

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: Good morning. This is an Industry Commission public inquiry on Australia's international air services. My name is Richard Snape, presiding. On my right is my colleague, Helen Owens, who is a commissioner with the Industry Commission. Today we are continuing in Sydney the hearings which started in Sydney yesterday, and of course were in Melbourne last week. Just for the benefit of the transcript we ask participants to introduce themselves and to indicate in what capacity they appear.

We often, and in fact nearly always, use the information provided at the hearings in our reports, and so we ask participants to be as accurate as possible in their comments and answers. If there is any doubt about the accuracy of anything that is said then we would invite participants to try to get back to us or we'll try to get back in touch with you and get it verified one way or another. Transcripts from today and the other days' proceedings will be provided to all participants at the hearings. Anyone else wishing to obtain a copy should contact the staff. There are several staff members here today who are wearing name tags. I think we should get started.

We have Ansett with us this morning. Welcome. I would first of all ask you each to introduce yourselves so that we have your voices on the tape so the transcribers can sort you out, and us out. Then we'll ask whoever is to speak first to speak to the submission. But I would also invite you - since at least I know that some of you were here yesterday - if there was anything that was said yesterday on which you would want to comment then you might feel free to do that also. So over to you.

MR WALLACE: Craig Wallace. I'm the general manager, international, for Ansett Australia.

MS CATTY: Pamela Catty, I'm the director for corporate affairs for Ansett Australia.

MS BUTTSWORTH: Anne Buttsworth, manger, international and regulatory affairs, Ansett.

MR LA SPINA: Tino La Spina, commercial manager, international.

PROF SNAPE: Thank you.

MR WALLACE: Thank you. I thought it might be opportune perhaps just in terms of a couple of comments about yesterday's submissions to leave those till the end but I thought it appropriate perhaps just to start with a couple of opening comments, if I could, in support of the detailed submission that we have put forward. As a general opening statement, we at Ansett certainly support the existing system and support the continuation of what we see as the existing liberalisation of the current system. From an Ansett International perspective there have been enormous hurdles and indeed enormous costs associated with the start-up of our international airline and, as a start-up carrier, it has certainly been a challenging time.

Having said that, however, the existing system has enabled us to get a start and to consequently introduce competition internationally from Australian carriers. When I talk about "start-up" and "assistance" it also includes of course the IFC Act and the start-up provisions that are contained within that. Nevertheless, despite this, after 4 years or so of international flying, Ansett International still faces huge challenges; not challenges created by regulatory issues but just the sheer facts associated with the competitive environment, the reality of operating as an international carrier.

I think it is well-versed that we experienced significant losses the last financial year - in the order of \$46 million - and the half-year results to the end of December indicate that we are still doing it tough from a financial point of view. It is the challenge of limited rights to some extent but, as I mentioned, also the huge costs associated with entry of a new international carrier.

When I talk about the huge costs I am talking about the infrastructure costs, the costs associated at both ends of the route in terms of setting yourselves up, and of course the aircraft and all the technical requirements that go with that; competing against huge and successful airlines, as we do, in the Asian region, and there are a number of those; carriers such as the Cathays of the world, that have not only large capital reserves, access to more capital; they have the benefits already from being an existing international operator with the economies of scale that lead to efficiencies that lead to lower costs, their market presence and of course brand strength, as well.

All of this is at a time of course in the international arena when again it is well-versed that yields have been on the decline, as well, so it needs to be emphasised that whilst we are supportive of the system we have certainly had some challenging times over the first 4 years. We certainly believe clearly that the various markets on that basis based on our experience are very competitive and particularly so for a new start-up carrier.

However again we believe that the current bilateral system and the IFC Act have allowed us to make a start and, clearly, for that reason, enhanced competition. A continuation of the gradual liberalisation would, from our perspective, enable us to plan strategies ahead with confidence and enable us to overcome the substantial challenges that we face as a new start-up airline. We also recognise however that it needs to be flexible enough to respond to the broad changes in the international markets and specifically market-by-market in pursuit of Australia's best interests. Thank you.

PROF SNAPE: Thanks very much. Would anyone like to add at this stage? Okay, thank you very much. You have had quite a difficult entry and I suppose that from our perspective - and many of those as you were saying were in the nature of normal commercial risks, the strength of Cathay, for example, etcetera - I guess we are particularly interested in any views that you had as to what was in the regulatory framework which in fact made it more difficult for you or would be making it more difficult for you than it would have been. Now, some parts of that regulatory framework assisted you in getting launched, particularly, as you say, the preference

for new entrants, but would you like to highlight any particular regulatory impediments that you found that made it tougher for you than it might have been?

MR WALLACE: I think the main issue that I'm referring to is not one necessarily directly related to the regulations themselves but the issue of access to traffic rights, and as a start-up carrier we have said from the outset that we believe that our success will be to a large extent determined by issues which we believe are important; such as frequency, the ability to access markets based on for example minimum daily frequencies which are based around the business market's requirements and based around flexibility for wholesalers, etcetera, in terms of the leisure markets.

One of the challenges that we have experienced is our inability to obtain rights, for example to Hong Kong, to enable us to get to that daily frequency when we're competing against not only Australian carriers that are significant in that market but again Asian carriers that have enormous frequency, not only to the sole destination that we operate to in Australia in terms of Sydney but of course other markets in Australia as well, other destinations in Australia as well.

PROF SNAPE: Yes, so if we identify Hong Kong we say that there has been an inability to get slots into Hong Kong and also the constraints of the agreements with Hong Kong?

MR WALLACE: It is a combination of both. Firstly, the rights issue in terms of the ability to obtain not only the capacity but the additional frequencies as well, and certainly we believe that the slots issue is one reason as to the reason why we haven't been able to get to the daily frequencies that we need.

PROF SNAPE: Yes.

MR WALLACE: Of course the issue of slots is one where the changes will happen there with the opening of the new (indistinct) airport in the not too distant future.

PROF SNAPE: If we can just focus on not the slots but in fact on the agreements, how much have they constrained you in the start-up period?

MR WALLACE: Since the time that we were able to start flying internationally under the start-up provisions it enabled us to build frequency. We started with three a week, we moved to five, and as a start-up carrier with a gradual introduction that suited us, frankly, quite well. But there certainly has been a constraint since getting to the five a week in terms of our ability to move to seven, and we have also indicated that a desire not only to move to daily frequencies to Sydney but a desire in the medium term also to move to other destinations in Australia, as well - so the constraint has been not so much in terms of the initial frequencies but being able to get to the daily and secondary ports in Australia.

PROF SNAPE: Okay, so you wouldn't have wanted to start up with more than three and you were able to do that.

MR WALLACE: I think that was a good phased approach, yes.

PROF SNAPE: Yes, and then five, and at that time you weren't constrained either really.

MR WALLACE: Yes.

PROF SNAPE: You were constrained by going beyond five but in fact the Australian agreements were not relevant until perhaps then. Are you constrained to go to more than Sydney by the agreements, to go to Melbourne, as well, perhaps?

MR WALLACE: We would like to go to Melbourne.

PROF SNAPE: Yes.

MR WALLACE: At the present time the restraint is such that the frequencies are there. It was our call in terms of Sydney being the primary market for starters.

PROF SNAPE: So again it is not the regulatory restraint of Australia - - -

MR WALLACE: That's right, yes.

PROF SNAPE: - - - or the agreements which have - - -

MR WALLACE: Yes.

PROF SNAPE: So it would seem there has been relatively little constraint on your growth out of the air service agreement, as such?

MR WALLACE: I guess it depends on which way you want to look at that. From our point of view it has been a big restraint in terms of not being able to move to daily frequencies because we have said consistently that our viability, profitability, success on Hong Kong is ultimately not going to come to fruition until we are able to get to the daily frequency.

PROF SNAPE: But that really only started to bite fairly recently.

MR WALLACE: No. I mean from the time we were able to move to five we were keen to move on to seven straightaway.

PROF SNAPE: Which was when?

MR WALLACE: 95, I think. I can't give you the exact date - about 95. So it is something that has been there for some time. I think it also needs to be emphasised that the restraint or constraint that has been there has not been one existing from an

Australian perspective but rather from the Hong Kong side, where that has been the constraining factor, and the issue that has been outlined to us has been one of not only slots but also a desire to grow capacity in accordance with the market growth and - yes, that's the reason and the constraint from the Hong Kong end.

PROF SNAPE: I am trying to separate somewhat the slots from the agreement itself. Now, maybe that is not possible; maybe what is in the agreement is in part determined by the availability of slots.

MR WALLACE: And I think it is fair to say that the emphasis and the constraint that has been there has been based around capacity and frequency rather than the slots.

PROF SNAPE: Okay, so you could say that from about 95 onward you have had a constraint out of the agreement, as such.

MR WALLACE: Correct, yes.

MS BUTTSWORTH: But it is also fair to say that the Australian government has tried to persuade the Hong Kong authorities to increase capacity so that certainly we have had assistance from the Department of Transport in terms of pursuing our interests in relation to Hong Kong.

PROF SNAPE: Yes. I wasn't trying to at this stage to attribute blame; just look at the agreement as such, and we have been told that Hong Kong, despite being very liberal in many other regards, in their trade, is not so in the- - -

MS BUTTSWORTH: Yes.

PROF SNAPE: So it was not really a constraint of slots into Hong Kong, it was in fact - so even if you had been able to buy slots, if they were tradable, it wouldn't have made any difference because the capacity wasn't there in the agreement.

MR WALLACE: Indeed. I mean, history has shown from a practical point of view that if you can obtain the rights that the slots normally follow. It doesn't necessarily mean that the slots are at the time that you want them initially, but the slots tend to follow the rights.

PROF SNAPE: Okay, and the constraints on other ports in Australia is not currently because of the air service agreements but it is because you are just waiting for the market to develop more.

MR WALLACE: It's an issue of obtaining the rights to do more frequencies. From our point of view - - -

PROF SNAPE: More frequencies in total? Right.

MR WALLACE: Correct. From our point of view, Sydney was first port of call in Australia in terms of the biggest markets. We have also said clearly that having established ourselves on that route, the first priority is to get to dailies there and then we can begin to tackle secondary ports such as Melbourne. While I've used Hong Kong as an example, there is also constraint from our point of view in terms of access to Japan for example. We are operating daily now to Osaka - in fact the biggest operator on that route - but have for some time said that we are keen to tackle other markets in Japan. Obviously Tokyo is a bigger market than Osaka for example, and there's not presently the ability there for us to do so.

PROF SNAPE: Having mentioned Japan, do you expect to benefit from this withdrawal of services by ANA?

MR WALLACE: ANA's withdrawal of services is on the Tokyo route, not the Osaka route.

PROF SNAPE: Yes, I understand that.

MR WALLACE: So I don't believe that that's going to have, from our point of view, a significant impact one way or the other in terms of the Osaka-Australia route.

PROF SNAPE: You do have a relationship with ANA, do you?

MR WALLACE: ANA we have a relationship with, in that they are in the Ansett Global Awards Frequent Flyer program. ANA also do our handling for us up in Osaka.

PROF SNAPE: But you don't really expect to get anything more out of that?

MR WALLACE: No, we don't.

PROF SNAPE: That route, they're fairly high load factors to Tokyo, are they not?

MR WALLACE: I'm not aware of how All Nippon has been performing with their load factors. Clearly from their point of view it was a case of working out where best they could utilise the resource.

PROF SNAPE: I was thinking of what capacity there is available on the other carriers which would presumably, in the first instance, pick up what All Nippon would have been carrying.

MR WALLACE: Right.

PROF SNAPE: But I was wondering if there'd be a spillover into the other- - -

MR WALLACE: I'm not qualified to speak, given that we're not a carrier on that route. My guess is that there would be a spillover to other carriers on that particular route.

PROF SNAPE: But then also a spillover to Osaka.

MR WALLACE: I don't believe that would be the case with any significance, given the travel requirement between Narita Airport and Osaka.

MRS OWENS: Just going back to Hong Kong for a minute, what is Qantas's frequency into Hong Kong?

MR WALLACE: Qantas, 20-something, 23, 25, I think. It's pretty significant, and importantly - as I said, it's not only Sydney; it's secondary ports as well. You've got Cathay that are also 20-something, moving to double daily Sydneys for example in the not too distant future. So Cathay still have the capacity on the shelf that they're ramping up at the present time.

MRS OWENS: So do you support the grandfathering approaching of the IASC, or would you see that there would have been advantages to have some sort of other allocation at the IASC of those slots - capacity?

PROF SNAPE: Capacity, not slots.

MRS OWENS: Sorry.

MR WALLACE: I guess it's an issue of water under the bridge in some respects, that the grandfathering in terms of rights was an issue that we had a look at some time ago and weren't successful in being able to obtain rights from when that opportunity was there. We thought at that stage there were some fairly plausible arguments as to why competition would be enhanced by enabling Ansett to pick up rights under the grandfathering rights, but that was obviously deemed not appropriate, or not sufficient in terms of the benefits.

MRS OWENS: Can I ask you about the alliance proposal that you've got before the ACCC at the moment. I don't want to encroach into the ACCC's territory, but what is the advantage to you in having an alliance over having codesharing for example?

MR WALLACE: An alliance versus codesharing?

MRS OWENS: Yes.

MR WALLACE: That's a difficult question because alliances in most cases these days involve codesharing as well. Firstly talking about codesharing, from our point of view it has been, to this point in time, a way in which we have been able to justify starting to fly to new routes. It comes back to the frequency argument that I spoke about before, in that where we haven't had sufficient frequency or haven't been able to

justify flying in our own right a number of times a week as a start-up carrier, then having a codeshare arrangement with an existing operator on that route has enabled us to be able to build the frequency through the reservations systems. So it's been a structured and financial way in which we've been able to accommodate a startup, if you like.

If you then want to talk about alliances such as the All Nippon one, from our point of view we saw that that was a good way again to be able to access a market, to have the power of the strength of the Frequent Flyer program, but also to be seen to be working with a carrier that's already in place in the various markets, in this case in Osaka where there's an existing operation. We felt it appropriate to be working with another carrier there, rather than trying to compete with them in terms of the ground-handling. We had no desire, nor could we financially justify setting up our own ground-handling arrangements, for example.

MRS OWENS: So your submission says that through this proposed alliance you expect to reduce costs through a combination and rationalisation of services and resources in areas such as sales and marketing and fleet planning and joint procurement activities. They would be significant benefits to you?

MR WALLACE: Yes, they will be. We believe that there will be significant benefits that come from that, and I guess the alliance or the codeshares that I've been talking about are ones that have enabled us on specific routes to get a start on that route, where we wouldn't have been otherwise able to do so. What we're talking about there in terms of the submission is more about strategic alliances which give us a whole range of benefits, including the market presence and the global network coverage, etcetera, that we need to get, and the economies of scale, all of those issues that come with it, clearly based on global network rather than on one specific route and working with one carrier.

If you look at the need as time goes on for all international airlines in the world to look at global coverage, clearly for us an example of the Air New Zealand Singapore alliance gives us that. The networks that we have are virtually complementary, they're not overlaying it all, so that's where it differs from the All Nippon example, for example, up to Japan. It's a complementary network right across the board, and gives us that global reach, the market presence, plus all the benefits of the economies of scale, all the consumer benefits, the airline benefits, the trade benefits, etcetera, that come with that.

MRS OWENS: Would a merger achieve the same or better results than an alliance?

MR WALLACE: From our point of view, the alliance that we're talking about there will achieve everything that we wanted to achieve. I'm not really in a position to talk about mergers, frankly. All I can do is draw observations elsewhere in the world - the KLMs, the Northwests of the world - and from what you read there, it indicates that a merger or a shareholding does not necessarily mean that you are going to gain

the benefits that you get from an alliance, or indeed get better benefits than you would gain otherwise from an alliance.

PROF SNAPE: I suppose there is a very old type of merger called SAS, which some people might think sounds a little bit like Ansett and New Zealand. SAS certainly have been able to do it all as a single airline covering three countries - I think it's only three countries. Would the same option be there for Ansett and Air New Zealand?

MR WALLACE: I can't speak on behalf of shareholders obviously.

PROF SNAPE: Would you see a problem though, since SAS have been able to manage that and not to damage their bilateral agreements and work it into bilateral agreements, etcetera? Would that not provide a precedent for Ansett and Air New Zealand to do the same?

MR WALLACE: In terms of the bilateral agreements, I think there are really two issues involved there. One is that that's a government-to-government issue, as a first comment, and secondly, from the perspective of working day to day with Air New Zealand as time goes on, it's very clearly our objective to identify what opportunities there are by working with Air New Zealand, coming to a common conclusion on that, and then going back to the Australian government with that view on what we believe we can achieve collectively, and then you're back to the government-to-government situation if it's deemed appropriate to move further from there.

MS CATTY: I think if I could just add there - and again without wanting to trample on any shareholder issues - from our perspective, from a day-to-day working cooperatively with Air New Zealand, there's nothing that we can't do as a result of the commercial relationship that we want to do, other than that which we've applied to the ACCC for, which we would need to do anyway.

PROF SNAPE: On the codeshares, switching to the other end of the codeshares, Helen was speaking about the codeshares that you are doing abroad, etcetera. Every time I fly to Canberra from Melbourne I'm flying also on a United and a Malaysian flight. What are the constraints on other airlines codesharing on to you? What regulatory constraints are there?

MR WALLACE: The regulatory constraints?

PROF SNAPE: On the domestic, I mean.

MR WALLACE: Yes, I understand what you're saying. The constraint that is there would be within the ASAs where the destination would need to be covered within the ASA basically. So in other words, in the Canberra example, it would either need to specify Canberra or be within the number of possible destinations limited within the ASA, and if that's the case, then the codeshare can apply.

MS BUTTSWORTH: The ASA needs to specify the right to codeshare behind the gateway points. So there has to be a specific inclusion in the ASA before an airline could do that.

PROF SNAPE: It is a specific inclusion.

MS BUTTSWORTH: Yes.

PROF SNAPE: Not a specific exclusion.

MS BUTTSWORTH: It's a specific inclusion.

MR WALLACE: It would need to be included in the agreement.

MS BUTTSWORTH: Yes, that there's domestic codesharing.

PROF SNAPE: Okay, and that would in fact include non-international ports as well as international - you see, Canberra is not an international- - -

MS BUTTSWORTH: Yes, it's codesharing domestically on an Australian carrier behind the gateway points, and so the Australian government's position in recent negotiations is to try and negotiate very liberal codesharing arrangements, as we said in our submission, and that would include domestic codesharing provisions.

MRS OWENS: The other alternative domestically is to have cabotage, and I think your submission supports the retention of the current arrangements on cabotage. Have you got any views as to allowing more of the international airlines to carry just their own passengers between ports in Australia? It's already allowed in some agreements. Is that a problem for you?

MR WALLACE: Yes, it is already covered in a number of agreements, on a stopover rights basis, and whilst it's not the ideal, I guess it's fair to say that we're accepting of that position but certainly have very strong views in terms of the issue of cabotage rights obviously. We see that as a much different situation to the stopover rights issue that currently exists, and the issue from our point of view is clearly one of, frankly, cherry picking. Collectively Ansett and Qantas have invested enormously in the infrastructure within Australia, and using Sydney Airport as an example, not only for the benefit of the airlines but for the whole economy. With the build-up to the Sydney 2000 Olympics and its requirements, I think collectively the Australian carriers are putting the best part of half a billion dollars into the infrastructure, just at Sydney Airport alone.

PROF SNAPE: That was billion, was it?

MR WALLACE: Half a billion, yes.

PROF SNAPE: Yes, I wasn't quite clear if you said million or billion.

MR WALLACE: It was billion, believe me. For that reason, we have a lot of trouble accepting a view that suggests that international carriers would have the ability to come in and cherry pick the main trunk routes where the high volume passengers are, and being able to do it in such a way that they could undercut pricing significantly because they don't have the same cost implications that we do by way of the infrastructure costs. So that from our point of view is a major issue.

MRS OWENS: Do you think Australian consumers would actually avail themselves of those services if they were available?

MR WALLACE: I guess that ultimately is a question of price, isn't it. And, as I say, if it was available to international carriers and they don't have the cost structures that we do, then they have the potential to move down significantly in terms of price.

PROF SNAPE: What about the more remote ports?

MR WALLACE: That becomes an issue because, whilst every airline wants to look at route profitability on a route-by-route basis, it's also recognised that it's a balanced equation, and that for us means that, by being able to operate more profitably on high-volume routes, we're able to justify operating to thinner routes - routes that are marginal, or marginally profitable - and if suddenly the high-volume routes become less profitable or not profitable, then we have to go back and look pretty hard at those routes on the network that previously were deemed to be marginal.

PROF SNAPE: I was looking at it the other way around, and in fact passenger cabotage, conveyed - by an international carrier on some of the more remote routes, particularly in the north and north-west.

MR WALLACE: I think our view of that clearly is that we have put, again, an enormous investment into Western Australia as a whole over a very long period of time, over decades, and the structure that we have in place there is not just about separating aircraft and flying to individual routes, it's about a total infrastructure within Western Australia. It involves not just aircraft but engineering facilities in Perth, etcetera, and if we envisage a situation where suddenly international carriers were able to cherry-pick some of those routes, it would question the whole viability of that total infrastructure that we had in Western Australia. In that case I would suggest it would impact not only on us looking at the viability of that particular route, but a number of other routes around it as well, as to whether we would be able to continue flying on those other routes.

MRS OWENS: Would it jeopardise the viability of the domestic operations in total, or would you still be able to survive?

MR WALLACE: That's a difficult question to answer. That really is quite a complex financial evaluation to go through.

PROF SNAPE: Put it the other way, what if it was the way you were describing it before where you were just covering marginal costs on some of these very thin routes?

MS CATTY: I mean, something as simple as an increase in aeronautical charges for the smaller ports can make - I won't use any names, it's too simple to name a town and for it to suddenly be in the headlines that we might not fly there - the difference between a viable route and a non-viable route.

PROF SNAPE: Yes.

MS CATTY: So theoretically, if it was a small community somewhere that we have a lot of infrastructure in and it becomes unprofitable, and we reduce our operation in that community because a new airline comes in, the economy takes a downturn, and that airline pulls out, I think the risk that we present is to the community, and whether we perhaps might leave them without a service because there isn't that loyalty to the community, not just to the flying in and out.

PROF SNAPE: Yes. I suppose it's the sort of picture that one is presented with in the west at times, that there are a whole lot of international tourists in Bali who would quite like to hop over to Australia for a short time, not to Sydney or to Melbourne, but rather to the west and to the north-west, and perhaps to Perth also, and if they could have that as an extension of their international ticket with the same carrier or whatever, so it would be marginally costed on their ticket - perhaps not costing much more at all - then that would in fact act as a great boost for those areas.

Whereas currently if they want to go up to the north-west they may have to fly to Perth and then take a domestic flight at the much greater cost that it would be up to there, and they are arguing that that would provide a boost for it, and if that could become viable for international carriers, if in fact they could pick up some local passengers as well, or be flying them from the north-west to Perth, some perhaps triangular route.

MR WALLACE: And I think the passengers can access the north-west over Darwin, for example, but my earlier comments stand, that it would put into question the whole viability of a number of routes in the north-west of Western Australia, from our point of view.

PROF SNAPE: Even if it generated, in fact, a lot of additional new traffic that you wouldn't have been picking up as much - anything out of that that might compensate from what you were losing directly?

MR WALLACE: You argue that it doesn't have an impact. I'm sure it would have some impact on passenger numbers. I'm certainly sure that it would have an impact on fares in the area as well.

PROF SNAPE: That is, it would decrease them?

MR WALLACE: On the basis of the marginal costing that we talk about under cabotage arrangements then, yes, that's exactly right.

PROF SNAPE: Yes.

MR WALLACE: Again, it would then flow-on in impact on us needing to look at the viability of the network that we operate in the north-west.

PROF SNAPE: Yes. Could I switch to cabotage freight, the international cabotage by international carriers of freight instead of passengers. Do you have any problem with that?

