have with that particular issue.

**MR O'CONNOR:** I concede that.

**PROF SNAPE:** I think possibly there's one other point of clarification that I wasn't quite sure what to do with; let's put it that way. That refers to the international obligations where mention is made of the ILO commitments and a statement on page 12 where, "If the Productivity Commission ignores Australia's international obligations and commitments in terms of labour standards," and over the page, "The report would benefit from inclusion of Australia's commitment to international labour standards." Again I suspect you're not in a position to elaborate on that but I am not quite sure what to do with that frankly in terms of write a report.

**MR O'CONNOR:** I mean, without going to the issue in detail, clearly it's a major issue for us if there is a covenant that this country has with another or with a series of other countries, as is the case with ILO conventions. Clearly they have to be recognised when there are recommendations that may be embraced by any

government of the day, and if there is a potential breach, then clearly it should be brought to the attention of anybody that's sitting to consider changes which may precipitate that breach. But again, given my position, if we need to perhaps clarify - we believe it's clear there but if there's anything that you seek for clarification or you're asking us to justify its relevance, then we're happy to perhaps add to that.

**PROF SNAPE:** I think that's overstating it. It's really that I assume there's nothing aviation specific, in which case it's just a general statement.

**MR O'CONNOR:** No, we would suggest it runs through all industries, given the obligations are to employees in Australia as a whole, wherever they work.

**MRS OWENS:** Can I ask in that context, if these issues are being looked at for example at APEC, would this be something that would be picked up in that context?

**MR O'CONNOR:** We would believe so. I would be of the view that any government that has ratified or has accepted the particular convention, whether it be a United Nations convention or any other convention - in this case an ILO convention - it should be referred to anybody that would affect that, and that's whether it's APEC or anywhere else. I know for example that when NAFTA has sat down the issues of ILO conventions come up readily. I'm not trying to go off the point; I am just trying to exemplify our contention by saying that other large organisations when they're looking at international trade or international treaties look at labour relations and look at what obligations each country has when deliberating. Now, we just say that Australia has certain industrial obligations and they should be considered if those obligations are going to be unfulfilled because of a change in an industry.

**MRS OWENS:** I'd like to return just very briefly to the issue of the net impact on employment and just add to what Richard said. He raised the problems that we have when you're talking about this industry, which is different from other industries, but in terms of establishing what the net effect is on employment there are swings and roundabouts. I don't know what would happen under our recommendations in the airline industry in Australia but there would be potential, if there was any loss of jobs - and I don't know whether that would be the case - to pick up some jobs in regional areas or in the tourism industry and so on. So, I mean, that's another factor.

The other problem - it's a bit like the problem we have with safety. It's very difficult to disentangle what's going on because of other factors that are occurring. There was just an article in today's Financial Review about a possible deal between Air New Zealand and Ansett, for example, as a result of their alliance, where they're talking about bringing together their engineering and maintenance divisions. I gather the union movement has been involved in that - and I don't know whether it's your union or another union - and that could I presume have some impact on jobs at both ends. So there are other things happening as a result of globalisation and airline alliances which could also be having an impact on jobs both now and in the future, and it's very hard to sort of disentangle all those other factors that are occurring.

**MR O'CONNOR:** Sure. We don't say it's possible to estimate down to specifics, and of course given the situation that the commission has already outlined this afternoon to me, that it's difficult given that there's no capacity to unilaterally change without other people being involved, of course; it's impossible. But what we do say is that, if there are trends either in loss or gaining of employment, they should be considered, and with respect to New Zealand the fact is that the unions and countries will cooperate and airline companies will cooperate when it's in their interests and within the regulations that control them.

But in relation to New Zealand, for example, that may not be a net gain. The fact from what I understand is it may be a net gain and it may be a net gain for New Zealand in that the disparity in the markets - that if you get equal entree into each other's markets and the Australian airlines get a greater capacity to deal in New Zealand, because they have some already now - I know Qantas has some now - and have New Zealand airlines operating here in a greater capacity, I would say they would then be of a net benefit; they would get a greater share potentially.

So I'm sure that the airline companies will operate in their best interests, but in relation to the commission's recommendations, if we're to have regard to employment, which is one of the issues for you, then we say that we can see some dangers of losing employment. I think that's a major issue, given the current economic and political climate of this country. To see Australian jobs being lost potentially even and for that to be a recommendation of any board set up by a federal government in our view is a real problem. It really doesn't seem to take into account the current economic climate, and I think that would be unfortunate.

**PROF SNAPE:** Yes, I take the point but again I think that very example illustrates some of the problems. We know that Ansett's trying to restructure a number of its activities to improve its financial position. That in itself has got implications for employment and so there are indirect effects as well as direct. Secondly, with respect to that particular exercise, it could be that they're trying to position themselves so that they can be undertaking more maintenance for third parties. If that is so, then what might seem to be a reduction of employment in the short term by amalgamation may in fact, even in that specific activity, be an increase in employment in the longer term.

**MR O'CONNOR:** As long as most of the swings and roundabouts are here and not in other countries I suppose we'll be happy, but that is a major issue. I suppose it's difficult to work out precisely.

