

27th February 1998

Professor Richard Snape  
Associate Commissioner & Presiding Commissioner  
Inquiry: - International Air Services  
Industry Commission  
Level 28  
35 Collins Street  
MELBOURNE VIC 3000

Dear Sir

**Re: Submission - Industry Commission Inquiry: International Air Services**

The following submission to the Inquiry into International Air Services from Avalon Airport Australia Pty Ltd reflects the position of a dynamic new participant in air freight handling within the region. The content of the submission will, for the most part, speak to the issues of air freight handling, movement and management from an Avalon Airport standpoint, but in no way excludes the possibility or probability of the location becoming involved with passenger handling at some future date.

At this time, the core business at Avalon Airport is that of a dedicated airfreight terminal and whilst passenger aircraft transit in, out and around Australia and deliver the lion's share of air cargo movement via underfloor capacity, international dedicated maindeck air freighter traffic maintains a strong position in the country's import and export chain.

It is therefore from the perspective of an airport and cargo terminal operator (CTO) specialising in the handling and process of dedicated freighter aircraft and cargoes that Avalon Airport Australia Pty Ltd will address the Inquiry.

Yours sincerely

*Ron Wood*

Ron Wood  
Chief Executive Officer  
Avalon Airport Australia Pty Ltd

## ***Avalon Airport Australia Pty Ltd --Background***

Avalon Airport Australia Pty Ltd, an independent subsidiary of the Linfox Group, owns and operates Avalon Airport located between Melbourne and Geelong a half an hour from the CBD. At the confluence of Victoria's major manufacturing, agriculture, aquaculture, food process and transport corridors, Avalon has been developed to provide a specialised service to international freight forwarders and carriers alike.

An extensive investment in air freight handling infrastructure and a supporting management program has resulted in the establishment of a world class cargo terminal operation at the airport. The development includes state of the art modular controlled temperature storage facilities, collateral warehousing systems and leading edge airside, landside freight handling equipment.

Avalon Airport Australia Pty Ltd with its strategically located aviation precinct including a base currently engaged in aerospace design, assembly, maintenance, wide-bodied aircraft refurbishment and advanced pilot training, has with its comprehensive air freight infrastructure, a first class instrument to enhance international trade for south eastern Australia.

The airport's cargo terminal operation complies with all Customs and Australian Quarantine and Inspection Services regulatory demands and requirements as well as meeting IATA and ICAO rules and practices.

Avalon Airport Australia Pty Ltd is committed to enhancing and expanding the existing airport assets at Avalon and will seek to form partnerships with all sectors of the Australian manufacturing, aqua-cultural, agri-business and export industries.

Avalon Airport offers substantial cost-benefit to its users. Curfew free, long-range wide-bodied aircraft capable with its own secure cargo terminal operation and user friendly distribution location, Avalon is positioned to deliver more than competitive levels of service to both exporters and importers of time-critical product and produce.

### ***The Air Freight Climate – Anomalies and Impediments***

The main interest in the Industry Commission's inquiry into International Air Services by Avalon Airport Australia Pty Ltd, as previously stated, rests initially with the uplift and discharge of air cargo with dedicated wide bodied maindeck freight aircraft.

There are, however many external factors in play that surround air freight movements into, out of and around Australia. More than 90 percent of all freight uplift by air is by underfloor capacity in passenger aircraft.

Apart from a small number of narrow bodied specialist air-freighters used in domestic and some trans-Tasman services, Australia has no dedicated wide-bodied, inter-continental main-deck freight aircraft on the national register.

National carrier Qantas, however, wet-leases B747-200F and MD11 aircraft main deck aircraft from both Evergreen and Gemini respectively for freight movements from Asia and on some trans-Pacific routes.

Although there have been many inquiries, all with substantial input from many sectors of industry, anomalies and impediments remain with air-freight traffic to and from Australia. Many of these were canvassed during the House of Representatives' Standing Committee on Communications, Transport and Micro-economic Reform's Air Freight Review Inquiry in 1996, and Jet Fresh: Paddock to Plate report from the 1996 Federal Parliamentary Inquiry Into the Export of Time Sensitive and Perishable Produce.

Further anomalies at major airports, particularly in Melbourne and Sydney include severely inadequate, time expired air freight handling infrastructure. At Melbourne some steps have been taken to develop a 'Freight City', but existing cargo terminals were originally constructed to support the narrow bodied B707 type passenger aircraft cargo capacities of the late 60s and early 70s. Today these outdated facilities are over extended, resulting in time-critical, valuable cargo being processed out-of-doors and in all weather conditions.