MR WALLACE: I think the same principle applies on the freight issue. We have recognised that there has been significant liberalisation, and in fact huge capacity increases have taken place into and out of Australia over recent times. In terms of the cabotage issue, I think it needs to be documented that freight revenue is a very significant and very important part of the profitability and financial viability of airlines, and it doesn't just apply internationally, but also as much domestically as well. Cabotage from a freight point of view would have exactly the same impact on the carriage of domestic freight as it would for the passenger side of things.

To quote you one example, Hong Kong freight revenue generates something in the order of 10 to 12 per cent of our total revenue. I can't quote you the figure domestically, but if you think about the significance of that, if you start to jeopardise that then it really has a major impact on the viability of the services.

PROF SNAPE: It was rather more within Australian freight that I'm talking about and thinking about, and while we had a very good explanation yesterday afternoon that the freight requirements for a 767 are not the same as for a 747 - and I think I understand that now - nevertheless there may be ports at which at the moment there has to be restacking of freight because of the nature of the planes that are calling there on the domestic services, and in fact if an international carrier could carrier it domestically it would then be loaded appropriately to start off with on the plane for the 747 that it's going internationally on. So it may just make a much better service than is currently available because of the nature of the domestic aircraft into some ports.

MR WALLACE: The same issue still stands, I think. We would see it as a question of questioning the viability and the revenue generation from a freight point of view. I mean, you raise the issue of service, and from our point of view we believe that the service that's provided from a freight point of view is very good, frankly. You also have all of the infrastructure requirements associated with freight, as you do with passengers as well, and you also have the timeliness as well. One of the benefits that's there at the present time is the frequency of services operated by domestic

carriers, and the ability to move it on a timely basis for freight such as perishables that don't exist to the same extent with international carriers.

PROF SNAPE: Okay. I suppose if you are actually trying to get it on a particular plane, and if you're aiming at a particular time, you know when that plane is going to go, whether it's domestic or international. It would be right to say there are more options domestically, but I guess what is important is that the plane is there when you want it to be.

MR WALLACE: Right.

PROF SNAPE: Or when you expect it to be, I should say.

MRS OWENS: One of our participants yesterday was Federal Express, and they have suggested that there are quite significant constraints still on their operations for dedicated freight into and out of Australia because of the air service agreement - the ATA with the United States - and there was a suggestion that for dedicated freight there should be some liberalisation within the agreements. Is that something you have a view on?

MS BUTTSWORTH: Australia has been negotiating extremely liberal agreements in terms of freight. That has been its policy. In a sense, the airlines have accepted that. The Federal Express representative made reference to a draft freight agreement that the Australian Department of Transport had sent to the US Department of Transport which he said was more restrictive, I think, than the current arrangements, and inferred that the Australian airlines had had something to do with that. In fact the Australian airlines weren't consulted and the first I knew of it was when I read it in his submission.

MRS OWENS: You don't have any idea where the push for that came from?

MS BUTTSWORTH: I have no idea. Well, I'm sure it came from the Australian Department of Transport, and I'm surprised given their track record that they sent an agreement to the United States that was less restrictive than what exists at the moment.

MRS OWENS: More restrictive?

MS BUTTSWORTH: More restrictive, yes. In fact, as the Qantas person said yesterday, the existing agreement with the United States is pretty silent on freight. But I would have to look at what the Department of Transport sent before I could make a comment on that.

MRS OWENS: We can talk to them about it tomorrow.

PROF SNAPE: I suppose one of the characteristics of that agreement is the route specification - the three routes that they specify.

MS BUTTSWORTH: Yes.

PROF SNAPE: If that route specification was relaxed would that adversely affect you?

MR WALLACE: I think that's something that we'd have to have a look at, frankly. It's a specific issue that we'd need to go away and consider.

PROF SNAPE: You are supportive of liberalisation, but on a fairly restricted basis really. You're opposed to across-the-board open skies policy, and that's fair enough, and it seems a very cautious approach which you're putting there. How would you react to the sort of idea that I have been suggesting to a number of participants of an open club with the open skies-type of agreement that the United States has got as a template - and really had with several countries? Would you have a problem if those countries with which the US has these agreement got together and Australia was to become a member of that open skies club, and then it would be an open club that any other country could join in similar terms?

That's a way, it seems to me, that one might go with progressive liberalisation, so that you're not jumping into a full multilateral liberalisation, you're not doing it unilaterally, you're doing it on a reciprocal basis with a group of countries, and so you've got a club of open skies, along the pattern of the US - and obviously cabotage is not on the table at the moment, so the open skies on the US pattern - and for Australia to be joining such a club, which one could think would have NewZealand and Malaysia and Singapore in it, as well as the United States, within our area as they have all got open skies agreements, some of them with each other.

It may go further than that to embrace some of the European countries that are in it, which are presumably not relevant to you with your current schedules. Would you endorse that, or would you see a problem with that type of approach?

MR WALLACE: I think it's a logical extension of the gradual liberalisation in any case, so I think as a long-term objective that's quite plausible. As a desired outcome ultimately, again in the longer term, it's one that wouldn't present us with too many problems.

PROF SNAPE: Particularly if you have got your alliance, I guess.

MR WALLACE: I understand, yes.

PROF SNAPE: Let's assume you have got your alliance.

MS CATTY: We daren't assume that.

MR WALLACE: Yes, we daren't assume anything.

PROF SNAPE: Hypothetically.

MS CATTY: Until Qantas and British Airways have put their submission in.

MR WALLACE: So yes, as a long-term objective I think that it's something that could be worked on. Obviously, as I said, the continual liberalisation would be working towards that. It would require a lot of coordination with a range of countries and for that reason would have to be a staged approach over a long period of time to be achieved in any case, and on the basis that it is bilateral open skies, and that applies to all of the countries in the club.

PROF SNAPE: Pluralateral within the club.

MR WALLACE: Yes. Then that's fine. I guess the other issue we need to raise also is that you need to consider the issue of beyond rights, or third country rights as well. To use the example of the US as you have, it needs to make sure that it takes account of, as I say, beyond rights or third country rights. The example there is Japan where, if you have open skies - the US has the ability obviously to operate to Japan, and the ability within the ASA to operate Japan-Australia. We do not have the equivalent of that, if you like, at the present time. So we can have the agreement we want to have with the US but it does not give us the ability to operate to Japan and in fact beyond Japan to the US and return. So it would need to take account of the beyond or the third country issue there as well to make sure that there is a true bilateral reciprocal arrangement in place.

PROF SNAPE: But that's even more that the European Union has got. The EU doesn't have beyond rights for EU carriers, does it?

MS BUTTSWORTH: No, what the US would have with Japan is a right to fly beyond Japan to Australia.

PROF SNAPE: I understand.

MS BUTTSWORTH: If we had an open agreement with the US we would allow them to trade in the Japanese market for example, so they would effectively be on the Japan-Australia route. If we didn't have an open skies agreement with Japan we would still have the capacity constraints that we have with Japan, therefore the Australian carriers couldn't expand nor could they sell in the Japanese market to fly beyond Japan to the US. That would be our concern; that you would have - well, that is a particular example, but our concern would be with open skies; that because you need agreement from third countries, that one partner in an open skies agreement may have significant advantages over the other partner because of rights required by third countries.

So we would be concerned with your template that everyone within this club really had equal rights, that some weren't significantly restricted from operating by agreements with third countries.

PROF SNAPE: Yes.

MRS OWENS: It's interesting that the Air New Zealand submission has put up this particular suggestion. You might like to look at it at some stage, it's in paragraph 7.6. It's a similar suggestion to Richard's. They actually argue against a broader multilateral approach because they say it may lead to lowest common denominator. But then they go on to say that there could be a smaller, perhaps subregional grouping of like-minded economies that could forge a liberal multilateral agreement.

New Zealand negotiators have had preliminary discussion with their open skies partners on adopting a pluralateral approach to this objective which would provide for further economies to join as and when they were ready. They have also got another proposal. But did you know that this was happening at the New Zealand end?

MR WALLACE: I wasn't aware of that concept or those discussions taking place, no.

MRS OWENS: Okay. It might be useful if you would come back to us on that issue.

MR WALLACE: We would be happy to do so, yes.

MRS OWENS: They also said there is another approach that could be adopted which might attract a wider grouping, and that's to formulate an APEC accord limited to certain aspects in which all could agree to adopt a liberal position with a view to adding others over time. So it's a different sort of approach. I don't know if you would care to comment now or just take it on notice.

MR WALLACE: I think we have actually made mention of that ourselves in the submission.

MRS OWENS: Okay.

PROF SNAPE: The APEC as a whole it seems to me to have some problems, particularly with the expanded membership of the APEC, and it's a little bit difficult to envisage that that could be as liberal a proposal as the one which is the more restricted than of the open club variety. It could in fact be APEC country-based with the members of APEC, with a just a subset of them, agreeing to do it with the possibility of any others joining or could it be beyond that?

MS BUTTSWORTH: But I think our position still stands, that while we can see the benefits there are also downsides if there are significant third country barriers, and we would need to, from our perspective, weigh the pluses and the minuses. You know, if Hong Kong were part of it that would be a different matter. If Hong Kong continued to restrict capacity for Ansett we would have to look at whether the negatives outweighed the positives.

PROF SNAPE: Yes, it would certainly do that, but are you thinking of capacity into Hong Kong or the beyond rights from Hong Kong?

MS BUTTSWORTH: Well, it's both really, because an open skies agreement normally says there will be open capacity arrangements, unrestricted capacity, unrestricted intermediate and beyond points. So it's all of that.

PROF SNAPE: Ansett hasn't sought beyond rights, with one exception so far, if I'm correct. Am I correct?

MR WALLACE: Yes.

PROF SNAPE: The only beyond one you have got is - - -

MR WALLACE: Jakarta-Kuala Lumpur.

PROF SNAPE: - - - is Jakarta-KL.

MR WALLACE: On to Malaysia. Yes, that's correct.

PROF SNAPE: You have in fact made quite a point of point to point.

MS BUTTSWORTH: Yes.

MR WALLACE: Yes, we have certainly focused on the third and fourth freedom traffic as the initial focus for us as a new international carrier. I think the point that needs to be made is we can talk about open skies all we like but we need to put a reality check on that as well, and if you use Hong Kong as an example, based on what I was saying earlier on in terms of the inability to even get to daily frequencies, then we have as an ultimate objective, yes, it's there but it's going to be a long journey to get, for example, Hong Kong to really get to a position to be able to accept open skies let alone beyond rights.

PROF SNAPE: Yes. On the other hand if one was to form a club without Hong Kong, and let us suppose this open skies club included, as well as - the United States I guess would have to be a member - but Australia, New Zealand, Singapore and Malaysia, then that could put a lot of pressure on Hong Kong.

MR WALLACE: Yes, it would.

PROF SNAPE: One of the advantages of this progressive thing is the pressure it puts on those who haven't joined the club. With that sort of scenario - and throw the Philippines in there as well perhaps - it could be that Hong Kong would feel so much pressure that they would say they would have to join.

MR WALLACE: I think you're probably quite right in what you're saying, and again it's a staged approach country by country, and as the momentum increased it's something that could be worked to as a long-term objective, yes.

PROF SNAPE: So the thrust of that is you don't have to think of who's not in it and hold back because they're not in because the pressure of going ahead may get them to join.

MR WALLACE: We will certainly take up your suggestion in terms of coming back with a considered response on that one.

MRS OWENS: Can I raise another issue that you mentioned in your submission on page 28, and that relates to tariff setting. You make the interesting suggestion that inclusion of tariff provisions in ASA is unnecessary, and refer to an options paper for more competitive air services with fair and equitable opportunity which is as produced by the APEC transportation working group, and you said you support this particular proposal. What exactly are you supporting? What are they suggesting should happen?

MS BUTTSWORTH: Well, they are basically suggesting that there is no requirement to file formal fares, so it would do away with the administrative requirement that exists at the moment.

MRS OWENS: Would that have an effect on IATA responsibilities?

MS BUTTSWORTH: You would still need IATA to sort out prorate agreements and whatever.

MR WALLACE: I would think it wouldn't have an impact. You would still need IATA's involvement in terms of fares, as they apply to multiple airlines, multiple countries, but also the issue of the proration of the fares as well, which are based on the fares that are set by IATA. So there would still be a need to have that in place, I would suggest.

MRS OWENS: Why? What's the argument? Is it for interlining?

MR LA SPINA: If I can just add to that, where you have got fares like global fares which combine a number of carriers, the question becomes how much does each carrier get for the sector that they have operated. Now, there's a number of proration methodologies and one of them is to prorate it based on an agreed level per sector. So that's the job of the central body - IATA, I suppose - and I suppose that's a separate issue from having to formally file fares in a particular country.

MRS OWENS: Yes.

MR LA SPINA: So we see that as two different issues.

MRS OWENS: Yes, they're two issues but they are connected.

PROF SNAPE: But if I could ask on that, the fares that are filed, what relation do they bear to the IATA ones? Not much, I think we were told yesterday.

MR LA SPINA: Yes. What you actually charge your customer at the end of the day and what is filed in the country are two completely different - -

PROF SNAPE: Yes, but what about the IATA fares and the filed fares?

MRS OWENS: Is there any relationship?

MR LA SPINA: They're exactly the same thing.

PROF SNAPE: So you file the IATA-agreed fares but they don't have any relation to what you're charging.

MR LA SPINA: No, not at all. So what they're used for is to be put into a complex formula, if you like, to work out what each carrier's share of a combined - -

MRS OWENS: So it's not the absolute fare that's important, it's the relative fares to the different bits of the route.

MR LA SPINA: Correct. Exactly right.

MRS OWENS: And that's a more efficient way of doing that allocation, if you have got - - -

MR WALLACE: That's exactly what the allocation - - -

MR LA SPINA: Correct.

MRS OWENS: Rather than all having to negotiate on a route-by-route basis, airline by airline, it's to try and sort of have some rationality at that end. But then the tariffs in the air service agreements don't have any bearing on reality, do they? That's why you're arguing you don't really need them.

MS BUTTSWORTH: Yes.

MR WALLACE: That's correct.

MR LA SPINA: You would have to say that there is a very small proportion of fares that are sold at the published level, at the gross level - a minute level. If we were charging those fares I would suggest that - - -

MS BUTTSWORTH: We would be okay.

MR LA SPINA: Yes.

MR WALLACE: And the reality of the competitive environment is that you need to be able to move fares from day to day to meet the market needs and the movements in the market, and the process of having to go through filing for formal fares, etcetera, really makes it quite difficult if that requirement is to be met.

PROF SNAPE: All that matters really is the proportions, not the levels. So if you have got a fare which is an IATA fare, which is say going - if you're flying to Nice and you're flying say to Frankfurt and then to Nice on a different airline and it's interlined, then all is relevant. You'll get some figures on your ticket which - -

MR WALLACE: The fare that the customer has paid may well be - - -

PROF SNAPE: It's the broad portion that matters.

MR WALLACE: Exactly. It's how it's split between the alliance.

MR LA SPINA: I suggest that it's probably a complex matter that we should have perhaps put something together on and forwarded to you just for clarification. We can put it together. It is complicated, and we could talk about it for ages here.

PROF SNAPE: Okay. Charters. Often it's said that charters are used as a way for exploring a new route, but you didn't actually use that procedure, did you? You just jumped in and put on scheduled services.

MR WALLACE: I would like to think we did a little more than jump in in terms of planning but I think the scheduled services operated by carriers certainly differs significantly from charter services, and on the basis of the airline that already existed, Ansett Australia recognised from our point of view that we're in the business of regular passenger services rather than the charter operators, and a belief that if we are going to be in a market then we want to be in the market in a significant way, hence the frequency that I spoke about earlier on, and knowing that we need to generate significant revenue to cover the costs of all the infrastructure that goes with that.

So it was a deliberate decision to go down the track of the frequency and the regular services rather than a charter concept and, as I say, that is partly based on our experience in Australia already, but also the fact that we have an existing airline, existing brand and existing market presence in Australia, and to then consider charter operations would have confused, frankly, all the strengths that we had built over the previous 60-odd years.

PROF SNAPE: I suppose also that your routes were all, too, well-known. They were well-known routes. It wasn't as if it was a new route that you were - - -

MR WALLACE: Well-known and well-established routes, yes, that's right.

PROF SNAPE: Yes, in contrast with Qantas going to Sapporo which they, I think, explored with a charter before they - - -

MR WALLACE: Yes. For the reasons that I have spoken about, we also have a view about charter operators that causes us some concern. I am not aware of a situation where the Australian government has said no to a charter operator requesting flights into Australia but our view is that, given we have made the commitment with frequency and the infrastructure and the cost and everything else that goes with that, then we would view charter operations probably not dissimilar to what I said before about cabotage in terms of cherry-picking. We have made the big infrastructure cost up-front. We're there in the good times and the bad times. In other words, we're there in the off-peak as well as the peak times and have some trouble accepting other carriers that will come in in the peak times and not be there in the off-peak times when we have made the commitment to be there year round.

PROF SNAPE: Do you cancel at all on international routes if a particular flight is not heavily booked?

MR WALLACE: No, we don't. We recognise that we're in these markets for the long haul and that we have got credibility to build and maintain and so it is certainly not part of Ansett's policy to cancel flights when the loads aren't there, and I could certainly provide you with plenty of evidence over the history of the last 4 years where we would have had loads that might have made people question it. So the commitment is there and we stand by that commitment.

PROF SNAPE: It sometimes seems to happen domestically, but I know that you're Ansett International so that's perhaps an unfair point- - -

MS CATTY: It is certainly the policy domestically too that we don't cancel flights because load factors are down. Flights do get cancelled but if that's the case it would either be through congestion in Sydney or technical problems, but we go out of our way to try not to cancel flights.

MR WALLACE: Talking about the peak and the off-peak, I think it's also important to understand that we have the ability - we, the carriers, collectively - to apply for and are almost always granted the ability to do supplementary flights over the peak season to handle the additional demand that is there and we certainly do that. I mean, Chinese New Year, we went through in January with additional services during that peak time to Hong Kong, and to Japan with Golden Week, for example. We put on the additional services where the demand is there.

PROF SNAPE: What is the difference between that and a charter?

MR WALLACE: From our point of view it is supplementary services - in other words, being provided by carriers that already have significant frequency in the market

being operated by similar aircraft, similar configuration, etcetera, there - and utilising the existing infrastructure that we have invested within those markets.

PROF SNAPE: At what stage is it typically that that will be added? I mean, presumably you have to get permission for that some time in advance so it can't be that you're booking for next week and suddenly you find the plane is full and so you decide to put another one on.

MR WALLACE: That is correct. I mean, the normal booking patterns would be such that we would want to be in the marketplace, depending on which market, probably 3 to 4 months at a minimum in advance, and it's a requirement not only to get approval for the supplementaries but, of course, to obtain things such as airport slots to be able to operate those additional flights as well.

PROF SNAPE: Yes. How long ahead does that approval have to be given? How long does it take you to get that approval?

MR LA SPINA: It certainly hasn't been an inhibiting factor to us operating any supplementary services at all so there is no real problem there. The rights to operate supplementary services are there for carriers that currently have rights on a particular route so it is recognised that it's a couple of times during the year, so you can't actually mount a supplementary service 365 days a year or something like that. It's obviously - - -

PROF SNAPE: But you get the permission pretty quickly.

MR LA SPINA: Yes.

MR WALLACE: We certainly haven't had any problems with getting permission to operate supplementary - - -

PROF SNAPE: But if you get the slots too, which means that - - -

MR WALLACE: The main time constraint tends to be availability of slots or approval to obtain slots to do the supplementary services, frankly. That's what takes more time.

PROF SNAPE: But seeing that is going to be a peak time for the airport that you're going to, at least at one end, then that really suggests there is excess capacity. If we're talking about Hong Kong, it really says there isn't a slot constraint.

MS BUTTSWORTH: It depends what time, doesn't it? I mean, you can get slots at pretty unattractive times.

MR WALLACE: Yes, and that's normally the situation. I mean, every airline endeavours to obtain the slots in the peak times and I think when you're running the supplementaries, given that you would already be operating on that day to your

normal scheduled time in any case, that the slots that tend to become available are the ones that are outside the normal peak times.

MR LA SPINA: You need to look at it on a case-by-case basis but sometimes when we want to talk about a supplementary, say, Hong Kong-Sydney, we have actually been able to segment the market and work out those passengers that are wishing to go to Cairns so we will actually operate the supplementary flight Hong Kong-Cairns and not have a problem with slots in Cairns necessarily. So there are ways to work around it and that becomes the bigger hurdle, not necessarily- - -

PROF SNAPE: It was the slots in Hong Kong I was thinking about, rather than the slots in Cairns.

MS BUTTSWORTH: Again, it depends on when you want to operate.

MR LA SPINA: There have been occasions where we haven't been able to operate because of the slots in Hong Kong, but it is a slots issue, it is not a rights issue.

PROF SNAPE: I was going to ask you about your attitude to charter but you have answered that.

MRS OWENS: I was going to ask you about the section of your submission which goes into what are Australia's interests and you have got a very interesting discussion there about the different groups that need to be considered in what we're now thinking about right now. As you know, the commission does have to take a broader economy-wide view and you talk about three main groups affected: the consumers or travellers, the airlines, and the tourism industry. I presume when you're talking about Australian consumers you're also talking about Australian industry there. Is that right? I mean, you don't specifically mention Australian industry that would be using airline capacity for freight or for business travel, so does business get lumped into consumers, or is that an oversight?

MS BUTTSWORTH: I think that we would certainly see the business travel as being lumped in with Australian consumers or travellers. You know, perhaps we could have separated out freight or separated out trade issues and we haven't done that, so that we would see them as included with the consumers.

MRS OWENS: Right, and you make a point that Australia's interests are best served by a less liberal environment - this is on page 53 - and higher fares and profits. I can see the argument, from your perspective, about profits. I suppose the swings and roundabouts on profits - it depends whose profits and where they go, and that comes back to who owns the airline and what happens to profits. Higher fares: that comes back to your argument about whether routes are predominantly used by Australians or foreigners. What about the issue of freight? In terms of your logic, where does freight come into this? Does it affect the conclusions?

MS BUTTSWORTH: Our view on freight, as we have said in another part of the submission, is that freight rates out of Australia are some of the lowest in the world. We don't see that - that to some extent, that freight is a real issue; that there's a significant capacity, that the Australian government has a very liberal approach to negotiating freight rights - clearly, some of those dedicated freight rights haven't been taken up and presumably that is a commercial decision by freighters, and one of the reasons for that is probably that the rates are very low and that there isn't a commercial return.

I think this analysis is not necessarily - this is what Ansett's view is - but what we're saying is that you can't categorically say liberalisation is good for Australia, or open skies is good for Australia; that there are a number of different interests, that there are different economics depending on what route you're looking at, and that if you really are looking at the net benefit for Australia, you need to look at it on a route-by-route basis, so this is really an argument in support of saying that there - that if you want to look at it in terms of net benefit to Australia, there isn't a simple answer; that you really need to analyse it on a case-by-case basis.

That doesn't necessarily mean that that's what Ansett's position is, because we have come out and said that we support continuing liberalisation. I mean, if we adhered to this model, we could well argue that on some routes the policy should be quite restrictive. Now, we haven't done that.

MRS OWENS: But you do conclude later on that airlines as a group will lose from open skies, which is a fairly definite position, and I read it as being an Ansett position. You're saying that if there's open skies, overall all airlines are going to lose out, and I wonder whether that's really going to be the case. I would presume if there was an open skies type arrangement - this is globally - that eventually you could end up with more competition, greater efficiencies, more traffic overall and you could actually get more use of international air services generally, and maybe airlines as a group mightn't. I don't know. We have to think this through. I saw that as a fairly definite sort of position, making an assumption that the losses from open skies would outweigh the gains.

MS BUTTSWORTH: I think there we're still arguing that it should be looked at on a case-by-case basis. We are assuming that the bilateral system remains and so that if you have a general policy of negotiating open skies agreements, unless you have, as we said before, the third country liberalisation, Australian airlines could well lose.

MRS OWENS: No, but you say that some airlines could gain, but I didn't read - this was on page 58. I don't know whether you're just referring to airlines as a group, as Australian airlines is a group, or whether you're talking more generally.