**MRS OWENS:** You may not have read our report but we had a regional package in the report which involved freeing up unilaterally access to secondary airports. Did you see that as being advantageous or did you - - -

**MR O'CONNOR:** I can't respond to that unfortunately but we will respond to it if you wish in relation to that particular matter of secondary airports.

**PROF SNAPE:** If you wish to respond that's fine.

**MR O'CONNOR:** Okay. We'll do so, yes.

**PROF SNAPE:** We'll leave that to you.

**MR O'CONNOR:** Thank you.

**MRS OWENS:** There is something in the submission in the context of employment.

**MR O'CONNOR:** Yes. I'd rather not make comment but I certainly am happy to forward something to you if that's okay.

**MRS OWENS:** That's fine.

**PROF SNAPE:** I think we've outlined the reaction we had. That was a very positive reaction in terms of thanking the union very much for making the submission and the earlier submissions and also the articles which you've given, coming before us. We appreciate that very much and we also appreciate, Brendan, the position that you're in today and thank you for doing it at such short notice.

**MR O'CONNOR:** Again we apologise in relation to the unfortunate situation we found ourselves in today, but we will respond to those points. Thanks again for understanding our position .

**PROF SNAPE:** Thank you very much. Just as soon as we shuffle around a little bit we'll have Australia World Airways - that's next on the agenda - and Bryan Palmer and Simon Warranders, I think.

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**PROF SNAPE:** Okay. We'll resume. We have Australia World Airways with us and we've got Bryan Palmer and Simon Warranders with us. We're very grateful to Australia World Airways for the contributions that they have made to us in this inquiry. Australia World are in quite an unusual position in that they have been knocking at the door for quite a long time and flying, and I suspect they're unique in this regard in terms of the length of time that they've been negotiating and receiving an allocation of capacity. So they're in a position to be able to comment on processes in a way that perhaps no-one else is, and we're very grateful to you for the contributions that you have made.

You will know the procedures and we'll ask both of you to identify yourselves on the tape so that the court reporter is able to say who's voice is who, so we'll invite you to do that now.

**MR WARRENDERS:** Simon Warranders, Australia World Airways.

**MR PALMER:** Bryan Palmer Australia World Airways.

**PROF SNAPE:** Thank you very much. Who is going to lead off? Would you like to speak to your submission?

**MR WARRENDERS:** Firstly, thank you, Richard and Helen. We're very pleased to be here today and we'd like to say that we have been through the Productivity Commission's draft report and we certainly welcome the report and we want to say what an extensive and certainly comprehensive report it is. We submitted last time, in March to the first round of public hearings, to the Productivity Commission and we've submitted subsequently in response to your draft recommendations for the draft report. There is a short response along those lines which we will submit to the public register. In commenting and talking through our report, the first point we want to make is regarding just some quotes which were made in the draft report regarding our cost structure and our involvement in the process of the IASC allocation procedures.

Firstly we would like to say that in section 6, page 133, under the section Capacity Allocation and the IASC, there were costs ranging from 350 to 400 thousand dollars which relate to our costs in terms of our procedure through the IASC allocation process. We really have in our response just highlighted directly what those costs have been attributed to. In addition we've said that, to achieve our objective and to meet the government requirement with which we've had to proceed through, we as a company have a paid-up capital close to \$1,000,000, which we take as the cost of bringing Australia World Airways to its current state.

In section 6, page 131, under Capacity Allocation and the IASC, a figure of \$400,000 was noted as the costs associated with satisfying CASA of AW's ability to meet its AOC licensing criteria. What we want to clarify is that this expense constitutes the total estimates costs of all the necessary procedures associated with obtaining an AOC. There are however significant additional costs for a start-up airlines such as ourselves in our pre-application expenditure.

Under section 3 of your draft report under Australia's Aviation Policy and Process, what I'd like to do is merely emphasise one or two points in terms of your recommendations. We certainly agree that the minister's policy statement plays an important role in the interpretation and implementation of the IASC Act 1992, and in this respect we felt that it was quite appropriate to have the policy statements published and updated regularly. Under 4.2 of your recommendations we agreed with your comments and we felt that the IASC certainly plays a pivotal role in the coordination and allocation of capacity.

Under recommendation 5.1, a Regional Reform Package, the point we would like to emphasise here, although it doesn't necessarily affect Australia World Airways we would really just like to say that we felt that if there were unrestricted rights for foreign airlines to uplift domestic freight this may damage the viability of domestic airlines, particularly if there was no reciprocal trade-off in that arrangement. Running through to your recommendations under the International Air Services Commission under 6.4, we agree with your proposal in respect of automatic allocation by the Department of Transport and Regional Development where capacity is uncontested or unconstrained.

Under your recommendation 6.5, with which we agree, we would like to state that we felt that the International Air Services Commission has a significant role to play in the determination of capacity allocations in circumstances other than where the capacity is uncontested or unconstrained. Under your recommendations in section 8 onwards, Further Liberalisation, in brief we'd like to make a general comment, to say that Australia World Airways supports the Productivity Commission's recommendations in encouraging further liberalisation of ASAs to achieve a more flexible industry environment and therefore hopefully a more competitive industry environment.

