Dr Neil Byron
Commissioner
Productivity Commission
Level 28, Telstra Building
28 Collins Street
MELBOURNE VIC 3000

Dear Dr Byron

Supplementary Submission to the PSA Enquiry

We will shortly be preparing a supplementary submission to the Productivity Commission enquiry into the Prices Surveillance Act, but I thought it would be useful for us to send you a copy of a speech delivered by Terry Snow last week in Perth. I would be happy for the Commission to treat this also as a submission to the enquiry.

The speech addresses both the difficulties of the present economic regulatory regime and in particular highlights two things:

1 The fact that the incumbent airlines are using the system to frustrate the development of infrastructure which is required to facilitate competition; and

2 The fact that arguments about rate of return are arguments which, at the margin, have a total impact on passengers of perhaps 1 or 2 cents of an infrastructure charge of perhaps 50 or 60 cents when that infrastructure is necessary to secure benefits to consumers in the order of hundreds of dollars per ticket, which in turn represents millions of dollars of value to the business community and tourists.

I would be pleased to discuss these issues with you further when we meet next week.

Yours sincerely

Stephen Byron
Managing Director

Speech by T M Snow
Executive Chairman of Canberra International Airport
Delivered at the 19th Annual AAA Convention
Burswood International Resort Hotel, Perth
13-16 November 2000

ACCOMMODATING NEW AIRLINE OPERATORS AT AIRPORTS

I'm delighted to be here today, especially in a state as big as Western Australia where, as your Premier has already noted, the efficient movement of passengers and goods is absolutely essential.

I represent a new player in the Australian aviation scene, so new in fact my Group have only a 20 minute speaking slot in a 2 day program and yet it is this Group that has to stump up with the money to meet the ballooning aviation industry's requirements to provide the infrastructure to facilitate competition.

THE INVESTORS

My wife and myself in the case of Canberra, the larger institutions for the bigger airports. We are the people who in the end will make it happen or not happen – regardless of how good the airport managers are. Whether they are Poms, Dutchmen or Aussies.

There are many alternate and competing investment opportunities, in and outside of Australia and if airports are not an attractive investment proposition in either rates of return or risk profile, then the money will not be forthcoming for airport development. The investment proposition is that the returns are poor, the prospects for growth are excellent and the risks are yet undefined, but the risks are shaping up to be sizeable with the Government changing the rules after the investment was made is very unsettling. For example, we were told that we could charge a fuel input levy and we could and should charge for taxis using our infrastructures and this income should be accounted for in framing our bid.

However, because of the intervention of Treasury, this is all on the block and will involve expensive litigation. The cost of such litigation to our Group is almost prohibitive.

We have other Government agencies now changing the rules on us and funnily enough they restrict our opportunities, they don't increase our business opportunities.

I managed a listed property fund and I know how investors operate. The don't lobby, they don't jump up and down.

They don't tell the Government to do this or that or they will just go, they quietly sell out and move on. They say "The investment committee has decided to re-weight our portfolio". That's code for see you later, this is too hard – we're off! They will just wilt away. In an industry as important as transport, this cannot be allowed to happen.

I believe the present regulatory system created by the Commonwealth and administered by the ACCC for privatised airports like ours is not working the way we believe it should – without wanting to be offensive but being direct. I believe, the ACCC's decision making framework processes are clouded by a lack of understanding of the strategic issues confronting the aviation industry and the structural changes that are occurring with in it.

The regulatory system is not being used to encourage growth and competition – on the contrary – it's being used by some as a weapon to block competition. These are issues of major importance to us and I will return to them later.

But first, some good news.

Privatisation is driving significant and positive change in Canberra.

Statistics prepared by The Capital Airport Group reveal that we currently provide 511 direct flights a week to 7 destinations across Australia. This represents an increase of 33% in direct flights since privatisation.

We currently average around 80 flights each weekday. In the peak hours between 6am and 9am and 4pm and 6pm flights leave Canberra every 8 minutes.

In the Canberra / Sydney market alone air travellers are enjoying an increase of more than 65 flights a week or an average of ten extra flights a day since the launch of Impulse Airlines.

Put simply, this represents a 29% increase in air services between the National Capital and Sydney.

We're delighted with this result because this is something we have worked hard to achieve since we purchased the airport and this is why we in Canberra have embarked on a major redevelopment program that is currently costing us in excess of $30 MIL.

These figures demonstrate why we must upgrade aprons, terminals, roads and car parks and we have to do it immediately. We are flat out just to keep up! Incidentally, when we purchased Canberra airport, we said we would spend around $11 MIL over ten years! We clearly underestimated the challenges confronting us.

I have a very optimistic view of the industry. It's my belief that aviation is going to grow and grow spectacularly over the next 18 months – perhaps by as much as 40%. If we can provide the infrastructure.