MS BUTTSWORTH: Is this where we're talking about a unilateral approach?

MRS OWENS: Yes.

MS BUTTSWORTH: What we're saying is that if Australia unilaterally opened its skies without regard to what other countries were doing, that we would see that, yes, as a very significant detriment to Australian airlines. We believe that there would be no leverage at all for countries to which we don't have access at the moment or sufficient access to change and therefore all the growth would be available to foreign carriers and none to Australian carriers.

MRS OWENS: Yes, I don't know if you would - this section was on open skies which wasn't about unilateral- - -

MR WALLACE: It was certainly intended in the context of unilateral.

MRS OWENS: Was it? Okay.

MR WALLACE: Yes.

MS BUTTSWORTH: I think it does say on 58 "unilateral".

PROF SNAPE: We can turn it around the other way, of course: if the other countries are opening their skies and Australia isn't, then what?

MR WALLACE: That's an interesting scenario. My guess is, in that situation, probably end up with bilateral open skies in any case. I'm not aware of any situations where other countries have in place or are intending to put in place a unilateral open skies.

PROF SNAPE: No, nothing unilateral.

MR WALLACE: Yes, so I mean I think if we were to contemplate it, we would be a first, frankly, and you would also have to question why you would do that, but to take Anne's point, I mean, it not only means we have lost any point of leverage, but frankly over a period of time we would be swamped. I mean, when I spoke earlier about our five frequencies a week to Hong Kong and how many Cathay have got, for example - and we would be constrained and they would continue to grow to the point where I don't believe we would be able to compete effectively and potentially would have to consider walking away so - - -

MS CATTY: Or certainly never have started.

MR WALLACE: Yes, exactly.

PROF SNAPE: There is, I suppose, the point that I made yesterday afternoon that we have always got the leverage of being able to retreat from the unilateral open skies but you can always say that if you're - you know, it was the point I was making yesterday that if you have in fact decided to go unilateral open skies and you then say, well, the people at the other end can then close you out, that you can always threaten in fact to go back and restrict them if they do that, so you haven't given away all your

leverage by going to unilateral, because you've always got the option of going back into restricted agreement.

MR WALLACE: And that's quite right, but my view of that is we have given the farm away, and now we're asking for it back, rather than using a point of leverage up-front.

MR LA SPINA: Can I also make the point that the amount that an airline can lose in a particular week is significant enough, and the time lag between taking it away and giving it back is significant enough to make an airline lose quite a bit in a short space of time. It's not unusual to lose large sums of money in short periods of time. It's the ability of Australia to be able to react quickly enough to make sure that we're not left exposed for an amount of time.

MS CATTY: And the consequence of that is not just that Ansett International pulls off Hong Kong because it can no longer survive on it, it actually means people lose their jobs, and you wind back infrastructure, and I'm not sure that it's realistic to suggest that you win that back. You then tell Hong Kong that you're changing the rules again. To expect an airline to keep reinvesting that kind of money I think is not terribly realistic.

MR WALLACE: There's enough uncertainty in the industry without adding that sort of thing.

PROF SNAPE: Yes. Well, that may be, but my point was simply that people say, "If we give something unilaterally, we've given away all our negotiating power." That's not so, because one can always withdraw from that unilateral liberalisation position, and one can make it very explicit that if certain things happen, one will withdraw from it, and one hasn't given away all one's negotiating power, and in contemplating those options, as I read it, it isn't a valid argument to be saying, "We've given it all away," when in fact one can easily design an agreement and a position that in fact says, "You do such and such and such, then we'll do so and so." You've still got that, and so in contemplating those options, one should I think take that into account.

MR WALLACE: Yes, I understand where you're coming from, and the concern I would have is that in the meantime, whilst we were talking to the Australian Department of Transport about the need to pull it back - the unilateral open skies - financially we would be feeling a lot of pain. It's not costless.

PROF SNAPE: Could I go to another point that I've been raising with some other participants, and that is if one is approaching a situation where there's capacity constraints at Sydney, and those constraints for various reasons have been tightened rather than loosened in recent times, and the proximity of when they might bite has therefore come closer in time than otherwise it might have, what would your reaction be with the sort of grandfathering of slots that one has at the moment, in fact to be able to engage in selling those slots - buying or selling those slots?

In other words, rather better property rights would be given over slots - and de facto there seem to be pretty good property rights over the slots - that in fact through the grandfathering procedure, so long as you use them, you keep them, and that's the general understanding - and not only understanding, but what has happened, as I understand it. What would your attitude be to being able to buy and sell them?

MR WALLACE: Being a relatively new international airline, we would have some concern with the concept of optioning slots, buying and selling slots, from the point of view that if it was - - -

PROF SNAPE: I might say that I wasn't going from an open - auctioning all of them - I was say grandfather the existing ones and - - -

MR WALLACE: Yes, and that's fine, and the same principle still applies, whether it had been grandfather now - we're still in a position where, having talked about Ansett International's financial situation, if we were to have to contemplate going into an auction system, bidding against large, established, profitable international airlines to obtain slots to build frequency or start flying to new routes, then I would suggest it would provide a very challenging situation for us to be able to grow, depending on the eagerness of other international carriers to outbid us, frankly. So I think it would make it a very challenging environment for the smaller airlines to be able to continue to grow through being successful in obtaining the slots.

PROF SNAPE: But you've got some slots already which other airlines might want, and you in fact would then have an asset that you could sell.

MR WALLACE: Certainly.

PROF SNAPE: And it might be very well that you decide that your optimum strategy - your most profitable strategy - might be to sell some of your Sydney slots and go to zero-priced slots or even subsidised slots at Melbourne.

MR WALLACE: And in principle what you're saying is right, but on the basis of being a small, relatively new operator, operating - being up against the principal - of large, established, greater frequency operators, I think it is still on balance going to be more challenging for the smaller airlines to successfully bid for those, or pick up those rights.

PROF SNAPE: Even though there might be a way of getting a better-timed flight?

MR WALLACE: Well, yes.

MS CATTY: But your demand is still going to be out of Sydney. Initially you need to meet - - -

PROF SNAPE: Well, you might get a better slot out of Sydney than currently you've got.

MS CATTY: We've worked with the Department of Transport and supported the administrative scheme that's been developed. I mean, clearly, with some reservations - it's quite difficult when you base a scheme on 80 movements per hour to then actually have to operate that scheme when the hourly movement rate is much lower than 80 movements per hour, so we expect there to be significant difficulties in the trial period, but nevertheless we supported the administrative scheme.

PROF SNAPE: But one of the criteria, if I'm right, in that administrative scheme is if there's an excess demand for an available slot - more than one wants an available slot - then the preference would be given to the larger aircraft. Now, a start-up airline on particular routes - a new airline on particular routes - typically would probably want to fly a smaller aircraft.

MS CATTY: I think the rules are that there's a system under which new slots will be given to new entrants. Regional airlines are protected- - -

PROF SNAPE: Yes, leave the regionals on one side.

MS CATTY: Yes, but there are specific slots reserved for new entrants.

MS BUTTSWORTH: I think another fact, certainly in overseas ports, is there is a question about who owns the slots, whether it's the country or the airline, and as I understand there was a case involving Virgin and British Airways, where - if I have my facts right - the Civil Aviation Authority came out suggesting that the slots were owned by the country. If for example Qantas wanted to give up some slots in Hong Kong, I think we would see it as a significant disadvantage to us if they were able to auction those slots off to a foreign carrier.

PROF SNAPE: Yes.

MS BUTTSWORTH: So that from our point of view, apart from the cost of slots, there are some real downsides in having an auction system.

PROF SNAPE: On the other hand, if, I don't know, United or someone was prepared to sell some of their slots into Hong Kong, it would enable you to buy them and to increase your - and putting them on the market essentially means the airline with the greatest value - putting the greatest valuation on those - is able to acquire them. Now, as I understand it, some of the Federal Express's slots into Narita are going to be sold to American Airlines. The commercial arrangements, we were told yesterday, are still being worked through on that. There's considerable angst amongst some European airlines that because it was an agreement with the United States that they would be sold to another US airline - that they're very cross that they're not in there being able to buy them - the Europeans aren't able to buy them.

We were also told that there have been various unpublicised sales in one way or another of slots at other airlines. That's really with the Narita example that it's coming out into the open. There are also slots selling - for domestic slots - for US airports - for domestic slots. So it's not entirely a new procedure, even though it's certainly not IATA's preferred mechanism, as I understand, and they tend I think to argue - as Anne was arguing - that the slots belong to the country. But de facto, through the grandfathering, subject to use or lose - and I think that any system would have to have use or lose in it, otherwise it would lead to monopolistic acquisition of them, and not using them - so so long as use or lose is in there, it would not seem to be a very big step from where we are at the moment with the grandfathering, because it's effectively giving property rights.

MS CATTY: It's not a big issue for us. The issue for us as far as slots at Sydney are concerned is a fundamentally important issue to both the domestic and international airline, but the real issue for us is maximising the capacity at Kingsford-Smith, however that is administered.

PROF SNAPE: It's going to be extremely difficult to do anything with capacity at Kingsford-Smith, and it would seem that the constraint is going to start biting in the next few years, and one is then going to have to address the question seriously of what is the best way of allocating those slots. Will they go on some formula where administratively it is decided as to who is the most worthy applicant for them, or is it going to be selling them so that those who have put the greatest value on them will acquire them? The same thing happens with taxi licences. It is something I suspect you may have to think about in the next few years - trying just to anticipate.

MRS OWENS: Can I just change the subject. You mentioned in your submission that there may be still some duplication between ACCC and IASC when looking at broader anti-competitive effects of commercial agreements, and I wondered if you could expand on that - what exactly the problem is.

MR WALLACE: I think the issue from our point of view is that the way in which we would see it logically working is that the IASC obviously has the power to determine the allocation of the rights between the carriers, and that the ACCC - as we understand it, the role should be to step in where they believe that there are competitive issues involved, rather than a need for either or both to be involved on every occasion. So in other words, the role in terms of the competitive issue should be deemed by the ACCC, and they step in accordingly when necessary - when appropriate.

MRS OWENS: You said that there's one area of concern - that's approval of codesharing arrangements - and that still is a problem. We talked about this yesterday with Qantas and the criteria. They were arguing the criteria that were applied were too extensive in most instances, that it really only needed the clause 5 criteria when you have got some contestability.

MS BUTTSWORTH: Yes, and we would agree with that position. Where you are seeking to codeshare and there are no submissions opposing it or there's no competing application, we don't think those section 5 criteria should be applied. So that's something with both airlines.

MRS OWENS: You've cited this explanatory statement which to me seems fairly clear as to respective roles. What you're saying is that still isn't the way it's being applied.

MS BUTTSWORTH: It hasn't happened to us but we have watched with interest what is happening to Qantas at the moment. In our view it seems to us that the IASC has consulted the ACCC in a situation where it shouldn't have been required; that is inconsistent with those comments that we concluded in our submission.

MRS OWENS: Apart from duplication, is the problem that it adds to the time - the complexities?

MS BUTTSWORTH: It certainly adds to the time and the cost, yes.

MRS OWENS: So that's the issue, the fact that you've got these duplicating processes?

MS BUTTSWORTH: And its excessive regulation. I think that if you're going to have a regulatory regime, that regulators should have clear functions and charters. It doesn't seem sensible to have to go through a series of different regulators on one issue. It's not an efficient way to organise government regulation.

PROF SNAPE: If in the way something is formulated there is some overlap, is it then efficient for one to consult the other so that you don't go through two independent processes?

MR LA SPINA: I think the point has been made that the overlap probably shouldn't exist in the first place. If you've got a body there, the ACCC, which is clearly there to monitor competition issues, why would you need to contest by another party?

PROF SNAPE: I gather that some of that overlap exists in telecommunications. Indeed what they do is to come back and consult each other essentially - and they are required to consult each other, as a matter of fact, in that case. As you say, the best thing may be in fact to delineate and say clearly that there is no overlap. If that is not possible for one reason or another, then I assume that consultation is better than not consulting.

MR LA SPINA: Consultation as long as there is clear delineation as to whose responsibility it is to come up with a conclusion, because you've got the possible outcome where you've got two different conclusions.

PROF SNAPE: That is what I was trying to avoid by saying that there would be consultation.

MS BUTTSWORTH: I think in this situation too you have a government policy which is negotiating different codeshare arrangements, so that there is an acceptance by the government that codeshare arrangements should be an option for airlines.

PROF SNAPE: I think we've been quizzing you for quite a long time. Thank you very much for your patience and for your advice. There were one or two small statistical points that I think the staff have spoken to you about and I understand you're going to give us some clarification on those, thank you. So thank you very much for your very helpful and thorough submission and also for your very helpful answers today for coming along and being with us. Thank you very much.

MR LA SPINA: Pleasure. Thank you very much.

PROF SNAPE: We will now adjourn for some morning tea and we shall resume at 11 o'clock.

PROF SNAPE: I welcome the representative for the Centre for Asia Pacific Aviation. At this stage we haven't got a written submission, though I understand, Peter, that there may be one coming. I'll invite you to identify yourself for the transcript, and the transcripts will become available and are sent to all the participants in it, so you will get a copy of the transcript so that you can check it, and I'd ask you to identify yourself and then speak to your forthcoming submission.

MR HARBISON: Thank you. I am Peter Harbison, managing director, Centre for Asia Pacific Aviation. Even though it might sound like it at certain stages in this brief introduction I want to make, I am not an apologist for the airlines. I am not in fact retained by either of the major carriers or any international carriers in this particular respect. I just wanted to make a couple of points which I considered were extremely important and which I think we've discussed in private, or in informal session, but wanted to put on the record. I'd also be happy of course to talk about any other issues, some of which I may even have some understanding of.

The first point I wanted to make was - and it's quite a fundamental one - that the nature of this inquiry I think is to a large extent flawed in the context that it is a fundamental error to review Australia's aviation policy in isolation from domestic policy. That is to say, there is no longer any real distinction between international and domestic policy, particularly insofar as the roles of airlines are concerned. That is important because it is my belief that Australia's overriding aviation policy goal should be to secure the continued existence of at least two domestic operators - two airlines operating domestically in Australia; whether or not they're nationally owned, the fact that they must be based in Australia and generate a certain level of competition in the domestic market per se. Obviously that has quite a close link with the first point.

Another point - this is my only other point - which is related to those two, but somewhat different, is to stress that regulation is no substitute for aviation policy. We have in this country a range of in some ways almost perfect regulators; perfect in terms of their being clearly legislated with very specific and sometimes wide-ranging policy goals, many of which conflict, but none of which work directly towards the establishment of a sound aviation policy per se. Now, I know aviation policy can be described very widely to incorporate obviously, as it must, tourism particularly but also a range of other activities.

To try to, in a nutshell, explain what's involved in that fairly broad statement, the contrast which Australia has say with Singapore in this respect - Singapore is often held up as a model for competition and growth, particularly in the aviation area. The elements of aviation include necessarily airlines, airports and a whole range of other activities directly related to them - directly and indirectly. In Singapore we have a national carrier, a single national carrier, which is majority government-owned, we have probably the best airport in the world, which is wholly government-owned, and have seen, despite those supposedly unfashionable features, the most dramatic growth, the most extensive capability for attracting what is now going to be probably the world's largest alliance, the Star alliance, in which Singapore will become a hub.

That has only been possible because the Singapore government has had over the years an extremely well-coordinated aviation policy and a strategy for implementing it. If they had taken our purest regulatory approach - regulating rather than having policy - they would have reviewed at every step the competition implications, for example having a single carrier, and a whole range of other things that we've seen occur in Australia. I could go on about that at length but I won't. That essentially summarises the three points I wanted to make for the record which are of some concern.

PROF SNAPE: Thank you very much, Peter. I suppose a couple of comments that one could make is the system of government in Singapore is rather different from the system of government in Australia, and what might be possible in one system of government may not be possible in another. Of course, in Singapore there's no domestic airline activity and so they have always had lots of competing with airlines that want to go through Singapore. They have managed that, and now they have got an open skies policy and I suppose they can't manage it any longer. Do you see that that's going to change the nature of things?

MR HARBISON: Well, I'll just take up your first point. It is a different political system. Obviously it's an island state with no domestic aviation. At the same time, they certainly have the opportunity to have a department of transport which establishes policy, a competition authority - which they don't actually have in any real form - which would impose relatively stiff competition rules on it, so those issues really are not - they don't have an IASC, fortunately for them, nor do they have secondary entry, and there's nothing to have stopped them doing that in the past.

The fact, I think, that - and I don't want to be negative about Singapore; I'm actually being very positive about it - the fact that Singapore is now in a position where it can totally open its skies is, I think, a result of having reached the threshold of operational and general aviation capability. It's now got a very strong carrier which is probably at the heart of the Star alliance, or probably will be, with an airport that is capable of massive growth which will accommodate that.

MRS OWENS: The interesting issue in Singapore is the extent to which assistance evolved over the years, and the strength of Singapore is because of what the government has done - or is it because of natural attributes, the geographic position of Singapore and - I mean, even before we had an aviation industry, it's always had a very important position into Asia with shipping and so on. So it's not necessarily, I would have presumed, just because of the way the government has chosen to play it over the years.

MR HARBISON: Certainly not. I quite agree. Sydney is never going to be a hub for the world except maybe for New Zealand, but nonetheless there are neighbouring potential airports, particularly Kuala Lumpur, Bangkok, whose countries have not been able to display that same sort of continuity of purpose which has been so obvious in Singapore.

If I could take another example out of this region, Amsterdam, which is very much a sort of European Singapore in many ways - well, they'd see it the other way round - has been extraordinarily successful for exactly the same reasons, quite by way of contrast with its very near neighbour Brussels, which has not had anything like the same sort of success, and that's been purely because it's had a very sophisticated aviation strategy which has been carried right across, which has been influential in broad government policy in that country.

PROF SNAPE: Well, there it is a smaller airport than Heathrow.

MR HARBISON: It's a smaller country than England.

PROF SNAPE: When you speak about the overriding policy goal should be to continue two domestic airlines, the picture that flashed to my mind immediately, as you would expect, was the two-airline policy, with guaranteed survival of two airlines; restrictions on the aircraft that they could have; when one of them looked like going broke, compulsory swapping of aircraft from one to the other to ensure the survivability of both; a fairly cosy duopoly supported by government; prices set; no competition except, in those days, from the posters of the smiling hostesses, something which is unfashionable these days - I mean the posters, not the smiling hostesses.

MR HARBISON: Flight attendants.

PROF SNAPE: And it was not, I think, regarded as a very attractive scenario by many people looking for a competitive, efficient system.

MR HARBISON: Certainly not, although I think it did secure the survival, at a time when - quite clearly that was government policy, to maintain two carriers domestically, in fact to create almost two carriers domestically. Certainly the two-airline policy went on probably 10 years longer than it should have, and certainly we don't have the most ideally competitive domestic situation in Australia at the moment, for a whole range of reasons, many of which are actually competition issues which the ACCC and other bodies are incapable of dealing with for various reasons. So certainly it's not an ideal situation at the moment either.

I don't think you necessarily have to conjure up all those old ideas of a very restrictive situation. We do have a pretty competitive arrangement in Australia, given what Australia is: a very small country in terms of population, with very isolated population centres. It's unique in the world in that respect among what I'd like to think are developed nations and consequently the importance of connecting certainly the major cities, and hopefully the major to smaller cities as well, is quite an unusual if not unique requirement. There is no other country in the world - Canada included, for example, with a somewhat similar population, which doesn't have anything like the sort of issues that we have because it is part of North America and has US carriers who can pick up any of the real problems if anything goes wrong. We don't have that.

Indonesia can't provide our air services for us. New Zealand might, but we're pretty much in the same boat these days.

I think you have to start from that viewpoint: that this is a unique country in that respect; we have unique needs. And while it's obviously politically and popularly important to talk about inbound tourism, of course one of the larger areas of tourism is domestic tourism, much of which is now carried by air - but, more importantly, the trade links, the communications links, which are maintained really only because of domestic air transport. Now, ideally you'd have another carrier coming in or out from time to time with these two, and I don't think there is frankly much opportunity for a third carrier to get in on a national basis or anything much above a very limited so-called niche operation, which probably means just for a very short time, and to some extent, as I said before, there are a lot of impurities in the competitive structure, which makes the hurdle to entry domestically that much harder.

MRS OWENS: What about cabotage? You said that we're still not in an ideal competitive position here. One way around that is to allow cabotage, allow other airlines to service the same routes. Is there a problem with that as far as you're concerned?

MR HARBISON: Well, I've heard and you've heard a lot of the arguments from a carrier's point of view, and many of those arguments I think are obviously valid. There are however a number of arguments where I think you could justify some limited form of cabotage, assuming that it is possible under bilaterals. I think the first point to make though would be that we would almost - it would be highly improbable that we would receive reciprocal cabotage rights for our carrier in any country where it was worth having reciprocal rights. So essentially when we talk about cabotage, I think we should be thinking of a unilateral grant.

PROF SNAPE: Could I just ask you how you're defining the EU in those terms?

MR HARBISON: The European Union is a very very different arrangement, which is evolving - - -

PROF SNAPE: But what I was meaning there was, you said that we would be unable to get cabotage rights in any market that is worthwhile. Does that rule out, for example, between Frankfurt and London? That's what I meant - how are you treating the EU?

MR HARBISON: What we currently consider to be fifth freedom rights.

PROF SNAPE: Are you treating that as one entity so that transport between two countries within it is cabotage, or are you treating them as separate countries so it's not cabotage?

MR HARBISON: I think for the time being you'd have to consider that they are separate countries, certainly for external purposes. It will be some years, certainly

many months and some years before there really genuinely is the opportunity to consider those to be cabotage routes for a third country carrier.

PROF SNAPE: So you're allowing the possibility of Frankfurt to London.

MR HARBISON: Except that that would be for bilateral negotiating purposes, negotiated as a fifth freedom right, rather than as a cabotage right.

PROF SNAPE: Yes.

MR HARBISON: And in bilateral terms it would be fairly unlikely in that respect that you would be doing a quid pro quo for cabotage versus fifth freedom. It's an evolving and potentially flexible situation. Where I think there is some potential for introduction of cabotage - and as I say, in those terms, I think it would almost inevitably have to be unilaterally granted - would be where certain circumstances do fairly clearly make substantial benefits, even on a limited scale, but clear benefits for the economy and for those other features of connecting remote communities more effectively.

So the sort of requirements involved would be that there would not be a major impact on the Australian carriers in a way that wasn't effectively compensated; that it would be between points which do not currently have a high level or even a good level of service - if I put that another way around, where there would be substantial benefits achieved by introducing cabotage rights on a foreign carrier for the communities which would be connected, either in terms of domestic route needs or probably more obviously in terms of connecting tourism flows. There are a limited number of points I think where that exists.

MRS OWENS: Have you got any examples?

MR HARBISON: You've been talking about the north and the west of Australia. There is one that I know of directly which involves operations through Darwin to Cairns, for example, where potentially there's not a very good service connecting those two points, and potentially there could be some value in allowing, say, Garuda to carry domestic traffic. It satisfies my first criteria, that we're not looking at a daily service where large amounts of seats are going to be dumped and destroy what is already a moderately developed market.

MRS OWENS: Yesterday we heard from the Pilots Association, who painted a fairly negative picture if we were to allow that to happen in northern Australia. There would be a lot of activity from, for example, Indonesian airlines which, they implied, could give us a lower quality, less safe service than we've got now. Is that in your mind a possibility?

MR HARBISON: It's always a possibility. There's a fairly clear distinction between commercial entry and the safety regulation, which Australia wouldn't relinquish of course in that process, and if it were considered to be unsafe, then I'm quite sure that

it's possible to take action on that basis. I was particularly talking about Garuda there, which obviously already operates to Australia anyway, so there's no obvious issue there. That may have been in connection with the AIDA, was it, the Australia Indonesia Development Area; the concept of transporter services by regional size aircraft, which is designed to open - well, perhaps historically it's not quite so important now as it was a year ago - to link up more effectively eastern Indonesian points with northern Australia without necessarily getting involved in major bilateral discussions. That might be an issue.

