

INDUSTRY COMMISSION

INQUIRY INTO INTERNATIONAL AIR SERVICES

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

TRANSCRIPT OF PROCEEDINGS

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PROF SNAPE: Welcome to this Industry Commission inquiry on Australia's International Air Services. I'm Richard Snape and I'm the presiding commissioner in this inquiry. On my right, may I introduce my colleague Helen Owens who is a commissioner with the Industry Commission. This public hearing in Sydney is a continuation of the hearing which commenced in Melbourne last week. The hearings are designed for people to raise issues they feel are affecting this industry. It gives the opportunity to provide input into the draft report which is due to be released in early June this year. These hearings are in addition to the extensive round of visits already undertaken by the commission and the more than 30 submissions to the inquiry already received. While those who provide information in this inquiry are protected as if they were giving evidence in a court, this is not a court of law. We shall try to make these hearings as relaxed as possible. However, there are some formalities which we try to follow each time we conduct a public hearing.

First, for the benefit of the transcript we ask participants to introduce themselves and to indicate in what capacity they appear. Secondly, the information provided at these hearings is often used in our reports. We therefore ask participants to be as accurate as possible with their comments and answers. If there's any doubt about the accuracy of anything you might say then please tell us and we will then get back to you and try to get it verified one way or another. Finally, transcripts of today's proceedings will be provided to all participants at the hearings. Anyone else wishing to obtain a copy should contact staff - and there are quite a few members of staff around with labels on - and they will be only too pleased to assist you. So I think we should get started and Andrew and Bruce, I would ask you if you would identify yourselves for the transcript first of all. I'm not sure which of you would be speaking first but one of you to speak to your very useful submission, thank you.

MR DA ROZA: Thank you very much. My name is Andrew Da Roza, I'm the legal counsel for Federal Express for the South Pacific region which includes Australasia and I'm responsible for regulatory matters which involve air transportation and working and liaising with governments to achieve the air rights and to pursue the air rights that Federal Express needs to operate.

MR MYERS: My name is Bruce Myers. I'm the managing director for operations for Australia and New Zealand for Federal Express.

PROF SNAPE: Thank you very much.

MR DA ROZA: I'll start with a brief summary of our submission which we have provided in writing. Federal Express is the largest air cargo carrier in the world. We have nearly 600 aircraft in our fleet which are totally dedicated to freight. We have 38,000 ground vehicles, 140,000 people worldwide. We operate in 211 countries which covers pretty much all the business centres of the world. Our aim is really to deliver shipments door to door within 2 days. That's our objective. Currently we're slightly outside that objective for very remote areas but we hope to be able to deliver within 2 days fairly shortly within the foreseeable future. Here in Australia we have an operation which we undertake door-to-door delivery operation which is an express

time definite service where we guarantee to our customers that they will get their money back if we deliver 60 seconds or more late from the time that we said we would deliver.

We also have a freight service, airport-to-airport service which is a quite different service. That is a non-time definite service. We don't guarantee a particular time but instead we lift these freight shipments if and when we have space on our aircraft. We operate charter services out of Australia - and Bruce Myers will give you a more detailed account of our business here in Australia. The purpose of me being here this morning is really to raise a number of issues which originate really in the terms of the bilateral treaty, that is to say the air services agreement between the United States and Australia. The agreement is a restrictive one. It contains restrictions which would prevent us or inhibit us from performing the kinds of services that we believe are demanded in the Australian marketplace - whether they be demanded now or whether they be demanded in the future as the economy grows. I would like to speak to these restrictions for a moment.

The restrictions involve very specific and complex routing requirements, that is to say all cargo carriers are required to follow quite specific routes involving specific countries or points. There is a prohibition on carrying fifth freedom traffic on one of the three permissible routes to points beyond Brisbane, Cairns and other international airports in Australia so there is a fifth freedom traffic restriction as well. There are also no seventh freedom rights permitted in the bilateral. There is a qualification on change of gauge and that change of gauge is only permitted if it conforms to what is called capacity authorised. These restrictions that I just outlined restrict FedEx's flexibility to carry shipments between Australia, US, Asia and Europe. The restrictions make it difficult for us to optimise the operations of our hub.

We have a hub in Asia in Subic Bay in the Philippines in which large aircraft fly from the United States, they unload at Subic Bay and the shipments go onto smaller aircraft before they continue their journey to the Asian destinations. 14 Asian destinations are hooked up at the moment. Very soon we'll have 16. Australia is not hooked up to the hub and perhaps we can discuss why in a few minutes. The small aircraft then fly to these Asian destinations, unload their shipments, pick up shipments that are destined intra-Asia or to the United States or Europe and then fly back to the hub and these shipments are then loaded onto the larger aircraft to fly to the US or Europe or they're transloaded onto other aircraft if they're intra-Asia shipments.

We need a great deal of flexibility to operate a hub of this nature and hubs are the most efficient way of transporting shipments from point to point. Hubs are absolutely vital in this day and age where freight demand is huge and growing and customers consistently want faster service, consistently want cheaper service and consistently want more service. The only way to please the customer, to provide what the customer wants on a global basis is through the use of hubs. So we must offer hub service, we must be able to optimise our hub operations and to do that we really need complete freedom from restrictions, the sorts of restrictions that are in the bilateral agreement currently.

There are other regulatory restrictions in the bilateral. These include restrictions on cooperative commercial arrangements with other airlines. These arrangements under the bilateral cannot involve revenue pooling and don't expressly permit code-sharing blocks, space or leasing arrangements. These are the kinds of arrangements that airlines use in order to optimise their service on routes that may be thin routes, that is to say they don't have a lot of freight on those routes, or where other airlines are offering a very good service. In order to exploit the very good service of other airlines we really need total flexibility to enter into commercial relationships with other airlines that make sense.

Another restriction in the bilateral includes approval of tariffs. The Australian authorities require that a US carrier submit tariff changes and the Australian authorities have the right to reject those tariff changes. Clearly Federal Express's position is that if the market demands a certain level of tariff then we must follow. We must offer customers a competitive service with a competitive price. The reality in Australia is that if we were to lower our prices the government could reject our intention. They could prevent us from offering lower prices and this results obviously in the consumer suffering. We can't, in effect, offer the competitive service which the consumer demands.

There are no provisions expressly permitting inter-modal rights. Inter-modal rights are the rights of carriers to operate ground transportation. This is a difficult issue for us worldwide. Inter-modal rights are absolutely vital for a company like Federal Express that has ground transportation as well as air transportation in its service offering. To get a shipment from door to door we need to transport it by aircraft and by ground vehicle. To be able to offer the service with complete flexibility we need inter-modal rights to operate our ground vehicles. These don't exist in the current bilateral.

Interestingly the Department of Transport in Australia provided a memorandum of understanding - draft memorandum of understanding - to the United States Department of Transport on 1 October last year and given the amount of liberalisation going on in Asia, one would have expected that memorandum of understanding to provide a more liberal regime. That MOU was specifically levelled at air cargo but that wasn't the case. This MOU actually imposed even greater restrictions on air cargo and the Department of Transport in the United States were stunned. Our entire industry looked at this paper and of course rejected it. The United States Department of Transport formally rejected it this year. The restrictions in this MOU - memorandum of understanding - included two new restrictions. One was a new fifth freedom traffic restriction between Japan and Australia and between the People's Republic of China - that is to say China as opposed to Taiwan - and Australia. This brand new prohibition on fifth freedom traffic to us seems extraordinary. If there is a market there in which Australian industry wishes air transportation from Australia to those two nations then surely they should have that air transportation. Surely they should be given the opportunity to receive the best service between Australia and those two countries but this restriction was imposed or was suggested, I should say.

The second new restriction that the Department of Transport in Australia wanted to introduce was a restriction on fifth freedom traffic generally. They wanted to impose what's called a Bermuda II type restriction which is very vague language saying that the Australian authorities can prohibit any kind of fifth freedom traffic movement to any nation if the Department of Transport thinks that that's the right thing to do - very vague wording, there are no criteria, the concrete criteria that could assist. It's really a matter of discretion for the Department of Transport in Australia to prevent fifth freedom traffic. So these two new restrictions were the restrictions that were suggested.

The current demand for air cargo service in Australia is approximately 200,000 tonnes. It's actually more than 200,000 tonnes per year. But it's in that region of 200,000 tonnes. Clearly, therefore, non-Australian air carriers are needed. The services of non-Australian air carriers are required to serve this market. It's much larger than the current capacity within the Australian carriers. The Australian government has in recent years shown its great support for free competition, recognising the benefits of free competition to Australian consumers. They demonstrated this in the airline industry by deregulating to permit Ansett to operate international routes, I believe in 1996. I'm not sure about that date but I believe it was 1996 when deregulation was permitted.

Certainly freedom of the seas and liberal ground transportation regulations exist in Australia and there's no doubt that these freedoms are required for the Australian economy. The geographical position of Australia, right at the edge of Asia, would suggest that Australia should be able to capitalise on the tremendous growth and business in Asia. But it can only do so with excellent, flexible, competitive, comprehensive air transportation. That is the only way that Australian industry can benefit from the geographical position of Australia so close to Asia. Australia is in competition with Asian countries, there's no doubt about it. Investment looks for countries in which it can thrive, investment in high tech industries, in pharmaceuticals, in chemicals, in fashion.

All are in aero parts, in motor vehicle parts. These kinds of industries look for countries to invest in and they require fast, reliable air transportation services which are comprehensive, flexible and competitive. These industries will not invest in countries that don't provide those kinds of advantages. So Australia is in competition with Asian countries to capture those kinds of industries and Australia is in competition at a time when the currency exchange rates make it very difficult for Australia to compete. So at this time it's very important that Australia and the Australian government support its industries, support competition, support open skies, open freedom for air carriers, so that air carriers can support in turn local industries in their competition with Asian countries.

There are currently 28 fully liberal bilateral agreements with the United States worldwide. There are very liberal bilateral agreements including the freedom rights with Brunei, with Malaysia, with New Zealand, Singapore and Taiwan and countries

such as the Philippines and Korea have very, very liberal regimes. The Philippines regime is so liberal that we are able to operate our hub out of the Philippines. But Korea, even though very liberal, is currently negotiating an open skies, fully liberal agreement with the United States. Japan has recently agreed to very considerable liberalisation under a new agreement with the United States and has promised to introduce a complete liberalisation in 4 years, and certainly that is a matter of great discussion at the moment.

Thailand announced in January that it will seek a fully liberalised agreement with the United States and Vietnam recently announced full liberalisation with its neighbours. The EC, as you know, introduced full liberalisation many years ago and the United States has signed liberal agreements with countries in Europe such as Germany. Australia should not be left behind. This is the way the world is moving, towards liberalisation. If Australia does not liberalise in the same way as these Asian countries and other countries in the world, then it will be left behind because the power of full liberalisation is the power of hubs. If you can't operate a hub efficiently then your industries will suffer. So allowing airlines to offer hubs, allowing airlines full liberalisation, will support local industries in Australia.

The restrictions on bilateral aviation agreements are really competitive, impose competitive disadvantages on industry in Australia and it is time - at this very difficult time in economic history I think it's very important for the Australian government to assist Australian industries to compete in the world rather than to impose competitive disadvantages through bilateral treaties. Bruce, would you like to make some further comments on our business in Australia and the sorts of things that our customers are demanding of us?

MR MYERS: Thanks, Andrew. If I could talk in broad terms about our customer base and following on from Andrew's comments about hubs. We currently have 360 employees in Australia and operate out of the major cities in Australia and as Andrew outlined, we do not currently offer an express schedule out of Australia. Now, to us an express schedule is one where we operate our own aircraft on a frequency of at least 5 days a week and what that allows us to offer our customers is a full day to prepare their exports and to offer a flight that departs Australia in the evening, connecting into our Subic Bay hub and then into those 14 markets the next morning.

So currently, because we have two flights a week, we rely on commercial uplift and the belly space of passenger aircraft and that's far from ideal and restricts our current exporters, because the majority of flights for instance to Asia depart this country between 10 am in the morning and 4 pm in the afternoon and so the exporters don't have the full advantage of preparing their exports during the day, the full day, having as much possible time to prepare that, and then have a flight that will connect into the Asian cities the next morning. Just to reiterate Andrew's point, the type of customers we're talking about are in the pharmaceutical and the high tech, the medical industries and - what other points can I make? I think that's all I want to say at this stage, apart from the fact that we operate an express schedule in-bound relatively

effectively but at the moment we can't offer to our customer base the sort of service that they really are demanding.

PROF SNAPE: Thank you very much for that statement and for your submission. The flights that you were just mentioning twice a week, they're from Sydney to where?

MR MYERS: We bring material in from Los Angeles twice a week and that's a mixture of express material and general cargo. But because we currently operate only twice a week we can't offer this express service.

PROF SNAPE: Is that because that's constrained by restrictions or is it constrained by demand?

MR MYERS: It's not constrained by demand. Well, how would you answer that question?

MR DA ROZA: Yes, I think it's a combination of restrictions and demand to this point. Demand actually has picked up. We are looking now at increasing our service. We're looking at putting on an express pattern of frequencies. So we would like a great deal more freedom in order to find the economic justification for establishing these frequencies. As I say, we need a great deal of flexibility in regulatory matters to operate our hub. If we are to connect Sydney to the hub at Subic Bay we do need complete freedom. So the commercial demand we believe is there and we're looking at the commercial demand now, and we have an intention to increase service. But in order to operate our hub efficiently we really need total flexibility in air rights.

MR MYERS: The two flights that we currently operate in Australia we charter out-bound and typically reposition those aircraft into Asia and eventually into the hub system.

MR DA ROZA: So what would happen is that an aircraft may be chartered by a company with cattle for example, to go to Japan or - - -

MR MYERS: Perhaps Japan or perhaps Korea.

PROF SNAPE: It's not as if there's a regular business that supports them going out of Australia at the moment?

MR DA ROZA: That's correct, it's a charter business.

MR MYERS: We have repositioned the aircraft empty back into Asia on occasion.

PROF SNAPE: But despite that, you think that if you have the flexibility to be hubbing from Australia or hubbing into Subic Bay from Australia that you would be able to support a daily service there?

MR DA ROZA: That's our intention. That's certainly the way we're looking at the market at the moment.

PROF SNAPE: And that would be out of Sydney?

MR DA ROZA: That's correct.

MR MYERS: These details have yet to be confirmed, but I think Sydney would be a likely contender. The schedule we're looking at, at the moment, has some flexibility in it so that we may be able to call on more than one airport within Australia.

PROF SNAPE: Other airports might offer you greater flexibility.

MR DA ROZA: That's true too, absolutely.

MS OWENS: Can I ask while we're on this issue, your Australian customers, do they because of the lack of flexibility have to pay significantly higher charges? Is the tariff much higher in Australia because of this lack of flexibility?

MR MYERS: What I would say is that Australia has never had an express service, particularly into Asia. So if Federal Express were to decide to go ahead and implement our service of 5 days a week and implement its express schedule where our customers have the flexibility of preparing their exports during the day and at the end of their business day they can present those to Federal Express and we can uplift them and deliver it next day into 14 Asian countries - this country has never had that service.

MS OWENS: So they mightn't be paying necessarily higher tariffs but what they are missing out on, they're missing out on the flexibility of an express service?

MR MYERS: They're at a disadvantage compared to their competitors around the world because their competitors have this service and can access particularly those Asian markets and have the benefit of that full day preparing right up until the end of the day and then moving it into those Asian markets and getting a guaranteed delivery and a money-back delivery if we're 30 seconds late. So, you know, that's the situation currently: because that service doesn't exist their transit times are longer and they're at a disadvantage with their competitors.

MS OWENS: Do they complain about it? I mean, do they complain to you or do they complain to the government, the Department of Transport?

MR MYERS: Certainly customers that are aware of logistics and worldwide logistics and aware of what Federal Express is trying to do are enormously keen to see this sort of service introduced.

MR DA ROZA: International companies who know what exists in Shanghai, who know what exists in Jakarta or will exist in Jakarta very shortly, they understand that

Australia doesn't have this competitive advantage. But Australian companies who are not familiar with the services provided in other countries obviously don't know what they're missing necessarily - and when I say Shanghai I'm saying that Shanghai has a better, faster, more efficient service than Australia without the express movements, the express service, the express dedicated freighter airlines. So if Australia were to line itself up with Shanghai it doesn't look very good. It's as though we in Australia can't compete with those people in Shanghai which is extraordinary but actually the case if you look at it in terms of dedicated express freighter service.

Perhaps I could make a couple of points about the difference between belly space in passenger airlines and aircraft and dedicated express freighter service. What is the difference between the two? There is actually an enormous difference between the two. The two are very distinct kinds of service for very distinct kinds of industry. The dedicated express freighter service is absolutely vital to industries which are high tech - pharmaceuticals, chemicals, fashion - the sorts of industries we've been talking about. In fact, the biggest growth industries of the next millennium - those big growth industries of the next millennium absolutely rely on dedicated express freighters and why? Because dedicated express freighters leave, depart and arrive at very specific times; times that are absolutely required in order to enable the sort of customs clearance windows and times. To get a shipment from A to B in the fastest possible manner you have to have the aircraft leaving at a particular time and arriving at a particular time to make an express service work.

So the timings of the aircraft are absolutely vital and typically these aircraft will leave late at night, arrive very early morning. Passengers do not want to leave late at night and arrive early in the morning unless they're flying from Europe to Australia or Australia to the United States where they would typically accept the fact that they would have to travel during unsocial hours. But normally for shorter flights passengers do not want to leave at midnight. They do not want to arrive at 4.00 in the morning. Freight, on the other hand, must. It must leave at those times and arrive that early.

PROF SNAPE: Neither of those times are available at Sydney.

MR DA ROZA: Yes, that's absolutely true too. That's a big problem for us and will be a bigger problem in future.

MR MYERS: In fact we don't need to depart at midnight or arrive at 4.00. It's impossible to do so between Sydney and Subic Bay. What we need to do is depart at approximately 7 pm, the end of the business day; arrive in Subic Bay at 1 o'clock in the morning and then we have the full activity so, you know, thus we get what we've been talking about, the end of the business day. Get the full advantage of the full day to prepare the shipments. You know, call your - - -

MR DA ROZA: On the inbound side, on the arrivals from the United States it would be - - -

MR MYERS: In fact, because of other scheduled constraints the arrivals will alter depending on the day of the week but typically it will be between - I think the current schedule we're looking at is 3 days at 8 am and I think there's 2 days that are slightly later at 9.30 am but certainly in enough time to get that day's delivery.

MR DA ROZA: So the timing is quite important and that distinguishes dedicated express freighter aircraft from belly space passenger aircraft. Secondly, the size of the freight, the outsize freight. We currently carry in our dedicated freighter aircraft anything that will fit through a cargo door which is quite a sizeable cargo door. Belly space in passenger aircraft cannot accommodate that kind of awkward shape. Also in terms of volume, we quite commonly accept a huge volume at any one time from a particular manufacturer and our dedicated freighter aircraft can accept that kind of volume and transport that kind of volume whereas passenger belly space is not designed for that kind of volume.

There is also handling expertise involved where dangerous goods, specific kinds of goods require very sophisticated handling techniques, weights and balancing and so forth. Dedicated express freighter aircraft and airlines are able to accommodate dangerous goods. They're able to accommodate the handling of different kinds of sensitive goods, scientific instruments and so on. In addition, we have a philosophy as a door-to-door air transportation carrier that we want custodial control as much as possible of our customers' packages to ensure complete integrity of the package; to ensure a complete control over the package; to ensure that we can track the package from one point to another. We have these sophisticated tracking instruments which scan the bar code on airway bills. This information is uploaded into the computer system and through a series of optical fibre cables or satellite dishes communicates this information on a real time basis to literally hundreds of thousands of computer terminals throughout the world.

You can actually track your package on the Internet. You can call up your airway bill in your home and track your package. This requires tremendously sophisticated technology and in order to really optimise this technology we need to have as much custodial control over that package as possible. So we really need to fly our own aircraft with dedicated freighters to offer the best service and the best technology available in the marketplace.

PROF SNAPE: Do you handle perishables?

MR MYERS: We do currently and we would do after introducing an express service. What typically happens is that after the introduction of an express service the aircraft will be segmented into different types of cargo. There'll be the airport to airport cargo which is the lowest yielding type of cargo and then slightly above that you'd have an express freight product and then at the very top end of the yield would be what we call international priority cargo which is documents and small packages from 1 kilo to 70 kilos with a time definite door-to-door delivery service and a money back guarantee. That's the highest yielding transport there is.

So what typically happens is that you introduce the service with a range of products and that over time your percentage of international priority or that express product grows and hopefully grows to the extent where you're literally filling a McDonnell Douglas 11 aircraft with international priority, high yielding product and that means that you're getting people that are moving into those industries because they know that the service is available and they're filling the aircraft with that very high yielding product. For instance, we have a situation like that in Asia at the moment. We've got an MD 11 full of international priority cargo and we need to put another aircraft into that city and once that aircraft comes in, again it will be a mix of cargoes.

PROF SNAPE: I guess my question was motivated by the complaints that one hears from various parts of the country about lobsters sitting out in the sun at the airport waiting to be loaded and that type of cargo and it always seemed to me that the solution was for the one party to be responsible right from door to door for that type of perishable goods and while there have been various reports that have suggested that the parties should in fact get together and talk about their common problem, that didn't seem to me to be the best solution. The best solution seemed to be for one party to be responsible all the way from door to door and so that there was no problem as to who was going to be responsible if it went bad. Is that the sort of cargo that Federal Express would in fact entertain if they had those rights?

MR DA ROZA: I think you make an excellent point. That kind of cargo and many other kinds of cargo, including chips for computers - those kinds of cargo really do require high value. They have to be there quickly. They've got short shelf life. Those kinds of cargo really do need to be supervised by a single company. If you have 30 or 35 different companies handling a shipment from point of origin to point of destination you cannot possibly have the same efficiency, the same logistical efficiency and optimised movements of shipments compared to a company that's controlling the entire operation from start to finish. That's absolutely the difference between freight forwarding and integrated carriers like Federal Express. The company, Federal Express, from start to finish supervises the entire operation. The freight forwarder - there may be 30 people involved and you do get these problems where things are left lying on the tarmac. Coordination logistics is a very complex business. You need to have one company helping you if you are to truly get the most efficient service.

MRS OWENS: So you also need inter-modal rights. That would be integral to this sort of service?

MR DA ROZA: Yes, it certainly would permit us to merge our two companies or the operations of our companies into one. We have two operating companies in Australia at the moment: Federal Express Corporation which owns the air rights and operates the airline and Federal Express Australia Pty which operates the ground pickup and delivery. It does help enormously when you can just have one company, say Federal Express Corporation, operating - conducting the entire business. It's a cost saving. There are tax benefits involved in that. So inter-modal- -

MRS OWENS: What's stopping you now?

MR DA ROZA: We don't have the ability or there are not the regulatory rights in place for us as an airline to operate a ground pickup and delivery business so we have to separate the two businesses into two separate companies.

MRS OWENS: That's because of the ATA?

MR DA ROZA: The lack of inter-modal rights. If we had inter-modal rights in the ATA we could then make a submission to try and integrate the two businesses but without that right being clearly expressed it's very difficult for us to do that.

MRS OWENS: And in other ATAs with other countries, those inter-modal rights are set in concrete in those agreements?

MR DA ROZA: That's correct. Commonly in a number of bilateral agreements inter-modal rights are specifically laid out and they specifically say they are totally unlimited. That's to say, there's no restriction on ground transportation by that airline. Obviously there are countries which have restrictions on the type of inter-modal rights operated and in some countries there are no inter-modal rights like Australia. Countries such as Myanmar, for example, would have these kinds of restrictions but countries like Singapore and Brunei and Malaysia have clear inter-modal rights that are unlimited.

MRS OWENS: So any insights as to why we haven't got them in our ATA?

MR DA ROZA: I'm afraid not but I'm hoping that this inquiry will raise that issue and I'm interested to hear that answer.

PROF SNAPE: Are they explicitly excluded?

MR DA ROZA: No, it's not mentioned in the bilateral- - -

PROF SNAPE: So why the hesitation? Why are you so apprehensive about it if they're not specifically excluded?

MR DA ROZA: Because bilaterals are an interesting instrument. They were born from the situation in the 1940s where there was a post-war era and nations were sitting around working out how they were going to deal with the political environment at that time. No-one ever considered air cargo transportation as being an industry. It didn't exist at that time. People just had suitcases and there was the occasional mailbag but that was it in the 1940s. So this regime grew up in which countries were permitted to, if you like, retain sovereignty over their airspace in a way that was quite different from the sovereignty over the sea or ground. They considered that airspace needed to be protected and that nations could withhold, if you like, freedoms of the skies. So this interlocking bilateral arrangement was created in which

countries considered that unless something is stated in the bilateral, unless a freedom was clearly set out in a bilateral, you just don't have that freedom.

PROF SNAPE: On the other hand, what we're referring to here is not actually a freedom of air transport so much as an investment in a domestic carrier of integrating. You already have a separate company. What's the problem, one might say?

MR DA ROZA: Because by merging the businesses of the two companies there are considerable savings to be made and there are possible tax implications for doing that.

PROF SNAPE: Still by merging them, nevertheless, is not doing anything to air transport per se, it's doing something to land transport.

MR DA ROZA: The trouble with integrated carrier business is that it's a very difficult one for some industries or people to understand. Integrated carrier business is air and ground. I mean, it's indistinguishable. You merge the two together. You can't have one without the other.

PROF SNAPE: I'm still not quite clear as to why you're so worried that it may not be permitted.

MR DA ROZA: Because it's not stated in the bilateral treaty. Some people consider that all freedoms are required. Are you saying have we gone to the transport department and said, "Look, can we please merge these businesses? Have we done that?" The answer is no. But we believe that it's not permitted and we can talk to the air transport department and come back to you with a firmer answer from a particular official with particular contact details and provide them to you.

PROF SNAPE: I'm just surprised that it isn't one of the freedoms which are traditionally mentioned under the framework, as you say, which as far as air transport is concerned has been a framework where nothing is permitted unless it's explicitly allowed.

MR DA ROZA: That's correct.

PROF SNAPE: But nevertheless, this is not one of those traditional freedoms of being allowed and so one wonders why it's covered by that - but nevertheless, I'd be interested in the response from the department.

MR DA ROZA: Inter-modal transport is a traditional section in bilaterals. I mean, it's something that is found commonly in bilaterals. It's commonly found because you do need to transport something to and from the aircraft, be it people or cargo. So there's no doubt that even if you weren't offering an integrated carrier service you'd still need some form of ground transportation associated with your air transport business. But integrated carriers take this associated ground transportation to another level, a much higher level - it then becomes crucial to the entire service. So inter-modal rights are a traditional part of bilaterals, they are commonly included in

liberal bilaterals - specifically included in liberal bilaterals. The Australian government has not included it in their bilateral with the United States.