Why? Well, let's look at what Impulse has done to fares between Canberra and Sydney. Now, this is primarily a business route. So, there's never been many cheap fares offered on this service.

A full economy, one way fare is now $188. Impulse's most expensive fare between Canberra and Sydney is now around $143 dollars – that's a saving of around $45 each way. Impulse also has large numbers of seats as low as $72 which is a saving of more than $100.

Now, Impulse will carry around 150,000 passengers a year between the two cities and that's before they introduce their 717's to the service early next year. If we assume the average fare saving is around $70 a passenger then $70 times 150,000 equals $10.5 MIL. That is a huge saving to travellers and to business and we are very proud of that.

But, that's only part of the story because Qantas and Ansett have also dropped a big bundle of cheap seats on this route. They have not done it yet between Canberra and Brisbane where the full one way economy fare is $393 (because there is no competition yet), but they have done it between Canberra and Sydney and that virtually doubles the savings achieved by Impulse alone. So, we are talking of savings to travellers and to business of up to $20 MIL a year.

When Impulse fly their 717 from Melbourne to Canberra and Brisbane we could see travellers save in the order of $50 MIL a year. This is an enormous dividend that competition is delivering.

This increased competition will deliver economic benefits many times that figure in one year with flow-on effects without taking into account increased activity through maintenance facilities, call centres, training and administration. So, how are airports, or more particularly, Canberra, going to cope in this new competitive environment as the major providers of aviation infrastructure? Well, let me say, with some difficulty.

Our aprons in Canberra are around 28 years old. There hasn't been any apron development by the FAC or the government during the last 28 years. Consequently, we operate a full house. For example, every night Ansett is forced to park one of its big jets a long way from its terminal requiring its passengers to walk, sometimes through the rain, to first, the Qantas terminal and then to the Ansett terminal, just to get their baggage. This is 3rd world standard – and this in Australia's national capital.

And, each morning, Ansett is forced to tow its jet back up to its terminal and so it goes. Expensive, (it has been suggested as much as $250,000), time wasting, inefficient and poor customer service.

This is part of what we inherited when we bought the airport. Clearly new aprons needed to be built immediately. But, given the ACCC's requirement for user support, this was easier said than done. We waited 2½ years until the arrival of Impulse, a competitor, before we were even able to go to the ACCC to put a case. This is because Qantas, who have more than 80% of existing apron space at Canberra airport fronting their terminal, which I must say, they don't pay for, they refused to even entertain any discussion, let alone any meeting, on the subject of new apron development.

And let's be clear what we're talking about. The total cost of our apron development is around $7½ MIL. The total cost per passenger at the ACCC's approved rate of return of 11.2% is 59 cents.

But let's just look at what the figure would have been if the rate of return had been 12% - The rate which we were seeking. At 12% the passenger charge would have been just over 61 cents – just a few cents more. Again, most institutions look for 12% or better internal rate of return.

But this concern over cents misses the point because Qantas wasn't really arguing about what rate of return we received, they were arguing against the asset being built at all. They wanted to prevent infrastructure development outright. Only the arrival of Impulse and the support of Ansett gave us the opportunity to put our case, a case that took six months of hard slog to get through the regulatory process set up by the Commonwealth.

So, what's this all about? As I see it, this is about encouraging growth and the introduction of competition and the reduction of airfares by as much as $50 to $100 between Canberra and Sydney and later, other locations. I think as a nation we have lost the plot when we quibble about few cents when our task is really to grow the nation's aviation infrastructure by up to 40%. And remember this is not a quibble about the rate of return by the airlines, it's really about them using the ACCC's requirement for user support to stop any growth – any development.

The duopoly argue that because we are a monopoly, we aren't entitled to any rate of return at all and we shouldn't be building any infrastructure – all of this just to protect their position of privilege.

So what we have is a regulatory system which has the pretence of protecting the airlines rates of return (saving them a few cents) actually operating in a way that totally frustrates and prevents investment which is necessary to facilitate growth and competition which is reducing airfares by hundreds of dollars.

Now, let me turn to terminals.

There can surely be no question in anyone's mind that airports should be building common user terminals for airlines as we do for international airport terminals. And we should be building them with open access for Ansett and Qantas as well as the new players. Because Australian airports should be delivering a product that is best practice design, not separate terminals for separate airlines, not duplicating cost, passenger screening and ground infrastructure and not making transfers difficult for passengers and massively adding to cost.

In Australia we are right behind the eight ball in terms of common user terminals because the Commonwealth refused to build them and forced Ansett and Qantas to build their own. That's why when it comes to growth and new entrants it is so, so hard.