PROF SNAPE: I would be interested to hear how you would ensure that there were two Australian carriers - and I take your point that they're not necessarily Australian-owned carriers, but nevertheless there were two Australian carriers, domestic carriers - how a government policy would ensure the continuation of that situation, and yet ensure that there was competition between them.

MR HARBISON: Nothing is ever sure in this life, certainly at that level. On the first part of that proposition, I think even though it hasn't been spelt out clearly, the Australian government at a very high level has been pursuing an approach which implicitly recognised that both of Australia's domestic operators needed to have very strong international connections in order to survive domestically; hence initially the BA-Qantas and then the Qantas float.

Certainly it was something which was talked about almost openly in connection with ensuring that Ansett and Air New Zealand linked before the single aviation market was fully opened, the purpose of that being again to give the other Australian carrier a reasonably solid base, and even at that level we're still talking fairly small carriers. Obviously British Airways is a much larger one, but a natural progression into international alliances, with all that goes with that - it's obviously just not air services; it's the whole capability to provide competitive Frequent Flyer programs which attracts passengers domestically - and by doing that, almost to juggle the carriers into a position where they do have relatively even domestic competitive strength, and that's where I think it has been possible. But it goes back to my first point that there is no boundary as far as the airlines are concerned.

PROF SNAPE: No, but you're putting a boundary. You're essentially saying that we have to ensure the continuation of two domestic carriers, so in a sense you are putting a boundary there.

MR HARBISON: I think that's splitting hairs, with all due respect.

PROF SNAPE: You're saying that it doesn't matter how much competition there is internationally, how many carriers there are internationally.

MR HARBISON: Yes.

PROF SNAPE: Nevertheless, you are saying there must be two domestic carriers. So that is a boundary.

MR HARBISON: All right. Let's start from the other end of that. If we had a choice, a crude choice between whether we continued to be able to stimulate inbound tourism, which is one of the features that we're looking at, and having an effective domestic system - you can have one or the other - I think there's absolutely no doubt that we would have to have a solid domestic system. That's where I'm coming from in that respect.

Now, there's a superficial discrepancy in what I'm saying, as you point out, between saying there is no boundary between them but at the same time we need something domestically. I think perhaps the key to it is that it doesn't matter who owns them. As long as there are two carriers who have an identity with Australia, then the whole range of domestic requirements - which aren't necessarily aviation requirements, but require airlines to serve them - will be best served.

PROF SNAPE: Let's go into another hypothetical - and a scenario that I don't think would occur, I mention straightaway - that it could be for example that you had Qantas serving Australia generally, domestically, you had Air New Zealand serving the eastern part of Australia, and some other airline, international airline serving the western half of Australia. Would that meet your criterion?

MR HARBISON: It's a fairly difficult one to conceive. Airlines being what they are tend to like to expand into other's territories when they have the opportunity. But assuming that were the case and you had some form of equilibrium in there, and particularly if the foreign carrier had an establishment here which made it its primary interest to secure its continued existence in this market, yes, there's no problem with that.

The key thing is the identity with the market. I've been most taken during this decade with two examples, one of which I mentioned to you when we talked before, about the very sudden withdrawal of Northwest and Continental from the Australian market, which was so sudden that even their local representatives didn't know about it until they read about it in the press, or a few hours before. Those carriers were putting large amounts of seats into Australia. It had a fairly dramatic effect on the US market. The reason they did it was because they were US-based and they had other routes where they could make more money.

We've seen it more recently too in the case of Korea, where Qantas and Air New Zealand, Ansett, had made major investments in that market, and pulled out in a matter of weeks because suddenly things turned around. Korean Airlines and Asiana aren't pulling out of the Korean market; they don't have anywhere else to go.

MRS OWENS: Say we retain two domestic airlines; you would assume that if profitability got threateningly low in the future, that they would still maintain their position in the Australian market because of a commitment to Australia. Don't you think commercial aspects would be uppermost in their mind in terms of the decision as to whether to remain in Australia or remain servicing particular routes? Given the

sort of ownership, we haven't got airlines that are owned by government any more, there are other imperatives. So you may have just as little commitment surely as anybody else, depending on the commercial - what's happening at that time.

MR HARBISON: I totally agree with that. I'm not necessarily advocating foreign ownership of our carriers. The key thing in that is to try to retain in the process something which does establish a commitment to the Australian market primarily so that everything comes after it.

MRS OWENS: Assuming that Ansett is one of those players, which it is now, you've got Ansett partially owned by Air New Zealand and News Corporation. Now, I wouldn't assume that either of those entities, if things were going really bad for Ansett, would necessarily want to maintain their position in the Australian market.

MR HARBISON: We can't regulate them in, but the way things stand at the moment, they can't go anywhere else because of the way the international system is structured. They can't base themselves anywhere else.

MRS OWENS: But Ansett could just decide to focus on its international routes; forget about the domestic routes.

MR HARBISON: That's what I'm saying. I don't think that's a feasible proposition. They couldn't do that. That's where I was coming from at the beginning. There is no boundary between domestic and international. You can't purely operate one, and it's a certain fact at the moment the Australian domestic market is probably the most valuable market that either of those carriers has, at present. There is an issue at a certain stage where foreign ownership will erode that position of identity with the place of establishment. There's no way around that, but that's part of the changing world that we're confronted with.

To be frank, to express my opinion, I don't think, despite the very strenuous moves, that we will see in the near future a move beyond 50 per cent foreign ownership, or 49 per cent foreign ownership for national carriers, because the bilateral system is so deeply entrenched and because in this mercantilistic world most countries see that as being in their own interests; the US particularly have had very strenuous controls placed on purchasing US carriers, particularly by British carriers and Dutch carriers.

PROF SNAPE: You're thinking of Pan Am of course, I think owned by Irani interests at one stage.

MR HARBISON: It was.

PROF SNAPE: With some strict controls, but nevertheless, it was foreign-owned.

MR HARBISON: Yes. There are exceptions to every principle, but it was a temporary one, and certainly the current thinking in the United States is very protective in that respect; more than most countries.

MRS OWENS: I was going to ask you about your views on liberalisation and the various possibilities that we put into our issues paper, and whether you'd like to comment, if there was to be further liberalisation, which way you think would be the optimal way to go; whether it's through the current bilateral arrangements or through a multilateral approach or a unilateral approach.

MR HARBISON: Yes, there's an initial judgment in that more liberalism is required, which I think has to be justified both in terms coming from an economic point of view and - - -

PROF SNAPE: We are required to explore the possibility under our terms of reference.

MR HARBISON: Certainly that's one reason for doing it, but also the likely outcomes from doing that - and this is why you were asked to explore that - which vary very much from one market to another. The realistic prospects of moving towards multilateralism - and I've been very much involved in these processes for a couple of decades virtually in terms of trying to move towards some form of multilateralism - are unfortunately fairly limited.

The fact I think that the Australian-New Zealand arrangement of the single aviation market within the context of the closer economic relationship is regarded globally as an example of multilateralism gives you an idea of just how far the world has moved in terms of multilateralism. When you talk about the EU, for example, the only reason that we are seeing internal liberalisation of their services is because it's been preceded by a process of very substantial economic integration and political integration between those countries. In the absence of that, it is extraordinarily difficult to generate multilateralism in an aviation field, partly because aviation is so integral to a whole range of political and commercial issues, and strategic issues which I've mentioned to you before. That says in certain circumstances I think not only is it desirable but it may even be possible to move particularly on a subregional basis.

We have heard the issues about beyond the grouping markets and the inconsistencies and injustices or imbalances of benefit that come from that, but this is an area which has been evolving quite rapidly at a lower level in this region over the last 5 years. We have seen things like the Borneo, Indonesia, Malaysia, Philippines, East Asia grouping. These lower level economic groupings between neighbouring countries actually do have a role and have demonstrated that they can become effective.

To some extent the BIMPEAG has been supported by, for example, the Asian Development Bank and the World Bank in that process and they are linking together small neighbouring airports in different countries, which happen to be in different

countries for historical reasons and little else, but do necessarily have an economic link. The same sort of thing is happening in the Mekong basin where you've got a massive zone of potential overlapping national boundaries economic activity, which again is being promoted by aid bodies and therefore may well, on that sort of limited scale, come into effect.

The extent to which Australia could become involved in it is much more complex. Certainly the broader one of joining APEC, which I think is too big to be realistic from an aviation multilateral point of view - but even joining of the US groupings which come out of the US open skies agreements, bilateral open skies agreements, is pretty unrealistic, frankly - from our point of view I'd think not the sort of goal we should be looking for. I used the word "mercantilistic" before and I don't think anybody really thinks the US does anything but what it considers to be in its own best mercantile interest internationally, and no country should be doing it.

The US's interest in that process is not to establish a multilateral - I apologise for speaking on behalf of the US government but it's my view of what they are doing - is not to establish so much a multilateral grouping in this region but to gain access for United States carriers behind the gateways of the bilateral partners it is negotiating with. So the US-Japan bilateral is a very good example of that where US carriers are now able to operate where the third countries are given the rights behind Japanese gateways into some of the lucrative markets potentially of China, certainly already Taiwan where they can go, and really to be part of the whole process of growing what was going to be, and still will be in the long term the fastest growing market in the world, from which their carriers were excluded largely before.

If we see benefits for our carriers in that respect, or the broader benefits for the country in that respect, then we should go with those moves, but before trialling that I think we've got see those strategies for exactly what they are and consider, "Well, can we get that sort of benefit from going this way?"

MRS OWENS: Do you see that there are any benefits for our carriers from entry into any open skies arrangements? You were here for the Ansett discussion earlier.

MR HARBISON: Can I just attack that from a slightly different angle. What is very interesting at the moment in the evolution of aviation regulation is this neck-and-neck battle between what the regulators are doing and what the airlines are doing. You've raised this point in the context of foreign ownership and mergers that what the airlines are doing in alliances is to try and get around - you know, find tax loopholes in the bilateral agreements: how can we survive in what has become a very competitive market? I think the extent to which we will see any realistic possibilities of regional groupings is actually going to be driven now by those airline alliances.

I can't see where this one leads but one example of that may well be the triangular relationship which hopefully will exist fairly shortly between New Zealand, Australia and Singapore by virtue of the tripartite arrangement with Singapore Airlines, Ansett International and Air New Zealand. It may be that there is some

benefit there but of course you can see a major concern on the part of those carriers talking about beyond rights and the way in which Singapore might be a major beneficiary of those to the detriment perhaps of Australian and New Zealand's carriers.

As I say, I can't see where that one goes, but the point being I think that where multilateralism really will get pressures on a large scale is going to be through those alliance arrangements.

PROF SNAPE: Okay, well, we have got your two points and we shall certainly build them in and look forward to the written submission, Peter. We might get back to you for elaboration or further information - of which you are such a full bottle.

MR HARBISON: Thank you very much.

PROF SNAPE: So thank you very much for coming and appearing before us and thank you in anticipation for your written submission.

MR HARBISON: My pleasure.

PROF SNAPE: We shall adjourn now until 1 o'clock. Thank you.

(Luncheon adjournment)

PROF SNAPE: Welcome. This afternoon we're having the Sydney Airport and just to run through our procedures - I don't think you were here for our earlier sessions - my name is Richard Snape, I'm presiding, and on my right is Helen Owens, who is a commissioner with the Industry Commission.

We ask participants to introduce themselves and to indicate in what capacity they appear, and we use the information in our reports; so we ask participants to be as accurate as possible in their comments and answers and if there is any doubt about the accuracy of what you might be saying, then if you could tell us that and we can check back and get it straightened out later on.

Transcripts are sent to participants. I should make it clear that what is sent to participants is in fact a transcript of their own participation, but if any participants would like transcript more extensively of the proceedings, then they can ask staff and that will be attended to. Let's get started in this afternoon session, and to welcome the Sydney Airport and as I say, I would ask each of you to identify yourselves so that the voice is on the recording so the transcribers can sort out who is saying what. Then, after that, we will have whichever of you would like to speak to your submission. Thank you.

MR CROPPER: Good afternoon, my name is Steve Cropper. I am public affairs manager of Sydney Airport.

MR BRYANT: I'm Bill Bryant. I am manager, airline development, of Sydney Airport.

PROF SNAPE: Thank you.

MR CROPPER: Commissioners, ladies and gentlemen, for the sake of clarity I'd like to point out that Bill and I represent Sydney Airport as distinct from the Federal Airports Corporation, currently the owner and operator of a large number of airports across Australia, excluding Melbourne, Brisbane and Perth.

The purpose of our submission to this commission was to provide information about the issues and the economic impact that Sydney Airport makes to the economy of Sydney and New South Wales and indirectly to the rest of Australia. The submission is accompanied by an academic work by Prof Hooper of the University of Sydney, the Institute of Transport Studies. We submitted that for reference. I would be happy to answer any questions.

PROF SNAPE: Good, thank you very much. We were very interested to read your submission and thank you very much for it. I note that you say that you would be prepared to make available some of the forecasting that has been undertaken available to the commission on a confidential basis, and I think the staff will be in touch with you on that. Thank you for that.

I understand that there has been a declaration of access with respect to the airport and the use of facilities. I wonder if you would be able to elaborate on that declaration. What's happening in regard to that, please?

MR BRYANT: In general terms, the declaration of access as stated in the submission?

PROF SNAPE: Yes, please. If you could elaborate on it, please, and tell us where the state of play is on that. As I understand you, I think, as the Sydney Airport, have asked that the declaration be set aside. Is that correct?

MR CROPPER: I'm afraid we don't have any information on that, commissioner.

MR BRYANT: Not aware of that.

MR CROPPER: If that's your understanding then could we take that as read?

PROF SNAPE: Okay - talk about that. On page 6 you are talking about the market forces operating to allow economic use of runway systems, and you talk there about swapping or traded - what about the sale of slots? As I understand it this is not being encouraged, it's not part of the anticipated processes at Sydney, but Sydney capacity - there is going to be very strong demand for capacity, probably in excess of the supply in a few years' time, and will you then be contemplating, or would you be encouraging the new authority, which is to do with slot allocation, to be looking at selling slots? Not by auctioning them all necessarily, but perhaps by saying that they are using the grandfather provisions that are there for slots, and subject to the constraint perhaps of use or lose, as they have been in the past, but that there could be actual trading in slots instead of just swapping.

MR CROPPER: You're referring to the exchange of slots between airlines?

PROF SNAPE: Yes, which is currently done by a swapping process - - -

MR CROPPER: Yes.

PROF SNAPE: - - - at Narita. As we understand Federal Express are about to be selling some of their slots to other American airlines and four airports in the United States, as we understand, sell slots - domestic slots - and we hear from some sources that there's been sort of under-the-counter selling going in some airports around the world. What would your attitude at Sydney be to introducing the possibility of buying and selling slots? After all, you do endorse market forces.

MR CROPPER: Yes, indeed - - -

PROF SNAPE: But then you go on to only talk about the sort of market forces that go on in the schoolyard of swapping marbles for bananas. What about a market- - -

MR CROPPER: Which would possibly be the same sort of marble-swapping that goes on in Narita, where other airlines either swap or trade their slots. But you're quite correct, commissioner, on page 6 of our submission we point out in the second-last paragraph that if market forces could operate to allow the economic use of runway system, these slots might be swapped or even traded for international or domestic flights. However, the regional slot provision, ringfenced of course, is safe from that; that's assured. As to our attitude towards what airlines elected to do amongst themselves is a private arrangement.

MR BRYANT: I don't believe that's been developed. It's very early days in the processes of Airports Coordination Australia, or ACA, who handles the slots process, and I don't believe we have a position, or established a position on that to either discourage or encourage the swapping down the track.

PROF SNAPE: It might be something that creeps up - that comes up upon you and as I understand it the attitude of the authority is reflecting that of IATA, which is not to encourage or in fact to positively discourage the actual trading of slots, partly because the attitude is that they're not really the airlines' slots, but they are the airports' slots. So in order to trade in them some property rights would have to be well defined.

MR CROPPER: That has to be true. The slots are provided to the airlines at a charge. Then, I suppose in a sense, they in fact become the property of the airlines using them, and if the airlines elected to exchange those allocations for whatever reason - no doubt a commercial one - and so long as it didn't impinge on the efficient running of the facility, this would be a governing criteria.

PROF SNAPE: Presumably it wouldn't just be a landing slot that would be traded, but because of the constraints of international gateways as well, it would in fact have to be a scheduled position really. So it would involve the landing, the gateway and the take-off. The landing - two slots, landing and take-off - and a gateway presumably would be in the package to be traded.

MR CROPPER: That would have to follow, I would have thought, wouldn't it?

MR BRYANT: It's not for us to say that it would all be packaged up as one, but as you can see by the notes there, there are various considerations that have to be met for an aircraft to come into Sydney. There's other factors apart from just the runway slot.

MR CROPPER: Also in the interests of context it ought to be emphasised that the slots regime is extremely new and the information gained, the experiences gained from these initial trials of the system, will inevitably produce results that will assist the airport and the airlines in developing a slot regime that will be beneficial to all parties.

PROF SNAPE: As you say, it's a very new regime that's coming in and I suppose that in implementing it - it's beyond the design stage, I suppose - one doesn't wish to

introduce procedures which might rule out something that in the future you may wish to move towards as things become scarcer. It might be appropriate to be thinking of it at this stage even though it is only a new regime that's being introduced.

MR CROPPER: Yes, agreed. The high level of consultation and collaboration between all the parties is essential.

MRS OWENS: It's interesting on page 8, in another context, you're talking about aeronautical charges and you've introduced peak and shoulder-hour surcharges, and reading into what you've said in your submission, you imply that those surcharges have been relatively successful in actually spreading the peak. So you have got a situation in another context where the financial incentives seem to be working.

MR CROPPER: Yes, that's very true, commissioner. The question of capacity at Sydney Airport is most assuredly an issue for us. We are operating under a legislated cap of 80 movements per hour. The pertinence of this refers specifically between the hours of 7 and 8 am. Whilst that legislated movement cap is in force - and there's no evidence to suggest it's going anywhere - it's essential for us to manage the airfield flexibly, given any opportunity, to more equitably distribute the burden on the airfield across the operational hours. The slots may even provide us extra opportunity to do that, provided of course that it always has a mutually beneficial result for all the parties concerned.

MRS OWENS: How much scope is there to actually remove the peak, given that a lot of the international flights are going to - their movements are going to be dictated by what happens at the other end as well; the time they can depart, say, from Heathrow and so on? Is there a lot of potential to even out the landing over the day, like in the morning or - - -

MR CROPPER: There reaches a critical mass when we approach 80 movements per hour, beyond which no further flights can be scheduled in. So it becomes a necessity to explore opportunities to schedule aircraft in at other hours, but yes, it's a curious dynamic, really, in a sense.

MR BRYANT: Yes, a lot of it is to do with the popularity of the destination, and how determined the airlines from the other side of the world are in accessing Sydney. As Steve mentioned, and you mentioned too, it depends on when they want to leave their point of origin - be it in the areas of Europe or North America - and how they can adjust that to pick up a lot of their feeder flights. For example, flights coming out of Los Angeles are not just picking up a load of people in Los Angeles, they're picking up people on feeder connections from domestic USA right throughout North America, and equally in Europe. If they can adjust their departure times from those points to pick up and gain access to airports on the way through and then land in Sydney at times other than those peak hours, then it increases the popularity, the possibility of getting into those off-peak periods, at other times during the day.

MR CROPPER: May I also add that it's also a very useful option, and a very potentially practical option, for the airport to aggressively market the off-peak periods. To do that efficiently however would require for us to have better access to bilateral planning and the negotiations accompanying it, allowing us to work with potential operators, to grow the market to the advantage of the airport, and New South Wales, and indeed to the rest of the country.

MRS OWENS: What is the situation at the moment? What access do you have to those consultation processes?

MR CROPPER: It's quite limited.

MRS OWENS: What is it? Exactly what can you do?

MR BRYANT: You could probably say none.

MR CROPPER: It's quite limited.

MR BRYANT: There really hasn't been to my knowledge any access to those negotiations. We are increasingly working with associations and groups involved with tourism to the country that can speak with a louder voice in those negotiations to try and improve that, but to date I would suggest we've had very little or no involvement in influencing - -

PROF SNAPE: Not even consultation prior to negotiations?

MR CROPPER: It would be quite limited, commissioner - quite limited.

MR BRYANT: There may have been the occasion when airports' advice may have been sought at some stage, but I wouldn't suggest it was part of the formal process.

MRS OWENS: Some of the other submissions we've had have actually said that the consultation process has changed somewhat, and there is more involvement of the other stakeholders now than there was in the past, including privatised airports, for example, and I wonder whether you had been swept up in these changes.

MR BRYANT: I was remarking to Stephen just outside in fact that I've just - with the other privatised airports - gained access for Sydney Airport in a forum in Canberra called Tourism Aviation Group that is to do with the Office of National Tourism, and will assist with the Department of Transport in looking at the bilateral relationships, so it's an opening. It's an opening of the relationship. It's the first - -

MRS OWENS: So you've only just got into this group?

MR BRYANT: I haven't even had time to show my chief executive the letter of acceptance.

MRS OWENS: But then you're still working under the umbrella of tourism - -

MR BRYANT: Yes.

MRS OWENS: - - - and you may have other interests apart from tourism interests, such as regional interests, for example - - -

MR CROPPER: Yes, and freight and business travel.

MRS OWENS: - - - and the fact that you're Sydney Airport, and you've got freight and business travel there as well. So you're coming under that umbrella, when presumably you would prefer to see you had a seat at the table in your own right. Am I putting words in your mouth?

MR CROPPER: No, commissioner, we agree with that. We would like to be represented in the bilateral negotiations. We think that the airport, in the interests of planning, vis-a-vis the slots regime, also in the terms of infrastructure planning for the airport, would contribute an enormous amount to ensuring that the sorts of services that could be provided to new entrants into the Australian market and indeed existing operators in this country would get access to optimal facilities.

MRS OWENS: In terms of balancing all these different interests, is there any one interest that dominates in your thinking? Is it tourism? Is it being located in New South Wales? Is it business travel? Or is it all of those, or how do you weigh all those interests?

MR CROPPER: Well, if we're talking about the percentage of traffic which is foreign tourists, it's in the order of I think 16 per cent - isn't it?

MR BRYANT: It might be a little more than that. I'm not too sure exactly.

MR CROPPER: Well, I can tell you that - - -

MRS OWENS: You've probably got a statistic in there somewhere.

MR CROPPER: I do. It's in the submission.

MRS OWENS: We can find that.

MR CROPPER: I can tell you for example, for illustrative purposes, half the international traffic coming into Australia comes through Sydney Airport, and half the freight traffic coming into Australia - or indeed exiting the country - travels through Sydney Airport, and so what we're talking about really is an airport which handles greater than 60 per cent of Australia's total aviation traffic needs. So given the

airport's size and total significance in our industry alone, to be represented on the bilateral negotiations is indicated.

MRS OWENS: So the other airports are involved in exactly the same way as you, just through the TAG? There's no more direct involvement by the privatised airports, to your knowledge?

MR BRYANT: I referred to that group as possibly an initial access. I'm not aware of they have got any other access than we have, but that is just an indication that the door is slightly open there.

MRS OWENS: Do you think the privatisation process will lead to higher charges to the airlines in terms of landing and so on, or will it go the other way?

MR CROPPER: It's an extremely difficult question to answer. Many elements will influence that sort of a decision. The Federal Airports Corporation at the moment is managing the process of aerocharges for the airports that it still owns and operates, which includes Sydney Airport. The privatised airports would have considerations such as their competitiveness, to what extent can the Victorians get more traffic than the people of Queensland, for instance, at Brisbane Airport? The old network system under the FAC was it was all allocated by the FAC anyway, and so it really didn't become an issue.