PROF SNAPE: You mentioned in this written submission but also in your introduction that you would be worried that if FedEx published tariffs that are lower than tariffs offered by Australian carriers they are likely to be rejected. Is still the current situation? One might have imagined 10 or 15 years ago one would have, I would imagine, had stronger grounds for that fear. Is that still a real fear? Do you have evidence that that is likely to occur?

MR DA ROZA: We haven't changed our tariffs recently so we have no evidence in recent years. But it's a catch-22 and it's not just Australia that suffers from this, other countries do too. It's a catch-22. An airline won't file a tariff that they know is going to be rejected by the government. They won't bother filing a tariff that's going to be rejected by the government. So it's very difficult to answer your question. Perhaps the reason that carriers in Australia - non-Australian carriers in Australia haven't filed lower tariffs than Ansett or Qantas is because they're pretty sure they'll be rejected. So it's very much a catch-22 situation.

PROF SNAPE: But there are all sorts of discounts offered on tariffs, particularly out of Australia. What is that one would have to file in this, not every discount fare obviously, it would be a schedule which then you discount substantially. So - -

MR DA ROZA: Yes, I mean there's also the difficulties of increasing. You can discount in the marketplace. You have to file that tariff. You don't necessarily have to file discounts but if you wanted to increase your fares, for example, you could bring the discount to zero but after that you'd have to amend your tariff.

PROF SNAPE: The worry here was not having an increase rejected but in fact having low tariffs rejected.

MR DA ROZA: Both. I mean, both are a worry. What we're saying is that the tariffs should be a function of the marketplace. It should be what are customers wanting to pay; what are customers willing to pay. Shouldn't customers get the optimum price for the service? Why should the market mechanism be interfered with? What added benefit does an interference have for the consumer? There should be complete flexibility as a matter of theory as well as a matter of practice.

MRS OWENS: I suppose it comes down to who you're competing with and implicit in what you think is going to happen with tariff applications is that some way Qantas and Ansett are going to oppose them.

MR DA ROZA: Yes.

MRS OWENS: But what you said before was you're basically in a different business to Qantas and Ansett. You're doing the express business and they're doing the underbelly business and it's different cargo. It raises a question in my mind about the

memorandum of understanding which you talked about earlier and you cover in your submission at some length as to whether the proposal for that memorandum came from. How was it driven? Who drove it? Why did we have a proposal to prohibit fifth freedom traffic between Australia and Japan. In the submission you also mentioned that there were going to be capacity restrictions on cargo carriers. Where did those proposals come from and why? Have you got any insights?

MR DA ROZA: Only conjecture. The only people who would benefit obviously are Qantas and Ansett. No-one else would benefit from that. Certainly, the Australian consumer wouldn't. Certainly, Australian industry wouldn't. I can't imagine the Australian government would unless there's some political issue or some political advantage to supporting that kind of restriction. I can't imagine who else would benefit outside Qantas and Ansett so I can't imagine who else would promote or push such a restrictive memorandum of understanding. But that would be conjecture, I'm afraid I don't have any concrete knowledge.

MRS OWENS: So they do see themselves in direct competition with you?

MR DA ROZA: I suspect they do because as Bruce mentioned, there is historical trending with what happens with our service. We start out with a large quantity of airport to airport shipments. Then as time goes on we increase the proportion of international priority, that's express time definite point to point shipments, door to door shipments. So in the initial stages clearly there is some competition with the Qantas and Ansett carriers. It's interesting because there is often synergy, in other words, in other parts of Asia and the world when Federal Express introduces a new service, the other carriers including local carriers, start to contract with us; they make commercial arrangements with us so that they can use our service because it provides an additional service for their own customers. So there is actually a lot of synergy there once a service has been introduced.

Just as we contract with Qantas at the moment Qantas would contract with us once our service is introduced. It's not a one-way street by any means. By putting on a new service Qantas' customers benefit as much as Federal Express's customers.

MRS OWENS: Is there a lot of contracting going on in Australia at the moment with Qantas and/or Ansett?

MR DA ROZA: Yes. Perhaps Bruce you can mention our contract with Qantas. We interline with Qantas on a regular basis.

MR MYERS: Certainly on the inbound, Helen. Because we have the two flights a week we partner with Qantas to allow us to be able to offer as close as possible to an express service on the inbound. We can't do that outbound because we need our Subic Bay hub to be able to get to Asia. But particularly from the United States to Australia we can, you know, get a close facsimile of what is an express service by working with Qantas.

MRS OWENS: So I come back to the MOU proposal. If there are these synergies, if this contracting is going on, why would Qantas or Ansett want, for example, capacity restrictions on you? Maybe we can ask them but- - -

MR DA ROZA: If I was to speculate in advance of their submission, they may seek to run perhaps two arguments and I can address them both - it might be helpful. The first argument they may run would be, "Well, look, we have a lot of belly space out there, that's to say space on the belly of passenger aircraft. It's very cheap because there is so much space, not all of it's being used. Why do you need any more?" Of course, the answer to that is that dedicated freighter express aircraft provide a quite different service. We talked about the fact that the size of the freight and the kinds of freight are important, dangerous goods and so forth, outsize freight, large amounts of freight. We talked about timing and how timing is important and therefore a distinction. We talked about handling expertise and why that's a distinction and we talked about custodial control by door to door carriers and that's a distinction.

So, yes, they must run this argument but is a specious one. It's not one that I believe reflects the realities of the commercial world. They may run the argument too that, "Look, Qantas and Ansett are struggling. They are an important part of the Australian infrastructure. Australia, if you like is at the end of the line of the chain, the last station on the railway line and we have a difficult position being the station master and the owners of the station at the end of the line. It means that there are certain economic dynamics we have to suffer under," they may argue. They may say, "Well, because of that we're worthy of protection. We're worthy of protection because we have a difficult economic time and we have to struggle."

Of course, the answer to that is who benefits. Does the consumer benefit from such protection? The answer, I think, is no, the consumer most definitely does not and that's been demonstrated in many countries in the world. It's been demonstrated very clearly in the last few years in Asia. Competition is absolutely 100 per cent good for customers. The only people who benefit from protection are those being protected and query whether they are "benefiting". Are they benefiting? I think as a result of the opening up of international routes to Ansett Qantas has actually benefited because it's been able to reduce its costs tremendously. It's been able to become a much more efficient, much stronger company as a result of competition. I believe it will continue to be a much stronger company if more competition is introduced.

MRS OWENS: Can you see a day when Qantas or Ansett may want to get into your business, into the dedicated freight business? Is that part of what's going on?

MR DA ROZA: Certainly other airlines have pursued the route. They have forged alliances with freight forwarding companies or with other carriers to enter into express door to door business. But is a very capital intensive business. It's a very specific kind of business. It's almost unrelated to the airline business. Integrated carrier businesses are really very specific business that requires very specific capital investment and expertise. So whilst airlines are looking at providing these kinds of services, as to whether they will be successful I think only time will tell. As to

whether Qantas is thinking of doing this or Ansett, I would be interested in the answer when you ask them the question.

MR MYERS: I think generally in the industry it's accepted that time definite freight is the future of the industry and the days of building large sheds and holding freight are really gone. The requirement from the customer base is just in time delivery of freight and that's a very clear signal that the entire industry recognises.

PROF SNAPE: A year or two ago Australia proposed in the APEC context that there should be a liberalised framework for airfreight and that didn't get very much support including, I suspect, it wasn't supported by the US. Why would that be?

MR DA ROZA: This is the APEC?

PROF SNAPE: Yes.

MR DA ROZA: It's interesting you make the comment. I think the US has actually pushed - through the various transportation committees and now there's an intermodal committee - liberalisation very hard but I think the difference or the difficulty is, do you go bilateral versus - do you go multilateral? Do you have an agreement which is multilateral and involves 100 countries or 30 countries which is a liberal agreement or do you just go for the bilateral route where two countries organise what kind of regulatory regime they should have between each other? I think the answer is that the bilateral route is a much faster route to liberalisation than the multilateral route. The reason is just human nature I think partly. But the multilateral route means that the agreement eventually - the agreement that's struck - will be the agreement with the lowest common denominator of freedoms.

You will have an agreement that suits the most restrictive country in the group and that's the nature of multilaterals, whereas with bilaterals you can create a real momentum for change. You can create a real momentum for liberalisation because once you have enough countries supporting liberalisation then you get this tremendous desire for other countries to join the club because if they don't join the club they're left out. It's a very real economic danger for countries if they don't join the liberalisation club.

PROF SNAPE: I would have thought that the APEC framework could have been an opportunity for such an open club. It doesn't necessarily have to embrace all the members of APEC and I agree very much with what you're saying that it could go to the lowest common denominator if that were so. But if one was developing a set of standard liberalising clauses perhaps based on the essence of the US Open Skies agreement and you had introduced that as an open club to be adopted plurilaterally amongst those that were willing to do so, then that would seem to me to be a way to move forward in the way that you're proposing and yet a proposal, something along those lines, as I understand it, which Australia put to APEC was not warmly embraced by the US, as I understand it.

MR DA ROZA: Right. The US has actually participated and led the transportation committee of APEC with some success and has actually handed over the reins of the air transportation committee to Singapore which of course has tremendous liberalisation. It has a totally open skies agreement. Singapore is flying the liberalisation flag. The committee continues to meet and they have been given a mandate to sort out a series of principles upon which the APEC nations are going to follow. Those principles are liberalisation. I mean, every single heading which this committee is looking at are liberalisation headings. So there may well be progress but the progress will be slow because it's a multilateral system.

PROF SNAPE: Unless one goes the route that I was just saying that one gets a small group of like-minded countries and operates on the open club basis and others can join or not as they wish.

MR DA ROZA: APEC is not designed for that. APEC is designed to move as a body. It's not designed to move as subgroups which is one of its disadvantages of course but that's the disadvantage of any grouping - APEC or ASEAN, any grouping like that.

PROF SNAPE: I guess that even within the GATTs - general agreement in trade and services - if one is looking at telecommunications or one is looking at financial services you've got in fact subgroups in both of those forming such an agreement. Of course the US said there must be a minimum number of participants before they would go along and held out for a long time on financial services. Nevertheless, you do have within that framework that open club type of thing. It's a club within the club.

MR DA ROZA: Yes. Well, I think plurilateral approach works too. But what doesn't work, I don't think, is a multilateral approach for total liberalisation. But plurilateral approaches obviously I think would work if there were enough like-minded countries.

PROF SNAPE: Would there be any possibility of Federal Express developing a hub in northern Australia - I think I suppose of Darwin or northern Queensland - if in fact there were fifth and seventh freedom rights?

MR MYERS: We currently operate a hub - a mini hub, if you like - in Sydney because at least 90 per cent of our imports and exports move through Sydney.

PROF SNAPE: That's a hub for Australia though?

MR MYERS: For Australia.

PROF SNAPE: I'm thinking of a hub like the Subic hub which is not a hub for the Philippines specifically.

MR DA ROZA: I think some hubs or associated hubs are a real possibility as economies group. There's no doubt about it that Subic Bay is very well positioned to be the main hub for Asia because it's right in the centre of Asia. But as business grows in South-East Asia, there's no doubt at all that there will be at some point another hub required to serve South-East Asia. Where that hub goes is a function of our rights. It's also a function of geography. So it would depend on how many markets we could serve from a hub in the north part of Australia. Of course if you look at the map the north part of Australia is right at the southern point of South-East Asia, whereas you would probably want to put a hub somewhere in the middle. But it's certainly not out of the question once the air rights are there, once certain economic benefits are there. It's a matter of adding up the pros and cons and then going for it. If the air rights are not there immediately, Australia is out of the running.

MRS OWENS: So that's why if you were putting together a liberalisation package you would have seventh freedom there as a just in case measure?

MR DA ROZA: Seventh freedom is not just there to operate a hub in Australia, the seventh freedom would be there to be able to optimise the Subic hub. In other words we would seek seventh freedom in order to be able to optimise the hub at Subic Bay. We don't need the seventh freedom just to operate a hub in northern Australia. Of course it would be helpful to have those seventh freedom rights so that we could consider a hub if business grew in that direction. But in order to optimise the hub at Subic Bay we would need these seventh freedom rights. In other words, even if we didn't introduce another hub we still need these seventh freedom rights to optimise Subic Bay.

PROF SNAPE: The seventh freedom rights would be applying to Subic Bay - and they do already apply to Subic Bay - but that's where your planes would be based, in Subic Bay, not in Australia.

MR DA ROZA: Perhaps I should explain what a seventh freedom right is. It might be helpful to go back to the basics and then see how it could be applied in Australia's case. A seventh freedom right is a movement of an aircraft from one point to another neither of which - neither of those points - are points in that carrier's country. Let's take the US as being the carrier's country. A seventh freedom right would be flying an aircraft from, let's say, Subic Bay to Shanghai, Shanghai to Subic Bay. That airline would not be required to have any US traffic on board. That flight number needn't be a flight number that goes back to the US. That airframe needn't be a frame that goes back to the US. In fact there's no connection whatsoever with the US. That flight can just go back and forth between Subic Bay and Shanghai ad infinitum carrying simply Shanghai and Subic freight if necessary, if that was the commercial reality.

So let's apply it to Australia. It would mean that we could fly an aircraft without a flight number connected to the US, without an airframe connected to the US, without any US traffic on board, between Sydney and Jakarta, let's say - assuming that Jakarta also gave us seventh freedom rights - or Sydney and Subic. We could fly back and forth without having to connect that aircraft to the United States or

have any connection to the United States. What does it mean? It means that we can save an awful lot of cost because if we don't have those seventh freedom rights it means that that flight number into Australia must come from the United States. That flight number out from Australia - there's a different one - has to go to the United States. There has to be an airframe connecting that service to the United States which is incredibly expensive.

So to optimise the hub at Subic Bay we would want to have smaller airframes - airframes that don't have any connection with the United States - operating between Sydney and Subic Bay. That's just much cheaper. It means that our service can be offered in economic circumstances where if the market wasn't there we wouldn't be able to offer it otherwise. So it's really a night and day difference once you get seventh freedom rights when you're trying to operate hubs.

PROF SNAPE: Could you then go on to the point that you make about changes of gauge which I suspect are in the same basket, where you say the ATA between Australia and the US may impose restrictions on changes of gauge rights by including a qualification that changes in gauge are only permitted if they are in conformity with the capacity authorised. Could you elaborate on that please?

MR DA ROZA: Yes, it's an obscure provision. It says exactly that. It says that one can only operate one's change of gauge if they're in line with the capacity restrictions. But the rest of the air transport agreement makes it clear that all cargo carriers do not operate under any particular restriction on capacity. So it's a reference to something that's not referenced anywhere else in the agreement. It's the only place where capacity restrictions are included. It may be a bit of bad drafting perhaps and it was just left over by mistake and there should have been a distinction made between changes of gauge of all cargo aircraft and changes of gauge of other aircraft. Perhaps there should have been two paragraphs there and the capacity restriction wouldn't have been mentioned in the paragraph on change of gauge for all cargo airlines. So it may have been a bit of obscure drafting. On the other hand, because it's in black and white it causes some concern.

MRS OWENS: Can I ask whether a more liberalised system for you would also involve cabotage? Would you see that as important to your business in Australia?

MR DA ROZA: That's a very good question. I don't think Federal Express at this time would be interested in cabotage. Certainly we are constrained - even if we were we are constrained by what the United States would agree to and the United States are in no way agreeable to cabotage. But, you know, in theory cabotage should be permitted in a totally liberalised environment just as ownership of airlines shouldn't be restricted in a totally liberalised environment. One of the restrictions levied against the United States is that you have this model treaty which is a liberal treaty but you don't permit cabotage and you don't permit unrestricted ownership. Therefore you're not really interested in liberalisation.

The Department of Transport of the United States counters the argument and they say, "Look, really ownership of airlines and cabotage is a non-issue commercially because it's open to foreign carriers and US carriers to enter into commercial arrangements which in effect give foreign carriers total access to the United States market through these commercial arrangements. So you really don't need cabotage and you really don't need total unrestricted ownership." That's their argument, the DOT's argument. But, you know, a funny thing about competition is that you never know, frankly, what's going to happen unless you totally liberalise. I mean, the DOT can say, "You can enter into commercial arrangements and everything will be fine," but you just don't know. Once you deregulate something you have no idea how the market will react. Just take Federal Express, for example, we didn't exist in 1971 but we are now the largest air transport company in the world, by far and away the largest air transportation company in the world. Why, because there was a deregulation in the US which permitted us to operate our aircraft intra United States.

Now, could the DOT have predicted that? Could they have said, "Let's not deregulate because there is really no interest in the marketplace for deregulation." They didn't predict it, they couldn't predict it, no one could predict it. Until deregulation happens you just don't know the way the market is going to go and that's one of the biggest arguments I think against the Qantas argument, if they raise it, that there's plenty of belly space and it's cheap. Who knows? Once you deregulate how can anyone predict how the market will go. How can anyone predict what industries will grow in Australia, what investments will be made in Australia. You just don't know. Life isn't as easy as that. Once you deregulate, tremendous opportunities arise and you will get entrepreneurs who will exploit those opportunities and create benefits in Australia.

PROF SNAPE: Good. I wonder if you would be prepared to tell us about - give us some details of the recent US Japan agreement.

MR DA ROZA: Certainly.

PROF SNAPE: And I think you know the question I'm going to ask, particularly as it affected the slots which Federal Express had there but also the agreement more generally.

MR DA ROZA: Sure.

PROF SNAPE: As I understand it you've surrendered some slots or some scheduled positions.

MR DA ROZA: It's still a matter of negotiation, yes.

PROF SNAPE: Were they sold?

MR DA ROZA: Not yet, no. They're still negotiating the issue. Perhaps if I could give some history to the build-up of the agreement and then give you some details of

what the agreement now contains and how we think that's going to affect the marketplace.

PROF SNAPE: As you said, it's not completely finalised yet at the - -

MR DA ROZA: The bilateral agreement is but - - -

PROF SNAPE: The MOUs aren't though. Is that correct?

MR DA ROZA: No it's signed, it has been executed. But the issue of slots is a commercial arrangement outside the inter-government arrangements, so that's still a matter of some discussion and quite lengthy discussion. The background of the Japan agreement with Federal Express - and I'm looking at it from Federal Express's viewpoint now - is that we have under an agreement in 1952 and later on in 1956 - we had or have total freedom out of Japan for fifth freedom traffic. That is to say, we can fly into Japan and pick up shipments and take them into Asia, drop them off, pick up shipments in Asia, fly to Japan, drop them off in Japan and fly on to the United States. So we had the ability to transport shipments between Japan and Asia with complete freedom, no restrictions at all, and we inherited those rights when we purchased Flying Tiger Line which was a famous cargo carrier, back in 1989.

In 1993 the Japanese decided that they would unilaterally deny us the ability to freely operate our fifth freedom rights. They just said, "We are not going to honour the text of the MOU treaty. We are just simply going to, if you like, declare war and say this treaty will not be honoured," and they did so for a number of reasons, primarily to pressure some changes that they wanted because they felt that their carriers were under competitive pressure and they wanted to preserve the markets for those carriers, a very typical situation. After years of discussion an agreement was reached recently under which Federal Express was again recognised as having those rights. That is to say, the department for transport in Japan said that they would recognise any schedules we filed, they wouldn't prevent us flying fifth freedom traffic out of Japan. So they just recognised what was always there, again.

They also offered some other extra freedoms. They provided more frequencies to carriers, to a bunch of other carriers who wanted more frequencies. The US side gave a Japanese carrier total fifth freedom rights, total fifth freedom movements, freedom for the fifth freedom movements to the United States and beyond. So there was some liberalisation on both sides. In addition to that, both parties agreed that in 4 years' time they would sit together again and look for a liberalised air regime between the two nations. So quite considerable changes were made. More carriers were allowed to operate more frequencies and some carriers were given open rights.

Now, the issue of slots came in as it often does. What is this issue to do with? Well, the concept that's raised by some people is that really open skies are a nonsense because there are certain capacity constraints within the airport. The airport itself can only handle so much traffic. So you can give away as many liberal rights as you want but it won't increase the number of flights to and from that airport because that airport

is constrained by the infrastructure. So, you know, freedom is bunkum really. I mean, the answer to that of course is that's not true. The answer is that once you have freedom, once there are open rights, then there is competition in the market and there is therefore economic justification for enlarging the airport, building another runway, building another airport. There is greater pressure to expand those airports because the money is there available. The demand is there available.

So freedom is still a great thing. Freedom still raises possibilities and opportunities. Now, in Japan's case what happened was that there was clearly capacity constraint because Narita has limited space and only one runway, although they're going to build another runway in a couple of years' time. So what was discovered, or been known for many years actually, is that a lot of carriers hold onto slots they don't actually use and the Japanese carriers are the very worst offenders. They have hundreds of slots which they don't use a week and it prevents - it's a dog in the manger thing. You know, you hold onto the slot and then your competitor can't use it, and it's a grandfathering thing. If you had those slots 20 years ago then you get those slots now.

What the Japanese have done is they have introduced a system in which in future, if you don't use those slots, you will lose those slots. There are two schedules that the airlines typically file, the summer schedule and the winter schedule, and what the Japanese are saying is that, "You file your summer schedule and we'll see how many slots you actually use. You have to use, you know, 80 per cent or whatever it is. And then in your winter schedule we will give you only those slots you've actually used. So, you know, if you've used it up to 90 per cent then we will give them to you in your winter schedule." So that's the system they have introduced to try and reduce the number of spare slots. In addition to that, as a short-term measure, in order to conclude the agreement the DOT agreed that FedEx would sell some of its slots, the slots that we're not using, to other carriers, actually to US carriers.

PROF SNAPE: Only to US carriers?

MR DA ROZA: Yes, and - well, the Japanese carriers have more than sufficient - and of course the European carriers said, "Well, that's totally unfair. You know, these things should be on auction for everyone." In any case that's what's happening. So the US carriers are now discussing together how these slots should be sold, apportioned, whatever. It's a short-term solution.

PROF SNAPE: Yes. But that selling I think is one of the first occasions in which international slots have explicitly been sold throughout the world.

MR DA ROZA: How do you mean?

PROF SNAPE: Well, slots are sold for domestic flights in a number - four, I think, US airports. But it's not the practice I gather throughout the world for slots actually to be sold. I mean, there's the grandfathering and there's slot trading on exchange, but not - - -

MR DA ROZA: Right. So you lose the right to them, you mean - so therefore you lose the right to them in future?

PROF SNAPE: Yes. But here it's an explicit selling which in fact means there must be a much more formal recognition of property rights over those slots than has been the practice in the past where airports and the whole system, as I understand it, has been very reluctant to acknowledge that it was in fact a saleable right, that the property rights were sufficiently strong in order to make it a saleable asset. Now, as I understand it, this is just about the first time in the international scene where this has been done. Is that correct?

MR DA ROZA: It's a very interesting point you raise. The issue really in the past has been slots are a matter for allocation by a government body or an airline acting on behalf of a government body. It's, if you like, a right of government - a sovereign right, if you like, to organise an airport in your own country. So how could you possibly have a right in a slot, because it would be the government who should have the total flexibility to take the slot away from you and give it to someone else. You know, it's as though you were selling a sovereign right of government. That was the concept and the reason for that obviously is so that it gives the civil aviation authorities total flexibility to allocate resources, that they're not, if you like, constrained by someone having sold something to someone else. They can allocate in whatever way they like.

The reality though has been very different and slots have been sold and treated as property rights, proprietary rights. They have been leased and sold. Obviously these are not publicised sales. I mean, you know, no-one's going to advertise in a newspaper or anything. But the fact that they have been treated as proprietary rights is something that is well recognised in the airline industry. So whilst this is a relatively unusual thing to see in the newspapers it's not actually unusual within the airline industry.

PROF SNAPE: No, but the fact that it has got a higher public profile and in fact public acknowledgment rather public denial could be a harbinger for airports with capacity problems around the world to give saleable property rights to airlines.

MR DA ROZA: Possibly. I mean, the market mechanism is incredibly efficient so if it were to be a harbinger it's not such a bad thing. The market mechanism means that these grandfathering absurdities wouldn't occur. An airline which is able to operate would buy. An airline that's not able to operate wouldn't waste the money. So the market mechanism is perfect. You know, that's the message that I'd like to bring home this morning: the market mechanism is absolutely perfect. When you tinker with it, when you have restrictions, then it falls flat on its face. But whilst it's completely unrestricted, whilst there are no regulations affecting it, it is a perfect instrument. So, you know, if this is a harbinger of things to come, greater recognition of the ownership of slot rights, then that would be great. I mean, that would introduce a market mechanism.

Actually my thought is that it has been around for many, many years, this public recognition perhaps by Japan, because it's the Japan jurisdiction we're talking about. There's public recognition by Japan. Maybe it's slightly unusual from a public relations point of view but, you know, this mechanism has always existed.

PROF SNAPE: Thank you very much. I think I just can't resist referring to page 29 when you ask a question, "Can you for example imagine" - and you say "any local airline" but let's forget that. "Can you for example imagine any department of government funding an expensive economic review to confirm how much the additional frequencies or other freedoms given to foreign carriers will benefit the overall economy?"

MR DA ROZA: And Australia has proven itself that it can and it will and it has.

PROF SNAPE: That's part of our terms of reference.

MR DA ROZA: Absolutely. So this is absolutely unusual, you know, in the field of aviation. I do not get the opportunity to sit before a group like this. I do not get that opportunity. I get to sit in the ante-rooms of government offices whilst they tell me to get lost, you know. I don't get to sit here and actually expound the virtues of competition and what we can bring to the marketplace and I'm very, very grateful for that. I think this is a wonderful succession of meetings. They really will help I believe consumers in Australia. I believe they will help airlines in general and I believe it will help Qantas and Ansett become a healthier airline if competition is introduced.

PROF SNAPE: Well, that comment of course was not meant to make any judgment of what we shall eventually conclude.

MR DA ROZA: I know you'll make the right one.

PROF SNAPE: But it is one of the factors that we are required to consider and so thank you very much for your written submission.

MR DA ROZA: Thank you.

PROF SNAPE: And the very valuable and voluminous attachments to it, which have been very helpful to us, and for your presentation today. Thank you very much.

MR DA ROZA: Thank you.

PROF SNAPE: We'll take now a break for 15 minutes and resume at 10.45. Thank you very much.

PROF SNAPE: We now resume our hearings and we have got now the Department of Industry, Science and Tourism and specifically the office of national tourism and I would ask each of you, if you would, to identify yourselves and your position so that it is on the tape and so the transcript people can recognise who's saying what.

MR CRICK: Thank you. I'll start, I'm Robert Crick. My title is head of division sport and tourism from the Department of Industry, Science and Tourism.