If the future terminals we need for growth are not common user they simply will not be built. It's un-economic.

We're about to start work on a common user terminal in Canberra. It's going to cost approximately $6 MIL and has to be done if I am going to meet the growth and demand. I suspect that the duopoly is going to try to veto this investment. Not because they won't be able to use it, and not because their passengers won't enjoy the upgrade and the new facilities, but simply because they want to oppose it being built at all. And I'll bet they will not be arguing over what rate of return, they will just be arguing to stop the project. Although the rate of return might be the process to frustrate the redevelopment.

We calculate the total cost for this project at around 54 cents per passenger and our users want me to spend the money because they want a better facility and they want the opportunity to save them hundreds of dollars on flights to Melbourne and Brisbane. There can't be any delay, I'll just have to get on with it.

Can I also say something about the nature of the consultation process. We live in a dynamic and changing environment. As airports, we have to respond to the needs of our customers and the growth of the market, and in particular, the growth of competition. Hence we have to build assets and infrastructure as quickly as possible. As that means we need a simple regulatory system so that we can get on with it.

Whilst on the issue of consultation let me come back to the new apron we are building in Canberra. As I said, Qantas refused to come to any of our meetings or make any comments to us on our ACCC proposal. But what they did do, was secretly make a submission to the ACCC attempting to demonstrate that operationally there was no requirement for additional apron. Yet, when we asked for a copy of their submission to see if there were some ideas we could implement, they refused.

Why would Qantas do such a thing? The only possible reason is that by choking off infrastructure development at Canberra Airport, they would effectively cut off the growth of Ansett who already had to tow planes up to their gates from the bottom of the park.

The arrival of Impulse and Virgin at Canberra Airport will exacerbate this chronic shortage. This is the only imaginable reason I can see. If there is someone here from Qantas today that can give me any other logical explanation I'd like to hear it.

So the ACCC is now being used as a weapon in the armoury of some airlines to restrict and restrain competition. This weapon was handed to them on a plate by the Commonwealth Government during the pre-negotiations of the sale of the Airports, as a protection against over-investment by airports.

The only time that I have ever seen any over-investment in aviation facilities is where a Government has spent the money as a matter of national prestige or for political reasons and there are not many examples of that in Australia and there will be no more in the future.

Let me reassure anyone that has any doubts, no sane and rational investor would ever over-invest in infrastructure where the returns are marginal at best. This is not a profitable part of our business.

The returns on these investments are very heavily regulated and gone through in the minutest details to such an extent that it is oppressive for a small organisation like ours to continue, it is time consuming, wasteful process of making submissions to the ACCC for something that is as plain as the nose on your face, what is required?

What chance have we got, as business owned by myself and my wife of matching the duopoly? Our aeronautical revenue is $4.5 MIL a year. Qantas' total revenue is $10 BILLION a year. The salary packages for the 5 senior Qantas executives is more than our aeronautical income in total.

The nonsense about airports using monopolistic power is still continued by BARA, but let me suggest to you that the airports have relatively no bargaining power against the airline duopoly. Whilst the airports have reduced their charges by CPI-X each year, consumers have seen none of these savings as the airlines have increased their fares by more than 30% since privatisation.

And what of the so-called “single till”? The absurdity of this method of economic regulation is again highlighted by the introduction of Impulse to Canberra. We’re going to develop a vibrant maintenance and engineering and training business at the Canberra Airport.

We’ve leased them a site and they are building a $9.5 MIL facility to house two 717’s as well as their national headquarters.

Now, if you had a single till, the land rent would be used to subsidise landing charges at Canberra Airport for all airlines. How silly is that? Impulse and the money they spent building new facilities subsidising the existing duopoly!

Or of course, I suppose there is another way one we could have played the single till, assuming that everyone accepted that at a fair rate of return and the rent for this land was say $100,000 per annum, then perhaps we could have given it free to Impulse Airlines.

But knowing that on the leasing of the asset we were able to add $100,000 to the landing charges. Again, an absurd result with the duopoly paying for the land on which Impulse builds its maintenance facility.

The subsidy of the single till argument makes a mockery of any sort of rational pricing and without that, none of us have any incentive to develop anything at all. I would be better off to invest in National Bank shares instead.

To sum up, we have a once in a lifetime opportunity to ensure competition in the aviation industry. But, we have to acknowledge there is a pressing need for massive growth in airport infrastructure and in particular, terminals.

And as I have already said, we’re starting from a low base because there are virtually no common-user terminal facilities in Australia in a major city airport. So, this is my appeal to the Australian Government and to the ACCC – if we want to grab this once in a lifetime opportunity, we're going to need a helping hand.

Give us a bit of room to get on with the job and develop the aviation infrastructure that I am convinced we urgently need. Consumers want reduced fares – there is no question about that.