Whilst some private operators might be inclined to offer some sort of incentive for airlines to add to their schedule that destination, it would be a matter entirely for them, and it would be based on their judgment of what would be the gain from the initial outlay, and how sustainable that was. On the other hand, if the aerocharging is an elaborate equation which factors in things such as the costs of running a destination, the cost of enhancing a destination, the generic cost and perceived value of a destination - - -

MRS OWENS: I suppose there's a bit of a trade-off, and there's very significant sums of money been involved in buying the airports which has to be recouped in some way, presumably, and offsetting that is sort of the competitive environment in which they're working, in which case - like Melbourne airport want to provide discounts for new carriers, so I suppose it's too soon at the moment to see how it all pans out.

MR CROPPER: Possibly.

MR BRYANT: But you mentioned price increases. In the lead-up to the privatisation of the three airports last year, there was a pricing mechanism created there, a CPI minus X formula, which determined the prices that those three airports could charge over a particular period of time, and so that regulates the maximum pricing.

PROF SNAPE: What percentage of the airport's revenue comes from direct airport services, landing, etcetera?

MR CROPPER: Aerocharging.

PROF SNAPE: Aerocharging.

MR CROPPER: Approximately 40 per cent - between 40 and 50 per cent.

PROF SNAPE: It's about 40 to 50 per cent, then there's carparking- - -

MR BRYANT: It's more 40 per cent.

PROF SNAPE: Around 40 per cent. And then there's retail outlets.

MR CROPPER: Yes, commercial or non-aerocharging sources is greater than half.

PROF SNAPE: Yes, and the difference is parking or something?

MR CROPPER: That's correct, yes.

PROF SNAPE: So we're not really - it's only partly selling landing, isn't it?

MR CROPPER: Indeed, that's right, yes. The activity on the airport involves 50 organisations, serviced by 500 organisations, 40 international airlines, a number of government authorities, 33½ thousand jobs directly related to airport activity, and an additional 33,000 from the multiplier effect - I'm quoting from the Institute of Transport Studies. Launching and landing aircraft is the traditional core business, but airports have become more diverse in their activities since.

PROF SNAPE: Most of the retail business comes from international travellers?

MR CROPPER: I suggest that most of the retail business comes from international travellers, yes. That doesn't necessarily restrict it to inbound passengers. It could be outgoing Australian or homegoing foreigners.

PROF SNAPE: Yes. I was looking at the peak pricing and seeing in your point on page 8 that the charge at peak times was successful and there was some spreading of the peak into shoulder hours, and the period before and after the shoulders, and yet when I looked at attachment E, I saw that the peak charges were only 254 landing and take-off each, which might be a substantial loading for a small plane, but if you were trying to shift a 747 out of a peak, it would seem to be not just peanuts, but a peanut.

MR CROPPER: Not even more than one peanut.

PROF SNAPE: And I'm surprised - well, I could see that had moved some very small stuff out with a charge like that, but that if you were really going for peak load

pricing, then you would be going for much higher charges than that, wouldn't you, for the peak?

MR CROPPER: An economy of scale. I think we moved 275,000 aircraft in the last financial year. Of the international carriers, Qantas is by a lion's share by far and away the biggest customer in the airport. It's their home base. When you multiply that surcharge across a number of flights, it begins to add up.

PROF SNAPE: Yes, but, I mean, each time it's a decision on one flight, whether you will move a flight, and the consequences of doing that one flight at a time, and at \$250 I don't think you'll have moved too many Qantas flights.

MR BRYANT: It's 250 in and 250 out.

PROF SNAPE: Yes. Again on a 747 that would be trivial.

MR CROPPER: Yes, if you were to look at it as one Jumbo jet, yes.

PROF SNAPE: And that's what you're trying to shift, and then you're working on a schedule, so I suppose once you multiply it each day - but it costs, what? Well, it must cost several tens of thousand dollars, if not a hundred, to fly a plane from Australia to Japan - I don't know what the figure would be - and you're putting \$250 on it to get it to change its time.

MR CROPPER: Yes, the airlines have calculated that there's a benefit in moving those flights. I would be reluctant in the extreme to comment on behalf of the airlines their motives for doing so, only to observe that it's happening.

PROF SNAPE: Yes. Well, it would be interesting to see what you could achieve if you went to bigger figures.

MRS OWENS: I suppose it's not just the absolute level of the figures. It's the differential between the peak charging and say what's charged in the shoulder period, and in fact the marginal difference on a charge for a take-off is \$150 and the marginal difference on a landing is \$50, if I'm reading these figures correctly, so at the margin it's even less than the absolute figure, isn't it?

MR BRYANT: What page are you looking at?

MRS OWENS: This is attachment E.

PROF SNAPE: And the figure is between a peak and a shoulder. There's only \$50 difference.

MRS OWENS: On the landing.

PROF SNAPE: On the landing, and 150 on cheaper.

MRS OWENS: I suppose it's a matter of to what extent an airline is influenced by those prices - those charges.

MR BRYANT: I'm not too sure how long that peak period pricing or surcharges have been in. I would imagine it's probably the last 2 or 3 years, but maybe even longer than that, and I think even with say a 747 400 - not wanting to get into final dollars, but the price then might have been in the vicinity of around 3 or 3½ thousand dollars, so if you add 250, maybe potentially \$500 to pricing - I mean, the base price wasn't that huge in the first place - it can add up.

MR CROPPER: I also think that this surcharge is designed as an incentive for the aircraft operators to consider other landing and launching times. It's an incentive. It's designed to urge airlines to operate in additional hours instead of focusing exclusively on the most popular hour, and it's great that the airlines have responded.

PROF SNAPE: I was also fascinated to see - and I've just realised it, because I read the page wrongly - I'm fascinated to see that the parking charge for aircraft is substantially less than it is for cars.

MR CROPPER: Interesting, that, isn't it? It depends of course how long you park your car there for.

PROF SNAPE: That was my mistake. I first read this thinking it was your carparking charge. I thought that's low. It's much lower than Melbourne Airport, where I have experience of it. Then I realised it was the parking charge for a 747.

MR CROPPER: Yes. Sydney Airport is not actually the most expensive airport to operate in and out of in the world. A Morgan Travers survey fairly recently rated us fifth cheapest airport in the world.

MRS OWENS: I suppose they should be flocking here.

MR CROPPER: Well, if they want to come to Sydney, yes. The airlines have enjoyed very favourable charges associated with using Sydney Airport.

MRS OWENS: I suppose if your interest is just in raising revenue you could have a field day when the Olympic Games come around. Will you be changing your pricing policy at that stage?

MR CROPPER: I don't think we could answer that question, frankly. I don't know.

MRS OWENS: What planning has been taking place in relation to- - -

MR CROPPER: To aerocharging?

MRS OWENS: To the Olympic Games. Is that going to cause a problem for the airport?

MR CROPPER: Are you speaking in broad terms or specifically about aerocharges?

MRS OWENS: Well, charges and more generally.

MR CROPPER: Right. Well, I don't know about aerocharges, but I can speak about the general stuff. A total of greater than \$800 million is to be spent in the terminal area or Sydney-Airport-related works in getting the airport ready in time for the Olympic games. Mind you, it should be pointed out that that entire expenditure would be necessary for Sydney to keep pace with already identified forecast growth in air traffic. The works are influenced by the Olympic games in terms of timing, not in terms of scope; the work would have to be done in any event.

As much as \$350 million will be spent on the international terminal building. There are also associated apron works and taxiway works, and additional carparking will be provided in the form of a multistorey carpark. A program of reforming the road system around the international and domestic terminals has already begun. An elevated roadway, similar in appearance and in use to the double-decker system that exists at Tullamarine Airport, for instance - upper deck for departures and ground level for arrivals, which we have at the international terminal - is being constructed at the domestic terminal, with Qantas and Ansett constructing or renovating their existing terminals into that two-storey format, with departures on the top deck and arrivals on the bottom deck. The Australian-French consortium Transfield Bouygues - - -

PROF SNAPE: The other way round?

MR CROPPER: Departures upper deck, arrivals lower deck. The Australian-French consortium Transfield Bouygues is constructing a railway line with a railway station at both domestic and international, so for the first time people will be able to catch a train to and from Sydney Airport from anywhere in the Sydney rail system.

PROF SNAPE: Will that be serving the international terminal as well as in the domestic?

MR CROPPER: Yes, sir.

PROF SNAPE: Two stations?

MR CROPPER: A station at international and a station at domestic, that's correct. Also the roads which connect the airport to the surrounding road system are being

reformed. The state government is making changes to the M5 and is also constructing the Eastern Distributor. So the scope of work at Sydney Airport totals over \$800 million.

MRS OWENS: What about the issue of capacity? You mentioned in your submission on page 5 that Sydney Airport can be expected to reach capacity by 2006, but are we getting close to hitting that by the year 2000 and is that going to cause problems?

MR CROPPER: I don't believe we are reaching that capacity ceiling in the year 2000. There will of course be a tremendous spike in traffic movement through the international terminal in particular but the domestic terminals as well at Olympics time; certainly in the fortnight leading up to the Olympics opening ceremony, but in particular the day after the closing ceremony when suddenly the movement numbers spike dramatically. At this stage no decision has been taken that we're conscious of about whether or not the curfew will be suspended during that period. I haven't noticed anything coming from Canberra indicating that they will suspend the curfew, or the movement cap for that matter.

The peak in traffic in over the Olympic period is offset by an accompanying reduction in traffic movements with people consciously avoiding Sydney during the Olympic period unless of course they're coming here for Olympic purposes. So it offsets it to some extent. There is an enormous amount of modelling going on. Our consultants give us regular updates on their latest forecasts. Forecasting began before the current economic situation in Asia affected the currencies and consequently incoming traffic from Asia. So the forecasting of what we are likely to experience over the Olympic period continues.

MRS OWENS: A bit of a challenge, have you?

MR CROPPER: It's an enormous challenge. We deserve a gold medal if we get this right.

MRS OWENS: I don't know how they managed at Atlanta but they obviously had a few problems there, not just with airports. The regional ring fence and capacity - the capacity issue would be diminished somewhat if you didn't have the regional ring fence. Is that right?

MR CROPPER: Yes, that's true. That would have to be a fact, that if the regional ring fence weren't there to the point that if exchange of slots were allowed between the domestic and the regional operators, then all sorts of possibilities emerge.

MRS OWENS: Is there any chance that that will change in the future or is it well and truly entrenched?

MR CROPPER: It's well and truly entrenched at this stage.

MRS OWENS: I have to say that we're not doing an inquiry into Sydney Airport and I think Richard said yesterday that we can only take it so far, or else the only thing people will take interest in is Sydney Airport - dominate it. But it is certainly an issue that there is a constraint factor there, I suppose.

PROF SNAPE: When you speak about the capacity, the point that Helen was mentioning a moment or two ago - expected to reach capacity by 2006 - is that in terms of slots or is this gateways?

MR CROPPER: That research, commissioner, is based on forecasts from various organisations: the state government, Bureau of Statistics, a private firm, various other sources. It talks about aircraft movements and it forecasts all the way up to the end of the first decade of the 21st century. These forecast figures are apt to change as new information comes to hand.

PROF SNAPE: Yes. What would be the binding factor there? Is it international gateways or is it landing slots? When one hits a constraint what is that first constraint that you're going to be hitting? Is it provided by gateways, international gateways, or is it slots under the existing constraints - existing policy criteria?

MR CROPPER: When looking at Sydney Airport in isolation I suspect it's the slots.

MR BRYANT: I would suggest that the airport's capacity to handle business moves forwards in terms of the elements of passenger flow - gates and slots - fairly hand in hand. I mean, one area has to meet the other otherwise it becomes inoperable. I think that figure that is looked at, if I'm not wrong, is 353,000 movements by the year 2006 which is the figure they're talking about as the capacity of the airport. But throughout the period leading up to there, there would have to be an equitable increase in gate capacity, passenger flow capacity through the terminals, to match that on the way through.

PROF SNAPE: We have been focusing in consideration of constraints and also in terms of the developments that you were talking about before are pretty much in terms of passenger traffic. What about freight? As you said earlier, about half the nation's freight comes in or goes out from Sydney in volume terms.

MR BRYANT: Yes.

PROF SNAPE: Is there much capacity to expand freight throughput or are you going to increasingly become a passenger rather than a freight airport?

MR CROPPER: No, airfreight is a major and undeniable component in Sydney Airport's future planning. Here's that number I've just discovered. Last year, 515,000 tonnes of airfreight were handled. The policy of the airport at this point concerning freight is to open up the airport to performance enhancing competition. At the moment there three resident international freight handlers at the airport. On

10 March the deadline came for the business plans from those who had responded to a call for expressions of interest to come and provide freight and ramp handling operations on Sydney Airport. Before this year is done it is our sincere hope that additional freight operators and ramp handlers will have arrived at Sydney Airport.

Working in partnership with these additional operators and, I dare say, the existing operators, we trust we will be in a position to devise an infrastructure at Sydney Airport that will enhance the throughput of freight. So yes, freight is most assuredly part of the equation.

MRS OWENS: While we're talking about freight, you have mentioned in your submission about Cargolux, and you mentioned that there has been a decision to allow Cargolux - what amounts to freedom of on-carriage rights to airfreight. Could you just expand on that, what that's all about?

MR CROPPER: I'm afraid not, commissioner.

MR BRYANT: No, I can't commissioner.

MRS OWENS: It's just a little paragraph and I was just wondering what it was all about.

MR CROPPER: Yes, I just read it.

MRS OWENS: Maybe we can come back to you on that.

MR CROPPER: We can submit some additional information on that.

MRS OWENS: That would be very useful, thank you.

PROF SNAPE: We were just chatting as to whether we would ask you about cabotage and I thought probably not, but then it struck me - if one were to be looking at international carriers carrying within Australia, is there a problem with managing internal traffic? Already you get some of this, I guess, and it's the problem of carrying what are essentially domestic passengers on international aircraft which may very well have come into Australia on an international flight, but then you're carrying a domestic passenger or passengers which are essentially domestic. Do you have a logistical problem with that?

MR BRYANT: Not a great problem. I mean it does happen already where there are domestic passengers carried out of the international terminal on say Qantas, for example. They have to move through the process lines but they're identified as a domestic passenger. I mean largely the international terminal was built for that inbound or outbound international traveller, but there is a process there that works to facilitate that domestic movement, be it only small relatively to the overall use of the terminal.

PROF SNAPE: If this sort of traffic were to grow significantly, then it may be that to cope with it Australia might move to the American system of clearing international passengers at the first port of call - clearing both passenger and their baggage at their first port of call - and thereafter they're treated as essentially domestic passengers. Now, with so much of the international traffic coming into Sydney as its first port of call, but at the moment a lot of that traffic being cleared in another port because the plane itself is going on to Melbourne or to Brisbane or where have you, and so presumably the clearance is spread around the country rather more than it would be otherwise, would there be a problem at Sydney if we were using the system of clearance at first port of call?

MR CROPPER: If I understand you correctly, a passenger on a South African Airlines flight from Johannesburg touching down in Perth, first port of call, clears customs - - -

PROF SNAPE: Clears customs there instead of - if they're going on to Sydney, then currently I suspect they are cleared at Sydney.

MR CROPPER: If they carry on all the way to Sydney and they disembark in Sydney, yes.

PROF SNAPE: Yes. Whereas under the American-type system they would have got cleared in Perth. Now, that would take some pressure off Sydney.

MR CROPPER: Yes.

PROF SNAPE: But that perhaps is the exception.

MR CROPPER: Yes.

PROF SNAPE: The more common one is the other way round: the first port of call is in Sydney and I never clear in Sydney, I clear in Melbourne. Now, everyone else would in fact on that flight have to clear in Sydney. So that would put a lot more pressure, I assume, on balance - when you take out your South African one, but you add up on all your other ones - it would put a lot more pressure on Sydney Airport facilities and customs and immigration and also in the baggage handling area because the baggage has to actually come up and be checked at that time.

MR CROPPER: And then reloaded.

PROF SNAPE: Yes, and then reloaded. That would make a real problem for Sydney, would it?

MR CROPPER: That would certainly add to the workload and would be felt most acutely during peak hours. During the middle of the day on the international side of the airfield, when movements are low, that additional demand would not prejudice our capacity to service the demand as much.

PROF SNAPE: Okay, but there would be a problem. We have been talking about the possibility of cabotage by international carriers and it's not something that probably you would have a much of a view on in general, but I was trying to think how that would affect you, and it struck me that that is an area in which it could affect you.

MR BRYANT: I wouldn't like to call it a problem, more like a challenge in redesigning the flow, the way the airport works, the terminal works.

PROF SNAPE: But you could cope with it.

MR CROPPER: Given the advance warning. If I may come up with an illustration, if the airport was conscious of where these negotiations were headed, if the airport was able to identify what that transit passenger traffic volume would be like it would then be possible to plan the infrastructure accordingly and be able to cope with that additional workload. All you need is some time and some planning to work the budget and allocate it accordingly and build whatever is necessary. Of course, it becomes a major issue during the peak hours, where we feel our constraints most acutely, but it's less of an issue at other hours.

PROF SNAPE: Yes. I must say I prefer the Australian clearance system, having spent many hours queuing up at Los Angeles.

MR CROPPER: Yes.

PROF SNAPE: We've heard a number of comments from airlines, obviously, about the charges which are going on, which are being increased significantly at Sydney Airport and the basis on which you're required to have a CPI minus X, I think, and that you've been hiking the charges quite a little bit.

MR CROPPER: I'm not conscious of the prices having gone up. You might know something.

MR BRYANT: No. We're not quite at the stage where we have to establish a CPI minus X at this stage, and the prices - - -

PROF SNAPE: Actually, the problem was that you're going to CPI minus X.

MR BRYANT: That may be the ultimate position, as the other airports have that have been privatised.

PROF SNAPE: Yes.

MR BRYANT: But prices have remained fairly static at Sydney Airport. There is currently a consultation process in place. That's what the airlines may have been referring to, and we're in the midst of this process at the moment. There are ideas on

the table and there are many more meetings that have to go on - working groups with the airlines - to resolve the pricing that will be in place at Sydney Airport.

PROF SNAPE: Yes. I guess I might be getting it back to front a little bit. I think, as you said, it's the privatised airports which are being limited in this manner, and the suggestion, I thought, was that Sydney Airport was making hay while the sun shines.

MR CROPPER: Was going to or has been?

PROF SNAPE: Well, is intending to.

MR CROPPER: Intending to.

PROF SNAPE: Yes.

MR CROPPER: Yes. Look, just to more or less follow on from what Bill has said, there are many different models, many different approaches, some of which we have put forward, some of which the airlines have put forward, some from even other sources, about how this might be handled, and an open and I trust at most times a very frank discussion about what everybody's issues are. But it really has to be stressed at this point that we are in the consultative phase only and at no stage have we said, "This is how it's going to be."

PROF SNAPE: Good. Well, Helen, how are you?

MRS OWENS: I'm fine.

PROF SNAPE: Okay. Well, I think I've gone through the questions that I had noted. Is there anything that you would like to add?

MR CROPPER: I think we'll just leave it at the submission.

MR BRYANT: And thank you for the opportunity.

MR CROPPER: And we do appreciate the opportunity.

PROF SNAPE: Well, thank you very much for your submission and also for coming today to speak to it. As I say, the transcript will be sent to you, so you can check it out if you want to. So thank you very much for coming.

MR CROPPER: Thank you.

MR BRYANT: Thank you.

PROF SNAPE: The next participant scheduled is the Australian Tourist Commission, who are scheduled at 2.30, and I think they're going to be here at about

that time. They are not here yet as I understand, and so I think we will break and have a cup of tea or coffee and reconvene at 2.30. Thank you.

PROF SNAPE: We shall resume our hearing and we welcome the Australian Tourist Commission and I would ask you if you would like to identify yourselves and then whoever is speaking first, to speak to the paper.

MS HUDSON: Certainly. My name is Margaret Hudson. I'm the manager corporate strategy from the Australian Tourist Commission.

MR LARCOS: And my name is Andrew Larcos. I am the government relations officer at the Australian Tourist Commission.

MS HUDSON: First of all, thank you very much for the opportunity of appearing before the inquiry. I would also start by saying that our managing director would have been here himself but he is, at this point in time, attending what is known as the world's largest tourism trade show which is taking place in Berlin, so given he is overseas you have Andrew and I appearing before you today.

First of all, I will just make a couple of introductory comments about the role of the Australian Tourist Commission so that is established very clearly and then I will move into highlighting a number of the key points that we actually had made in our submission. First of all, the Australian Tourist Commission is a federal government statutory authority. Our main role in life is to promote Australia internationally as a tourist destination. We do that through a number of different ways. We have a strong overseas link and representation in a number of key countries around the world, in terms of cities around the world, including London, Los Angeles, Tokyo, Hong Kong, Auckland, etcetera.

We also have a number of representative officers, particularly in countries which we see as emerging and which, in a longer term sense, we believe will develop into being key inbound markets for Australian tourism. We welcome the inquiry very strongly. Obviously the link between international tourism and aviation is extremely strong. I think it is something like 99 per cent of international visitors actually arrive on our shores by air so therefore the ability of people to actually be able to access this country and then to access areas around the country is something that we're very interested and obviously very supportive of.

What I will do is just refer to a few key issues in our submission as outlined and then I am very happy to take more detailed questions after that. In regard to air service agreements, as outlined in our submission, we are in favour of air service agreements that are slightly less prescriptive than many which are in operation at the moment. Specifically we believe that where air service agreements specify things such as city-to-city points, we believe that that sort of description, in terms of directing where those services must operate, has a disadvantage in terms of limiting the flexibility that carriers can operate within in terms of the long-term planning side of things: looking at their flight facilities and their aircraft and equipment requirements in the long term, as well as their ability to react and change if market circumstances change.

In terms of the overall situation with air service agreements, we're very strongly favouring a situation where overall supply is in advance of current demand. We have seen examples in the past where capacity has been relatively tight in terms of demand and the market is moving very quickly and that, we believe, potentially does have the ability to restrict the overall growth of the market.

I think China is an excellent example where, at the moment, we are in the fortunate situation where the amount of capacity that had been negotiated is well in advance of the demand but we sit here today and know it's from the China market but it is certainly one that, in the long term, even more capacity than is available will be required, the main point being that given that that capacity situation exists, it enables us to go into that market and develop the market very strongly with the knowledge that there are already existing services that don't need to be negotiated to enable that development to take place.

One of the terms of reference that we understand the commission is interested in was the consultation aspect of how in fact various interests, including tourism, are represented through to the stage of the actual negotiations. On that particular point, the Australian Tourist Commission is a member of the tourism advisory group which is under the auspices of the Office of National Tourism in their role through DIST. Within that group we, as do many of the other members, provide input. We believe we're very well-placed to provide input to those discussions and ultimately into the negotiations given, as I said earlier, we have a very strong on-ground presence around the world and we're actually dealing very directly in terms of marketing issues and very aware of some of the things that are actually taking place as they're happening almost in many markets around the world.

I will make some comments also on some of the specific issues that relate to other terms of reference. In regard to I think what is called "own carriage restrictions" the ATC has expressed, in our submission - is of the view that we would like to see foreign carriers able to transport their own passengers from point to point within Australia on domestic sectors.

One of our key objectives - I talked earlier about the fact that obviously attracting international visitors to Australia is our key role but we also have a very strong belief in the fact that visitors should not just be coming to gateways such as Sydney but, in fact, should be dispersed across this country. Economically, that view is so that we see economic benefits translating to a range of areas across the country but also from a tourism experiential perspective, we really want to see visitors getting out and seeing more of this country, both in terms of other cities as well as other regions of Australia. So if that is sort of a policy objective from our perspective, we do believe that there should be all efforts made to try and enhance the range of areas across Australia that visitors in fact are seeing and hence the linkage in our stand on that issue.

Charters is another very interesting policy issue which we have made some comment on, in our submission. We work very closely with a number of charter

operators around the world and we see it as a particularly important way of attracting, in many cases, a new market to Australia. We have had some recent examples in the last few years where we have had very successful charter series. One of the more recent ones - Harlequin from Japan - has in fact been flying Japanese visitors into this country from a range of cities where there are not scheduled services so we believe that it's much more attractive for a Japanese visitor to be able to take one of these charter services from a city where there are no direct services and access a visit to Australia.