MR CLAESSENS: I'm Michael Claessens, assistant director in the aviation and transport facilitation section of the office of national tourism.

MR DURRANT: Mark Durrant, acting manager aviation and transport facilitation section, office of national tourism.

MR MAXTED: Keith Maxted, general manager tourism, transport and business development branch of the Department of Industry, Science and Tourism.

MR BELL CHAMBERS: I'm Paul Bell Chambers. I'm manager of industry studies. I'm actually in the industry policy division of the Department of Industry, Science and Tourism.

PROF SNAPE: Thank you very much. Robert, are you intending to lead off? I thank you for your submission and I will now ask you to speak to the submission.

MR CRICK: Okay, thanks, Richard, I will. But perhaps before I do, just to clarify for the people's information that the office of national tourism is a unit within the division of sport and tourism which in turn is part of the Commonwealth government Department of Industry, Science and Tourism. This submission that we put together has been put together by the office of national tourism and it's coming very much from the tourism perspective.

Just let me say, Richard, how much we welcome the opportunity to contribute to your work on this issue. Our department's interest in air services is really premised on encouraging the availability of capacity and operational entitlements. This is with two objectives in mind: firstly, providing sufficient flexibility for airlines to respond to changes in demand from industry and, secondly, to ensure sufficient competition to minimise travel and freight costs. As you will appreciate from this submission it examines those aspects of the current framework which we feel restrict competition in international air services and the effects of these aspects, particularly on tourism but also on consumers generally and industry.

We've looked at improvements that can be made to address these effects and we've suggested some options for greater liberalisation. Australian industry depends very heavily on the provision of efficient transport links for transporting people, goods and services between Australia and our major export markets. As the Australian tourism industry is particularly dependent on air services we have given that particular attention. The tourism sector however I think provides a useful guide to broader

industry effects. In order to ensure the tourism industry's long-term development, it is imperative that efficient, reliable and easily accessible air services are established to all our tourism markets and particularly those where we feel there is significant potential growth.

The adequacy and the convenience of air services have an important bearing on the cost of air travel which in turn directly influences the competitiveness of Australia as a tourism destination. At the outset, we should acknowledge the significant benefits that the Australian economy and tourism in particular have derived from aviation liberalisation during the past 10 years. There is no doubt that a high degree of liberalisation has taken place. Among other things, multiple designation and the more liberal approach taken to negotiating air services agreements have delivered a significant expansion in international airline capacity and competition. However, for a range of historical reasons, international air services seem to remain relatively insulated from competition compared to other traded goods and services.

As our submission points out, foreign and Australian international airlines serving Australia still remain constrained by capacity limits and a range of operational restrictions on many routes. The regulatory environment has not always lent itself to the securing of aviation rights for airlines which have allowed for timely and flexible introduction of services to meet growing demand, nor has it historically encouraged the development of new routes. To the extent that the air services agreements are an impediment to a more competitive market in air services, they are likely to inhibit market creation. They will restrain people who might otherwise have visited Australia. If travellers are not prepared to pay higher fares or take indirect or less convenient services they will likely increasingly opt for holidays elsewhere.

In negotiating air services rights, the objective is to take account of the net national benefit. This means striking a balance between the interests of Australian airlines, tourism, trade, foreign policy and consumer and state interests. This is not an easy task, especially in light of the complexity and highly interrelated nature of the interests concerned; also because of accelerating change in international aviation, the restrictive nature of the air services framework and the competing objectives of different countries.

The process by its very nature can lend itself to some ambiguity as to whether we always are able to maximise the net national benefit. This probably in part stems from the gap in empirical knowledge of the full relative economic contribution of the various industry sectors involved. To summarise, as a general contention we argue that Australia's approach to the provision of international air services does not appear to take sufficient account of the potentially substantial economic benefits that would flow to Australia from the introduction of more frequent and more competitively priced air services.

Aviation services must also keep pace with the demands placed on industry in the context of the increasing globalisation of markets and a more open economy. However, the very nature of bilateral air services agreements impedes competition in

international air services. Overall, the economic costs of the current framework make it clear that Australia needs to continue to move towards increased liberalisation of its air services arrangements. The price and market creation effects of a more fully deregulated aviation environment are underlined by developments over recent years on the Trans-Tasman route as well as in Europe and the United States. The deregulation of domestic aviation in Australia also demonstrates the level of benefits that can flow to airlines, industry and consumers from a more liberalised aviation environment. A fuller approach to maximising the net national benefits will need to recognise these wider net benefits of liberalisation.

Changes in the international airline industry and a liberal approach to other countries, including some of those in our region, also highlight the need for Australia to continue to move towards a more competitive aviation environment. In this light we have put a question to ourselves: where on the continuum of deregulation would Australia now be best placed to maximise net national benefit and how quickly should we move there? Possible approaches within multilateral and bilateral frameworks are considered. In our judgment, given that the current bilateral system of air services agreements is likely to be with us for some time, Australia should place primary emphasis on liberalisation within this sphere. The submission recommends an increase in the pace of liberalisation of Australia's air services and in particular the adoption of an explicit policy goal of bilateral open skies. We believe these are pragmatic and realistic objectives.

Australia's aviation policy does not yet extend to negotiating open skies arrangements. However, our department considers that there is a strong case for Australia seeking out countries with a view to negotiating agreements of this nature on a largely reciprocal basis given the potential economy-wide benefits of such a regime. Other related issues which we have also considered include matters relating to cabotage, air fares - particularly on the Japan route - charters, airport infrastructure and the role of the International Air Service Commission. Richard, that brings to a conclusion the sort of formal opening statement. Could I just say that as a government department that doesn't have primary carriage of the transport and aviation issue, we wouldn't in any way wish to venture into I think areas that are properly the preserve of the Department of Transport and therefore not get into technical issues. I think we would prefer to confine ourselves more to the sort of principles of competition and liberalisation that we think are in support of the interests of the tourism industry.

PROF SNAPE: Good, thanks very much, Robert. Do any of your colleagues wish to come at this stage or come in when we ask some questions perhaps?

MR CRICK: I suspect probably come in when you ask questions. My colleagues here have been in this area for much longer than I have and have got a lot of knowledge and experience which I think would be able to amplify issues in the submission if you should wish to do so.

PROF SNAPE: Right. I think I would be interested if you could elaborate somewhat on the constraints to tourism which are currently being applied that you see there is a demand there or a potential demand that is there which currently is not being met and I guess we're talking here particularly about overseas tourists coming to Australia rather than Australian tourists going abroad. But I guess it would apply to both. On attachment F you've got a number of priorities there for negotiations. I wouldn't have thought, for example, if we start at the top that Singapore was providing a large constraint on the expansion of tourism to Australia but perhaps I'm missing something. Would you like to elaborate on some of those that you've got there on the priority list.

MR CRICK: Yes, sure. Mike.

MR CLAESSENS: Just on Singapore, this attachment F is a product of the consideration of the tourism aviation group which is a consultative mechanism that we have with the tourism industry in the states in peak tourism bodies. So it reflects the concerns that are identified by those bodies as well as ourselves. Those markets listed under high tourism priority, there's probably two drivers there; one is if there's capacity restrictions or not enough capacity in the particular market it obviously is a primary constraint to getting people on aircraft into Australia from Singapore and from other markets, for instance, and/or if there are other operation restrictions such as capacity of Australian airlines or foreign airlines to fly beyond markets.

So in Singapore's case there may be in a capacity sense no problems but there are major restrictions there of a nature which doesn't allow maybe Australian carriers or foreign carriers beyond rights to other destinations - possible tourist destinations - as they might otherwise have. As Rob indicated in the opening statement, the nature of any bilateral service agreement is that it will restrict free competition in the market so you might have a lot of capacity, you might have fewer operation restrictions. But if there are any, naturally it's restricting our commercial decisions.

PROF SNAPE: So we don't have the specifics on these. It's really that this is what is viewed as being potential bottlenecks - is that the way it is?

MR CLAESSENS: That's right.

PROF SNAPE: What about charter, do you think that the policy that Australia has on charter is significantly restricting the number of charters?

MR CLAESSENS: I'll handle that one as well, perhaps if you could from anyone else - charters generally, the government policy on charters is very liberal. It has been increasingly liberalised over the last several years. From a tourism point of view charter operations are very important because they are able to take tourists directly to destinations rather than having to go through scheduled carrier hubs. Given a changing trend within tourism towards shorter holiday breaks in many markets, like the Japanese market, tourists like to get places quickly and directly and on occasion a charter flight goes from point A to point B and gives them those benefits. By the

same token charter operations are a one-off. There isn't the flexibility that scheduled operations provide in the sense of being able to take alternative routes or take alternative services, if they suit.

In relation to the bilateral air services framework, I suppose we would argue that to a certain extent charters tap a very budget-conscious market within the leisure market, but also there would be some crossover. They would be also tapping into schedule carriers' markets as well. But overall we would see their access in a general sense as fairly liberal.

MR MAXSTED: Commissioner, if I could just add to that, I think one of the important points we want to make about charters is that we believe that primarily they're creating a new market and while there's certainly to some extent some competition with scheduled services we believe they're creating a new market of potentially budget travellers who would not otherwise travel to Australia on scheduled services because the provision of the charter service is more direct quite often, at a reduced cost and less inconvenient to travellers.

MS OWENS: But if there was some form of liberalisation in the future would that mean the end of the charter business, or do you think they would still survive in a niche capacity?

MR MAXSTED: I would imagine they'd still survive in a niche capacity. They would find themselves part of a market they can best serve, depending upon demand for those type of services. I would imagine they'd continue to thrive.

PROF SNAPE: Do you have any evidence or do you have good feelings that there's a large untapped market there at the moment which is being untapped because of the current restrictions on charters?

MR DURRANT: To my knowledge no charter application to the Department of Transport has ever been refused. There may have been some timing problems with how long that was - - -

PROF SNAPE: I'm sorry, could you speak up a little?

MR DURRANT: Sorry. To my knowledge there has been no charter application to the Department of Transport that has been refused. So if the market was ascertaining where demand was, applications have been successfully agreed to. I think the market would tell us that more charters would be coming from, say, England if the demand was there.

PROF SNAPE: I suppose there are many things in life that I haven't applied for because I could see the restrictions or the hurdles I'd have to jump before I get them, even though I'm quite confident that I'd get it ultimately, that I don't bother. So do you have evidence that the procedures are in fact holding back demand in that way?

MR BELL CHAMBERS: I think, given what you've just said and listening for a little while to our last witness - I think there was an important message in there in terms of charters. In terms of tourism or in terms of industry as a whole, if there's a restriction it is potentially - and I emphasise the word potentially - holding back the development of the industry. It's potentially restricting the number of carriers, the number of services, prices etcetera. It's taking competition away basically. But at the end of the day, whether there's evidence there that people are being rejected or not is in a sense immaterial. As you say, one scenario might be that they are deterred from making claims because of the regulation.

But turning to what the previous witness said, with deregulation you don't know what's going to happen. It opens up a whole new world of opportunity and we really don't know at the end of the day whether it will bring more charters or not. I think if you turn to Europe, however, the percentage of charter operators there in terms of scheduled services is much, much higher than we could have in Australia. Now, there are obvious geographical differences that might apply there. But generally speaking maybe there's a message there and maybe there isn't. We will really only know the answer to that question if we remove charter regulations.

PROF SNAPE: Do you see the regulations as being onerous, is really what I'm asking.

MR BELL CHAMBERS: I don't think we have any evidence to say at the moment that the regulations are onerous. I mean, the difficulty you have with charters is if you're going to have charters separated from scheduled services you basically need some points of difference and there are points of difference there at the moment. I mean, otherwise you'd be in a sense back door deregulating if you allowed open slather on charters and you somehow controlled scheduled services. It would be a sort of a funny situation in the market. But I don't think there's any evidence there in terms of people coming forward anyway and saying, "Look, we feel we'll hold back because of the current charter regulations."

MR CRICK: I think, Richard, a point that maybe is relevant to your question too is while it was noted that there haven't been any rejections the fact that there has been interest in the past there, there are some established charter arrangements between Australia and other countries and there are discussions going on with new people that would like to get into the market and expand their market, these are all just taking so long a time to work through because of the sort of framework in which we operate, I think that suggests that with a slightly more liberal and flexible approach to charters there would be more people that are interested in carrying the market that they would attract, which to a large extent we feel wouldn't necessarily detract from the scheduled services market.

MR MAXSTED: Another comment I might make, commissioner, often the time taken for approval of charters has been seen by some proponents as being an issue for them, some charter operators.

PROF SNAPE: Yes, Australia has general protection, consumer protection laws. But with respect to charter planes there's an additional layer on it insofar as they're required to put down a bond one way or another. Do you think it's this additional consumer protection, greater than consumer protection in a lot of other services - for example it's greater than coach services within Australia, bus lines. Is that required?

MR CLAESSENS: The particular consumer protection legislation that applies to charters - - -

PROF SNAPE: I'm not talking about safety of aircraft.

MR CLAESSENS: No, no. Consumer protection in terms of having people caught - when a company is liquidated and they're caught in Australia. To the extent that the current legislation provides protection against those sort of eventualities, it's good for tourism in the sense that you don't get bad press. In the Kiwi case though he was liquidated and there were a lot of New Zealand tourists caught in Australia and had to take other airlines back to where they'd come from through special arrangements. To the extent that the legislation puts consumer protection in there and prevents those sort of situations occurring - - -

PROF SNAPE: You think that would harm tourism in general and not just Kiwi?

MR CLAESSENS: Well, it's a question of image as well and presentation. One bad experience in Australia tends to get magnified.

PROF SNAPE: I suppose that affected the peanut butter market fairly recently too and that people were probably reluctant to eat peanut butter in general because of the experience of one peanut butter manufacturer.

MS OWENS: But it didn't stop them eating vegemite.

PROF SNAPE: No, it didn't stop them eating other things and it didn't lead the authorities to introduce specific protection or additional consumer protection on peanut butter. So, yes, there was a spillover effect onto other peanut butter manufacturers. Now, is the charter tourism business any different?

MR CLAESSENS: It's a very small market I suppose in Australia. I'm not sure of the exact composition in terms of total carriage but it's tiny compared to scheduled carriers. There's only a few operators and in a sense it's difficult to make an assessment. We've had few situations except for I think Kiwi. I can recall where - -

PROF SNAPE: So you don't find it onerous, in other words. You don't find this an unreasonable requirement?

MR CLAESSENS: Depends on what charter operators themselves might have to say. I think from the point of view of a small charter operator that has got the ability and the finance but its company structure might not suit the legislation, it certainly

might be a restraint on how soon it can get a charter operation up and running. It would depend on the charter itself though.

PROF SNAPE: We were saying before, you're not hearing the voice of potential charter operators.

MR BELL CHAMBERS: I think - if you want to hear from me again, I can give you a few comments on the area. I mean, basically things come from both sides in the charter area and in terms of insurance and one is the imposition on tourists and whether it turns it away. The other is the protection and whether somebody collapses and that - or alternatively cuts into the market in some respect. But I think, you know, at the end of the day I don't think there's any great evidence that the impost is large in proportion to the cost of travel and, you know, even with a higher elasticity it's unlikely to have a major impact. It's really a question of balance and I don't know that we have a firm view in terms of where that balance lies, you know, where the line should be drawn. But certainly philosophically, if the imposition became too great you'd hear some words I think from us in terms of trying to cut it back, to bring it back to a more reasonable level.

MS OWENS: In your submission you actually do say that the requirements that you just mentioned before limit the entry of smaller charter operators in the market, which is a bit of a trade-off I suppose against the objective of having greater consumer confidence. But I do wonder why it's an issue for the smaller charter operators. I mean, is it by implication that they would be left safe or more - well, it's not a safety issue. Would they be more likely to not go ahead with a charter service because they're smaller or - what has smallness got to do with it?

MR MAXSTED: I think largely it's the cost for the smaller operator. I mean, the larger operators I think are able to meet that cost more readily than a lot of smaller operators who are trying to get established.

MS OWENS: The smaller ones wouldn't be able - if they were trying to put together a charter flight and they only could get to 50 per cent load factor, they're more likely to say, "Well, we can't go ahead because, you know, we can't bear the cost of just running it half-empty," whereas a larger one might be prepared to run it anyway.

MR MAXTED: The large companies, I would expect, would certainly be able to meet the costs more readily than a small operator trying to get established.

MRS OWENS: A smaller operator might be more likely to go under halfway. People have got to Australia and then the small operator - something goes wrong and they go under and those people are stranded. That's more likely to happen with a small one.

MR MAXTED: It also goes to the organisation of the industry. We're not again experts in the charter market or how the charter operators work but applications for

licences, I believe, for chartering into Australia have to come from the owneroperator of the aircraft. Whereas before you might have a travel group type of licence. You need the capital to own an aircraft so again it comes down to how charterers reorganise or organise their company structuring to take that legislation into account with requirements in Australia.

MRS OWENS: I was going to ask you about something different and that was about the promotion of Australia in other countries. On page 8 of your submission you talk about Australian and foreign airlines joining the Australian Tourism Commission and the states in marketing Australia as a destination and you do specifically mention that foreign airlines do get involved and I was wondering how significant their involvement is. You refer specifically to Singapore Airlines in Europe. Do the foreign airlines spend a lot of money marketing Australia or is it something that's fairly insignificant at this stage?

MR CRICK: Helen, I think that issue is one that might more appropriately be picked up tomorrow. You have the Australian Tourist Commission appearing before you tomorrow and I think a lot of those partnership arrangements have been done through the airlines and the Australian Tourist Commission. So I think the details of that you might be better off exploring tomorrow. Just in general though of course obviously if a foreign airline is coming into Australia then they have an interest in cooperating in marketing Australia as a destination because that increases their own ability to attract passengers.

MRS OWENS: I suppose I'm asking the question because one of the arguments that has been put forward for having a national carrier or national carriers is they're more likely to take on Australia as being something - you know, they have a common interest with the country in which they're based and your submission advocates further liberalisation and there is a scenario that says that if you liberalise the air services, that could possibly jeopardise the position of national carriers, there's more competition, that they become potentially niche players in a global market. They are then in a much weaker position to advance the causes of Australia in other markets and hence Australia could lose out in terms of those promotional activities. I don't know if you would care to comment or if you had thought about it in that way.

MR MAXTED: I mean, certainly the Australian airline interests are an important consideration and they do make a significant contribution to the economy. We recognise the contribution which Australian airlines make to the tourism industry. I think it can be argued to a certain extent that their commitment to marketing and servicing Australia, it could be argued, is stronger than other carriers in the sense that they are based in Australia, in Australian-based airlines, and they are highly focused on developing routes to and from Australia. The wider network concerns of other carriers means that services can be terminated quite easily due to their wider consideration of other routes and that can have implications for travel to and from Australia. So I think there is an argument in that sense for looking after the interests of Australian airlines because they do have I think a stronger commitment to developing and promoting those markets.

But having said that, you're right, in the sense of a lot of international airlines - foreign carriers - are also actively promoting routes to which they serve to Australia and there is a number which I'm sure do cooperate with the ATC in their marketing activities quite significantly.

MR CRICK: What you see is the Australian airlines here doing a lot of promotion for Thailand and Britain and Europe because they've got flights there. They organise package tours there. So I think you will get a lot of foreign airlines that are interested in flying the trade to Australia because that's where their commercial interests are.

MRS OWENS: You're not that worried about liberalisation having that sort of impact on Australian tourism, inbound tourism?

MR CRICK: I think it will improve Australian inbound tourism.

MRS OWENS: On balance.

MR CRICK: Yes.

PROF SNAPE: You talk about various ways that we could go about becoming more liberalised in terms of unilateral and bilateral and so on and make some suggestions on pages 26 and 27 of increasing the case of liberalisation and explicit policy objective of bilateral open skies. Have you given any consideration to the sort of thing that I was talking about with the last participant as to the open club idea that amongst a number of like-minded countries you formulate or agree upon an open skies - however that's defined, and presumably not with cabotage - agreement and then make that club open to anyone else. You specify, for example, on page 27 that there are a number of countries that have got open skies agreements including a number in our country, in our area. I think Malaysia is another one that the United States has in fact got one with in the region. Do you see any potential for that open club approach? Have you given any consideration to that?

MR CRICK: I guess we haven't sort of mapped out a strategy in that sense. I mean, what we've set out on those pages is some various ways that we might go about it. I mean, the multilateral approach we argued there has some advantages if you were achieving something like you were achieving in other industries and it was interesting to hear the former speakers saying that there were certain disadvantages of the multilateral approach because you end up with the lowest common denominator and I guess that's one of the pitfalls and you would need to be careful to make sure that you get a balance between what you're seeking to achieve and the number of people that you might encompass in it. I guess that's where the trade-off with multilateralism is.

I think we've accepted the fact that the bilateral approach is probably going to stay with us for quite some time and therefore we should work within that. I think what will automatically transpire in working in a bilateral approach is that the more

you get bilateral agreements that are fully liberal, as you are starting to get now, the more it becomes a snowballing effect. I think the case that the recent agreement struck between America and Japan is going to be a good example of the pressures then that that will put on us in Australia - because of the extra competition that that agreement will provide to Australia in setting up America as a more competitive tourist destination for Japan - that's going to put a lot of pressure on us to loosen up our agreement then and become more competitive. So I think you will get - automatically almost - as more of these bilateral agreements occur, you will start getting a spin-off effect to put pressure on others and that will expand which is not quite, I guess, setting up the club but it's heading in the same direction.

PROF SNAPE: Yes. The sort of picture that I'm envisaging, if one can think of a hub and a series of spokes going out from it and of course at the moment you've got predominantly the United States at the hub with a number of bilateral open skies. It's true, as you point out, that New Zealand which is one of the spokes in that system has also got a number of bilaterals as well. But of course if you've got 200 countries each going for bilaterals and trying to liberalise that way and having slightly different conditions in each of those, then you've got 200 squared over 2 or something like that minus 200 bilateral agreements in the world. Now, that's a very cumbersome process and even if they were all open it would be much easier in fact to have a template that in fact they were all signing on and forming a club in that plurilateral manner rather than each having a separate bilateral.

MR CRICK: In principle I think that would be a good way to go and it would be attuned to what we've sort of argued there in the submission about multilateralism. The key to it of course would be to ensure that all those in the club are prepared to sign on to a template. I think that would be the hard nut to crack.

PROF SNAPE: That's the point of an open club. You start with just those who are and then others can in fact come in. That's an open club. If it's an open club others will join.

MR CRICK: I think something along those lines will start happening. I mean, go back to the US Japan agreement. That's going to put a lot of pressure on us in a couple of ways. The pressure will be on us to grant the freedom rights to the US that they've gained with Japan to allow them to bring passengers on to Japan and that would be advantageous to us from a tourism point of view to allow that to happen. There's going to be pressures on us I think to loosen up the agreement with Japan itself in order to make sure that Australia doesn't lose out on the tourism market in Japan because of our lack of competitiveness with the United States that will be provided with the US Japan agreement.

So when those things start to work their way through you will suddenly start to get a little bit of a club, if you like, where we've all got very similar arrangements and I think that's probably a trend that we would like to see encouraged.

MR BELL CHAMBERS: Can I just add to that. I mean, to the extent that there might be a template, I would assume with these developments going on that if you look at the major players in the world, like the US, I would assume that the sort of agreement that they envisage would be, if you like, a template because there would be players like that that would be to the fore and pushing these sorts of agreements. So it may happen without a plurilateral sort of get-together in a sense.

PROF SNAPE: I guess in this there is some sort of an attempt to make it plurilateral. The risk is that every agreement has slightly different provisions.

MR BELL CHAMBERS: That's right.

PROF SNAPE: Maybe in some cases substantially different provisions. Whereas if one can get it into a forum one may be able to get a much more common agreement.

MR CRICK: Richard, I think that's what our little paragraph there in multilateralism on page 26 is trying to get at. I guess we've sort of opted out, I suppose, of saying that it's something achievable in the short term. In the sense it's a bit of a longer-term goal then we need to still work through the bilaterals, as I say, in the hope that the bilaterals will evolve in such a way that you can then perhaps move across into some sort of a template.

MR MAXTED: The negotiation of open skies agreements with one particular country will certainly I think lead to increased pressure for further open skies arrangements with others to reduce the market distortions. For example, if Australia would negotiate an open skies agreement with a particular country and that same country had a quite open skies agreement with an intermediate country and so it would bring traffic on to Australia in that way and our own agreement with that intermediate country had put restrictions on Australian carriers, then there would be an incentive for us to once again go for an open skies agreement with that country.

MRS OWENS: Can I ask, while we're talking about liberalisation, about cabotage. In your submission you state that there could be some advantage from having cabotage for foreign carriers and that that could assist domestic tourism development. Again, in our submissions from the airlines, there is as you would probably expect a fairly strong argument against cabotage because of the potential for increased competition on the domestic routes and what they argue to be potential for unfair price competition. If you follow that logic through it could mean that those domestic carriers could be in some degree of strife in the future and I was wondering whether you would like to comment on, if that was the case, whether that would have any adverse effect on tourism within Australia.

MR CRICK: Well, I think where we're coming at from that one, Helen, is that we keep getting messages from our tourism markets that it's very difficult to get their tourists out to centres apart from the main gateways because of the difficulties of domestic airfares and structures and the relatively high cost of domestic airfares for them. Comparisons are made, for example, in markets that they can travel to the

United States from say India and manage to take in three, four or five cities at a relatively lower cost than they would travel to Australia and just maybe do Sydney and Melbourne because of the higher component of domestic airfares. So if there were some ability to allow the carriers to service internal routes then the argument would be that this would provide a lot more flexibility and lot more competitiveness in allowing foreign tourists to travel into other regional parts of Australia, make Australia a much more attractive market therefore, and allow us to market ourselves better and at the same time of course have all the economic advantages of getting people into regional centres.

Sure there would be some pressures on the present domestic airlines but both those domestic airlines are now international airlines at the same time, so I think there should be an ability to withstand and entertain the competition and work with it.

MR CLAESSENS: Just one footnote to that as well. What we're suggesting there we've floated an idea that would be very limited from a cabotage - beyond gateway points to regional gateways. We would see cabotage at the furthest extent at the liberalisation continuum because cabotage as you know is one area where other countries who are willing to negotiate open skies agreements will hold back - the United States being the prime example.

PROF SNAPE: But own traffic stopovers you would like to see all the limitations off that, I gather.

MR CLAESSENS: A lot of airlines already have own stopover rights.

PROF SNAPE: But they are still restricted, aren't they?

MR CLAESSENS: Sure.

MR MAXTED: It depends on agreements. It varies between different agreements.

PROF SNAPE: But you would like to see those restrictions removed.

MR MAXTED: We would like to see own stopover rights extended as much as possible.

MRS OWENS: While we're talking about that, have you got any sense of how many of the agreements have own carriage rights built into them?

MR MAXTED: Yes.

