

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: We shall resume our hearings. Good morning. Welcome to this Industry Commission public inquiry on Australia's international air services. I am Richard Snape, presiding commissioner on this inquiry. On my right is my colleague Helen Owens who is a commissioner at the Industry Commission. We're now into the third day of the public hearings in Sydney, and this is after a day of public hearings in Melbourne last week.

We have also, as many would know, had an extensive round of visits, and we've received probably about 40 now submissions, and I should mention that while people who provide information to this inquiry are protected as if they were giving evidence in a court, this is not a court of law. We try to make the hearings as relaxed as possible, but there are some formalities which we try to follow. First, for the benefit of the transcript, we ask participants to introduce themselves and to indicate in what capacity they appear. Secondly, information provided at these hearings is often used in our reports. We therefore ask participants to be as accurate as possible with their comments and answers. If there's any doubt about the accuracy of anything that comes up, then if you perhaps tell us about that and then we'll try to get back to you, or you to us, to verify it one way or another later on.

Finally, the transcripts of today's proceedings will be provided to the participants at the hearings - that is, a transcript of each session that is relevant will be sent to the relevant people for checking, but anyone wishing to obtain a copy of transcript should contact the staff, and you'll see a number of them around today with name tags on and they'll be happy to assist you. So I think we should get started.

We have this morning, and we welcome, the Flight Attendants Association of Australia. You've provided us with a written submission which has just arrived. I think Helen is digesting it at a great rate beside me here. I haven't yet done that, but I would ask you to speak to it, and it will be lodged as a formal submission. Thank you very much.

MR WALKER: Thank you for that. I must apologise, Richard, for the lateness of that submission, and I do hope that you take the time to digest it later.

PROF SNAPE: I certainly shall.

MR WALKER: And if there are any questions later on, then don't hesitate to call me in the office.

PROF SNAPE: Thank you.

MR WALKER: My name is John Walker. I'm the federal secretary of the international division of the Flight Attendants Association of Australia. With me is Maureen Robertson.

PROF SNAPE: If you could speak yourself, so your voice is on the tape.

MS ROBERTSON: Sure. I am Maureen Robertson from the Flight Attendants Association of Australia. I'm an industrial research assistant.

PROF SNAPE: Thanks very much for that.

MR WALKER: Now, a little bit about myself. I am an international flight attendant on secondment at the moment with the association. I've been elected to the position since May of last year, and my previous positions - I worked through from a branch counsellor with the international division through to vice-president of the association, and now I am the federal secretary. Maureen, do you want to give a little bit of background to yourself?

MS ROBERTSON: Sure. I've been employed with the Flight Attendants Association of Australia since 1981. I do industrial research. The association is an industry association in the airline. We cover approximately over 8800 members, and our members fly for all Australian airlines, both internationally, domestically and regionally, so we cover all the airlines that are actually based in Australia that actually have flight attendants on board the aircraft.

MR WALKER: What has brought us here today is that we have concerns about any changes that affect the airline industry in Australia. Our members are employed predominantly by the major airlines, but we also cover regional airlines, so we see that if there is anything that could affect their employment, then we should have a say in how that is affected. I'll just work through some of our points in our submission, if that's quite comfortable.

PROF SNAPE: Yes, thank you.

MR WALKER: One of the main objectives of the Flight Attendants Association of Australia is to ensure that flight attendants maintain their high level of safety standards, thus ensuring that every possible effort is made to keep passengers safe. Flight attendants are responsible for air travellers, both around Australia and throughout the world, because we do cover international flight attendants. Australia currently enjoys an excellent safety record in the aviation industry. The FAAA believes that any changes to the current arrangements would see this record deteriorate.

Increased competition from foreign carriers and a price war on air fares could lead to a decrease in air safety. We see some of the experiences, even though we don't have statistics, out of the United States: that with the price-cutting of air fares there is also a deterioration in the amount of service provided on the aircraft, as well as training for flight attendants, and it could undermine the safety procedures put in place while servicing the aircraft.

The FAAA is concerned that increased competition within the Australian airline industry would result in a dramatic reduction in employees, which could create a slump in the Australian economy. So with the flow-on from competition, being that

from outside of Australia rather than keeping the competition wholly within Australia, we see that there could be a reduction in employment opportunities within Australia, or even in a price-cutting war we could see that there could be jobs actually lost within Australia.

As the submission goes through, we don't have the evidence at this stage because the deregulation in the States is only just - well, it's only been recent deregulation, so the statistics aren't there to substantiate what we're actually saying, but we've seen that there have been major lay-offs in the States, but we don't have the statistics to follow that up.

Australian flight attendants currently benefit from an excellent training program, and as I've said before, in any privatised or competitive arrangement, then some of these safety standards could be depleted because the companies are trying to cut the costs wherever they can, and one of the first things that they generally cut costs in is within the training of cabin crew or within training in the general area. We say that operational standards should never be compromised just because of the dollar.

The other concern of the Flight Attendants Association is that we've always tried to fight against having people employed offshore. We state an example here where Japanese airlines employ people in Thailand. They only pay 10 per cent of what would be the cost of employing someone in Japan, and we can see that that could undermine the stability of our workers, and we say that we should avoid that at all costs. That's just an overview of what we've actually put in the submission, and if I can expand on anything that I've said, I'd be happy to do so.

PROF SNAPE: Thanks very much, John. In view of the alliances and so on which are being proposed these days, particularly of course with New Zealand, do you have a relationship with an equivalent union in New Zealand?

MR WALKER: Yes, we do have a bilateral arrangement with FASA, which is the flight attendants association within New Zealand. They cover all flight attendants within New Zealand.

PROF SNAPE: Are you exploring a sort of joint policy, rather than separate policies?

MR WALKER: Yes. We have been, over the last 3 years, investigating - well, trying to maybe even amalgamate the two unions, and have joint policies on operations across the pond in particular - sorry, across the Tasman.

PROF SNAPE: With the single air market between the two countries, it must seem that unless you were working very closely, then you could be working against each other.

MR WALKER: Yes. We've learnt from their experiences when it comes to contracting out of flight attendants, because people in New Zealand went onto

individual contracts. We've learnt from their experiences in that arena, and we'll continue to learn from them, because they've actually gone down the road a little bit towards a more competitive market.

PROF SNAPE: As we all know, the international air industry is in a state of flux a great deal, and it must be difficult for you to be working out at times how to position yourself in relation to these. Particularly I'm thinking of alliances on the one hand, and codeshares, which in fact you may see as, in some cases, a threat to your members. But on the other hand, you might see it in the rapidly transforming industry as essential to provide the survival of the Australian operators.

MR WALKER: That's the way we've seen it - that it is a way of maintaining the survival of our industry. We're not completely happy with the codeshare arrangements; that passengers aren't informed that they may be travelling on another airline. That's a major concern to us, because we quite often get passengers on board that are quite upset about coming off another airline or going onto another airline, and it makes the job more difficult for the flight attendant to explain why that is occurring, especially if they haven't had the time to really come to terms with that. They see - "Oh, Qantas - I'm not going on this plane any longer?" "No, you're going on that plane over there." "But that's not a Qantas plane." So to come to terms with that is very difficult for the travelling public. It's a very difficult thing for them. But as you say, Richard, it is a way of maintaining our industry within Australia.

PROF SNAPE: The first time I flew on Continental and I saw the aircraft parked at Melbourne, it was painted Continental on one side and Garuda on the other, which caused me quite a bit of confusion.

MRS OWENS: I think the problem seems to be a breakdown in communication with the agents.

MS ROBERTSON: Yes.

MRS OWENS: Who don't seem to be doing what they're meant to be doing, which is advising people that they're actually not going to be flying on a Qantas plane or whatever it is, but Air Pacific.

MS ROBERTSON: Your flight number is the same all the way through as well, so you might have a QF flight all the way through so you presume that you're going all the way on Qantas.

MRS OWENS: Yes.

MR WALKER: I don't know whether even the agents would know that. Just looking at a computer screen, they just see the QF flight number going all the way through or the AN flight number going all the way through.

PROF SNAPE: As I understand it, they are required to state who is the operator of

it. Certainly that happened to me recently when I came back on a Qantas flight which was operated by Asiana, and that information was at the time of reservation. That is, as I understand it, what's supposed to happen.

MS ROBERTSON: I got a ticket the other day - I'm actually going to Fiji on the weekend, and I looked at my ticket the other day, and it actually said I'm coming back on an Air Pacific aircraft, and the travel agent didn't tell me.

MRS OWENS: Exactly the same thing has happened to me going to Fiji.

PROF SNAPE: There does seem to be a breakdown in that.

MS ROBERTSON: Yes, definitely.

PROF SNAPE: And what is supposed to be done is not always done.

MS ROBERTSON: That's right.

MRS OWENS: Having just very quickly read your submission while we've been sitting here, as I see it I think that what you're saying is that deregulation is going to have a number of adverse effects. It's going to have an adverse effect on jobs, potentially on safety, and possibly putting more pressure on Sydney Airport are three key factors that you're suggesting could happen.

MR WALKER: Yes.

MRS OWENS: One of the things that concerns you potentially when you talk about deregulation are these alliances that are going on. I would presume, reading what you said here, that you're also concerned about the potential for cabotage being relaxed, and foreign aircraft coming into and competing on domestic routes. Is that correct?

MR WALKER: Yes.

MRS OWENS: There are examples, and you've got an example in your own submission, of where some deregulation can actually lead to more jobs and the example you have cited on page 5 is the Qantas/Australia Airlines merger and seeing Qantas go into the international market. That was the result of - - -

MR WALKER: Sorry, Ansett going into the international market.

MRS OWENS: Ansett moving into the international market. That was a result of introducing a multiple designation arrangement.

MR WALKER: We feel that we had substantial input into that process when they were setting up their company Ansett International. We were able to control somewhat where they employed people and the working conditions, whereas if we

have foreign carriers coming in here, we don't really have that control and any sort of say in what conditions they work under, how they're employed, how they're trained, all that sort of thing. We did have a major input into Ansett International when they set up their new company.

PROF SNAPE: Again there's a tension, isn't there? Ansett International lost 46 million last year.

MR WALKER: Yes.

PROF SNAPE: Which maybe if they had been able to employ some cheaper staff - - -

MR WALKER: They do employ a certain amount of staff in Asia, but they knew that there were going to be set-up costs that were ongoing that were going to be indicated in losses in the short term, but in the long term they hopefully can ride through that and come out of that. The Asian market hasn't helped them over the last few months. They haven't got to the stage of Ansett domestically actually offering redundancies or anything like that. They're actually expanding still in recruitment within Australia - Ansett International.

PROF SNAPE: There is this tension all the time, isn't there, between making something profitable and keeping your own members employed?

MR WALKER: Yes, and I think we've done a fairly good job up until the present day doing that, but we've also maintained that somewhat control in that process. That's what we're trying to come to terms with. If say Qantas do want to set up a base overseas somewhere, we would ask the company that we have control of how that is done and what standards they put on their staff that they employ overseas. We're not adverse to that but we would like control of that - as much control of that as we could get because they'll be mixing and matching with our current members.

MRS OWENS: So if Qantas sets up a base overseas they'd use the residents in that country to - - -

MS ROBERTSON: Not necessarily. They actually used to have a base in London years ago and it was actually flight attendants from Australia went over there for maybe 3 or 6 months or 12 months at a time and they'd live in London and they were actually employed in Australia but they were actually based over there for say a 12-month period. Then at the end of the 12 months, if they wanted the base still to remain open, then other flight attendants would go up from Australia and those ones would come back.

MRS OWENS: But that's changed now?

MS ROBERTSON: No, we don't have any base in London.

MR WALKER: We don't have a base.

MRS OWENS: You don't. It's BA?

MS ROBERTSON: British Airways, yes.

MR WALKER: We do have a base in Japan, in Tokyo, but all the people employed up there are actually trained in Sydney and then they go back and live up there. They are actually foreign nationals.

PROF SNAPE: They're foreign nationals?

MR WALKER: Yes.

PROF SNAPE: And they're flight attendants?

MR WALKER: Yes, they're flight attendants based in Tokyo, to a maximum of 22 I believe up there. That's their requirement - 22 people, sorry, employed in the Tokyo base.

PROF SNAPE: Are they employed on conditions - - -

MR WALKER: They work under our award and are employed under our award provisions but they're on a contract, a Japanese contract. We have set up bases before and had some sort of control over it, so it's worked quite well. Some of the European airlines have got bases in Asia. I think it's SAS that has had the best result of setting up bases and they've had control of how it's set up and what training and whatnot is required.

MRS OWENS: What about safety? You do cite some experience in what has been happening in the United States and we heard yesterday about cabin safety standards in Australia potentially diminishing over time. Have you had any experience of safety problems occurring? Is it becoming more obvious to you that there are problems in Australia now?

MR WALKER: I personally find some problems with the new commercialised - sorry, with my particular airline - Qantas, after privatisation, has been trying to push that envelope of where they can meet the statutory requirements on safety but still be aware of the costs that providing that service entails. I would not like to see that deteriorate any further than what it has at the moment. We know of a certain aircraft that has had minor defects on it for up to 6 months.

These minor defects are not what the regulatory body say warrant the aircraft not to leave the port but they are defects all the same and do affect what conditions our members work under, such as airconditioning faults or faults with chillers and things like that, which would affect, you know, our food preparation. They're not major safety but they are still of concern to our members in that they are an annoyance

more than anything I suppose; that they could jeopardise the safety of the passengers, not so much in a life and death type situation but maybe in their comfort and maybe they could get sick on board, I don't know. Their tolerance level of food poisoning or things like that could be jeopardised.

MRS OWENS: If you've got concerns you do feed that back?

MR WALKER: We feed that back through the company but, because they're trying to turn around the aircraft so quickly and trying to minimalise costs, they evaluate whether they delay the aircraft because of these concerns or whether they push the aircraft, and I'd hate to see that flow on out of the cabin into some other mechanical faults elsewhere as the grab for the magic dollar becomes harder to get basically - and more competition.

MRS OWENS: So you think if there is even more competition on some of these routes, those sorts of problems would be extenuated further?

MR WALKER: Yes.

MRS OWENS: But isn't it in the interests of the airlines to maintain a reputation for high-standard services and high-quality services and safety?

MR WALKER: It is, yes, and they do a very good job of portraying that to the public at the moment. It is a matter of the professionalism of the flight attendants on board that manage to get the passengers from A to B as happily as possible or, you know, as contented as possible. If it means apologising and doing that little bit extra somewhere else, whether it be giving them extra service in another area, then that's what flight attendants do and do very well, but it's an added pressure that flight attendants shouldn't be expected to do as an ongoing part of their duties.

PROF SNAPE: I can understand that you would be concerned with cabotage being provided by international carriers - like takeovers granted - but just two things related to it: what about remote locations which are not being particularly well served by domestic lines at the moment? That's one. The other is ownpassenger stopover traffic.

MR WALKER: The first question you had about not being serviced efficiently, there's a fine line I think that the airlines at the moment - the two Australian airlines, Qantas and Ansett, actually I believe do service some of those remote areas very well; maybe not the same frequency as between Sydney and Melbourne or Melbourne and Brisbane but the frequency is there and the service is there. There is a fine line between servicing something efficiently and profitably compared to overservicing and therefore maybe by overservicing you could get a result where that service may be discontinued if it's shown to be unprofitable. There's a fine line between flooding the market and meeting the market's needs. That is the concern.

PROF SNAPE: Let me take an example which may or may not be realistic but let

us think of Bali-Broome-Port Hedland-Bali as a triangular route. I don't know what the service between Broome and Port Hedland is at the moment. It may not be particularly good.

MR WALKER: Yes.

PROF SNAPE: But if a foreign airline - that is, of course, in that case likely to be an Indonesian airline - were to be flying that triangle and if they were allowed to have a cabotage to add to the international passengers that were going that route, then it may become feasible. We then have a better route, better service, for the people in that area, probably with minimal or no damage to Australian airlines provided by cabotage. Would you object to that?

MR WALKER: In the instance that you've put to me, no, we wouldn't have major problems with that. The problem is that there have got to be certain controls on where the cabotage could be relaxed. If it was to be relaxed into major ports, then I can see a flow-on effect affecting our members, but if it's ports that aren't serviced - as you've given the example, Port Hedland-Broome-Bali, then the leg between Port Hedland and Broome - and I can't say at the moment whether it is or it isn't being serviced efficiently - may benefit from that. Broome-Bali-Broome-Singapore I believe is being serviced. National Jet is doing Broome-Singapore I believe.

PROF SNAPE: We've got Broome Airport this afternoon. If you might like to stay you can hear their comments.

MR WALKER: Yes.

PROF SNAPE: That was just an illustrative example and there may be others in that part of Australia - there's a lot of Australia in fact - in which cabotage is linking to a foreign port with some triangulation perhaps. They may in fact be able to generate services which are currently not being provided with very little effect on perhaps long-existing services. You wouldn't have a blanket objection to that sort of thing?

MR WALKER: Not a blanket objection. We'd need to examine each of the routes.

PROF SNAPE: So it's not an absolute blanket objection to cabotage?

MR WALKER: No.

PROF SNAPE: Where remote ports are concerned?

MR WALKER: No.

MRS OWENS: What about the airlines carrying their own passengers - stopover-type passengers. Would you have any problem with that?

MR WALKER: At the moment there is, I wouldn't say a fair amount, but there is

an amount of onward traffic.

PROF SNAPE: And it is restricted.

MR WALKER: It is restricted.

PROF SNAPE: Yes, and it can't be done by all flights.

MR WALKER: No. We haven't raised major objections to that in the past.

PROF SNAPE: You have or haven't?

MR WALKER: We haven't in the past.

MRS OWENS: Coming back to safety for a moment, is there any evidence that there have been more passengers complaining about what's happening on aircraft or are there any statistics showing that workplace accidents have increased as a result of relaxation of standards?

MR WALKER: We haven't produced any of those statistics but research could find that that would be - we could produce those statistics if we had the time to go through our what we call ICAN reports. They're reports from crew that they send to the company, but we also get copied in on those reports, and we haven't done statistics on specific safety issues on whether they've been increased or whether they've been decreased. The feeling amongst the members is that they have been increasing but there are no statistics, no.

MRS OWENS: There's no hard data?

MR WALKER: No. As I said, we only get copied in if the members feel that it is appropriate to copy us in.

PROF SNAPE: I think that I've pretty well gone through the questions I had. Maybe as we're able to digest it more thoroughly we might get back to you and ask you again. Helen, are you right? So I would thank you very much for your submission and for appearing.

MR WALKER: Thank you.

PROF SNAPE: As I say, we are quite likely to be back in touch with you.

MR WALKER: I don't know whether the ASU mentioned that we were working with the ASU as well the ACTU.

PROF SNAPE: Yes.

MR WALKER: And we have had contact with the Pilots Association as well about this. So we've been trying to keep ourselves in the loop as much as possible.

PROF SNAPE: That's good.

MR WALKER: So if you have any further inquiries, don't hesitate.

PROF SNAPE: Good, thank you.

MR WALKER: Thanks for your time.

PROF SNAPE: Well, next on our program are representatives from the Department of Transport in Western Australia, and we would invite you to come over to the table, thanks. We welcome the Western Australian government Department of Transport. Terry and Nick, would you like to introduce yourselves, and then speak to your submission.

MR BELYEA: My name is Nick Belyea. I'm the manager, aviation policy, with the Department of Transport, part of the West Australian government, and also with me is Terry McVeigh.

PROF SNAPE: We need the actual voice.

MR BELYEA: Okay, but I'd just like to make the point that this is a WA government submission, not just from the Department of Transport.

PROF SNAPE: Thank you.

MR McVEIGH: Good morning. My name is Terry McVeigh. I'm the general manager, tourism industry development, at the West Australian Tourism Commission.

PROF SNAPE: Thanks, Nick and Terry. Well, off you go.

MR BELYEA: Commissioners, thanks very much for the opportunity to come over here. I guess we experienced the Australian airline system last night, where Terry and I had - the only opportunity to get here was on the red eye special out of Perth, which is well-known, so if our voices are faltering and we're nodding off to sleep, well, you'll know why.

PROF SNAPE: We're grateful for you using that service.

MR BELYEA: Okay. There are a number of important issues that are of concern to the government, and I might just make the point that the premier of Western Australia, Richard Court, and the government are well aware of this inquiry, and it was discussed at a group known as the Aviation Policy Committee meeting on Wednesday night, and they treat this issue as very important, so what we're going to do here is that both Terry and I will support each other in this submission, and I assume you have a copy of that in front of you?

PROF SNAPE: Yes, which we've read.

MR BELYEA: Okay, and do you also have an amendment page from yesterday regarding cabotage?

PROF SNAPE: No.

MRS OWENS: No.

MR BELYEA: Okay. Well, we might just make a copy of that available.

MR McVEIGH: Hopefully it would have been despatched yesterday afternoon.

MR BELYEA: Yes. I'm not sure where it's gone, actually, but I have a copy here anyway. In fact, I might give that to you if you want to grab a copy.

PROF SNAPE: Thank you very much.

MR BELYEA: Just by way of background, commissioners, as you know, Western Australia is an isolated state of Australia. International and domestic air services are very important to Perth and Western Australia, and the state is heavily reliant on international tourism, air freight and business traffic, as these are essential components of Western Australia's economic wellbeing. We are very concerned with the current bilateral process, and we do not believe it takes into account the genuine needs and expectations of the state, and we feel that in some cases it's biased against the best interests of the state.

Our feeling with the current bilateral process is that it appears to be controlled from Canberra. We have the opportunity to provide submissions to the federal government, primarily through the Department of Transport and Regional Development, and Terry would also mention through the Australian Tourism Commission, on upcoming negotiations as part of the bilateral process, but we've received very little feedback of what actually takes place in the bilateral process, and this is a situation that is unsatisfactory to us. We're also concerned that both airlines, Ansett and Qantas, are part of the process as technical advisers, and we believe in this age of micro-economic reform and national competition that the state should have a voice as part of the bilateral process. Terry?

MR McVEIGH: Yes. I think also the bilaterals are seen by Western Australia as constraint on trade for two issues. We have a particular concern that negotiations with a particular airline that wishes to increase its capacity between Perth and Kuala Lumpur, Malaysian Airlines, have a restriction placed on them, and are not able to increase their capacity because of the current bilateral process, and also because of enormous change in the ownership of airports in Western Australia, apart from the Broome Airport being privately owned, the major gateway airport, Perth Airport, being privately owned, and I guess the ability by the owners to increase their revenue from the aviation scene is restricted because of constraints on them increasing, and negotiating with airlines to fly into Western Australia.

PROF SNAPE: Good. As one of your suggestions here, you have got that the bilateral process being more transparent and open to scrutiny - you're suggesting that all bilaterals should be tabled in the federal parliament - 14 days. That presumably is 14 sitting days, so that in fact can be a long time before that occurs at certain times of the year. 14 sitting days would enable states and members to raise matters of concern. Do you think that one can really negotiate in that manner? You've got

negotiators out there trying to strike a deal. They get what they think is a deal, they have got their concessions from the other countries. They bring it back and they then have to put it on the table, and it's in a sense given the opportunity for amendments to occur, and it wouldn't be a take-it-all or leave-it-all sort of thing. It would be something that could be unpicked bit by bit. And if the other country was using the same process, could you ever negotiate anything that way?

MR BELYEA: I guess I can understand the need for confidentiality, but we are told on occasions that there is a bigger picture to this, and you don't really need to know really what goes on as part of the negotiation process. We also get a little bit frustrated when we hear that a carrier would like to come to Perth and they're not allowed to come to Perth because the Department of Transport and Regional Development or the Commonwealth - I shouldn't just go for the department - say, "No, we would like you to go into Brisbane or into Adelaide before you go to Perth."

Now, our view is - and I guess we'll talk about open skies as we come to it, commissioner, but if you're going to look at competition, well, then a carrier should have the ability to go where they want to go, if the market is there. So I guess our overriding concern is that there appears to be very much a closed shop on this. Now, they asked us, the state, both my department and Terry's department, for comment, and what we would like discussed as part of the negotiations, but we received no feedback whatsoever of what actually happened.

MR McVEIGH: I think the fact that the loop doesn't get closed is of concern to Western Australia, and a frustration, and adds a degree of suspicion to the process of whose interests are being served.

PROF SNAPE: Yes. I take the point that it's frustrating when you don't find out what has happened. Your preferred option, then, would be that there would be no city designation at all, no port designation in the bilaterals at all?

MR BELYEA: No, that wouldn't be preferred. What I'm suggesting is if a destination has the capacity to be a destination, then it stays listed, but they shouldn't be sort of playing off one state against the other without consulting with the state.

PROF SNAPE: I suppose the whole reason for the city designation is it's in there so that it's a bargaining tool with the other country, and therefore inevitably it's going to be playing one off against the other as long as you've got city designation in there. I mean, that's why it's in there.

MR BELYEA: Yes, I understand that, but if you also have city designations, and let's take Townsville, for instance, Townsville hasn't had international services for several years now, yet it stays as a city designation. You've got an emerging market in Broome, where we had a situation late last year where one of the Indonesian carriers wanted to go to Broome, but Broome wasn't listed as a designated arrival point into Australia for that carrier. We were also told that you can't push this because there is a bigger picture to this issue - the bilaterals process is also outside air

services, there are other issues to take into account - which was very frustrating, so the only option in Broome's case was to get tested and developed charters.

PROF SNAPE: Well, they've been used on many routes. Broome Airport have referred to that in their submission, which is later today. But is that not a satisfactory way of entering into a market, to have tested and developed charters so that you can test the water? Qantas, as I understand, did that with Sapporo. Is that not a good way of trying to explore?

MR BELYEA: We don't disagree with that. The concern we had with Broome was that Broome is not a big market. It's certainly an emerging market, but when we tried to say to Canberra, "Why can't you negotiate with the Indonesians to have Broome listed, because it's not competing with anyone? It's stuck up there in the northwest of Western Australia. What is so difficult about trying to reach an arrangement with the Indonesians?", the answer was simply, "No, we can't do that. We've got to wait until we negotiate this month."

MR McVEIGH: It's an enormous frustration for private owners who have invested significant capital to have, as I mentioned before, their aviation revenue options closed off.

PROF SNAPE: Yes.

MR McVEIGH: And I think that big change in the privatisation of airports needs to be recognised and this constraint on people trying to get a return on investment is a real constraint on other people looking at the opportunities that may come along elsewhere in Western Australia.

PROF SNAPE: On page 4 you've got your preferred option as being open skies being negotiated on a country-by-country basis. That's not the part that's been amended, is it?

MRS OWENS: No.

MR McVEIGH: No.

PROF SNAPE: And on the proviso that other countries also agree to open skies for Australia, that could then lead us to think about an open skies club, could it not?

MR BELYEA: Can I just make a point before we move to open skies? I'd just like to reiterate the point and carry on from what Terry has just said: that this government, the federal government, has sold three airports for substantial amounts of money. Prior to that we have got Broome in private ownership in Western Australia since the 1991-92 period. They are very keen to develop their business, and there is no doubt that the current owners of Perth Airport, Westralia Airports Corporation, are a quantum leap on the Federal Airports Corporation in terms of developing their airport and not being reliant on Canberra and the bilaterals process. If we don't

address the issue, it will become a frustration to those airports, and I guess that's part of the reason why this inquiry is here, so it's something that I think those airports are feeling frustrated about now, because they're having to work behind a department and a system that's been around for a long time.