We felt that there were dangers in uncontrolled growth of in particular commercial alliances which could well result in the reduction of competition through the formation of perhaps perceived or actual cartels which may inhibit the establishment or growth of start-up airlines. In terms of liberalising ASA agreements, we felt that obviously there needed to be a dual agreement at both ends of any particular route involved. We felt that any major structural change should be carefully considered in line with these comments, as if not there's a possibility that there could be a resultant decrease in competition. In finalising our comments under that point, Australia World Airways would like to witness a global industry environment whereby we felt the larger or mega alliances would compete with each other, with regulations in place to ensure sufficient access for new niche airlines.

Point 5, in terms of access to airports, we really wanted to state that the Productivity Commission perhaps should give consideration to the availability of terminal space in a deregulated, liberalised or more competitive environment, especially in terms of start-up airlines.

In closing, we want to make a comment on foreign investment restrictions. As a start-up airline we believe that the current restrictions in respect of foreign investment should perhaps be relaxed to enable capital to be acquired for start-up carriers where it is not readily available in Australia. Obviously this has particular significance to our start-up. That really is a summation of the points we'd like to raise today.

**MR PALMER:** If I could just add something on this foreign investment, I know there are reasons why with airlines they think that there shouldn't be strong foreign investment in Australian airlines, but one could draw the analogy of course with other equally or perhaps more important industries such as energy, electricity and things of that nature, where we don't have the similar restrictions imposed. Yet I suppose we could more easily do without airlines than we could do without electricity. I was reading in the newspaper today that Edison came top as the most important person the group could think of. I notices the Wright brothers didn't get a mention, so I think that relaxation in that area is important.

**PROF SNAPE:** Good, thanks very much, Simon and Bryan. With respect to the alliance formation that you referred to and the threats to competition that you fear come from it, are the processes of the ACCC not adequate to guard against the type of cartel and monopolistic practices to which you refer?

**MR PALMER:** Yes, I think they might be but you've got to bear in mind that a lot of these might originate in areas where such stringent controls didn't apply. Whether our own control in the ACCC would impinge on that, I don't know. One would think at the present time that they would intervene. However, I suppose there are some examples recently that they've looked at in respect of airlines where they have given in in relation to what perhaps we could have perceived to be restricted competition.

**PROF SNAPE:** I suppose the examples that you have in mind in the airlines industry are the BA-Qantas and the Singapore-Ansett-Air New Zealand. Have either of those had serious implications for your plans, that you would see them as inhibiting the competition that you might otherwise have been giving?

**MR PALMER:** I think probably an example we quoted last time was the code-sharing arrangement between Qantas and British Airways, which we believe would have a long-term adverse effect if we were to become operational. That's the only example I can think of. I haven't studied it in much detail but that's the only one I can readily bring to mind. At this stage those are relatively new and I suppose they have implications for the future where already there are discussions amongst airlines to become more deeply involved in these sort of alliances.

**PROF SNAPE:** I suppose that a new start-up airline that hasn't yet started flying does have some difficulty making alliances, but are alliances on your agenda?

**MR WARRENDERS:** I'd like to comment on that; most certainly. As part of building our infrastructure for commercial operations and also in terms of providing

the International Air Services Commission with evidence of our ability to operate internationally, we developed a business strategy which we proposed to the commission, and that certainly did involve alliance in Europe with a smaller carrier, which we felt would benefit the start-up of Australia World Airways in many areas in that region.

**PROF SNAPE:** Have you thought it necessary to bring that proposal to the attention of the ACCC?

**MR WARRENDERS:** In terms of nominating the framework of our alliance?

**PROF SNAPE:** Yes.

**MR WARRENDERS:** No, not at this stage. I think rather than a marketing alliance it may be more a business partner in commercial alliance.

**PROF SNAPE:** So it's not one that would have implications for competition in Australia that already exists?

**MR WARRENDERS:** Certainly not.

**PROF SNAPE:** I take your point about the difficulty of raising capital, and we make reference I think in the report to the difficulties of start-up airlines getting capital when the equity that they can offer to other parties in other countries is very circumscribed. But of course, if one were to be offering greater equity, then that makes a problem with the designation. It's one thing to say that you'd like to have 50 per cent foreign equity in it or whatever you would like but, of course, when one gets to that then one runs up against the rules of designation as an Australian airline.

**MR PALMER:** Yes, it certainly does and we've taken that into account in the comments we've made. But in the whole liberalisation process these, and particularly with the ASAs - of course these things may well be taken into account at that time and it could change the whole procedure and the manner in which the ASAs are negotiated. I think if they were designated, even if they had a bigger foreign ownership involvement, the manner in which the carrier was designated on a government to government basis, could possibly overcome that difficulty of a strong foreign investment in the carrier.

**MRS OWENS:** I was going to ask about a comment you have at the bottom of page 2 where you're referring to our recommendation 4.2 which is about trying to improve the consultation process in the context of negotiating air service agreements and you make the comment that you think that the same requirement should apply to the IASC. I suppose that raises the question about what happens now and why you think that there needs to be some improvement in the IASC's consultation.