Many more people now want to fly. The market is set to explode and consumers are not going to object to an extra 20 or 50c in airport charges, if they can save hundreds of dollars on their travel and what a tremendous benefit to the community.

We can save travellers and business millions of dollars. My appeal is let's do it and let's do it together and for heaven's sake, don't frighten our investors off because they will go if we do.

My friend Ron Rosalky asked me at our last conference "Was it a good idea to buy the airport?" I could not genuinely give him an answer. But ask me this time next year and I will have a clear view – we all now know what must be done – it's whether we can get on and do it – if not, National Bank shares and work on my golf handicap might be the best option.

Date: 5 December, 2000
To: Lucia Lumbaca
At: Canberra International Airport
Pages: 12 NATIONAL NINE NETWORK

BUSINESS SUNDAY 8.30 AM

26TH NOVEMBER, 2000.

DISCUSSION ON IMPULSE AIRLINE'S PERFORMANCE AND PLANS FOR THE FUTURE.

INTERVIEW WITH GERRY MCGOWAN, IMPULSE AIRLINES.

PRESENTER:

Of the two new entrants, Impulse has had a much higher profile with frequent product launches, publicity and an aggressive advertising campaign. And that's been matched in the market place with a growth in routes, an image makeover, and an impression of movement and action.

So what's the bottom line, especially with sky high oil prices and the post-Olympic slowdown? Chief Executive, Gerry McGowan, is speaking to Michael Pascoe.

GERRY MCGOWAN – IMPULSE AIRLINES:

I'm sure we'll be flying next year, Michael, and I think we'll be flying a much bigger fleet next year. You know, certainly the airline is doing very well, you know, for the amount of time we've been in the air with the trunk route operation.

We've got a fleet of five aircraft flying at the moment, another three coming December-January period. And we expect further deliveries first quarter of next year. So, this time next year I'm hoping to be flying a fleet of about fifteen aircraft.

REPORTER:
Fifteen jets? That's more capital, more money from your shareholders?

MCGOWAN:
Yeah, well the shareholders have just issued another thirty million dollars into the business. And we believe from here on in we should be self-funding, so we don't believe we're going to have to go back between now and when we IPO probably sometime 2002.

REPORTER:
Was that thirty million extra injection expected, or was that unexpected?

MCGOWAN:
It was given to us…it was expected, and it was given to us for the sole purpose of expanding the operation earlier than what we had originally

even had envisaged. And we're expanding because the airline has done very well in its first six months.

REPORTER:
Well, what figures can you disclose? Are you breaking even on an operational basis?

MCGOWAN:
Well, we're better than break-even. Certainly we're cash flow positive. We made our first monthly profit in September. We expect October to be strong, November to be strong. Load factors on Sydney – Melbourne are better than seventy-five per cent, they're better than seventy per cent on Brisbane.

We've been concentrating very much on yield, and Melbourne is very good, Brisbane is weaker, and I think that's the result of the extra competition on the route. But we're improving that every week and the management team is very focussed at the moment.

REPORTER:
You say you want to float in 2002, what sort of performance do you think you have to have on your books to take to an IPO?

MCGOWAN:
Well, we believe that we're going to sustain profitability of around about ten per cent of sales. And I believe if we do that then we'll be in good shape to float a portion of the company come 2002.

REPORTER:

Sustained meaning overall 2001?

MCGOWAN:

Yes, that's correct.

REPORTER:

Which means full bottom line profitability, not just operating?

MCGOWAN:

We've got full bottom line profitability now. September was the first month where we had that, and we expect that to continue and we expect to grow on that. We expect to get stronger profitability over the next few months.

REPORTER:

Has it been a bit easier than you thought? Did you expect Qantas and Ansett to hit you harder than they have?

MCGOWAN:

No, I think we're seeing extraordinary growth in the market. We always … the market growth has surprised me. According to the Department of Transport figures, Melbourne's grown around twenty-five per cent, Brisbane's growing at thirty-five per cent, versus the same months in previous years.

REPORTER:

Do you think the market can handle four major players on the trunk routes?

MCGOWAN:

I think on a few of the trunk routes the answer is probably yes. I think over time the answer is probably no if you're talking about an airline that has aspirations to be a national airline. I don't think Australia is probably big enough to sustain four.

And it may not necessarily be at the bottom end of the market that you see some amalgamation. Certainly I've always said that I'm not sure that Australia can sustain two full blown domestic carriers with all the frills attached to them. You know, I think you are seeing a shift to less expensive forms of travel. And certainly Virgin and ourselves are enjoying that at the moment.

REPORTER:

You obviously keep a close eye on your competition. Do you think Virgin's doing alright too?

