

INDUSTRY COMMISSION

INQUIRY INTO INTERNATIONAL AIR SERVICES

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

TRANSCRIPT OF PROCEEDINGS

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PROF SNAPE: Good morning and welcome to this public hearing, the Industry Commission public inquiry on Australia's International Air Services. This public hearing in Melbourne is the first in two sets of hearings. The other is scheduled for Sydney next week. The hearings are designed for people to raise issues they feel affect this industry. They give people the opportunity to provide input into the draft report which is due to be released early in June this year. These hearings are in addition to the extensive round of visits already undertaken by the commission and the 20 or so submissions to the inquiry which have been received already. While people who provide information are protected in this inquiry as if they were giving evidence to a court, this is not a court of law. We shall try to make the hearings as relaxed as possible. However, there are some formalities which we try to follow each time we conduct a public hearing.

First, for the benefit of a transcript we ask participants to introduce themselves and to indicate in which capacity they appear. I'll come to that in a moment. 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 their answers to any questions. If there's any doubt about the accuracy of anything that you might say, then would you please tell us that you're not absolutely certain and then we'll try to come back and get it verified one way or another. Finally, transcripts from today's proceedings will be provided to all participants at the hearings. Anyone else wanting to obtain a copy should contact the staff, many of whom are present here, who will be only too pleased to assist you. They're wearing name tags to identify them. Let me introduce my colleague on the right, Helen Owens, who is the other commissioner on this inquiry. I think probably now we should get started and Simon and Bryan, I wonder if you would like to introduce yourselves for the transcript first of all.

MR WARRANDER: Thank you, Prof Snape. My name is Simon Hamilton Warrander. I'm company secretary of the Australia World Airways Holdings Ltd and director of Australia World Airways Pty Ltd.

PROF SNAPE: Bryan?

MR PALMER: Yes, my name is Bryan Palmer and I'm a director of Australia World Airways.

PROF SNAPE: Thanks very much. We've read your submission and of course we had a chat earlier with you and we would now ask you to indicate what you think are the most important parts of the submission - but basically over to you now.

MR PALMER: I think probably one of the important aspects of this is the function of the International Air Services Commission and the processes which they go through to really regulate the international air industry. We put in a submission to them some - I suppose in about 1992 we put in our first submission and we did another submission in 1993 which was probably really the formal submission that we sent to the International Air Services Commission. This was a very exacting process

and I must say though that the International Air Services Commission I believe function extremely well. The one difficulty we have probably is with the time that it takes and the inordinate detail one must go into in order to satisfy the commission that the applicant is capable of performing a function of an international airline.

We had to submit, I suppose, three or four editions of the submission that we made to satisfy various queries that had been raised by the commission and then we were given the opportunity of addressing the commission to discuss the details of the application. We did this really because it was becoming a very difficult process for us to get approval, in view of the fact that we were finding the funding of the airline very difficult to achieve and one of the difficulties that arose from this was the fact that before we could obtain approval from the commission we had to have the funding and when we went to funders they said, "Before we can look at your application we need formal approval from the commission." This was probably one of the major difficulties, we believe, that exists in making an application for international airline service.

After a very long period of time - I think about 4 years elapsed that we were able to persuade them that we should get our approval subject to finance and I think that the commission considered this. There was another applicant though and that made it difficult because they said, "Look, it's very difficult to determine whom we should give the licence to because there are two applicants, neither of whom are financed." So then we had to get together with the other applicant to more or less amalgamate with them and then ultimately having achieved that, we achieved the approval, subject, as I say, to us obtaining finance.

Because of the elapsed time and a lot of things had happened in between our original application and the approval that we ultimately obtained, the financing became more difficult. A lot of things had occurred in the airline industry. Finance generally, I think, in respect to airlines, had tightened up considerably and I think we probably missed a few opportunities to obtain the necessary finance. We're now in the process, I might say, of doing that and we're in discussions with a financier at this time but it has been a very long and tedious process. I would say this: that the function of the commission appears to us to be one that - they've got to take great care on to whom they grant a licence and it seems to me that the main function is to ensure that the applicant is capable of fulfilling all of the requirements set down under the act.

These are quite complex and the act itself is quite complex and fairly demanding and you've got to satisfy them that it is going to be of public benefit and that public benefit goes into all manner of things like trade, tourism, benefit to the industry here and a whole host of things that one must satisfy the commission, and it seems to me that is rather perhaps very much a protective mechanism to ensure that any approval is given to someone whom the government is going to be quite confident is going to be able to fulfil its obligations. But it does, I must say - whilst I think of that as a very worthy objective - make it extremely difficult for applicants to satisfy all of the rather stringent demands that are laid down under the act. I think I could not in any way complain against the way in which the commission handle applications. I think they

do it with great integrity. They do it with, I think, considerable sympathy towards the applicants but they are constrained by rather demanding legislation.