MR McVEIGH: It's an enormous frustration for the Western Australian Tourism Commission because they are willing to add to our marketing dollars, a situation we didn't have with the previous ownership of Perth Airport. They also participate with the Tourism Commission in formulating our programs, and are part of our international advisory board, so they are a significant player in our activities as an organisation, have resources that could add to the state's resources to market Western Australia as a destination, and Perth, but suffer this enormous frustration, and you can understand them not wanting to turn over the marketing dollars - that there's this restriction on capitalising on the dollars that they have at their disposal.

PROF SNAPE: Yes. Thank you for that. The submissions that we have got from Westralia Airports Corporation and from Broome Airport - both of which we'll be hearing later - emphasise that point too.

MR McVEIGH: I'm certain they would.

PROF SNAPE: They sound very frustrated.

MR BELYEA: Commissioner, the only other point I'd like to make on this is that we have found though that the response from the department in Canberra has always been good to us. They have been responsive, but I think they also feel some frustration in the system themselves. So they are well aware that changes occur, particularly in the ownership of airports. I guess in Broome's case - with a very aggressive management who wants to improve their airport - but the system as it stands appears to limit them and I guess we question the flexibility of the system to be able to move quickly with change.

PROF SNAPE: The question I suppose is where is the system breaking down? I suppose that leads us to the next point that you've got about the open skies, and it's perhaps endemic in the bilateral restrictive system that these trade-offs often seem rather esoteric, like Broome versus Townsville or something like that occurs. I suppose that does lead us then to say, "Where is the systemic failure?" and that's I guess why you're going for your preferred option of open skies. You've got open skies on a bilateral basis, which is the way - if by open skies we mean the sort of US model I guess on open skies then one can think - and of course it has been implemented on a bilateral basis where it's been done with the US - I think there are 28 countries and some of those countries have got open skies amongst each other and New Zealand has with Singapore and so on.

It does lead one to think then perhaps of going to an open skies club in which, instead of it all being based on bilateral open skies, that in fact one could get a group of countries who are engaging in these open skies arrangements to have common

rules for open skies amongst themselves. It would be forming a sort of pluralateral open skies arrangements instead of having a hub and a lot of spokes going out of it - you've got in fact relationships between all the members on a common basis. Would you think that that's a way to proceed?

MR BELYEA: I think on behalf of our government if there was an arrangement such as that and it was suitable to Western Australia, yes, I think it would be the way to go. I believe that the Commonwealth certainly still has a role as the overviewer of open skies and I think even by their own admission we are heading to some form of open skies. Just how far away that is, I'm not sure. We would not like to see Western Australia's market diluted. We would like to see the market remain strong and with capacity increased where carriers could come to Western Australia without being caught up in the next round of bilateral negotiations which may be 2, 3 years away.

So our view is that we would like to embrace open skies, but it's also important to put on the table here that it is a concept that needs a lot more dialogue and a lot more discussion where I guess we and others need to fully understand the implications of open skies, and whilst Western Australia is essentially a destination market, it would appear that it doesn't pose any real concerns. It's probably got more positives than negatives. We only have one transit carrier through Western Australia and that's South Africa. So we would view it as being a positive move but we're also slightly cautious about it.

PROF SNAPE: Okay, British Air no longer fly through- - -

MR McVEIGH: No, it's only South African Airways at this point.

MR BELYEA: No, as part of the alliance we actually lost three weekly services with the BA-Qantas alliance.

PROF SNAPE: Okay, it's South African and Qantas?

MR BELYEA: Yes. Could I also just mention though, commissioner, one point here that is important to the state and that is the safety of airlines that come to Western Australia. We would not want to see an open skies system where carriers that could be labelled as less safe than others and the benchmarks of Qantas and Ansett and others are being allowed in Australian territory.

PROF SNAPE: Well, I suppose not all airlines that fly into Australia at the moment have got the safety records or the safety standards of Qantas-British Air, and there are differential standards which are not only in safety but service in other ways which are reflected in differential fares. One knows that if one is going from the east coast to Britain then there's a variety of ways you can go and there's a variety of fare levels. Those fare levels reflect a lot of things including probably safety. So to specify that it

has to be at the level of British Air and Qantas means that probably if you're applying that principle, there are a lot of airlines flying into Australia at the moment that you would shut out.

MR BELYEA: There are a number of airlines flying into Australia now which have raised concerns with CASA, yes, but not necessarily to Western Australia.

PROF SNAPE: So you'd relax it a little bit from what you just said? You wouldn't necessarily - - -

MR BELYEA: We would effectively like to see safe airlines flying to Western Australia. I mean, I'm well aware and I guess you are as well of some carriers that have caused some concern to the Civil Aviation Safety Authority. It's just a point we wanted to raise in our submission that's important.

PROF SNAPE: Yes.

MR BELYEA: Whether it means that the Civil Aviation Safety Authority may have to increase their regulatory role, I'm not sure.

MR McVEIGH: I think also important from the state's point of view is looking at some sort of time-frame too in open skies so it's not open-ended; there's some process of a date to be worked towards so people can make adjustments and there's some sort of certainty that there'd be a cut-in point.

PROF SNAPE: There is a problem with our international commitments however I think on that safety question, and that is, under the ICAO - International Civil Aviation Organisation - arrangements, all the members there agree to respect the certification from other members. While Americans apparently have put a little bit of a dent into that, nevertheless that remains. We can't say to the airlines of country X, if country X is a member of ICAO and doing what ICAO require of it - we can't keep their airlines out as I understand it.

MR BELYEA: I understand. I'd also understand too that ICAO may raise its concerns about some airlines too and their standards.

PROF SNAPE: It seems to take a long time to move however.

MRS OWENS: Can we just come back to the consultation process for a minute. You say in your submission that the states should be represented in the negotiation process. We've had other submissions that actually say that the states are represented. I don't know whether it's through the TAG, so it's the tourists' interests that are represented, but there is some state involvement, isn't there, in both the pre-negotiation process and the negotiation process, or is that wrong?

MR McVEIGH: Through TAG there is. Western Australia has actually formed a Strategic Aviation Committee that's more embracing than tourism. It pulls together

relevant agencies plus involves the private sector and the owner of Perth Airport. So we see it from the state's point of view as not just a tourism issue but a freight issue as well, and in the interest of people who now own substantial ground content.

MRS OWENS: So instead of being represented through TAG you would prefer direct representation to cover all the other interests?

MR McVEIGH: I think that's important and that's how the state has coordinated its aviation policy through this Strategic Aviation Committee which feeds into the Aviation Policy Committee which is actually chaired by the premier of the state.

MRS OWENS: Do the other states have a similar view on this?

MR McVEIGH: I'm not sure of the other states.

MR BELYEA: I'm not sure the other states operate that way, commissioner. I guess your question is that the state has an input through the Tourism Advisory Group in Canberra as part of the pre-negotiation - - -

MRS OWENS: Which presumably is just the tourism focus.

MR BELYEA: Yes.

MRS OWENS: And you do have all these other interests, but as we understand it the privatised airports also now have got a seat at the table in terms of they're getting involved. I'm not sure to what extent they're getting involved, but there is some involvement.

MR BELYEA: Yes.

MRS OWENS: So their interests are going to be picked up I would presume. Whether it's sufficiently, I don't know.

MR BELYEA: I guess you need to ask them. I think it's taken a fair while to get to this point despite the fact that the airports were privatised last July. To be admitted onto that group we are aware that the dialogue between Tourism and Transport in Canberra is not always what it should be. From what Terry was saying, he said, "We've decided from the state's point of view that we need one voice coming out of Western Australia, not several voices." That's why the Strategic Aviation Committee is there. It's also important to us though that we receive feedback on what occurs at the negotiation table of the bilateral air services agreement.

We would like to sort of think that we could either go one step further and either be there as observers - we're told that's too difficult, it's unwieldy, it's a closed shop, and I guess the frustration comes back to the earlier point that we don't get any feedback on what actually happens. We are certainly asked for our views; there's no question about that. If Malaysian, for instance, wants to increase flights into Perth to

go from seven or eight services per week to twice daily or triple daily, we're asked for those comments and, yes, we will put those views forward. Then it just depends, you know, when the airline wants to increase its capacity. We find the consultation process and, as Terry said earlier, closing the loop not satisfactory.

MRS OWENS: I think one of the other concerns that the states have raised is it's not just that they don't have a seat at the table and their voice is not being heard but that state issues are actually downgraded and national interests, whatever they may be, tend to dominate. Maybe that's a reasonable perspective but the airlines are saying that regardless of what happens with capacity, their decisions to fly into Perth or Adelaide or wherever is really still going to be made on a commercial basis anyway. So even if you did have the agreements which allowed Perth to be included, it doesn't necessarily mean that they're going to fly there anyway.

MR McVEIGH: I understand that it's a commercial decision to do that. I guess the frustration is that we have one airline that wants to increase its services between Perth and Kuala Lumpur and currently is unable to do so and it obviously has made its own commercial decision that this is a good opportunity for that particular airline.

MR BELYEA: I guess the other point too in that is that if you look at the carriers that can and do service Perth, and those that do and those that don't - I mean, we would pick out, say, China Southern as an airline that we would like to come to Perth but China Eastern is listed against Perth. The process you have to go through to change that when China Southern are quite openly saying, "We want to come to Perth," is this convoluted process back through Canberra, although we're told, "You can go up and do the groundwork but we'll close it off later for you."

MR McVEIGH: It's a very important issue for us because the relationship with that particular airline is also for pilot training, so there are many aspects to developing.

PROF SNAPE: China Southern is part of training in Western Australia?

MR McVEIGH: Yes, it is.

MR BELYEA: Yes, they train about 200 pilots a year, commissioner, at both Jandakot and Merredin. So there is an association there and they're currently going into Brisbane but they've listed Perth as a preferred destination for them.

PROF SNAPE: I gather that in negotiating with China the Chinese are rather keen on city designation.

MR BELYEA: Yes.

PROF SNAPE: So that ball may not be all in Australia's court.

MR BELYEA: Look, I just think in summary with the process with Canberra - whilst our relationships at officer level is very good, it just appears to us from the

state's perspective that it is very much regarded as the domain of Canberra with little involvement from the states, and I guess the reason for this inquiry is we are now in competition. We have an airport there competing to attract more business and we just feel the process needs to be more open with the state so that the state has comfort that what they're putting forward is actually being taken to the negotiating table.

MRS OWENS: Have you got any idea of what that process should look like in an ideal world, because I think you say "potentially could be unwieldy"?

MR BELYEA: Yes.

MRS OWENS: How would you run it? What would it look like?

MR BELYEA: From our point of view the initial approach is we're negotiating with, say, the Malaysians in April; put forward a submission. We will do that through the Aviation Policy Committee and the Strategic Aviation Committee - so the state's view, one voice, whether the Tourism Advisory Group or to the Department of Transport, will be the same letter. We would also like the opportunity to talk to them about what their negotiating process is going to be, and then we would also like feedback, as a result of those meetings, of actually what transpired.

Was the country they were talking to receptive to increasing capacity? We are trying to get those countries to come and talk to the Strategic Aviation Committee so we can relay those views. There has been some success, I must say, with Canberra recently, particularly with Malaysian Airlines, but I think, commissioner, just the process of where we - if we put information forward we know it's taken to the negotiating table. If it's not taken to the negotiating table, why not? And then to at least come back and say, "This is what happened." So then, when we need to respond to the premier and other ministers, we're in a position to do so.

MR McVEIGH: It seems to be a basic closing of the loop to help us on future occasions, to get that feedback from the other party, and with that gap you really are left in a bit of a limbo situation.

MRS OWENS: So you're not necessarily asking for an involvement in the actual negotiation process with Malaysia? You're not wanting that?

MR BELYEA: We would like to have observer status but we would also need to be convinced as to why we can't be represented, if it's such a critical thing to us. It doesn't mean that we want to be observer status to, say, Sweden or to Great Britain but if we see there's an important market - and I guess the new owners of Perth Airport would also want to see themselves represented, but we were always told, "It's too unwieldy, there's too many people in the room," but I guess if they're able to convince us that our view is going to be put forward - and if it's not put forward, why not - then that may suffice, but the dialogue needs to be better.

MRS OWENS: You mentioned in your submission somewhere about technical

experts or technical representation - Qantas and Ansett's involvement. Are you suggesting that they shouldn't have that sort of involvement, that the experts should be more independent?

MR BELYEA: Yes.

MRS OWENS: Or there should be experts at all?

MR McVEIGH: I can understand wanting some technical expertise but it should be independent of the two airlines who are part of the process. There are other ways now, I think, of gaining that technical input.

MR BELYEA: Commissioner, the state has supported the requested alliance between Ansett, Air New Zealand and Singapore Airlines. We see that as important because there is competition with the Qantas-British Airways alliance but we question the need to have the airlines as technical advisers in the bilaterals process. We believe there are consultants, other people out there, who could represent their interests in an unbiased fashion as part of the process. So there is some scepticism and there is some concern as to whether or not they're on the inner ring, talking perhaps for the states when the states should be talking for themselves.

MRS OWENS: What sort of technical advice do they provide in that context?

MR BELYEA: I guess they're talking about aircraft, what sort of frequency they can provide, those sorts of things. I'm sure they would say there are valid reasons for them to be there but the view put to us is whether it's necessary for them to be there, particularly if they're competing against each other. I'm not sure that the same occurs in other countries.

PROF SNAPE: You say - and this is on page 5 of your submission - that:

Smaller regional international airports such as Broome, Port Hedland and Learmonth should be treated differently to capital city airports.

And you're suggesting that:

One solution could be to put such locations in as a second tier of automatically approved airports.

In a sense that would be open skies unilaterally for secondary airports. I think I interpreted correctly, that it would unilaterally open skies for secondary airports. You're a little bit imprecise about which ones. You say:

Smaller regional international airports such as Broome, Port Hedland should be treated differently to capital city airports.

Does that include Townsville and Cairns? Darwin? Hobart? Adelaide? Is it

everything except Melbourne, Sydney and Brisbane, in other words?

MR BELYEA: No, we're essentially talking about the airports in Western Australia.

PROF SNAPE: Except for Perth.

MR BELYEA: Except for Perth.

MR McVEIGH: Regional.

PROF SNAPE: You're not going to include Perth in that?

MR BELYEA: No.

MR McVEIGH: It's actually the north-west of the state which is the big issue for us because of - - -

PROF SNAPE: You wouldn't put Darwin in there as well?

MR BELYEA: Darwin can put themselves in.

PROF SNAPE: But I thought you might be thinking that once you've got sort of open skies and your other recommendations that you might be wanting triangulation through Darwin. That's the reason why I mentioned it.

MR BELYEA: I guess the inference with places like Broome and Port Hedland and perhaps Learmonth - and there may be others in Western Australia - is that they shouldn't be relegated from the bilaterals process because they haven't received international destination status. Broome has received a series of charters. Broome has received scheduled services. Clearly they are optimistic that they can receive future services. We believe that if the airport has the ability to be recognised as an international entry and departure point, then it should be listed as such.

The last round with the Indonesian carriers frustrated us in the sense that Broome wasn't a listed airport for those carriers and hence the need - the only way out was to get test-and-develop charters. It was a bit of a frustrating process to get Canberra even to go along with that.

PROF SNAPE: I can understand that you're frustrated where you're trying to get Broome and they gave you Townsville.

MR BELYEA: Townsville was a former airport of mine when I was with the FAC but unfortunately Townsville is listed around this country on a regular basis as the airport that's not quite an international airport any more.

PROF SNAPE: We've got your amendment on cabotage here and your preferred

option is - and I'm reading from the amendment:

Cabotage should be introduced with foreign carriers and negotiated by reciprocal arrangements in other countries.

That doesn't mean cabotage for cabotage, does it?

MR McVEIGH: I'm not quite sure.

PROF SNAPE: In the way you talk about reciprocity, are you saying that we would give cabotage only if they give cabotage, or are you saying that we might give cabotage in response to, say, fifth freedom rights?

MR BELYEA: I think the former is the view.

PROF SNAPE: That's not quite clear in this amendment, I might say. Your real position is cabotage for cabotage?

MR McVEIGH: We might actually, if permissible, come back and clarify that.

PROF SNAPE: If you could. Actually, also the page number that you refer to should be page 6 and not page 4, based on my copy of the submission. If you could clarify that, I guess that's referring to passenger cabotage. What about freight cabotage? Have you given any thought to freight actually?

MR McVEIGH: We're actually looking at freight as a very separate part of the process.

PROF SNAPE: Yes, but you're talking there - you have got freighter aircraft and that's dedicated freight, then there's another category as well, and that's under-the-floor freight - and whether you may in fact separate under-the-floor freight from above-the-floor passengers. Even if you did not have cabotage for the passengers you may in fact favour cabotage for freight. Have you given any thought to that?

MR BELYEA: No, we haven't. Can we just make the point also on cabotage that we're well aware of what happens in the US, we're well aware of the arrangement with Air New Zealand where they could effectively start their own domestic service in Australia now. It's fair also to say that the West Australian government is cautious on cabotage and it's certainly an issue that probably needs to be debated a lot more than just in this process here. The implications - I mean, if you look at the US, which are supposedly the leaders in this, they don't allow cabotage. It's point-to-point to various points in the US but those foreign carriers do not pick up domestic passengers in the US.

So the WA government is cautious but it would like to look at it on a case-by-case basis, but I think more of a global view would be - and I think cabotage

is a big issue and I'm sure the airlines will have an issue with it. It's something that needs to be debated a bit more than just being in this process here.

PROF SNAPE: I would hope that you might be able to give some consideration in the context of this inquiry - not today of course - but to it. For example, you said that South African Airlines is coming through Perth and it goes, I think, to Sydney from Perth.

MR BELYEA: Correct.

PROF SNAPE: It may or may not have unused capacity for freight between Perth and Sydney. Quite possibly it does. If you're trying to send freight from Perth to the United States and you've got a 747 coming into Perth and going to Sydney, on that you could pack it then in a 747 container so that it would just have to be reloaded in the same container.

MR BELYEA: Sure.

PROF SNAPE: That would provide you a facility that you may or may not have. There may be some capacity for Qantas also coming through on that basis. I'm not sure whether they fly 747s across to Sydney from Perth.

MR BELYEA: Yes, they do.

PROF SNAPE: At least it would give another option if a South African were able to carry that from Perth to Sydney, whereas some of the freight that's going at the moment might be in a narrower-bodied aircraft and have to be repacked. So I would ask if you could explore that possibility and give us your views on it.

MR McVEIGH: Yes, we will. We'll come back to you.

MR BELYEA: Commissioner, I just need to clarify a point too. Qantas actually does operate a service also to South Africa, which is also a transit flight through Perth, and that is a 747 aircraft.

PROF SNAPE: Yes.

MR BELYEA: You'd be aware that the WA government set up a council called the Air Freight Export Council, which is a model which is being emulated by the federal government and all the states now. That's been a very successful group and capacity is always one of those issues to be talked about. If there was an opportunity to increase capacity, particularly from the west coast to the east coast and through to the US and other destinations, then I'm sure that would be something that would be favourably looked at by the WA government, but we would like to look a little bit closer at that and come back to you if it's possible.

PROF SNAPE: Good. You refer to that freight agreement and the freight

processes which you have there. You might like to have a look at the Federal Express submission to the inquiry, at some of the points which they make in there, and they are making points about the continuity of service, and I must say as we looked at the arrangements and discussed the arrangements in Perth when we visited there, it seemed to me that you were talking very much about linking the various parts of the service and getting one part of the service to understand the problems of the next part and so on.

But the next step of actually having an integrated service from door to door internationally didn't seem to be part of that - integrated in the sense that the one carrier or the one firm was responsible for the whole process. It seemed to me in our discussions there that if you were able to have that continuity of service, it was then going to be clear where the problem was, who was responsible for a breakdown, and it was one firm. It would be useful, I think, if you could consider what barriers there are as far as Perth is concerned, or Western Australia is concerned, to having that continuity of service doorstep to doorstep.

MR BELYEA: Sure. There are two aspects that you have raised there. One is the cool chain process itself which deals with quality, and that is the product from really garden to destination to make sure that perishables get up there in the best quality. The second issue is to ensure that there is that continuity of travel of the goods; that it gets there in the quickest possible time, which is an issue we're looking at.

PROF SNAPE: The third one, I think, was continuity of responsibility and that's really the essence of what I was trying to get at.

MR BELYEA: Right, okay.

PROF SNAPE: That if you have breaks in it, then you get the problem, "It wasn't our fault, try the other guy."

MR BELYEA: Yes, okay.

PROF SNAPE: I think we have covered the points that I have and which Helen had, and we're just about at the stage where we say you might be able to catch up on some of the sleep that you didn't get last night.

MR BELYEA: Probably on the flight home, I'd say. Commissioner, just one point on freight, and I think when you were in Perth as part of this process and talking to the states, etcetera, the state does see it as import to have greater flexibility in freight, almost where freight is quite separate to the passenger bilateral process. In other words if we were able to attract freighters there, then we shouldn't link freight in with the passenger bilateral process. We believe that is not a big issue these days but nevertheless it is important and we see freight as a growing market in Western Australia.

PROF SNAPE: Yes. Thanks very much for your submission and your

government's submission and also for your comments. I should say that I do note the point about you being disappointed that we're not meeting in Perth. The point is noted. But thank you very much for your attendance. We will now have a break until 10.45.

PROF SNAPE: Let's resume our hearing and welcome Broome Airport. Ron, if you would like to introduce yourself for the benefit of the tape and then if you could speak to your submission. I saw your submission over breakfast this morning, and read it there, and Helen is doing her homework here. So we perhaps haven't spent as long on being able to digest it as we might have. So perhaps you could speak to it and we'll take it from there.

MR BUCKEY: Ron Buckey, chief executive officer of Wallace Emery and Associates, and the parent company is Airport Engineering Services. First of all, may I apologise to you for the late submissions. Unfortunately I have been spending a bit of time in Broome trying to open up some real estate on our airport which we're trying to sell off to try and build a new airport, and board meetings and relocation meetings with the state government prevent my attention to this particular document. I do apologise and I know this inquiry is important and it certainly hasn't been treated in any other way but just a pure lack of time on our part.

PROF SNAPE: Not at all. I wasn't meaning to complain but saying that we haven't digested it as much as we might have.

MR BUCKEY: Thank you. The airport, as we have indicated to you, is in the remote north of Western Australia, and it is some 1680 kilometres from Perth. It is regarded as a gateway to the Kimberley region for tourism activity. There are other airports in the region such as Port Hedland and Karratha which are major destination airports for regional Western Australia. Port Hedland also has an international status where Merpati Airlines operate international flights there once a week.

Broome is endeavouring to achieve the same outcomes, and in 1991 when we purchased the airport from the federal government the airport didn't have international status at that time. So we spoke to the passenger processing committees in Canberra to see what we had to do to bring it up to international standards. With their assistance - and I must say we did receive excellent cooperation from the passenger processing group in Canberra, and we have got no complaints in that arena at all; Les Jones and his people were fine - we were able to put something like \$4million worth of extensions onto the airport. That included lengthening the runway, providing new international terminal facilities and also changing our domestic area around as well, so we could embrace a passenger flow which enabled us to use it as a multipurpose terminal, insomuch as we could use domestic and international at the same time.

We also strengthened the apron areas with some very large concrete blocks which enabled us to put 767s in that particular area. We have had something like eighteen 767 charter operations through the airport to date and they have proved to be very successful; some coming out of Singapore, some involved with the Captains Club from Qantas Airlines, and on each occasion we believe that the people who have travelled into Broome have seen the region as a great area to visit in the future. Those people who have experienced the Kimberley region find that they have a love affair with it and like to come back.

We have been very aggressive in the last couple of years in terms of trying to get international operations together on a regular basis for RPT operations. National Jet operated a service on behalf of themselves from Broome. They flew from Adelaide - their base - to Broome nonstop with a positioning flight, and then operated the service out of Broome on a Thursday to Bali, and with that then they did some flying around for the Christmas Island casino people between Asia and the island, obviously taking patrons to the resort for some specific reason, presumably entertainment.

Unfortunately with the problems of the religion there and some infighting between the casino and the Indonesian authorities, the services were withdrawn. The services then became unviable out of Broome because there wasn't support there for on-carriage, they had some difficulties with marketing, and eventually after 12 months of operation and various changes to the service the flight fell over. Unfortunately that was the last we saw of National Jet.

We approached Airlink and I was very confident that we had some inside running with Airlink, which was a subsidiary of Qantas Airlines, but unfortunately some industrial issues forced the airline group to not continue with that particular service. The people of Broome were very keen to underwrite the service, providing some underwriting capacity if the services were very marginal, and that would have been in the way of support for marketing dollars to enable the service to have some continuity of operation.

PROF SNAPE: Is not Airlink operated by National Jet?

MR BUCKEY: It is, but it is a subsidiary of Qantas Airlines.

PROF SNAPE: It operated wet-leased, I think.

MR BUCKEY: Correct, yes. It's a National Jet aircraft crewed with wet lease, so effectively crewed by Airlink people. That's correct, yes. So at that stage we were, as I said, very confident of having Airlink take over the run, but because of the industrial issues - and that revolved around Airlink pilots flying on what was seen to be a Qantas route - so in other words Qantas crews would have complained about that, that was their rightful flying - and Qantas didn't proceed with that. They said they were trying to work around those issues but to date we haven't seen any sign of Qantas. In fact I believe it's very much on the backburner at the present time.

Similar approaches to Ansett have drawn a blank, so we proceeded to talk to some international people, and in particular a Mr Nertum Paneremo - who is the managing director of Setia Tours and Travel in Indonesia, in Jakarta - approached us through a former commissioner and chief executive officer of the West Australian Tourism Commission, Mr Kevin Harrison, to underwrite some services between Bali and Broome, and possibly eventuating out of Jakarta using a Merpati Mesentara aircraft.

So we were successful in saying yes, we would put some marketing dollars to that and the process took place. As I have explained in my document there, we made some inquiries on behalf of Merpati and particularly Setia Tours and Travel, as to whether we could operate services from Broome to Indonesia. I must admit that it always pays to put things in writing. I didn't do it on this occasion because I was only making inquiries on other people's behalf, but I did speak to Canberra and the Department of Transport in particular, about capacity rights between Indonesia and Australia. I was informed that there was sufficient capacity between Indonesia and Australia, there was unlimited available at that time and that they could see no difficulties in operating two F28 services or two Boeing 737 services per week which were to commence in about November.

This is a very short lead time given to us by the managing director of the group that was underwriting it. So we proceeded from there. But in the meantime unbeknown to myself - and I didn't need to know, for one reason - but there were some discussions on bilateral agreements between Indonesia and Australia taking place on a remote island somewhere in the Asian area. Those negotiations, unfortunately by the sound of things, fell over. In getting some subsequent phone calls from another gentleman at the Department of Transport and finding out some further information, he indicated to me then that there was no entry point available for Broome on the Indonesian bilateral and treaty rights between the countries.