Also recently the Canada 3000 series has proved to be very successful again where there are not direct airline services scheduled to operate from that market. We also believe that that service has done great things in terms of the actual bringing in of visitors but, very importantly, in terms of those operators' desire to make their charters work. They're very motivated to want to work with us as an organisation in the overall promotion of Australia.

In terms of our views on charter policy, we do believe that the current policy is relatively liberal, certainly compared to our knowledge of other countries around the world. We don't have any evidence, in fact, that it is impeding charter operators who want to come to Australia. We believe that, in fact, the main sort of drivers of that decision will really be economically based and whether or not potential carriers in a charter sense believe that they can in fact make their service work and make it work profitably.

Finally, I guess one of your key issues is obviously the whole open skies issue and our opinions on that are expressed in our submission. We're obviously very aware of recent moves by countries such as the US and the EEC as a group to move more towards a liberalisation than open skies policies. We have, and I think it's detailed in our submission as well, seen recently some of the impact of the recent US-Japan situation where we're aware that ANA, as a Japanese airline, now has announced that it will be stopping some of its services into Australia so that in fact its pressure slots at Narita can be directed towards the US market.

So in an overall sense, on the open skies issue, we are in favour of moves towards it but with the cautionary note that we do believe that Australia does need to look very much at its relative size as an aviation player around the world and ensure that any moves that we do make towards that sort of liberalisation would, in fact, be of overall net national benefit. It is a very hard call and I guess it's one of those that is very difficult to know until change is made but we're certainly very open-minded towards the possibility of open skies and, in general, are in favour of greater liberalisation. I think I will leave it at that and I am very happy to take any questions on our submission.

PROF SNAPE: Thanks very much, Margaret. By open skies, I guess you mean the definition - the US concept of open skies?

MS HUDSON: Yes. That's even interesting, indeed, in terms of looking at how they are defining it and in terms of some of their own domestic situation and whether or not they are going for full open skies or not. I guess, yes, it is an interesting question in terms of what that term does mean and how one defines it.

PROF SNAPE: I meant without domestic cabotage.

MS HUDSON: Yes, exactly.

PROF SNAPE: I wonder if I could refer to pages 8 and 11. There is a point there that - really, they interrelate a little bit. You're speaking, on page 8, as to how you feel that the air service agreements should be negotiated because the potential capacity is greater than actual demand, you said as you were speaking, of keeping the capacity negotiated ahead of demand. The question I suppose arises of how much ahead and, if we refer to page 11, you there speak - with the introduction of Kiwi and International and Freedom Air - how there was a sudden growth in the traffic across the Tasman; a growth which I think has continued or at least the increased demand has continued even though Kiwi has not.

So it raises the question of how much ahead of demand? Can one really be so confident about one's demand predictions of potential demand - realising that one can only actually measure what is occurring and not what additional demand might be unleashed by new products, whether they be, as in this case, a cheaper product or a product which has greater frequency than before or going to a new destination or whatever - a more seamless connection, whatever the ingredients of the product, as one defines it. If one is introducing a new product, one really doesn't know what demand is going to be so when one is going with the policy of just keeping capacity ahead of demand, what is the demand, or how much a head of existing capacity? Have you got any thoughts on that?

MS HUDSON: It's a very complex issue. I don't think there's a definitive answer in terms of how much demand would be required if, say, an additional service would be needed in a time-frame perspective. I think it differs very much market by market. I think, for instance, if we look at the Asian countries, leaving aside the current situation, that we look in Asia say over the last 10 years where we have seen massive economic development which has, in fact, been a key driver of a lot of that outbound tourism growth - I would say in a situation like that Australia was quite responsive in terms of increasing the capacity with those countries but, in some cases, there were constrictions whilst, if you like, the supply was keeping up with the demand.

So in a situation like that I think the economic drivers were becoming fairly clear: that the outbound travel would be accelerating. That would be a different situation to the one when you were referring to new products coming on at a cheaper price and perhaps, in the New Zealand example, where you have a more stable set of economic factors, then you have other things coming into play, such as a cheaper air fare. So I guess, in an overall sense - "it depends" is a bad answer but I think that's

the best I could say, in terms that it does depend on a range of factors that will drive that demand.

PROF SNAPE: Yes, my point was I suppose that one can never be sure that one is ahead of a potential demand, because one never really knows what the potential demand is.

MS HUDSON: What it is.

PROF SNAPE: Even though one isn't filling up the existing planes on the existing schedules and the existing prices, it may be that you nevertheless are constraining demand.

MS HUDSON: Indeed.

MRS OWENS: I think there's an indication on page 2 of your submission of how difficult it is to predict what's going to happen.

MS HUDSON: Yes.

MRS OWENS: You've got some very interesting figures there, by country, of what's going to happen by 2001 but already those figures are- - -

MS HUDSON: Changing.

MRS OWENS: - - - changing. And, you know, I would say at least four or five of those destinations - Indonesia and possibly Hong Kong, Taiwan and Malaysia - there could be significant changes in all of those.

MS HUDSON: Indeed.

MRS OWENS: I notice Germany seems to have dropped off altogether.

MS HUDSON: Yes.

MR LARCOS: Those figures, Helen, were based on Tourism Forecasting Council predictions from almost a year ago now, so - - -

MRS OWENS: Yes. I think in one of the other submissions we got has actually got some updated figures following the Asian crisis.

MS HUDSON: Yes, the situation there - I'm actually on the Tourism Forecasting Council technical committee.

MRS OWENS: Right.

MS HUDSON: The situation is that the numbers we've used here are their current official forecasts. They did produce a report last December with three scenarios but they had the status of scenarios rather than forecasts as such. I'm aware that new figures for 98 and 99 will be coming out on about 1 April. Then we will be going back into that forecasting exercise with a full forecast being released in June.

MRS OWENS: Just changing the subject, one of the issues that we've talked to other participants over in the last couple of days about is the whole question of Sydney versus other cities in Australia, and we are basically getting two points of view. What comes from the airlines is that really the most commercially viable port for them is Sydney because that's where people want to actually travel to. In their estimation Sydney is not necessarily competing with other destinations within Australia but is more likely to be competing with other destinations around the world for tourist traffic.

At the other end of the spectrum we've got the state governments - for example, South Australia and Western Australia - who are arguing that in fact if things were somewhat different, if we could get some degree of liberalisation - for example, cabotage and so on - then they would have a better chance of attracting more visitors to them. I was wondering if you would care to comment. What is the situation?

MS HUDSON: We certainly acknowledge both points of view as a starting position. I think as the organisation that's responsible for marketing Australia it's an issue that we grapple with and we're very familiar with, in terms of working with all the states and territories and trying to get that balance between promoting Australia as a destination that will in fact make an impact internationally so that people will choose to come here whilst also, as I mentioned earlier, looking at that dispersal issue of making sure people do travel around.

I think most of the states would recognise that Sydney and some of Sydney's icons are going to be key drivers in terms of motivating people to choose Australia as a destination. We in fact see it as one of our roles in terms of our activities internationally with the provision of information and the projection of different images to try and motivate people to see other areas of Australia whilst they choose to come to Australia, so not just to focus on a Sydney holiday. So it's an issue that's very close to our core role and what we are always working with.

We have very strong working relationships with the states and we have developed - perhaps as an illustration to answer your question another way - a program called Partnership Australia where we have specific campaigns with all of the states and territories, and in fact with many of the airlines, both Australian-based and international, where we will promote certain aspects of Australia from an experiential perspective rather than, quite frankly, saying, "Come to Adelaide" or "Come to Brisbane" because many of those cities are not known in the vocabulary of the international visitors we are trying to attract. So we will turn it into more, "Look at the experiential side of Australia and look at what you can actually do while you are here."

MRS OWENS: You can go to wineries.

MS HUDSON: Exactly.

MRS OWENS: You can go to the Hunter Valley, but you could also go to the Barossa.

MS HUDSON: Yes - and try and get away from thinking of state boundaries. Many of the states are in agreeance with that. In discussions the other day I was talking to the Northern Territory and we were talking about the fact of the whole sort of outback adventure experience, and for the Northern Territory and Queensland to work with us bringing together a package that actually looks again at that experience of the outback rugged exploring thing is a good way to go.

I am not sure if that gives you our perspective on that issue. Sydney is always such a valuable asset. A very high proportion of all international visitors to Australia are going to want Sydney. I don't think anything will change. In fact with the Games that will even perhaps become stronger, but from where we sit it's very important to get visitors to other places around the country.

MRS OWENS: You are not trying to attract visitors to go say just to Melbourne or just to Broome or wherever. It's a matter of saying, "Come to Sydney and then go elsewhere" or "Come to Australia" because they know Sydney is here, "and while you're in Australia you can do other things."

MS HUDSON: I would add finally that it does matter very much on the country that you are talking about as a source market. For example, a country like Singapore, where we have a very high level of repeat visitation, we may decide that what we call a mono-destination travel promotion for the Singaporeans may well be the most appropriate, because they had already been to Sydney and Brisbane so in fact they may well want a wine experience and they'd go just to South Australia. But that's more at the margins than if we're talking about the majority of international visitors.

MRS OWENS: The states are actually obviously going to have a different approach. They are going to be trying to promote mono-destinations. They're spending a lot of money doing that and I guess, given what you say, maybe there's too much money being spent on that if that's not the way the tourist behaviour goes.

MS HUDSON: It does depend very much upon market, as I qualified at the end of that answer, and so the way that we work with the states is to make sure that there are different aspects of either combining their programs or in fact we may do in a particular market in one year a promotion just for Western Australia in say some of the South-East Asian countries. We may do one in the UK or in Germany that's more Northern Territory-Queensland based. So it's an interesting marketing mix question of trying to provide the best and the most appropriate combination to attract visitors.

MRS OWENS: Maybe the states should be actually providing New South Wales with a subsidy to market itself and then they will get the spin-off. While we're on promotion, there's the issue of the airlines and their role in promoting Australia, and again there's been two points of view put to us. One is that you really do need national airlines and it's the national airlines that will focus on promoting not just themselves but Australia as a destination, and then others have said that it's not just our national airlines that are doing that, it's also some of the foreign airlines and they've cited, for example, Singapore Airlines. Would you care to comment on that?

MS HUDSON: Certainly on that one we'd specifically take the second perspective that we have excellent working relationships with the Australian national carriers but from where we sit it's also very important to work strongly with foreign airlines. I can give you some examples of how specifically we do do that. You mentioned Singapore Airlines. In the UK Singapore Airlines are our major commercial partner. To give you a specific example within that, when we have television advertising in the UK, Singapore Airlines is the plane that you see at the end of our ad. Now, that agreement is a commercial agreement between Singapore Airlines and ourselves.

I think the most significant point from that is that they are very committed to the Australian market. They have their own commercial reasons why they want to promote Australia. I think they have something like 45 or 46 services a week from the UK connecting through to Australia from Singapore. So commercially for them they want to take - and I'm sort of surmising here but it would seem that they want to maximise those services so it's in their interest to also contribute to destination or promotional advertising.

We work very strongly, as I said, with the Australian national carriers in many of our markets. They have been our traditional partners. We don't have any exclusive arrangements so that we are prepared, if mutual agreement can be made, to work with foreign carriers. I am trying to think of a couple of other examples. We work very strongly in the USA, for example, with Air New Zealand who again in terms of their own commercial imperatives are very interested in maximising the return on their services into Australia so they will contribute significantly to our campaigns in the US.

In Japan recently we launched a new series of advertisements as a new campaign strategy and for the first time we were able to get all four airlines servicing the route, being both the Australian carriers as well as the Japanese, to contribute to that campaign. Now, whilst the contributions may well be different and they come out in different ways, that was the significant factor, to actually get the Japanese airlines contributing to promoting Australia in a very obvious way. Hopefully those examples give you a feel for the fact that we recognise working with foreign carriers is a commercial reality that's an important part of what we do.

MRS OWENS: Yes, I think that's very useful, but you still at the same time think it's essential to have something you can identify as being an Australian national carrier as well?

MS HUDSON: Yes, it's a situation where we work very strongly, as I said, with both national carriers - Ansett, for example when they became international and with their extension into Asia, were very very willing to work with us and us with them. We've had a long-term relationship with Qantas and we can work very strongly with them in most of our markets as well.

MR LARCOS: Could I just add that it's an interesting question that has arisen recently about what constitutes a national carrier where so much of it is owned by say foreign interests, and increasingly, not just in aviation but in telecommunications and a whole lot of other industries, you're getting a situation where the idea of an Australian-owned or Australian-based company isn't really what it has been 10 or 20 years ago.

MS HUDSON: And there are alliances developed as well. We've seen that more as a situation.

PROF SNAPE: Picking up on alliances but more specifically codesharing, and it ties in with I think what you were saying - and here not codesharing by Australian airlines abroad but rather as a codesharing by foreign airlines on domestic flights in Australia - given the example that I - just about every time I travel to Canberra from Melbourne I'm also flying a United and a Malaysian flight and - do you have any evidence of the effect that that codesharing by foreign airlines in Australia on domestics runs - any evidence of the effect of that in spreading the tourists around in Australia?

MS HUDSON: I don't have any specific evidence to offer on that. As a passenger I also often observe travelling on many domestic sectors across Australia the same thing as you have shared with us. I would probably relate it back to our comment about wanting to disperse tourists across Australia and I would be surmising here that on those code-share arrangements, whereby it may well have been easier at the other end of the foreign traveller to book that as a package if they were able to do so - you were talking about a United situation - book that through the US and then have that comfort factor that when they were flying within Australia they see what they're familiar with, and in fact in terms of the way they could buy that whole product it may well have facilitated that. So in that sense we would see that as a good thing, but I can't sit here with any concrete evidence on that for you.

PROF SNAPE: You would presumably support the air service agreements that Australia enters into to have the provision for that sort of codesharing?

MS HUDSON: Yes, we would.

MRS OWENS: Can we keep going with codesharing just for a minute. There's the other sort of codesharing which is on the international routes. Your submission has actually I think given a fairly positive view on alliances generally but you've picked up a couple of potential problems with codesharing and one was the problem of consumer dissatisfaction, which you mention at the bottom of page 7. The other is the possibility of a decrease in the number of Australia ports served. I was wondering

in particular about the first one and whether you had actually any evidence of consumers actually being complaining or expressing that dissatisfaction to you or to any other bodies?

MS HUDSON: On your first point I don't have 10 letters on file or anything like that from individuals, but that comment was based on our European operations where they are in contact with people constantly who are flying on this sector, and it was made as an observation to me that potentially you could imagine if you were about to board a 24-hour flight you thought you were flying with a particular airline, but in fact it turns out that you get there and you're told that you're not. I was also told that in fact when that does happen business class passengers are sometimes called and made aware of it, but I don't think that goes through right to the other end of the plane. So I can't sit here with any specific evidence on that, other than quote what our market is telling us.

I can give you another example on the consumer dissatisfaction side where I understand when the JAL and Qantas codeshare first started up from Japan into Australia there was a major difference in those two services; one was smoking and one wasn't smoking. So you had passengers turning up thinking they were able to smoke for the entire flight and then in fact finding that they couldn't. So that is a specific example which has been quoted to me that did cause a problem. I think that gets to the root of this issue.

If you're on codesharing where a customer has an expectation and if that expectation is just to get from A to B and they don't care about how they get there - apart from safely, one would hope - then it may not be an issue, but when there are distinctions between the type of service offered, and that being a law or a rule-type thing for an Australian carrier versus a Japanese, that did cause an issue.

MRS OWENS: I guess it all comes back to consumer information and how much they are getting.

MS HUDSON: Exactly.

MRS OWENS: I think in Australia at least they're meant to be advised by the agent that you are going onto a codeshare plane. I know when I've travelled to Fiji nobody has actually mentioned it. I've been twice and the first time I didn't realise until I got to the airport that it was not a Qantas plane. So I don't know if there are other ways you can address that problem, apart from ensuring that there's sufficient information out there in the marketplace. But the other issue you raised was about the possibility of reduced capacity on certain routes, and I didn't quite understand why there would be reduced capacity overall.

MS HUDSON: I guess what we were talking about there was that if airlines are looking, in an alliance sense, to codeshare on a flight, it may well be down the line that they may try and rationalise those services. Where, for example, airline A was flying into four different areas of Australia, and airline B was flying into two, it may

well be that ultimately - and again I don't sit here with any specific examples, but I do believe there is a potential through codesharing for the overall number of services to actually decrease.

MRS OWENS: Is there any evidence of that happening?

MS HUDSON: I can't give you a specific example, but I just think it is certainly a possibility. One of the reasons that codesharing obviously takes place is, from an airline perspective, efficiency, and we're very supportive of that in terms of obviously maximising efficiencies for the airlines. The only perspective I'm adding to that is from a consumer perspective; if that was in fact an issue that led to any decrease in overall services or in places served, we would have an issue with that.

PROF SNAPE: On page 6, changing the subject, you mention it's also understood that certain European-based carriers such as Lufthansa have an arrangement with United Airlines that allows these airlines to form some form of open skies, with European-based carriers being able to fly to any points in America.

MS HUDSON: Yes.

PROF SNAPE: Do you mean within America?

MS HUDSON: Yes.

PROF SNAPE: But not cabotage.

MS HUDSON: No, not cabotage, but a situation where the agreement states that they have access if they wanted to fly to Dallas or they wanted to fly to LA or they wanted to fly to New York; rather than needing to negotiate that as a separate part of the agreement, my understanding is that that overall agreement allows them access to different entry points, not within but to different entry points across- - -

PROF SNAPE: But is this agreement with United as you state, or is it just that the agreements that they have don't specify cities?

MS HUDSON: I think it's probably that, but my understanding is that that airline can in fact - it's an airline-to-airline arrangement. Now, whether or not that sits under the overall EC, I think the point we're trying to make there is that the liberalisation has led to a situation where this type of situation can actually take place.

PROF SNAPE: I suppose that the air service agreements that the United States have with members of the EC, or EU, are in fact country-specific, aren't they?

MS HUDSON: Yes.

PROF SNAPE: It's an agreement with the UK or it's an agreement with The Netherlands, which is an open-skies agreement, as I understand it.

MS HUDSON: Yes.

PROF SNAPE: And presumably with The Netherlands, then KLM can fly anywhere.

MS HUDSON: That's my understanding, yes.

PROF SNAPE: I wasn't sure if you were referring to something different from that.

MS HUDSON: No.

MRS OWENS: Can I ask about consultation.

MS HUDSON: Yes.

MRS OWENS: You've got a little section on pages 3 and 4 on the consultation arrangements, and my reading of it is that you think that's working quite well.

MS HUDSON: Yes.

MRS OWENS: I suppose, as in all negotiations, and particularly now there is this sort of a juggling of interests - there's tourism versus the interests of the Transport Department versus the interests of those who are interested in trade issues and so on, and there's the question of whose voices are heard, and if you talk to some of the people interested in tourism they'll argue that it's really the Transport Department ultimately wins out and you talk to them - they say, "No, it's a fair process and everybody gets a say," and the Sydney Airport today said that they have had until recently very little involvement in the whole process, but are now involved through the tourism advisory group, which will pick up at least one aspect of their interests.

But can you give us a sense of your views about how that consultation process works as far as each of the interest groups is concerned?

MS HUDSON: I guess I can specifically really comment on the tourism interest group and, as you acknowledged, when we're coming to a situation of negotiating from an overall Australian perspective there are many different aspects, so I can only really sit here and talk about the tourism angle of the consultation process. As you said, I agree with your comment that overall, yes, we are happy with that consultation process. We contribute to just about all of the air service agreements by way of a written submission, stating our perspective on the market, on its potential, and on potential demand as far as we can go.

We will also comment on different aspects, different cities within a country for example, and where we believe there'll be more growth, based again on our market knowledge of that country. So that sort of input is given both in a written form and then also through any TAG meetings that take place. As we stated here, we also have

a good working relationship with the Department of Transport, so if there's a particular view of something we've thought of after we put the written submission in or something extra that came in, we'd certainly pick up the phone and talk to them about that. So from a tourism perspective of the consultations, yes, overall we do believe that they are satisfactorily conducted.

MRS OWENS: Do you think that the state tourism interests are sufficiently picked up in those processes? We've had one of the states - I think it was Western Australia but it could have been South Australia - argue that the Office of National Tourism wasn't necessarily thinking or pushing the state interests; that there was a tendency to look at the broader national interest, rather than the specific state interests. Is that something that you're aware of?

MS HUDSON: I guess the role of the Office of National Tourism is to try and coordinate a range of what will often be disparate views, so from that point of view I think it's a hard task. I understand that all of the states have an opportunity, similarly to our position, to comment on all of the air service agreements coming up, and I'm sure that they do so, and I believe that all of those views are put as a collective package to Transport.

So in that sense, directly, a state view is included in the package of information that goes to Transport as they're forming their overall view. I think it's a given that there are going to be different priorities from different states, and they're all going to be wanting more services. I wouldn't be at all critical specifically of the way that process takes place. I think it's a fact of life that there will be differences of opinion, and as long as everyone has a chance to be heard - - -

MR LARCOS: Helen, if I could just add on that: Margaret and I are both members of TAG, and we do it on an alternate basis, and at those meetings it's very interesting because you have a meeting room full of state and territory representatives and the airports now, and when we're discussing which countries are priority for negotiations in terms of capacity or operational interests, everyone has a different view. Some might see Singapore is a high priority, and someone will say, "No, Singapore is a low priority." So in terms of the department, they've actually got quite a difficult job in some ways because they're juggling everyone's different issues.

I think in broad terms we all agree on capacity, but there are some operational issues where points or cities are defined in the ASA, and that's a problem, but that's something that has been left over for a few years, for agreements that were made a few years ago, and DIST, I think to give them credit, recognise that that is an issue for, say, Adelaide or Perth, and they're working for the future, when they go to negotiations with particular countries, to ensure that the agreements are not port-specific, that they're open, and I think that's what the states - - -

MRS OWENS: And that's been reasonably successful. Those negotiations now are reasonably successful in not specifying cities.

MR LARCOS: That's right.

PROF SNAPE: I notice on page 12 in the second-last paragraph there you've got a comment upon the length of time from an application to approval of charter service and you would like to see it streamlined.

MS HUDSON: Yes.

PROF SNAPE: Do you have specific suggestions?

MS HUDSON: I would say overall we are satisfied with the policy in regard to charters. We have had a couple of examples where charter operators who we're working closely with in market, have said that it is taking them a considerable amount of time for their application to be approved. Perhaps that gets down to a communication issue or a clarification or forward notice of the amount of time that that application will take. They would be specific suggestions. But overall we're aware that most, in fact if not nearly all charter operators that have tried to get into the Australian market - and certainly in the last 2 to 3 years - have been successful. So I don't think that there is a great impediment at the moment towards attracting charters from the point of view of a regulatory perspective.

PROF SNAPE: Do you think it's necessary to have the additional consumer protection that is involved in charter services; that is, the bond that has to be put up, which is not required in, say, bus tour operators within Australia? In other words, it's an extra element of consumer protection that is put in specifically for charter airlines above the general laws of consumer protection which are operative within Australia, which may or may not be satisfactory in general, but nevertheless they are the general consumer protection laws.

MS HUDSON: That is a difficult issue, and I am aware of that legislation which I believe is a relatively new rather than having a long history.

PROF SNAPE: After the Kiwi Air - I believe.

MS HUDSON: Indeed, and I'm also aware that when one of the recent charter series - I think it was the Canada 3000 series - one of the delays was because they had to satisfy on those grounds. Overall, we are in favour of protection of international visitors, in the sense that if they are stranded, if something goes wrong, that there is protection in line to make sure that arrangements are in place for their return. I guess if you use your example from a charter perspective versus a tour bus or something else, if the charter airline is the way that they have come into the country, then I guess that would suggest there is some more responsibility, rather than if it's just moving them from a point within Australia. So if that legislation was in an overall sense doubling the length of time that applicants were needing for approval or if it was proven it was impeding, then we would be against it, but I don't have any evidence that that is the case.