I would say that as far as we're concerned, that our dealings with the commission have been on very good terms but because, as I said, of the nature of the legislation, it is inevitably a very, very slow and frustrating process. But as I say, that is in no way a reflection of the way in which the commission carry out their functions. I think they do that very well but it does rather concentrate - perhaps by virtue of the legislation it seems to concentrate very much on being terribly sure that the applicants are going to be able to do all of the things that are set down under the legislation and there's not too much commercial risk taken in that at all. That was one of the difficulties, I think, with which we were faced.

PROF SNAPE: Thank you very much. Simon, is there anything you'd wish to - -

MR WARRANDER: I would just like to follow up on Mr Palmer's comments and say that we were again very pleased with our dealings with the commission. I think if I could add, during the determination process we were afforded every opportunity to approach and consult with the commission under I think what they term their predetermination process which allows for public hearings and predetermination conferences. We are in a situation now where we have a conditional determination - conditional on Australia World Airways satisfying funding levels set by the commission. We are well down the track in achieving that. I think for my part what I would like to add briefly to what my colleague is saying in terms of our public hearing submission, we felt it necessary for Australia World Airways to cover really only the points that were relevant to us as a start-up carrier involved in the licensing process. That is, our dealings with the IASC.

There was one other aspect which we felt we could talk about briefly at this hearing and that was any commercial implications that we felt relevant at this stage. Of course, as an international operator operating out of Australian airports, we needed to satisfy ourselves that there were no overt barriers to entry for us operating out of those two service points. As we've said in our public hearing, duty of care, we discuss in point 6 airport access. We have satisfied ourselves that as a potential start-up carrier in the international air services sector that we will be afforded all the necessary infrastructure at Melbourne and Sydney airport in which to deliver our product competitively to our potential marketplace and of course for a start-up carrier, in fact for any carrier, that is vitally important.

I think as far as our future operations are concerned, at this stage we are particularly happy to have the opportunity to present at this public hearing and in light of the document we presented, I trust that we've covered relevant topics that will help the Industry Commission with their inquiry. Thank you.

PROF SNAPE: Thank you very much. It's a very helpful submission and thank you for those explanations. It's interesting to hear that despite your long wait you're still

speaking well of the IASC and the process. You have a great deal of fortitude, I suspect.

MR PALMER: If I may interrupt you, as I said before, it did become a bit frustrating but we don't blame the commission too much for that and it seemed to me that the commercial considerations bore down heavily upon us but it didn't seem to apply too much to the processes of the legislation and I think that was a problem.

PROF SNAPE: Thank you. I wonder - the routes that you were applying for was, as I understand, shelf capacity. It was routes which were already available and which weren't being used. I understand that there were at one stage two enterprises wanting to use that but then you solved that by amalgamating. I wonder if you'd like to comment on why you think it was still necessary, if you like, for this process to go ahead; why approval couldn't be given much more quickly in principle. I'm just trying to look at the principle of this. In this case where there was shelf capacity available and only one party seeking to use it, what would you see as reasons for going through a lengthy process in those circumstances where you entering was not keeping anyone else out; it wasn't being used; it was a capacity available. Why not just go ahead and approve it?

MR PALMER: Yes, I agree. I think that the process is a bit tedious. I personally believe that if you have an organisation, a reputable organisation - and I mean, the bona fides of the organisation and people concerned can be checked very easily - and if the capacity is available, then I think providing that the applicant proves that they are going to meet all of their obligations in relation to safety of the operation and that they can finance the operation satisfactorily so that they aren't going to go broke, you know, within 6 months and create all the problems that an international airline can create, then I think the process could be simplified quite considerably.

I think what really tends to happen is that they are really sort of prejudging your commercial judgment and I think that one should be allowed to take a fair commercial risk and providing, as I say, the organisation and the people in it meet the standards that I've suggested, then I think there shouldn't be too many difficulties placed in the way to opening a business. I do see the point, however, that as an international airline, that you could damage the reputation of the country if you didn't perform satisfactorily but I believe that there are already mechanisms in place through the department to ensure that that can't happen.

PROF SNAPE: Thank you. I would say that in asking that question I wasn't meaning to advocate a position but simply to elicit a point of view.

MRS OWENS: I was wondering whether you had any idea about how much it would have cost you over the 4 or so years to actually go through this process. Have you got any idea of how sizeable those costs would be?

MR WARRANDER: Yes, from inception we nominated a time-frame and this really actually connects with the comments that Bryan was making about the timing of

the process. When we put in our first application we had a start-up budget. We had a critical path of issues we felt we had to cover and also we had a nominated budget. To really answer your question directly, we are an unlisted public company. It's public information that we have spent roughly \$1.2 million to date in formulating our business plan, obviously keeping Australia World Airways as a commercial entity afloat and meeting the costs necessary of starting a project of this nature. So really that is the amount that we spent to date in supporting Australia World Airways.