MCGOWAN:

I think Virgin are carrying, you know, some decent numbers on some of their flights. The question is yield. It's easy to give tickets away, it's much harder to get tickets that will, you know, add to your bottom line performance and to ensure that you have that average yield across your network.

REPORTER:

So do you think Virgin will be still flying this time next year?

MCGOWAN:

Oh, I think that's debatable. I don't know a lot about their operation, Michael. But you know, what I do know is that I don't think an airline that focuses solely on the bottom end of the market is sustainable.

REPORTER:

What are your main impediments now that you are through the start-up phase? You're making a profit. What's the problems?

MCGOWAN:

Well, I think our main impediment is infrastructure at airports. And certainly at Sydney Airport the current terminal is about at capacity. Melbourne, we think, will be at capacity very shortly after move into the new facility there. So, that sort of infrastructure is critical to an airline's growth. And we want to see airport owners spend more money in that area.

But there's a great reluctance because every time an airport owner wants to expend more money it goes through a whole regulatory process. ACCC get involved. Oftentimes they interfere. The whole process gets dragged out. And our view is that unless airport owners can make commercial returns on their developments we're not going to see any further development of infrastructure in this country.

REPORTER:

Are you talking in particular there about the Canberra Airport?

MCGOWAN:

Well, every airport is confronted with the same issues. Canberra is the exception that they've just gone ahead and built what we needed in the face of a lot of objection from people like Qantas, who don't want to see any further expansion of terminal facilities at airports that allow further competition in the market.

And it's Qantas and Ansett that are actually continually running to the ACCC trying to slow down the process. And the ACCC are actually aiding and abetting lessening of competition in the market by their reaction to some of these issues.

REPORTER:

To clarify the ACCC situation one would have thought that they would have been on your side to try to increase competition against Qantas and Ansett, are you saying they are unwittingly or otherwise doing their bidding?

MCGOWAN:

No, I think, it's unwittingly. You know Ansett and Qantas are experts at playing the game and they use the fact that every increase in cost at airports has to be authorised by the ACCC. They use that to their advantage and they refer everything and they bog down the system and it means airport owners can't get quick responses. You know it is a very complex industry and trying to work out cost structures and what's fair and what's not is very difficult for outside parties.

REPORTER:
Sydney Airport has a problem with slots, has a problem with infrastructure, government looks like chickening out on Badgerys, what's your view of that?

MCGOWAN:
Well, we don't care whether government builds Badgerys or, you know, expands Sydney. But something has to be done to ease the pressure on Sydney. Certainly slots are an issue at peak periods and certainly the duopoly have an advantage because they've got most of them.

But at Impulse, you know, we have been building our slots over the years, both with our trunk region and our regional operation. And we think we have ample capacity to fulfil the growth plans we've got. But it certainly is an issue and Sydney needs to be sorted out.

REPORTER:
Will regional airlines end up getting the short straw?

MCGOWAN:
Well, I hope not. I don't believe that's the right answer either. I think, you know, regional communities have every right of access to Sydney

and they've certainly got as much right as overseas carriers or anyone else coming in here.

REPORTER:

Well, what's the answer then?

MCGOWAN:

Well, I think, the answer is to look at more take off and landings over water. The answer is to look for quieter aircraft, certainly the aircraft we operate are the quietest aircraft built today and I think they're very environmentally friendly. Maybe regional airlines who are mainly operating turbo prop aircraft be removed from the slot count, because I don't think that they impact communities anywhere near as much as the jet operations.

REPORTER:

Well, who many movements an hour do you think Sydney Airport should handle?

MCGOWAN:

I think it should handle about a hundred and twenty movements an hour in its current state.

REPORTER:

Which is fifty per cent more than it's allowed to.

MCGOWAN:

Yeah, that's right. And, I mean, we do understand the impact that we have on communities. And I think airports and the people that use the infrastructure there, you know, need to be aware of that, look to work with local communities and look to work for better ways of managing noise. I'm not sure noise sharing has actually worked.

PRESENTER:
Impulse chairman Gerry McGowan with Michael Pascoe. And Mr McGowan will be our chatroom guest tomorrow at ninemsn. Check the site for times.

END OF SEGMENT

Australian Airports Association – National Convention
14 November 2000
Edited TEXT ONLY of address
Gerry McGowan
Executive Chairman, Impulse Airlines

… opening remarks….

This is a tough, competitive environment for aviation - no one here would deny that.

Market conditions are probably the most turbulent ever experienced by operators in this country.

On the domestic front, Australia has never before seen a more varied or such a volatile mix of industry participants.

We now have four airlines fighting it out in a market that we were led to believe could only sustain two.

How wrong everyone was in blandly accepting the pronouncements of those with a vested interest in maintaining the status quo.