Sydney also faces similar shortfalls in cargo handling with ground congestion matching that of the airport's skies.

With almost 60 percent of all air freight passing through Sydney, (approximately 490,000 tonnes annually) and 28 percent (approximately 320,000 tonnes) through Melbourne, a recent \$20 million air freight infrastructure development at Brisbane Airport with only an 8 percent (approximately 70,000 tonnes annually) throughput, clearly indicates the lack of a cohesive approach by industry and government, at all levels, to the needs of the air freight industry in Australia.

In 1995, a draft advisory report to the Federal Minister of Transport's Parliamentary Secretary clearly identified a wide range of problems, most of which remain in the current climate.

The problems identified were:-

- The failure of all airlines to effectively utilise available capacity exiting Australia to Asia, the Middle East and Europe.
- The 'Orderly Marketing' arrangements through bi-lateral arrangements and agreements at forums such as IATA and OAA which have worked against the interest in optimising air-freight dependent time-critical product and produce.

- Of the more than a dozen or so maindeck freighters, (B747F, DC860F, MD11) triangulating from the US west coast to Australia, (both Sydney and Melbourne) returning to Asia, most transit empty to east Asian destinations while Australian export product, in many cases and for a variety of reasons, is denied carriage, underfloor, on scheduled passenger services.

The draft report was also critical of the ongoing complaint by the airlines that commodity rates are too low ex Australia.

An outcome of the 1996 Air Freight Review Inquiry by the House of representatives Standing Committee on Communications Transport and Micro-economic Reform was that dedicated freighter uplift was separated in bi-lateral negotiations from passenger capacities allowing for inclusive charters to be operated ex-Australia.

This has eased pressure on underfloor capacity out of Australia during the 'High' perishable season (October through March), however it is well known that amongst the dedicated freight airlines it is a preferred option by them to fly empty to Asian destinations, rather than to uplift low yield commodity freight.

Rates charged by these airlines ex USA allow the carriers to fly out empty to their Asian destinations where they load freight for US markets, taking up their traffic rights, from Asia to the US.

The draft report in finality, recognised the opportunities in 'cheap back-loading' as a national advantage to combat subsidised product and produce into the region from Europe, North and South America.

It concluded that Australia's position as a provider of high quality perishable product and high yield value-added manufactured goods was a better option than the protection of airline freight rates for airlines, essentially a subsidy and incompatible with contemporary competition principles.

It is the contention of Avalon Airport Australia Pty Ltd that several years after this draft report was delivered, conditions prevailing within the industry at the time have changed little.

In July 1997, Treasurer Peter Costello declared the right for private operators to negotiate access to load and unload international aircraft at Sydney and Melbourne Airports, following a determination by the National Competition Council in favour of a New South Wales Cargo Terminal Operator, ACTO Pty Ltd.

On being denied access to load and unload international freighter aircraft at both Sydney's KSA and Melbourne's Tullamarine Airport, ACTO Pty Ltd made application to the National Competition Council for declaration of access to the respective airports. The application was made under the Trade Practices Act 1974. Treasurer Costello subsequently, in accordance s44H of the Act, declared access to ACTO Pty Ltd to hard stands and aprons for the purpose of loading and unloading international

aircraft at both Sydney and Melbourne as well as allowing storage of collateral equipment at appropriate sites on the respective airports.

At the time of writing of this submission, the declaration is under appeal in the courts by the Federal Airports Corporation.

At Melbourne International Airport, a 5000 square metre cargo terminal has been constructed.

This terminal was developed by the FAC, prior to the sale of the airport to APAM. Its leasehold has been taken up by BOC Cargo Services, a new entrant to the Australian Cargo Terminal Operator (CTO) industry. The terminal has no direct landside/airside access, although it borders the airport; to render it airside-accessible will involve extensive civil works.

As previously mentioned, international cargo facilities at Melbourne Airport are inadequate. There is, however, considerable room for expansion, but it can only be achieved at vast cost. A 'Freight City' was first mooted by the FAC in 1992 and to date only one element, the BOC Air Cargo Services Terminal has been constructed.

Sydney KSA is severely congested, in the air and on the ground. With the Environmental Impact Statements of alternate airport sites reaching indeterminate conclusions it is clear that KSA will remain a national gateway; FAC has, on several occasions cited the airport as having a *"....a 20 year planning horizon...."*.

Sydney KSA attracts 59 airlines whilst Melbourne has 31 passing across its terminals. Although south eastern Australia is the nation's manufacturing and perishable product base, the majority of time sensitive air cargo (largely underfloor) exits the country via Sydney.