MRS OWENS: But some of those costs you would be incurring anyway and I suppose my question is really how much do you think it has cost you to actually go through these processes and as well as that you've had the Civil Aviation Safety Authority processes as well. Has it been a very expensive exercise for your company?

MR WARRANDER: I think it has been an expensive process. When one is starting a project, obviously there is no revenue. Any company where there's no revenue, there's expenses to be met. In terms of the itemised costs one could accrue to proceeding through the International Air Services Commission process, obviously the major one is without a business plan we obviously wouldn't qualify in any way of being reasonably capable of starting an international airline. I think it's no secret the costs of supporting financial consultants or securing the services of financial advisers, aviation advisers and the broad range of people and organisations needed to support a business plan of this nature is particularly expensive. I would have put a cost of around 350 to 400 thousand dollars just on that process. So that again could be attributed as a direct IASC process cost.

Then on top of that course there's maybe a travel component between ourselves and the commission and also the salaries and consultancy fees we had to cover to bring the necessary people together to support the process.

PROF SNAPE: You're including your own time and the directors' time in that?

MR WARRANDER: Well, not really. As I said, we are starting a project and a lot of the people who have given us a great deal of support over the years have given their time in full for basically no cost.

PROF SNAPE: Yes. I suspect that may be where the major costs are.

MR WARRANDER: Well - - -

MRS OWENS: The hidden ones, yes.

MR WARRANDER: Well, I think so. When I talked about the figure before that, that is an actual figure of cash that has gone through the Australia World Airways and obviously, as you say, there are costs which are hidden in terms of the directors' salaries and others.

MR PALMER: I might just say this: the directors were not paid, not were any of the staff that we had helping us at that time. It was on a voluntary basis. So the others were really basic administrative costs involved in maintaining an office. I mean, you've got rent and you've got telephone, communication costs, all those sorts of things which over 4 years become quite a significant factor. So those costs that are mentioned are basically - certainly, if we got outside consultants and people of that nature then of course they have to be paid. But internally there were no salary costs. So it does show you really that the costs of the process were quite high.

PROF SNAPE: When would you have been able to start flying if approval had been, if you like, immediate?

MR WARRANDER: In terms of our pre-start up operations we have always envisaged that we would need between 6 and 8 months from date of licensing and funding to start. So I would imagine if one takes into account the completion of the IASC processes, maybe a time-frame for finalising one's funding and the prestart of setting in place the necessary infrastructure in which to commence commercial operations, I would think probably a 12, possibly 18-month time-frame - more like 12 months.

PROF SNAPE: From your initial application?

MR WARRANDER: I would imagine. I'm sorry, initial approval.

PROF SNAPE: Initial approval, okay.

MRS OWENS: Is there any part of the process that you went through that you think was unnecessary? Could you make any suggestions of - you're in quite a unique position to be able to make suggestions about how you see the process being streamlined. For example, apart from what the IASC itself was doing over this 4year period you also were going through other regulatory processes such as CASA, getting safety approval, and I don't know whether there's any duplication between those processes, for example. But is there anything you could suggest that could be done better?

MR WARRANDER: I might get Mr Palmer to comment on that particular question. But as far as CASA is concerned we went through the processes necessary to demonstrate to the commission that we were reasonably capable of being able to commence commercial operations and being licensed. As part of that, although we didn't apply formally for the necessary licences through, for instance, CASA, we of course had to demonstrate that we had the capability to apply for those licences and once applied carry through and be granted the licences. But maybe on your general question I might ask Mr Palmer if - -

MR PALMER: Yes. I don't think there's too many problems regarding the regulatory requirements because I think they're rather essential that there's set procedures. I think they have streamlined those pretty well. I personally believe that

should be undertaken. I think it's very important. I think the difficulty arises in the processes of the IASC of the whole - the extent to which they must examine the airline's application. They actually have to make a determination whether they believe that it is a good, sound business proposition. I think that's rather unusual for someone going into business that someone else has to determine whether you're going to be a viable operation.

But they're required to do that. I'm not saying that they're throwing difficulties in the path of an applicant. That is a requirement to prove that it's going to be a viable operation. I think if you have a responsible board of directors and you have established a business plan which they believe - which I mean, after all, any good business has got to have a business plan - that that is a good proposal, a good business plan; in other words, that the business knows where it's going. But it takes a long time, they examine every syllable of every application. Our business plan would have been when we finished up with the requirement - we did several of them - was a bit like the unabridged edition of Churchill's War Memoirs actually. It goes into such enormous commercial detail on the operation of the business. I think that could be streamlined. That is the one part I think that could be streamlined. I think the other process, as I say, regarding your technical competence is an absolute requirement and must be fulfilled.