Impulse Airlines, in a relatively short time, has done enough to prove to the doubting Thomases - or should I say the doubting Ansett's and Qantas-es - that Australia not only can support multiple airlines, but that it can do so and provide a financial return for those who want to play.

The emergence of real competition on the nation's trunk routes has presented the major metropolitan and regional airports with an opportunity that had been denied to them for many years to expand and develop their businesses.

Under the old duopoly, service rationalisation was much more likely than growth, capacity stagnated and networks became moribund. The two established airlines dictated the terms, and I believe from an Airport's perspective, I believe there was nothing Airport owners, their core investors or anyone else could do about it.

In recent months, the situation has changed dramatically. There is a renewed vigour in the market place. Growth is on the agenda again and business options are opening up for the airlines and importantly airport operators alike.

To a large extent, Impulse has been the catalyst for that change. The airline is growing, and the domestic market has responded in kind. We expect the stimulus provided to increase passenger volumes across the trunk system by up to 15% this year, almost three times their historic average.

As highlighted just last week in Federal Parliament by Federal Transport Minister, John Anderson, there has been a quite substantive increase in passenger traffic on the nation's prime trunk routes. In the case of Sydney to Melbourne, numbers are up 78 000 over the financial year to date – including a 17.7% increase in the month of August alone. Notably Impulse has been featured on the world's 3rd largest domestic air market since June.

The question now is what can the airports across Australia do to capitalise on this rebirth of the domestic market. Airports may be monopoly assets, but their operators cannot take it for granted that new business will magically come their way to them, bearing gifts of regulated passenger and landing charges and I would like to think an improved rate of return on your long term airport car park.

If the commercial value of flying to a particular destination is negligible and viable alternatives exist, carriers may simply choose to operate elsewhere. And that means a substantial business and revenue-generating opportunity lost for the airport, and the local economy to which it is inextricably linked.

The Federal Government, through its privatisation program of the former Federal Airports Corporation network over the past three years, has exposed the airports to the rigours of the market.

I believe it is now up to the new owners to decide whether those forces work for them or against them.

Admittedly, there are limitations on what the operators can do. The Airports are still highly regulated, reflecting the overt political nature of the business. Their development plans, pricing structures and commercial activities all come under close scrutiny from the government and watchdog bodies like the Australian Competition and Consumer Commission.

Many of the private airports are also defying gravity by continuing under the immense weight of their debt and capital commitments - a legacy of the premium prices paid for the large metropolitan and regional gateways.

In all, $4 billion flowed the Commonwealth's way from the sale program. That does not include Sydney Airport which could well fetch the same amount again when it is privatised in the first half of next year.

Despite the regulatory and financial constraints, the airports now enjoy the freedom to compete at the margin, to aggressively market their services and to provide incentives to secure new business. Some have grasped the golden opportunity presented to them and run with it, others have not.

As an airline operator planning substantial expansion in the trunk route market over the next 12 months, it has become patently clear to me that much more could be done by the airports in conjunction with their State or Territorial governments to encourage the development of services.

Impulse has talked to most State Premiers in recent months – Western Australia's own Richard Court included - about the prospects of us launching flights to their capital city airports – with urgency being a well-worn term used during these fireside chats.

We are at a stage now where every option is being examined for the next phase, indeed planned future phases in the development of our domestic network.

All of the proposals put to us have been interesting – although some are immune to serious cross examination on the con's which are inevitably attached to the pros of delivering fresh competition beyond the linear prime east coast markets.

What Impulse is looking for is an operating environment that, through financial concessions or otherwise, will be conducive to our long-term strategic requirements, as a majority Australian owned airline, determined to become a fly Australia only carrier.

Given the right packaging, Impulse can deliver significant benefits to any airport or state economy.

A prime example is our blossoming relationship with Canberra International Airport and the ACT which has become a benchmark model for bringing together the interests of the airport, airline, government and links to private enterprise in a mutually-beneficial way.

The ACT Government structured a $10 million package of incentives as the carrot to persuade Impulse to focus on Canberra.

In return, Impulse agreed to invest $23 million in a rolling development program at the airport which will include a heavy engineering and maintenance base, now well down the construction path, flight training facility, a second call centre and importantly new or expanded air routes.

The airline also introduced high-frequency Sydney to Canberra services in June, as part of a strategy to establish Canberra as its southern regional hub. Impulse, Canberra International Airport and the ACT will all share the fruits of the deal. It is truly a win-win for everyone concerned.

If Australian airports want to take full advantage of the recent developments in the domestic market, they should carefully consider the potential offered by Australia's new breed of airline operator.

Overseas experience has demonstrated how discount-led airlines can create significant wealth and growth for airports and local economies.