**MR PALMER:** I suppose at the present time it's a very involved process going through the IASC. I think this is what you're referring to in relation to the various

route applications, so that if you were making an application, say, for an uncontested route, you'd still have to go through the same very involved and costly process to obtain a licence or approval, capacity approval, and we believe that some of those processes could be simplified and should particularly also apply to the point that we've made in relation to assessing the commercial viability of the project where we believe it should be left to the board of directors of the airline rather than the IASC. We're not incidentally blaming them for that. We know that it's part of the requirement of the act that they should do that, but we believe it could be simplified. Where there is a competing application of course, then that poses a different problem altogether.

**MRS OWENS:** But you've actually said in response to one of our other recommendations relating to moving the uncontested applications out of the IASC into the department - you seem to be there supporting retaining a role for the IASC in those uncontested applications.

**MR PALMER:** I think maybe if I could comment just on that response, we have an amended response to that.

**MRS OWENS:** Okay, this is one which you've changed.

**MR PALMER:** Exactly, and there was a contradiction in - or there was an amended version we have of that and what we're basically saying is that, as I stated when I was running through our report, we do feel that the IASC has a pivotal role in coordinating an allocation of capacity where capacity is contested whereas- - -

**MRS OWENS:** So where it's not contested you'd be happy to see just a simple process and - - -

**MR PALMER:** We agree with the Productivity - absolutely.

**MRS OWENS:** The other thing I wasn't clear on was your response to our proposal. We asked for comments relating to a proposal that start-up provisions should be removed from the policy statement of the minister and I would presume you'd have a fairly certain or positive view, or you'd have a view on that particular proposal that we should know about.

**MR WARRENDERS:** As far as the start-up provisions in terms of a designation or capacity, they apply to the new entrant on any route. Now, I suppose if we are a new entrant on a route, yes, we would certainly want to see - or we would be encouraged to see the retention of the start-up provision. However, it really depends on the status of the carrier on - - -

**MRS OWENS:** I mean, if you fly the route that you have approval for you're the first airline into that route. So Qantas can come along next year and say, "Well, we want a flight," and they'd become the start-up.

**MR WARRENDERS:** That is in fact the circumstance that I'm referring to.

**MRS OWENS:** Yes.

**MR WARRENDERS:** Then the benefit I suppose of those provisions - - -

**MRS OWENS:** So it could work both ways for you?

**MR WARRENDERS:** It could. Well, that's the point I'm making.

**MRS OWENS:** Yes.

**MR WARRENDERS:** And I think if it's retained - we actually made this point in our last submission and we struck this situation with the commission, that perhaps it's not an anomaly but there is certainly a grey area in terms of the start-up provisions and the nominational status of a carrier as a new entrant or an incumbent and whether or not they comply with the start-up procedure or start-up provisions on a route.

**MRS OWENS:** We've just been handed the revised version of your submission.

**MR PALMER:** Yes, I think it's interesting that you could get Qantas as being seen to be - well, just using them as an example or Ansett or any case, as a start-up carrier when they've been operating for 75 years and we've been operating for 75 days perhaps. So I think that's where the confusion - it needs to be better defined as to what is an incumbent airline because at the moment I think it arises because of necessity of the IASC to do their determinations route by route, not taking into account the situation of the airline concerned, and I do think that needs some form of clarification or amendment.

**MR WARRENDERS:** Helen, in the example that you quoted, that that is in fact the example that we refer to, is if we have a capacity allocation on a route we become the incumbent and then an established carrier may well receive under multiple designation a capacity allocation, they in fact become the start-up. So we would like to see some clarification on those points.

**MRS OWENS:** It's a matter of degree as to what you do about that provision. I mean, you could change the definition so start-up provisions relate to small new carriers and only small new carriers or you could drop it altogether.

**MR WARRENDERS:** It was our experience that the minister's policy statement at the time really stated that - underlined that it was desirable for capacity to be utilised. Then you had the degrees of utilisation which fell in behind that policy statement, which in turn influenced the allocation or the criteria for allocation.

**MR PALMER:** And also, if I might say so, impinges on the comments that you have made in relation to the renewal where you think it should be in perpetuity I think and I think we believe the same because that again gets tangled up in the same problem.

**PROF SNAPE:** As long as there's a user, use it or lose it.

**MR PALMER:** Yes, of course.

**MRS OWENS:** I'm just checking to see if there's anything else I wanted to ask you. I think there was, but I can't remember what it was. I was going to ask you, you've very kindly given us more information about your costs and I think that we quoted the figures in the report based on our discussions at the last hearings and that's good to have the clarification. I was wondering if you have any views as to whether there's any room to reduce those costs. Did you encounter duplication in processes that you think could be removed or do you think there would be a better way of doing it whereby you could actually save some money?

**MR WARRENDERS:** If I could just clarify, in terms of our process through the IASC and the costs that we incurred in that process?

**MRS OWENS:** There's the IASC and the licensing, the CASA. There's two lots of figures. You've got two lots of figures and I'm wondering whether there's any room to streamline things so that you're not out of pocket so much.

**MR WARRENDERS:** I think really we've made the point that as we see a pivotal role for the IASC, we certainly feel that in many respects there could be a streamlining of the allocation criteria. In terms of the amount or the figures that we've quoted, obviously to establish a new start-up airline on certain routes the amount of money that's required to do that is extensive in terms of even prior to commercial operations, in terms of constructing a business plan, building a company structure and employing the necessary professionals in all disciplines to build an airline and obviously the amount of money that is required is substantial. However, to answer your question, obviously we would like to see - perhaps if there's another start-up airline there are perhaps ways that it could be streamlined to save costs.