This traffic itself places much of the cargo at some sort of risk; tales of precious cargo remaining on the hard stand at Sydney following transshipment from Melbourne are legend. The episode of the vital part of Japanese Crown Prince Naruhito's wedding feast of high quality abalone and crayfish basking in the sunshine at Sydney Airport in 1993 still rankles export-wise Australian seafood producers and processors. The shipment was left behind, following transshipment from a domestic flight from Melbourne to Sydney.

Inadequate cool rooms and temperature controlled facilities at both Sydney and Melbourne have provided long term frustration for horticultural, agri-business and aqua-cultural producers.

Despite the easing of many regulations, attempts to gain access, declarations of access and other instruments of change, the air freight industry largely remains inhibited by outdated, congested facilities and associated work practices.

## ***Bilateral Air Services Agreements and The Air Freight Industry***

With such a heavy reliance on underfloor capacity of passenger aircraft Bilateral Air Service Agreements and associated rights are of particular significance to the air freight industry. For maindeck or dedicated freighter operators however, the separation of this industry sector from the bilateral agreement arena has been of some benefit to exporters, as inclusive charters from Australia to certain destinations can be mounted without impacting on the status of existing agreements apart from Japan and Hong Kong.

Australian exporters and, for that matter, its flag carriers Qantas and Ansett, rely on foreign registered aircraft for maindeck freighter service. Qantas wet leases both Evergreen and Gemini aircraft on a regular basis, whilst Ansett elects to use, on an ad hoc basis, narrow bodied aircraft from DHL and Southern Air Transport, and for a specialist and occasional heavy uplift market, aircraft sourced from the CIS.

A Queensland based start-up airline appears to be the only operation planning to use Australian registered maindeck freighters.

In embryo stage, this airline is expected to take some time before becoming operational. Over the past few years, some international air freight operations have been undertaken in and around the near Pacific Rim using depreciated aircraft; both endeavours failed.

There seems little prospect of an Australian based international all-freight airline becoming operational in the immediate future. This being the case, the sourcing of maindeck freighters for both inbound and outbound freight resides with foreign carriers.

Key destinations with 'Open Skies' or at least 'liberal' regimes include Singapore, Bangkok, Manila, Subic, Clark and Kuala Lumpur. Shanghai is liberal and as an emerging market imposes a reasonable requirement that traffic must substantiate commercial imperatives for the region.

Dubai, Bahrain and other Gulf ports are 'open for business' and Guam, on the Pacific Rim also enjoys Open Skies status. In the Indian Ocean Mauritius is also an open sky hub for southern and East African Europe bound traffic.

Although with the immediate promise of the multi-billion dollar Chek Lap Kok opening near Hong Kong's Lantau Island in July, the former British Colony's skies remain restricted and indeed appear to be so for some time.

Japan has the most rigid restrictions. The recent re-jigging of the US-Japan bilateral agreement has resulted in the latter achieving parity with the former. Both participants in the accord now have two passenger carriers and one cargo airline as designated carriers. Prior to the new agreement America had three designated airlines against Japan's one.

The fallout of this unique arrangement is that American now has unlimited rights to exercise the fifth freedom of flying from the US to Japan, picking up passengers in Japan for on-carriage to destinations such as Australia.

In addition to these benefits won by the American carriers, it is believed within the Industry and also within the European Commission, (who assisted the Japanese Transport Ministry in engineering an increase in the number of movements at Narita) that the American designated freight carrier Federal Express, will be permitted to sell some of its unused freight slots to non-designated US freight airlines, much to the ire of the Europeans.

Japan, even in straitened economic times, remains a key destination for Australian high yield perishable produce. Much of this product originates from south eastern Australia. Tasmania, Victoria, the Riverina and a large part of South Australia depend on Melbourne as an air freight hub for export.

Most capacity however, from Melbourne is underfloor dependent and a majority of air freight has to be trans-shipped in Sydney to meet the high yield destinations that include, Japan, Hong Kong and even now, in times of economic hardship, Korea.

This freight movement relies largely on domestic capacity to reach Sydney. In many instances palletised freight programmed to be uplifted from Melbourne in Airbus or B767 for Sydney trans-shipment to overseas flights is not shipped because last minute changes to schedule result in smaller aircraft being utilised.

Whilst these episodes do not reflect the effects and implications of bi-lateral agreements, there are indications that more work needs to be done to attain more direct connections between Melbourne and key overseas ports.