Harlequin Air, which I commented on earlier, is an interesting case. We understand that they selected Australia as the first country that they would have an international charter service to, and that commenced in December 97. We're also aware there is interest in other countries around the world in more charter services to Australia, so I wouldn't see that that is causing a major impediment.

PROF SNAPE: What about the requirement that it is the operator of the air service rather than the entrepreneur of the charter operation that has to put up the bond?

MS HUDSON: Yes, I guess that's an issue with the ownership side of things, and I'm not really across it in terms of the differentiation between the operator versus the entrepreneur. I think there's often a fair amount of crossover.

PROF SNAPE: Yes, well, there may be crossovers, there may not. If I was to be setting up Snape Air Charters abroad and deciding that I was going to be wanting to fly people from Stockholm to Oodnadatta for the outback experience - I think I'd probably have to come into Adelaide, wouldn't I - to Adelaide, a route which isn't currently directly served, and that I was trying to get people into that and to promote it and so on, and I know that there are a number of charter airways in the world, some of whom, though not all, would have aircraft which would be capable of doing that route, and I want to entrepreneur this. I have to in fact go and essentially tie the airline up before I could start promoting it, because it's the airline, the air operator, that has to put that deposit down and go through the approval process, and it's not me that goes through the approval process.

So I can't really start entrepreneuring this until I've got an airline that's prepared to do it, and that may be the wrong way of going about things. Now, have you given any consideration to that process? Is that holding back entrepreneurs? I mean, in my case it would be Snape Airlines or Snape Air Charter that had to put down the deposit.

MS HUDSON: Yes.

PROF SNAPE: I could have negotiated everything and said, "Yes, I will have an aircraft that meets all the Australian requirements," because I go and hire one that does. It seems to me that that's quite a barrier.

MR LARCOS: You've made some good points actually. I'd be interested to hear what the Department of Transport would say about that when they're here tomorrow, because that doesn't quite jell I think. I think the interesting point that you made earlier about this bond being required that's being put on, and it's not on bus operators or cruise operators or whatever - I think the ATC - we'd be in a position where we would be wanting the regulators to be moving to a position where that bond was lifted after a period of time, where it was demonstrated that charter operations to this country were not having consumer problems or having an adverse effect on Australia's reputation in any way.

I don't think we're across the reasons why they've operated that way, but I would imagine that they placed all those bond conditions there as a way of protecting the industry or protecting Australia's reputation or whatever it might be. But I think the onus is on them to, after a period of time, once it has been demonstrated that this is a secure industry, that the consumers are serviced and well looked after - that you'd move towards removing those sorts of regulations and restrictions I would have thought.

PROF SNAPE: I am also, I must say, a little bit sceptical of statements that are of a form that, "We're not aware that anyone has been refused a permit," because it's always a question of how big that hurdle is and that people know that that's a big hurdle, and it's awful. You can set up an absolutely almost prohibitive set of regulations and advertise what they are, and you won't get people coming along and asking for a permit, and you will be able to say, "No-one who's come along has been refused." So instead of just looking at the outcomes, I think maybe one needs to look at what potential demand may be restrained by the processes and procedures and the rules there. No revealed excess demand doesn't necessarily mean that there has been no restrained demand. So I'd like you, if you could, to be digging a little bit deeper in that thinking perhaps. Well, you probably have.

MS HUDSON: Yes. Well, our comment was based on the fact that many of our overseas offices are constantly working on the fact that we would like to be getting more charters into Australia, so they are in the marketplace dealing with potential operators, and when they are dealing with potential operators and saying to me, for instance, "In 1999 we think there is a potential for a charter," they will then in a facilitation sense talk to me and make sure that they're aware of the guidelines, almost in an informal broker role, because it's in our interests to get more charters to Australia. So we will then look at working with those organisations, so that on the basis of where we've been doing that, this issue has never come up as being the - it's never been said to us that there's any perception from potential carriers, on a charter sense, in not choosing Australia because of the guidelines.

I hear what you say about you never quite know, but from where we sit and the dealings that we do have - the Nordic countries have also, we heard from our European market - there is some interest up there in potential charters, 99 to - well, more like 2000-2001 onwards, in a long-term sense. So our comment is made on that basis of dealing directly with companies that may be considering Australia, and then working to facilitate through an understanding of the guidelines.

PROF SNAPE: Can you get charters going - services going very quickly? For example, let us suppose that there was a cricket competition going on in Australia, and many one-day series and many countries were participating, including let us say Zimbabwe, and it may be that no-one anticipates Zimbabwe getting into the final.

MS HUDSON: And they do.

PROF SNAPE: And suddenly they do, and so suddenly 20,000 Zimbabweans want to come to Australia to watch this unexpected final that they are participating in. That's all occurred and they have now got 2, 3 or 4 days' notice. Could you get charter services operating at very short notice to in fact cope with something like that?

MS HUDSON: I think you'd probably have to ask the Department of Transport how they would respond to that because they would be, as things sit at the moment, the organisation responsible for the year or the year on that.

PROF SNAPE: Yes.

MS HUDSON: I would think the sort of speed you're talking about wouldn't be possible under the current regulations.

PROF SNAPE: Would not?

MS HUDSON: I would suggest would not.

PROF SNAPE: And yet you would probably like that to happen, wouldn't you?

MS HUDSON: Yes, we probably would, but as I said, I think you really need to ask Transport what they would do to try and facilitate that.

MR LARCOS: I think they'd be stuck with 5 days. I think they'd find that difficult. I remember when Harlequin were here, the charter service- - -

MS HUDSON: Japanese.

MR LARCOS: - - - that Margaret spoke about earlier, the one from Japan. That went through reasonably quickly. They came here, they did the rounds, they spoke to us, they spoke to the Department of Transport in Canberra, and it went through fairly quickly - their application, and all the red tape and regulation that they had to go through. We were all surprised at how quickly Transport dealt with that one. I think the Department of Transport were willing to look at that one - but 5 days? I don't know. This came up as well, I think, during the Australia/New Zealand test in Melbourne, the Rugby Union one for the Bledisloe Cup. I think there were a number of - - -

MS HUDSON: Last July.

MR LARCOS: Yes, last July.

PROF SNAPE: Yes. You see, I did choose Zimbabwe because I suppose on a route like that one, carriers would be able to put on additional services. The regularly scheduled ones - - -

MS HUDSON: Indeed.

PROF SNAPE: - - - would be able to put on additional services. Now, there may have been charters as well. I was trying to think of a route in which there may not have been regular scheduled services in which they could suddenly put on additional - - -

MS HUDSON: Chinese New Year is another example where each year a number of additional services are put on both by the carriers servicing the route, as well as supplementaries, as well as, I believe, charter services also trying to operate- - -

PROF SNAPE: But I guess we do know when that's going to occur.

MS HUDSON: We do, although it does change every year. But in general, yes, we do.

PROF SNAPE: Something else that is probably regarded as a bit crazy by some people that I have been floating with a number of participants is to be thinking of an open skies club. You're moving towards open skies I think you say, perhaps the adoption of open skies arrangements with selected countries. Yes, they'd have to be selected, but have you been - it might be outside the area of your interest, but I'd be interested in a reaction to the possibility of a group of countries which are going to - within that group of countries, pluralateral open skies rather than just bilateral open skies, so that, like, New Zealand and Singapore and Malaysia all have open skies agreements with the United States, for example, and if Australia were contemplating that, we might say, "Okay, let's form an open skies club," which is in fact not just open skies on a hub and spoke basis with the United States, each of them having a link with that, but rather all having them against each other.

MS HUDSON: Well, it's certainly an interesting idea, and quite in line I guess with our thinking about moving more towards liberalisation and some form of open skies, however that may be defined, as a way to move. Picking up on your comment that when we talk about selected countries - if a club was to include countries where, again, the overall net national benefit could be demonstrated then, yes, I could see some merit in that concept.

PROF SNAPE: The idea, if I may, Margaret, in part would be that it would be an open club. It would put pressure on countries which would not otherwise perhaps participate in it.

MS HUDSON: Yes.

PROF SNAPE: So that if in fact you were able to get Singapore, Malaysia and New Zealand, Australia, maybe the Philippines, that would put an awful lot of pressure on Hong Kong.

MS HUDSON: Indeed, and I would comment that if we're looking at a situation at the moment where more and more countries are moving to open skies, we have to, from an Australian perspective, see whether in fact we'll be out of the club, so to speak, at this point in time. We're over there, whereas other countries are moving much more towards - - -

PROF SNAPE: Put the pressure on us.

MS HUDSON: Indeed. So in that sense, yes, I think that idea has merit.

MRS OWENS: With open skies, you mention in your submission that there needs to be a net national benefit. Can you give us any guidance as to how you would judge the net national benefit, what sort of factors you would think about?

MS HUDSON: Yes, a difficult one. I think what we're referring to there - and there is a comment in the submission that talks about: the overall relative size of Australia as an aviation player, perhaps compared to some of the bigger countries such as the US, with such a greater domestic population for a start, has an impact in terms of just the range of services across that country. So if you look at the net national benefit perspective, you would want any sort of an open skies to be able to demonstrate that. As it says, in an overall sense Australia would benefit, "in an overall sense" being economically, from a trade perspective - much greater than just the tourism angle of course - so that the negotiations would be a win-win situation for Australia or, you know, as all negotiations go, win and lose to some extent. But in an overall sense we would benefit more than in the way that negotiations currently take place.

If you think about most of the air services of the world, given Australia's location in the world, I think it's particularly relevant for us because, apart from the so-called neighbouring countries, most of our flights do require access through other countries. So therefore, looking at the net benefit, you'd have to be looking at the pros and cons of those sorts of arrangements versus the current situation where we'll negotiate separately with each country. So in that sense, that club idea I certainly think is relevant there as well.

MRS OWENS: The other issue which you also pick up in your submission is the issue of cabotage, and you've talked about it, Margaret, in your opening comments - about own-carriage restrictions and arguing there that they should be lifted - but I think our understanding is that there's already some degree of freedom on that within quite a number of the air service agreements already. Are you aware of that?

MS HUDSON: I'm aware that some have it, but given we have a situation where we're negotiating separately with each country at this time and those negotiations - a lot of them have a lot of history, and in a trade-off situation my understanding is that not all in fact do have that. So I am certainly aware that some do. I think Japan is one where there is ability to fly within, and our stance on that is that we think that should be opened up so that all ASAs would state that airlines can carry their own passengers around the country.

MRS OWENS: So we'd just do that unilaterally, would we?

MS HUDSON: I'm sorry?

MRS OWENS: We'd do that unilaterally?

MS HUDSON: Well, I guess if you're sticking to the same arrangement of one-on-one air service negotiations, we would say that in each of those negotiations that should be looked at, and you'd have to be looking at the reciprocal side of things as well I guess in terms of what other countries were prepared to offer Australia.

MRS OWENS: Which means nothing might happen ofcourse.

MR LARCOS: I think our view would be that Australia wouldn't necessarily move to a position where we would be offering foreign-based airlines own-carriage rights within Australia on domestic routes unless we got them in return. This is a key link with open skies. For instance, the United States may go around bandying about the open skies concept, but for them it's a particular idea of open skies and they haven't offered anyone the right to cabotage, pick up passengers in LA and take them on to Chicago or New York or whatever. If we wanted to move that way, that's fine, we'd like to go that way - Qantas and Ansett could quite clearly pick up passengers and do that - but for them, they're not wanting to return the favour. So I think if we can negotiate that in a bilateral sense then well and good, but- - -

PROF SNAPE: It isn't such a pressing issue to you that you would want own-carriage rights without any quid pro quo, or would you say that you think that this is holding back tourism so much in Australia - well, holding back foreign tourism to enough degree from abroad that we should just unilaterally, without any quid pro quo, go to own-carriage within Australia? I'm not talking about other cabotage of domestic passengers, I'm talking about own-carriage.

MS HUDSON: We would probably say, given the current arrangements, it needs to be negotiated within each ASA, but as an overall stance we'd be wanting a move towards it for all of those negotiations.

PROF SNAPE: It's a pretty high priority for you?

MS HUDSON: Yes.

PROF SNAPE: Now, if that meant that - as it would - the international carriers are carrying a larger proportion than they are at the moment of passengers who already cleared Australian customs and immigration in another port - that is the people who stopped over in Brisbane on Korean Airlines and then next week are catching the Korean down to Sydney have already cleared customs and immigration - they don't have to go through it again? It means that the international airlines would be carrying

a greater mix than they are at the moment of already cleared and not-cleared passengers.

MS HUDSON: Yes.

PROF SNAPE: It may be that that could then lead to pressure for clearance at first port of call as in the States, which I find a nuisance. Most people do queue up at either Honolulu or Los Angeles if they're flying onto somewhere else. Would you find that as a bother from the tourism perspective to be instituting that first port of call clearance?

MS HUDSON: It probably would depend airport by airport as well as how that was handled. I am familiar with the US situation you quote where, yes, it is a real pain. Yes, look, that's a hard one to tell. As I said, it depends on the airport itself and how well equipped they were actually in terms of their carriage, their throughput of visitors, but potentially the issue you raise is a real one in terms of differentiation between those that have and haven't cleared. I would hope that the good working relationships between customs and immigration and the airlines - that are a way towards that would be found.

PROF SNAPE: Well, my point basically is if the nuisance caused by first port of call clearance - if that outweighed - if that was the way it had to go because of the increased mix of already cleared and uncleared passengers and luggage, it meant that it was going to be first port of call clearance. That would have a disadvantage for tourists which might outweigh the advantage of being able to go on their own airlines.

MS HUDSON: It could possibly. As I said, I'd be an optimist on that one and hope that ways could be found around that facilitation issue.

PROF SNAPE: Okay.

MR LARCOS: I'd disagree. I mean, I'd agree but I think I'd find the Department of Immigration, which would have quite a say in this, would be very keen to ensure first point of call was maintained. I think that would be their view and they'd really argue that one quite strongly.

PROF SNAPE: I didn't hear, I'm sorry.

MR LARCOS: The Department of Immigration would argue quite strongly that first point of call remained the first entry. That was - - -

PROF SNAPE: If it were to go - - -

MR LARCOS: If it were to go that way. I think they would insist.

MRS OWENS: I've just got one more question and that relates to something you've got to page 10. I was just looking at it then and I thought, "I don't understand this."

Well, I think I just need some clarification. You're talking about fifth and sixth freedom rights at the top of page 10 and you argue that there are situations where, "Our carriers want to get access to fifth freedom rights but are very reluctant to" - that the foreign base carriers get fifth freedom rights at this end. You argue then that, "Consideration should be given to granting fifth and sixth freedom rights to foreign carriers. These rights are held by Australian-based carriers." Is that common where our Australian-based carriers have got them but the foreign carriers don't? Do you know?

MR LARCOS: Well, that's something that's negotiated as part of the ASA. It's more the sixth freedom right where a foreign-based carrier has got passengers, comes to Australia and continues on to, say, New Zealand. My understanding with the Department of Transport and the Department of Industry, Science and Tourism in Canberra has been that they are reluctant to offer that to foreign-based carriers.

PROF SNAPE: That's the fifth freedom.

MR LARCOS: Yes, sorry, the fifth freedom and therefore they're reluctant to offer that and that's something that foreign-based carriers are very keen to have for obvious reasons. So it's basically been an argument from Canberra, the two departments in Canberra, that that's been their position; that they're reluctant to offer it to foreign-based carriers unless it's given to Australian-based carriers. That's understandable in a sense that, you know, unless Australian-based carriers get the return favour - - -

MRS OWENS: Are there any agreements that you're aware of where our airlines have got fifth freedom rights but the others don't?

PROF SNAPE: Singapore have freedom to go from Sydney to New Zealand. - yes, they do.

MRS OWENS: Anyway, you've just got me thinking about it. You talk about it in terms of equity - I'm just wondering if we're already in a situation where we've actually got fifth freedom rights and foreign carriers don't have them. I mean, are we going to do that in a trading situation where we will expect something else in return or whether that would be something - you argue that there are significant benefits in terms of encouraging a greater level of competition if foreign carriers have got fifth freedom rights and as such it would be worthwhile in its own right without trading anything presumably.

MR LARCOS: Yes, I'm not sure where you're leading to, Helen.

MRS OWENS: It's a similar question to what we were asking before about, you know, when is it worth trading something and when is it worth just doing it unilaterally? If it's a worthwhile thing to have is it worth just doing it and just saying, "You can have these freedom rights; we don't expect anything in return." You talk

about the competitive discipline on the Australian carriers which, from a tourist point of view, if it keeps prices down or whatever, that's - - -

MR LARCOS: That's a good thing, so ultimately for us from the ATC's perspective it would be a good thing; it would be a good outcome because the competition would in theory lead to lower prices and therefore consumer service and consumer choice, which is a good thing, and therefore have a positive impact on international tourism. So, yes.

PROF SNAPE: Good, thank you very much. We've been talking for quite a long time with you. Thank you very much for your submission and your patience with us and also for your helpful comments which will be a helpful input into our draft report which, as you know, is due in early June, and then people can tell us what's wrong with it and we'll take it from there. So thank you very much.

MS HUDSON: Can I just say one final thing which may be of interest to your inquiry and that is that we have some news clips from Japan perhaps in terms of how the Japan-US air pact is being reported and I'm happy to leave them with you if that is of interest.

PROF SNAPE: Yes, thank you very much. I think Gerry will pick that up or one of the staff members. So thank you very much for that. We don't have the Cabin Safety Working Group here yet but they'll probably be coming shortly. We'll give them a little while. I think theirs is a fairly small submission, a short submission, and I don't think that they're expecting to spend a great deal of time discussing it but I think that's what they indicated to the staff previously. Maybe if we adjourn and grab a cup of tea or coffee and if they arrive in 5 minutes then we might reconvene in 5 minutes. If they're not here till 4 o'clock, then we'll wait till 4 o'clock. So, if we may adjourn in that slightly uncertain state, it would enable us to reconvene at an appropriate time. Thank you.

PROF SNAPE: Well, we resume our hearings into the Air Services Inquiry. We welcome the Asia Pacific Cabin Safety Working Group and I would ask, Peter, if you would identify yourself and whom you are representing and then speak to the paper which we have.

MR BUDD: Thank you. My name is Captain Peter Budd and I'm chairman of the Asia Pacific Cabin Safety Working Group which is an initiative of the Australian Society of Air Safety Investigators, and in speaking to the paper I point out that the group comprises 90 safety specialists from the airlines: from labour, from aviation safety professionals and others that are interested in advancing cabin safety, and reiterate the recommendations we have made to this particular inquiry and welcome the opportunity to be able to present.

We certainly recommend that if the Australian aviation system is deregulated that the Civil Aviation Safety Authority is restructured to operate in the same manner as, for instance, the Canadian Civil Aviation Safety Board. We further recommend that the Civil Aviation Safety Authority is resourced to ensure that standards are met. Our third recommendation to you is that the Civil Aviation Safety Authority should have a dual role: the first to define and to implement cabin safety standards, and the second is to conduct regular audits of the service providers.

The rationale for the recommendations to this inquiry is that in summary we would believe that it's not possible to deregulate cabin safety or safety per se, risk management. Our argument is that if we did deregulate cabin risk management, our experience has been that you tend to drift towards the lowest common denominator, and in this day and age of economic rationalism in our industry, when this occurs, airlines can't afford to be world's best because they are put at an economic disadvantage.

That being the case then, and the fact that the public need also to be protected, it is our argument that the playing field needs to be defined, and the regulator is the best person to act on behalf of the public in defining that playing field. Not only does the playing field need to be defined but equally so we need to ensure that there are umpires on the playing field to ensure that everybody abides by the same set of rules.

That's in essence the rationale that we have used. We have offered the inquiry the option of the Canadian system, because the Canadian system has been mentioned by the inquiry as being a yardstick. In cabin safety risk management matters the Canadians are undoubtedly the world leaders in terms of managing risk in the cabin. So they might have a very strong deregulated environment, very competitive; however, when it comes to cabin risk management, the regulators in Canada are very, very strong in ensuring that the public's welfare, their safety, is taken into account. We commend the Canadian system to you as a holistic package.

That summarises where we have come from. We feel that it is inappropriate to leave the public - the risk to be after the event. It's too late after the accident to say, "We should have had this in or we should have had that in place." The group will not

plead any further. We will just simply put the case to the inquiry and to the public as a whole and say these things are necessary. We hope that we don't have to go along after an event and say, "Because of the deficiencies within the system that were identified before this accident blame needs to be apportioned." It is not our desire to apportion blame, but just simply to ensure that the people who fly on an Australian-registered aircraft or aircraft that are operating in Australian airspace have at least the levels of risk management that one would expect in other places in the world.

PROF SNAPE: Thanks very much, Peter. This inquiry of course is on international air services.

MR BUDD: Sure.

PROF SNAPE: I was wondering with the Canadian procedures that you were referring to, or the Canadian standards and procedures, that they would be applied to Canadian-registered aircraft.

MR BUDD: Yes.

PROF SNAPE: But they're not able, I assume, to impose those on foreign airlines flying to or from Canada, are they?

MR BUDD: No, not all the rules would be able to be applied. There would be certain rules that all carriers - like, for instance, the Canadians might have a requirement for a ground proximity warning system, which is not a cabin function, to be installed on aircraft that either are Canadian-registered or operate in that environment. The Americans would have that rule. So we would have the option, and the Canadians would have the option, to require airlines that are operating in Canadian airspace to be equipped to a certain standard; they do have that right, and there are areas where they would enforce that.

PROF SNAPE: They would be essentially things associated with navigation.

MR BUDD: They can be but they can also legislate in other areas as well. It doesn't have to be specifically navigation. I just picked ground proximity warning systems because it came readily to the top of my head as one, for instance, that the Americans required. TCAS, in the case of the Americans, is an example of that.

PROF SNAPE: How does this mesh in with the ICAO agreement that planes - if I have got it right for ICAO - that it is the country of registration? If the country is a member of ICAO, then other ICAO members accept those standards?

MR BUDD: Sure.

PROF SNAPE: They accept it as certifying and accept the standards.

MR BUDD: Sure. In the case of certification that is correct. From an operational point of view a contracting state - and I use the example of the traffic control avoidance system, the TCAS system. It is not required in Australian aircraft, but Australian registered aircraft that would want to operate in America need to be fitted with that particular piece of equipment. So in that particular case, what I'm saying is that in relation to other risk management initiatives it is possible for a contracting state to require aircraft that are operating into that state to be so equipped.

PROF SNAPE: If we look through the set of points which you have got at the bottom of page 1 - - -

MR BUDD: Yes.

PROF SNAPE: - - - and go through those, how many of those could be imposed upon the aircraft of foreign countries?

MR BUDD: Immediately, sir, the cabin baggage standards could be. Procedures for inflight violence could be, and passenger briefing requirements could be.

MRS OWENS: And what about the others - they couldn't be?

MR BUDD: Ma'am, to be quite honest with you, to give you a very straight answer I would have to go back and get back to you on that. I don't want to give you an answer that is only half-baked.

PROF SNAPE: That would be quite useful. If we are following your line, we don't want to be recommending something which in fact couldn't be enforced.

MR BUDD: Sure. Along the same lines I don't want to be here having my own credibility shot to pieces by saying to you something that later on you have said, "Well, he's shot from the hip" or something like that and proven that the case - my overall case has been shown to be weak by an indiscretion on my behalf.

PROF SNAPE: I didn't give you the full version of my usual introduction, which I usually say just at the beginning of the day, and part of that goes like - after asking you to identify yourself, we then say information provided is often used in our reports. We therefore ask participants to be as accurate as possible with comments and answers.

MR BUDD: Sure.

PROF SNAPE: If there is any doubt about the accuracy, then if we can get back in touch with you or you can get back in touch with us to straighten that out.

MR BUDD: Okay.

PROF SNAPE: Finally, transcripts of today's proceedings, the part in which you are involved, will be sent to you so you can check them out.

MR BUDD: Sure, thank you, and I will do both of those things.

PROF SNAPE: Thank you. You have summarised the Canadian procedures there. Would it be useful for us if we had a fuller specification? You say they're very comprehensive. Is it a very big document?