**MRS OWENS:** Any suggestions?

**MR PALMER:** Well, I think the actual process at the moment is quite complicated and particularly in relation to the commercial viability, that you could be subject to challenge all the time on, you know, your assessment of the - what you believe to be a commercially sound proposition as against what the IASC - who are required incidentally to do that, to make their own determination on that. We made a number of applications. When some other carrier applied for the route we had to submit another application.

These applications are extraordinarily detailed. I mean we produced - it was something of the unabridged edition of Ulysses by the time that we'd finished with this and of course the processes of building up an application and a submission of those dimensions becomes extremely costly. You've got to have an input from a number of areas and I think that it would be necessary to change the whole processing procedure

that is required at the moment through the IASC. That is quite a complicated arrangement.

**PROF SNAPE:** As one gets towards the end of hearings one's mind latches onto things I suppose and the idea of giving a submission the IASC in a stream of consciousness a la Ulysses is very tempting as a thought. I suppose the question though is if one is thinking of these costs one had to get a business plan anyway and one had to go through a lot of these things. I'm not quite sure whether this estimate of 300 and 400 thousand is really the additional costs which were warranted by the IASC process or whether they were the total costs that you were involved in getting up a business plan anyway, which you'd have had to do anyway.

**MR PALMER:** It's true; part of it would be the necessity of getting a business plan.

**PROF SNAPE:** Okay. So quite a lot of this is really costs that you would have had to incur anyway.

**MR PALMER:** Yes but, Prof Snape, I think the problem arises here that of necessity, because of the requirements that the IASC are under or the constraints that they operate under, it took a long time - it took 4 years, I think - to get approval to finally satisfy the IASC, because one of the requirements was that we had to have our funding in place. We were confronted with a dilemma that we couldn't go to people for funding until we had approval from the IASC and the IASC wouldn't give us approval until we had the funding. That went on and on and on, that process, until eventually we managed to persuade them to give it to us subject to funding for a limited time. We had to get our funding within a prescribed. Now, that involves a very difficult situation and the time alone involved in that, of course, of keeping an office open and all those sorts of costs that go along with that, do add to the total cost of any start-up carrier.

**PROF SNAPE:** If you cast your mind back to when you started this process, if within a few weeks of your starting it you had been able to get IASC approval, how long do you think it would have taken you to get flying?

**MR PALMER:** It takes about 9 months, you could say 10 months, to get organised, providing you had the finance of course. But once you get the IASC approval it does enable you to put certain processes into action. But again I must say that you've still got to go through the process of getting the finance, and that isn't easy, as we've found out. But circumstances change, and I think one of the difficulties that arises is that the longer you are trying virtually the harder it becomes, because people, perhaps financiers, wonder why you haven't got it earlier. Going through the processes that we're required to go through at the moment obviously makes it more difficult to convince financiers that it's a good proposition.

**PROF SNAPE:** To put the question in another way, how many years or months do you think the IASC processes delayed you?



**MR PALMER:** The way it went, I suppose you could say it might have been a couple of years perhaps because of the procedures that they were required to follow. Again I must emphasise we have no argument with the IASC. They have been extremely helpful to us.

**PROF SNAPE:** I understand that; it's the process.

**MR PALMER:** Yes. I wouldn't like people to get the impression that we're saying that it's their problem. It's the processes that they're required to go through I would suggest delayed us at least 2 years.

**MRS OWENS:** I was just a little bit confused about what you said on allocation of code sharing rights and I've looked to your new submission to see whether it's clarified. It may be me rather than you, but on page 3 you talk about, "The allocation of code sharing rights should be closely guarded" - this is the third para down - "and not practised to utilise unallocated capacity merely to service government policy," and so on. Then in the next paragraph you say, "Unrestricted rights for foreign airlines to code share on Australian airlines to all points in Australia would provide a distinct benefit to that airline and the consumer." I couldn't quite understand what you were getting at. You seem to be in one para saying it's something that should be restricted or limited and then in the next para saying that there is at least a benefit to the consumer.

**MR PALMER:** One is international and the other is domestic. If you're doing it internationally, then of course the limited capacity that is available on any route could be restricted should somebody take up a code sharing arrangement with someone else and then deny the Australian carrier access to that route because the capacity has already been allocated through a code sharing arrangement. Domestically, of course, no such thing applies and it's merely an ability for a carrier to quote the same flight number or a code through to a final destination with Australia using the services of a domestic airline, and that of course could be quite unlimited because there's no restriction on capacity.

**MRS OWENS:** Thank you. Now I understand.

**PROF SNAPE:** I think I've got to the end of my list and Helen is indicating that she has too, so again we'd like to thank you very much for the participation. I think that the references to your experience in the draft report will indicate what a valuable input we found it in understanding your experiences. We thank you for this additional submission and also the other help that you've given us. So thank you very much.

**MR WARRENDERS:** Thank you. On behalf of Bryan and myself and Australia World Airways we appreciate having the opportunity to respond.