I found that quite staggering, to be quite honest with you, when I had already been informed that there was sufficient capacity. The gentleman knew that I wanted to fly them as RPT services to Broome, and all of a sudden out of the blue, despite the fact that we had spoken at length about this, he informed me that one of the bad things about Merpati Mesentara was that they didn't complete the paperwork properly. I suggested to him that I would fly to Canberra and sort of assist and have a look and fly off to Jakarta to make sure the paperwork was completed properly. At that stage we were never ever informed about this particular entry point not being on the bilateral or the treaty right.

So with that we ran into some conflict over a great deal of time, and I eventually involved the Department of Transport in Perth, and you have already heard from Nick Belyea on that particular subject. He and I had a number of discussions on the phone about it, and we were getting - certainly as airport owners - totally frustrated by the lack of cooperation at this point in time. In fact at one time in a phone conversation, as I have indicated in my document, and Nick has already referred to it, that there was a big picture, and I was sort of trying to make the point that I had already had this previous discussion and the comment came back to me that I had to get my head around it. I found that to be quite insulting, to be honest with you, when we had already had some understanding between us.

It appears that it revolved around some fifth and sixth freedom rights which Australia were trying to negotiate out of Indonesia for on-carriage into Europe and unfortunately Broome got tied up in this particular bilateral negotiation. As Nick has already alluded to, Townsville was an entry point on the bilateral under the treaty

right, and we then asked if that particular port pairing could be transferred across to Broome. We were informed that we could not do that and that the next opportunity would be at least 6 months away and possibly well and truly after the Indonesian elections which have just been held.

So at this point in time we still don't have Broome as an entry point on the bilaterals, and we pleaded as to how we were going to get these services off the ground. They then came back reluctantly with an idea of putting in test and development charters, and it was some time that we took to negotiate that. They approved it for only 3 months, which doesn't give anyone any satisfaction or an ability to be able to market the flights. They did say to us at the time that there was a rollover period of about 3 months after - you know, they would roll the flight over at 3 months subject to satisfactory performance.

Then out of the blue again they came to us and said, "Well, we need some dollars to support the operation in case the operation falls over." So when we asked what the figure was going to be, and without sort of committing to people, they said, "Well, we're probably looking at a million dollars." I just about dropped. I said, "Well, how are we going to get a million dollars to put in a bank as a bank guarantee in case the airline falls over?"

Eventually we were able to negotiate after long discussions with Nick Belyea and Kevin Harrison and people that we arranged with Merpati and Garuda to provide that ability to pick up the passengers should the airline fall over from Broome. So in other words they would divert the aircraft. We saw Merpati as a good airline operating into Melbourne on a regular basis, and we suggested that the Melbourne aircraft would divert via Broome if this other service didn't operate to pick up those passengers who were stranded. Eventually that was accepted and we did achieve the approval. But it was very very late, just prior to Christmas, and then of course the Asian crisis broke, and we at that stage, because of the late notification and approval, asked the Indonesian people if they were prepared to put it back to 4 April, a start date of 4 April.

They agreed to that but as you probably would be aware, the Asian crisis has really hit in a big way. Merpati Mesentara are in trouble. Garuda have problems. At this point in time they are trying to shed aircraft and we were just informed yesterday that they were not going to provide the aircraft at all because of the Asian crisis and because of the aircraft availability at that point in time.

PROF SNAPE: Is this the aircraft to operate it or the aircraft to back up?

MR BUCKEY: No, the aircraft to operate it. So once again the test and development charters are not going to operate. It has been suspended until such time as they can overcome the difficulties with the monetary situation, and we will no doubt see that put on the backburner for quite some time. We have been trying to explore with them - and it's very difficult to talk to Indonesians unless you go and knock on their door and try and get an appointment. To try and talk to them by

phone is quite often very difficult. They find themselves in meetings or for some reason or other don't want to talk to you. I guess it's because they are probably somewhat embarrassed by all this.

But we are trying to endeavour to ask them whether they are prepared to operate their Port Hedland flight via Broome. They have a weekly service which operates with a 737, Bali-Port Hedland-Bali, and we would like them to operate that flight from Bali to Port Hedland, extend it to Broome and then depart Broome for Bali. This would provide us with a weekly operation in both directions. It's an aircraft which has sufficient capacity on it. It only operates with load factors in the order of about 55 per cent at the present time from Port Hedland. It has a flying time of something like 55 minutes between Port Hedland and Broome and I believe it would not be very disruptive for them to provide that connection or deviation on that particular service. I don't know what their aircraft utilisation is like but I'm sure they could jig the schedules to allow that to operate that way.

PROF SNAPE: That is Merpati, is it?

MR BUCKEY: That's correct, Merpati. Once again, when I spoke to the Department of Transport we still run into the same problems. Even though this aircraft is operating into Port Hedland, Broome cannot be put onto this particular service because it is a regular public transport service and Broome does not exist on the bilateral agreements or on the treaty rights between the two countries. Once again, we have to wait until the people in Canberra go back to the Indonesians - whenever that's going to be we don't know - to discuss the ability to put Broome into this particular bilateral.

If they don't achieve at the end of the day what they want to achieve, which is trying to hold - in my opinion - a shotgun to the Indonesians' heads in terms of trying to get some fifth and sixth freedom rights, Broome may never ever get on there because they, I'm sure, are very concerned about the giving away a right into Broome will force them into giving something away outside of their control for a fifth or sixth freedom right.

I can see the Indonesians' concern and that's been expressed by senior people in Indonesia to us, and we are quite concerned that we're not going to be able to get Broome put on there, but that's something for the government to sort out, and I know that in speaking with the state Department of Transport they are certainly on our side and will take that issue up. If the Indonesians agree to fly to Broome they will take it up on our behalf through the transport minister and hopefully the premier at the end of the day.

So you can see some of the frustrations coming through from an airport operator's point of view. We believe that we are not allowed to go out and try and entice people to fly into our destination. It is a region which has great tourism potential and I think in this particular inquiry we shouldn't lose sight of the fact that one of the objectives surely of this opening - or looking at these bilaterals and looking

at an open skies policy or a relaxation of them, is to create employment for Australian people, and I'm sure by bringing as many operators into the north of Western Australia, that would have achieved that result. The more people we get who are travelling through that Asian spine, particularly the backpackers, some 250,000 of them at any one time in the Asian spine from Kuala Lumpur right through to Bali, it's a huge number that we could tap into. If you get 1 per cent of them, that's a significant number.

The ex-pats market is there in the oil and gas industry. Those people have to leave Indonesia on a regular basis for their visa renewals and instead of going back to their countries why not fly to Broome, which is 2 hours and 10 minutes away? It's got all the facilities. You can get your visa renewed in Broome. So those are the issues that we're quite concerned about, quite frustrated about, and we believe that there is a need to have some freeing-up of the market to allow that to happen. I heard you people expanding the idea of opening up the secondary airports or the regional airports to an open skies policy. We certainly support that. I also believe, as we've stated in our document, that an open skies policy has probably got some benefit to Perth because of the on-flow of major international operators into Perth. Passengers would travel back to Broome and exit Broome to an overseas destination, or travel further on to another location.

As I said before, we're quite frustrated with the process at the present time, and I don't know how we overcome the difficulties. We haven't been to Canberra to speak to the people, but we've had representation from our Department of Transport, excellent cooperation, and unfortunately we're not achieving anything at the present time. We have been talking to Royal Brunei, we are having some current discussions through another source at the moment with Silk Air, and we are hoping that we can encourage another operator to fly into Broome. Both Ansett and Qantas at this point in time don't want to know about it, so why not let some other Asian carrier fly into the destination to open up what is another market for the tourism industry?

PROF SNAPE: Thanks very much, Ron. You do, at the end of the letter part of your submission, speak about "should have an open skies policy, negotiated on a country-by-country basis for Perth and regional Western Australia". I thought maybe in your oral presentation you were perhaps going closer to unilateral open skies for regional airports.

MR BUCKEY: Yes. I guess I'm not sure what I really want at the end of the day. I get a lot of frustration in this process that comes through. I guess that there is some need to relax the policies and open it up slowly. I suppose that's what we're trying to say; that I guess I don't understand the big picture, and there is probably a big picture, and until that's explained to us all, we really don't know how we fit into this scene. There may be other issues that involve governments outside of just aviation and outside of airport owners that restricts this particular agreement to flow through. But if we could get a unilateral country-by-country open skies policy, that's what we'd certainly like to achieve.

PROF SNAPE: I certainly think it's a characteristic of the worldwide system which is rather unusual when one considers international trade. I mean, usually the international trade is, "Yes, we start from a position of allowing trade in our thinking but then put a number of barriers into it." The whole framework over the last 40-odd years for international air is the opposite. That is, that nothing is allowed unless freedoms are expressed, and it's exactly the converse of the way it is with most trade. I mean, it's a presumption of nothing. The whole definition of all these freedoms is it's nothing but we can negotiate this freedom, we can negotiate that freedom and so on. When one has that structure of things it is perhaps not as transparent as coming at it the other way, and one is never sure how many layers there are and agreements, etcetera, that have been reached.

MR BUCKEY: Yes.

PROF SNAPE: We scratch away and we find that, yes, there is an agreement but then that has a bilateral agreement that has treaty status, but then you go to the memoranda of understanding, it's not quite sure whether they have treaty status or not, but they're attached to it. Then you find that there were perhaps some letters that were passed between relevant ministers that are also relevant, and you never know what phone calls have occurred as well.

MR BUCKEY: Yes. We had some difficulty getting hold of the bilateral and we had to approach our local member to achieve it and there are lots of memoranda of understanding and yet they're not signed, and you just wonder what is legal and what is not legal.

PROF SNAPE: Precisely.

MR BUCKEY: It's quite difficult. The other thing I would like to say, I don't think that competition at the end of the day does harm to anyone. I must admit that I sat on the other side at one time; I worked with Ansett Australia for some 30 years. I was general manager of Ansett WA and I resisted like anything the introduction of Airlink in Western Australia, but I can say for sure and certain what Airlink did to Western Australia was to open up the airline system; it created more opportunities for people to travel because of cheaper fares, and it created more employment.

I think we saw that with Compasses Mark I and II. Okay, they fell over for the wrong reasons. I think there was poor management involved in it, but then we've got the other problem right at our doorstep at the present time, when some senior executives in airlines and government officials got together and tied up all the airports and made it very difficult for people to fly in and out of airports. You see that with gateways and we see that continuing at the present time, where you can't get gates. That's another barrier for competition, and I don't think that competition, at the end of the day, harms anyone.

The last thing I'd like to say, and I think it's a very big emphasis from our point of view, is that we must come to grips with the value of tourism in Australia.

Everything that happens - one visitor into Australia creates some sort of employment. I did hear this morning and I reiterated it to you at morning tea, how we are looking to protect jobs for people and I know there were some issues about the flight attendants, and I agree with what they are saying, but there are lots of other job creations in terms of tourism into Australia, by bringing people in. It's down to the people serving food, it's someone fitting a light bulb in a hotel, it's all related to tourism, and we shouldn't forget the value of that particular product. It's high in terms of values of dollars, and I think it will be the number 1 leader in Australia, in a very short space of time, to mining.

The other thing that we would say, and I heard you speaking about, was the freight issues. The Kimberley region is huge in terms of freight and produce, particularly the Kununurra Valley, and we see already articles in the press about the damming of the Fitzroy and the possible potentials in those regions there. Already we've got produce being produced in Broome and some of it has been exported through other destinations. We have a great aquiculture area there. We've got fishing. So on our doorstep we've got huge potential to feed the Asian bowl, and unfortunately we haven't got services to provide it, or space I should say, to transport that product to the doorsteps of the Asian area.

PROF SNAPE: Do you have any coolroom or chilling facilities at the airport?

MR BUCKEY: We don't at the moment. We have one in Derby. We're trying to acquire that at the present time, but if necessary we'll put a coolroom in Broome. One thing about the owners of this airport, they're not afraid to spend money. We put \$100,000 to the marketing and we said, "We've got 100,000 bucks to market this Merpati and Mesentara flight," and unfortunately it didn't start so we haven't spent it yet, but that's the sort of thing these guys are prepared to do. We have to move the current Broome Airport, and it's going to cost them something like 30 to 40 million dollars, and we must see some return for moving that particular airport at the end of the day.

MRS OWENS: Why are you moving it, because you've just extended the runway?

MR BUCKEY: When the owners bought the airport back in 1991-92, they did make an agreement with the Shire of Broome to move the airport to a new location, and that agreement still stands. We have a heads of agreement with the shire and we will move the airport for the development of Broome as a town planning issue. So the airport will move some distance out of town. That hasn't been decided and we're currently working with Nick and his team of people to negotiate a site at the present time. So a new airport will be built somewhere within 5 to 6 years' time subject to land and native title negotiations, and as I say, 30 or 40 million dollars. We're not going to increase the traffic by one aircraft if we continue at the same rate. We need to do that to justify the expenditure.

PROF SNAPE: Will it take a fully-loaded 767?

MR BUCKEY: We're intending to, and it will take 747s as well, the new airport. We're intending to plan the airport so that it can fly from Broome to Osaka nonstop, a 767 ER300 series, and we will have it available - the strength of the runway will be able to take a 747. What we'll need to do is to put a thick lift over the top should we get regular 747s. But that's probably 20 years hence. I might not ever see it, but we should plan an airport for it. We're planning for dual runways; in other words, parallel runways, and you have to allow this for future expansion in 50 years' time. We certainly don't want to see another Sydney on our doorsteps. We're trying to get land that will be sterilised away from noise issues in terms of residential lands and so forth. So, yes, we are working with the government and it's pretty good cooperation at the moment all round. What we're concerned about is that we need to get additional aircraft into Broome to support the region, to open up the skies and get moving.

MRS OWENS: Is the new airport going to go ahead even if these problems persist?

MR BUCKEY: Correct.

MRS OWENS: So is it going to be viable?

MR BUCKEY: No, it wouldn't, if you got 30 or 40 million dollars out there. What we're doing at the moment is that we are selling off the existing airport land. We were given permission to sell - close the north-south runway, and at the northern end of the runway we have already opened up some land there, 55 lots were on sale last Sunday, and we're starting to sell those lands off so we'll get the finance from those lands to assist with the capital to go into the new airport.

PROF SNAPE: The current airport will take a fully-loaded 767 now?

MR BUCKEY: Correct, yes, it will. It has a restricted take-off weight because of the condition of the runway, so it will make Singapore nonstop but it can't take full MTOW, maximum take-off weight, because of the strength of the runway, and so therefore it's restricted from a freight point of view. In other words, baggage in the hold.

PROF SNAPE: When you were talking about your problems with Bali, Port Hedland, Broome, and Broome not being on the list, would that not be possible to be using - a party is already flying Bali-Port Hedland.

MR BUCKEY: Correct.

PROF SNAPE: Would it not be possible to use the charter provisions that you had to add the other two sides of the triangle for that same flight?

MR BUCKEY: I hear what you're saying, but the airlines just don't want to entertain that idea. They say, "This is an RPT service and we're not about to destroy it. You give us the proper category of rating for it, and then we'll consider it." But I want them to commit first of all before we go to the government and say, "What are

we going to do, fellas? We've got them committed. Here is the piece of paper to say, yes, we'll divert this aircraft. What are we going to do?" But, no, we've already spoken to Merpati and they're not interested in sort of playing around with a mixture of RPT charter-type arrangements. It's just too difficult, and I can understand that frustration, being a former airline guy. It's just too difficult to work.

The other thing you mentioned, and I spoke about, is we need to sort of look at cabotage and on-carriage. At one stage they were talking about - they currently operate a service to Perth, Merpati, three times a week. They put that in just after Christmas, and at one stage they were talking about operating out of Bali to Broome, on to Perth, and did they have cabotage rights, and I said, "No. At this point in time there is no cabotage available. Did you have pick-up rights?" and that is something that we still hadn't finalised at that point in time. But I believe that they should be able to pick up their own people and take them on to their own destination where they're flying to.

PROF SNAPE: They can't go into Broome anyway.

MR BUCKEY: No, they can't go to Broome anyhow.

MRS OWENS: Are you getting a significant number of international visitors coming in on domestic flights?

MR BUCKEY: Yes, there is. There are certainly a lot come through Perth, and a lot come through Darwin. You see the German market, the Japanese market is very strong in the adventure area, through the Kimberley, so you see them in the four-wheel drives travelling through, a huge number of backpackers at the present time, and they fly. They're not the backpackers as we know them of yesteryear, you know, the hippie type. They're very influential people who have lots of dollars, and just after university have obviously taken to touring around. So they've got some money and they stay at very good places. They would fly through.

We've done a lot of research, and I've got a document on backpacking. We sent the Monash University from Melbourne - six students went to Indonesia, and we spent \$18,000 on some research with them, right throughout the Asian spine, on backpacking, and we asked all sorts of questions, "Would you use Broome?" and all those sorts of nice things you would ask, and they do know Broome, they certainly would use Broome - not all of them of course, but they said, "Yes, we would look at using Broome." Obviously there's quite a lead time because they make their decision to travel prior to leaving home, whether it's Germany or UK. It is a big market emerging in that particular region, and particularly Europeans in that backpacking area.

PROF SNAPE: Do you have data on the differential in costs that you would anticipate from the current way of getting to the Kimberleys via Darwin or via Perth, when they would then link onto a domestic flight to do it, as against the sort of proposals that you're making?

MR BUCKEY: The direct fare when National Jet were doing it was something like about \$600-odd - \$610 or thereabouts, \$609.

PROF SNAPE: From Bali?

MR BUCKEY: From Bali. That's return.

PROF SNAPE: To Broome return.

MR BUCKEY: That's correct.

PROF SNAPE: Right.

MR BUCKEY: The cheapest fare from Perth to Broome return - that's a 21-day advance purchase fare - is at the present time about \$469. So you've got a fare to Perth, something in the order of about \$600, \$700, so the differential I think is something like about \$400 or thereabouts.

PROF SNAPE: That's on the cheapest fare we're talking about.

MR BUCKEY: Cheapest fare, yes.

PROF SNAPE: Which is probably the relevant fare for the backpackers.

MR BUCKEY: Exactly, yes.

PROF SNAPE: A differential of \$400 or around about 30 per cent.

MR BUCKEY: Yes. The other thing is that we heard about bilaterals. You know, when you talk about fares and so forth- in talking about the bilaterals - sorry, the bilaterals and the alliances, I should say, the alliances tend to worry me a little bit because what you see is a consolidation of capacity happening; in other words, the amalgamation of British Airways or Qantas into a British Airways aircraft. That's happened where we see very few jumbos operating between Perth and Asia at the present time. I don't think there are any in fact operating at the present time.

What we see is this consolidation of Qantas into British Airways, and as a result of that you've got two aircraft going into the one effectively, no real great increase in capacity, but a diminishing cheap fare availability to some extent, particularly when the busy periods are on. Now, I know there are some excellent fares around at the present time - that's being caused by the Asian people not travelling - but all I'm flagging at the present time is, are alliances good for us at the end of the day? Do they create more capacity? Do they create tourism? They're the questions I think that need to be answered in terms of seat availability for discount fares - you know, tourism-type packages.

PROF SNAPE: In some cases it might be survivability of course.

MR BUCKEY: True.

PROF SNAPE: Which, while there may be seats at the moment, there may be none in the future.

MR BUCKEY: I guess that brings it back to the question: are the existing two operators in Australia efficient in the way they operate in terms of the staffing levels that they've got? We see great overhauls going on at the present time in their own organisations, but they've taken a long time to get around to doing that, and I guess their seat kilometre cost is probably not as good as, say, some of the Asian carriers. I know that salaries and other costs are much dearer in Australia.

PROF SNAPE: I saw - and I think it's in your submission here - that people were in fact saying that the preferred way of getting to Broome would be through Singapore rather than through Bali.

MR BUCKEY: Yes. We see Singapore as an adventure market, particularly that area. There are a lot of backpackers all going through Singapore. The German and Italian market end up in Bali. If you go to Bali - and I'm not a great lover of Bali, but I transit there from time to time - there's a huge Italian and German market there, and the Chinese market out of Singapore is into adventure nowadays. They do travel to Perth on a regular basis, and we believe that is a good hub to service Broome. It's got connections to the world out of Singapore.

PROF SNAPE: But nevertheless your attention has really been on Merpati doing it from Bali rather than - - -

MR BUCKEY: Yes. We were approached by Merpati, or through Senior Tours and Travel. That's why we've pursued that particular airline. Some would say that it's not the greatest airline in the world, but an airline is better than no airline at all, or a service is better than no service at all in this particular case, and Merpati were prepared to put their hand up. Unfortunately it hasn't happened.

PROF SNAPE: It's not the view that's been put to us by quite a few participants. Quite a few participants have effectively said that no airline is better than a poor airline.

MR BUCKEY: I heard what people were saying about safety, but how many crashes do we have? We don't hear of lots of crashes around the place, and that's what surprises me. We talk about safety issues, and Nick has alluded to that. If the CASA needs to increase the regulatory controls over that or ICAO need to do that, that needs to be done, but I don't see any major disasters happening with what is supposed to be some of the suspect airlines. You know, we all get into trouble. We've heard the good Qantas and the good Ansetts get into some difficulties as well at times. So I don't think we should put the blame back into the Asian - or that arena,

too quickly.

PROF SNAPE: What about the charters for Broome? Is there any substantial market for charters from Europe into Broome?

MR BUCKEY: I think there would be. Lord McAlpine, who was the builder of Cable Beach Club, was a great proponent to develop that opportunity. Unfortunately Lord McAlpine is not involved any more at Broome to any large extent, but certainly he would have been a great leader in trying to achieve that, and Britannia Airways, we were trying to encourage them to divert via Broome, but unfortunately their payload would be too restrictive on the runway; in other words, it would damage the runway, because they want to take maximum load every time they depart. So they would be looking at operating on the 767s, somewhere in the order of 175 ton. We would have to restrict it to about 135, so that would enable them to get through to the Gulf where they'd refuel again before they travelled on to Europe.

So, yes, I think there are some opportunities there, but it's a market that I don't think you could promote weekly. That's the big problem with it. You know, you would have to have an ability to be able to sort of fly into Broome and then go on to, say, Sydney or another gateway on the eastern seaboard so that you could drop the people in Broome for a week or 5 days, 4 days, whatever the thing is, come back 4 days later and pick them up and take them onto another destination.

PROF SNAPE: So you wouldn't see that it was sufficient of itself to generate- - -

MR BUCKEY: I don't believe it would stand alone.

PROF SNAPE: - - - charters from Stockholm in the middle of the winter?

MR BUCKEY: I don't believe it would stand on its own, no. In fairness, we've got to be real about this, and we think that Broome is a 4-day holiday place for people to tour, fish, adventure and then move on to another location within Australia; whether that's Cairns, the Rock or Darwin, that's how we see it operating.

MRS OWENS: Why not pursue the Singapore route in terms of getting capacities in our agreements with Singapore?

MR BUCKEY: Why wouldn't I?

MRS OWENS: Yes. Coming back to Richard's point, what about Singapore?

MR BUCKEY: We are pursuing that.

MRS OWENS: You are pursuing it?

MR BUCKEY: We are pursuing that. I have a gentleman proceeding to Singapore in a fortnight's time - no, it would be 10 days now - to try and set up some meetings

for me to organise with Silk Air. We would have been in there before this, but unfortunately they had that accident. I don't think that was a result of poor maintenance or whatever; I think that was something else that happened. So we didn't approach Silk Air because of the troubles that they had at the time. We thought it was inappropriate to go knocking on the door and say, "How about putting a service through to Broome?" so we said, "Let's let it settle down, and when the time is right we'll go and talk to them." I think the timing is about right now; it's been 3 or 4 - -

MRS OWENS: But you need to approach them before you approach the department to find out about capacity constraints.

MR BUCKEY: We want to see whether they're interested, first of all.

MRS OWENS: Yes.

MR BUCKEY: We don't want to go sort of - - -

MRS OWENS: It's a bit of a chicken and egg. You need to know whether you're going to have problems getting the capacity - - -

MR BUCKEY: I think we've got to put the pressure back on the government at the end of the day. I believe that this is a restraint of trade, as far as we're concerned, and we've got to put the pressure right back at their doorstep and try to find the solution for it. At the end of the day we might have to go to the press and start talking about it, but it really does make it very restrictive when the government is selling off airports right around Australia and you can't go and support and service your capital that's out there at the present time. It is a concern.

MRS OWENS: Can I just clarify one other issue that you raised in your opening comments, and that was relating to Airlink, and you mentioned about the Qantas flight attendants having some concern about Airlink.

MR BUCKEY: Yes.

MRS OWENS: And about it being potentially a Qantas route. Does Qantas have some rights to go to Broome now?

MR BUCKEY: Any international flight out of Australia by an Australian carrier should be regarded as a Qantas flight; in other words, it bears a Qantas flight number, and therefore the International Pilots Association and presumably the FAAA - the group that was here earlier - believe that that flying belongs to them. National Jet who fly the aircraft on behalf of Airlink, their cost structures are something like about 30 per cent less for their technical and flight attendants. So they see that as undermining, and this is the thin edge of the wedge for Qantas to reduce salaries to nearby destinations, like Darwin to Bali for instance, and New Zealand, and things like that.

MRS OWENS: So it's caught up in a much bigger picture.

MR BUCKEY: So you can see a little thin wedge going in there saying, "Look, we'll put in Airlink here to fly to New Zealand or from Darwin to Bali," and they're quite concerned that they don't want to put the major carrier on the ground over a small issue like Broome to Bali, because it's just not worth it, and I can understand that as well..

PROF SNAPE: Thank you very much, Ron. We can well understand that when you've got visions like that, that the obstacles are most frustrating. Thank you very much for your submission, and I'm glad that you didn't actually have to fly straight from Broome to come to appear here; that you were in fact in Sydney. Anyway, even though you only came from Sydney, we still thank you very much for appearing before us, and for your submission.

MR BUCKEY: Thank you.

PROF SNAPE: We'll now adjourn until 1 o'clock, when we'll have the Department of Transport and Regional Development.

(Luncheon adjournment)

PROF SNAPE: We shall resume our hearings on Friday afternoon, and we welcome now the Department of Transport and Regional Development. On several occasions in the last few days we've heard mention of the department, and on quite a few occasions people have said, "Well, you'll have to ask the department why they did that," or something like that. We welcome you here, and as is our usual procedure, I would ask you for the purpose of the transcript if you would each identify yourselves in turn, and then, Peter, you may wish to speak to the submission which you have given to us.

MR HARRIS: We'd be happy to do that. Thank you very much for the welcome here today. The Department of Transport and Regional Development are very pleased to have the opportunity to talk to the commission about issues that might be of interest to it. For the record, I'm Peter Harris. I'm the executive coordinator, Aviation, in the Department of Transport and Regional Development, and on my left is Tony Wheelens - - -

PROF SNAPE: We actually need the voices themselves on the tape.

MR HARRIS: Okay.

MR WHEELENS: Tony Wheelens, assistant secretary, international relations, Department of Transport and Regional Development.