MR BUDD: No. The Canadian regulations are available. Yes, it is a comprehensive document, it's as large as our civil aviation orders, or the parts pertaining to the cabin risk management aspects of the Australian rules, but they are public documents and readily available.

MRS OWENS: Yes, I'm really interested in the Canadian regulatory framework. If you do talk about it as being world's best practice, I would be really interested to know what they do that other countries aren't doing.

MR BUDD: All right.

MRS OWENS: You made the point right at the end of your submission that they have, for example, 19 cabin safety inspectors.

MR BUDD: Sure.

MRS OWENS: We have only got one qualified cabin safety inspector. I gather he or she must be kept very busy.

MR BUDD: We don't have any, I'm afraid. I've got one - -

MRS OWENS: Not one.

MR BUDD: Sorry.

MRS OWENS: Not one. I missed the "not". So we have nobody that takes on that function?

MR BUDD: No, ma'am, no, not specifically.

MRS OWENS: What about the other countries? What about the States?

PROF SNAPE: The airlines themselves do in fact do their own inspections and so on within Australia, do they?

MR BUDD: They're not - - -

PROF SNAPE: They monitor their staff fairly carefully in these regards, don't they?

MR BUDD: Under legislation their practice - individual airline practices will vary from one airline to another. Some airlines have none. All airlines will always meet the minimum requirements under the civil aviation orders. So airlines' commitment to the process will vary from one airline to another.

PROF SNAPE: But an airline which is trying to establish itself as a quality airline, which both the Australian international airlines do, and they attach very priority to that as I understand it, in pursuit of that image, and not only the image but the reality, they devote quite substantial resources to trying to monitor and enforce things such as this.

MR BUDD: Could I put this to you: as was said in the paper, prior to deregulation here what was said is very true. Australian airlines were world's best practice. Since deregulation specifically and the advent of non-operational people heading the airlines, it has changed. The airlines will always do what is required by the rules but what we have seen in recent years is the airlines will not commit resources to areas that they are not required to commit them to. And I will use the example of crew resource management training which has been used overseas for a number of years. Certain airlines in Australia have committed to that with varying degrees of commitment and resource allocation. Some airlines have done it only for the pilots, some airlines have done it in part with the flight attendants, even fewer airlines have done it together.

In the case of emergency procedures training, world best practice says that crews should train together. The analogy I always use is a soccer team or a football team. It defies me how anybody could ever accept that the Wallabies or the Kangaroos would train the forwards on a Thursday and the backs on a Tuesday and expect them to be an operational unit on Saturday. The public would not accept that sort of rationale. Yet in our aviation environment we will do that. The pilots train separately their emergency procedures to the flight attendants, yet when it really counts those crews have never worked together in that sort of environment. They are not required to under our legislation to do that.

The airlines find it exceptionally difficult and expensive to commit those sorts of resources to combine training. So they don't do it. They don't feel that it's cost-effective. They're not being illegal. So in summarising your perception, sir, yes, I would agree with you. In days gone by the airlines in Australia were specifically world's best practice. In this day and age I would hasten to say to you that it would not be my opinion that that is the case any longer, and the cabin safety working group's formation was in part due to the fact that things had slipped here so badly. It concerns me that the South Africans, the Brazilians and the Singaporeans have better legislation for their passengers than we have here. The airlines here know that age is a problem, they know that communicable diseases are a problem, yet we don't have, for instance, any medical standards for flight attendants.

We have flight attendants who are so obese that they cannot get out of an over-wing exit, yet we have discriminatory laws that prevent you from firing those people from flight attendant duties. We have flight attendants in this country who are legally deaf, yet they still operate as cabin crew. Why? Because it's discriminatory to terminate somebody's employment because they're deaf; yet the airlines are aware of this. They are not being illegal when they don't do anything about it. You might say it's immoral, but that's a question of morality. But straight from a legalistic point of view, it's not.

So one thing we've endeavoured to do in the regulatory review was to have flight attendant duty standard implied for their medical standards, for instance. The airlines rejected this because it would necessarily perhaps come under the requirements of a licensing process. The airlines don't see a cost benefit in that.

It concerns me also with flight and duty time limitations. We don't have flight and duty time limitations in Australia. That means that you can work cabin crew as long and as hard as you want to. The only requirement is that there is an industrial agreement. What I'm saying to that is that I could start an airline tomorrow and tell the cabin crew that they're going to work 30 or 40 hours at one go, and I would get people to do it. Whether that's in the best interests of the public or not, not only is it debatable, but it's certainly not in the public's best interests.

PROF SNAPE: You might have a cheap airline but you might not have one in which people have a lot of confidence.

MR BUDD: That is very true, but you'll have confidence until they have an accident, but until the time they have an accident what inevitably happens is that the other good airlines, to be cost-effective, also then have to shave off and spending or allocating resources to those sort of safety areas. It becomes a catch-22. You say, "The competition aren't doing this so we don't do it, we can't afford to allocate those resources." That excuse, that rationale - not excuse, that rationale is currently used between the two international airlines that operate out of Australia.

PROF SNAPE: It doesn't apply to Mercedes, does it? In other words, in car manufacture there is a range of products and there is a range of products of safety levels and trade-off for price - - -

MR BUDD: Sure.

PROF SNAPE: And people are aware there are minimum standards legislated and which in terms of seat anchorages and so on - - -

MR BUDD: Sure.

PROF SNAPE: - - - which all cars which are registered in Australia or most other countries have to adhere to. But nevertheless there's a lot of discretion, and it isn't a matter - as I understand it - that all the manufacturers are going to the lowest

common denominator. On the contrary, they target different markets and they don't all offer Rolls Royces.

MR BUDD: Sure, I hear what you're saying, and let me say this to you then: likewise the British, for instance, have a requirement that flight attendants will not operate more than three types - that's a safety requirement - that's three types of aircraft. One airline in Australia has arbitrarily limited the number of crews that it requires to fly to five times - that's an economic decision - but it's theoretically possible for that same airline to ask the crews to fly 12 aircraft types from four manufacturers, and it's illegal in this country. Yet the British rule has been in place for 8 or 10 years. We haven't seen the airlines in this country rise to that standard.

There's a requirement in the smaller aircraft, 737s for instance, at the over-wing exits. In America, for instance, in those particular aircraft you're not allowed to put infants, you're not allowed to put people who are disabled, you're not allowed to put people who are incapable of performing the duties required to open that exit - that rule, sir, has been in the States for 15 years or more. My cabin safety working group has been trying for 6 years to get the Australians to follow suit. No Australian airline has arbitrarily taken that on as a matter of best practice. There's no cost to the airlines, it's just a convenience factor. So I hear what you're saying about Mercedes. I guess, yes, that's a very good analogy. From the real world, my real world experience is that I'm yet to see an Australian carrier as we stand voluntarily, under the current economic regime, adopt any practices that it's not required to adopt.

PROF SNAPE: I think I can observe some of the Australian carriers still implementing some of the things which are required rather more stringently than some other airlines, and I refer in particular - the one that the passengers encounter - and that is on the size of carry-on baggage, which is fairly well enforced by Australian airlines, both domestic and international. If we are focusing on the international - in a number of other airlines one can see that that is not enforced at all - so in that case it would seem that something is being enforced. It is a requirement but in fact it is being enforced in Australia and it's not being enforced in some other places. They haven't competed to the bottom in that one. They haven't in fact said, "Okay, others aren't enforcing this so we'll stop enforcing it."

MR BUDD: Okay, to that end, sir, I'd have to make this comment: the Australians have had 2½ years to adopt the Canadian procedures as far as a package of initiatives go for cabin baggage and the Australian airlines have not unilaterally decided to go down that path whatsoever. I hear what you're saying about the Australian standards, the enforcement of rules with relation to cabin baggage here being better than some other places, but I'd have to say to you that by comparison to the Canadian initiative, the Australians pale into insignificance in terms of their commitment in a holistic sense to that particular process.

MRS OWENS: Are there other countries that are going down the Canadian route? I'm still interested.

MR BUDD: Sure.

MRS OWENS: I know there have been problems in the States. I wonder what's happening in the UK or in the European Union, or is Canada out there at one end of a spectrum?

MR BUDD: No, the Canadians are probably 2 years in front or 3 years in front of the Europeans, the JAROPs are certainly quite specific in their requirements. The South Africans are certainly world best practice at the moment if you are looking for a holistic sort of thing, but they don't have the infrastructural support that the Canadians do. But what the South Africans did was took the best of the British, the European and the Canadian rules and put it into one package. The Singaporeans use the best of the British and the American rules and by the "best" I mean those that are going to give most assistance to the risk management aspects of it.

The Americans are bound up by legislative rules under which the FAA is governed. The FAA has that dual role of regulator and also the promotion of aviation as a means of transport. The Americans have been certainly bound up by that child restraint, for instance, and there's another example where Australians are very aware of the fact that we don't restrain children, infants in an aircraft. We're aware of the hazards but we just simply turn a blind eye to it. We're very happy to hide behind the American rationale that if we were trying to get aviation promoted that if we required infants to have a seat instead of sitting on an adult's lap - the Americans worked it out that it would be \$US180 more per family per year to travel and at that stage they would then get out of the more safe medium of aviation into the less safe medium of the roads.

When I turned that upon the same regulators and said, "Well, if your aim is to get more people off unsafe roads, then why not offer stand-up capacity in the holds of the cargo containers?" there was a cry. I mean, you'd never accept the fact of standing up in a cargo hold as being an acceptable risk, but we're quite happy to put an infant on an adult's knee, subjecting the adult and the child to grave injury and/or death in the case of an accident, and to become a missile to everybody else in the cabin. That's an acceptable risk.

So in terms of the Australians, the Australians again, you know, are quite prepared when it's necessary, on an international basis, certainly to not adopt world best practice, or any practice for that matter, unless it's required by legislation. That is a classic. The problem has been here for a long time and everybody has just put their head in the sand.

MRS OWENS: Aircraft are also working environments, so I'm wondering whether our OHS regulations pick up some of the issues, or some of the problems - -

MR BUDD: Sure.

MRS OWENS: Meet some of the gaps that you're suggesting are there, or potentially could.

MR BUDD: Yes, they do, and OH and S, as far as aviation goes, is somewhat in its infancy, particularly the application of it. But yes, OH and S is filling in some of the voids, as far as the crew work environment goes - yes, you are quite right.

PROF SNAPE: You mention that the Civil Aviation and Safety Authority may not be resourced enough.

MR BUDD: Yes.

PROF SNAPE: Are there problems with CASA, and what are they - just money or what?

MR BUDD: No, it's commitment, sir. It's a will at the highest levels of CASA to commit to this sort of process. In our case we've been trying to work with CASA for 4 or 5 years and we cannot identify anybody in CASA who feels that it is responsible for this sort of practice. We invariably meet with ex-air force officers who perhaps - in fact we had on the cabin safety working group for a period of time a CASA representative who was a specialist in dangerous goods, and I understand that his previous employment before coming to CASA was a load master in the air force. There is just no commitment to it. BASI have made recommendations to CASA and it's only been in the last 12 months that BASI have actually employed a cabin safety investigator. They had had one person, a British lady, for a couple of years. She got moved. In fact she went to CASA and it was only - as I said - in the last 12 months that BASI have hired another cabin safety investigator.

PROF SNAPE: I suppose if one is trying to get better standards internationally then ICAO is the forum - is a forum at least to prevent the race to the bottom, if you like to put it that way, and that way at least one would raise the - through ICAO - minimum safety requirements.

MR BUDD: Sure.

PROF SNAPE: How effective is ICAO in enforcing safety standards, and is there a possibility of you operating on ICAO rather than on Australian- - -

MR BUDD: The contracting states, sir - ICAO can't compel the contracting states to adopt anything. The contracting states have the right to have differences. ICAO will have a set of annexes which are recommended procedures but there's, from my experience, no - it's as if contracting states are not required to specifically adopt all of those and they can have differences; every state does have differences. ICAO is slow. If you and I wanted to change a rule in ICAO today, if we started with full commitment it would probably be 10 years from the beginning of the process to a rule change. In fact the divisional meetings for annex 13, which involve a lot of safety issues, only occur possibly every five, or every 10 years. Once the divisional meetings

occur, the full assembly has to vote on it, so it is a very bureaucratic process, and a very, very slow one. That's been our experience.

PROF SNAPE: I suppose if the United States and the European Union would be prepared to say that they will withdraw from ICAO or no longer be prepared to recognise the registration aspect of standards - thinking about the standards of other countries - that they would in fact suspend the rights of other countries to fly the aeroplanes of other countries unless, I suspect, it would take rather less than 10 years.

MR BUDD: Most definitely, and the Americans, sir, as you're probably well aware, are already doing that to the states that they join with in flight. They have a three-tiered system: category 1, category 2 and category 3, and they go out and look at the states of the airlines that are operating to the States and they look at the infrastructure of the regulators within those states to determine whether the regulators have sufficient infrastructure to be able to ensure that the standards of the airlines operating from those countries into the States are at acceptable levels.

PROF SNAPE: That really doesn't conform to ICAO.

MR BUDD: No, sir, not at all. In fact, ICAO now is in the process of considering adopting some sort of policing standard of the same nature but the initiative was originally American, yes, sir - straight out - and it occurred primarily after the 707 accident in New York.

PROF SNAPE: The one that ran out of fuel?

MR BUDD: That's correct, sir, yes. That accident was some years ago and, yeah, if we're using that ICAO business of showing how slow the ICAO system takes, that's a very good example of it; that the Americans have had that sort of practice in place for a number of years and ICAO is just getting around to perhaps going down the same path.

MRS OWENS: With foreign airlines coming into Australia, we heard yesterday from the Australian International Pilots Association that basically the ICAO standards, they said, are unenforceable. Is that consistent with your views?

MR BUDD: Could you elaborate on what they referred to?

MRS OWENS: We asked about whether there was anything we could do at this end to maintain safety levels for foreign aircraft, foreign airlines coming into this country, and we were talking particularly about if there were changes to the cabotage arrangements, the possibility of Indonesian aircraft coming into certain domestic routes in northern Australia and we were trying to decouple the safety issues from the other issues and the association suggested that we would still run into safety problems because the standards would not be enforceable here.

MR BUDD: Certainly at the moment there is no infrastructure within the Civil Aviation Safety Authority to audit any aircraft from the cabin side - you know, there are operations inspectors that are flight operations inspectors but if the International Pilots Association are referring to the ability to inspect or whatever, certainly in the area of cabin risk management they would be right because there is just no expertise currently available to be able to go and do some sort of audit on a carrier or its operation, at this stage, in this country - so yes.

MRS OWENS: Would our carriers - if we were say flying into the UK - be inspected?

MR BUDD: I think that the contracting state has the right to review the crew and its procedures, yes, but I would prefer to take leave on that, rather than give you information that is possibly misleading.

MRS OWENS: Have you got any idea of what the views of the airlines would be to your proposal relating to the Canadian system? Has that been tested with the airlines?

MR BUDD: Yes. Ma'am, could I say this: it really depends what part of the airline you ask. If I went and asked the marketing people, they wouldn't be interested in it. If I spoke to the people in flight safety or in flight safety specifically, under which cabin safety comes, those people are members of the cabin safety working group and they support this sort of initiative. But inside of the airline you have really got three or four competing entities that at times you would think are not working for the same common goal. Operations, engineering and the commercial aspects and safety are all competing for limited resources and so the airline itself - the word, "Who is the airline?" - is really the point of question.

As I said, in my case, if I go along to the cabin safety people and say, "This initiative is worth consideration," they will give you 110 per cent support; but where you come back to this situation is that they cannot force an allocation of resources to this good idea unless there is a cost benefit which can be shown and/or it is a legislative requirement. That is why things like the over-wing exit seating we talked about; that's why the crew resource management; that's why the combined emergency procedures training initiatives; that's why flight and duty time limitations; that's why medical standards; that's why licensing for cabin crew are all very good things that they will tell you but issues that will never get up under the current regime because they're not required. Because at this stage the airlines are controlled predominantly by the marketing people.

MRS OWENS: But you suggested that they may oppose the proposal on a cost-benefit basis but you don't think that that's an appropriate criterion when it comes to standards?

MR BUDD: I think it's great, provided you determine how you're going to determine the cost and the benefit, and it's the benefit part that really then becomes subject to debate. Like, as I said in the case of the Americans, somebody decided that

it was \$US180 more per year for a family to travel if you required kids to sit on a seat. Nobody ever debated that issue of how you came up with the \$180. That was a given that the rest of the industry then had to deal with.

So I'm quite happy to discuss with airline management the cost benefits, provided we both agree on how we're going to decide what the benefits are, and after an accident - and being an accident investigator myself - I go around and I poll passengers as to what they wanted: it's undisputed. Passengers these days are convinced that the airlines do not inform them enough. They're convinced that the airlines basically just go through the motions in so many respects. You say to passengers, "How would you feel about being given training to slide down slides or to open over-wing exits or the likes?" and they will say, "It's great. Why don't the airlines treat us better; better-inform us?"

I have just completed an accident investigation overseas where I asked the passengers the same thing and all to a T; they all knew that that accident was going to occur that I had investigated, and they kept saying to me, "Why do you not tell us more?" So you have this anecdotal evidence after the event that you write in reports but then the linkage from that experience to the airline has got to be through - again I come back to it, I guess - the regulator who is, by act of parliament, the passenger's guardian. It's just undoubted. After an accident you go along to the passengers, you go along to their families and they're saying, "Why?"

MRS OWENS: Although before the accident, you know, every time we travel in aircraft the crew go through the safety drill and you say, "No, but they're going through the motions," but they go through that drill and if you looked around the aircraft and looked at how many passengers are actually watching what is going on, it wouldn't be that many, unless they're people that don't travel very regularly or - the kids watch, you know. Most of us sit there and we read the newspaper, we chat to the person that's sitting next to us and people don't really take it that seriously.

MR BUDD: Could I make this comment, ma'am: it defies me when the airlines on the one hand say, "We are committed to safety," yet when you get on the aircraft as a business or first-class passenger, they plonk a glass of champagne in your hand and give you a newspaper and then in the very next breath say to you, "Ladies and gentlemen, we require your full attention for the next few minutes while we do a safety demonstration." Now, I'm not a marketing person nor a psychologist but that to me seems to be very conflicting information and yet that sort of approach or that sort of attitude seems to permeate through our industry.

So, yes, I hear what you're saying. Yes, I'm very concerned about it. Passengers get very concerned when I start counting the number of seat rows to that exit and the seat rows behind me. Why? World best practice has told me that if I don't count the seat rows, it's highly unlikely that in the event of an accident where there's smoke that I'm going to get to the exit but if I know how many seats that I have got to touch before I get to the exit there's a very good chance, based on

overseas experience of people that have been through accidents, that they're going to get out.

MRS OWENS: Which part of the plane is the safest part of the plane?

MR BUDD: I have to pay more for that.

MRS OWENS: I just want to know where to sit in future.

PROF SNAPE: Facing backwards.

MRS OWENS: That's why the crew all face backwards, is it?

MR BUDD: That is a real problem and it's the same with the content of safety videos. People will put in there what is the minimum requirement, not necessarily what people - - -

MRS OWENS: And they're often not tailor-made for the actual route that you're flying. You often get the videos which tell you what to do over water and there will be life rafts and you're flying over the middle of Australia and you say, you know, "What relevance is that to me?" You do wonder sometimes what the relevance is and if you're in real strife - - -

PROF SNAPE: I guess the real enemy of what you're saying is the safety record of airlines and what you were saying before, in relation to the United States, of course it's far less safe to travel by car than it is to be travelling in airlines. Air travel, on all the statistics, is just about the safest way to travel. On a per-kilometre basis it's probably safer than walking, but of course when there is an accident it's terrible. But with that safety record - and the people, naturally, will not apply a high probability to there being an accident and therefore to having to count the seats or anything else. That is just the way human beings behave.

Human beings will say, when there's an accident, "We should have the safest in the world," etcetera, but when you poll them, people will say that - but on the other hand, when you offer them the options of flying at \$1500 on one airline and for \$1000 on another, with a known higher probability - though still a very low probability of having an accident, a greater probability of an accident on the lower one, but nevertheless a low one, as statistically - so many will choose the 1000. I mean, these are things that are all known and people are just - to what extent one can say then, when there is such a high safety record - even in the less safe airlines - they are still, in general, pretty safe as compared with taking other means of transport, even in Australia, let alone in the countries in which the airlines are based.

The question is, how much should the legislators try to protect people against their own actions, essentially?

MR BUDD: May I make a couple of comments. Firstly, sir, our biggest concern at this stage is the fact that the accident rate has plateaued at a very low rate, at about .07. The problem is that the number of flights have so dramatically increased that we will be looking at, by the year 2015, a wide-bodied hull accident every fortnight somewhere in the globe. Which basically means that by that year aircraft accidents will not be off the front page of the newspaper. One will happen and another will happen.

People will then say that air travel is no longer safe. That's the evidence that we're getting. Telling them that the accident rate has plateaued will not be acceptable to them. The three commuter accidents that we had in Australia provided us in Australia with, I believe, enough evidence to support the fact that the public will not tolerate accidents that have been generated by errors or omissions within the system. The fact that we spent 20 million or over on inquiries after the Seaview and the Monarch accidents - - -

PROF SNAPE: The recent ones, are you talking about?

MR BUDD: Sure.

PROF SNAPE: I was thinking of the fifties.

MR BUDD: No, just those recent accidents. The public spent an inordinate number of resource dollars on 12, 15, 20 people's death. I don't know the number. It was a small number of people's death. The public said they will not tolerate it. So what I'm hearing from that is the public, if you ask them, are quite specific, in Australia anyway, that they want levels of safety that we might say perhaps we don't have in other places.

PROF SNAPE: Was there any significant decrease in the number of people flying on commuter aircraft after those accidents?

MR BUDD: I don't know that.

PROF SNAPE: I mean, that's the test. Surveys - if you go around to people and - I mean, it's well-known that surveys, in fact, can be very misleading in things like this, just as they can be if you ask people what they would pay to preserve Ayers Rock.

MR BUDD: Sure.

PROF SNAPE: It's a hypothetical and they're never going to have to pay that and so on. I would have thought the better test of what people were saying was whether there was a significant decrease in the number of people who were going on the commuter aircraft after these accidents.

MR BUDD: I can't give you numbers either to support or refute your premise. What I can say is the fact that through their elected representatives the people

demanded and were given an allocation of so many resources over so long a period of time to me is a reflection of their attitude to that particular problem. I hear what you're saying about one way of judging their commitment is whether they didn't fly on those smaller aircraft after the process. I would also equally put it to you, the fact that they were so vocal and so demanding after the even, in the allocation of those resources, would to me indicate that they're intolerant of those sorts of practices.

PROF SNAPE: I can't deny that politicians reflect in a democracy the will of the people, or at least I'm not going to.

MR BUDD: And for that reason, sir, let me say this: that I feel that it's fair better for us to be proactive - - -

PROF SNAPE: Okay, I take the point.

MR BUDD: - - - before the event, rather than trying to respond after the event when people make snap decisions about what should be done to solve these problems. We make inappropriate allocations of safety resources in that sort of environment.

PROF SNAPE: Yes. That point is well made and responding to some crisis is often a very poor way to formulate policy and I can't disagree with that. I think Helen is through with her questions and I'm through with mine. Is there anything else you wish to add?

MR BUDD: No. I thank you for the opportunity to speak before you. I thank you for your questions and your patience and understanding because I'm not a professional lobbyist or presenter at this sort of forum so I beg your indulgence.

PROF SNAPE: You're doing pretty well. Thanks very much.

MR BUDD: Thank you.

PROF SNAPE: Unless there is anyone else with us today who wishes to make a statement - at the end of the day's proceedings I usually issue that invitation - but seeing that the majority of those present are the staff of the commission and I'm not going to give them the opportunity, then I assume that they're not, and I shall now adjourn until tomorrow morning. At 9 o'clock I think we're starting again. Yes, thank you very much.

AT 5.12 PM THE INQUIRY WAS ADJOURNED UNTIL
FRIDAY, 13 MARCH 1998

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