**PROF SNAPE:** Thank you. We'll now adjourn for some afternoon tea for a few minutes and resume at 10 past 3 with the Tourism Commission.

**PROF SNAPE:** Okay, we resume our hearings and we welcome the Australian Tourism Commission and we have Margaret Hudson and Andrew Larcos before us. Welcome and thank you very much for your participation, the earlier submission and for this submission and for coming today. As you know, we need to have voice identification on the tape and so we'd ask each of you to identify yourselves please.

**MS HUDSON:** Margaret Hudson from the Australian Tourist Commission.

**MR LARCOS:** And Andrew Larcos, Australian Tourist Commission.

**PROF SNAPE:** Thank you very much as I say, and again thank you for your submission, comments on the draft report, and would you like to speak to that?

**MS HUDSON:** Certainly. Well, I'd start by saying that we certainly welcome the opportunity to provide some final comments to the inquiry. I'll only make a few brief comments because I think most of what we've said is really contained in our submission and we're happy to take any points of clarification on what we've said in that. I'll start by first of all commending the draft report. The Australian Tourist Commission certainly agrees with the broad thrust of the report and we really consider it a very valuable input to the future direction and policy direction of aviation - international aviation policy, I should say.

Firstly, in an overall sense we very much believe that the current situation where there are strong regulations regarding our international air services are unnecessarily restrictive. We outline this in our first submission and again just to reiterate, we really believe that the current regime has an impact in terms of diminishing airlines' actual capability for flexibility in terms of things such as where they actually fly into, the range of services that they offer, and in fact frequency of those services. We believe that having less restrictive arrangements would certainly have the potential to result in greater competition, potentially also reduce air fares, and the development of new routes which would ultimately have benefits for both the consumer and the overall economy of Australia.

We do, however, recognise very strongly that DoTRD have within the framework within which they have been working been able to negotiate a number of services which have some liberalisation prior to, say, many, many years back. Particularly we note the recent negotiations with Germany where very liberal arrangements have been negotiated, such that from my memory there are things such as third country carriers having access to the route, increased capacity and also no restrictions on city pairs, and that's a sort of move towards liberalisation that we're very much in favour of.

Moving to a couple of the specific recommendations in your draft report, in regard to the consultation processes we agree with the recommendation regarding a formalisation of the current processes. We also add as outline in our first submission that the ATC would in fact welcome the opportunity for even further involvement in the actual negotiations. We believe that we have a lot of in-depth market intelligence

and knowledge and certainly in the talks where - tourism and that may not be in all talks - but where tourism is a key feature of the size of that particular market we would welcome the opportunity to actually be involved in the negotiations directly.

In terms of your recommendations relating to regional reform we very much welcome those recommendations. We agree strongly that the sorts of things that you're talking about will, from a tourism perspective, result in the likelihood of a greater spread of visitation across this country, which is an objective that we're very strongly in favour of for a number of reasons in terms of enhancing the visitor experience. For an individual visitor to see more of this country we believe is in general a good thing and also in terms of spreading the economic benefits of tourism we believe that the more that aviation policy can work towards achieving that, the better.

I'd like to make a brief comment in terms of charter policy. We note that there is not a specific recommendation in relation to charters in the report and I think we've stated previously, both in evidence and in our report, that we do not have a major problem with the current arrangements in that we don't have any evidence of potential charters being dissuaded from coming to this country because of the current policy. But we would perhaps be in favour of something that actually stipulated a more liberalised charter policy, so that if there was ever any situation of a potential impediment to a carrier which wish to operate charter services that any such impediment, if they were unsure as to how likely their approval would be, we would be in favour of a situation where that was very clearly spelt out to any potential operators.

The final comment is in regard to the overall thrust of the report and further liberalisation. As I stated in my opening comment, we very much agree with that and the recognition of the need for greater liberalisation and note that in the report itself you're commenting on a number of different ways in which that could be achieved. So in conclusion we basically say that we welcome the report and we're very much looking forward to seeing the report itself and its outcomes in its final form.

**PROF SNAPE:** Thank you very much for your comments. Andrew, do you wish to add anything at this stage?

**MR LARCOS:** Not at this stage.

**PROF SNAPE:** Good. I would like to ask about the secondary gateways. A number of people have suggested to us that there is only one primary gateway to Australia and that all the others are secondary and that that's how we should make our recommendations, that in fact instead of saying Melbourne, Sydney, Brisbane and Perth should remain as designated in the agreements, that in fact it should be open go except for Sydney - within the overall negotiated capacity, that is. Do you have a reaction to that?

**MS HUDSON:** Our view on that would be that we would be in favour of no actual designation of individual cities. So we would view that the negotiations should be such that airlines have the opportunity to nominate whichever cities they so wish to fly into. I guess when we look at those four cities - and we were discussing that in terms of what your report actually says on that - Sydney does for obvious reasons appear to almost fall into its own category I think if you look at it statistically, in terms of the proportion of arrivals into Sydney versus any of the other airports. So noting that, overall we would be in favour of no particular classification within that. But I think if you were to look at that, then Sydney is perhaps in its own category.