I think that fact is not always appreciated by the airport industry at large. In their view, budget-based carriers represent a high volume, low rent business niche providing only marginal value and limited future prospects.

But there is overwhelming evidence to the contrary in other countries. I suggest a good, long look be given by all and sundry at the extraordinary development of a relatively modest, second-string domestic gateway on the US east coast, TF Green Airport.

TF Green, on Rhode Island, was ticking over with an annual throughput of 2.2 million passengers in 1996 when a whirlwind phenomenon known in the US as the "Southwest effect" took hold.

Herb Kellaher's Southwest Airlines, the global pioneer of cut-price air travel, arrived on the scene in that year and immediately slashed one-way fares between TF Green and Baltimore by 71% to US$53.

In the space of 12 months, the number of passengers flying on that route in an average day jumped from 159 to 1,564. This year, TF Green is expected to handle a total of 5.5 million domestic passengers - an increase of 150% since Southwest began operating services from the airport.

Not only did Southwest and its cheap fares strategy grow the overall pie at TF Green substantially, but other airlines serving the airport also benefited by securing a slice of that enlarged pie. Southwest and carriers like it have produced similar results at other airports in the US and Europe.

In Australia, I believe, airports will increasingly feel the value of the “Impulse effect”.

It is only five months since we introduced services with new Boeing 717-200 jets on the east-coast, but the growth in services and passengers between Sydney, Brisbane and Melbourne has been considerable.

Our existing schedule will see domestic aircraft movements into and out of Sydney increase by 12% on an annualised basis, and the number of flights on the Sydney-Melbourne and Sydney-Brisbane sectors grow by 20-25%.

If our jets fly only half-full, Impulse will carry more than 800,000 passengers on the two routes. However, that would be a conservative estimate, given that our loads are sitting at 70-75% at the moment, and the end result for our first full year could well exceed 1.2 million passengers.

Sydney, Melbourne and Brisbane will be direct beneficiaries from the "Impulse effect" through landing and terminal throughput charges, carparking and concessionaires. But the indirect, and less obvious, gains through Impulse’s fare initiatives and the publicity surrounding the airline are likely to be even more substantial in dollar terms and impact.

The east coast airports, associated businesses and the economies of NSW, ACT, Victoria and Queensland, will share in the prosperity flowing from Impulse as we continue to develop our service base. Between now and the first quarter of 2001, Impulse will be doubling its fleet to 10 B717-200s.

We will seek to add extra services on existing routes and extend jet operations to the Sydney-Canberra route. Other destinations are under the microscope, but our emphasis at this stage is on establishing a robust and profitable service structure in the eastern states.

Major airports continue to be blighted by the Hawke Government’s decision in 1987 to grant long-term leases over domestic terminal in eight cities to Australian Airlines (now Qantas) and Ansett.

Whilst hindsight is a wonderful thing, the reality was that this was an ill-considered, prejudicial and undeniably anti-competitive move which caused considerable angst for the first Compass Airlines and remains a road-block to successful industry deregulation.

I'm sure many of you here today are aware of the details of what took place and its subsequent implications.

Impulse was fortunate that, by the time it was preparing to take up trunk routes, Brisbane Airport already had a common-user terminal.

Sydney Airports Corporation also readily agreed to facilitate Impulse's entry by building a $5 million multi-user terminal – "Domestic Express" - a construction feat that was accomplished in 56 days, indeed completed just hours before our first 717 takeoff just after dawn on 5 June this year

The situation at Melbourne Airport wasn't by any means a straightforward affair either.

Impulse had struck a deal with the airport on commercial arrangements for a proposed $8.4 million domestic multi-user facility, only to face ACCC reassessment over the user rates agreed for the terminal.

An acceptable compromise was later approved by the Commission, and the construction timetable for the 2,500 square metre building will see it opened by early December. Since 5 June, Impulse's passengers have had to be moved on flights through a dedicated gate, make-shift gate lounge and four flights of stairs within Melbourne's international terminal.

Impulse is a low-cost operator whose whole strategy revolves around its ability to maintain a tight lid on expenditure and prevent budget leakages.

Our toleration of finding our feet in terminal or check-in facilities, of various appearance, practicality and function-ability in our early days of the domestic airline adventure we're undertaking, is one we've grown accustomed.

We've simply got on with the job at a hand. But the disparities between airports in terms of their commitment, incentives and ability to provide workable common user facilities at an affordable rate remains a matter we know both ourselves and the airport industry must keep as a number one priority

While I'm not necessarily advocating the US airports approach to commercial incentives, it seems to me that they clearly understand the importance of taking the initiative in their negotiations with the airlines.