MRS OWENS: Is it a significant number or just a few?

MR DURRANT: Maybe Transport might be better to answer that.

MRS OWENS: Okay. Can we turn to the issue of negotiating air services agreements and your role in that negotiation process. There has been some complaint about this process with some of the other submissions that we've had, mainly from the states, relating to tourism aviation group and if I remember correctly, the argument is that insufficient attention is paid to the interests of state tourism of those particular state government interests. I don't know whether you're aware of this concern and it may be worth having a look at some of these other submissions. But would you like to comment?

MR CRICK: The process of negotiation is a matter really for the minister for transport and Department of Transport. There are certainly processes in place that allow for other inputs to be there and we as a department or as an office of national tourism participate in the negotiations so we feel there is certainly input to the tourism side there.

MRS OWENS: You're happy with that level of input?

MR CRICK: I mean, you know, there's always room for improvement, I suppose. But I guess what I'm getting to is that I don't think this is an issue that we would like to comment on specifically in this forum. I think you can certainly ask the Department of Transport how it all operates but I think if we felt that we weren't getting a sufficient hearing then we would take it up bilaterally with the portfolio.

MR DURRANT: Just on the states' perspective, when we take their input we try to balance that against the national input. So we put to Transport - as part of the office of national tourism's input to the strategy - a national approach. But any input we receive from the states, all input we receive from the states, is also- -

MRS OWENS: I suppose their concern is about where that balance lies and whether they're getting their hearing and I suppose we can ask the states themselves about that.

MR MAXTED: Just as clarification there, we do have an arrangement in place whereby we consult with the states and territories and tourism industry bodies prior to submitting our own input to the Department of Transport. We've established the tourism aviation group which consists of representatives of the states and territories and industry bodies and for all negotiations we seek their input before finalising our submission to the Department of Transport. So in that sense we're satisfied that certainly we're taking account of the views of state tourism bodies and they are linked into the process through that.

MRS OWENS: Are there any instances where you've had sort of significant differences of opinion with the department over the way the negotiations were going to be handled? Are there ongoing issues that you would care to comment about?

MR CRICK: I think the answer is no - no to the latter part of your question - we wouldn't care to comment.

MRS OWENS: Okay.

MR CRICK: No, I don't think it would be appropriate to comment on those things. Obviously you're going to have differences of opinion on some issues. But I mean part of that interdepartmental process is designed to sort those out so that you come to some common agreements when you go into a negotiation. I mean, that's the way government works generally.

PROF SNAPE: I might just get another angle on that one perhaps and refer to page 17 where you say: "On the other hand, negotiations have proceeded relatively quickly where there have been Australian airline imperatives", thereby implying that the airlines' interests are still getting a heavier weight than other interests and that the negotiators are sluggish only being driven by non-airline interests.

MR CRICK: Well, that's perhaps an unfair or an over-inference. I think there's an historical circumstance there where the whole philosophy of approach, going back to the origin of the process, has been aimed at the airlines and I think that's been changing over the years quite considerably, particularly since you no longer have a single national airline and that all these other interests have been much more representative. So I think there is a greater balance these days but I don't know whether my colleagues would like to further amplify on it.

MR MAXTED: I think from the tourism point of view, in recent years there have been substantial increases in the capacity negotiated which have served the tourism interests and we've seen general growth in tourism over the decade of around 90 per cent. The extent to which this might have increased further, had there been a more liberal approach to negotiations, is debatable.

MR BELL CHAMBERS: Can I perhaps answer it from a slightly different question. I mean, I think the very fact that we're sitting here suggesting that there's a need for more liberalisation and we would like to see further rights, further capacity etcetera I think sets a framework in the sense that we would actually like to see the process take more account of the broader issues. It goes without saying that what we'd like to see is the achievement of more liberalisation. Certainly to the extent that that's not happening, obviously we've got work to do.

PROF SNAPE: I notice on page 36 - it's referring to Sydney Airport and while we don't want to spend too much time on Sydney Airport there is a constraint or is likely to become a constraint. You say: "However, the airport is expected to be fully capable of handling the expected increase in traffic up to and during the Olympic period within existing curfew and hourly aircraft movement limits." I hope that's right. We will wait and see, I guess, whether it can handle it. But in any case we are approaching some sort of limits with Sydney Airport and I wondered if you had been giving any consideration to the slot management process at Sydney Airport and the way that slots are allocated.

I don't want to get into the politically sensitive thing such as the ring fencing of a number of slots for regional aircraft and so on but just take those existing constraints that are there and whether you've given consideration to slot selling, as we were discussing with the previous participant, rather than what is at the moment I think if an airline wants a slot that someone else has got then they basically go about trading it, finding some way of having a trade and no money changes hands or at least so it appears. Do you have any thoughts about moving to a slot and the consequences of moving to a system in which slots were able to be sold?

MR CRICK: It's a little bit out of our bailiwick, Richard, that one but Michael could make a couple of general comments.

MR CLAESSENS: Yes. Just in a very general sense it seems like it's a pragmatic measure, a logical measure, in the sense that you have capacity constraints eventually. With increasing the margin you need some sort of mechanism to allocate airlines coming in, it stands to reason. During the development - again it's primarily a question for Transport, the Department of Transport - of that site allocation process the airlines, Australian airlines and foreign airlines, I believe, have been fully integrated in terms of consultation and so has the tourism portfolio. So again it's probably also a question of see how it works and - - -

PROF SNAPE: I wonder if it so far out of your area. We had a discussion last Wednesday with the South Australians on this point. At the moment there are general restrictions on the number of flights out of the bilaterals that can come in and with those restrictions the airlines naturally will choose those destinations which are offering the highest yield, the highest profit. If things were unrestricted they may in fact find it profitable to go to some other places as well, for example, Adelaide, as well as Sydney. But because they're restricted overall, very often they go to Sydney because that offers a higher profit.

If they had an asset in Sydney which was in fact saleable and therefore had an opportunity cost - that is they've got a landing slot there which was saleable and someone else wanted and was prepared to pay for it - then in fact that airport then, because of the opportunity cost, may in fact decide to sell it and go to Adelaide. So it may not be out of your area at all. It may in fact be a way - only perhaps in a small way - of distributing the tourist traffic around Australia rather more.

MR CLAESSENS: We've looked at that issue in the context of bilateral service agreements in the sense of specification of ports and they have always consistently supported - as has the state tourism industry more recently - the non-specification of gateways and that is happening in air services agreements.

PROF SNAPE: So there's a way of making other ports more attractive because you're in fact putting a saleable asset in Sydney and so you're therefore altering the relative attractiveness of going to other airports without actually having to have city designation.

MR BELL CHAMBERS: Can I suggest that it's an area you're putting - is not without its problems? What effectively you're suggesting I think is in a sense a grandfather clausening in the sense that the people that actually have the right now all of a sudden have some valued asset that really it could be argued doesn't belong to them.

PROF SNAPE: That's the easy way of doing it. The other way is to throw them all open to auction. But there are really system-wide problems with that. So the easy way of doing it is to grandfather and say there's an asset and - -

MR BELL CHAMBERS: I'm not entirely sure it's necessarily an easy way because, as I said, you're actually handing profits to people that - you know, on what basis they've historically used these rights. What I'm saying is there's difficulties with the sort of system you're proposing.

PROF SNAPE: But they are automatically grandfathered these days anyway. So there's almost a property right there and there's almost a valuable asset and in fact, as we know and around the world, people can acquire these by buying an airline and the grandfathered rights will in fact go with the airline. So they can be traded by buying an airline.

MR BELL CHAMBERS: The other, I guess, problem we could potentially have with them is if the cost of the right was so high to prohibit or discourage airlines to fly to Australia. I'm not suggesting that necessarily would happen because hopefully we'd see a second airport start up so we - - -

PROF SNAPE: The price would only go high if people want to fly to Australia. I mean, the price itself will measure how much they want to come to Australia and if slots exist and there will be a limited number of them anyway, so that constrains how many people can fly into Sydney airport and so long as the slots have a value which is greater than zero, the same number of aircraft will be coming into Sydney.

MR BELL CHAMBERS: It sounds like an argument for me for the governments taking the profits of the sale of the slots because I mean essentially, as I said earlier, you're handing profits over to airlines.

PROF SNAPE: Well, it's like taxi licences. They've done that with taxi licences.

MR BELL CHAMBERS: Taxi licences initially are sold by governments I think and in the first instances they get the revenue from that - - -

PROF SNAPE: They're sometimes handed out free, so the practice varies, and they have been in the past.

MR BELL CHAMBERS: All I'm basically suggesting is I can see a lot of potential problems there and the whole issue would need to be thought through fairly thoroughly.

PROF SNAPE: But as it does have tourism implications it is something which you may wish to address.

MR CRICK: I can see where you're coming from. No, it's an interesting point, Richard. It's worth having a look at because I mean, if we're trying to get airlines out into the regional centres and there is some financial incentive for them to do so, I mean, there may be an opportunity there. I'd have to say it's not something that we feel expert in or that we have looked at in detail but I mean, I take your point.

MS OWENS: One last thing I want to do is just clarify something you said on page 12 where in the last paragraph you refer to "the need for robust dispute resolution mechanisms". This is in the context of bilateral negotiations and I was wondering whether that implies there aren't such dispute resolution mechanisms in place now and if there aren't, what are you actually suggesting be introduced?

MR CLAESSENS: We, just in broad terms, were just highlighting that issue, that within the bilateral framework there isn't a world policeman. There might be in, you know, the general trade of good sense which can help parties come to some resolution. Because you have a bilateral framework which rests on what two countries have agreed, the outcome can sometimes rest with the relative strength of the parties in the sense the US can make life difficult if it chose to for one country because of a trade dispute. We just drew attention to the fact that within that framework there isn't that - there aren't the safeguards built in. At the moment I don't think you can.

MR BELL CHAMBERS: Can I just perhaps clarify a little what Michael is saying. In the US agreement for example there is provision, if there's disagreement, to go to arbitration and it's the only one to my knowledge where we've actually gone close to going down that line.

MS OWENS: Who is the arbitrator?

MR BELL CHAMBERS: As I recall, it was a party to be agreed by both sides and I think one of the international bodies I think probably was somehow involved too. It's getting very down to a technical detail that perhaps should go to transport. But I think you'll find most agreements have something of a provision of that nature. But it's not often used and it's a very long process and I can assure you, being involved as I was many years ago in the US dispute, I think it went to about six rounds of hearings. The arbitrator I think was - look, I'm guessing now but I think it was about the third round that it was called and it went on and on and it was used in a sense as a - - -

MS OWENS: A delaying tactic, yes.

MR BELL CHAMBERS: Potentially a delaying tactic but it was also - I mean, it was Australia that actually, as I recall, went that approach. But it was also used as a dispute resolution and just putting a bit of pressure on from one side to bring the

parties together to resolve the dispute before it goes down that path. But it's a very long and involved process and I'm not sure that anyone quite understands how it works because certainly in Australia's case I don't think there has been too much use in it.

PROF SNAPE: Also the general agreement trade and services lurking in the background on that one - and even though air services are almost completely excluded from coverage there is a residual thing on dispute settlement when all other avenues have been exhausted, if I remember correctly. So that has not been tested.

MS OWENS: Good.

PROF SNAPE: Thank you very much for your submission which was a very helpful submission and also for your participation today and to all of you for coming and speaking with us and clarifying a lot of issues. Thank you very much. We'll now adjourn and we'll resume at 1.30 pm, thank you.

(Luncheon adjournment)

PROF SNAPE: We now resume the hearings and welcome Qantas who are appearing for us now and to start things off I'd ask the members of the Qantas team whether they would, for the benefit of the transcript so that the transcribers can identify the voices - whether you would each identify yourselves and your affiliations please.

MR STRONG: Thank you very much. James Strong, chief executive of Qantas Airways Ltd.

MR HAWES: David Hawes, group general manager government and international relations, Qantas Airways Ltd.

MR STOECKEL: Andrew Stoeckel, executive director, Centre for International Economics, consultant to Qantas.

MR KERR: John Kerr, general manager international relations Qantas Airlines.

PROF SNAPE: Thank you very much. James, I now invite you and other members of the team, if you like, to speak to the paper, thank you.

MR STRONG: Yes. If it's an acceptable way of proceeding I'd just like to make an introductory statement to be able to - in responding to questions be able to use each of the team members here who have different areas of expertise. By way of introduction I'd just like to say that the airline industry of course is a very high profile industry which has its own share of myths and legends as an industry and many misconceptions, and a lot of commentary which is not really based on detailed analysis or factual material. In attempting to respond to the hearing here today we have put together a quite comprehensive submission. I don't intend, in any way, to try to trail through that. As the commissioners would be aware, that would not be a gainful way of doing it.

It does have, we hope, a logical format in that it has a table of contents and a synopsis at the front and also an executive summary. What I'd like to do is just to particularly emphasise five points that we would like to say to characterise what that submission says and these may be contrary to some of the myths and legends that I referred to earlier. The first is that Qantas in fact supports and actually needs continuing liberalisation in order to have a viable future as an airline. In terms of what form that liberalisation should take, we believe very strongly that it should be a continuation of progressive liberalisation, using the bilateral system, and in our submission we examine the alternatives to that and the advantages and disadvantages of those.

The second thing that I would say is that in fact a continuing policy of progressive liberalisation through bilaterals is in fact a pro-active form of competition policy in itself and I think that's a common misconception, and as I said we believe it is the preferred form. The other forms which no doubt will be heard often are open skies. In our submission we make reference to that statement and we're not too sure

just what it means. It seems to mean different things to different people and in different circumstances. The other major form of course is multilateral trading and we do examine that in detail in our submissions in terms of its positive and negative outcomes.

So the third major point that I'd like to go to is that we believe on the basis of the information shown in our submission that in general terms the current policy of progressive bilateral liberalisation cannot be demonstrated to be restricting competition in the Australian aviation market. That's based on a range of material in there but in terms of illustrative purposes is shown by significant charts which actually set out the amount of operating rights, entitlements available market by market into Australia and the degree to which those are being used and the degree to which they're still open and available and not being used.

The fourth proposition is that in practical terms the state of markets drives airfares, the level of airfares, not regulation, and that the state of markets is actually a combination of multiple factors and we do examine quite a few of those; some of those are non-price. But I do think it's important to emphasise that regulation is not driving or restricting the level of airfares in Australia in practical terms.

The last matter which I'd like to highlight is to again go back to this question of - in our submission we have attempted to examine what are the alternative policies, which is based on the chart on page 2 of having looked at the methodology that we believe needs to be followed in order to answer the brief that needs to be answered. So we do examine the alternative policies and come to conclusions about what benefits and detriments they're likely to deliver both on a narrow and a broad front in terms of Australia.

The last thing I'd like to say in addition to those particular points is that Qantas is a very different airline to the airline which existed, say, 5 years ago in the sense that it has been obviously changed by becoming a public company which is driven by factors relating to the economic performance of the airline and in particular a major focus on its assets and its capital investment and there is evidence emerging in the international aviation market that that is increasingly becoming the case with more and more airlines which are moving out of government ownership and into public ownership, that it is producing some profound changes in the marketplace as well, mainly to do with the capital investment and the utilisation and return on assets.

Qantas of course, as part of changing its nature as a public company, has put a great deal of time and effort into its cost structure, efficiency, productivity - and indeed to a large extent these have been significant influences on its ability to achieve reasonable profitability. Whether those are issues that are of interest and you would like to explore, obviously we leave them on the table because certainly it has had a profound effect on Qantas as an airline and on its performance within the Australian aviation market. So with those remarks we're quite happy to answer questions or explore further any of the issues in the submission.

PROF SNAPE: Thank you very much, James. It's a very meaty submission, a lot of detail in it and in the appendices and we thank you very much for all that meat. It's going to take a little while to digest and I would imagine that the staff will be back in touch with you quite a bit over succeeding months and to get clarifications here and there, but we'll try to cover some of the points today. I know there's one or two points of detail on the paper that the CIE have put forward which I probably want to pursue at some other time when I have had a chance to read the background papers as well as the paper there.

I suppose that you're coming out - well, you are coming out clearly of progressing through the bilateral system. That bilateral system is changing quite rapidly I suppose. It's changing because of the alliances and the code sharing and so on and the various things that are happening in that manner. It's being pushed a little bit on the ownership question in various dimensions and one might expect that in the future there may be some more pushing in the way that has occurred in the Aerolineas Argentinas case and others. So there may be more pushing of the question of national airlines. It's being pushed I suppose by the so-called open skies agreements and I think that while you have tried to avoid that term in the paper because of its ambiguity I suppose we do have a sort of template by the United States of their open skies proposals - and the implementation of it varies according to country to country, but nevertheless the principles of the US open skies are I think fairly clear and the US now has those open skies agreements more or less of that pattern with 28 countries.

So the bilateral system is changing a great deal and I suppose that leads one to think a little bit more with those open skies agreements proliferating, albeit in the American pattern and without cabotage - that they're proliferating so much, does that lead one to think of another type of liberalisation framework, which you don't really address I think, and that is a liberalisation framework which is of a liberalising club, not just with a hub country, that is, the US and a whole lot of spoke agreements coming out of that, but rather more a sort of standardised open skies - for the want of a better term - agreement which is the core of the club and that within that, it's not just bilaterals but there are in fact plurilateral agreements and so that amongst a whole lot of the countries that these agreements have been entered into with the United States, some of them are making bilateral agreements amongst each other of an open skies variety, like New Zealand and Singapore and New Zealand, Malaysia. So you're getting some crossings over of that sort of thing.

Wouldn't a liberalising move be to in fact have a core of countries which adopted this framework amongst themselves and have it as an open club that others could then join and would that be a liberalising framework which might be attractive to Qantas, perhaps started as some group with APEC, not the whole lot. Obviously not all members of APEC are ready to enter into that sort of agreement but perhaps within APEC or perhaps broader than that with a group of like-minded countries joining together into this sort of - pretty well homogeneous agreement, an open club that others can then join onto, a bit like telecommunications and the financial services agreements under the GATTs in fact. Would that be another liberalisation possibility, which I think you've not addressed, which would seem to me to fit in with the general

perspective of what you've got in your submission? But I don't think you've addressed that.

MR STRONG: To some extent I'd suggest that that really is what I'd call the multilateral approach in the sense of getting a group of people together and a number of comments about that would be that that possibility has always been open. There's nothing inhibiting that process now and the reality is that nobody has been able to - it hasn't been successful. APEC itself is an example of that. As you would be aware, there has been - and David Hawes can speak with more detail on this. That has been one of the topics on the APEC agenda and whilst in broad general terms it has been taken forward, it has been taken forward at the pace of a snail, so to speak, because of particular issues which particular countries have, so that in essence there really isn't a multilateral approach. It has been more of an attempt to patchwork together people who don't have a singular approach as a multilateral group.

We believe that - and I didn't emphasise this in the opening statement because I think it's so well set out in the submission itself and particularly in appendix F, but it's one thing to talk about the rights and the number of seats but a lot of the issues to do with competition are not related to that. They're related to what we would call barriers at airports and barriers of entry to physically operate, monopoly arrangements in terms of what services you have to use - and as indeed you mentioned, the question of restrictions on ownership and so on.

Our view is that on the basis of practical demonstration, the only way that Australia has made real progress on those has been by using the bilateral system and that the potential for there to be a widespread multilateral agreement which tackles all those issues with real grunt amongst a multiple grouping of companies we believe it is a much lower probability than continuing effective use of the bilateral system.

PROF SNAPE: Yet, if I may on that, I think probably 5 years or so ago or 10 years ago, one might have said exactly the same thing of telecommunications which of course has much the same characteristics as airlines in that you need access at both ends to be able to trade the product and moreover it grew up in a framework of restriction rather than of liberality.

MR STRONG: Initially, yes.

PROF SNAPE: Yes. And yet it was broken through in that way. We do have within the GATT system a club of people which now have plurilateral agreement amongst them and it is open for others to join. It would have seemed to me that - with the pressure of the US in their bilateral agreements, open skies agreements, which are all very similar - you're getting very near to a critical mass when some other countries are approached, for example, Australia to have a new bilateral with the US and they would probably come out with the open skies proposal, that one would be able to say, "Look, we are interested in that but not just on a bilateral basis. You've got similar bilaterals with New Zealand, Malaysia, Singapore and we would be

prepared to enter into a club which in fact had the same set of rules covering all those countries."

MR HAWES: Yes. To go back to the first question that you posed, incidentally, that we were not viewing exclusively - when speaking of multilateral or regional arrangements - something that would preclude or take from view what I take from your remark or examples would be plurilateral initiative and that could be organised on a regional basis, a subregional basis or spread around the globe by any countries that wished to do that. I think an example of that was also included in some of the work done in the OECD study. But where we confined ourselves in our submission was to a discussion of what we called concerted approaches - one in all in - on a multilateral or regional basis and of course that could have included plurilateral.

I think the question is though where does it take you? Where would that initiative take you if there were a number of countries wishing to participate in that where you're not capable of going now; where you're not capable of going under the existing liberalising framework that's used under the bilateral system? That system would provide for what you are talking about. Whether it would be appropriate or whether there would be sufficient interest to locate such an initiative in a regional body like APEC or a regional grouping of countries like APEC, all within the framework of a multilateral agreement such as the GATT, is another question. I think what we have seen is that where those sorts of issues or other questions relating to liberalisation have been engaged in discussion in either the GATT or in the WTO or whether in APEC or in some work that was done in ICAO at the end of 1994 it ran out of gas or there wasn't sufficient momentum to get behind that. So I think what we're arguing and what we're observing is that the existing system, and the use that's being made of it under present policy as it's being pursued by government, is capable of taking you in the direction of very liberalised outcomes.

MR STRONG: Could I also just complement that by saying that the very nature of the system - the complexity of the system - and all the factors which actually potentially impact on competition is illustrated in that in fact our concern would be that if there was, for example, a multilateral approach involving say an APEC group - and using your example of those which had open skies - or what is known as Open Skies in the case of the US agreements - with the US that even if you solved the issues relating to services to and beyond those countries, if you didn't fix up issues about access to the markets that we serve beyond them, we could be severely disadvantaged by that. The greatest example of this is what we call the kangaroo route from Australia through Asia to countries in the UK which is characterised by many operators who really have very little interest in flying people to their country, they're flying people from one end of that destination to the other.

If there was an outcome which gave significant further progress in relation to that grouping in this geographical area but paid no regard to the utilisation of that in terms of access to the markets beyond, we could be quite severely disadvantaged. That is why we believe that the bilateral system, as long as it keeps being pro-competitive, can actually take those detailed factors into account and look at the

net result that you get - in other words, to tailor the result to make sure that whilst it gives more capacity for airlines to fly into Australia and more competition, that it gives an opportunity for the Australian industry to succeed in that environment as well.

PROF SNAPE: Yes. But picking that one up and thinking of the specifics, I suppose if one thinks of that kangaroo route then there are open skies agreements with the US by just about every country that we would be interested in on that route or imminent, that is, Singapore, Malaysia - Thailand is imminent or has it not occurred yet? No, not Thailand.

MR KERR: It's not in. They're not negotiating with the Thais.

PROF SNAPE: Okay. The UK is imminent, I think, or has it occurred?

MR KERR: No, and it's probably not imminent either.

PROF SNAPE: Well, another submission says it's imminent, I forget which one.

MR STRONG: There's quite a tug of war going which we would characterise to you as being well away from open skies and of course the UK is one of the classic markets that has non-bilateral obstacles.

PROF SNAPE: I understand those other obstacles which of course will be there in one way or another.

MR KERR: If I could just comment on this plurilateral approach. I think from Qantas's point of view and we would probably dare to say from Australia's point of view, it would be better to move to a plurilateral approach, if you were going to, after you had had various bilateral deals in place for the members of that plurilateral club, as you put it, I mean that leads us back to the view that you should have your bilateral extensions and your bilateral links in place first and then you are more likely to get that critical mass that you were talking about once those bilateral developments have been pursued. I think the other thing to think about and encourage you to think about in terms of plurilateral clubs, if they are clubs with limited membership, you know, there's the relationship between that club and the rest of the world - the third country and the third party relationships.

There really hasn't yet been any precedent for successfully dealing with the external dimension of club policy, if you like. If you take Europe or if you take any other similar groups of arrangements - and indeed the Australian NewZealand single market is a good case in point - those sorts of arrangements have a great deal of difficulty dealing for their members with external policy and capturing for their members, individually and collectively, the benefits that they need to get from third party arrangements.

PROF SNAPE: I guess the EU in particular is working that out at the moment.

MR KERR: They have been working that out since day one and that has been some considerable time.

PROF SNAPE: Their own club took a long time to form.

MR KERR: That's right.

PROF SNAPE: The internal dimension is clearly more easily sorted out than the external.

MR HAWES: There's a dispute about who chairs the club and who speaks for the club in the case of Europe which is quite significant and I think again if there were to be ever a multilateral attempt that would be a debate that would have to be resolved as to who - whether the commission or the community as such or whether individual member states have carriage of that.

PROF SNAPE: Again, I suppose, telecommunications is not that dissimilar and perhaps watch and see how that policy is furthered in telecommunications and there may be lessons in that.

MR HAWES: You keep referring to telecommunications. One of the delays or the reasons for the delay in the Uruguay round negotiations over telecommunications was the setting of a time-frame which was dependent on the setting of an EC telecommunications policy.

PROF SNAPE: I don't say there aren't problems but one could perhaps see how they're solved since they are a bit ahead, I think, of the airlines.

MR HAWES: Not wanting to get into a detailed debate about telecommunications, but I would think that some of the physical access problems are more easily capable of resolution in that industry than aviation.

PROF SNAPE: You don't have Sydney Airport there, no.

MR HAWES: I was sort of trying to be more diplomatic than that.

PROF SNAPE: Or Narita let's say.

MR HAWES: Or Heathrow or so on, yes.

MRS OWENS: Could I ask if we were to continue down the current path with bilaterals, as you're suggesting, what are some of the things that could be done here in future negotiations? One of the suggestions that's been made by the South Australian government is that the access to secondary airports could be opened up through some form of liberalisation in the agreements to allow, they say, more liberal availability,

capacity and route entitlements and liberalising code sharing rules. Is that something you think is a possibility?

MR HAWES: I note it's very common to say that the way forward is to give more capacity, but we have not in our own analysis, which is included in this submission - in general terms there is no route where there is the full existing capacity being used. I mean, this is commonly said, "If we had more capacity," but I'll make a general statement that it isn't capacity which is driving any airline's policy as to how much flying they do to Australia. I mean, airlines generally - and I can certainly speak on behalf of Qantas - make all decisions about where they fly on the basis of the expected financial result. I mean, obviously in the end there has to be that capacity available, but when you look at the Australian market, under these routes that we've analysed here, which is every major route, there is no airline that would be being held out of the Australian market because of lack of available capacity.