**PROF SNAPE:** So I interpret that, that if there must be a city designation, then just Sydney.

**MR LARCOS:** I mean, I just add on that, professor, that it's a reality that Sydney really can stand on its own and it's hard to lump in those other three cities - Melbourne, Brisbane and Perth - with Sydney. There'd be obvious reasons why you'd want to separate those four.

**MRS OWENS:** Do you think that if it was to be opened up that there would be potential for tourism bodies in the different states to actually make a difference to airline behaviour in terms of choosing to fly into other gateways?

**MS HUDSON:** I know certainly at a state government level the states are very keen on obviously attracting as many airlines, foreign and Australian, to fly into their cities as they can. So I think it would be a situation where from the tourism marketing angle in combination with the state government and obviously other interests that the states have at hand, that yes, they certainly could play a role in terms of talking with other airlines and making them aware of the reasons why they may wish to consider flying into those airports.

**MRS OWENS:** I think it's one of those things you have to wait and see.

**PROF SNAPE:** In charters I wonder if you would just elaborate a little bit more on what you were saying. You're saying, as I understand it, that you don't see that the arrangements for charters are inhibiting charter access to Australia but you see a potential that it could. What sort of charter policy would you then want?

**MS HUDSON:** My comments were really based on the fact that my understanding of the situation at the moment is that there is some degree of interpretation in terms of how the current charter policy is actually brought forward. We have no complaint in terms of any awareness or actual examples to quote of airlines that have wanted to operate charters but have been rejected by DoTRD for any particular reason. But I can see a situation where it comes up sometimes where our overseas offices will be saying to us that there are potential charter companies out there and they're making decisions in, say, the long term of a 5 or 10-year time-frame, to say, "Okay, there are a number of potential countries around the world that we could start charter services to, so let's look at all the range of charter policies that exist around the world" - and

as you would know, there are many very core charter services between many of the other countries and Europe comes to mind in terms of very much being a charter outbound market.

So I can see a situation in the future where if airlines, potential charter companies, were looking at the Australia compared to other countries, our position is it would be more favourable to have a charter policy which very clearly stipulated how liberal the policy has been in terms of its actual application, so that at that very starting point of a decision-making process potential operators could see that Australia was in fact very likely, if they met criteria, to agree to their operation.

**MRS OWENS:** Would that charter policy still have some constraints in relation to consumer protection or would you see that consumer protection would be handled in some other way?

**MS HUDSON:** I think the issue of consumer protection - and I think we touched on this last time - is certainly important and I'm aware of changes in regard to that quite recently. I don't have enough knowledge to know whether or not the way that is currently being implemented into the charter policy is in fact the most desirable way. I guess all I can say on that is that we certainly would want consumer protection in terms of making sure that potential visitors to Australia are afforded those rights in terms of any potential collapse of a company or something along those lines.

**MRS OWENS:** But you could have those sorts of concerns through appropriate travel insurance policy as you do in other areas.

**MS HUDSON:** Then that may well be something that could be doing that.

**MRS OWENS:** Yes.

**MS HUDSON:** It's a little bit outside of my actual knowledge of the consumer law legislation.

**PROF SNAPE:** Do tourists really seek that consumer protection?

**MS HUDSON:** Certainly in some markets this whole safety factor which is involved in terms of the knowledge you're actually going to get to the place that you are booked to and then the quality side of the safety factors when you're in a market can be very important, yes. Also with EU Air, European Union legislation regarding the promise of what you actually receive as a consumer, is something that is very important to consumers from those areas, yes.

**PROF SNAPE:** So consumers or tourists do worry about the airline going bust?

**MS HUDSON:** Don't know if it would be a conscious worry but I think they would be wanting to know that there are guarantees in place.

**MR LARCOS:** It becomes more of a worry on occasions where a charter operator may go under and that has happened in recent Australian aviation history where you had a crisis with a particular operator and that then in turn raises awareness and consciousness in the travelling consumer. They then become more concerned. If they are going to fly on a non-scheduled carrier they will be more likely to seek out assurances before they fly.

**PROF SNAPE:** Right.

**MRS OWENS:** I'd like to ask you a little bit about your consultation process and you've got a few paras in your submission on this issue and you mentioned earlier, Margaret, that you feel that there's a need for a more formal consultation process. You actually in the submission talk about a direct consultation process. Are you referring there to, instead of having a tourism aviation group within DIST that a direct consultation process would be directly related to DoTRD or - - -

**MS HUDSON:** I think we looked at your draft report in terms of its specific recommendations in regard to that and were using that as a framework, or I guess that's really an option to the way things exist now, and in an overall sense we're in agreement with your recommendation that the process be formalised to in fact widen the process and look at the state interests. We have no specific problem with the current arrangements in that we're an active member of the TAG group and we always participate in terms of attendance at meetings and provision of submissions for the negotiations. But in terms of looking at your report and suggesting that that could perhaps be formalised more and other interests taken into account, ASC was thinking from a state perspective. The TAG group by necessity is really looking at the tourism interests within a state, whereas we recognise that there are wider interests than tourism in many of the states and perhaps therefore it is bigger than just looking at it from the tourism angle of state input to those talks.