MR WOLFE: Jim Wolfe, director, international aviation policy, Department of Transport and Regional Development.

PROF SNAPE: Thank you very much. Peter, over to you.

MR HARRIS: Perhaps I could run through as briefly as I can make it a couple of the highlights out of our submission, because I realise it's only recently been provided to the commission, and I'll do this in sequential page order. Basically the first point I'd like to pick up is the nature of the international aviation regulatory framework. In the introduction to our submission we note quite clearly the preamble to the Chicago Convention and the expectations created by that preamble on the part of a number of bilateral partners, in terms of particularly the basis of equality of opportunity for international aviation operations and for future negotiations between countries.

We'd also note that the Chicago Convention takes into account somewhat alien concepts for a free market approach, such as that action should be taken to prevent economic waste caused by unreasonable competition, and to ensure that the rights of contracting states are fully respected, and that every contracting state has a fair opportunity to operate international airlines. The reason we pick this point up is not to say that this should be the way international air services are managed, merely to note the fact that it is a very important factor in the way some countries approach this, and in fact it goes a long way, I think, to explaining how we've arrived at a position where international aviation is the kind of negotiated quote exchange-type market that in practice it is.

The second point I'd like to pick up is on page 2 of the submission, which is to note the nature of aviation as a good, that international aviation is not an industry which simply enables any individual, company or even a single government to establish international air services on a stand-alone basis; that it cannot be conducted without the agreement of at least two and quite often more than two governments, and that as a result the nature of the good being sold is such that it actually requires that level of agreement between the two governments. If there isn't that agreement, the good itself doesn't exist.

Again these points are made to explain where we are rather than necessarily argue the validity of any of the concepts. The third point I'd like to pick up is on page 3 of the submission, where we note that demand is often assumed by those who criticise the current system, but in our view, in the absence of demand, supply will not emerge, no matter how few barriers to entry remain. We point out the simple reality that people and freight do not use aviation services as an end to themselves, but as a means of selling or consuming some other good.

On the same page, we turn to bilateral agreements, and we note that bilateral agreements are still the preferred form of arrangement internationally, even in the most liberal of aviation countries, as witness by the fact that open skies agreements negotiated by the United States with a number of other countries are still bilateral agreements in their nature. Moving to page 5 of the submission - this is section 1.3 on ownership and control - I think ownership and control is a very important factor in international aviation, substantially underestimated I think because of the focus on capacity. We make the point later in the submission that capacity of itself won't sufficiently remove barriers to entry.

A principal barrier to entry certainly aligned with capacity - probably the two most important - but a principal barrier to entry is the fact that carriers are designated on the basis of ownership control, and thus under any bilateral arrangements, including open skies arrangements, by definition the number of participants in that supposedly freely competitive market are limited, and there is no guarantee as a result of that, that the most efficient carriers or the best carriers in meeting the market demand, including niche carriers, are able to complete. In fact under the nature of the bilateral system they are prevented from still doing so as long as ownership and control arrangements remain in place.

We also note that ownership and control arrangements are a significant limitation on capital raisings for small countries, and that as a result of that, countries with very healthy and deep and mature capital markets are significantly advantaged by this, and in our view this is one of the factors which suggests why some countries favour open skies arrangements, but nevertheless find themselves singularly advantaged by that rather than by what I would consider to be more obviously competitive arrangements, such as pluralateral or multilateral agreements. On page 8 of my copy of the submission - I've just realised you may not have the same copy of page numbers that I've got.

PROF SNAPE: So far we're on - - -

MRS OWENS: So far, so good.

MR HARRIS: Okay, tell me if we're not. Immediately above the reference to fifth and sixth freedom traffic - and the reason I'm picking this is up is I believe this has been an issue earlier in the week for you - we note that there are arrangements in fact in place to allow temporary administrative exemptions from cabotage restrictions, and these are designed to allow the free flow of freight or passengers to deal with specific situations where carriers are unable to operate because of failures of equipment, or because simply the specialist equipment necessary for freight is not available in this country, or the limited numbers of it mean that it's not available for the particular service at the particular time it's required by the customer, and that I think is probably one of the lesser-known but nevertheless relevant factors for I think what has been a particular aspect of discussion here earlier.

Moving on, I move to page 12, which is under 2.3, Multiple Designation and Airline Privatisation. I'd like to pick up the point that as a result of the changes that have been made to international aviation policy in this country in the nineties, and particularly the change of ownership arrangements with Qantas and Australian Airlines, and the accession of Ansett to full international carrier status, we have seen a change in the nature of the way we view the carriers and the carriers view us, and this is a very important point usually ignored or trivialised by those who want to denigrate what happens under the current system. But we believe that there is substantial evidence available for the commission to look at to suggest that the arrangements which now exist on the department's part for negotiating international aviation rights take into account a far wider range of interest than those of the carriers, and indeed the carriers themselves feel no obligation to the government to support what is negotiated.

We have seen the withdrawal of services from Korea, we also have seen the chairman of Qantas publicly state at shareholders' meetings that Qantas feels no obligation any longer to maintain market share on behalf of the national interest, and we think that is quite a sensible and acceptable and rational way for Qantas to behave. The other side of that coin, though, is that the government will similarly feel able to take into account a wide variety of interests, not just carrier interests, when it assesses what is in the national interest negotiating aviation arrangements.

There is also a point in that same section to the fact that the arrival of multiple designation as a reform in our international aviation policy and the creation of a competitive structure to support that, particularly the allocation mechanism managed by the IASC, has resulted in Australia's market share - and I'm not trying to be mercantilist here, but nevertheless it's a simple fact of life - Australia's market share of inbound and outbound traffic, which was declining and was at 38per cent in June 92 when these reforms came in, has now grown, with the competition between a number of Australian carriers on international routes and competition from those Australian

carriers directed towards the market share held by foreign carriers - has now grown to 43 per cent in 1997, so in that 5-year period we have seen a significant increase in Australian market share.

In the subsequent section, 2.4, Capacity ahead of Demand, we describe the policy as it now is, and what we do therefore to ensure that one of those significant barriers to entry which can exist under the bilateral system is removed to the maximum extent possible by Australia acting alone, which is in terms of setting out negotiating policy to provide capacity ahead of demand. Since March 1996, the current government - capacity for international services to and from Australia has increased by more than 31 per cent over the accumulated capacity developed in the previous 50 years. This equates to an additional 234 Boeing 747 scheduled services per week, and that is prior to recent agreements and discussions with Thailand and Argentina, and the Thai agreement in particular was a very significant breakthrough for us.

In the next section, Air Freight and Charter Policy, we note that Australia has pursued in a pluralateral forum in APEC more liberal air freight arrangements. We chose to try and pursue air freight because we believed it was the least problematic area of international aviation, and moreover, within APEC the kind of activity in which all member countries shared a common interest seeing removal of restrictions. The reason I picked this up is to highlight the difficulty of pursuing these things, even in a form such as APEC directed towards that kind of activity. We have been relatively unsuccessful in obtaining agreement within APEC to the idea of removing restrictions on freight carriage in the region, although the concept remains still alive, and the prospects of agreement therefore also remain alive. Nevertheless there has not been the sudden take-up with alacrity of this concept within the APEC forum.

We have a section in our submission called Options for Further Liberalisation. It's on page 19 of mine under 3.1 The initial part of that is directed towards commenting on what we call unilateral approaches, which is the idea that we simply go it alone and allow anybody to fly to this country without negotiating reciprocal arrangements in return. First I would note that's not a policy that I'm aware of that's being pursued by anybody around the world at all. Second, we'd like to point out that based on simple concepts from competition policy, which are key guiding factors to how we try and frame what we are doing in international aviation in the Department of Transport and Regional Development, we believe the principal generator of consumer benefits and innovation and more efficient allocation of resources is competition between carriers, but we don't believe that competition in a product market where one party has chosen to have no rules limiting the behaviour of the other, while its counterpart can through indifference, if nothing else, under the bilateral system, prevent a competitive response. We do not believe that that will necessarily be in consumer interests.

This is not an argument in favour of preserving the existing system, but it is a view which suggests that aviation, whilst the bilateral system remains in common use and supported by international law, is not like any other trading good, and that simple

removal of walls of protection will not make the national better off, and that relates principally to those rules which apply under the bilateral system, and what you can do through indifference, through inactivity.

In a subsequent section on page 20 we talk about capacity ahead of demand. The only reason for reiterating this point is to note that where capacity ahead of demand in our principal markets has not actually appeared - where that capacity is not sitting on the shelf available for Australian carriers through the IASC process to take up and enter the market at any time they wish - there are three simple explanations. There are conservative approaches from some of our bilateral partners. There may occasionally be major elements of access to a particular market outside aviation negotiations which remain unresolved - for example, slot management systems or environmental restrictions - - -

PROF SNAPE: I'm sorry, you went very quiet.

MR HARRIS: Slot management, environmental restrictions - they are also diplomatic problems which occasionally emerge - and I mentioned earlier demand, simply because the market has remained static and therefore there is no growth, or because growth has been met by carriers from other countries, and therefore in the greater scheme of things, as we settle our negotiating priorities in consultation with stakeholders each year, these are not markets that we're pursuing, and I tend to describe there actually the quite small markets, because obviously where a market is significant to us. It is constantly on our list for ensuring that we have shelf capacity available.

I'm trying not to take up too much more of your time. I turn to a section which we've headed Bilateral Open Skies Agreements. I'd like to ask the commission or at least offer for the commission's consideration trying to think of the concept of open skies in a context that I think is more familiar to everybody, and that is view it through the prism of deregulation of intrastate aviation in this country. We had the suggestion under bilateral open skies arrangements that providing a select number of carriers with the ability to add capacity, set prices, generally manage as they wish, will in some sense be a more competitive or more consumer-oriented or otherwise more in the public interest style of approach than a currently restricted arrangement of a similar kind.

I think when the Industry Commission looked at deregulation of intrastate aviation it had those options put to it. Think of it in terms of the Sydney-Dubbo route where we have a limited number of carriers who are limited in their ability to take particular competitive decisions right now. The idea that it is a pro-competitive response to say to those still limited number of carriers, "You can run as many services as you like and set prices as you wish and" - we note in another part of the submission - "potentially be excluded from competition law in so doing" - to claim that that is a more competitive or more consumer-oriented proposition than the existing situation seems to me to be highly arguable.

I'm not sure that argument could be sustained. Certainly I find it unconvincing. I certainly would find more unconvincing what the commission itself found when it looked at deregulation of intrastate aviation, and that is that opening the market up - the Sydney-Dubbo market and every other market within that environment - to entry by a multiplicity of carriers and a multiplicity of conditions driven by market demand is far more convincing. So in this submission we tend to believe, although we do not explicitly advocate as such, that the commission may wish to look more at solutions along the lines of those which have been developed by it previously in looking at intrastate aviation markets because fundamentally we do not see a lot of difference between that and the international aviation market.

In that same section we note that the rules which exist for bilateral aviation agreements tend very much to favour arrangements which are the antithesis of that which applies in other traded goods markets but there is no most-favoured nation principle and there are no trade rules such as occur through GATT panels or similar arrangements from the WTO to enable disputes to be settled on what I'd call a pro-competitive basis. The nature of the bilateral system, regardless of whether it is an open skies bilateral or any other bilateral, continues to enable the participants in that closed arrangement to determine that they will or will not provide capacity and maintain it.

Dispute settlement is conducted in a similar environment. It's not conducted on the basis of principles which relate to those, in my opinion, which govern international trade. I think that's a crucial difference between trying to determine what is bad about the existing environment and what might be good about a new environment. As long as the rules which govern behaviour are the same rules, it seems to be reasonably unconvincing to me to suggest that simply by saying to a select number of carriers, "You can do what you like within those rules," necessarily will serve the interests of consumers.

We note also at that point that there are suspensions of competition rules inherent in open skies agreements conducted by some countries and certainly on first principles I can see no reason why this should be the case. So those who advocate open skies, I believe, need to explain why they need competition rules suspended, and on first principles we find that inexplicable. We also comment in a subsequent part - I'm on page 26 now of my copy - on claims that you can have a benign view of open skies bilateral arrangements because in the end you can turn them into a multilateral arrangement by putting them together back to back. -

We also find that unconvincing on the basis simply that some countries certainly will have the negotiating power to be able to do that but a country such as Australia will not. We could leave this room and offer open skies agreements to everybody who is currently a bilateral partner of Australia and we certainly wouldn't get a universal take-up rate. We don't have the negotiating ability to enforce that on other countries as some nations do. The more probable outcome is that you will not get a bilateral open skies set of arrangements merging into multilateral arrangements. Self-interest would dictate that those carriers who have benefited from having a home

country with a negotiating clout to enable it to put together a hub-and-spoke set of bilateral open skies agreements, where they are at the hub and all the competitors are on the far ends of the spokes, will not necessarily be in the interests of those at the far end of the spokes.

We note a more desirable policy option, drawing on trade policy as a guide, may be the concept of a regional aviation grouping. Perhaps I might stop at that point because that's a pretty fair summary of where we got to. We do subsequently talk about the fact that the general agreement on trade and services will review international aviation and where it stands at the end of this decade. There are a couple of other comments made in that section but perhaps I could cease the homilies and leave it open to you to question us on our performance to date and in the future.

PROF SNAPE: Okay, thank you very much, Peter, and thank you very much for a very thoughtful submission. In reading it, it's obvious that a great deal of thought has gone into its development and to the arguments that are put forward. It's very helpful for us. I wonder if you would like to address the question of what is the basic objective of policy? What is the basic objective which the department is trying to achieve? Some people have suggested that we have got regulations but we don't have an aviation policy.

MR HARRIS: That's an interesting perspective. I think in fact we do have an aviation policy, and to ensure that there's no misunderstanding when I give what I think is a more succinct answer to your question, I should note that the minister for transport and regional development has made policy statements in the past on every occasion when the government has undertaken a major reform option. There's a pile of books which we can let you have which actually outline these and the rationales for them. In more recent times John Sharp, the former minister, made a keynote speech to the aviation industry - aviation press club - indicating the nature of what he considered Australia's aviation policy and what it was directed towards.

So I think that those comments that you have had might probably have been directed towards demonstrating something else rather than simply asserting that we didn't have a policy. If necessary we can provide you with copies of all those documentations. It's an interesting insight, though, to select regulation as being the fact that we don't have a guide. In fact regulation does provide - not what I'd call a complete guide but certainly does provide some form of guide. Taking the example of our international aviation charter policy, which is the most recent regulatory structure that we put in place, we do actually define public interest as we would see it in those sort of regulations which are appended to our submission.

I think if you tried to get a synthesis of what we do when we develop a negotiating position, when we go away and seek to obtain advantage for Australia, that's a pretty fair version of what we do. We take into account the set of interests that are outlined there, and they are the interests of a number of stakeholders, and we take into account what I'd call the broad direction of policy, which is that even if individual stakeholders don't tell us that they would like us to have no capacity

restrictions in place and would like to have substantial shelf capacity, we'll nevertheless take that view as being also important to the policy mix.

So I do believe we have an objective in mind. It's too glib to say that we go away to negotiate a net level of benefits for Australia but in a sense that is exactly what we do and the definition of it is available through both regulation and through policy statements from the minister.

PROF SNAPE: The point was made in the submissions - and I'm simply passing on the point that was made without suggesting that the Industry Commission endorses this point - but the point was made that Singapore and the Netherlands had a sort of well-formulated strategic policy for their aviation industries. The point was made that Australia does not seem to have an aviation industry policy in that same sense.

MR HARRIS: No, it's the debate that you get in the industry policy context more broadly about whether the government has a vision for each individual industry or not.

PROF SNAPE: You did note that I said the Industry Commission does not necessarily endorse that view.

MR HARRIS: Yes. I'm not sure that having a vision of that kind would appeal and, without saying to whom it may not appeal, we would be happy to develop such a thing if the government was of a mind for us to have it but, in my opinion, we are guided principally by the policy statements of the minister of the day, whether they are made in formal-bound documents as was done on a number of occasions in the previous government or in what are keynote addresses foreshadowed by the minister as being, "This is where I intend to enunciate what aviation policy shall be."

I guess there's a philosophical debate behind whether you should have a vision for a particular industry or not. I did note earlier that the carriers themselves are, in our opinion, quite clearly, as it were, cut from the government's apron strings and I'm not sure how much welcome would be given to the idea of the government saying, "We feel you're a participant in our vision."

PROF SNAPE: I should say that a participant also thought that an overarching objective of aviation policy in Australia should be that we should ensure that two domestic carriers, two carriers devoted primarily to the domestic carriage, should continue to be in existence.

MR HARRIS: Yes, well, that's again an interesting perspective. I think our interest is in not any particular number at all. Our interest is in ensuring that the environment is in place which can enable a number of competitive carriers to exist because I think we do say in the submission, and I think it was in one of the points I outlined, we believe that that level of competition is the principal driving force behind which you get benefits to consumers and innovation and a healthy environment, but I do not think we are numeric in our approach.

I say that without trying to devalue the efforts of those carriers which do compete in this market. It's not at all intended to be a commentary on that; it's more to say that we believe the role of the department is to ensure that there is an environment in which the aviation consumer and the other related stakeholders benefit.

MRS OWENS: But are you interested in maintaining national carriers on domestic routes? Is that a primary objective of policy?

MR HARRIS: I'm not sure. When you say "on domestic routes" do you mean- - -

MRS OWENS: Or on international.

MR HARRIS: Is it important for us to have Qantas always a participant on the Alice Springs to Adelaide route, as an example, and would we be shocked and horrified if they withdrew? I think it's hard to separate the political response from the policy perspective but I guess the reality is we know we can do nothing to stop them so doing and they know that as well. So policy develops with that level of recognition between each of us, rather than any conscious policy directed to the contrary.

If the point you're eventually trying to get towards is whether thus as a result international competition on domestic routes is perse a good or a bad thing, it's probably a bit easier to rationalise a view on that than it is on whether we should ever try to prevent an Australian carrier withdrawing from a domestic route, because we know we can't and policy proceeds in recognition of that.

MRS OWENS: I think there's implicit in the legislation that you mentioned before relating to charter flights - the public interest criteria - I think implicit or maybe explicit that there should be ongoing some sort of support from the Australian aviation industry. I refer you to 4A part (4) - - -

MR HARRIS: I know that one, yes.

MRS OWENS: - - - which you referred me to before, which states that if foreign interest holds substantial ownership and effective control of a charter or a charter operator, employment and investment in the general development of the Australian aviation industry is seen to be a public interest criteria, so that particular clause gives an indication that the Australian government's policy is to maintain a local Australian aviation industry of some form.

MR HARRIS: I think certainly the Australian government is very proud of having a healthy Australian aviation industry and certainly the parliament which was responsible for the specific words that you're talking about certainly see that as being a very important aspect of our consideration of competition in these sets of circumstances, but I don't think you can go so far as to say that that necessarily drives any of the individual constructs of policy. That pride in the fact that we have a strong, healthy, competitive domestic Australian aviation industry is a given rather than an

explicit driver of policy.

MRS OWENS: Although this particular policy could constrain the sorts of operators you have, say, in the charter market in Australia, couldn't it, if they don't have a substantial level of investment in the general development of our industry. That could constrain who can actually compete on a charter basis.

MR HARRIS: That is a practical possibility as an outcome of the wording that you've noted.

MR WOLFE: Can I just add something about the general question in relation to industry policy perhaps? I think it might be good to refer the commission to actually the policy statement put out by the minister in relation to the operations of the International Air Services Commission where it quite clearly spells out a range of benefits that the commission has to take into account, one of which in fact is competition benefits and there's actually a specific reference that says that the commission should have regard to the need to develop strong Australian carriers capable of competing effectively with one another and the airlines of foreign countries. So I think in allocating the capacity the commission has in fact been given a range of these criteria to look at, and that's one particular one.

On the charters policy I think, as Peter indicated earlier, there are a range of criteria that have to be looked at and that specific one certainly was added by parliament, and there are of course a range of ways in which that can be met. Just to give you an example, charter operators who come to Australia often link up with domestic airlines in Australia on a codeshare or handling basis, and clearly in that respect they are actually contributing to the Australian aviation industry.

PROF SNAPE: I wonder if I might shift a little bit to the area of the options which you have. There is one section here that puzzled me quite a bit and it's on your page 26 I think - it's on my 28 - where you say that, "US open skies packages include an exemption from its anti-trust laws," and then you make quite a bit of that consideration. I puzzled on that for quite a while and someone helped me out to understand it - at least I want to check my understanding to see that it's correct.

My understanding is that it's in a sense the other way round, but correct me if I'm wrong. That is, if an alliance is being proposed and is seeking approval for that alliance - seeking approval in the United States for an exemption from antitrust laws - then that exemption would only be given in the context of an open skies agreement. So it's the other way round, in a sense: that if you want an exemption from antitrust laws because you're proposing an alliance, the US would only agree to give that if there's an open skies. Then the logic, as I understand it, would be, "Okay, we're giving you the ability to have an exemption from the laws relating to restricted competition, but we'll only do that if we make sure there's going to be another form of competition on you; that is, open skies."

MR HARRIS: I don't disagree that - - -

PROF SNAPE: That is the correct interpretation, is it?

MR HARRIS: No, I'm about to put a double version of that. I think that certainly where alliances are proposed, an exemption from anti-trust is essential. I'm not convinced, nor have I seen anything which has suggested, that it is not also an inherent part of the development of the policy for open skies. In other words, this is chicken and egg. This is a question of do you get alliances between carriers within bilateral open skies arrangements with anti-trust exemptions because you chose to have an open skies arrangement, or because you chose to have an alliance? Can you really distinguish between them? I don't know the answer to that because I don't run US aviation policy, but I do observe what is stated as the outcomes of each of the US aviation policies and I do see that as an inherent observation.

Moreover, it appears from exchanges that we've had with US officials to be viewed as being part and parcel of the agreements, and I think the commission probably has submissions from US airlines and may wish to look at them to see whether they also are viewed as being part and parcel of having an open skies agreement. So I'm really suggesting it's important to work out whether you can distinguish between what drove what, but certainly the outcomes are the kind that I described. I describe an outcome where you have a limited number of carriers sharing an alliance with an anti-trust immunity on the basis that they can set prices and capacity themselves. I don't consider that to be necessarily a pro-competitive market. That's the point we're trying to make.

PROF SNAPE: Yes, it does change a perception if you approach it from the other way as I think in the way that I described it, that, "Yes, we're giving you an exemption but we'll only give you the exemption if there is an open skies policy," and the rationale would be then if you are in fact abusing the market power which you have now got, then there are potential competitors that can come in, but essentially the argument would be that free trade is the most effective discipline upon market power.

MR HARRIS: But which competitors? Take a UK-US open skies agreement. Which competitors, other than those that would be participants already under the open skies agreements, can come in?

PROF SNAPE: I think that then leads us to the next potential development which is one that I've been putting to a number of participants so far and on which you do get towards, I think, a discussion in this section, and that is an open skies club. I take the point about state assistance, which you refer to on the top of my page 30 but it would be about your page 28 I think. The problem of running a club, if in fact some are being state assisted - and I take also the point about being able to constrain that - nevertheless one might be able to design club rules that are aimed at that as they are in the European Union.

The implementation of that of course is sometimes questionable, but nevertheless it is the rule of the club that those assistances be constrained, and I'm not

just meaning in aviation, I'm meaning beyond aviation as well. So if we just set that particular problem on one side and assume that that one is in fact one of the rules of joining the club, then by having a club of like-minded countries with open skies and getting not just a series of bilaterals but in fact a set of general principles which are applied to all of them, so you don't have the hub and spoke system, which I share the reservations that you have on, and indeed in other contexts have written on the subject with reservations - but to have a single set of rules over all of them so that you in fact don't have a set of bilateral agreements but you would have a pluralateral agreement.

Then if one were to have, let's say, Australia, New Zealand, Singapore, Malaysia, perhaps the Philippines in such a club, that would put - maybe the United States of course as well - but that would put a great deal of pressure on Hong Kong who may then in fact with that pressure be induced to join it as well. One can see the way it could in fact expand once you get that. Now, what is the problem with that when you are talking about that sort of expanding open? The crucial thing would be an open skies club

MR WHEELER: We have in fact explored that notion privately with a number of our major bilateral partners in the way that we discussed policy issues as we worked through the bilateral process. We found very little support for that, particularly in the Asian region. The overwhelming desire of our bilateral partners, including the most liberal of them, is to continue to proceed to liberalise the bilateral agreements - and there is an expectation among a number of them, and probably us as well, that at a point in the future there will be a commonality of view on a range of issues that may lend some weight to blocs forming of one sort or another. My judgment would be that's quite some way off and that it is an inherently complex issue.

Whilst we as a state may have a particular view about it, to put the matrix together is a very difficult issue and it's not dissimilar to the problems that have been experienced in GATT and WTO and we're currently working our way through in APEC. It is more an issue of when the time is right for this to occur. Our judgment at the moment is that we are quite some distance away from getting the commonality of view amongst the participating states to create that environment.

PROF SNAPE: It seems, Tony, that the scene is changing fairly rapidly. I may be wrong in this interpretation, but if one looks at what's happened fairly rapidly, fairly quickly - the US has, what, 28 of these now?

MR WHEELER: No, it's in a community of several thousand, so it needs to be judged against that background.

PROF SNAPE: Of course.

MR HARRIS: It's nevertheless significant.

PROF SNAPE: Yes, the US is not an insignificant player in it and many of the

countries with whom they have bilaterals are not insignificant players either.

MR WHEELNS: That's correct.

PROF SNAPE: Malaysia I think has been added to that list fairly recently and so it is a changing scene, as I understand it. Thailand has got a much more liberal agreement with us. It is not an open skies but a much more liberal agreement with Australia than it has previously had, and so there's a lot of movement in that liberalisation. It's a question I guess - is when it reaches a sort of momentum of that - that Australia could perhaps be taking a lead with a suitable group of countries and, in my judgment and I'm sure in yours, that would not be APEC as a whole.

MR HARRIS: No.

MR WHEELNS: No, too large.

PROF SNAPE: But it would in fact be a group of like-minded countries that might include those that I've been naming and to say, "Okay, let's stop all these bilaterals because we know if we've got bilaterals and we've got 200 countries in the world, that makes it 200 squared over 2 minus 200" - I've got it correct - "bilaterals."

MR WHEELNS: A lot - that's a lot.

PROF SNAPE: It is much simpler to have just one agreement which people can then latch onto with commonality. It would be important of course not to be getting the lowest common denominator and therefore be going to a group of very like-minded countries. Are we not much closer, given the recent momentum of all this, to being able to kick-start something like that?

MR WHEELNS: Are we closer than we were 10 years ago? Absolutely. We are closer than we were 5 years ago - no question about that. How close are we is another question.. My professional view would be that we are still some distance away from that. I suspect we are trending strongly in that direction, and alliances and equity arrangements and ownership and control, issues like that, are central to that question and there is by no means a common view internationally on any one of those questions. But we are trending strongly in that direction.