Particularly some of the arguments in relation to secondary airports -I mean, some of these are very simplistic in that they don't in any way examine what would drive the decision-making process by an airline. I can tell you if I just by way of example use Qantas, when we buy a 747-400 aircraft it's going to cost us somewhere in the region of \$US150,000,000, so well over \$A200,000,000, and we know that to break even that aircraft has to be in the air between 13 to 14 hours every day, and to just break even it has to have a load factor somewhere between 60 and 70 per cent - literally to break even.

So when you're making a decision about where you're going to fly, the thing that's going to influence you most is how many passengers at what price and the efficiency of the utilisation of the asset. I think it's amazing that today there is still discussion about the amount of flying and where people will fly and the decisions that airlines will make which doesn't take that analysis into account. That's what I was trying to refer to before when I said that Qantas today is literally driven by the capital invested in assets and the return on those assets. Today in Qantas we can analyse every aircraft in our fleet, the return that we're getting on that aircraft, by class of seat on every route that it flies. We follow the philosophy that we need a certain hurdle rate of return on each aircraft in order for us to utilise and to keep that aircraft in our fleet, and we do the same for each new aircraft.

In an industry which is so capital-intensive this is what drives the industry much more than it did say 10 to 15 years ago, where, if you took Qantas, Qantas was a classic government airline which was very good operationally but was starved of capital, hocked to the hilt with government-guaranteed debt and not focused on return on assets employed. So I think some of these generalised submissions which proceed on the basis that all you need is somewhere for a plane to fly to and, hallelujah, there are going to be operations that follow that, really do deserve some critical examination, because that's the basis on which these decisions are made.

PROF SNAPE: Do I take it that you're saying that there wouldn't be more flights, whether it be by Australian or by foreign carriers, on routes to Hong Kong or to

South Africa or to Mauritius or to Taiwan or to Japan, albeit remembering the Narita problem, if there weren't increased capacity negotiated on those routes?

MR STRONG: I can't go through each one of them - well, we can if you'd prefer to but just take the last one, Japan. What is influencing the Japanese market at the moment is the financial outcome. We've just seen ANA announce that they're going to pull out flying in fact from Narita to Australia. The reason that they're doing that - and I'm giving them the benefit of my interpretation; they haven't said this - is that they can now get a better return flying to the United States and they're going to switch their slots to flying to the United States. We have rationalised our flying between here and Japan because of the financial return we're getting. So does Japan Airlines and again I would put to you that that just follows that same equation, that nobody is going to fly; nobody is going to utilise assets unless they're going to get a reasonable return and there is capacity available between Japan and Australia and I think each of the ones you mentioned, although South Africa might be the tightest one of those, yes.

PROF SNAPE: South Africa, Mauritius, Hong Kong.

MR STRONG: No-one flies to Mauritius. Hong Kong is not right up to - and I think there's been some reduced flying between here and Hong Kong.

PROF SNAPE: And Aerolineas I guess is seeking fifth freedom rights. They would perhaps increase their flights if they had fifth freedom.

MR KERR: There were air service negotiations only a week or so ago with Argentina and I think you'll find that when the Australian government announces the outcome of those discussions that that problem will have been dealt with.

PROF SNAPE: It's hard to keep up.

MR STRONG: It is. That's a very telling comment and in fact I don't think anyone would challenge the fact that these things go in hops. So you characteristically have a period of quite excessive capacity and then it will get tighter and the parties will come together again but so long as - I think it's clear in the aggregate that the government policy is to keep the capacity available well ahead of demand in aggregate and I think the totals demonstrate that.

PROF SNAPE: I suppose one of the things that worries me a little bit here on this one is that we hear much about the composite product which is being produced by airlines. It's not just a flight from Sydney to Singapore. It's the time of the flight and it's the frequency and it's whether you get seamless service and all that sort of thing and a whole lot of things like that which are ingredients into defining the product, I guess.

MR STRONG: Yes.

PROF SNAPE: So when you've got such a composite product I guess it's very hard to say how demand is being constrained. If there were more flights at different times and with different combinations and so on, it's quite feasible that additional demand would be generated just as much as if the price was lowered. And so demand will be a function which will depend upon a whole lot of factors and not just price. The airlines and others make this point to us all the time of course, that you've got all these ingredients into it. So in those circumstances isn't it rather hard to decide whether in fact demand is being constrained. Even if it's not pressing immediately right up against the existing capacity there could be demand which would occur if the different type of product was available, if more varieties of it were available.

MR STRONG: In a way your reference is towards low cost, no frills airlines. Is that really part of what - - -

PROF SNAPE: No, not necessarily. I mean, to take an extreme example, if you were flying only once a week it may be that you're only flying at 90 per cent capacity for various reasons but if you were flying every day each of those planes would not just take away from that 90 per cent capacity of the one that you've got, the 90 per cent of the traffic, the traffic would not stay constant. There would be an additional traffic coming because of the greater convenience that you were offering and so demand is to some extent dependent upon the number of services that are being offered.

MR STOECKEL: Yes, but that's - sorry to interrupt but that's quite observed and in fact that's why we see in the literature a lot of the results where there's been some deregulation and business class and full fare leisure passengers prices have gone up. This looks, you know, ridiculous in some sort of sense but it's confirmed by the Australian research and research overseas and the notion is that really there's other non-price elements - greater frequency of service etcetera - allows the airlines in fact - you're offering a better product to passengers and in fact you can sustain a higher price.

PROF SNAPE: Some of them.

MR STOECKEL: Yes, some of them.

PROF SNAPE: Though the average price, I think, on all of them has decreased as there has been more competition capacity. I mean, you can find some individual fares that have gone up and some routes which in the United States system the fares will have gone up but overall the average price has decreased quite dramatically.

MR STOECKEL: Well, anyway, we refer to that evidence in there. That's there - the Trethewey work and also the Street et al work again shows that there was a 9 per cent increase on the routes they examined there, an increase in the average fare. So the point is it's not clear. This is really enhancing your point that you don't really know - the product is a very composite product and it's a very difficult thing to just

model. You need to handle a whole series of different products in your demand function and - - -

PROF SNAPE: My point, Andy, is really to say that in the circumstance it's very difficult to say what demand is in fact being shut out. Even though there appears to be excess capacity you can't really be sure what would happen to demand if in fact you increased the capacity.

MR STOECKEL: Sure. And the only way to handle it is to model all those aspects of demand that are important. The only way to really measure it is to know, have good knowledge about how much frequency matters, how much seamless service matters, all those other non-price plus also price.

PROF SNAPE: We are trying to model it but short of being able to model it very well one has to come to the conclusion of uncertainty.

MR STOECKEL: Yes, it is uncertain.

MR STRONG: Could I just make the comment though that in the end, whether somebody applies more capacity will be decided on the likely financial outcome and this is increasingly becoming the case in the aviation industry. It's how it should have been all along, that this has been an industry that has not been governed to a large extent by what I call REB, rational economic behaviour. You could take classic cases where people have proceeded on the theory that if you put a lot more product, a lot more capacity into a market and be very aggressive on pricing - very aggressive on pricing - you will grow demand which is sort of a variant of what you're putting forward. I think that the evidence shows that certainly at least initially that will happen but I emphasise initially because the trade mark of those exercises has been that that immediate surge in demand has been short term but characteristically that the economics have not worked under those circumstances; that where people have attempted to - they have based their whole economic viability on a significant permanent surge in demand, that history demonstrates that that has not been the case and we have classic examples in our own backyard here.

PROF SNAPE: Yes, I see those. I think that if one looks at the US market, however, one would say that while it may not have remained at the level of the initial surge - allowing for trends and so on - it has remained nevertheless substantially higher than it was before the deregulation.

MR STRONG: The level of demand?

PROF SNAPE: The level of demand and that while the fares have not stayed at the low level when there were the Compasses or what have you in there, nevertheless the threat of entry, of re-entry, has in fact kept fares lower than they were before the possibility of entry or if you like would be in the absence of that threat of entry.

MR STRONG: Again, I would urge that the US industry deserves very close attention in the sense that the industry in the US at the moment is again demonstrating one of the fundamental things which obviously applies to any business and that is that it's in a period of unprecedented prosperity at the moment which is more directly attributable to the state of the US economy than any other single factor. But it is possible to say, as you've mentioned yourself, that certainly there were a lot of start-ups and there have been a lot of casualties and there are still major casualties occurring in the US industry but in many ways, if you examine the detailed fare structure in the US, it's a classic case that in fact the yield has been increasing significantly in recent times but they combine that with a range of heavy discounts to stimulate traffic which is then yield managed, as the classic mechanism.

But if you examine the US industry, the US aviation industry, which is still more than one-third of the world aviation industry, it has settled into a very comfortable pattern of regional domination. In fact, you could almost sort of characterise the US market as Europe and just call one of the airlines Lufthansa and another one British Airways and so on so that I think that in many ways the US industry, in terms of being seen as a role model, is capable of some very different interpretations when you bury down into the facts of the US industry.

MRS OWENS: One of the participants we saw this morning was FedEx and they raised a number of interesting issues, both at the hearings this morning and in their submission but one of the things that they proposed was that there should be greater liberalisation of freight in the Australian-US ATA and I was wondering if you'd care to comment about that and then I'll just raise a couple of other questions and issues relating to their submission in a minute.

MR KERR: The Australia-US ATA basically does deal with passenger services and freight has, to that extent, been, you know, given second order of importance. I think it probably reflected the fact that when the treaty was negotiated and when it was last really under the microscope passenger issues were really in vogue at the time and there was a general feeling that, you know, if the need arose then freight would be looked at and given whatever priority it needed at the time. I think the reality is that since the last set of negotiations and probably going back to about 1989 when the current treaty was largely set, both parties have been very liberal in their interpretation of what was possible or the art of the possible and whilst the agreement is relatively silent I think both parties as a matter of policy would probably approve whatever freight proposals were put to them largely.

I mean, it is always open to governments with treaties to go beyond what the treaty says and I think that we see this both in terms of passenger and freight. Both governments, I think, have that sort of mind-set which would enable them to go beyond the wording of the treaty without too much trouble.

MRS OWENS: I think they mentioned that last year there was a memorandum of understanding to actually constrain further the ability to set up routes on fifth freedom

rights and capacity in that agreement which didn't actually get up but it was actually moving in the - - -

PROF SNAPE: It was proposed by Australia.

MRS OWENS: It was proposed by Australia and rejected by the US which was moving in the opposite direction.

MR KERR: I'm not aware of that at all. I would suggest that you question that further when you have the opportunity with the Department of Transport but not to my knowledge. I mean, the Australian government's policy on freight has been such that they've been promoting very liberal outcomes and that's been consistently pursued in the past several years and they have applied that in every bilateral context and to my knowledge, every bilateral that I've been associated with, Australia has been on the front foot proposing liberal dedicated freight outcomes certainly not trying to restrict them.

PROF SNAPE: We will ask the department but the specifics were as prohibition on all fifth freedom traffic between Japan and Australia and the People's Republic of China and Australia. Secondly, capacity restrictions on fifth freedom traffic enabling the Australian authorities to prevent Federal Express from increasing the size of its aircraft or the frequency of the services to meet operational demands.

MR KERR: I'm not aware of that at all. I'm not aware of it.

MRS OWENS: Another issue that was raised by Federal Express related to tariffs and there is a sentence in their submission which says that - well, there's two. "The government can direct FedEx to charge a tariff which the government imposes. This removes FedEx's ability to charge tariffs which Australia's national carrier believe to be too low or too high," implying in some way that you can influence those tariffs. Is this something that happens?

MR KERR: No. The answer to that is no. I mean, I'd suggest FedEx is living in the past with that sort of statement. If you go back, you know, 5 to 10 years it was commonplace under single designation for Qantas to be consulted on certain regulatory matters and sometimes they would have been capacity matters, other times they would have been tariff matters and it was fairly common in the freight environment. If somebody wanted particular supplementary capacity or approval to offer some - this is a foreign carrier - to offer some sort of freight capacity in the Australian market, it would have been fairly routine a decade ago for the government to say to Qantas, "Can you carry this?"

That hasn't happened for very many years and I would suggest that the government would go out of their way in the current environment to avoid that. Qantas would not initiate such a discussion either. The government's policy on tariff matters, whether it's passenger tariffs or cargo has been one of non-intervention for certainly most of the 1990s, the best part of the decade and that's been very widely publicised. It

doesn't quite accord with the legal situation where under Australian enactments carriers are still required to file their fares which they do. But beyond that the policy from the government's end is one of non-intervention.

PROF SNAPE: Which fares are filed?

MR KERR: All fares are supposed to be filed under the current legal - under the Air Navigation Act, Australian carriers and foreign carriers are required to file their tariffs with the Australian authorities.

PROF SNAPE: In practice what do they file, the IATA agreed fares?

MR KERR: Yes, they file generally a published fare, yes.

PROF SNAPE: Which is - - -

MR KERR: Has no resemblance to reality in most cases.

MRS OWENS: Why are fares filed?

MR KERR: That's the old regulatory regime. I mean, that's old regulation.

MRS OWENS: Do we need it now?

MR KERR: Well, I think this is probably an area that the government should speak for themselves. But in a sense administrators are caught between, you know, their legal responsibilities where they are still required under the law to file and policy. But you generally find that the department will not actively go out and seek filings. It won't penalise airlines that haven't filed.

MR STRONG: I think you could say that this is an international system which has more relevance in some countries than others.

MR KERR: That's true. Very many countries would still regard tariffs as their principal hold over the airline.

MRS OWENS: Given that it's really not an issue here- - -

MR KERR: It's not an issue in Australia.

MRS OWENS: Do we continue this because of our agreements or is it something that we could unilaterally get rid of?

MR KERR: It's a pretty historical position.

MRS OWENS: That doesn't mean to say you have to do it in the future.

MR KERR: No, it's driven by old regulation.

MRS OWENS: Would you like to see that regulation go?

MR KERR: It really doesn't- - -

MRS OWENS: Doesn't worry you?

MR KERR: It really doesn't impact on Qantas. I mean, it imposes an administrative workload for us in that we still do file but, you know, for practical purposes it really doesn't mean anything to us.

PROF SNAPE: Basically they're the fares that you'd be using in interlining where you don't have any alliance or code shares- - -

MR STRONG: No, not even - - -

PROF SNAPE: Not even those fares?

MR STRONG: There's no resemblance to reality, I think, is the short statement. It's an international system which still exists which, as I say, has real relevance in some countries where there might be a different approach to competition.

MR STOECKEL: You can't rely on that data because- - -

PROF SNAPE: No, I wasn't, I was just trying to find where those fares fitted in somewhere and I thought maybe it was maybe the interlining with people that there were no agreements but it's not even that.

MR STRONG: Unfortunately, they wouldn't do any business if that was the case.

MRS OWENS: Another issue is cabotage. I think Qantas and I think your competitor, Ansett, probably both over the years argued against removing cabotage, restrictions on cabotage and I was wondering what impact that would actually have. I think you talk about - Ansett talks about unfair competition and unfair price competition and the potential to have a negative impact on domestic operations. Is cabotage really a major issue for you now?

MR STRONG: We do have a special section in our submission on page 40 which deals with it. I might point out that the home of the free and the brave and the great airline deregulators allows no cabotage into the single biggest aviation market in the world. I mean, we have a view that the reality is that the extent to which an airline can really compete in a domestic market by very piecemeal intervention through use of what are effectively international services is extremely limited and the reality is that the only country that has ever sought cabotage in Australia, as I understand it, is New

Zealand and, of course, there is the single aviation market. So we don't see it as a big issue in relation to the question of getting the right outcome for the tourism industry. It's really not terribly relevant or effective and in terms of the regime that operates around the world, it is not an existing right.

PROF SNAPE: What about even some of the more remote parts of Australia, for example, north-west Western Australia and cabotage perhaps from Broome-Port Hedland-Broome, routes such as that where they're probably pretty restricted services at the moment and cabotage may be able to generate benefits for the people who - get more regular services for people who are in those parts.

MR STRONG: I would put to you that the only reason that services to Port Hedland are restricted is the size of the market and the revenue that's available. If we believed there was more revenue or more profit to be made from Port Hedland, we would be sticking more planes on there ourselves. One of the big problems of cabotage operations - it's like very similar to what is known as N-sector flying in the aviation industry. If you are primarily going to one destination and you put other legs in, then the ability to turn that into consistently profitable loads is severely constrained. I'm not strictly talking about cabotage but the best example I can give that in relation to N-sector flying is that Qantas used to fly to Los Angeles and on to San Francisco and consistently lost millions of dollars every year because a significant portion of the people got off in Los Angeles and therefore you lost money and the same in relation to Paris and Manchester.

I would say that the chances of anyone mounting a service through a place like Port Hedland on to another destination would be zero because first of all, you're inconveniencing all those passengers who are flying to Perth, if that's your ultimate destination, and they will choose another flight that goes direct and doesn't hip-hop, and secondly, what we do in serving places like that is to use an aircraft whose value and whose size is relative to the known and demonstrable demand in that market.

PROF SNAPE: What about freight cabotage?

MR STRONG: I don't know. I don't feel qualified to make a particular comment about that. We could come back to you with a particular comment.

PROF SNAPE: The point has been made to us and again, I forget which submission it was in, that there may be possibilities there, particularly where a port such as Adelaide is being served domestically by no wide-bodied aircraft and where the freight that they may want to put on would be much more convenient if it could be loaded straight on in a form suitable for wide-bodied aircraft and so that it could be taken by an international carrier calling at Adelaide which was then going on in order to take it to a port which then be loaded onto a wide-bodied aircraft.

MR STRONG: I would still have to say that the willingness of somebody to commit a wide-bodied aircraft depends on the prospects of regular, reliable levels of business to be done.

PROF SNAPE: This would be capacity that is already available. It would be not additional capacity at all. If they're flying that they've got a space underneath, they're flying on to, I don't know, to Sydney or to Perth or somewhere where it can be loaded onto a wide-bodied aircraft, it's flying that anyway but they're not allowed to do it and the poor guy in Adelaide has to put it on a domestic, narrow-bodied flight and it has to then be repacked at the international air thing to go onto an international wide-body. Why not have cabotage for freight to lessen, to some extent, that problem?

MR STRONG: Is this a freighter aircraft we're talking about?

PROF SNAPE: No, under floor.

MR STRONG: We could come back to you on a general basis but, again, I don't know of anyone who would be operating an international wide-bodied aircraft within the Australian environment, not for reasons to do with cabotage but to do with the appeal and profitability of the route that they were flying.

PROF SNAPE: Maybe we could have another look at it. But we're talking about existing services that do go in but can't in fact carry the freight at the moment.

MR STRONG: This has been pointed out by the South Australian people?

PROF SNAPE: Yes, it was.

MRS OWENS: It is a South Australian government submission.

PROF SNAPE: That's, I suppose, just one illustration of the freight cabotage question which in fact seems to be rather different - different in principle - because it can put the unused capacity there that could be of use. It would be different perhaps from the passenger.

MR STRONG: I can see the point in theory but I'm a little bit sceptical about the practicality.

PROF SNAPE: Of course, if one removes the restriction one - if it's not being used and one removes the restriction and it's still not used, one hasn't then done any harm.

MR STRONG: No, but I was more referring to the perceived problem.

PROF SNAPE: Qantas has not been much in the charter business itself - an occasional one to the South Pole I think, but - - -

MR STRONG: We are actually only the operators of those. They are charter operators, so to speak. The chartering business is an essentially very different business to flying a regular RPT airline.

PROF SNAPE: You don't say much about it in your submission and I was wondering how you feel about the existing restrictions or the existing regulations with respect to charter - not that I suspect that you would want to be doing much charter business yourself, but of course it may affect your competition or it may even complement; I don't know.

MR KERR: We've done a little bit of charter business in the past but it's not something that's very prominent. For instance, we have operated charters in the Japan market to secondary gateways in Japan with the aim of testing those gateways as to their potential for scheduled services. Sapporo was a good example. As a result of success of those charters we entered the Sapporo market on a scheduled service basis, but that's turned sour since then.

I think our view on charter policy is that there are very few restrictions in place. It seems to me to be one of those myths and legends that James spoke about. I mean, there is a general impression out there that charter policy restricts foreign carriers from operating charters into the Australian market. To my knowledge in the past several years no charter applications have been refused by the Australian authorities. Again, the department would be able to answer that for you when you speak to them, but in the time that I was in the department and had responsibility for that we did not disallow any charter applicants.

PROF SNAPE: Again of course one may not disallow, but you don't know how many people just haven't come to the barrier because of the size of the barrier.

MR KERR: The Australian policy by world standards is a very liberal one. It is publicised by the government as a liberal approach to charters. There are no practical impediments in the policy. It's a matter of whether the finances stack up. My own view is that there probably isn't much room for gains to be made in terms of playing with the charter policy. It is a very liberal policy already.

MRS OWENS: Can I just change the subject again to codeshare applications to IASC. You mention in the submission that the IASC has been using a very wide range of public benefit criteria under clause 5 and you make a suggestion that it would be in most cases sufficient to use clause 4. I'm wondering under what circumstances would you still retain the clause 5 criteria. Have you got any suggestions? Would that be when it's a contested route?

MR KERR: Yes, that's essentially the answer. I think in relation to codeshares we have been facing a number of dilemmas. I mean, clearly codeshares are an important aspect of the industry these days. We are not alone in pursuing codeshares. It's being pursued internationally on a fairly substantial basis. The difficulty that we've been having - the IASC was established basically to allocate capacity agreed bilaterally amongst competing applications for that capacity, and that was the principal purpose for which the commission was established and is really still the principal purpose for its existence. It has over time extended I think its sort of reach in terms of the issues

that it takes into account in making those sorts of judgments, and the more complicated criteria that exist in the policy guidelines that have been laid down by the government it has been applying in non-contested situations.

It is able to do that, without becoming too detailed - if somebody has made a submission about an application or somebody has passed comment on an application for instance, it gives them the opportunity to apply at their discretion the more complicated criteria. It has on each occasion chosen to apply those criteria. I think our view is that codeshares are being promoted as government policy, they're being promoted through the bilateral system. There is a competition policy watchdog in place in Australia anyway - it's not the IASC - and our view has been basically that we're getting double-whammied, if you like, caught a bit between the ACCC's responsibilities and the IASC's responsibilities in this area of competition monitoring, particularly as it applies to codeshares.

We would like to see a bit of clarity brought to that and, as you say, one of the guiding principles I think would be; is it a competitive situation? Is one of them, for instance, a code share application and one not? Are they both codeshare applications? Or whatever. Then I think in that case clearly the IASC has to make some judgments about those things. It is something that we have been saying fairly repeatedly to government over the course of the past 18 months.

MRS OWENS: If it's not contested would the IASC need to look at it at all - I mean, given you've got the ACCC there?

MR KERR: Our view would be in relation to codeshares that we would rest with the ACCC in a non-contested situation.

MRS OWENS: You wouldn't even need an IASC in a clause 4 at all, it could just be a responsibility of the ACCC?

MR KERR: They've still got to approve the use of capacity but, you know, the codeshare issues, I think, would be secondary in that situation.

MR STRONG: Our feeling would be that that should be merely a formality in that case because of the procedure necessary to allocate the capacity.

MRS OWENS: Has it been taking an excessive amount of time?

MR STRONG: I think that's a point we should also blend in with this and that is in addition to what John said about the government policy allowing for these and the provision for them being included in ASA, they are becoming an increase part of, if you like, the commercial competitive world. The delays that can be associated with quite lengthy administrative procedure and testing to and fro can have commercial implications in terms of response time in being able to mount services. It's somewhat ironic that international competitors can sort of touch on this market in codeshare

formation without having to go past a similar body. That's not to recommend that they should, but it's to illustrate that we carry weights in this race.

PROF SNAPE: As part of the consequences there are restrictions on overseas ownership, you must spend quite a lot of time of monitoring your share register. Have you made any calculations as to the costs to you of that monitoring?

MR STRONG: No, not specifically. We obviously have it down to a format now - I was going to say an art, but I'll restrain myself - a format which is tried and proven but it does involve quite a lot of paperwork in tracing ownership through various structures and so on. We have obviously had lengthy discussions with the federal government about the whole ownership question but it remains as it is at the moment. It does cost us - but to answer your specific question we have not gone into a specific costing exercise.

PROF SNAPE: It's not something you feel is enormously costly?

MR STRONG: I think the bigger issues associated with that are the big issues relating to the stock exchange generally and questions of, "Well, does it influence the price of the shares," and so on. We have had extensive discussions with the government about that.

PROF SNAPE: It's not exactly the same thing, but tax. In appendix B you talk about wholesale tax in the current system and as you say, it's levied on many of your inputs including equipment used in the maintenance of aircraft, certain consumables and computer equipment. I suppose while you're saying that that might be a disadvantage against some foreign airlines, on the other hand, I suppose other Australian exporters are in a similar position. It's not as if you're in any different position on that one. If you looked at the miners in Western Australia they have to pay tax on the railway lines that they built and the equipment that they're using on those railway lines. Are you any different in this regard from any other Australian exporter?

MR STRONG: I don't think that the thrust of this is to say that we're worse off, but to say that as a general policy it would be beneficial, in our view, to change that which in effect is a burden on the export industry.

PROF SNAPE: You're suggesting going into a value added tax, GST, that you would want a zero rating for international airline transport. I mean, again, bringing that into line with other VATs you would be seeking zero rating. Is it zero rating or exemption - zero rating - on exports - - -

MR STRONG: Zero rating.

PROF SNAPE: But you'd have to actually in principle differentiate between Australian customers and foreign customers, because while your foreign customers comprise exports, your domestic customers are a domestic transaction. So in

principle you should in fact be asked - I mean, if you were following the principle which you are enunciating here, you would ask all your customers as to what their tax status was or their residence, which would be a confounded interest.

MR STOECKEL: Your point is about the consistency of not taxing exports in the zero rating and your consistency of your point is well taken. The practicalities of all that is a moot point.

PROF SNAPE: So from practicalities you either put it on everyone or don't put it on everyone presumably. Not surprisingly, your saying that you shouldn't put it on anyone. But that's really not consistent with other exports, is it?

MR STOECKEL: Yes. Whether or not you could do it on destination so, for example, the Japanese market, for all intents and purposes, is an inbound market - there's really very little outbound traffic and it'll stay that way.

PROF SNAPE: It would have some interesting routing implications- - -

MR STOECKEL: Wouldn't it.

PROF SNAPE: - - - I suspect, Andy.

MR STOECKEL: The fifth freedoms become very important, don't they?

PROF SNAPE: I thought that straightaway. I'm much quicker than others.