**MRS OWENS:** It's also now I gather looking at the interests of the privatised airports as well.

**MS HUDSON:** Indeed, and that's a development since TAG was in fact set up.

**MRS OWENS:** So then there'd be common interests between the airport owners and the states, I presume, and very close common interests. I suppose the question is whether those interests are all best filtered through the current arrangements, through DIST, or whether it should be done more directly and whether those processes are picking up all the interests that we need to consider, such as the consumers.

**MS HUDSON:** As I said, I think from the state point of view it's clear that it's bigger than just the tourism angle, and if the main way at the moment that the state interest is being captured, as far as I understand, is through that tourism forum, then perhaps it needs to be looked at in a wider sense. I think the overall concentration process is an extremely difficult one because, no matter which body you use to

actually form the final negotiation position, you will have so many varying interests perhaps in a competing sense that, whoever does it, I think it's a difficult task.

**MRS OWENS:** You've also said that you'd like to be directly involved in the negotiations, and I just wonder how practical that is. You can only have so many people round the negotiation table. I was wondering, are there other countries that you know of that do bring the tourists and other interests into the actual negotiations?

**MS HUDSON:** I'm not specifically aware of what other countries do. I think our point there is that in a country for example like Japan where something like 90 per cent of actual visitor arrivals from Japan into Australia, or it might even be higher - I think it's 90 - are tourism related, in a negotiation team like that, whilst recognising the team obviously needs to be limited in its size for it to be an effective team, the tourism angle is so strong that our point here is that we think in some of those negotiations where we have on-ground experts who are living and breathing in the market and know many of the market factors and are also working very closely with both the Australian carriers and the foreign carriers as a part of their day-to-day business operation - that that could in fact be an input that would be a useful one around the table or perhaps in the private Australian negotiations prior to getting to the table. That has happened on a number of occasions, where we have been involved, and our comment is along those lines.

**MRS OWENS:** So at the moment it's a fairly ad hoc involvement and you'd like it more formalised?

**MS HUDSON:** At the moment the tourism side of things is represented by a representative from DIST. So there is certainly tourism input there and we have no disagreement with that. All we're saying is that in some negotiations, where tourism is such a driver as opposed to say another market where freight may be a more important aspect, some flexibility needs to be given to the composition of that final negotiation team, dependent upon the actual overall policy objectives of that negotiation.

**MR LARCOS:** Part of the issue for us, commissioner, is that the Australian Tourist Commission is the Commonwealth agency responsible for marketing Australia as an international tourist destination and we have offices all round the world. One of the points that we're seeking to make is that we are experts in terms of what's happening in those markets and, in terms of the out-years what's likely to happen on demand and capacity and so forth. So sometimes we're in a good position to offer advice and expertise that will assist the Australian negotiating side, is one of the points that we're making there.

**MRS OWENS:** Have you any views on the direct involvement of the airlines in the negotiations?

**MS HUDSON:** Only in that, similar to looking at how you actually do your consultations, obviously having the Australian carriers around the table would be

beneficial if they're the actual people who are going to be implementing and delivering the service. So our view on that would be that they should definitely be involved in the negotiations.

**MRS OWENS:** One more question. You are supporting further liberalisation but there's a little hook in what you say. You say that you believe a more liberalised sector should only be pursued where it clearly can be demonstrated that it will increase economic efficiencies as well as delivering consumer benefits. I was wondering if you have any views as to if we were thinking of this strategically and thinking of sequencing. Are there any obvious markets where you think that there would potentially be significant consumer benefits that could be delivered now?

**MS HUDSON:** A difficult question. None particularly spring to mind, to be honest. I can think of some examples perhaps to talk around that issue and see if I can come up with a specific country for you. We think of a market such as some of the European countries, where they're very competitive aviation markets and where the consumer is faced with a lot of options in terms of where they'll travel to. At the moment, to give a specific policy recommendation we'd agree with, where foreign carriers are restricted in their on-carriage rights within Australia, in some of those European countries we would see a direct consumer benefit, say in a market like Germany or Italy or France, if a consumer was able when they were purchasing their ticket internationally to be able to utilise that seamless-type service in Australia. That in those countries would certainly deliver a consumer benefit.

I think also that it would be more those countries than some of the Asian countries who are - their visitation pattern tends to be less in terms of the number of days they stay in Australia. Therefore it's more the longer-haul countries and perhaps the Americas as well, where we see visitors coming in for in excess of 20 days as an average length of stay. They would be the ones I could quote to you as where I could see that there could be direct consumer benefit linked to that change in policy.

**PROF SNAPE:** I think I've got through my questions. You've been very, very helpful to us today as well as on earlier occasions, and we thank you very much for your participation and help and for coming down to Melbourne. It's a bit better than in Canberra today, I think. Thank you very much.

That concludes our hearings on the draft report. As participants will know, what we do now is to beaver away and take into account the various points of view that have been put to us. I've already been indicating a number of points at which we might be taking those in very explicitly and, as we've been discussing it I've been indicating some of those points. The final report is due with the Treasurer on 12 September. Of course it's out of our hands then and it's in the hands of the government, whatever the government is at that time. The release of the report is then under the control of the government, subject to the legislative provisions, and of course any action which may or may not be taken is wholly within the province of the government. With that we will be concluding these hearings on the draft report. Thank you all very much for your participation.



AT 3.38 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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