What lead can Australia give? Australia can continue to run liberalising policies with our major bilateral partners and encourage the development of those arrangements to the point where the things that we negotiate about are increasingly less relevant. I would perhaps supplement that a little to say - I mean, you are right when you say somebody has to take the initiative. I'm not sure - I mean, probably each country believes it is not terribly well placed to do so because I think we note in the submission there is this inherent suspicion of such an option from people who have grown up in a system where there is a lot of control in an international market, and this initiative would require sacrificing - an element of that, a substantial element probably of that - but you are right when you say somebody has to launch the idea.

Natural groupings around the world already exist. I think we have mentioned the European Union in our submission, and there have been some others tried. We also note in the submission that the history of those hasn't been terribly successful and it may simply be that the natural synergies, even though they were geographically located, were not - or are not - the important driver of such groupings, and perhaps the key thing would be to look at the nature of the grouping not just as like-minded but also as offering flows in the market that were sufficiently complementary for people to believe that this was worthwhile in each of their interests.

PROF SNAPE: I wonder if it may not be, given the closer than 15 or five or whatever years ago - that it may not be pretty close to the time where Australia could announce that in a public forum as a policy objective. Australia doesn't have any open skies agreements apart, of course, from the agreement with New Zealand and, in that sense, of course, Australia has been liberalising so much in these regards and it might be an appropriate time to be saying, "Look, we will go open skies but not just on a bilateral basis. We want a club and to in fact launch it in a public domain and so hasten that day that you are talking about."

MR HARRIS: I think that's a judgment call that - we do tend to leave - not leave. "Leave" is not the right word; we don't leave things; we actually do push ideas, but it's a judgment in the end that we have taken by ministers because, in the end, they may have to absorb the reaction that will sometimes come from within the region. It does have a political dimension, I guess, is what I'm trying to say - a diplomatic, political dimension to such a thing.

PROF SNAPE: As it was in the Cairns group - - -

MR HARRIS: Quite.

PROF SNAPE: - - - and Australia did lead that - - -

MR HARRIS: Quite.

PROF SNAPE: - - - and it is reasonable to assume that Australia achieved quite a lot by initiating that momentum and maybe it's time to have the Broome group. I just plug into Broome at one point and there we are - there's the Broome group.

MR WOLFE: I think we have a table for you at the back which you should look at about Broome.

MRS OWENS: I suppose it is a matter of what is going to happen if we don't do something and given there are a lot of near neighbours entering into these open skies agreements with the US, I guess the question is, where does it leave us with this proliferation of agreements?

PROF SNAPE: Yes.

MRS OWENS: And I guess it is a matter of thinking about what happens if we don't do something. Where are we going to end up?

MR WHEELNS: I think it's instructive to look at not only what they are doing with the US - and where the US controls 40 per cent of the world's aviation activity to, through and within, it does make sense for some states to have expansive agreements with the United States, but it is an entirely different question when you look at the relationship between the individual states themselves. You don't need much imagination to work through the dynamics of relations in North Asia, for example, between the individual states and the prospects of open skies agreements emerging out of that group or amongst the ASEAN group, for example, where similar dynamics exist, and I think, Richard, getting onto the point you were making before about a number of the states that you picked in that collective, there is a range of dynamics that exists between those states that may not be conducive to the sort of arrangement that you are proposing at this point.

MRS OWENS: Another issue that has been raised - I think it is raised in your submission but I just can't find it at the moment - is about own carriage restrictions and whether in fact they're having some sort - are they actually biting at this stage?

MR WHEELNS: This is the question of the carriage of own stopover traffic over domestic sectors in Australia?

MRS OWENS: Yes.

MR WHEELNS: Was there a specific question? I mean, just to tell you what we do with our own stopover traffic, we trade the ability to carry traffic over domestic sectors provided that it is in international stopover traffic, and that exists in quite a few of our agreements, and I think there is a table at the back of the submission which sets those out.

MRS OWENS: Are there a lot of agreements that have got these requirements in them at this stage?

MR WHEELNS: The benefits? Yes, there are a number that have that benefit negotiated in.

PROF SNAPE: There are quite a few that restrict it also.

MR WHEELNS: Yes.

MRS OWENS: What's the balance?

MR WHEELNS: I'm not sure. We can give you that if it is not already there. It is probably not there. Off the top of my head, I can't say, Helen, at the moment, but we will certainly provide you with that data.

MRS OWENS: I don't know what the views are of the airlines to these sort of restrictions - the own-carriage restrictions - being lifted in the agreements. Have they been resisted? Our own airlines, have they been resisting that?

MR WHEELNS: They have a view on it. They have been, I would have to say, fairly constructive in the way that we approach the issue. It needs to be seen in the context of the total package of benefits that we're getting out of any bilateral negotiation and conceding own stopover rights in Australia is always in return for a benefit that we would receive elsewhere and Australian carriers are the beneficiaries of that process, so it's a question of trading one for the other.

PROF SNAPE: Is that much of a bargaining chip?

MR WHEELNS: It can be. It can be an issue at the margin and it may be the difference between doing the deal and not doing the deal. It depends.

MRS OWENS: But has it been an issue at the margin, or is it one of a number of things that you're bargaining - you're negotiating - on at one time?

MR WHEELNS: Yes, it's generally part of a package and if foreign airlines have a particular desire to operate over a particular sector in a particular way, it is something that we're happy to consider in the context of the deal that we're doing, yes.

PROF SNAPE: A number of people have suggested that they feel it is a significant restriction on overseas airlines in developing tourist traffic, etcetera, and it's - probably there is no hard evidence on that as to how much it is, but that would have suggested that if that was so, one would really want to be getting something fairly substantial from it rather than something trivial.

MR WHEELNS: Well - yes, go on.

MR HARRIS: I mean, the difficulty here is as we're sort of trying to get out of a like-for-like trading system in negotiations in the past - you know, "You have to give us this and we'll give you one of them in return" - or whatever the number is - so the packages are now very much derived around the maximum amount of benefit we can get out of it regardless of what it is that we're trading away, and only in that context is the sort of tradable value of it really that important. I mean, the logic for us here really is we will trade anything to get a good deal and if this is a thing that is of value to the other side and they're prepared to indicate that, then that's great because we'll probably get something in the national interest back for it, but I don't have the perception - but I would like Tony to comment on this - that this is sort of, as it were, a deal-breaking issue anywhere. I mean, it is almost as if this is the grease in the wheels when you're talking own stopover rights.

MR WHEELNS: In taking this sort of issue to the table we are guided by the

tourism benefits that can come from it and it is part of the - in formulating the negotiating brief, I mean, that would be one of the issues that we would take into consideration and it would place a relative value on the rights that we were negotiating.

MR HARRIS: I guess what I was trying to say though is in the end we wouldn't fail to give this to someone if there's something - given that we're in a negotiating context, given that we are in the existing environment rather than any more market-orientated arrangement, we wouldn't fail to provide this to the extent that the other side thinks it is worth something, because, frankly, in the Australian position we're usually in there more often asking for improved access or whatever rather than having it asked of us. That's not always the case but the way we tend to perceive these things is that we are out there looking to get capacity on the shelf.

PROF SNAPE: I take your point that you're in a negotiating framework and when you're in that framework you are reluctant to give up things unilaterally, as you mention. Nevertheless, if there are restrictions which you might judge are more harmful to Australia than any potential benefit then you may very well decide to give them up unilaterally and it would be in Australia's benefit to give them up unilaterally, and one wonders whether this is not one of them; that it is in fact making it more difficult or putting impediments, if you like, in the way of overseas tourists to Australia - whether that may not be in Australia's benefit just to say, "The cost is more than any potential benefit; let's take it off unilaterally before Tony gets to the table."

MR WHEELNS: Richard, I think we will actually find when we look at the list that there are very few cases where that is a relevant point. I think we have progressively, from memory, over a number of years, given those rights, particularly to North Asian carriers operating in the Australian market.

PROF SNAPE: If there are a few left then maybe they can be removed?

MR WHEELNS: Well, we will see how they go, yes. It depends on - - -

MR HARRIS: We would like to know what you're offering in return.

MRS OWENS: If you have got tourism benefits at our end which are important to us and you're negotiating something at the other end and using it as sort of a bargaining chip, how do you weigh up the tourism benefits at this end against what you might be able to get at the other end, because you say you are not comparing often like with like - - -

MR WHEELNS: Yes.

MRS OWENS: Is it just judgment? How do you do it?

MR WHEELNS: It's a complex issue, as you would appreciate. Just before you asked the question I was going to make a point that might help. In the past - and this

is probably getting up to 10 years ago - one of the principal drivers was assessing balance of opportunity and balance of benefits. We have moved quite some distance from that, and particularly in our more expansive and larger agreements where the marginal benefit that is left from one side doing better than the other diminishes rapidly as the relationship expands, and what we have been trying to do - and quite successfully over the last 10 years - is to push those relationships out to a point where the marginal differences in the trade cease to influence the balance of benefits and opportunities. If you were to apply a benefits of balance and opportunity test to a number of our principal agreements over the last few years, Australia would probably come out on the negative side of it because we have pushed expanded capacity and route rights for foreign carriers. The process of getting multiple designation for Ansett, for example, quite considerable concessions were made, quite willingly by the Australian government, but nevertheless quite substantial concessions were made to persuade foreign governments to give us the rights to allow Ansett to operate in those markets.

MR HARRIS: So that's in a context, an old-style context, where you're actually adding up the numbers of what we got of this and the numbers of what they got of that. The numbers may be substantially different but the broader policy gain is the more competitive environment, the more innovative environment which you can't add up on that score sheet, and we're in a policy construct now which says, "Don't bother." I mean, the basic principle is we can see considerable value in this and I mentioned the market share point principally earlier just to indicate that.

For people who like to try and get some arithmetical measure of what you get out of having a more innovative competitive environment, there's a measure. I'm not sure how good a measure it is because this is not meant to be a mercantalist sort of exercise but I can say at least, "Look, things changed as a result of this more competitive policy environment with multiple designation and more Australian carriers." If you think that's good; good. I'm not actually making my arguments necessarily based on that alone, but there's an interesting fact for you to observe.

PROF SNAPE: If one is looking at another area of what might be a candidate for unilateral, because it may be just a benefit to us without any real cost, one might mention freight cabotage on passenger aircraft, under-floor freight. For example, South African Airways coming into Perth, there's a Perth exporter wanting to export to the US and the exporter would be going out of Sydney on a 747 and being able to put the freight in a 747 container onto the South African Airways into Perth and go through. I can't see off the top of my head that any much great damage would be done to any Australian airline by offering that. The great advantage would be it wouldn't have to be repacked into a 747 container from one to another.

MR WHEELSENS: Yes. If that's the international through traffic, transit traffic, transiting Sydney, there's nothing to prevent that from occurring now, and in fact a lot of freight travels like that. So there would be certainly freight from South Africa - well, maybe not certainly from South Africa but certainly international freight. New Zealand freight, for example, travelling to South-East Asia often transits through

Sydney and Brisbane.

PROF SNAPE: No, I was meaning pick up in Perth.

MR HARRIS: No, it's cabotage; he's on cabotage.

PROF SNAPE: Pick up in Perth. It's cabotage.

MR WHEELS: I see, yes, okay.

PROF SNAPE: It's freight cabotage.

MR WHEELS: Sorry.

MR HARRIS: I think I mentioned earlier, if there is a lack of equipment available to carry a particular product, we do have an administrative mechanism to allow someone else who is otherwise normally an international carrier to carry out.

PROF SNAPE: But that's something that would have to be negotiated.

MR HARRIS: No, that's an administrative thing. Basically that's a phone call.

PROF SNAPE: You'd have to get someone's approval for it. What I'm saying is, why not just have this as something given away because it would be to Australia's benefit?

MR HARRIS: It requires somebody, I guess, to make the argument. I've not ever heard this before, and I'm no expert on every option that's put in front of it, although we get a quite a lot of late. I've not had this one put to us. The downside for me in answering your question really is I can see under the existing system that you might be able to do it but you're a lot better off simply saying, "Here's a broad policy sweep and therefore we don't have to be involved in determining this issue." But you don't get to that point without somebody putting their hand up and saying, "Gee whiz, I'd really like to see this happen." To my knowledge no-one's asked. As I say, I don't see the individual propositions that are put forward to us.

PROF SNAPE: If no-one uses it, no-one uses it but - - -

MR HARRIS: Well, no, it's not quite at that point because to get the policy changed - you wouldn't just change it for such a narrow one route - - -

PROF SNAPE: No, I mean more generally - - -

MRS OWENS: No, across the board.

MR HARRIS: That's right.

PROF SNAPE: - - - freight cabotage within Australia.

MR HARRIS: Well, it tends to be that you change policy in every area of government in my experience - which is pretty long now - based on the fact that somebody says, "I've got this idea. It's a benefit. There's no downside. Why don't you change the policy?" But until you get it put in front of you, you can't take it anywhere, but it is a policy change. I think that's the important thing. We sit here with a cabotage policy which we do administratively apply flexibility to, but we don't actually have what I call a policy construct which would enable us to do this across the board and in perpetuity. That's not to say we can't have one; it's just to say that to my knowledge no-one's ever put the proposition forward for it to be assessed.

MRS OWENS: With New Zealand, the single aviation market, we still don't have fifth freedom rights; they're still restricted.

MR HARRIS: They have restrictions. They have fifth freedom rights; they just don't have- - -

MRS OWENS: There's still no opportunity- - -

MR HARRIS: - - - unlimited fifth freedom rights.

MRS OWENS: What are the impediments to opening it up totally?

MR HARRIS: The current position of both governments, I think, although I'm not sure how much - I won't speak for the New Zealand government. The current position is that we've put the proposition that there are commercial arrangements currently under way between the carriers in the region, and we'd prefer to allow those commercial arrangements to be settled before we alter the regulatory environment. We've had experience in the past where if you break the regulatory environment up in a particular way and disturb either an embryonic or a nearly completed or whatever it is commercial deal, the participants in that commercial arrangement tend to come to you and say, "Well, boy, did you guys screw up; you really don't know what's going on out there in the industry and here's a large loss for us or for somebody else." So that is the current state of policy.

MRS OWENS: What about once the alliance issue is resolved?

MR HARRIS: It's not so much trying to settle the alliance per se; it's actually trying to settle this arrangement of what are the carriers doing within their arrangement. So this actually dates from the time of the Air New Zealand-Ansett purchase where the two carriers are investigating - and again I don't try and speak for them, but we do have the knowledge; they've got working groups to set up how to more efficiently manage their business between themselves, and this may have an impact on any regulatory change we make in the international environment. So those beyond rights may or may not be needed for a particular purpose or not needed for a particular

purpose.

Anyway, I guess the bottom line is we'd like to be able to say, we'd like to be able to assess post their agreement on what they're going to manage between themselves and how they're going to manage their business; what we do in the beyond rights context.

MR WHEELS: We are in the end game now with New Zealand and the remaining issue that is to be settled is the synergies between the airlines and the route rights that might be available after that's been settled, and it needs to be seen in the context of the total negotiation and something that has gone on for quite a few years. David Stone and I started this many years ago - too many than either of us are probably prepared to admit - but we are in the end phase of a very long and protracted negotiation with New Zealand where the stakes have been quite considerable, and that end phase has not yet been played out.

MR HARRIS: The point about assessing the beyond rights in the context between the carriers is not meant to be sort of an aviation per se driven thing. If somebody can demonstrate some way in which we're not doing, as it were, everything that could be done to support the tourism industry through the access rights which all foreign carriers are gaining to Australia - we're sitting here saying we're prepared to have capacity sitting on the shelf. I haven't heard it ever sufficiently explained that we are preventing in some sense some greater flow of tourism benefit that would occur through this.

Now, I've heard broader statements than that which is simply, "Why not throw this open?" My answer to that is, "Not while we're allowing a significant commercial transaction to finalise." But beyond that, I haven't heard anybody put the counter which says nevertheless, "Forget that transaction, there are a whole bunch of other specified benefits and here they are, if only we have greater numbers of beyond rights." So if there's an example here again that supports some kind of further change to policy, we're prepared to look at it. It's not a clear-cut, "No," like that, but it is an environment in which you're actually doing a lot of this negotiating with a lot of these parties at one and the same time.

PROF SNAPE: I notice that you said on your page 19 that, "In a sense aviation is not like any other good" - I think you mean service as well as good - but it seems to me that in some ways it is like Telecoms; also you might say shipping. Of course if you're shipping something, you have to have a port to call at as well as a port to depart from, and either end of it can block it off. Now, I suppose that shipping has had a very long history which started probably from the opposite end of the spectrum to - as you were describing essentially from the Chicago port.

MR HARRIS: Convention rather.

PROF SNAPE: Bermuda, I suppose, rather more than Chicago. But leaving shipping on one side because of its longer history, it is rather similar to Telecoms, isn't

it, in that you have to have someone to receive it as well as to send it, and you have to have some sort of agreement for receipt as well as for sending. But they have been able to crack the multilateral or at least pluralateral or potentially multilateral anyway nut on Telecoms in a way that hasn't yet been able to be achieved in aviation. Are there lessons in Telecoms for aviation?

MR HARRIS: I considered this. I've done some work in telecommunications reform in the past. I have actually thought this through before I came into the aviation area a bit. I think the thing that is of advantage in telecommunications was that technology was breaking down the regulatory barriers anyway. The bottom line was through recall services internationally you could pretty much knock over what, if you like, the bilateral carriers were doing themselves if you wanted to. Entry was initially restricted to the fact that people had to lay cables to do so, but once you had satellite communication and then you had low earth orbit satellites - I think technology makes telecommunications an extremely difficult field to maintain the sort of regulatory environment which has a lot of parallels - I wouldn't disagree with you - but I'm not sure how much technology actually forces the collapse of what we have in place here. It certainly provides much, much greater efficiencies and therefore demand grows.

PROF SNAPE: The alliances are in a sense a form of technology.

MR HARRIS: Yes, they're one of the ways of jumping the barrier, but they're not perfect, as you can see from my earlier comments on competition policy. I'm actually one of these people who gravely doubts the degree to which you should actually suspend your competition rules for the sake of alliances when there's a regulatory structure supported by a different form of bureaucracy which could support an anti-competitive act. I gravely worry about that. I always have. I'd rather that things were done pretty much - - -

PROF SNAPE: Even when you turn it around in the way I did before?

MR HARRIS: I still worry about it because I don't run the policy in other countries, but I'd be very interested to know the degree to which this is sort of supported by the desire of an alliance because of the unilateral benefits that are available to the carriers or whether there's actually a consumer benefit that's identifiable beyond that. In some cases there will be. It's very much case by case, and it appears to be one of those factors that I think gets missed in the mix; that it's not simply about, "Gee whiz, let's snap our fingers and open access and it will all be all right on the night," because I think that the restriction of entry of other carriers and the ownership and control arrangements and the continued set of rules that go with bilaterals per se are ignored in that.

I don't think that they should be. But you're right when you say that alliances are a means of jumping barriers. Again, I've seen it written quite effectively by people that probably alliances are a response to the existence of the regulatory system, but they themselves are still not able to deliver that ultimate outcome because of

ownership and control rules, if nothing else. You still can't become an Australian-designated carrier through an alliance. You can benefit from what Australian-designated carriers have, and they can benefit from what you have.

PROF SNAPE: But that's under pressure too, isn't it?

MR HARRIS: I think you're right when you say that the policy environment has changed very rapidly in the last 15 years and is under continuing pressure now and that that does say - I mean, I think we noted in our submission the review that will occur in the GATS. I think things like that do trigger reconsiderations of whether this system is still what we should stick with.

This inquiry has the same reconsidering aspect to it; that you need to look at how things are changing. I think you mentioned how the US open skies bilaterals changed the policy perspective of everybody, regardless of whether they're in them or not. I think all that's quite true, so there are these pressures, but I don't think it's quite at the point where telecommunications was. They're pretty much the bilateral carriers, as it were, almost needed to get inside each other's markets and reduce the restrictiveness that came from the pricing arrangements between them and the ownership and control and investment, purchasing restrictions. They needed to do that because otherwise they were the dinosaurs and these other guys were pretty much without all the overhead that comes from having to run a domestic system. They were pretty much going to be eaten away. I don't think we're quite there. That's not to say, "Hallelujah, we're not there", but it's just to say I don't think we quite made it.

MRS OWENS: While we're talking about alliances the other issue is an underlying issue that relates to codesharing. We have had some participants arguing that codesharing could actually have a detrimental effect on some routes. It reduces the amount of services - potentially could reduce the amount of services provided on some routes, and could affect secondary airports or airports such as Perth. I was wondering if you have any comments about that. Is that something that has been raised with you?

MR HARRIS: We did a paper on codesharing 2 years ago and sent it out to everybody identifying these sorts of things, because it is an on-balance judgment - codesharing.

PROF SNAPE: Do we have that? Perhaps we might ask you for that one.

MR HARRIS: Sure. I actually thought I'd brought it down here, but instead I brought down the list of people that we sent it to, so I can tell you all the hundreds of thousands of people who got it, but - - -

MRS OWENS: We can ask them.

PROF SNAPE: I would be most embarrassed if we were on it.

MR HARRIS: I think you are, actually, but not you originally, but certainly the competition commission and consumers associations and all the airlines in all the states and tourism authorities and all this - the usual suspects - and a whole bunch of academics as well.

PROF SNAPE: They're not worth much.

MR HARRIS: We had the Bureau of Transport, Communications, Economics working with us - and they highly value their linkages to the universities - to identify the fact that there is a wide variety of potential costs and benefits that come from codesharing, and that therefore this is a difficult area to make judgments.

The International Air Services Commission similarly is involved in trying to make judgments on codesharing when it allocates capacity, and we've given them some policy advice in our policy statements, but it's fairly simplistic, I think, in the end, because these are very difficult areas to grapple with. We can clearly identify - and I think the airlines certainly can - efficiencies which result from this. Further, we can clearly see that in some circumstances this will facilitate entry where it would not have otherwise occurred, or even can facilitate the maintenance of a presence on a very thin route where potentially otherwise both carriers, if they had to maintain their position, competing head to head and losing money might well withdraw.

MRS OWENS: So they could both withdraw?

MR HARRIS: Yes, South Pacific routes, I think are - - -

MR WHEELER: South Pacific routes are a very good example of that, where commercial cooperation between the carriers is a sensible thing to do in the interests of both governments. There are any number of island states in the South Pacific that would fit that model quite comfortably.

MR HARRIS: But we nevertheless try and extrapolate that - what is a thin route? How far does it go? At what point are they colluding and colluding not to the benefit of consumers, authorisations? It's a very difficult area to make a final judgment on - on codesharing. Nevertheless I don't believe you can stand in the way of what carriers themselves could probably do without formally coming to you anyway and saying, "I want to tell you that we're codesharing here and I'd like a bit of capacity to go with it."

When I came into this area I found it quite difficult to grasp, aside from the fact that you were at a particular position on the computer reservation system, what else did codesharing give you. I am not diminishing that, that potentially has a benefit in itself, but what else does it give you that you couldn't otherwise get by just agreeing to buy seats from each other at a particular discount rate or number over such a period or something like that. That's a question I guess for the airlines, rather than for us.

But what I guess I'm saying by alluding to that is that it is very difficult to stand in the way therefore of commercial arrangements which could probably pretty much occur anyway. I mean, who are we - as regulators - to say in the end, other than when you can clearly identify a problem for a consumer as a result of this, or more broadly something in the national interest as a result of this, "Who are you to stand in the way of it?"

MRS OWENS: I suppose there are problems with consumers which we've also been hearing about, and one of those problems is lack of information.

MR HARRIS: Yes.

MRS OWENS: People go out to the airport and they get on a plane and they don't realise that they're not going on a Qantas plane until they actually arrive there.

MR WHEELNS: It's a condition in all of the codeshare arrangements that we write into treaties that the consumer be advised at the point of sale who the contracting carrier is.

PROF SNAPE: Is that monitored?

MR WHEELNS: No, we don't, but - - -

MR HARRIS: IASC does.

MR WHEELNS: The IASC monitors that for us.

MR HARRIS: They ring up and profess to book and advised or not advised. My understanding, but you should ask them, is that they get a pretty reasonable response rate. We've also got a codesharing arrangement domestically - he says, just making a little ad for us - where we've got an agreement with the Federation of Travel Agents to do advising, as well as to the airlines, to advise customers. We don't have those agreements in place internationally because the alternative set of arrangements predated them - ie for the International Air Services Commission when it allocated codesharing, having carriers do this. That's not to say we couldn't do a similar arrangement.

I think it's a very important factor. It's not one that failed to escape us. It's one that we in fact spent a bit of time publicising through the paper that we put out; that consumers need to know what they're getting on and in the international environment it's potentially a little bit more problematic than it is domestically. We pretty much know who is flying domestically, but you can arrive in Geneva and not be sure who your on-flight to Brussels is with, unless you're able to read the ticket as effectively as my colleagues here, if not me.

MR WOLFE: There's also a difficulty at the end of the day and this scenario has

come up before: if the carrier is not allowed to codeshare sometimes the alternative is it just won't operate on the route, and I think you mentioned the question of secondary gateways, and that is an issue which I think we've said in the submission to the commission - it's very much a balance issue because in some markets the codeshare for example might be the way in which that market - the only way in which it will be served. If you don't allow that to happen, there's no service. From a secondary gateway point of view, that's a very significant loss.

The more general point I would make is that one of the issues we're now confronting, and no doubt the commission has heard about it, is the need - and you've had various submissions from the states - and it's a balance issue because in the past there's been criticism of the fact the agreement specified particular points. You know, these are the only points you can serve. We have, in fact, generally been moving down a line of actually increasing the flexibility to say, "Well, it's the points that you wish to serve - any one of a number of five or six - and it's up to you to specify them." But at the same time, for some states, where points are specified at the moment to serve their particular market, that particular more flexible move may in fact impact on their particular state. Hopefully that is a balance issue that will be quite important. If you look at the future in terms of where we are heading it will be a case very much of destinations may well be in competition with each other.

PROF SNAPE: I wonder if we could focus on what on your copy is the bottom of page 20 going on to 21, and you mentioned this in your opening statement too, Peter - "Australian bilaterals where capacity and demand have remained close, at least one of the three factors tends to be present", and I suppose one can interpret that to be not just "remain close", but where there are other restrictions which are binding on it. "That's the conservative approach of our bilateral partners, or it's evidence that another major element of access to a particular market has remained unresolved, or the market has remained static." We had some comments from Federal Express in the opening session here about the restrictions - the routing restrictions under the US-Australia agreement. I wonder if you would like to give a comment on those routing restrictions in the light of those three points.

MR WHEELNS: The existing Australia-US agreement does have some restrictions in the way that carriers can operate beyond Australia to North Asia, and I think that's the interest that Federal Express are talking about. We have recently put a proposition to the United States government in respect of those arrangements, and the US has responded to that. We are now considering our response to the US counterproposal to us. So we are in process with the US on that particular issue at this point.

MR HARRIS: And the structure of what we put on the table, just to be very clear, was done in the context of this APEC initiative that was referred to earlier, where we didn't just sort of remove a few words here and there and add a bit more capacity or something. The option put forward was very much one that was consistent with that; that there will be no restrictions on pure freight carriers, other than in C, the schedule. You'll actually have specified in there if there are any points that are restricted, and so

that effectively means this and any other future negotiation is really around those points and nothing else, and without going into the detail of what we put on the table, they were very limited in themselves as well.