MR STRONG: I think, if I could just comment, that our greatest concern in the tax area relates to the question of the leasing which could - has the real implication of becoming a significant lead weight in our saddle compared to other airlines, which is already a significant hurdle for us. We obviously are in very close consultation about that issue but it is a classical example - one of our submissions here is that there needs to be balance between the rate of change in government policy to facilitate improved efficiency and cost effectiveness in your business with what you might call the external competition policy. This certainly is one where we could have a significant financial disadvantage. There are others in relation to our comparative cost structure in the people are and so on, and that's where we believe the meshing of the rate of change in government policy is quite important, but it certainly applies to the tax policies. If one is done without due regard to the other, it's very easy to predict the outcome.

MR STOECKEL: It's a serious issue whether or not you're going to tax exports, I mean, if there is an export component there or not and the zero rating of exports generally. I'm sure that issue will be subsumed in that wider tax debate that this nation is about to undergo.

PROF SNAPE: To be consistent, however, in this regard - apart from the consistency problem I already mentioned - there is a consistency problem on the import side. I mean, if you want to go for the value added tax on a destination rather

than a destination basis then, of course, the logic of that is that you should be charging a VAT on all Australians who are flying into Australia on foreign airlines.

MR STOECKEL: Sounds like a good scheme.

PROF SNAPE: Thought you might like that. Code shares and alliances, of course, are probably regarded as the second-best arrangement for airlines and many would prefer mergers in certain circumstances. But to go the full hog, is it - -

MR STRONG: I'm not sure that I'd quite go along with that statement.

PROF SNAPE: It was a question.

MR STRONG: Yes, okay. Generally, code shares are a direct result of an analysis of return on capital and efficiency. A code share is used where it is not viable at that stage to utilise your own equipment and a very bad outcome is for overinvestment, if I could put it that way - I'm talking about the consumer as well, because you'll get a non-sustainable service and the net result is if you get two competitors overinvesting, the net result is you'll end up with no service or else a non-viable service.

PROF SNAPE: Alliance is probably a better - -

MR STRONG: Okay. Alliances, I think are a reflection of the more - the closer focus that is very much the case of all major airlines in the world today to their financial performance in the past that was sort of run up the flag and fly everywhere and try to be in every market. But today most people are very closely analysing the likely profitability of every aspect of the business. For example, if you take Qantas, our ability to expect to run some viable operation within the European market or within the North American market if there were absolutely no barriers to competition is zero. It's about size, it's about network, it's about frequency, it's about the cost of investment and the return that you get.

So more and more there is this view that the best outcome to give a better deal to your customer in other markets which you can't service yourself, is to forge an alliance and to use that alliance to drive the standards of service that are offered to that customer in terms of what in the jargon is called seamless links, and to select the best partners in whom you have a lot of trust in terms of the standard of the service that they will provide. So again, I think that alliance development is just fundamentally an outcome of more rational economic behaviour in terms of capital investment and return that you'll get from that.

PROF SNAPE: I see, the next step I suppose. Would not, in many cases, a merger be preferred to make it completely seamless, rather than an alliance and that is the country's fare designation under the bilaterals which is holding back the merger activity and substituting alliances.

MR STRONG: It's an interesting point but I'd have to say it's possible by observation of actual behaviour to see that maybe the airlines have reached the conclusion that that is not the best way to go. A classic case will be with British Airways and American Airlines - attempting to form one of the major alliances in the world - who have mutually decided that a binding long-term commercial relationship is the better way to go from the shareholder's point of view. In other words, it's driven by economic factors.

PROF SNAPE: Not driven by competition policy. I mean, they're having enough trouble getting that alliance through.

MR STRONG: Well, I can't speak on behalf of British Airways, I can only say on our behalf that if we are looking at buying equity into another airline, then generally speaking we would prefer to form a commercial agreement with them to get all the benefits without the capital outlay that's involved. I think that if you look at something like the STAR alliance which is the latest form of alliance. What the parties there are seeking to do is just to combine together some very strong brands in various parts of the world into a combination which will in fact give them a competitive advantage or a stronger competitive position by the extent of service that they can offer and the strength of the brands that they're putting together and being able to offer better fare deals on a worldwide basis by combining the products together and the net result is a better outcome for the consumer.

PROF SNAPE: So you don't really feel that the mergers are being held back?

MR STRONG: No, I don't. I think generally that we believe that longer term the questions of the very restrictive provisions about airline ownership should be removed. You know, if you're asking about a general statement about I think that they're in some way symptomatic of the old approach to this whole area which was very much based on the sort of Chicago Convention and all that flowed from that. So I wouldn't say that there shouldn't be any softening of the rules which restrict airline ownership. I'd be in support of some softening of those. But I don't think it is a significant factor inhibiting the growth of world alliances at the moment.

MRS OWENS: While we're on this issue, I think it really raises an interesting question about what the world would look like if those sort of restrictions were removed and you're arguing that there may not be a significant number of mergers. There have been other things that I've read which say that if you totally opened it up you'd get what you've been seeing happening in other industries, like the pharmaceutical industry which there's a lot of mergers and acquisitions going on and you're getting huge, huge organisations coming out of that. What I don't understand is why the airline industry would be any different. The scenario that's been painted is that you could end up with sort of five big global carriers and airlines such as Qantas would end up being smaller niche players in this sort of global market.

MR STRONG: That's a huge subject that you're opening up. Could I just begin at the end of your statement. You know, for instance, some people have said, "Well, the

role for Qantas is to be an Asian carrier in some" - if you put a jigsaw together you have all these ingredients. We'll you'd have to say that the worst possible future for Qantas would be as an Asian carrier in some world alliance. For years people have said how fortunate Qantas is to be on the edge of the Asian area. Asia has been the worst performing part of the Qantas business year on year, even before the current prices, and in net terms has meant very little to the Qantas. In fact, it's been characterised by overinvestment in that market in terms of aircraft and the allocation capacity.

Where Qantas makes its profit is on long-haul markets to bigger international markets overseas, particularly the US and the UK. So that that would be the worst possible outcome. It would destroy the profit base of Qantas to walk away from some of those long-haul routes. In fact you may find that the forward development of Qantas demonstrates that the worse role would be for us to remain in the Asian situation. Going back to your initial point, this is a bit of a case of - and I hope you don't think I'm going into semantics - but it's like the eggs are scrambled and you have to deal with the scrambled eggs as to how it's going to develop. If you said today that aviation was starting from a clean sheet of paper and there was no Chicago Convention, then I think you would have a very different airline industry to what you have today. In the end what you're getting at is, "Well, why doesn't the McDonald's brand or the BMW brand or whatever brand you like to select, why can't that apply to aviation?" The answer is that probably if you were starting with a clean sheet of paper that would be the case.

But the industry is so complex in terms of the way in which competitive positions have been constructed throughout this 50 years of the Chicago Convention that is very difficult to move towards that type of structure that you're talking about. If you said to me in 40 years time or some figure of that nature, "Could you say with great certainty that you wouldn't have an airline industry like that that didn't have world brands," I would say that it's very likely. But the process is so complex and so much influenced by market strengths and positions in brands and all of those sorts of things that it would take a long time to drive in that direction. That's a convoluted way of responding.

MRS OWENS: You read different scenarios and I was just wondering what your view was.

MR STRONG: Yes.

MRS OWENS: Another issue is the privatisation of our airports in Australia and whether that's had any impact on your as yet.

MR STRONG: No major impact but it is a big issue, we believe. Because the question of infrastructure is vital to competition as we see right around the world in this industry. We do have grave apprehensions about the process. On the one hand we think that in terms of management these airlines will be more efficient and probably more innovative and more aggressive which is a good outcome. But the

prices that have been obtained through the bidding process have - and we've been quite open about this - have caused us some concern in terms of the projected earnings on which people, we presume, base their bids.

The aviation industry is characterised by people wearing rosy glasses quite frequently and if the sort of flows of revenue don't eventuate, then we have apprehensions about where they may look to try and supplement that income. Hence you get people talking about things such as fuel levies and so on. In other words, adding no value but just putting a charge, exploiting the fact that the fuel must go through the airport and charging more for it. If some of the forward projections are based on unrealistic growth estimates, where - you know, as I sort of implied before that some people just to seem to feel that if you've got a bigger airport and that more traffic is suddenly going to flow there without regard to the economics that govern flying there, then that does cause us some concerns. We have a mixed attitude. We think basically the process of making them more efficient is good but we do have concerns.

For instance, where you have formulae which are restricting exploitation and monopoly situations and then they run out, you have concerns about what might be attempted at the end of that period. We think that continuing competition is very important in terms of the infrastructure in the industry.

PROF SNAPE: When one's talking about unilateral deregulation, you're speaking there about essentially the giving away of any bargaining chips.

MR HAWES: Unreciprocated.

PROF SNAPE: Yes, unreciprocated. There's specifically here on page 36, one talks about, without a gun to hold at the foreigners head they may in fact discriminate in subtle ways and against Australia, Australian airlines, they'd be likely to be put back in the queue and allocating capacity and take off and landing and all of that sort of thing. Has one really taken away bargaining capacity because if such practices were to be introduced - and one Australia can always go back into a bilateral agreement. One can always threaten to reintroduce the bilateral negotiated arrangement. That, it would seem to me, isn't much of a threat. You say, "Okay, we've deregulated unilaterally but if you're going to play dirty games on us, then we will reregulate unilaterally against you." That is a threat. You haven't given it all way, you've still got it.

MR STRONG: David might care to comment in addition. But I would say that - demonstrated behaviour shows that in quite a number of cases that unless you have some bargaining power you will not get the access that you believe is in the best interests of the development of the industry, both from a domestic and a trading partner's point of view.

My comment would be if you know that this is a fact of life demonstrated and being practised day by day in a very vigorous manner by some of your trading

partners, why would you make a quixotic decision to put yourself in that position when that is already the demonstrated behaviour. We believe that we're better off as a country to keep pushing to get those conditions which will give a more vigorous aviation industry, both in terms of the opportunity for Australian companies to participate in that but also in terms of the reciprocal opportunities that it opens up as well.

In other words, what I'm saying is that we know that's the reality today, why would we pretend that somehow they're going to suddenly change that behaviour and put ourselves at a disadvantage to have to scramble back looking like we really were a bit naive about all that. The reality is that you do need to use leverage in order to open up these opportunities.

PROF SNAPE: The situation I was envisaging was not scrambling back but making it very clear at the time of unilateral regulation that in fact the regulations would be put back on if there is any departure from the status quo, any tightening of the status quo at the other end.

MR STRONG: I find it hard to come to terms with a gesture which demonstrated history shows you is not going to produce what should be the equivalent result. Why not negotiate that equivalent result? Why give away your leverage - -

PROF SNAPE: The point would be maybe we are, as a nation, going to get a gain by unilateral deregulation - I'm putting a hypothetical - -

MR STRONG: Yes.

PROF SNAPE: By unilateral deregulation if, so long as no worse than the status quo exists at the other end. So we're going to get a gain from doing it unilaterally. If we then in fact have the threat of the status quo at the other end being changed so that we're worse off, we hold back the threat that we will impose, re-impose the regulation if in fact there is any movement in that direction.

MR STRONG: My only comment - and I'll hand over to David to make some additional comment - I just think that it is very important - it's difficult for the Australian aviation industry to compete internationally as life is at the moment. That is because of the history of the Australian economy and the cost structures in the Australian economy and it's because of our geographical location in terms of the aviation industry. We are at the end of the line with no other markets. We're a relatively small market. We are not a geographical hub such as Singapore, Bangkok or Hong Kong or Amsterdam or Los Angeles. So I think that there need to be real care about not taking steps which would really damage the opportunity and the scope for the Australian industry to get in there and compete, which after all is one of the things that we're after in this case.

You only have to look at the history of Qantas in a financial and recent terms to see the fact of how difficult it is to sustain profitability with long-term decline in the

price, both in nominal and real terms, and severe cost disadvantages which are the result of the Australian economic and historical situation. So all I would say is that I do believe that whilst by all means these things should be considered and thrown up in the air and so on, there needs to be great care that the next result is harmed either short-term or long-term, rather than a balanced situation where you will actually encourage more competition in the Australian market but open up more opportunity for Australia to compete. Because when you look in our submission at Australia's long-term interest and the amount of investment into the industry and so on, there's a radically different possible outcome in terms of that if you destroy the competitive base in the Australian industry.

MR HAWES: In fact I didn't have a great deal more to add than that. I mean, I think the conclusion that we had reached in formulating those views for you was that we would be in a substantially weakened position. I may be that you could take two or three steps to get out the way you refer. But on the assumption that in most of the cases we're looking at we have objectives, negotiated objectives at the other end of the trade, as it were, or in other markets or we have concerns to protect, such a step would be simply passing more leverage into the hands of others. I think it's an area where - you know, the sort of work that Andy has done and so explores there that you might want to reflect a little further on and discuss.

PROF SNAPE: Yes, I've yet to digest Andy's work fully and to read some of the papers to which he refers. So this is very much a first brush comment, but in seeing the view expressed there that in taking into account the various interests and focussing upon Australia's interest, that it would be in Australia's interest to have high fares and ensure that there are high fares on the routes in which there are relatively few Australians travelling, that that seemed to me to underweigh somewhat the importance of travel as being an input into other industries.

MR STOECKEL: No, I mean, you only want higher fares to the extent that you've got some interest. One is the Australian companies that may be selling airline services and obviously higher fares and returns as long as they're selling to foreigners is in the national interest.

PROF SNAPE: But then depending on the elasticity of demand, I suspect.

MR STOECKEL: Depending on the elasticity of demand, and looking at that - that's a very good point which is acknowledged well in here. But then, on the other hand, you've got that either way no matter what the size that elasticity, the higher the fares the fewer the travellers, unless you've got a positive slant to market or something.

PROF SNAPE: You get close to it at one point.

MR STOECKEL: Which we don't go into. Then there's a trade off, isn't there? So you've got the terms of the profitability of Australian carriers in this market versus the flow-on benefits and so forth in the tourism industry. So the objective of the exercise

is to maximise Australian welfare and it's not just maximising numbers of people flying.

PROF SNAPE: I get that point. But it was the point which you said fairly softly, the flow on into other industries in Australia which I thought was - at a quick reading seems to be underweighted in your calculations.

MR STOECKEL: Well, there aren't any - those specific calculations are the work that was undertaken by Street et al and I had that in there. There's also some previous work that we've undertaken 10 years ago which was the initial bit of modelling on this that was done anywhere in Australia on this at all showed a similar thing. So you've got this neat trade off. Because the airline industry is so big and in terms of its earnings, relative also to this big, and you've got the size of the tourism industry, then you've got that sort of initial trade off. Both are in various tables and so on that we've got here. We've given equal weighting to the interests of the tourism industry.

I notice even in fact in the Street work where they have a negative against that welfare calculation is the repatriation of profits to foreigners. So if Australian airlines are 50 per cent foreign owned, of course, well, then that doesn't add to Australian welfare. But they don't even go into that calculation for the tourism industry which is also very heavily foreign owned. I've just forgotten the number off the top of my head but it's something nine of the 10 largest hotels in Australia are foreign owned. So to get the benefits there of all these other industries is a very moot point. The Street work, which is the most recent work, still doesn't even take an account of any sort of crowding out of favourable things for the tourism industry, it may be crowding out other activities which is going to be a smaller charge than the benefit you'd get to the tourism industry but that certainly is not taken account of and, you know, they would change the results quite markedly.

PROF SNAPE: So it's one of those things that, as I say, you want to have a closer look at - - -

MR STOECKEL: It's a huge challenging exercise.

PROF SNAPE: As you say the overseas ownership is something which has changed in the last few years which wouldn't have been in those earlier calculations either for Qantas or the other airline. One would need to take account of it. But the flow onto tourism, there would be flow onto other industries as well, of course.

MR STOECKEL: Yes, this is tourism and other industries.

PROF SNAPE: And it's not just passengers.

MR STOECKEL: Correct. It is not just passengers, it is tourism and other industries and - - -

PROF SNAPE: In other industries one might find very substantial flow-on into other - in freight one would find very substantial flow-ons to other industries.

MR STOECKEL: Yes, it's not also just related to transport, domestic transport activity and so on. But the best way to get a handle on those flow-ons if we believe our input output structure for the Australian economy is through a large general equilibrium model, as you'd know.

PROF SNAPE: Yes.

MR STOECKEL: That was tried 10 years ago but this was really, you know - that framework is not sophisticated enough to handle the detail which is- - -

PROF SNAPE: There's big changes since 10 years ago too.

MR STOECKEL: Exactly, which is why I think you're doing that current modelling exercise as it has changed.

PROF SNAPE: I might just ask which city designation, of course - city designation is a characteristic of many of the bilaterals at the moment, both with respect to Australian cities and in some cases in other overseas countries. Would you wish to have that city designation retained in the bilaterals?

MR KERR: Generally - I mean, you're quite right there are a lot of city designations in bilaterals but I think probably in recent years the trend has been away from them rather than towards them. Generally you would find that Australian negotiators would offer governments a choice in terms of the points that they might like to take up in Australia. We would generally find Australian negotiators seeking a choice of points in foreign countries and beyond and that's something that Qantas would support. The more flexibility that can be provided the better, but the bilateral system is coping with that quite adequately, I think, from that point.

PROF SNAPE: You wouldn't want to see city designation removed unilaterally by Australia?

MR KERR: We're not keen on unilaterally anything.

PROF SNAPE: The point really on this one - well, I'd be surprised if that's true as a matter of fact. The point here is that it may be imposing certain constraints upon you or your competitors and may be forcing them into places that you don't want them to be forced into for your own purposes and/or it may be something in which you can see that there's almost - there may be very little bilateral leverage and you may as well throw it away.

MR KERR: To pick up your comment about how would we feel about unilaterally in this particular case, we already, as the Australian carrier, have access to the whole of Australia. All we can unilaterally do is give somebody else access to the whole of

Australia. So we have that. I mean, from our point of view we would like to get flexibility offshore but that's not something that a unilateral fix will fix.

MR STRONG: I think the important point about that is if I was to sort of over-characterise this that the designation is almost a reflection of the cargo cult that goes with aviation; that somehow or other you can artificially stimulate demand by simply allocating capacity, whereas in the end the decision will be based on economic factors. If I could supplement what John is saying. I think it would be quite dangerous to change that unilaterally because you might actually strengthen the hand of the other party to artificially restrict your ability to compete in their market whilst there's no such thing in the Australian market. In other words, those non-tariff barriers that we spoke about, which really are quite substantial, could actually be helped by that being done on a unilateral basis.

PROF SNAPE: Looking at the airports down the track a little bit, and when the capacity of Sydney airport will really be binding, would you favour the selling of slots?

MR STRONG: When you say when it will be binding, I would have thought it was pretty restrictive now. It's a major impediment to our business which costs us very significant sums of money, I mean tens of millions of dollars per annum. I'd like to be a little bit coy about that because it's a complex subject. There are substantial discussions going, as you know, about the allocation of slots. Whilst in theory this is a wonderful market outcome that will provide efficiency and so on, it's an artificial market which can in itself produce distortions, so it's not a clear-cut picture. So I'd like to be a little bit coy about that whilst - - -

PROF SNAPE: Could I generalise the question though and take it away from Sydney. We certainly don't want to be saying too much about Sydney airport, if we do, the rest of the report won't be read. So if I could just generalise that a little bit more into congested airports or airports of which there's excess demand throughout the world, would you favour more explicit use of the price mechanism that has occurred up till now for that, so that you, for example, as Qantas would be able to buy more convenient times than you're currently able to get access to or more?

MR STRONG: I'm afraid I won't leap up and embrace the proposition because in effect, it's a market distortion that you're talking about. You're creating a rent attached to a limited facility and the answer should be to increase the capacity. It's simply the fact of the lag in the provision of the infrastructure that creates this situation. So I would prefer that that artificial shortage was not created in the first place.

PROF SNAPE: We know that's not going to happen in the short term at Narita and it's not going to happen at Heathrow and there are probably a few others around the place in which it's not going to happen.

MR STRONG: Yes.

PROF SNAPE: So given that constraint, would one want to go - I mean, if there's excess supply, the price will go to zero anyway.

MR STRONG: Yes.

PROF SNAPE: Unless it's of the times of particular convenience, because then they won't - and there will always be some limitation at particular times etcetera. So it may be simply in an airport which generally is not congested; it may be congested at a particular time, which you want to get into. That will always be with us in one form or another. So given that, can I tempt you to answer in those circumstances?

MR STRONG: No, like a wise trout, I won't rise to the flier. We are not happy about that as a means of - it does not solve and in fact it perpetuates some market distortions.

PROF SNAPE: Well, I tried.

MR STOECKEL: Richard, there is some literature on that.

PROF SNAPE: Yes, I am aware.

MR STOECKEL: Yes. I mean, as an economist myself, I thought that there would be some appeal to this, using a market solution, and the literature seems very clear that it's not clear what is the best way to allocate that scarce factor.

PROF SNAPE: I think, Andy, it depends upon how one is addressing it. I can see that in fact if one is going to say, "Let's just auction all the things at every airport" - and that is a real nightmare, both theoretically and from every other point of view because you have got the intersections - it's a much simpler thing if you take it more in the way I framed it and to say you've got an existing system of rights which in fact are grandfathered, and so the airlines can in fact anticipate that those are going to continue having those for a number of years. You then in fact just give them a bit more surety of their property rights there and let themselves. Of course there are I think four airports in the United States in which this is done for domestic services and currently, with Federal Express at Narita, there is in fact a process in which Federal Express are going to be apparently selling some of their slots there which does seem to be that the question is being opened up.

We also hear that there's been quite a bit - or at least some - under the counter selling of them and not just straight trading in other parts of the world. So it's really saying given that, given the grandfathering and given the provision of use or lose - so that one airline couldn't be buying them all up and not using them for monopoly purposes - so with the provision of use or lose, could one in fact be using the price mechanism rather more and rather more openly to in fact be transferring slots from those who put a lower value on them to those who would put a higher value on them? But you're properly not going to rise to that fly either.

MR STOECKEL: I mean, I'm just pointing to the literature. I was surprised when I read just that very scenario how it doesn't seem to be clear and I would have thought it would have been. But I was just making a comment; maybe I haven't read as much literature as you have on this subject.

PROF SNAPE: I won't rise to that one either.

MS OWENS: I've got just one last very small issue and that is, the negotiation process in the bilaterals, are you reasonably satisfied with your role in that process or is there anything you could suggest that could be done better?

MR HAWES: You mean in terms of our role in the pre-negotiation consultation or in terms of being part of Australian delegations?

MS OWENS: Both really.

MR HAWES: I think it's fair to say that we have been given adequate opportunity to express our views in that process. Whether you are increasingly left with the feeling that those views carry the weight that they once did or that they are weighed appropriately in all circumstances, I think we might have some misgivings from time to time, and also about elements of the transparency of that process on occasion. But I think we recognise that over the last several years, the government's aviation policy and decisions in this regard have been formulated with a view to stakeholders other than Australian carriers, a much broader range of views taken into account, and therefore it's perhaps understandable that not always do we feel that ours have carried sufficient weight.

As to the participation in delegations, I think - also because of historical connections of some of the personnel involved - more recently we have felt that we have received a very good opportunity for discussion with the negotiators in that part of the process. I think we have used the term "case by case" in various parts of our submission and it's hard to give a generalised answer because there may have been occasions where we're less happier than others.

MR STRONG: The consultation process I think is quite good. The only breakdown in the procedure is that the net outcome doesn't always reflect our views.

MS OWENS: Sure. It sometimes doesn't reflect the tourist industry's views or whoever's either.

MR STRONG: Yes, I say that in a light-hearted fashion.

PROF SNAPE: The Industry Commission is quite accustomed to that.

MR STRONG: Well, as they say, you should always prepare your children for disappointment in later life. I suppose it applies to all of us.

PROF SNAPE: We have been talking for quite some time and it's a very weighty submission. As I said before, we anticipate that the staff will be back in touch with you. We thank you very much for such a weighty and substantial and well-argued submission and also for appearing today and to spend so much time with us. Thank you very much.

PROF SNAPE: We will now adjourn for a short time and reconvene at quarter to 4,

so that's approximately 20 minutes. Thank you very much.

PROF SNAPE: We welcome now Australian and International Pilots Association. As is our practice, I'd be grateful if you each could introduce yourselves and your position in turn so that it's on the tape, so that the transcribers can identify the voices as they transcribe and following that then we'd ask whoever is going to start the ball rolling to speak to your submission.

MR ADAMS: My name is Captain Colin Adams. I'm the president of the Australian and International Pilots Association.

MS STARKE: Alana Starke. I'm the industrial relations officer with the association.

MR CORK: Rod Cork. I'm the assistant secretary of the association.

MR SARGEANT: Captain Ken Sargeant, past vice-president, Pilots Association, and currently working as a part-time industrial officer.

PROF SNAPE: Thank you very much.

MR ADAMS: By way of brief introduction, then I'll hand over to Rod Cork, AIPA represents approximately 1700 Qantas pilots and flight engineers, both long haul and short haul pilots and flight engineers operating on the domestic and international networks of Qantas.

MR CORK: Thanks for the opportunity to allow us to put further material. I know you've probably had an interesting weekend sifting through what we've given you in the first place, so I won't make this very long.

PROF SNAPE: A little bit more than the weekend, I might add.

MS OWENS: It was a long weekend in Melbourne and we both spent Monday morning, didn't we, having a look.

MR CORK: The inquiry seems to cover two areas of airline operation, domestic and international airlines. Domestic can actually be divided realistically into passengers and freight and are very separate subjects, as we have heard today from at least two speakers, and that can be divided up again into domestic services by wide-bodied aircraft and short-haul aircraft and each of these proposed changes, if we get into the cabotage area, bring unique problems. What hasn't been addressed so far is the possibility if cabotage was removed - the possibilities of particularly some of the Indonesian operators bringing in their domestic 737s and equivalent aircraft. In the case of open skies for long haul there's a perception that cheaper airfares, a removal of bilateral restrictions, will increase tourism and that assumes the European and North

American model - assumes that that will work here, but fails to recognise the unique nature of our geographical position, and I notice James Strong covered that a little bit.

It's also our belief that the current freight policy has not been successful with the Australian long-haul freighter fleet now standing at nil and a total reliance for import and export on the policies and politics of US and Asian governments. It's the position of AIPA that change should occur in both domestic and international aviation but it will benefit the country most if it's allowed to evolve within a well-regulated framework. The current framework has allowed Australia to enjoy a safe and competitive environment as part of a delicately balanced equation. Like any equation, a change in one part will affect the end result. Therefore any changes must be carefully considered, for world forces in aviation are such that if we lose what we have, we will never be able to recreate what we had.

There's a couple of additional items. This morning the issue of the lack of charter carriers came up and I would like to put that what we didn't cover this morning and what should be considered is the reality that virtually all the world's charter carriers don't have suitable aircraft to do long haul into Australia. I did a quick count through our data base that I carry in my briefcase and I would say there's possibly five operators, charter operators in the world for North America and Europe that would have the capacity to operate into Australia. I note with the exception of Britannia all their fleets would stand at two or three that could come here.