If you're wondering what I mean, let me quote the example of another Melbourne Airport - not the one mentioned earlier in this address but the airport near Orlando, Florida. Melbourne offers a standard package for new operators worth some US$1.2 million that includes the following:

- No landing charges for the first year
- Free usage of counters, baggage handling facilities and office space
- Provision of US$200,000 for initial marketing costs, and;
- An additional US$8 in marketing money for each passenger carried.

For that, the airline must agree to provide at least two daily flights to one or more destinations not currently served out of Melbourne Airport for a minimum period of three years.

That is what I call an incentives package - and the point is that it works. Melbourne Airport near Orlando has been growing at above average rates for years now, and the airport is consistently profitable.

The difference between Australia and the US is that there is genuine, and very intense, competition between the domestic airports. Competition here is limited largely to clusters of airports within extended urban areas, such as Brisbane-Coolangatta or Sydney-Newcastle-Canberra.

Virtually all of the international and trunk route traffic in this country is directed through the capital cities. A number of smaller airports take mostly leisure-based passengers or act as regional gateways, but the fact is that we have a concentrated and extremely structured market built around metropolitan destinations.

The tight geographic focus of the aviation business makes it all the more essential that central Government should maintain a workable and effective policy for our major airports.

As the situation with the terminal leases demonstrates, that type of pragmatic policy approach also should be applied to airline competition.

Its been my belief, and one that's been placed on the public record now on many occasions, that our competition laws provide little comfort for new operators.

This isn't a case of me willingly firing a shot over the bows of the nation's competition regulator for want of a cheap headline. However I genuinely feel that debate needs to occur, both inside and outside Government, over the need for our competition laws to be reviewed, given the current climate, to make them more effective and relevant to the specific requirements of our domestic and regional aviation industry.

In theory, we have recourse to the ACCC under the terms of the Trade Practices Act if there is evidence that an abuse of market power has taken place or predatory action is being employed to unfairly inhibit competition. Fines of up to $10 million can be imposed.

But proving anti-competitive behaviour is a very tough business. The Trade Practices Act, as blanket legislation covering all industry, contains an abundance of legalistic grey areas and its not targeted enough to provide genuine safeguards for the domestic airline sector.

What we require is an airline-specific regime similar to that currently being considered in the United States.

The US Government has found, after 22 years of domestic deregulation, that the anti-trust laws administered by its Department of Justice are plainly inadequate when it comes to aviation.

Of the 25 cases that have been brought to court by domestic airlines under the anti-trust provisions since pricing and service deregulation in 1978, not one has succeeded. That is a damning indictment of the effectiveness of the laws in dealing with airline issues, and could apply equally to Australia.

The US Department of Transportation has now bought into the argument by producing a White Paper which advocates policy reforms designed to protect new, low-fare airlines from unfair competitive practices.

In effect, the proposals provide for the Department of Transport to take action if a major airline adds seat capacity on a particular route and floods the market with low fares to the extent that its own revenue actually declines.

The rationale is that such a business practice would only make sense if the aim was to eliminate the new competitor so that higher fares could be reintroduced.

This is a policy reform with real teeth. If the airline involved is found guilty of unfair conduct, the government can issue a cease and desist order. If that order is violated, fines can be imposed and legal action can take place.

The move to toughen up the market controls on larger airlines reflects growing complaints in the US about anti-competitive behaviour following the ValueJet crash. It also shows an increasing awareness at the highest levels of the immense economic value that low fare operators bring to the market.

There have been signs here that the established airlines are scaling up capacity on routes flown by Impulse, and expanding the availability of cheaper fares. However, our ability to succeed with any legal challenge to this practice is probably non-existent under the present laws.

We do not have the definitive kind of anti-competitive regulations that are being introduced in the US.

As with any new operator in this market, Impulse is vulnerable to the tactics of the major carriers. They have considerably greater resources available to them with fleets 20 times the size of our airline, and annual revenue in the billions of dollars.

We are exposed and, under the existing legislation, I believe virtually helpless if one or the other of the larger operators decides to over-exert its market strength. We know that the level playing field is a myth in aviation, but it could come within reach if Australia follows the example set in the US and commits to a solid legislative platform for the industry.

Impulse has overcome the initial hurdles laid before it and turned into profitability months ahead of our budgeted target. Like everyone else, we have faced the double-pronged aggravation of steeply climbing fuel prices and the depreciated Australian dollar, and made the necessary adjustments to our pricing base.

We are determined to move ahead in a financially and commercially responsible manner. We owe that much to the shareholders who have invested the initial $100 million in Impulse, and to the travelling public who have supported our services.

Given an operating climate that we can live with, and firm cooperative relationships with the airports and governments, Impulse is a bird that I hope and indeed believe will continue to deliver the type of affordable fares that Australians deserve.

ends

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