I think some US freight carriers certainly would be aware of this because, as I understand it, it's the policy of US authorities to consult their carriers. We haven't reached agreement, as Tony said, with the US on this and it's not for me to sort of suggest why that might be, but the ultimate is that we put this on the table ourselves; this was voluntary; this didn't come as a result of them - the US carriers that is - making representations that certainly were communicated to me. We actually do want to free this arrangement up. The broader policy we've had in APEC is also directed towards that. The fact that as we do our bilaterals now we basically put dedicated freight capacity on the table as - I think you referred earlier on to stopover rights as a gimme - well, that's what we do now with freight basically. If you want dedicated freight capacity to this country as a schedule carrier you can have it.

PROF SNAPE: I would like to return to the routing with respect to passengers in a moment, rather than freight, but Federal Express drew our attention to Australia apparently - according to Federal Express - last October asking for additional restrictions rather than - or what appeared to be new restrictions rather than liberalisations, and according to their submission a prohibition on all fifth-freedom traffic between Japan and Australia and the People's Republic of China and Australia. Secondly, capacity restrictions on fifth-freedom traffic enabling the Australian authorities to prevent Fed Ex from increasing the size of its aircraft or the frequency of its services to meet operational market demands. Was this just part of the negotiating process?

MR HARRIS: I'd like to not comment on those because what I have to say, frankly, wouldn't be helpful at all to the commission.

PROF SNAPE: Yes, we will leave it at that then. Perhaps I could return to the passenger aspect of it and the routing with respect to passenger traffic. We have also those specifications of three types of routes, I think, between the United States and Australia - three categories. I forget the names of them. One is South Pacific, one is Middle Pacific and the other is not - - -

MR WHEELENS: South Pacific, North Pacific and the other one picks up the Guam route.

PROF SNAPE: Yes. That also would seem to be a particular restriction that might need to be fitted under one of your three headings in the submission here.

MR WHEELENS: I think the important assessment to make in the US arrangements - there are probably several but when the current arrangements were rewritten in 1989 they were generally regarded as being amongst the most liberal that were around at the time. I guess that of itself is a measure of how far the system has moved in the last 8 or 9 years; that when you sit down and read that series of MOUs

in today's environment they look pretty ordinary to be honest, and almost certainly would be done quite differently today.

What is important about them though is the way that Australia and the United States have administered those arrangements in the intervening period. They are administered in a particularly liberal way to overcome the constraints in the MOUs. We, for example, allow US carriers to anticipate future capacity increases, so by doing that we have effectively removed the progressive capacity requirements in the existing MOUs. It is not a consideration that we take into account. We permit third country codeshare. For example, Air New Zealand, and the United States will allow us to codeshare with Canadian carriers - Australian carriers to codeshare with Canadian carriers at Honolulu. There are no specific provisions in the MOU to provide for that. I just raise that as two examples of how both governments have taken a liberal approach to the interpretation of the arrangements. For the time being they seem to have served the interests of both sides quite well. We are not actively pursuing each other over the issue of expanding or negotiating the arrangements.

PROF SNAPE: Does this mean that this pact with Northwest - which occurred in 93, was it - would not occur today?

MR WHEELER: The issue of how US carriers serve Australia over Japan, which is what that dispute was about, is something that will no doubt be part of the future agenda.

MR HARRIS: Could I make a couple of supplementary comments on this? The first is we all know ourselves - we have seen the history of what has happened on routes between Australia and the US. We have had large numbers of carriers and large amounts of new capacity and then it has gone again. So I think the evidence suggests that no matter what's written down and what's asserted here by, frankly, people who have particular interests to push - and I don't blame them for doing that, but what's asserted is not necessarily consistent with the reality they actually see in terms of the entry options allowed.

Nevertheless, it's not a great thing, as Tony said, to have sitting on the record apparent regulatory constructs which are out of date and inappropriate, and we do what we can to get rid of those. But of course we are sitting here with a prospect that if we go and negotiate with the US, we seek negotiations with the US, the US will say to us, "We want an open skies policy," and we have a government-stated policy that we won't have one. So unless the US is prepared to debate with us on something less than that, then there will be no change to that arrangement, and those who describe particular aspects of the US-Australia arrangement will be very well aware of that. So far be it from me to - I didn't really want to get into this area too much, but I have to say: the more we get into it, the more that there are half statements emerging on behalf of particular people, so it seems.

We would be happy to go to Washington and negotiate a complete reform of Australia-US aviation arrangements consistent with what I have described as being

our capacity well ahead of demand construct, which I might also note is what we were describing here under these three points rather than necessarily - I'm not trying to limit this. This is not a semantic point to other parts of the arrangements. We would take the same approach of derestrictiveness were we able to do so. But the impression I have had from informal discussions with the US is, "That's what you get. If you want to discuss with us now, you discuss with us open skies." I pointed out earlier Australia doesn't have the negotiating clout to say, "Well, that's not good enough. You'll negotiate on our terms, thanks."

MRS OWENS: Just while we're on the US, the Federal Express submission also raised an issue about intermodal rights, and apparently they're sometimes picked up in air service agreements but not in ours. Do you know anything about agreements that contain intermodal rights clauses?

MR WOLFE: Yes, this is something that the US has actually pursued - APEC. I would have to say that they didn't receive a lot of support. Yes, they do like to have intermodal clauses in their agreements which link up what happens at the land base as well as what's happening in the air. Most nations don't have that type of clause in them at the moment because they have other authorities dealing with the other modes of transport. Whereas the US can probably bring to bear a joint approach, I think the others have struggled with the idea that this should be part of a bilateral agreement. So it's not something that at this stage is being pursued by anyone else actively that I'm aware of except for the US.

MR WHEELENS: I would just like to also say for the record - I know that you're aware of this - that Federal Express has not raised any of these issues with the Australian government.

MRS OWENS: Yes. Is there anything to stop them applying intermodal rights now? Is it a problem?

MR WOLFE: I think "rights" is probably not the right word.

MRS OWENS: No, "rights" is probably not the right word.

MR WOLFE: Is there anything stopping them from being involved with intermodal practices? No, as long as they talk to the appropriate authorities here I'm not aware that that would be a problem.

MRS OWENS: Okay, thank you.

PROF SNAPE: It's not something to be explicitly approved in an agreement - -

MR WOLFE: No.

PROF SNAPE: - - - which was the point that we were discussing with - - -

MR WOLFE: No, it doesn't.

MR WHEELENS: And you certainly wouldn't want to do it in a bilateral context again. It just becomes another thing that you can negotiate under the rules that I referred to earlier - I wouldn't have thought.

PROF SNAPE: I understand that in 94 the ICAO discussed the prospects for a form of substantial ownership and control provisions for designated airlines. Is there likely to be much movement in ICAO on that or is Australia pushing for movement in ICAO on that?

MR WHEELENS: As good a forum as ICAO is, it is still driven by the weaker players. Progress on these types of issues in ICAO - it's quite difficult for the planners and movers in the organisation to bring forward issues for resolution.

MR WOLFE: I think we can probably get you a copy. I think ICAO has actually put out a statement on ownership and control not that long ago. The general thrust of it, if I recall it, is basically saying to countries, "If you wish to move towards a more liberal ownership and control arrangement, here are some of the things that you might want to think about and might want to look at." I think that's the way - that's sort of ICAO-type language as well. Just bringing that into the APEC context as well, there is definitely - as has been suggested - a move towards allowing arrangements with less restrictive ownership and control provisions in them.

PROF SNAPE: It doesn't sound like a fast track.

MR WOLFE: No.

PROF SNAPE: Talking of the WTO and GATS - General Agreement on Trade in Services - and with the possibility perhaps of a new round coming up - but even without a new round of course the GATS itself is due for a review in the year 2000. Now, there's not much aviation which is not excluded by the annexe on aviation, but there are two or three things - in fact three items - which are not excluded. And not being excluded means that the MFN provisions and transparency provisions of GATS must apply to those three even if they are not inscribed by particular countries - subject to the qualification that they're not inscribed "dot" of course with respect to that - but focusing on the positive of that, is there any move in Australia to encourage more active inscription, a reining-in of those three services with respect to the specific commitments? Very few countries, I think, have listed those three as areas of specific commitments even though they are in principle in. Are we moving to encourage that they be listed as areas - the countries will push them forward as areas of specific commitments or is it so trivial that it's not worth worrying about?

MR HARRIS: I must say my impression is - I have sort of taken it as a given that they are part of our policy framework, so I'm not aware of what you might call action. There's certainly nothing under our control that we're doing in this sense.

PROF SNAPE: Australia isn't moving to make commitments itself with respect to those three areas?

MR HARRIS: I think you might have to ask our Foreign Affairs colleagues what we have done but I have got to say I've taken it that if it's inscribed in international commitments Australia has made in the GATS, then we accept those as being part and parcel of arrangements. I'm not aware that we hadn't done that is, I guess, my answer.

PROF SNAPE: We'll check it out, I suppose, more fully.

MR HARRIS: I guess in some senses in the areas that are covered there, we do have domestic arrangements which I would have thought were consistent with what was required in GATS. I mean I was thinking of the arrangements for computer reservation systems and the agreements that are already - I guess I'm at a bit of a loss here. I've never actually thought to go and ask, you know, "Have we not done something here that we ought to have done to have given force to - - -"

PROF SNAPE: No, we'll check it out. It's a rather esoteric area.

MR HARRIS: Certainly in terms of us saying no, I frankly don't think we're in that position in this department.

PROF SNAPE: Perhaps we had better leave that one.

MRS OWENS: Tariff approvals: in your submission you go through the different regimes for tariff approvals. There's double approval, there's country of origin and there's double disapproval, and you say our policy position should be for the most liberal of those, which I think is the double disapproval.

MR HARRIS: Double disapproval, yes.

MRS OWENS: I see from your attachment that actually there are quite a number of countries; that we've got that in the agreement with quite a number of countries. Is it moving more in that direction? We have got a number where there is double approval, and the United States - is that the only country of origin agreement?

MR WHEELNS: Yes, there's only one. Again this comes to the question of what's written down and the way it's interpreted, and we are progressively, where we can, liberalising the tariff arrangements in our treaties. But in practice we do not critically examine tariffs that are filed with us. All tariffs that are filed are approved unless there is evidence of - not even there. All tariffs are approved that are put to us.

MRS OWENS: So why do we go through the process? It's just a rubber-stamping exercise. Why do we have to have these things specified in agreements? Couldn't we just relax it unilaterally? Does it mean anything to us?

MR HARRIS: My recollection is legislatively we're obliged to look at them anyway, but that's not a great rationalisation. You can change legislation. Also where agreements say we'll do it, of course we have to receive them, and I think what Tony is trying to say is, basically in the Australian context, these are not considered mechanisms that we use to manipulate market behaviour. A third factor that is relevant here: I did the Australia-UK negotiations. UK was very keen to have a continuing pricing power, and they're considered I think a fairly liberal nation in this area.

They were concerned about predatory pricing activity, and we would leave that to the Competition and Consumer Commission in Australia. They do regulate that themselves directly through the UK CAA - Civil Aviation Authority, I assume. So some countries who nevertheless are quite liberal still want to see these things remain because that's their mechanism for picking up on what I call - it gets you back into the competition policy area again.

So what we did was, we actually constructed - we've re-done the agreement with them. It's quite a good one in terms of easy to read, and what's written down is actually what happens, and we constructed an arrangement where we'll nominate the Competition and Consumer Commission will do this if anyone is going to do it, and they'll continue to have the UK CAA if anyone is going to do it, in terms of considering particular competition policy aspects of pricing.

So there is a rationale I guess more broadly for pricing per se for some people, nevertheless, who look at this in a liberal fashion. That's not an argument for why in a conceptual sense it must be in all agreements, and as I think you will have read in ours, between New Zealand and Australia, we don't bother with pricing approvals. There's no reason we can't do that more broadly, as long as others are prepared to do it. But where others, say, have a particular approach, the bottom line is, because this is not negotiating coinage, this is an arrangement between us, the default option is to go with the party who says, "Well, I want to maintain this." So if someone wants to maintain that pricing approval arrangement of a particular kind, we prefer double disapproval, and if they don't want that, the bottom line is we don't sort of - we can't really resist what is currently written down on a piece of paper.

PROF SNAPE: Yes. We understand it from other participants that the prices which are actually lodged bear not much relation to the prices which are actually charged. Now, when you were saying that the UK wanted to have this to be able to monitor or control predatory pricing, does this mean that when Qantas is offering a discount fare to the UK, they have to then notify the UK authorities, because I suspect if there were to be predatory pricing, it would be in the discount fares rather than in the notified fares?

MR HARRIS: I don't know the answer to that, I've got to say, because we don't play.

PROF SNAPE: I understand you're not running the UK policy- - -

MR HARRIS: No, but we don't play either. We don't ask them what they're doing, to my knowledge. People file, and we say, "Gee, thanks a lot. The regulatory requirement has been served," so I don't know at all the answer to that. We don't devote resources to this singular activity.

MR WHEELNS: There is a healthy, aggressive market. We approve tariffs that are filed with us.

PROF SNAPE: A number of people have mentioned the possibility of removing restrictions on secondary gateways; in fact of running a pretty much open skies policy unilaterally on secondary gateways, and secondary gateways mean - well, certainly not Sydney, Brisbane and Melbourne.

MR HARRIS: Broome.

PROF SNAPE: Broome is definitely in that classification. Port Hedland, I believe, might also be in there. I'm not sure where you draw the line in the middle between those two extremes, but let's without drawing the line just ask you what your attitude to that is.

MR WHEELNS: Can I refer you to attachment 10, I think it is.

PROF SNAPE: Yes.

MR WHEELNS: Which lists the Australian gateway airports, and lists the airlines that are exercising and are not exercising traffic rights at those airports. Where any gateway believes that it would benefit from the presence of any international airline, our general policy would be to go and try and get them.

MR HARRIS: The broader issue here really is, it's actually against the interests of those who argue for a - well, in my opinion it is against the interests of those who argue for an open skies policy to suggest that, nevertheless, we must manipulate it in some way that a carrier will fly to a regional port. It's very difficult for us to do that in such a context. If, however, somebody comes to us in the current negotiating environment and says, "We'd really like to fly to Broome, but there's no capacity there because no-one ever thought of it," we'd say, "Well, we don't have a problem with putting that in." These things can be done by correspondence. There's no policy option against it.

The problem then becomes, people pick up the agreements and they say, "Oh, you've got this funny route structure, X to Broome, and there's a couple of units of capacity attached to that. What a waste. Why isn't that X to Sydney or any other point in Australia?" and let the carrier choose which points they'll serve and whether they'll use domestic codesharing for example to serve Broome. So we're actually caught again in a cleft stick here where you'll see some - we've actually heard from the same people who argue for, "Throw it all open," nevertheless manipulate it to a

particular port, and you do scratch your head.

PROF SNAPE: If one looks at Broome, one doesn't find any Indonesian airline on the Broome list. It's not exercising its rights.

MR WHEELS: This has been a recent issue, and no doubt that's the context that you may be looking at it in. This is in the context of the current negotiation that we're having with Indonesia, but let me say for the record that Broome has been offered to the Indonesians in the context of that negotiation and was not accepted by Indonesia. I don't want to get into the dynamics of all of that, but it is something that we have put to the Indonesian government in a positive sense.

MR HARRIS: Most parties would consider that Australia should be offering them all-points access - most of our negotiating parties. Not all would take that position, but most I think would like to have the commercial flexibility for their carriers to fly where they choose to this country, and conceptually none of us are uncomfortable with that. It was a factor actually we were going to draw to the commission's attention, that in any of these options for liberalisation that are considered, this regional impact is a factor that will have to be assessed.

We'll certainly be asked to explain it by the state and territory governments that are potentially affected by some of the more liberal options that might be put to the commission, and it is a very difficult conundrum. In a particular negotiating context of course if something is raised and refused by the other side, I don't know what we do to inscribe it nevertheless to their benefit. It's not possible to do so - write it on saying, "At some point in the future you will do this," particularly when we're basically - a good example is dedicated freight capacity, where I've had the guys go in and simply say, "We want you to take some dedicated freight capacity, just in case you might want to use it sometime in the future. We don't demand a price for it or anything like that. We just want to have it sitting there," and this is demonstrated in the context of the freight debate that was occurring 2 or 3 years ago, that we weren't trying to restrict this. Nevertheless, some countries have said still in that context, "Well, we don't want it. Don't put it on there."

PROF SNAPE: A number of participants have suggested that there shouldn't be any city designations at all.

MR HARRIS: I can understand that.

MR WHEELS: A number will say that; others have a different view of that. From our perspective, we are again progressively de-linking points where capacity has been specifically allocated to a city, and increasing the number of city pairs that foreign airlines can operate to, or city combinations that they can operate to, at the same time as increasing the capacity to minimise the risk of the secondary gateway points being left behind where capacity becomes scarce.

But there are secondary gateways that still support the view that a specific

capacity should be allocated exclusively to that destination. It's an issue that needs to be addressed in the context of the interests of that point, balanced against the need for these arrangements to become more liberal.

PROF SNAPE: I guess that I've been a little surprised in the hearings that the greater emphasis has come on the removing city designation, rather than favoured city designation.

MR WOLFE: I'd say that doesn't surprise us, because I think there's a lot of anecdotal experience that most states and regional centres will find at some point in time, in the past and in the future or at present, where they would like a particular restriction removed on one particular point in one particular bilateral, and as a result they can see the premise is, "Well, if we got that fixed, then that would fix that particular problem." Now, as Peter and Tony have said, that's true, but the challenge is on some particular routes they actually like the fact that the point specified is their particular gateway.

PROF SNAPE: As I say, I've been a bit surprised that the emphasis has not been on that latter point generally, but for opening up.

MR HARRIS: It has fallen away, but it still exists for particular parts of the country, and in particular agreements, and the reason I linked those two is because there's an historical link between the country serving those particular secondary gateways; ie, what you've got you don't want to lose by the fact that we deregulate, as they say.

MR WHEELENS: There is an element of a security blanket in some of them.

PROF SNAPE: Yes. A comment that has come to us from two or three participants in this type of context is that they've felt that while they have been consulted for an input into the negotiating process and there have been some consultations going with these parties prior to negotiations, they are then left in the cold somewhat afterwards and there hasn't been reporting back to them on the outcomes or the reasons for particular things that they wanted or were putting to you, and the circle wasn't completed. They weren't got back to tell them why it didn't happen. Indeed, there's a suggestion this morning from Western Australia that after something has been negotiated, it should be placed on the table for a couple of weeks of sitting days in federal parliament to give the opportunity for comment or pressure, or whatever. There are two points there really: one is the reporting-back and the other is the finalisation of the agreement itself.

MR HARRIS: I'll let Tony deal with the former. But on the latter, that's just a conceptual misunderstanding. These are negotiations. If our negotiators go overseas, in the current bilateral context I'm describing, on the basis that, "I can talk about something but I've got to go home and have it approved by 27 different people," we're nowhere, in my personal opinion. I've done two sets of negotiations, both of which were quite problematic, so I speak from that personal experience only, but Tony does

them every couple of weeks, I guess, nowadays, and I don't think you have any credibility at all in such a circumstance. On the former - -

MR WHEELS: I'd strongly support that on the latter point. On the former point, we have recently become aware of some concerns about the feedback, and we're addressing that.

MRS OWENS: Another issue that was raised by Western Australia was the actual involvement of the states in developing the negotiating position, and being involved, and we talked about the current mechanism by which the states can be involved is through the TAG, and the issue is that the states' interests are much broader than just tourism. Western Australia was arguing that they should have a more direct involvement in the process itself. Would you like to comment about that?

MR WHEELS: I think it's a matter for the individual state governments to make their judgments about how their state's view is put to the Commonwealth, and we'll take that view from whoever the appropriate agency in the individual states is. From our perspective, certainly up until now, that has been through either the TAG process or states directly communicating with the negotiators.

MRS OWENS: Most of the other states have no problems, or have there been problems expressed to you from other states?

MR WHEELS: We can't always deliver the agenda. As good as we are at it, we can't always get what states want, and I guess from time to time there are tensions about those sorts of things, but that's the rough and tumble, and that's moving in this sort of environment. I think collectively we're all mature enough to know and understand that. I don't know of any circumstances where states have claimed that they have not been given the opportunity to put their views before a negotiation.

MR HARRIS: Could I give you an example of the sort of thing that we've considered but we haven't actually done, and why we haven't done it. We could run our own consultations with states rather than working through, for example, this Tourism Advisory Group and, as Tony says, informally some states do, and we're quite happy with that. In fact, often you learn more than you learn in some set piece exchange. So we can do our own much more activist approach in this area.

On the other hand, there are other Commonwealth agencies who have a personal interest in the existing arrangements and so the question is to what extent do you go and do all this yourself and appear to be cutting out others from the process? I think we'd like to consult more with the states. We're quite happy with what happens informally but it's quite possible that the formal processes are not satisfactory to everybody concerned. How you reform them - you know, a lot of it is probably more amenable bureaucratic discussion than policy consideration - but if there are better ways of doing this, we're not against doing it in better ways.

MRS OWENS: Another concern is the role that the airlines play in the negotiations

as technical advisers, and the suggestion was made that perhaps you should be seeking a more independent source of advice. There have been other suggestions that the airlines still have an undue influence on the process.

MR HARRIS: I was just trying to describe that a little earlier, I think. My comments about the nature of the airlines and our working relationships and my reluctance to comment on where, as it were, industry visions stand is because we don't run things that way any more. But I know that remains as the broader view.

MRS OWENS: Maybe it just takes time for perceptions to change.

MR WHEELER: I think that's right. The best judgment that you could take about that proposition is the outcomes. We would be prepared to test the outcomes against the proposition that the Australian airlines have unduly influenced the outcome because it will stand that test.

MR HARRIS: In fact in camera the exchanges that could be shown to you are quite illuminating.

PROF SNAPE: We're not in camera at the moment.

MR HARRIS: No, so we certainly don't want to refer to this. I think we mentioned in the submission we are considering some changes to the arrangements that we do do though for consultation, driven by the nature of carrier alliances. The fact of the matter is that as long as your carriers of course are, as it were, yours - and I keep going to the fact that I'm in the current negotiating mode here rather than anything else - you can show them a great deal of the development of negotiating position and have a look at exchange with them. The more that carriers become international beasts generally, you could end up with a negotiating position where your carriers are as interested in the commercial success of the carriers on the other side of the table as you are. You're the national interest negotiator but they've actually got interests on both sides of the table. We need to address that a bit better I think than we have in the past.

PROF SNAPE: I am nearing the end of my list but there are two or three things yet, if I may, and I know you've been very patient. One is that vexed question of Sydney Airport and we are not wishing to go much into the question of Sydney Airport for some fairly obvious reasons. If we could perhaps generalise it in terms of slot allocation, and of course the constraints of slots or of gateways are rising in Sydney but they could in future rise elsewhere, at certain times of the day particularly. So it's a general question. A system of slot allocation is being introduced to Sydney of course. One then starts to wonder whether the pricing mechanism may not be used.

I'm not talking about the generalised option from a blank table on it. I'm talking about perhaps in the context of the grandfathering that does occur already and there's a strong presumption that if you've got a slot this year and you're using it, or particularly this season that you're using it, then you'll get it next season as well, and

that is a well-established principle around the world. So even though there aren't formal property rights, there are pretty well informal property rights with respect to that. Slots can be exchanged of course. That's the way that they're looking at it and, as I said yesterday, I think it's the schoolyard principle of my banana for your orange, but in most markets we've moved rather beyond that and to actually sell instead of finding people who have an exact thing that they want to swap for each other.

What would your attitude, insofar as you can state it, be to a system in which the property rights are strengthened a little bit in the existing slots so that they can be more readily tradable on a grandfather basis, coupled with use it or lose it so you don't get the monopolistic acquisition of them and then not use them? So grandfathering plus use it or lose it and then make them tradable.

MR HARRIS: I think we can answer quite a lot of that. First, just to reassure you, if there was any doubt, use it or lose it is basic principle of the slot system at Sydney Airport now. In fact it goes substantially beyond that. We have a compliance mechanism that's developed which will fine carriers for a significant offlot performance. I might also say, having sort of just noted such pretty negative - when viewed from a carrier perspective - aspects of a policy, this policy has nevertheless been introduced cooperatively between us and the carriers and Sydney Airport because I think ultimately there's now some recognition of the nature of the airport and the constraints that it faces from an environmental perspective particularly, and the fact that this slot system is a way that the industry, as a mature group of people, can best deal with that, or at least contribute to that.

We did, when we designed our initial slot system, spend the first 4 or 5 months of this addressing, amongst others, this question. We obtained advice from overseas. We went as far as to contact some well-respected academics in the US and ask what (a) was done in the US and why, and (b) what could be done. We did the same in Europe. We developed a paper, on the one side what we called the administrative system, which is effectively what happens in most major airports around the world now where they are slot-constrained, and we put that out for comment and we developed a paper on the economic system, ie allocation by a pricing mechanism, and put that up for some comments as well.

We identified in that paper - and I've got a copy of it here and I can give you that - some downsides to the economic allocation system and some ups, and the same with the administrative system. We didn't just send it to people in the industry, we sent it to those who would be critics of either side. I've got to say, because it was in a context where I think people may have taken once again this idea of slot allocation being investigated but nothing would be done, we didn't get too much in the way of response from people, but we certainly intended to perform and I think we have in terms of what we've now developed at the airport.

The up and down side of economic allocation - I mentioned property rights and I think that was always considered crucial. The fact is we are not allocating - under either of those two systems that we investigated - we are not awarding to somebody

the right to a movement at the airport. We are awarding them the right to plan for one because on the day air traffic control can effectively deny you your 11 am arrival slot, for safety reasons, operational reasons, of the airport, and slots are allocated on that basis. It's not an unusual fact of life. It's known around the world as that, but nevertheless the property rights issue inherently is if I, the government with my deep pockets and my control of the regulatory environment at the airport, sell you the apparent right to land at 11 am, I think we felt we might be exposed to some legal difficulties with people who felt continuously they weren't getting performance.

So the fact that the market might value that option were it to be offered to them at a relatively modest fee, it could nevertheless involve the Commonwealth in an exposure to a very large amount of money if in 5 years', 10 years' time that small fee, having been paid for that slot, had allowed someone to acquire what they considered to be a right which they now are not able to exercise because of the nature of how the airport was being managed or how restrictions we'd put in place had affected them. We were quite concerned about that liability issue, and I still am not certain how we get around that.

Whereas the carriers themselves exchanging for monetary reasons or for, you know, your apple for my orange, on whatever basis - the carriers themselves are exchanging on a more informal basis but also on a more informed basis. Each of them knows what they are exchanging, because it's an exchange - I'm talking about something which - they are actually the same kind of right. But the government selling your right tends to attract a lot more liability interest in our view. We were certainly concerned by that.

PROF SNAPE: As I outlined it, it was not the government selling it as such. I was saying the grandfather, the existing ones, and then it would be trading amongst the parties. I did of course say that in order to get efficient trading the property right might have to be a bit better defined than it is.