In the case of remarks on sovereignty, particularly the FedEx remarks, that was actually covered in a couple of areas the sovereignty and bilaterals. I'd like to point out that unlike shipping, aircraft fly over, not around the country, and the effects of an aircraft having an incident is not like shipping, I suppose with the exception of oil tankers - and particularly the US airline industry and the freight industry even more, has a reputation that we would not want to emulate here and we've got to seriously consider the implications of open skies for that industry. I'd like to leave it at that.

PROF SNAPE: Thanks very much, Rod. I was rather interested in the relationship between deregulating schedules and safety and you seem to see a very close nexus between safety considerations and, if you like, the deregulation schedules and I was wondering - aren't those two issues rather more separable than you were suggesting?

MR CORK: No. Firstly I'd like to point out it's not our purpose to hide behind safety. That's counter-productive. I think history has shown, if you look at the world's most deregulated environment, it's obviously domestic USA starting to be repeated in Europe. There is no doubt that as the new start-up carriers which were obviously from a lesser base and in many cases started up as charter carriers, as they started to evolve the environment in the US deteriorated from a safety point of view and probably, as we enclosed in our submission, the most documented is the Value Jet which basically did everything that it was supposed to do. They were a start-up carrier. They took on routes that hadn't been properly marketed.

They did all the things that ultimately were closed up by the FAA and are currently just being regenerated under another name and as the report from the FAA pointed out, I mean, they totally lost control of their environment. They lost control of their maintenance. They've lost control of their crewing. They lost control of everything and that's the concern. The moment you start to lose regulation and controls the thing seems to get out of hand and there's a long history of a number of airlines doing just that.

PROF SNAPE: As I understand that Value Jet, there was - if you like, there was a lack of accountability because it was unclear who was responsible for what.

MR CORK: Yes.

PROF SNAPE: Which might be a characteristic of a particular form of deregulation but was not a product of a deregulating of schedules as such.

MR CORK: No. You're probably referring to another area, I mistook the question. What we've said is there seems to be a clear line that schedules produce a known income hopefully, if it's being marketed correctly, and that known income allows budgeting to move into areas of crew training, maintenance, purchase of aircraft. The moment we get away from the scheduled and known income side there is a tendency in bad times for airlines - and a proven tendency, for airlines to start cutting corners on all those areas and ultimately it throws up some problems if it's allowed to go on for too long.

PROF SNAPE: Yes, okay. I should thank you for the very thorough submission you made where you in fact, I think, addressed every question we asked and that has put you in a somewhat unique position, I might say.

MR CORK: I think I pointed out to Helen that our profession is - what, four to six times a year we go into rooms and people ask us questions for hours on end. It's part of our training and you never ask airline crew questions unless you want an answer.

PROF SNAPE: Yes, we'll make a note of that. In a couple of places in your submission you seem to be reluctant to have air services put into a multilateral negotiation framework.

MR CORK: Yes.

PROF SNAPE: Yet that has occurred with just about every other - well, it has occurred with all goods. It's occurring with services, many services, and potentially just about all services. Often one can see advantages of throwing things into a multilateral framework, for example while agriculture stayed within - negotiations just stayed within an agriculture framework nothing happened. It was only when in fact it became more restrictive, if you like, on textiles and clothing in the international - when they stayed just negotiating in that framework it got more and more restrictive over time essentially and it was only when the negotiations were thrown into a

broader framework that in fact one was able to get trade-offs and to get some stubborn positions shifted. The most resistant countries could only be shifted in those circumstances, by getting those trade-offs across industries.

One wonders for example whether the US maritime industry will ever be liberalised until there's some trade-off done with another sector. Now, there are some fairly intransigent positions with some countries with respect to airline negotiations and positions which I am sure you would want to see loosened up somewhat, to the benefit of your own members, and yet one may not be able to shift those until they also are pushed into a framework in which there are trade-offs that say that those countries can see benefits from other products which they can trade off against what they perceive to be a loss - rightly or wrongly but they perceive to be a loss for giving something up in air services. So by keeping it on its own, one loses those possibilities.

MR CORK: I would say - and we actually mentioned in the submission - history has shown that certainly when Qantas was the one and only designated carrier and government owned in fact Qantas was always - and air rights were traded off as an overall grouping for agricultural things, and I point out again that even now the current department that negotiates these rights is not the Department of Transport but the Department of Transport and Regional Development and I believe that says something. I don't think air rights out of Australia will probably ever be isolated. They may be officially but unofficially the negotiations seem to go on at the same time as other things. There is no doubt in the past that Qantas would have been a much, much larger airline if wheat rights and sheep trading had been kept out of it. Certainly the Qantas that I joined in the 1960s was a predominant airline that slowly deteriorated as our rights were traded off against other things.

For now the big problem with multilaterals is that we're in a unique position. We haven't got too much to trade off in the way of hubs and all those kind of things and I believe it has got to be kept - or we believe it has got to be kept in the current position to get anywhere. It's a bit like James Strong said: we don't want to give up what we've got to maybe achieve something we may get. But to a degree it's outside of our field of expertise, except we have had some discussions over the years with the Department of Transport and other negotiators during the period and we got the distinct impression that our rights had been traded off - the aviation rights of this country had been traded off against other - and primary produce rights in particular.

PROF SNAPE: It may be that you will find it the same way if you keep it in a - see it the opposite way, that in fact you are getting better rights by including them in a broader set of negotiations.

MR CORK: Nobody has convinced us yet.

MS OWENS: I'd like to clarify something you have in your submission on page 43. This is talking about the current bilateral arrangement and you argue - the paragraph just before your question 3, you say:

It's therefore possible to argue that given restricted resources, an appropriate level of protection via restrictions, bilaterals and air service agreements encourages a strong Australian airline industry which is capable of competing with international carriers.

What I'm interested in is, in your view what is important about having a strong Australian airline industry and what does that actually mean?

MR CORK: It's a good question. I think we've got to accept that the Australian airline industry is far more than taking people in boxes between A and B. It's one of the top exporters, as has been pointed out. It's a major employer in Australia. It's a major taxpayer in Australia. The employees are major taxpayers in Australia and on top of that, it's a major defence availability. It's even more important than that, because if we were to lose the Australian airline industry we're to a degree in many areas of trade at the mercy of foreign governments, for instance in particularly the air freight arena where we've already lost the dedicated wide-bodied capacity. If an Australian manufacturer wanted to export, say - I'm not sure of the current status of Myanmar but say Myanmar was banned by the US. Our trade would actually be restricted by a policy of the US government even though the Australian government may have no problem with it. So it is still, even in this deregulated age, a very important industry to have for all those reasons.

MRS OWENS: And from the point of view of your members do you see advantages as pilots and engineers in terms of having an Australian carrier?

MR CORK: Well, we have a problem; there's a problem with licensing. Effectively - and it has got worse over the last few years - we cannot get a job in another country so if we lose an Australian carrier we lose the ability to practise our profession, so yes, we do.

MRS OWENS: Is that reciprocated? I mean, do others have problems getting jobs here in the same way?

MR CORK: Col, would you like to carry that?

MR ADAMS: No, not really. The Civil Aviation Authority has been very generous in the way it hands out licences - dare we say not to mention the 1989 pilots' dispute where they handed them out most liberally. But notwithstanding that example, many countries' licences are accepted in Australia and that licensing standard is not necessarily reciprocated in other countries, typically the United States.

MRS OWENS: So when you say the Australian airlines have an employment benefit, part of that benefit is to your own members?

MR CORK: Yes, but it's also to the economy, given the level of tax we all pay.

PROF SNAPE: There are a lot of Australian air pilots employed abroad, nevertheless, are there not, and again partly as a product, I guess of the 89 incident.

MR CORK: That would probably be hard to duplicate if we were to do it now as far as the employment - things have tightened up. The ones who are there in many cases are there through the famous grandfather rights. Particularly both the US and EEC have tightened up tremendously since that period.

PROF SNAPE: I was thinking of the Gulf and Hong Kong as much as anywhere and in Asia.

MR SARGEANT: Yes, but probably in that case a supply and demand situation occurred that the 89 dispute was coincidental with a need for pilots in other places and governments therefore were able to give licensing equivalency to the Australian licence when they needed it but when things are tight then those governments may not. Probably a lot of the Asian carriers, the Middle East, UK, it's impossible to swap your licence straight into a UK licence. You have to go through a fairly drawn-out procedure to qualify for a UK - a lot of study, a lot of exams, flying - but it is possible in high demand times, sure.

MR CORK: And that still doesn't consider the possibility of passports. A number of advertisements would say "EEC's passport, US passport compulsory".

PROF SNAPE: On page 10 you refer to the experience - I think it was with the Korea, Seoul and Taipei and it went to five operators and leaving aside the recent troubles which of course are exceptional and not to be regarded as - - -

MR CORK: Yes, that actually refers to before. That situation was occurring before the Asian crisis.

PROF SNAPE: Yes, I understand. Yes, there was the possibility of five operators operating and it was clear that that was not - pretty clear that it wouldn't sustain that and so it seems to me the market did just what it would be expected to and that was there was code sharing. There was a shake out and so there was a reduction in the service than what was perhaps initially there but it was certainly a much better service than existed before.

MR CORK: It depends on when you mean before.

PROF SNAPE: Before - when there wasn't any.

MR CORK: No, but the period after that. What in fact occurred there is interesting and I'm not an economist so all I can observe is what's happening and probably airline pilots and flight engineers observe loads and things from a fairly unique feature. We know what our opposition are carrying by the altitudes they fly at, at the same time as us. A lighter aircraft flies higher so if Ansett is coming out of Hong Kong this evening at 39,000 feet we know he hasn't got any passengers on and if we are down at

31,000 feet we know we have. So we have a fair idea of what's going on. The problem there was when we first got going where there was in fact - if we take Taipei there was Mandarin, which is a division of China Airlines, and Qantas. It was virtually a daily service. So to me, both the travellers and shippers, that was a reasonable outcome. In the end we were down to almost just the weekend service. So we suddenly had five operators flying Friday, Saturday or Sunday and nothing for the rest of the week. To me that's not the best outcome - certainly not for exporters and certainly not for business travellers. It may have been better for tourist type travellers but it certainly wasn't good for a number of categories.

PROF SNAPE: However, I think it depends on what you compare it with and as you say, it was unsustainable in the way that it started off and then it shook down to what was sustainable in the market which was not as good a service as the unsustainable position, but it was significantly better than no service which was what was there before and that seemed to me the exact - you know, that is the competitive process. That happens with grocery stores. That happens with shoe manufacturers. It happens everywhere else that one perhaps gets some who can stay in, some who can't, but that's the market.

MR CORK: It's not the true market though and that's probably the point. The point was that - if we take the case of Taiwan - both EVA Air and Mandarin were going to continue on the route whether they were making money or not because at that stage that's what their government wanted them to do. So that's not true market forces. Similarly, here in theory at least, if either operator or both had pulled off the Taipei route the IASC would have advertised the capacity and in theory at least there could have been a steady rotation of airlines going through and as long as there was two then the Taiwanese authorities were going to leave two airlines on the route.

PROF SNAPE: So I guess in fact there wouldn't have been a steady supply of Australians who were prepared to lose their shirts on it. They would have learned from the experience of others.

MR CORK: That's true.

MRS OWENS: I was going to draw your attention to your comments on the negotiation process, the consultation process on page 16 and there you say that you're not aware that unions or professional associations acting in the aviation industry are consulted. Is that something you think should happen? I presume the fact that you've pointed out that it doesn't happen implies that you think that should be part of the consultation process?

MR CORK: There's an interesting anomaly where once they've decided what the route structure is going to be they give it to the IASC and then we get totally involved in it. So what I'm saying is I feel that maybe - there's a group of consistent submitting organisations to the IASC, about four or five actually, and it may be a little bit wider as the process evolves. It seems a strange process where you get involved in the end process but not the beginning process and basically what I was highlighting there is

that the professional associations and unions - and there's only a small number; there's probably about five or six key players maximum - are virtually not consulted on anything. The IASC process is actually a very unusual one.

MRS OWENS: So you would argue that you have different interests to the carriers who do get involved?

MR CORK: Yes, I would.

MRS OWENS: And in what way are those interests different?

MR CORK: It's obviously the one of employment again, remembering that the carrier's view may not be our view now with code sharing. There was references made in the Qantas submission to some of the IASC procedures and I suspect that was probably where we were in dispute with them only a few weeks ago. As we move into an area of code sharing and chartering, of wet leasing of aircraft, the airline's views may not be our views.

MRS OWENS: You say here that the industry's needs are regarded as being subservient to those of the tourist industry and to primary industry exporters' needs. We've had other submissions which say that in fact it's the industry needs which dominate in these negotiations and that - - -

MR CORK: It's a matter of perception.

MRS OWENS: - - - sufficient attention is paid to the tourism industry and certainly not to the airports. So we get different stories. I suppose unless you're part of a negotiation process to see how it all works you can't tell.

MR CORK: I mean, our position is taken - certainly for the three of us here who fly or have flown now and probably we've got 100 years of experience in international aviation, there is no doubt that things have changed. There's an evolving process. Certainly in the past our needs were subjected to other needs. There are still indications that that has occurred but we're not part of the process so we don't really know but our perception is that that's the way it is.

MR SARGEANT: Just at the bottom of page 16, the last sentence there about the implementation of Australian domestic air space, I happened to go to a meeting 10 days ago. We had the three major pilot unions in the country in the one room. I think there were about 16 people there plus representatives of CASA. So you had the AIPA representing the Qantas pilots. You had the Ansett pilots union and the AFAP representing general aviation and some of the regionals. Also in the room was the chairman of CASA and the three pilot unions pointed out that in no way a particular trial of an airspace - a new class E airspace; a trial that was about to be implemented 4 days later and all the pilots said not without certain things, transponders - transponder equipment for further identification. But even though all the professional airline bodies in this country were vehemently against this trial going ahead without

the use of transponders, nevertheless the very next day it was determined it was going to go ahead anyway. So this is about this consultation. Sure, we had been consulted but we weren't listened to and I think the pilots up there probably have as good or the best knowledge of what really goes on in the air up there. So this is an example about - we're subservient to the industry in some ways.

MR ADAMS: Further to that comment, in that room were also the air traffic controllers and certainly the aircraft operators. Qantas, Ansett would also be in one accord with us to say that that proposed change to airspace was a ridiculous change but we were not listened to, sadly.

MS STARKE: May I just add something to that too. I'm not a pilot but the crux of the whole issue was - as we've mentioned before, we're not trying to hide behind this. It's a very critical issue. The crux of the whole problem was the safety issue was not being considered by CASA. I'd just like to point back to something that you mentioned before, Prof Snape and that was about the trade-offs. The thing that makes aviation unique is that there's this element of safety and operational standards that you don't get with other industries where you're considering trade-offs and the unusual thing about aviation is that not only does, for instance - and I can only speak of my experience with Qantas - not only does Qantas pride itself with its operational safety and technologically advanced systems and aircraft but the pilots and the flight engineers themselves, with pride, guard their reputation jealously.

So that when you talk about trade-offs between various countries and multilaterals, there is this aspect of safety that always comes in and is almost in some ways an intangible factor that is sometimes forgotten but it is something that actually underwrites a lot of the reasons why there may be a reticence towards, for example, globalisation of airlines where you then get contractors used. We talked about the impact of employment. Where you have globalisation it's been shown that there have been a lot of contracting of not only just crews but maintenance workers, ground staff and so on and with that there are then safety things to be considered. So that's why we would have that reticence about moving happily into multilateral situations if it means a compromise in the thing that underwrites a lot of what we do.

PROF SNAPE: Yes, I see the point on the safety but of course contracting doesn't necessarily always go to the least safe. It may very well be contracting into Qantas to be doing the maintenance from other airlines which I believe happens.

MR CORK: I mean, there's two interests. There's a number of areas of contracting obviously. Loading is becoming more common and then there's maintenance and then there's the actual flying of aircraft and then in some cases, particularly in the US there's actually contracting out of the training of the crews as a separate thing. The problem is the moment you start to get into contracting you get into looking at the lowest cost or somewhere near it and hidden away in one of our statements is a statement about recurrent training. For instance, this is one area that gets quite interesting. In the case of all of us who work in Australia, effectively in Qantas

anyway, we do 6 training days a year spread equally through the year four simulators, an actual route check and a day of safety equipment.

The tendency is, when it's contracted out - because you've got to move somebody - you've got to move your crew from A to B as they tend to do it all over a 2 or 3 day period once a year. So I would put it to you that certainly knowing how students function, if they didn't have to deliver the goods for any other day but 2 days of the year they would know their subject dramatically less than if they had to produce the goods right through the year. So that's just one example of what happens when you contract out the crewing. The other situation with crewing is there is a tendency then to make the pilots and flight engineers pay for their own endorsements. You just don't move from one aeroplane to the other. I'm on the 747, what's called the classic, the older model. Col's on the 747-400. There's an extensive training course that actually puts you onto that aeroplane.

In the case of airline training there's a substantial amount of money spent and they take you - Qantas in particular and Australian operators take you below the basic standard. If you're paying for your own endorsement you obviously pay for the basic because we're talking about hundreds of thousands of dollars here for an individual to bear. So the moment you move into contract crewing - and to a degree, contract maintenance, because there again, rather than having a number of licensed aircraft maintenance engineers, you tend to have one foreman who is licensed and knows what's going on and a whole lot of process workers - so the moment you get into contracting, you do move into an area that impinges on safety.

PROF SNAPE: I can understand that it impinges upon safety. On the other hand, when people are selling services and even when people are paying for those services themselves, they don't go automatically to the cheapest source of provision of that service. If I'm paying for a surgeon, I won't go to the cheapest surgeon if there was a price differentiation amongst them. If you refer to students, there is some competition between universities in some areas such as MBAs. You don't find all the students flocking to the institution which is offering the cheapest MBA. You find that they are interested in quality. So it isn't necessarily the race to the bottom; in fact it seems to me that in very few areas, speaking generally and not about air services specifically, does such a race to the bottom occur?

MR CORK: It's happening in the aviation industry, there is no doubt. There are a number of contract crewing organisations operating right now and there certainly is the race to the bottom. There is no doubt about that. Ken, you're familiar with the situation.

MR SARGEANT: Yes, it's true. In attachment 5 in one of the tables, there was an article - and I think it was in the Financial Review just recently - and it shows 12 accidents from April 1997 through to 16 February 98 within the Asian area and nine of the 12 accidents, nine of those 12, either operate to or have operated in and out of Australia or their subsidiaries. So there's nine out of 12 Asian carriers that have had accidents there. So I mean, the standards are different and I understand

about - you have a choice when you buy a ticket is what you're saying and you will research it. But on the other hand I think the responsibility of the regulators in a country like Australia surely are to make sure that there's an adequate safety margin attached to those. On the other hand you could say, well, they're actually flying in and out of here now.

PROF SNAPE: I think in most part of life people have a choice and they choose different levels of safety. They don't all buy the same model of car. Now, also there is a lot of regulation there to specify a minimum level of safety in all cars but they are not all buying the safest car. People deliberately through choice, on their own volition and knowing the implications - they know that what they're buying is not as safe as something else and they make the choice. So you've got levels of airlines, some of which have accidents more often than others, and people make a choice between them and the prices to a significant extent reflect the differences between the airlines.

MS STARKE: I think there is some validity to that argument but there's also the fact that hopping on a plane you actually lose your control of the vehicle in which you're travelling and if the average consumer was asked at the time of choosing which airline to fly with, "Would you like to survive the flight or not?" or - you can't really draw a comparison with, if you like, comparing quality of education with survival on an air flight. I know I'm actually drawing vast parameters there but - -

PROF SNAPE: I had the same thing in the taxi from the airport this morning and I could well have had a hire car instead, which may have - I think the commission might have run to it.

MS OWENS: I'll just give you an anecdote in my own case. In 1974 I was going to Turkey and I chose to fly with Turkish Airlines. They had two DC10s. One crashed in Paris, just outside Paris, and I chose to fly 5 days after that crash in the other Turkish Airlines plane, not knowing - nobody at that stage knew what the cause of the original accident was. But I decided - well, when you're young and stupid, you know, you don't sort of think that it's going to happen to you.

PROF SNAPE: And when you don't have much money.

MS OWENS: And you don't have much money, so you do make these tradeoffs and I think people do - there are airlines that we know that are probably less safe than others but people still go in them and people fly in internal flights in China or in Russia and in other places and South America too, where you might say, "Well, they're not up to what we would do here." But is it implying that the IKO standards are not as high as they should be?

MR CORK: They're unenforceable to a degree, particularly into and out of Australia. I was talking to the Department of Transport inspector the other day that's in charge of some of the surveillance and part of the IKO rules for instance say that they can do a survey on the aircraft, which for a 747 is a fairly complex operation, but they can't delay the aeroplane. Now, given the average transit time of an aeroplane

through Australian ports is an hour and given the fact that they wouldn't get on for 10 minutes during the customs procedure and have to be off 15 minutes before so they wouldn't delay departure, it effectively means they'd have to survey - and they're not allowed to remove any panels or look at anything. I mean, effectively they've got about 15 minutes to determine whether the aircraft is serviceable or not and that's part of the problem.

Similarly, as long as the country is an IKO signatory and the country says they're meeting the IKO requirements, to a degree they do. So really it doesn't mean a great deal because there are African countries that claim they meet IKO requirements and probably don't. I mean, during the famous 89 pilots' dispute there were at least a couple of issues. One aircraft turned up in Australia, a 707 freighter and nearly ran into Botany Bay empty and when they looked at it they discovered only two of the eight brakes were working and the others had been disconnected and only one of the - well, officially two of the four engines could be put into reverse but the other one failed, which is why they nearly ran off the end. The fact is the aircraft totally complied with IKO standards because the paperwork said it did, but it didn't. So the IKO standards are very nice to have but they really don't achieve a great deal.

PROF SNAPE: The US get around that to some extent, don't they?

MR CORK: They do because they're American. But I suggest if we tried it here there would be certain people that we deal with on a day-to-day basis that wouldn't like it. I mean, the reality is the chances of us doing it to Malaysian aircraft for instance without some backlash politically would be very remote, not that the Malaysian aircraft need it but it's a good example of political pressure that we're aware of. The Americans get away with it because they're America. They are the only people in the world that I'm aware of that can get away with it and do get away with it

MR SMITH: In fact one could use that as a precedent.

MR CORK: I have a feeling particularly ASEAN would have some problems, I really do. But that's probably more politically knowledgeable people, I need to say. But the Americans are the only ones that certainly I'm aware of that do.

MS OWENS: You talked about the freighter almost going into Botany Bay. You in your submission I think are implying that you don't particularly like the lease type arrangement, that - would prefer to see us with our own dedicated air freighters that - - -

MR CORK: Yes, we would.

MS OWENS: I suppose there's the trade-off between - if there was a buck to be made out of it in Australia somebody would be doing it.

MR CORK: No, that's not true. There is dollars to be made of it. I've used that over a number of years and this is probably how I got involved in this whole arena, going back to 10, 12 years ago, I've been following the interests of air freight. Certainly Australia had their own freighter industry going back many years and slowly as they had to rationalise resources it went away. The real problem is - I used the analogy only a few minutes ago. It's very similar to a situation where, say, TNT had a total monopoly between Sydney and Melbourne on road freight and they ended up with 10,000 trucks and one day somebody came along and said, "Well, we'll take that monopoly away now, it's free market." How do you compete?

Our problem is, with particularly the American operators, we believe they were established by direct policy of the US government a number of years ago using very unfair tactics and having established their industry as the predominant air freight industry - and this is not necessarily a dig at Federal Express, in fact I'm talking more of the Polar Airs, Evergreens, Southern Air Transport and assorted others who are in a different market to FedEx, a very different market to FedEx. Having established themselves in that market it's almost impossible for an Australian carrier to break in without some kind of government support. So it's not a free enterprise market because they are established by a very restrictive situation.

PROF SNAPE: Well, that has I think been the situation in the past and one's evolving from that and one has specialist airfreight companies in other parts of the world which seem to be able to compete, for example Martin Air and Lux Air, is it?

MR CORK: Cargolux.

PROF SNAPE: Cargolux - which seem to be able to compete in the air despite the first mover advantage that the US had.

MR CORK: Both those airlines were in fact established long before, they're very long-established cargo operators. In the case of Martin Air it's untrue to call them a freight operator. Martin Air is probably what I'd like to call a flexible operator. Virtually all their aircraft with the exception of probably their 767s - and these days they're a wholly owned subsidiary of KLM anyway as of about 3 weeks ago - are convertible freight and passenger. But both those airlines have the advantage of bilaterals that allow them to go where they want to go, which is not the case of the Australian operators. Up till recently there have been no specific freight bilaterals and the key markets for us are still not open for us for freighters, specifically the US to Australia to Asia, back to the US market, to try to - or the other way around. They're not available to us because the bilaterals don't - particularly the fifth freedom rights don't exist and seventh freedom rights don't exist for us.

PROF SNAPE: With respect to freight, I wasn't quite sure whether you were calling for in fact a bilateral deregulation of freight or simply separate bilateral negotiation of freight capacity.

MR CORK: Yes, the latter. I believe that we need separate - it has started to be fair. The last round of negotiations in Hong Kong, separate freight bilaterals were negotiated. But it has only been fairly recent. I believe we need separate freight bilaterals, because what has occurred otherwise - - -

PROF SNAPE: But regulated bilaterals, not - - -

MR CORK: Yes, not deregulated ones. But what has occurred, the history is that, say, Hong Kong is a classic example with restricted slots. At the very time at Christmas and Chinese New Year when the agricultural exporters want to get their freight to market the airlines, because it's a common freight-passenger bilateral, will substitute passenger aircraft for the freighter aircraft to get there because they've got massive influx of passengers and their plane will - so we believe there should be a separate freight bilaterals, yes.

PROF SNAPE: Yes, but restrictive bilaterals.

MR CORK: Yes, at least at this stage till we can get the Australian operation up and running because we wanted - unless circumstances are tilted a little bit in favour of the Australian operation for a few years we'll never get it up and running.

MS OWENS: You do talk about a flood of low-cost operators on page 61.

MR CORK: Yes.

MS OWENS: As if that is something that's really negative, a negative. But I would presume that the users of those freight services would think that having a flood of low-cost operators is actually a positive thing. You know, their costs are lower.

MR CORK: That's partly true. Firstly though a lot of the aircraft were actually converted - most of the freighters that come through Australia are long-haul aircraft, mainly 747s, a smattering of MD11s and DC10s, but mainly 747s. The majority of those 747s were converted from passenger aircraft under the Civil Reserve Airforce scheme, going back a few years, and that all occurred at the same time as companies like Eastern and PanAm were going bankrupt. So there were cheap crews, cheap maintenance crews, cheap aeroplanes, cheap everything. The situation has changed but the current situation means that in many ways you're right. The market likes the cheap freight. But in fact it's counter-productive in many ways because people have become used to the cheap end of the market, structured their production around that and now the price is starting to rise.