The reality to be faced however, is that in Australia negotiating bi-lateral rights for air services, as the former Prime Minister of the country is alleged to have said, Australia is at the 'other end' of the world.

This situation has to be accepted as a geographic and trade reality. With major airlines, including our 'twin' flag carriers developing 'alliances' and 'arrangements' and with the resort to code-sharing being the only option to effectively engage respective markets, Australia must develop some 'smart' strategies to make use of the freight capacities available to it.

Japan, Hong Kong and Shanghai would be more than significant destinations for maindeck freight traffic if rights could be negotiated. These locations, once reached ex-Australia, position dedicated freighters for the 'run' back to the US with high yield freight capacity taking up existing rights which are negotiable or in place, vis a vis, the recent north Pacific US-Japan accord.

Sadly, landing and 'slot' rights into major Japanese ports are beyond the existing International Air Services Commission's jurisdiction for maindeck flights ex-Australia. The Hong Kong resistance to traffic rights liberalisation is another issue requiring resolution. The opening of Chek Lap Kok with its wide-bodied aircraft launching pad

to Europe represents a very real threat to the traditionally British-Australian owned 'Kangaroo Route'.

Chek Lap Kok's opening plus newly developed navigation and communication aids across Russia, (which will also benefit traffic transiting Bangkok) will cut valuable time from the east Asia Europe sector; in fact it will deliver great advantage over the much vaunted Australia-Singapore-Europe leg.

It would appear competitive-edge negotiations need to be mounted and maintained in this vital arena to realise Australia's time critical export ambitions.

More measured effort needs to be applied to the Hong Kong and Japanese authorities to grant maindeck traffic rights to operators exiting Australia. This traffic represents no real threat to existing capacity over the respective routes with liberalisation providing opportunity for Australian producers of time critical perishables and specially manufactured goods.

### ***The Avalon Viewpoint***

Although the Australian flag carriers, Qantas and Ansett have responded to the Asian economic crisis by suspending and rationalising services into the region and redeploying their rolling stock to other destinations, other overseas carriers are increasing services into Australia.

Both Singapore Airlines and Cathay Pacific have increased frequencies into Australia as has Gulf based Emirates Airways. Economic analysts, BIS Shrapnel, in a recent survey have suggested that food services will be the first export markets to recover following the so-called Asian economic 'melt-down'. The company also warned that Australian food service companies are at risk of losing market share to Asian and European competitors unless a commitment to export is renewed and maintained.

BIS-Shrapnel also claims that the Asian crisis bears resemblance to the economic collapse that effected Mexico some years ago. The company's experts have cited the performance of the Mexican economy which turned around very quickly. Their view is that there is the probability that the stricken Asian economies will perform in similar fashion.

The experts from BIS-Shrapnel also pointed out that the Canadian and American companies that quit Mexico during its troubles lost market share to those who remained.

In company with these views there have also been observations made by trade experts that recovery in the region will be export growth driven by countries seeking to gain hard currency from the US, Europe and the Pacific Rim.

Although the full impact of the Asian economic downturn may not have yet been felt in Australia, there are indications that recovery in the region will be swift when it returns.



With an outstanding competitive edge, Avalon Airport Australia is ideally placed to support, with cost saving process, handling and turn-around facilities for main-deck air freighters.

To support south eastern Australia's drive towards the expansion of export markets, Avalon Airport Australia Pty Ltd submits that any future International Air Service Agreements be negotiated from the position that main-deck freight aircraft traffic rights be maintained on a separate level from that of passenger rights.

Despite efforts on the part of the Victorian State Government, producer, manufacturing and export bodies and a fresh competitive stance by now-privatised Melbourne International Airport to attract more capacity to Melbourne, the short-fall in uplift by passenger aircraft remains.

With a more liberal edge to main-deck air freighter traffic rights, particularly with the key destinations of Hong Kong and Japan, a new dynamism could be provided for the high yield time-critical perishable export markets as well as for the Just In Time (JIT) export flows of manufactured goods.

The attached communication (to be forwarded in the mailed copy) from an aquaculture company spells out, not only the problems, inadequacies and anomalies that impede the export freight flow by air but the benefits that could be won with the enhancement of existing main-deck traffic from Australia to key markets.

In conclusion, Avalon Airport Australia Pty Ltd, in responding to the terms of reference and its issues paper, of the International Air Services Inquiry by the Industry Commission, calls for the opening of all skies to main-deck freight aircraft streams.

We trust our submission assists the Commission's deliberations on this most important issue. We encourage the Commission to approach us in regard to any matters arising from this submission

*Avalon Airport, Melbourne  
February 1998*