MR HARRIS: I am probably putting the whole thing out because my ultimate answer to you is they can buy and sell them now. There is no restriction on what basis you arrive at a decision to swap a slot. There is a restriction on the nature of the carriers who can swap slots. That's quite a sensitive issue just at present. We have a ring fence in place at Sydney Airport which says if you're a regional slot you get to keep your regional slot. You can't trade it up to being an international or domestic slot. But there is no restriction mandated in this policy that we are putting in place, and I'm only making that caveat because I don't know what the Competition Commission might for example say about that. I know in the European context they have had concerns about that, but there is no restriction from our perspective on how you arrive at either paying compensation to someone for taking over their slot or swapping slots, so certainly the market, can in the end, devalue these products should it wish to do so. We also looked at how you might do this if you were doing it as the initial allocation, and I think, although you've said you're not actually so much addressing that, we did find that that's what the paper is principally about - even if you could address the property rights issue, how do you address the complexity?

PROF SNAPE: This is something of a much bigger order, and that's why I was confining it to that much narrower one.

MR HARRIS: Yes, but we are not restricting trading of those rights to a slot or the basis on which they would be traded between carriers. I think as airlines which have those rights around the world become more used to awarding them a value, that will become the norm, rather than not. In other words, again you'll have to do something to stop it. It will be a bit like codesharing. You'll have to choose that as a regulator you want to do something about this, and we're not.

PROF SNAPE: That's a very interesting comment, and I think that probably then leads us to - since it's not prohibited or explicitly discouraged - then maybe finding ways to facilitate it, if in fact that was decided to be an efficient way of going. In talking to people involved in this, we didn't get the impression that they were countenancing selling. I'll express it another way - that they were not in a mode of thinking of facilitating selling - on the contrary, we got the impression that they were in the mode of discouraging selling, and that they were very happy with trading under their guidance and control - - -

MR HARRIS: Yes.

PROF SNAPE: - - - not allowing a market or facilitating the development of a market.

MR HARRIS: I think I can understand that. It would be consistent with a risk-averse approach to the development, and what's a system that, as I said earlier, has some negative consequences, as well as some positive consequences for operators at Sydney Airport. Nevertheless I think some pressure may come on carriers to start viewing these things as a valued resource. I have read that - I don't know the truth of it - British Airways slots at Heathrow, if added to assets in their balance sheet, would massively change the valuation of the company. I can't actually remember the figure, but it was so impressive at the time, I thought, some accountant somewhere is already saying, "I want to get these things in there."

PROF SNAPE: Worth more than the rest of the company.

MR HARRIS: Yes. On the other hand, you have to earn a rate of return on the things then, and maybe that's a down side, but anyway, I think that perhaps from a valuation point of view it might change people's perspectives over time - our valuable resources.

PROF SNAPE: That's very interesting, thank you. You did mention on my page38 which is probably your page36, but I'll describe it anyway - the future of the IASC. You do mention there that the process can be made more streamlined, and I wonder if you might just - and you do say where an application is uncontested, no self-evident competitive entry concerns, consideration should be given to shortened approval

processes, etcetera. I was wondering if you'd like to add anything to that.

MR WOLFE: Yes. I think the point we were trying to make is that the commission's establishment really came at a time when we were seriously looking at (a) promoting a new competitor, and a situation where on a number of routes we had very tight capacity. As we've gone on in the process of negotiating capacity ahead of demand, it has led to an increasing number of applications by Australian carriers that are not contested, and yet the way the commission tends to be structured is that the full list of requirements still has to be gone through to address an issue when in fact all that seemed to be aimed at competing bids rather than someone just saying, "I wish to use the capacity that's there on the shelf, and there's no-one opposed to this, so can I please have it and get it as soon as possible?" From our point of view in terms of the competitiveness of our carriers and also from the consumers' point of view getting whatever is being required - new service, more flexibility, whatever, into the marketplace - that would be far better done in a streamlined fashion rather than having to go through a very formal process that the IASC currently has.

PROF SNAPE: Do you think that if such a carrier were to be a new carrier and not just a new entrant to an uncontested route, but a new carrier, that there should be consumer protection in the sense that the IASC should be trying to ensure that that one isn't going to go bust in 6 months' time? Again, for uncontested - I mean, you can see if it's contested they may very well - it would be unfair to the other contestant if they thought they may be going bust in 6 months' time, but does it matter if it's uncontested?

MR WOLFE: We do make the point in the submission that we do strongly support the commission looking at the viability of the carrier, and we agree that that is a criterion that should be there, because at the end of the day they are valuable rights.

PROF SNAPE: Even if it uncontested? If it's uncontested, no-one else was valuing it.

MR WHEELS: Let me make an observation about that. I think domestic aviation policy is run in exactly that way, that there is free entry, and one of the things that's implicit in free entry is that failure can occur, and that's the marketplace operating. The consequences of failure, though, in the international context is slightly different, and I think the commission does take an appropriate view of the ability of an airline to survive during its start-up period, and the commission properly requires the airline, in my view, to have an appropriate capital base before it commences operations.

PROF SNAPE: What are the other considerations or different considerations?

MR WHEELS: Stranding passengers on the other side of the world is one aspect, the credibility of the Australian travel and tourism industry and the consequences of airline failure for that credibility and - -

PROF SNAPE: You think there would be wash-on effects?

MR WHEELNS: Potentially, yes. It doesn't take a great deal to spook some of our important tourism markets, and failure of an airline is one of the considerations.

MR HARRIS: It's also, I think, quite relevant here that it may be actually failure to take up the rights at all. We don't believe that it would be useful in a circumstance where there might only be limited numbers of rights, but also a regulatorily induced support for a new entrant, to get to the point where those rights were continually being allocated and yet not taken up because the carrier was not able to obtain the market finance for that purpose.

I don't simply say that on the basis that in some sense we should be making a judgment in favour of new entrants and against them at the same time. There's actually an impression left when a carrier is designated by the Australian government to one of our more conservative partners, for example, that we have done what we should do in their opinion to ensure that of course this person is a credible operator who will not do as Tony said, and leave their nationals stranded in Australia or commit to activities in their market and then not perform in some sense.

It is a very difficult judgment area, because you're trying not to suppress new entrants here. I think that's one of the reasons why we actually have a commission, not just the independence from those who negotiate, but also the fact that this is a judgment skill. We need to be able to work out when we allocate this that there's a fair degree of confidence that people are actually going to use the rights that they're given. We know they can be taken back. I'm not so much talking about never performing. I'm talking about almost getting there and then falling over, and there have been some experiences like that - without wanting to name people.

MR WHEELNS: We devoted a considerable amount of time and effort in persuading our bilateral partners to accept multiple designation, and the credibility of that process needs to be protected.

MRS OWENS: When a new airline is starting up, does it have to go through some sort of financial scrutiny for licensing purposes?

MR HARRIS: No. This is it.

MRS OWENS: So this is it?

MR HARRIS: Yes.

MRS OWENS: So it's not duplicating any other process?

MR HARRIS: No. In the charter area we require them to assure us of this through support for consumers, ie just the stranding issue. We narrow it down to, "What are your arrangements to ensure that people won't be stranded?" - insurance or trust

funds or whatever they might be. It goes to the same point in the end in terms of the stranding side, but on the schedule side it's got one more dimension, in my view, anyway, and that is the factor that for some countries there is an expectation that we have done the right thing by designating a carrier - the right thing in terms of the effect on their nationals and their aviation behind them.

PROF SNAPE: I have just one question, and it's going to be very easily disposed of, I think. You refer to a recent agreement with Argentina, the details of which I don't think have been publicly announced. Is that correct?

MR WHEELNS: The government will be making an announcement in the near future.

PROF SNAPE: So at this stage we don't know whether that has addressed all the points which Aerolineas has made in their submission and which they may be speaking to within the next hour or so.

MR HARRIS: I think they are actually party to the agreement on the terms of the announcement, so I presume that they would respect that, but for the commission's purposes I don't think this is anything which is going to limit your ability for the draft report to encompass these things one way or another.

PROF SNAPE: Particularly as the draft report is scheduled for early June.

MRS OWENS: It may limit what we say today or ask today, though.

MR HARRIS: I could tell you - this is not us being coy here at all about this - there is a reason for - - -

MR WHEELNS: There is an agreement between the two governments about the timing of the announcement.

PROF SNAPE: Yes, okay. Thank you for that, and I didn't wish to put you in a difficult position, but it's often said that Australia is not on the way to anywhere, other than to New Zealand, and Aerolineas's submission of course said, "Yes, it is."

MR HARRIS: Yes, I understand.

PROF SNAPE: So is there anything in conclusion which you wish to add, in view of the last couple of hours?

MR HARRIS: Perhaps I could just reiterate the point I made at the outset about how we view bilateral open skies and the context in which I was suggesting the commission might want to think about it from the perspective of previous work done, and in the New South Wales intrastate, or in the intrastate aviation environment.

I find it very hard to conceive of an open skies arrangement, bilaterally induced

and managed where there are limited numbers of carriers, in a competition environment which is constructed around the existing bilateral arrangements, being acceptable on an intrastate basis. It certainly wasn't - -

PROF SNAPE: On a which?

MR HARRIS: On an intrastate basis. It certainly wasn't acceptable to the commission previously when it looked at this issue, that in some way we could consider it an improvement in competition to take the existing licensed and limited number of carriers on a particular route, two carriers on a particular route, on an intrastate service and say, "You guys can do what you like, but we won't let the others on the route," and in some way we're better off. My view is that in looking at reform options in intrastate aviation the commission quite sensibly said, and I think governments principally have introduced open competition in those environments, where other carriers can and will be able to enter, not just the participants on the particular route.

The advocacy that occurs with bilateral open skies agreements, and open skies bilateral, seems to me to have - viewed in the context of what we have done in Australia - missed that point entirely. You cannot, in my opinion, demonstrate conclusively that those things are better than what you might have got under a liberal version of the existing arrangements. Certainly I don't think you can prove that they would have been better than what you might have got under multilateral reform, and I guess if I'd like to leave a last sentiment, it's that. I've benchmarked these things on what we have done and how we've done them in this country, and this fails the test.

PROF SNAPE: Thank you very much, Peter. That point will certainly be taken into consideration, and maybe we'll get back to you sometime and discuss it informally.

MR HARRIS: Okay.

PROF SNAPE: But thank you very much for your very helpful and very thorough and well thought-out submission, and of course it's reflected in the amount of time that we've been talking to you how useful we've found it, and thank you for your patience and help in talking with us.

MR HARRIS: We thank the commission.

PROF SNAPE: We'll now adjourn and resume at 4 o'clock.

PROF SNAPE: Let's resume our hearings. We are now pleased to welcome Westralia Airports Corporation and Ryan Johnson. I wonder if you would be so good as to introduce yourself for the tape and then - we have your submission. I believe that you have a bit of an updating of some of the facts in that, but we will invite you to speak to your submission, including those updatings that you have.

MR JOHNSON: Sure, thank you very much. My name is Ryan Johnson. I am the director of business development and marketing for Westralia Airports Corporation. We operate Perth International Airport. Perth International Airport is the nation's fourth busiest airport and will serve in excess of 5 million passengers in 1998. Westralia Airports Corporation assumed management of Perth International Airport in July of 1997 as a result of the federal government's phase 1 airport privatisation program.

A focal point for business in Western Australia, Perth International Airport provides a fast, efficient service to the state's thriving export industry and a convenient point of entry for business travellers. By air, Perth is 10 hours from Tokyo and 9 hours from Hong Kong, and 5 hours from Singapore and Jakarta. Perth also shares similar time-zones with its Asian neighbours. As a major enterprise centre, Perth International Airport directly and directly employs some 14,500 people. In financial terms, in a recent economic study, it was found that Perth International Airport contributes \$1 billion a year to the Australian economy.

The federal government's airport privatisation program is a significant stimulus to increase competition in the Australian aviation industry. Privatised airport operators, including Westralia Airports Corporation, are actively investigating ways of increasing throughput and diversifying and expanding airport activities. As a result, new airport operators are investigating the establishment of regional business centres, new freight handling facilities and, importantly, working with other agencies to promote new tourism and export opportunities across Australia.

For these reasons, new airport operators such as Westralia Airports Corporation have a significant role to play in the ongoing developing of Australia's aviation industry. Westralia Airports Corporation welcomes the opportunity to contribute to this Industry Commission inquiry and looks forward to contributing to an increased competition in the aviation industry in Australia. This is in regard to the current regulatory model and Westralia Airports Corporation experience.

Westralia Airports Corporation acknowledges the steps taken by the federal government to increase flexibility within the bilateral process. However, despite these efforts, existing air service agreements are constraining new service opportunities to and from Perth International Airport. For consumers, these constraints are affecting frequency of flights, opportunities for lower pricing alternatives and alternative service options. Reduced competition is impacting Perth International Airport's ability to expand but also limiting the opportunities for export and tourism growth and the introduction of more competitive prices and services for consumers.

Westralia Airports Corporation believes that there are three factors inhibiting competition for flights into and out of Perth: (1) lack of flexibility in the existing bilateral agreements, including restricted clauses; (2) shortcomings in the consultation process in advance of the bilateral negotiations, and (3) existing cabotage arrangements. It is estimated that if current restrictions were lifted, Perth International Airport's traffic could increase by as much as 5 to 10 per cent.

The government is committed to negotiating capacity ahead of demand. Whilst in theory this policy can benefit all Australian markets, the system in actual application continues to provide benefits, particularly to eastern states markets. Currently there are some 61 airlines approved to fly into Perth, however the majority of these are unlikely to take up the right in the near future, for commercial reasons. The rights have been allocated as part of a broader allocation during negotiations. For Perth International Airport, the real challenge is in obtaining flexibility for those carriers who see commercial return from commencing or increasing service into Perth.

It is worth pointing out that of Australia's 51 existing air service agreements, 18 either outrightly exclude Perth as a nominated route city, or provide insufficient capacity to allow increased service from existing carriers. In contrast, only two existing air service agreements exclude Sydney. Over the past 12 months, Perth has lost opportunities for increased activity as a result of restrictions in bilateral agreements. Of the 16 international carriers currently servicing Perth, either directly or through codeshare agreements, Westralia Corporation is aware of two international carriers which have been discouraged from expansion of Perth service by existing restrictions in bilateral agreements or proposed conditions.

Westralia Airports Corporation has confirmed that in January of 1997 Royal Brunei Airlines sought extra capacity to increase its twice-weekly Perth service but was advised by the Department of Transport and Regional Development that allocation of extra capacity would be conditional upon Royal Brunei's also servicing one of two other smaller destinations in Australia. Royal Brunei decided against this condition on commercial grounds and therefore elected not to increase its capacity to Perth.

In addition, Malaysia Air Service or Malaysian Airlines has held repeated discussions over the past 12 months with Westralia Airports Corporation and representatives of the Western Australian government about the plans for expansion of service to Perth, however the existing negotiated capacity between Australia and Malaysia is currently insufficient to allow Malaysia Airlines to add additional flights into Perth. This is contingent upon what I understand to be ongoing or recently concluded negotiations with Malaysia, so that may need to be updated.

Finally, a number of airlines expressed interest in initiating service to Perth but are currently unable to do so due to restrictions in existing bilateral agreements. For example, Philippine Airlines has indicated strong interest in initiating service into Perth, however restrictions of the existing bilateral agreements between Australia and the Philippines specified in routes, destination and service levels, prevent immediate

implementation of their proposed new services. With the passing of time and the recent downturn in the Asian economies, Philippine Airlines may now elect not to proceed with the formal request for negotiations for access into Perth as other commercial priorities have arisen.

Were the services desired by this carrier is implemented at the time that the interest was first expressed, Perth International Airport would have realised a growth in international aircraft movements of between four and eight services per week. On an existing base of approximately 80 services per week, this represents a foregone growth opportunity of between 5 and 10 per cent, not to mention the loss of a new market - the Philippines - direct from Western Australia, open to travellers and exporters alike, concerning the consultation and negotiation process for international air service agreements.

DOTRD is the primary agency responsible for developing a proposed negotiating position in advance of bilateral negotiations. At present, consultation over the negotiation process includes contact with Australia's two international carriers, Qantas and Ansett, and liaison with the Tourism Advisory Group, TAG, as well as other federal government agencies, including the Department of Foreign Affairs and Trade and the Department of Industry Science and Tourism.

Membership of the TAG includes the Australian Tourism Commission, the Offices of National Tourism, state representatives and peak industry representatives. Until 2 weeks ago, the consultation process all but excluded Australia's airport operators, private or otherwise. After repeated requests, Westralia Airports Corporation and the operators of the other recently privatised airports were granted membership to TAG, thereby affording our industry group some degree of input into the bilateral process, albeit indirectly.

Of all the groups interested in the outcomes of the bilateral negotiations, only the privatised airports and the airlines depend directly on the outcomes of those discussions. Airports and airlines alone derive their primary income from aircraft movements and all related payload components on board, therefore the future of airports is directly dependent on the ability to expand aircraft movement activity.

Naturally, the other members of TAG have a significant interest in overall tourism numbers delivered by aircraft movements, however bilateral agreements are but one of a number of equally important factors impacting on the growth of the tourism industry. Westralia Airports Corporation believes that the operators of the newly privatised airports have a legitimate interest in the process and outcomes of bilateral negotiations that is, in fact, equal to Australia's two international airlines. Indeed, a stated assumption in the air traffic forecast underpinning our bid for Perth International Airport was that passenger and aircraft movement growth would occur in an unrestricted manner.

As evidenced by the previous examples of traffic growth restrictions, policies of the federal government, the very group that sold us Perth International Airport, are

impeding traffic growth from occurring at our airport. The only way Westralia Airports Corporation and the other private airport operators can ensure that our interests are effectively looked after is to have direct representation in the bilateral negotiating process. As such, Westralia Airports Corporation requests that a representative of the privatised airports be added to the government's direct negotiating team to balance the viewpoints at the table.

Westralia Airports Corporation strongly believes that the current consultation process does not offer adequate opportunities for different perspectives to be considered. Historically, national carriers have played a key role in the consultation process as technical advisers. This offers them unique access to promote outcomes in the negotiating process which will be favourable to their respective competitive conditions. Airport operators have a clear interest in maximising throughput of aircraft freight and passengers. Passenger and freight throughput increases when fares are competitive and there is a high frequency of flights. These commercial imperatives can be contrasted with the efforts of national carriers to protect their market share and maximise yield.

While Westralia Airports Corporation acknowledges and strongly supports the need for viable Australian domestic and international carriers, we believe the national carriers should operate under the same commercial and competitive conditions as other private industry enterprises. The regulatory regime should not afford the airlines special insulation from healthy competitor forces.

It is important to point out, however, that while both national airlines are generally regarded as private commercial entities, policies benefiting these companies have changed little since the time Qantas was a Commonwealth asset, with regard to cabotage protection. Westralia Airports Corporation believes that the existing cabotage rules in Australia impact adversely on competition and thus reduce opportunities for lower fares and greater capacity on domestic routes into and out of Perth.

The consumer benefits from increased competition were demonstrated in Western Australia with the introduction of Compass Airlines domestic services. As a result of reduced air fares introduced by Compass, domestic air traffic at Perth International Airport in 1991 nearly doubled from its level the previous year. This growth was a direct result of lower domestic air fares offered by Compass. The majority of seats between Perth and Sydney on Compass were below \$400 round trip. These prices were generally matched by Qantas and Ansett. Following Compass's departure from the market, air fares offered by the two remaining domestic carriers again rose to pre-Compass levels and, as a result, passenger and aircraft activity immediately declined to levels comparable to those prior to Compass's initiation. This point effectively illustrates the importance of and the need for increased competition in the long haul domestic air service market in Perth and across Australia.

Beyond the basic challenges of initiating a new major domestic airline, respective candidates have faced and will continue to face great difficulties in gaining

access to domestic terminal facilities. This point was made very clear by the recent efforts of Aussie Airlines. This highlights the need for alternative means to bring competitive forces to the Australian domestic air service market. Cabotage implemented in a sensible manner through case-by-case negotiations would provide the necessary competitive impetus and offers an effective measure which could be implemented in the near term. Competition for domestic flights would be substantially improved if foreign international carriers were able to pick up domestic passengers. Cabotage would increase the availability of seats on major domestic routes and this could be expected to result in lower-priced domestic fares.

International operators flying through Perth to Sydney are left with substantial passenger space once passengers have exited at Perth. For example, South African Airways' 747 200 regularly deposits approximately 30 per cent of its passengers in Perth before flying on to Sydney. If SAA were allowed to pick up domestic passengers on their continuing leg to Sydney, and return then to Perth from Sydney, there would be an immediate augmentation of between 3 and 5 hundred seats per week in the Perth-Sydney market; the equivalent of three to four weekly 737 300 services. While this alone may not bring air fares between Perth and Sydney down to the especially attractive levels seen while Compass was flying, the additional seats would put significant downward pressure on ticket prices. It would also make Perth and the whole of Western Australia a more attractive market for additional SA services.

Improving Australia's international air service agreements - the road to an improved future: the development of an open skies regime for international air transport will pave the way to increased competition by opening up capacity on intercountry routes and providing access to third country markets. Westralia Airports Corporation recognises that the government's ultimate objective is an open skies model. However, progress in the interim is moving slowly. In addition, small steps towards progress are benefiting primarily eastern states' markets, either through insufficient capacity augmentations to allow foreign carriers to serve markets they seek or through negotiating agreements which exclude markets other than those in the eastern states.

Westralia Airports Corporation strongly recommends that Australia moves towards a full open skies policy in line with international trends negotiated on a case-by-case basis. The movement towards open skies is being led by the United States. The US has signed open skies agreements with countries across the globe, including Germany, the Netherlands, Belgium, Denmark, Norway, Brunei, Panama, Nicaragua and Sweden. In the Asia Pacific the US now has open skies agreements with New Zealand, Singapore, Taiwan and, most recently, Japan. The US has also signed liberalised agreements with Fiji, Thailand, China, Hong Kong, India, the Philippines and Macau.

Should there be no immediate move towards an open skies policy, Westralia Airports Corporation believes that the improvement in the existing bilateral system should be given priority. On a broad level, bilateral agreements should, as far as

possible, enable the market to resolve access issues. Bilateral agreements must be drafted to give maximum flexibility so the carriers can respond to changes in the competitive environment. Restrictive agreements should be avoided wherever possible, either with regard to carriers or market served. Westralia Airports Corporation welcomes the government's support for multiple or, more importantly, unspecified destinations and carriers in air service agreements so long as sufficient capacity is incorporated to serve all markets where carriers of either country have a commercial interest.

In order to free up air services Westralia Airports Corporation recommends that restrictive requirements such as mandated services also be abolished. Westralia Airports Corporation recommends that the government review the existing consultation process to ensure that it is transparent and that the priorities of the states, airlines, airport operators, exporters and other industry stakeholders are given appropriate balanced consideration. Prompt and direct feedback on the outcomes of negotiation is also critical to ensure that stakeholders' interests are in fact being looked after.

The technical advisory role provided to the government's negotiating team should be expanded to include representation from other industries capable of commenting on the value in a broader sense of what may be on offer by the other country. Westralia Airports Corporation recommends that the new airport operators be offered formal involvement in the bilateral negotiating process at four stages. First, pre-strategy: all existing information should be made available for stakeholders to guide DOTRD in determining agendas and priorities for the negotiating process. Westralia Airports Corporation understands that in certain cases there may be a broader national objective at stake in the negotiations and, in these cases, an acknowledgment of this fact, followed by an appropriate level of briefing would suffice.

Strategy development: airport operators should be formally consulted while negotiating positions are being drafted and after they're finalised. Bilateral negotiations: airport operators should be fully apprised of the negotiating process and able to participate directly during the formal bilateral negotiating phase. Finally, feedback: DOTRD should be required to promptly and formally present the results of negotiations, both in writing and through face-to-face discussions, including explanations as to why desired outcomes may not have been achieved. In conclusion, Australia is offered a unique opportunity to be at the forefront of a trend towards full liberalisation of air service agreements.

Our geographic isolation means that we can ill-afford to let others in the Asian region open up new opportunities for trade and tourism without matching or exceeding them. The flexibility of the existing bilateral regime impacts on our tourism, business and export opportunities. It is our firm contention that relaxation of the existing regime can offer both short-term and long-term benefits to passengers, exporters, businesses, regional areas and our international carriers by promoting healthy competition in a global focus. Thank you very much.

PROF SNAPE: Thank you very much, Ryan. It is a helpful submission and you in many ways are on the same lines as the Western Australian government, which probably won't surprise you or them, and have quite a bit in common with Broome Airport also, which probably won't surprise either of you. I wonder - if one follows the recommendation of "no city designation" in a bilateral framework and so leaving it completely open in bilaterals, would it still be necessary or desirable to have airports involved in the negotiation process in the way that you're suggesting? What role would they be playing if there was no city designation?

MR JOHNSON: I guess the point that I'm making is that at present that isn't the process or the status quo of what we have and therefore airport involvement in the process at the present time is essential to get to where you are effectively recommending or describing, but I suppose after that position were reached - - -

PROF SNAPE: I'm not recommending yet.

MR JOHNSON: Well, that you were describing. Should we arrive at a point where there were no designated gateway cities on air service agreements, I suppose the only thing left to discuss then would be capacity. The issue there - and I guess it gets to the very heart of the bilateral process and the purpose for it - is that if there is not some force directly concerned with the outcomes of these agreements to push for an ever-expanding supply of capacity as it is required by carriers of whichever country is involved, then even though the case may arise where points are not specified, capacity constraints could still impinge upon carriers' abilities to serve a market to the extent that they wish, so I would say in that case airport involvement in the process should continue at the closest possible level to the negotiating table to the point that and throughout the point that bilateral negotiations exist.

PROF SNAPE: It seems to me that there are two points. One is the capacity negotiations and, a quite separate question, is the allocation of slots at airports.

MR JOHNSON: Very definitely.

PROF SNAPE: And it doesn't seem to me that that allocation of slots should necessarily be part of the negotiations of capacities - - -

MR JOHNSON: Agreed.

PROF SNAPE: - - - and if one is negotiating capacities, okay, then whatever the airline is or whatever the country is that has got a capacity, can elect which airports it serves, and some airports may be capacity constrained, in which case they can attempt to get access to it through whichever process is allocating capacity at that airport.

MR JOHNSON: Exactly.

PROF SNAPE: And so it doesn't seem to me, once you have got rid of city

designation, hypothetically, that there really is any need to have airports involved in the capacity question.

MR JOHNSON: Keeping in mind that slot allocations and air service agreement capacities are two different things in the sense that the current bilateral regime allocates a unit capacity - or shelf capacity, if you will - to each country involved in the negotiation. Now, my definition I guess of "slot capacity" at an airport is, albeit not in the case of Sydney, typically a physically controlled issue which gets down to the capacity of the runway in the air service system to accommodate a flight, so, if you will, that process, which is in many environments - maybe not most - a technical issue, should be left, in my opinion, to the airport operator to work out. It is up to us to determine whether or not we are going to build another gate or a runway to accommodate a flight.