The cheap aircraft are now just about worn out. The cheap crews have either retired or there's now much better jobs going so their wages are going up. There's probably a huge distinction between the FedEx MD11 that comes in here and, say, the Evergreen aircraft of 10 years ago that came in here. It's really chalk and cheese, both in payment and type of aircraft. So the Australian industry and particularly the agricultural industry has become used to a low level of tariffs and it's actually

destroying their industry. As a result that's why we get freighters here 3 days a week rather than 7 days a week. That's why the inward freight market from the US generates the outward freight market because it's not structured around the Australian market because of the low cost. It's structured about imports from the USA, not about exports from Australia because of the poor rates.

PROF SNAPE: Now, we had FedEx argue that if in fact Australia had the first seventh freedom rates, then what they would be able to supply is in fact a daily hubbing out of - possibly daily hubbing out of Subic Bay.

MR CORK: Yes.

PROF SNAPE: So that would be a deregulation which would in fact provide a much better service than exists at the moment.

MR CORK: I mean, that's an interesting one, particularly for Australia if the Australian carriers also got seventh freedom rights, in fact got the full rights to do the same market as FedEx. There may be an advantage in that.

PROF SNAPE: I mean, there are two sides to this, aren't there? There's one advantage to the consumers who will benefit just by having anyone doing the - FedEx or Eskimo Air.

MR CORK: Depends on the market because as FedEx pointed out, they're not really in the market but it depends on what you're exporting. But certainly the big press here for industry is agricultural exports as well as the other and the agricultural market is a very different market and a very different kind of aircraft type, not in model but in age and - - -

PROF SNAPE: Yes. But just before we return to that one, I mean, if one is then looking at potential Australian freighters then of course one would want the seventh freedom rights for Australia as well.

MR CORK: Yes.

PROF SNAPE: That's of benefit then to the pilots who are flying them etcetera. Consumers get the benefit just from anyone doing it.

MR CORK: Well, maybe because as I said, FedEx - there's no doubt and I think FedEx would admit that: the aircraft is still not going to turn up in Australia unless the inbound freight brings it in. That's the real problem, whereas an Australian-based carrier is already here and will take the freight out; that's the problem. So if I've got a load of plums in Adelaide and I know we've had problems with that before - if I've got a load of plums in Adelaide, if there's not a load of computer parts coming from Los Angeles then the aircraft is not going to turn up in Adelaide. But if we have an Australian based carrier he's already here.

PROF SNAPE: I suppose one needs loads both ways, I take that point. But the more the service can be provided right back to the supplier, in this case the plum picker, right through, if you like, to the plum user at the other end or from the tuna fisher in Port Lincoln right through to the restaurant in Japan and the same organisation is handling it all the way so that it's clear where the responsibility lies when they go bad - and they'll be clearly making sure they don't - then one could charge a lot more for that service.

MR CORK: I would have to say that probably FedEx and maybe UPS, it would be one of the few organisations - out of all the multitude of freight operators they would be unique in that. The fact of the matter is that most of the food handling is done by the non-package freight operators, which FedEx is. So the chances are in the long term if we were having agricultural exports and non-package freight coming out of Australia that would be more likely done by the equivalents of Evergreen and Polar Air rather than the equivalents of FedEx.

PROF SNAPE: Yes. But then unless you've got the integrated service then you run the risk of them sitting on the tarmac in 100-degree heat - 40-degree heat these days.

MR CORK: You leave me an opening that I can't resist. FedEx lost our package from US Alpa which was part of our submission.

PROF SNAPE: You may be able to take that up with someone.

MR CORK: We already have.

MS STARKE: At any rate the relevant Sale of Goods Act and the insurance underwriter would have a field day with the plums sitting on the tarmac in 40-degree heat.

PROF SNAPE: Yes, but the problem is when you're having to sheet home who was responsible for leaving it there and as you say there's perhaps a lot of lawyers' incomes generated by that.

MS STARKE: Yes, it's a minefield.

PROF SNAPE: But in the meantime the plums have gone off and the business has been lost.

MS STARKE: That's right, substantial losses.

MR CORK: In fact what you're saying is the whole basis for the Inland Marketing Corporation's push for basically an agricultural export market out of Parkes, which we were heavily involved with about 3 or 4 years ago, so I would have to say we agree with the overall concept because we've promoted that fairly heavily.

PROF SNAPE: Yes, and what I'm looking at here is that in order to get that sort of right-through service one needs significant deregulation.

MR CORK: Yes, providing it's - yes, if it's a fair deregulation, in other words, everybody's involved and so far in freight everybody else seems to deregulate and Australia has been left out of it. For whatever reason, that's the way it has gone.

PROF SNAPE: Whoever is doing it, as I say again if it's FedEx or Eskimo Air, the actual people along the whole production line will benefit. You'll get a benefit for the pilots if it's Australia doing it.

MR CORK: Yes.

MS OWENS: In your Executive Summary you talk about the start-up carriers trying to enter the domestic market and you make the statement - this is on page 4 of the Executive Summary - that, "Restrictive government regulations may have contributed in part to the lack of success by the new entrants," and I'm wondering what you actually are referring to there. What are the regulations which caused the problem?

MR CORK: I think it has already been covered. I was looking through some of the transcripts. Certainly the long lead time in numerous areas to establish the airline has been a nominated problem by at least five entrants that I know, that's their claims, in areas of gaining their air operator's certificate, particularly in the financial deposits that have been asked to be put up. I notice at least one claims that in the ensuing time they basically lost their rights to a major carrier while they were still trying to set up. We've been in an interesting position since we started promoting the fact that we need an Australian airfreight carrier. A number of start-up airfreight operators have actually come to us and discussed their operation.

So for a professional association and a union we probably have an unusual insight into some of the commercial operations and without a doubt nearly every one of them have claimed the whole process of setting up an airline takes so long and by the time they do it, the market has passed. For instance I know of one that wanted to set up to go to Taipei. By the time they actually got halfway through the process basically the market had been taken over by international carriers, particularly CAPA.

MS OWENS: But some parts of the process would be things that you would think would be very important which is, you know, safety regulations and - -

MR CORK: They're important, yes, but it's the time that's taken rather than the importance of - you know, we're talking 2, 3 years to get some of these things through here. Certainly we don't dispute the necessity for doing them. It's the time that it seems to take to get it all up and running. Now, maybe in some cases it's because the potential operators are very under-funded and a lot of the people are doing it voluntarily, I don't know. But it seems to be taking - I mean, for instance we first had discussions with a predecessor of I think Australian World about 3 years ago

and they're still talking about going. I mean, yes, it seems to take an inordinate time to get everything up and running, considering that nearly all of them are talking about operating things like 747s or 767s which are already operating in the country. It's not as if they're an unknown. We could understand it if they were proposing to operate an Aleutian or something but not the kind of aircraft they're talking about. They're well-established operations in Australia.

PROF SNAPE: Page 79, you refer to the - this is a very small point in the submission but not a small point for you, I suspect. We refer to "personal legal liability".

MR CORK: Yes, you'll actually find that in one of our attachments.

PROF SNAPE: Sorry, but I couldn't get right through all of the attachments.

MR CORK: Which one is it? It's probably in the Asian one I think. What we're finding - and you'd probably like to talk to that, about criminal charges being laid against crew who make errors.

MR ADAMS: Yes, certainly in some overseas countries despite the "hold harmless" clause in our own contract which negates another party's ability to hold the pilot legally liable - the company will wear the charge if they're held legally liable - nevertheless in some overseas countries, Athens, Greece is one, pilots have been put in gaol while they think about the consequences of an incident that the pilot has been involved in. So there's certainly a significant criminal liability on the part of the pilots.

PROF SNAPE: Presumably if it's criminal actions then one could understand it.

MR CORK: That has not been the case in the past usually. In the past because there is this environment of wanting to know what went wrong rather than a criminal area there has been - I mean, obviously the moment you're charged with a criminal action you're not going to say anything that you don't have to. In the past because there has always been this perception that aircraft accidents have been caused by a number of events, and that's true, it's always the final end of the chain: the crews have not been charged. But of late it's actually - our submission is on attachment 5 that there's actually a page out of Flight International about a Garuda DC10 captain who's currently being charged in Japan. This has been a fairly late event. It has only just started to occur in the last 5, 10 years where crews have actually been charged. In the past you've been allowed to - because nobody intentionally goes and crashes an aeroplane unless you've actually got some kind of problem.

PROF SNAPE: And even if they pass the controls over to their 15-year-old son?

MR CORK: Well, that's a different story. That probably gets back to lowcost airlines.

MR SARGEANT: Or a hyperactive son. That particular one, the Garuda one that we're just quoting, which happened at Fukuoka in 1996 and the prosecutors it says here:

The prosecutors are being asked to charge the captain with professional negligence leading to death and injury and with violating laws causing danger to flight. Possible sentences range from 8 years in gaol -

etcetera, it goes on. I mean, yes, he had an accident and obviously it could well have been some piloting problem. But nevertheless possible criminal charges as Colin said - certainly Athens, I think there was a Swiss air pilot who crashed many years ago and he finished up in gaol.

PROF SNAPE: I mean, I understand what you're talking about.

MR CORK: Yes, so that's what is meant and it's probably if you have - it's like a lot of the things in the industry, you're starting to touch it. Those of us who are used to, say, traffic accident liability find it very strange but it has been traditional in the aviation industry up till about 5 years ago that this kind of - unless it was proven that it was deliberately done for malicious intent there has not been charges laid and there now is.

MS OWENS: We haven't asked you about airports and whether you have any views on the current constraints both here and overseas in relation to slots. Is it an issue that - you've dealt with it on page 41.

MR CORK: Yes.

MS OWENS: You've mentioned a free fleet. You say, "The restrictive bilaterals may have contained" - and this is in the case of Bangkok and Hong Kong and so on:

The restrictive bilaterals may have contained a degree of protection for existing carriers but all forward destinations have to a varying degree the practical limitation of limited airport and air space.

So which is it? Are you saying that their own carriers get a preference?

MR CORK: No, what we are saying there is that when we start talking about open skies there's an implication of open skies at a level playing field and market forces and I think James Strong covered it earlier and it has been covered in others as well. The point is that there's not - open skies doesn't necessarily mean a level playing field because you can't create airports and the key airport is certainly in the network that Qantas operates to and Ansett to a degree have had restrictions and those restrictions are played out to a degree benefiting the local carrier, I suppose. There's certainly that perception. But it's certainly not a total free enterprise market if you go to open skies, if there are restrictions on over-flight times and slot times and access to airports.

MS OWENS: But as we heard this morning you possibly need the open skies to get things open to put the pressure on the airport to - you know, to people going to a new airport or extend the airport.

MR CORK: But that's a long way down the line, that's the problem. In the meantime the damage is done. I mean, the reality of the situation is if a government member was to go out to Parramatta right now and announce they were opening a factory with 10,000 employees they'd probably be welcomed with open arms and given a key to the city. If that same member goes out and says, "We're building Badgery's Creek airport and we're pouring tomorrow," we'd probably be poured into the airport. The fact is that it is very difficult to build new airports and the infrastructure that's there in many cases is the one that's going to remain for a number of years, so it's not truly a free enterprise environment. As long as those restrictions exist the international airline and allocation of routes can never be pure free enterprise.

PROF SNAPE: Picking up on page 52, the interpretation that you give of an article in the Chicago Convention relating to cabotage there was not the understanding I had of that article, but that doesn't mean that mine is right of course.

MR CORK: It's an interesting one. I asked a number of people that question, what that actually meant, and - - -

PROF SNAPE: There are a number of views.

MR CORK: There are a number of views.

PROF SNAPE: My interpretation would be, not that it says that cabotage is - protecting domestic cabotage is a good thing, but rather that if you are going to be entering into a bilateral with another country that you can't agree with that other country that you will give the cabotage rights to that other country to the exclusion of other countries.

MR CORK: Yes.

PROF SNAPE: And so my interpretation would be that you may only give it to one other country in a bilateral but if another country comes along and says, "We would like it too," you can't say to them, "We can't give it to you because we gave it to the others."

MR CORK: Yes.

PROF SNAPE: In other words, the "exclusive" is the operative word. So that to me didn't mean that cabotage protection was a good thing or a bad thing. It simply means that you can't in fact do a deal that you'll only give it to one other, or a restricted number.

MR CORK: Yes. The question I asked, if that was the case how did New Zealand get it and others didn't and nobody could answer that question.

PROF SNAPE: Well, my answer to that is by the use of the word "exclusive" because we gave it to New Zealand and vice versa, but we haven't entered into an agreement with New Zealand that we will not give it to anyone else. Now, had we entered into an agreement with New Zealand that we would not give it to anyone else that would have been exclusive and so it's an interpretation of that word "exclusive".

MR CORK: Yes.

PROF SNAPE: And I think that the interpretation that has been put on this is not that you have to extend it to everyone if you give it to anyone, which would be a most favoured nation interpretation, but rather that if you give it to one you cannot give it to them on the basis that you will not give it to anyone else.

MR CORK: That was put to me as why America has - it was interesting. The story I got from somebody who has been in the industry a long while and now retired is the fact that that view that we put was the original intent and it slowly evolved that people have tried to decide what to do with it. They've hinged on the wording and said, "Ha-ha, that's actually what it means and we twist that around." However, it's interesting that the Americans still haven't done it and I find some problem with the American open skies and all their principles when they haven't done it and what's more, their Shipping Act is the Jones Act where not only do you have to have American crewed and operated and owned ships but the ships actually have to be built in the USA as well for domestic shipping cabotage. I find it hard to accept that they're genuine about open skies.

PROF SNAPE: Well, the maritime industry in the States has got a lot of clout and I think that if you took a vote - and I don't think that there are too many people in total who support the Jones Act in the world.

MR CORK: It's still there.

PROF SNAPE: But it is very, very hard to get rid of and it perhaps brings me back to the point that I made much earlier that the only way that you will get rid of it is to have shipping in a broader range of negotiations. In part it's a pity that they went into telecommunications or information technology if that held that back and had those people who wanted liberalisation in that confronting in the same room the maritime interests it would have been interesting to behold. But I might say that my initial reaction to this was that it was MFM but then I was persuaded by the use of that term "exclusive" - that the interpretation of "exclusive" that it wasn't MFM.

MR CORK: Yes, it's changed. I think the answer to that is the original intent was and now it's not. They've found a loophole to get out of it.

PROF SNAPE: It's not explicitly on the same page but it's to do with cabotage etcetera and it's to do with freight. The question which I raised earlier with Qantas about cabotage for freight and the possibilities that that might give some courts and you heard the example that I gave.

MR CORK: Yes, I heard the question and Adelaide, yes.

PROF SNAPE: Could you - and it may not be confined just to Adelaide.

MR CORK: Adelaide is a good example though.

PROF SNAPE: Is it? How do you react to that?

MR CORK: I'll pass the operational side to Col. There's actually operational and commercial implications. Adelaide is a good example because it's a small city and it's not on the main route. The first thing that has got to be drawn out when you're talking about shipping freight - and you're basically these days talking about containers - is with the exception of the Boeing 737 virtually everything in freight is containerised. The big problem is Mr Boeing in his wisdom - and we've got to talk about Mr Boeing because they're the major aircraft in Australia built the Boeing 767 and the Boeing 747 with totally different freight containers. They are different sizes. You can load the 767 freight container into a 747 but it's wasting space for it's not economic but you can't put a 747 container into the 76 unless you turn it sideways and there's a lot of problems.

So in effect - so in reality there's probably not enough traffic to operate the 747 through Adelaide for all intents and purposes. Qantas tried and it didn't work. British Airways tried and Japan Airlines have tried and it didn't work. That's the advantage of a smaller wide body. So the moment you move into a 767 and say pick up proverbial plums because that's what they made all the fuss about in Adelaide a few years ago, the plum market, and they actually back freighted it and went through there for five loads and I think it lasted for two loads and they just weren't filling it. But the plum growers grow their plums. They take it out to the airport so we have Lauda Air or Britannia Airways come through with their 767. It goes into a 767 container and it goes to Melbourne say for export to Tokyo. So we domestic cabotage.

There's the very technical problem of the fact that when it gets to Melbourne, unless they actually want to pay a large amount of money to carry a 767 container in a 747 they've actually got to repack it anyway. So in effect the real practical term is they'd be better off putting it in a 747 container and chartering somebody like Independent Air Freight or Australian Air Express or any of the other domestic freight carriers and shipping it to Melbourne or putting it on a truck and sending it there.

PROF SNAPE: By truck.

MR CORK: The other problem is if you actually take the situation with a 747 and say the aircraft did Melbourne, Adelaide, Tokyo, Col will tell you the implications of that.

MR ADAMS: The difficulty with Adelaide Airport is it's just too small to operate a full 747 freighter out. It's as simple as that so you've got a choice of either not filling it up with freight or not filling it up with fuel. There's 160 tonne of fuel and a 400-tonne - - -

PROF SNAPE: They're extending it.

MR ADAMS: Perhaps so but we shall see. We shall see where that goes.

MR CORK: This is politics again.

MR ADAMS: Yes, indeed on Badgery's Creek. So either you fill it up with freight and do a technical stop somewhere at \$20,000 which would add to the cost of your freight or you fly it out partially full and then you don't make profit out of the freight anyway. So you just can't operate full out of Adelaide Airport with a large freighter aircraft.

PROF SNAPE: I come back, I suppose, to the fact that it may or may not be used but if one allows freight cabotage at least you've allowed the option and if it's not used you're no worse off. If it is used you're better off so why not allow freight cabotage?

MR CORK: I think we haven't addressed the whole area of cabotage actually and we ought to look at the other end which we addressed in our - domestic cabotage, whether you're talking passenger or freight, can consist of two different things; two very different areas. One of them is the one we're addressing, the Lauda Air, a whole lot of operators who would say arrive in Brisbane from Singapore early in the morning and they'd do Brisbane, Sydney, Melbourne and back to where they came from. That poses a lot of problems which we've gone into in our submission because by definition they'd have to use the international terminals which throw up customs problems and all that.

The other possibility that we haven't even covered so far that I can see is the possibility of say particularly the Indonesian operators - and the NewZealanders have had this for a while and haven't done it but the Indonesian operators say arriving in Darwin with a 737 200-hush kitted which marginally meets the noise requirements and continuing to do the circuit for a month and there is absolutely no reason why they can't do that and indeed a number of US freight operators under charter to various Australian organisations have done just that, flying domestic freight for a period. Providing - as I can see, talking to customs and assorted other people - the aircraft leaves on the 28th day it is quite adequate.

Now, on the surface that makes a great deal of sense but the problem is the kind of operators that are likely to do that are going to pose all kinds of problems to the

Australian market and not necessarily just the airline operation but problems of pollution and maintenance and noise and all kinds of things and that's the other area to be countenanced and at least there's some restriction if they haven't got freight cabotage right now and I suppose that's one answer to it. It's not a true answer to your question but it's an answer that needs to be considered. The fact is that there are freight operations that are available here right now and there is the ability to charter in US freighters much to our dislike I would have to say. In fact, currently Ansett are chartering - or were, I haven't checked in the last few weeks - an American freighter based in Auckland that flies the domestic - the Auckland freight every night there and back. Kittyhawk Aviation fly on behalf of Ansett. So there certainly is a vehicle to use pure freighter aircraft on a domestic charter basis right now and has been for a number of years. It certainly goes back nearly 10 years, that procedure.

MRS OWENS: You say on page 53 that Australia currently retains conditional cabotage and has one of the safest and technically advanced domestic operations in the world. So it implies that there's a link - as you've been saying now - between retaining cabotage and being safe.

MR CORK: Yes.

MRS OWENS: Does that apply in the United States?

MR CORK: I think what that's aimed at is the very situation I just spoke about. I mean, there's two different kinds of operators. I would have to say that the majority of the international operators who are coming into Australia who may take up domestic rights down the east coast are not in that category. What I was referring to there is this whole problem of third level Asian operators coming into Australia under removal of cabotage rules and doing their thing and getting back to the situation that we just spoke about, the number of incidents in Asia in the last year. The thing is with domestic travel it's predominantly 737 type of aircraft and it's a totally different operation and ball game to operating 747s and big stuff.

MRS OWENS: With cabotage there is always the prospect of international planes carrying their own passengers and we heard before that that's already in some - - -

MR CORK: That's in train. There are a number of operators doing that now.

MRS OWENS: Again, you seem to have some concerns about that. You seem to be implying that there would be problems of timing and so on and I couldn't quite understand - this is on page 54 - what you were actually getting at there because I would have presumed that they're just going to be doing it for their own passengers in the time slots that they already had.

MR CORK: All right. The problem there is that the moment you remove cabotage they may not necessarily be doing it for just their own passengers. I mean, obviously if you've got the rights there's a tendency to - I suppose "dump" is the wrong word but sell tickets on the market.

MRS OWENS: But if they're an international airline they're not going to necessarily be running extra flights say between Sydney and Melbourne just - -

MR CORK: No, but they can load their passengers on and in fact Qantas did that. Before Qantas - it's a contentious statement whether we were bought or were taken over whichever way one looks at it. Before Qantas had a domestic operation, Qantas in fact had lost and then regained the rights to carry domestic passengers and obviously that threw up - I mean, you've got to use a passport and all those kind of things but they did carry passengers between Sydney and Melbourne and Melbourne and Brisbane. What I'm getting at there is this whole problem - and it gets back round to capacity, the capacity restraints at the airports, particularly Sydney Airport. But you can't get away from it. That's a reality and I mean, as late as last week I heard Mark Vaille saying, "We look like we won't be starting on the new Sydney Airport until after 2000."

So anything that is decided by the Industry Commission and wherever it goes must assume that there are problems in Sydney. We can't get around that and the real problem is that because of curfews - this other famous restriction that exists around the world - most of the international operators arrive in a set period and depart in a set period. The problem of injecting a whole lot of extra passengers that aren't already there into the international processing - because that's what's going to happen to domestic passengers; they must go through customs; they must go through quarantine.

MRS OWENS: But they won't do that though, will they?

MR CORK: They've got to.

MRS OWENS: So it's not really an issue.

MR CORK: Well, they will. If they've got the rights to do it they may.

MRS OWENS: But the passengers are going to find it inconvenient as they did last time.

MR CORK: Not if you offer them the tickets at the right price. That's the problem. What I'm saying is if you offer \$40 fares between Brisbane and Sydney people will take it up even for the inconvenience. The problem is, is that a benefit to the overall Australian industry, particularly the tourist industry, to suddenly inject 4 or 5 hundred people at peak hour through the customs queue at Sydney Airport?

PROF SNAPE: I guess there are ways around that, I suppose, and the US has worked their way around it, has it not? In that you have to clear at your first port of call and once you've cleared at your first port of call then it doesn't matter whether you go into a domestic or an international terminal thereafter.

MR CORK: Well, the problem is of course that if the aircraft is still doing an international service it will have to continue to use the international terminals which means the passengers still do have to be processed through customs. When we passenger now from Sydney to Melbourne and Brisbane on duty we still have to go through a customs queue. They normally put us through a side queue but the fact is right now as crew we have to be processed - if we go from Sydney to Melbourne on an international service we still have to be processed by customs.

PROF SNAPE: But you don't really have to be processed if in fact - I mean, you could give a yellow card and you go straight through. It's just as if you were at a domestic terminal so long as you've got the card.

MR CORK: The other possibility is to declare the aircraft a domestic operation but of course the moment you do that, try fitting two or three 747s on a domestic terminal at Sydney in peak hour and the chaos - just because the actual aircraft parking areas can't take it. So that statement was not aimed at anything but to say that there are some very practical difficulties on the east coast of Australia of long haul aircraft carrying domestic services.

PROF SNAPE: But the US does get around it by clearing at first port of call.

MR CORK: Yes.

PROF SNAPE: I'd be interested - and again, it may be in your appendices. Let's just say I haven't digested yet the attachments but on page 14 you refer explicitly and in other places you imply it too, well-documented that on a deregulated environment airlines are often forced to cut corners.

MR CORK: Yes.

PROF SNAPE: It would be useful if we had - if there is - substantiation of that.

MR CORK: We can substantiate the individual airlines and in fact the appendices cover at least two of those, Value Jet and who's the other one - - -

PROF SNAPE: Value Jet seems to me a little bit different in that it was in fact contracting everything out so that there was - - -

MR CORK: That's why they cut corners though.

PROF SNAPE: And it wasn't clear where the - that they weren't able to monitor things properly.

MR CORK: They certainly weren't but I mean, one of the reasons we say they cut corners is the fact that they didn't - even their monitoring process was substandard to say a regular airline. You know, they had one maintenance supervisor where probably the normal airlines would have had many more than that.

PROF SNAPE: I guess if there is more substantiation - - -

MR CORK: If you read - there's quite a bit and there's an article on the Fine Air accident which is a freighter accident which is a deregulated environment. There's one on - - -

PROF SNAPE: That's in your attachments?

MR CORK: Yes, it is. And if you would like more on the Value Jet, I have the whole 2000 pages of the FAA document I can pass to you.

PROF SNAPE: No, thanks. I take your word.

MRS OWENS: We get plenty to read.

MR CORK: I thought you might.

PROF SNAPE: I think that's really covered the questions that I had. It's a very, very thorough consideration of our questions and thank you very much and the attachments. As I say, I've not been able to digest those properly yet and I'm sure Gerry is and the other members of the staff will be and other members of staff may get back to you with specific questions on it. Thank you very much for a very thorough submission and presentation and coming today and appearing before us. Normally at the conclusion of the day's hearings I ask if there's anyone in the audience who would wish to come up and make a formal statement just to give the opportunity and if there isn't then I will thank you all very much for your attendance and say that we'll be adjourning now until tomorrow morning at 9 o'clock when we have Ansett. Thank you very much indeed.

AT 5.08 PM THE INQUIRY WAS ADJOURNED UNTIL
THURSDAY 12 MARCH 1998

INDEX

| | <u>Page</u> |
|--|-------------|
| FEDERAL EXPRESS ANDREW DA ROZA BRUCE MYERS | 61-84 |
| DEPARTMENT OF INDUSTRY, SCIENCE AND TOURISM ROBERT CRICK MICHAEL CLAESSENS MARK DURRANT KEITH MAXTED PAUL BELL CHAMBERS | 85-103 |
| QANTAS AIRWAYS LTD JAMES STRONG DAVID HAWES ANDREW STOECKEL JOHN KERR | 103-135 |
| AUSTRALIAN AND INTERNATIONAL PILOTS ASSOCIATION COLIN ADAMS ALANA STARKE ROD CORK KEN SARGEANT | 136-162 |