However, in the current situation where, through the bilateral negotiating process, the federal government determines the absolute number of services that a country can put into another country - or a country's airlines can provide to another country - this process right now is what is the limiting factor in the market, the air service market, in Perth. It is certainly not slot capacity, so in that respect airports would need to be involved with bilateral process to negotiate the overall country's capacity, apart from providing slot space to airlines that wished to fly into that market. We are in control of one; we are not in control presently of the other.

PROF SNAPE: You mention here cabotage and you talk about passenger cabotage. You might also wish to give some consideration to freight cabotage, including not only - well, not only dedicated freighters but also freight cabotage under the seats - which is something that not many people have focused on.

MR JOHNSON: Yes, that's an omission in ours.

PROF SNAPE: Yes, and they think of that separately from the passenger cabotage and you may wish to get back on that if you want to think about it. They seem to me to be two quite different points there.

MR JOHNSON: You're absolutely right.

PROF SNAPE: And it does affect Perth perhaps. I'm not quite sure if you were at the last session when I described the possibility of South African Airlines coming in. Were you there at that time?

MR JOHNSON: No, actually I wasn't, but you are absolutely right. They go hand in hand with one another - passengers and freight. There is no question.

PROF SNAPE: It may be that a Western Australian exporter is exporting to the United States and will be sending it out of Sydney on a 747 and may wish to put it into 747 containers in Perth so it doesn't have to be repacked in Sydney and, if they could load that onto a South African plane as it is currently going - a 747 there - then

they just shove it - they don't have to repack it in Sydney. Currently they can't do it, except by special arrangement.

MR JOHNSON: Yes, that's a very good example.

PROF SNAPE: So you may wish to give some consideration to that, but if one is looking at the example again of South African Airlines as it is - as I understand, being the only foreign airline that goes on from Perth- - -

MR JOHNSON: Right.

PROF SNAPE: - - - you talk about passenger cabotage of domestic passengers and that raises the question or the problem of having Australian passengers and uncleared foreign passengers on the same airline.

MR JOHNSON: Yes.

PROF SNAPE: Now, if a country has on-carriage of its own passengers you have got that to a minor extent of the people who have stopped over in Perth and then come back onto a South African flight - if they have stopover rights - and they're mixing with uncleared passengers because, presumably, the straight-through passengers are cleared in Sydney. Is that correct?

MR JOHNSON: They would be, yes.

PROF SNAPE: Yes, and so you have got that mixture and you have got the stopover passengers with a "D" stamped on their boarding pass and they go through - and not that many of them. Now, if you are going into cabotage you would have a lot of passengers who are domestic passengers mixing with uncleared international passengers.

MR JOHNSON: Sure.

PROF SNAPE: You might expect then the reaction of customs would be to say, "That's getting to be too big a problem of mixture and too much of a risk of one passenger passing to another the packet of heroin brought in," or whatever.

MR JOHNSON: Yes.

PROF SNAPE: And customs may say, "In those circumstances, we're going to have to have first-port-of-call clearance as in the United States."

MR JOHNSON: Yes.

PROF SNAPE: Now, that's a confounded nuisance for an airline because it means that they have to take all the passengers' baggage off and they have to wait for all the

passengers to be cleared and it makes the turnaround much longer, as I understand it.

MR JOHNSON: Yes.

PROF SNAPE: Two things: could Perth handle that first-port-of-call clearance if that were to be happening for a lot of them, and the second point, is the inconvenience that is going to be caused by first-port-of-call clearance such that it would make it not worth having the cabotage that would go with it?

MR JOHNSON: Let me take the second point first. In my view - and I'm not sure if there are any customs representatives here - customs in Australia is one of the greatest constraining factors in terms of the quality of air service experience in this country, and I say that expecting that I am going to get some mail on that, but I believe that customs plays a vital role in protecting this country, and customs in any country, from illegal immigration, and that is something which obviously needs to be looked after. However, I think that there is protection and there is intrusion and it is not difficult to step over the line of one and into the other.

If the problem that you present were in fact the issue which would prevent cabotage from operating, then I guess I would like to put it in the lap of customs and say, "Solve this problem. You should be proactive enough, understanding that your very jobs depend on the health of the international air service system. You should solve this problem." It is remarkable to me that in this day and age there can be an international airport in this country, or frankly any other country, that can't process even its own returning international passengers in its separate line, and yet we find ourselves in Perth with that very situation. I can assure you that while I may get letters from customs indicating that they don't appreciate these comments, I'll show them many more letters that I get from aggrieved passengers that ask me the question - up to and most recently the recent Minister of Transport - and say, "Why don't you guys get a separate processing line for international passengers?" That just astounds me.

PROF SNAPE: For Australian passengers?

MR JOHNSON: Absolutely, for returning international Australian passengers. If we can't solve that problem- - -

MRS OWENS: Is that just in Perth or is that across the board?

MR JOHNSON: No, it's other international airports as well. I can't speak for each of them but it is. So in light of the point that I make, the question that you raise is incredibly complex although it should be as solvable as anything else if you take a problem-solving attitude to that problem.

PROF SNAPE: In the US they have different lines for the Americans but they have first-port clearance and it's a great nuisance.

MR JOHNSON: It is a tremendous nuisance and I think that that's one of the things where Australia leads the world in many respects in technology application, but it certainly is not yet that way in the transportation industry as far as processing goes - passenger or freight - and my view is that this is an area where this country is truly challenged and needs to rise to the challenge. I'm afraid I don't have a ready-made explanation or answer to your question as to how the process would work but I'd be willing to bet you that if you gave somebody 60 days and a million-dollar reward to solve it, you'd find a solution. It's people who are protecting a patch, and a process that that patch basically represents, that are preventing these things from happening.

PROF SNAPE: I will put your offer of 60 days and a million dollars to customs perhaps to take up.

MRS OWENS: We could take it up.

MR JOHNSON: You'd be surprised how many takers you'd get for that. By the way, in that situation, - you asked the question about Perth International Airport and if we could handle the situation. I guess reluctantly we would handle the situation. We certainly would not turn the opportunity away.

MRS OWENS: If we didn't go the whole way with cabotage, what are your views about allowing cabotage for the airline's own passengers, those that stop over in Perth?

MR JOHNSON: Again I think it's a lesser variation of what would be a welcomed change. I certainly have no problem with it. I guess I just generally believe that the domestic air traffic market in Australia, and in particular between Perth and the rest of most of Australia, if not all, would benefit greatly from increased competition. So I don't see cabotage as being a silver bullet but, absent a third carrier, there has to be some force that brings new competitive spirit into the market. At present we don't have that.

MRS OWENS: The Australian carriers that we spoke to this week have said that if there was cabotage it could potentially jeopardise their own services on some of these routes and they may find that they're no longer profitable and that they would then withdraw from those routes, so maybe we would be no better off at the end of the day.

MR JOHNSON: That's a threat and I think it's one that should be considered very very seriously as a threat to places like Western Australia. My view is that, absent subsidies, airlines serve a market because there is a market, and that there is a market because there are people who want to fly, and that there are clear examples - you have Compass in this country, you have Southwest in my own country - where if you reduce the cost of air fares, then more people fly. Competitive forces will bring on lower prices. If carriers find it too hard to provide a service, then I suppose those services may fall away but if the market in fact is allowed to respond to that, there will be other opportunities for other carriers to come into the market.

While the example was given by the previous panel that after deregulation in the United States there was a tremendous shake-out in the airline industry, and while that is absolutely true, there is no other market in the world that offers the breadth of air service and the price of air service that I am aware of, and I'm aware of most markets. That is about as unrestricted a market internally as you'll find, and while carriers certainly have gone out of business and while I wouldn't put the meal on United Airlines up against the meal on Qantas Airlines, I've paid \$300 for a meal before and I wouldn't put that as a - that's not where I want to be spending my money. I would very definitely say that I'm willing to sacrifice a little service to fly at a significantly reduced price. So I'd just say to the carriers that we're all in a tough world and market forces will make us better or you won't be here, and that's just the way it ought to be.

PROF SNAPE: Despite all that you've said then, with which I'm in sympathy and don't dispute - despite all of that the US doesn't allow cabotage.

MR JOHNSON: No, it doesn't, but look at the level of competition that's within the market. Again, cabotage is not a silver bullet. It wouldn't be the prescribed medicine in a situation where market forces basically regulate themselves. Having said that, I don't really see a problem with cabotage in the United States. If I were making policy I suppose that's what I would push for. Obviously there are concerns similar in the United States - I suppose holding onto that last vestige of protection - that are not dissimilar to what you have here but it's something that would increase competition.

PROF SNAPE: I wonder if I could pick up what you say on page 6 of my copy anyway, and it's just before the section beginning, "Cabotage protection," and it's where you're saying that essentially while both Qantas and Ansett International are private entities now:

Policies benefiting these companies have changed little since the time Qantas was a Commonwealth asset.

That's a view that a number of people have made, and yet the Department of Transport, as you may have heard, in the last session were strongly denying it and saying, "Look at the evidence."

MR JOHNSON: Yes.

PROF SNAPE: Would you like to elaborate, please?

MR JOHNSON: It's interesting because speaking with some of my airline friends or contacts, they very definitely believe that the view of DOTRD in the process has changed considerably over what it has been with regard to their position, and so I guess I must say that structurally the airlines still sit at the table as the only sort of private industry group, full stop. I will come back to why I believe that that therefore gives them a unique opportunity to influence the process. I must say with all honesty

that the airlines concur with the comments of DOT that DOT has developed a greater sense of independence but I can only give you examples. I'm struggling with, I guess, the ethics of sort of divulging - I don't think it's so - -

PROF SNAPE: Let me help you a little bit with that, if you like.

MR JOHNSON: Let me answer the question this way, if I could. There have been negotiations. We have requested that negotiations happen with certain countries to allow additional capacity into Western Australia. As yet the results of those negotiations have not been produced. There has been at least one negotiation in the last 6 months that was requested virtually on the spot by the carriers for a small adjustment in capacity that happened almost immediately - and that was an Australian carrier - in an environment where negotiations to that point had not occurred for several years, and it was considered to be a tough market to deal with.

I'm sorry, I can't name you the names but you could do the research for yourself. If that isn't the best example of what influence the carriers have over this process, I don't know what is - and why that is a different level of influence than any airport, or frankly any other body in this process, has over it. So in my opinion those are results which speak for themselves.

PROF SNAPE: I think there is another submission, and I forget which at this stage, that said that negotiations move smartly when they're at the behest of the Australian airlines - - -

MR JOHNSON: There's no question.

PROF SNAPE: - - - and move rather slowly when it's at the behest of others - - -

MR JOHNSON: That's exactly right.

PROF SNAPE: - - - which I think was what you were attempting to illustrate in that case.

MR JOHNSON: It's exactly right.

PROF SNAPE: I was going to mention that it is quite possible for submissions or parts of submissions to the inquiry to be made confidential, if any participant wishes to do so, so supplementary submissions which are of a confidential nature can be made to us, and we've got a moderately good record at least for preserving that confidentiality.

MR JOHNSON: Yes.

PROF SNAPE: A pretty good record, I should say.

MR JOHNSON: Yes.

PROF SNAPE: And we do everything that we can to preserve it.

MR JOHNSON: Okay.

MRS OWENS: I was going to ask, now that you're officially involved in the process, albeit indirectly, whether you've had any actual experience. This is through the tourism group, TAG - whether you've actually got involved at this stage and what your experience with that has been.

MR JOHNSON: I have attended two plenary sessions at TAG and I guess to a certain extent, while I appreciated the opportunity to attend those two plenary sessions, a TAG meeting comprises two sessions; a morning session, which is a plenary session and the afternoon session, which is the official policy development session. When we first took over the airport we requested an official invitation to TAG and were denied on two occasions that request. However, graciously we were offered involvement in the plenary sessions alone.

The TAG comprises approximately 30 members as attending. I don't know if it actually comprises 30 members but is attended by approximately 30 representatives that sit around a very large room, as you can imagine, and represent any number of different industry groups, players, agencies from the various states.

The agenda is effectively a list from A to Z of the countries with which Australia has agreements. Before the meetings there is a list that is sent out and a request for each of the states to put down - or for each of the members to put down their priorities from high to low, in which they want to see activity occur. What's curious about the process is that, unless you as an individual actually have physical copies of the bilateral documents or have had access to the documents - which you can get and I have been provided access to through the DOTRD - to say that it's a high priority, unless you're aware of what is the existing conditions or the existing level of capacity, to say that it is a high priority for negotiation to occur with this country or that country is virtually meaningless, because you would be talking about - and there are many I believe in that room that do suggest that negotiations occur with countries that there is ample capacity for, and that their city is named.

In my opinion that's a waste of time. I believe that this process ought to be run from more of a strategic standpoint where those people - if TAG is going to continue, and I believe it should continue - that the consultation and the briefing or education process should occur as partners in a partnership manner, and that those people involved with it should be obligated to educate themselves to the existing conditions of the bilateral agreements, and that that information should be provided to them accordingly beforehand and say, "Look, there are 14 agreements which currently don't list your city or for which your city does not have sufficient capacity to increase service. Do you want to conduct negotiations with those countries?"

That would be an appropriate way to go about it. As it is there is this sort of

process where people raise their hand and unless you know what you're talking about, you might say this is a high priority when there is ample capacity given. So I think it could be refocused, and I think it needs to be refocused. Apart from that I can't honestly tell you what goes on in the policy sessions because I haven't attended that, and I really don't know to what degree, if any, the outcomes of that process are incorporated in the federal policy for negotiations.

Furthermore, there has never been presented to me a document or for that matter a discussion which said, "These are the stated objectives of negotiations; these are the outcomes of those negotiations as they occurred," in any kind of feedback manner, either from TAG or from DOTRD. That's the only way you really know if what you're saying at that panel has any impact whatsoever. So the whole process right now, I think, is woefully incomplete.

MRS OWENS: It sounds like a very unwieldy sort of process with potentially 30 people in a room. You'd barely be able to get a word in, would you?

MR JOHNSON: No, it's a disciplined process again, you know, in that it isn't just a gaggle of people all yelling at once. But you are absolutely right, the more people you have in a room, I suppose, the more diluted the position becomes. But it is a good forum in that healthy debate does occur, and I think that is probably the most positive thing that does come out of that session, from what I have seen. By no means am I saying that it should not continue. I think it should be supported and developed, nurtured if you will, into something that is truly impactful.

I guess why we believe, as airport operators - and I should say that this is something, having had discussions with both the operators or the owners of Brisbane and Melbourne - I don't know if you've had a chance to talk with them, but if you do, it would surprise me if they wouldn't say the same thing. Having representation apart from that - because our business spans many other businesses than just tourism business. It sort of typecasts us down into ironically one of the areas in which we are furthest from direct involvement with, if you will. Typically airports don't go out and market themselves as a tourist destination - even the nicest airports. But we certainly can assist tourism, but we have a direct effect on freight, we certainly have a direct effect on airline service, etcetera, etcetera, etcetera.

But to limit us to tourism is sort of like saying, "Take your weakest suit and really push that as your primary area of involvement." There has been, not surprisingly, questions come back from TAG as to what is in fact the purpose for airports to be involved with TAG. We believe that there is justification there and we'd be happy and have been happy to provide that, but it just seems odd that we are foisted into that, or that is foisted on us, and I don't think that we should be thrust into that position as an ideal outcome.

MRS OWENS: It sounds like they've actually had that structure in place and they've said, "Well, where can we put them?"

MR JOHNSON: That's exactly what has happened.

MRS OWENS: "They wanted to be involved in the consultation and we've got this advisory group, we'll put them in there."

MR JOHNSON: That's exactly what happened. There is no doubt that that is exactly what's happened, and it's commendable that they've given us the opportunity, and we do appreciate that, but it just is not the most appropriate place, in my opinion.

PROF SNAPE: I think that I've asked you the questions which I had on your very helpful submission and Helen is saying the same thing. I would thank you very much for it and for coming across and speaking to us.

MR JOHNSON: My pleasure.

PROF SNAPE: As I said, if there is anything that you wish to add either on a confidential or a non-confidential basis, then you could send it to us and we would be appreciative.

MR JOHNSON: Certainly will. With respect to what I have now read, it's my understanding that this document as revised would not be necessary, or would you like a revised copy of the document? I'm happy to provide either.

PROF SNAPE: No, we don't. It will be fine. It's on the transcript and that's fine.

MR JOHNSON: Thank you, and thank you for the opportunity.

PROF SNAPE: We welcome Aerolineas Argentinas and we would ask Mr Axel Bendixsen if he would identify himself for the benefit of the tape, and tell us who he is representing and in what capacity. We have your submission and we have read it and we would ask you to speak to your submission.

MR BENDIXSEN: My name is Axel Bendixsen. I'm regional director for Aerolineas Argentinas for Australia, New Zealand, and the Far East, based here in Sydney. I would like to then just talk on the submission. Aerolineas Argentinas, as the designated airline of the Argentine Republic, continues to seek expansion on the air links between Argentina and Australia. Given the continuous growth in trade and tourism this is clearly in the national interests of both countries. The development of traffic between Australasia and South America is also of importance. If I can say AR, it's easier, rather than the mouthful.

PROF SNAPE: Of course.

MR BENDIXSEN: AR has been servicing New Zealand and Australia since 1981, the air route being known as transpolar from Buenos Aires via the Southern Ocean to Auckland and on to Sydney. This service has been operated with much difficulty over the years due to the lack of fifth freedom traffic rights between Auckland and Sydney. This situation was rectified only recently, in 1996. The lack of these rights prevented AR from realising full revenue opportunities on the route necessary to offset operating costs which on long, thin routes are high. AR nevertheless persisted.

During the 17 years of operation progress has been difficult due to an air services agreement that was extremely limiting and designated solely to protect the interests of Qantas Airways, which at the time was the sole Australian designated carrier. Qantas has never exercised its right to operate the route and held the key to any further development of the route by AR. Qantas's refusal to use it or yield up that key year after year could only be construed as being in restraint of trade.

Whilst the situation was greatly improved in November 1996 after Senate Committee hearings, submissions to government, etcetera, the existing continuing restrictions should be characterised as amounting to an ongoing restraint of trade, which tends to empower the Australian designated carriers to set the pace of development of the route without having regard to the particular contribution or interests of the Argentine designated carrier. This situation will ultimately prevail regardless of any commercial agreement or codesharing between Aerolineas and an Australian carrier.

As we enter the era of globalisation cross-ownership of airlines by interests from a different nation is a common occurrence. In Australia we have witnessed the British Airways participation in Qantas and Air New Zealand in Ansett. This makes the current bilateral system totally inadequate. The development of codeshared flights between partner carriers which seek economies of scale are in many cases hindered by the present system. Today airlines need a system that is fair and equitable to allow adequate returns for risk and investment, and one that allows them to operate in a

commercially viable manner.

Aerolineas Argentinas should be permitted to serve the whole of the Australian market that desires to travel between Australia and South America. AR is prevented from achieving this by the terms of the current air services agreement, which facilitates the anti-competitive behaviour of the Australian carriers. The current bilateral system was perfectly adequate during the era of government-owned air carriers and protectionism. Today most world economies are becoming market driven and the air traffic rights negotiating system must be modernised accordingly.

Aerolineas Argentinas welcomes the recent changes in the Australian conduct at bilateral talks where we now see the trade, tourism and foreign affairs interests taking a seat at the negotiating table that was previously occupied only by the Department of Transport and the Australian government-owned airline. However, it is the experience of Aerolineas that the interests of the transport bureaucrats and the Australian airlines continue to take precedence over other equally important elements of the national interest. It appears to AR that this factor in particular is holding back progress towards a truly competitive and market-oriented situation in airline access to Australia.

PROF SNAPE: Thank you very much for that. We understand that there has been an agreement recently concluded between the two countries but that the results of that agreement are not yet announced, and indeed are awaiting the visit later this month of President Menem.

MR BENDIXSEN: That's right.

PROF SNAPE: So our discussion might be a little bit inhibited by that, but we're aware of that and we're aware of the constraints that that has imposed upon you.

MR BENDIXSEN: Sure.

PROF SNAPE: So we shan't be trying to trick you into disclosing what it is. I take the point of frustration which you have got in your submission. Aerolineas is currently owned by Iberia, which has created some difficulties, I understand, in negotiation with the United States for example, under the bilateral agreements. Has the ownership question caused you any problem in negotiating with Australia?

MR BENDIXSEN: No, it was only questioned at times, but I think as cross-ownership has become more and more common the issue has gone away. There was a time where a designated carrier by a country was deemed to be owned by interests of that country, more than foreign interests, and that is changing a lot. Certain of it has not been really in issue and it is certainly is something that, other than an inquiry as to what the progress was in the ownership of the company - it was never much else of interest to the Australian government.

PROF SNAPE: We have been interested in this question of ownership and the way

that it is evolving in- - -

MR BENDIXSEN: So have we.

PROF SNAPE: I bet - in the designation. I think that Aerolineas is fairly unusual in this regard for a major country. Are you aware if this ownership question has caused difficulties in your negotiations with countries other than the United States?

MR BENDIXSEN: No, it hasn't really. I think that the question of the ownership of the carrier has been so complex over the last few years that everyone has given up trying to understand. Currently the situation is that Iberia has, due to pressure from the European Commission, divested the majority of its shareholding and it now sits in a holding company which is really Bankers Trust Merrill Lynch who own the majority of the carrier at the moment. As we speak American Airlines are taking 10 per cent of that equity and with a very complex investment plan which also is going to give them very heavy influence in management control.

PROF SNAPE: Has that caused any concern in Argentina?

MR BENDIXSEN: No, I think that if I can just go back a bit further and give you a little bit of background, the difficulty Aerolineas has had was that it was the first government company to be privatised. The government of the day was very keen to show that it was proceeding with privatisation, so it was a rushed operation - in my personal opinion not very well done - and we have been suffering the consequences since because it's very awkward to privatise a company and put it in the hands of another government-owned company of another country, which is basically what happened. So we did not gain much benefit from that privatisation, other than probably a big staff restructure - but that's about all.

MRS OWENS: I was going to just clarify something in the department's submission that we have here. It mentions that Aerolineas is entitled to operate at this moment to one point in Australia, which is Sydney, but you're also able to operate for additional points in Australia on a codeshare basis with an Australian carrier.

MR BENDIXSEN: That's correct.

MRS OWENS: Have you taken up that right? Are you doing that?

MR BENDIXSEN: No, we are currently negotiating to do so. Again, this is tied up to the agreement that was just - - -

MRS OWENS: Yes, that's why I'm a bit reluctant to ask questions.

MR BENDIXSEN: No, that's fine.

MRS OWENS: I don't know when I'm going to be stepping over the mark.

MR BENDIXSEN: I can't unfortunately pre-empt results.

PROF SNAPE: But you did codeshare with Ansett when you were in fact limited to Auckland, I think.

MR BENDIXSEN: Yes. When the operation first started in 1981 we were only allowed to go as far as Auckland. We did not have access to come into Australia. We came into Australia in 1988 and that was as a result of a bilateral which gave us the rights to come in here, the operating rights, subject to a commercial agreement with Qantas at the time, which we did. That was in force until March of 1993. It was not very successful. In my view it was not successful because I think codesharing in those days was very premature. Nobody was quite used to how it worked, or how to make it work. I think it wasn't a very harmonious operation, if you like, if I can put it that way. It should have worked but it was too premature. Nowadays everyone knows what codeshares are and they just happen; technology has made it a lot easier too.

So that ceased in 1993 and we were allowed, in a bilateral agreement, to operate in our own right without having to be tied to conditions of that nature. We operated through to Sydney without traffic rights in the Tasman, which made it difficult because you can't realise full revenue potential, and as we all know on a long, thin route it's very, very hard to make ends meet unless you can realise full potential of traffic. This was resolved in November of 1996, as I mentioned in the submission, and we were given traffic rights across the Tasman, subject to a codeshare which we carried out with Ansett for - initially it was with Qantas as I said before and afterwards we had to change because Qantas did not have at that time aircraft available to provide on the route so we had to switch to Ansett.

Ansett was just starting their international services and for them it was wonderful to have an opportunity like that, so we flew an Ansett aircraft in fact on a codeshare across the Tasman. That stopped in October 1997 when Aerolineas decided to extend the services and the frequency, we have done, and this was all aimed towards a negotiation which is currently being carried out for a joint exportation once again.

PROF SNAPE: Do you get much freight on the route?

MR BENDIXSEN: Yes, we are averaging about 12 tonne a flight.

MRS OWENS: You mentioned in the submission that there has been in the past problem with Qantas, that during the 17 years you imply or you state that the air service agreement was actually designed solely to protect the interests of Qantas Airways. That, I presume, has changed.

MR BENDIXSEN: It is changing.

MRS OWENS: Or changing.

MR BENDIXSEN: Changing. That is all a hangover, I suppose, of the old days of government ownership. I say Qantas because it was the only designated carrier. It would have been whoever it was at the time would have been a carrier. It happens to have been Qantas. Our difficulty in trying to solve our problem was that whilst we were trying pretty hard to develop this market which did not exist - because you must remember that prior to this service being introduced the majority of traffic between Australia and South America went via Los Angeles, and then you had the Tahiti connection which, subject to schedules, usually was a pretty cumbersome trip, because you had usually layovers in Tahiti and so on.

When we introduced the service for us it was difficult to accept that whilst nobody else wanted to hop on the route and put on a competitive service with us, yet we were still being stopped from developing. I guess that's been our biggest difficulty and our frustration.

MRS OWENS: Why did that happen?

MR BENDIXSEN: Because I suppose in those days it was seen as another carrier servicing Australia that could impinge - - -

MRS OWENS: Cause a problem in the future.

MR BENDIXSEN: Yes, exactly, could impinge on potential traffic for Qantas. It's the same thing as even now where it can be Qantas or Ansett: we still have a problem whereby a lot of the rights that have been traded are being considered cosmetic from the Australian side because they're not being utilised. But that's not our problem if they don't want to take the opportunity to utilise it. Rights are rights, conditions are conditions, and should be equally balanced. We've taken all the risk and we've made all the investment over the years and we believe we should have the opportunity to grow this and welcome anybody who wants to come along whenever it happens - which is imminent, I believe.

PROF SNAPE: I think that the point is well made and - as I say, we are a little bit inhibited, and I look forward in fact to the possibility of more frequent services, etcetera. I have in fact taken that route through Los Angeles unfortunately and the 36-hour trip is something which - - -

MR BENDIXSEN: Not that you would recommend, no.

PROF SNAPE: No, I don't recommend it. So if it is coming to be a more frequent service then one on any future trip would welcome that. Thank you very much for your submission and for coming to us.

MR BENDIXSEN: Thank you.

PROF SNAPE: We look forward to the visit of President Menem and the

announcement of the new policy.

MR BENDIXSEN: Thank you. Whilst, as I say, I can't pre-empt any of that, I will say however that there is considerable progress being made and we're very pleased to see that.

PROF SNAPE: That brings us to the conclusion not only of today's hearings, but hearings in Sydney, unless of course anyone wishes to respond to the usual invitation - that is if anyone wishes to make a statement for the record, then they may. I don't see any takers to that, so in that case I will close not only the hearing today in Sydney but this series of hearings, and thank everyone very much for their participation. Thank you.

AT 5.14 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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