MRS OWENS: But the people looking at the technical competence weren't necessarily second-guessing what the IASC was doing as well.

MR PALMER: No. They were looking - but what the IASC did require that in fact that you had satisfied those requirements, before they gave approval, that you had actually satisfied the technical requirements of the department - I mean CASA - to prove that in fact you could get an airline operator's certificate, an AOC. That, I might say, is a very long and expensive process. I suppose to get an AOC - and we haven't got ours yet but we've gone a long way down the track to doing that - costs around about \$400,000. So it's a pretty costly business doing that and you incur a lot of costs before you can get off the ground.

PROF SNAPE: I wonder if I could ask two or three questions which are related to the written submission and the first one would be on page 3, about two-thirds of the way down where you've got reference - it's in the longest paragraph on that page - to:

The governing minister's statement stated that under-utilisation of capacity was not in the public interest and gave leverage to an allocation of capacity on a code share basis.

Could you explain what that is please?

MR PALMER: Yes. An example of this was, say, on the Netherlands route where we had applied for what we believed was a viable proposition of operating two services per week into Amsterdam. But there was still a capacity available for another two services. We believe that in the initial stage we could not put up under the terms

of the requirements of the IASC through the legislation a viable proposal to operate four services a week into Amsterdam from the outset. But we did indicate that after getting established and building up air traffic that we would eventually take up that extra capacity. In the meantime the minister made the statement that any under-utilised capacity should be taken up by someone and Qantas then made an application in conjunction with British Airways to code share on the route from Australia to the Netherlands.

That immediately removed - that unless under the ASA they were going to increase the capacity on the route, it meant that effectively blocked out any future opportunity that we had of expanding that operation. They did this really, as I saw it - as I understand - without any actual increase in the capacity themselves. All they did was formalise an inter-line agreement which they had with British Airways to operate Sydney, London - or Australia to the UK and then the UK through to the Netherlands. It didn't really increase the capacity, but it did, in effect. Following on the statement that that capacity wasn't in the interests of Australia to have that capacity under-utilised, it did in fact close off a route completely without increasing the capacity on it. That was the way we saw it anyway.

PROF SNAPE: Code sharing on British Air presumably meant British Air was using less of its capacity.

MR PALMER: No, it really meant that British Airways was just using the same capacity that they had between London and Amsterdam and Qantas were using the same capacity between Sydney and London. I'm not saying there's anything nefarious in that at all, I'm just saying that was a good business deal for them because whether it was intentional or not, it did effectively close out any future increase in capacity utilisation by us in the future when we got on that route and wished to expand our services - unless, of course, they changed the airline services premium.

PROF SNAPE: Yes.

MRS OWENS: I suppose that could cause problems for you in the future as more code-sharing arrangements are put in place if you want to go into other routes in the future. I don't know whether that's something you plan to do, if you plan to go and take up other routes at some future date but that will be an ongoing problem, I presume.

MR PALMER: It will. Yes, if code sharing of that nature closes out the capacity on a route without the opportunity to expand on the route by closing of capacity merely through a code-sharing arrangement - look, some code sharing arrangements are excellent. It's just really the way in which they're applied. I think that needs to be very carefully monitored and guarded in order to protect the capacity for Australian carriers. I suppose if you look at it in the way that the Australian carrier didn't increase its capacity on a route, and other Australian carriers therefore were denied the opportunity of increasing that capacity by those circumstances, then I suppose

code sharing under those conditions could be considered unfavourable. However, it's a commercial consideration by the carriers concerned.

PROF SNAPE: Good. The top of page 4 I got a little bit confused, no doubt because I'm coming to this fairly new - confused between the start up of the incumbent and new entrant, the points that were being made in the top two paragraphs there:

Clear provision should be made to cover the interests of a 'start-up' airline regardless of whether an allocation of capacity has been made in favour of start-up.

The point that you were making there and in the next paragraph:

In certain capacity determination circumstances a start-up airline can be deemed an incumbent.

That point I got a bit lost on.

MR WARRANDER: I could shed some light on that.

PROF SNAPE: Thank you.

MR WARRANDER: We made this point purely as it was our interpretation as a - outside the terminology of the act we are what we're calling a start-up airline, that is, an airline that hasn't operated bilateral capacity and is yet to start. In terms of the act, the act makes reference to, as we see it, incumbent airlines and new entrant airlines. Those two terms vary, depending on the status of the particular carrier, in terms of the determination within a bilateral route. A start-up carrier such as ourselves can become an incumbent carrier if we have had a determination in favour of us as a start-up, if there a spare capacity which is under determination by a second airline. So we make this point really just to cover an interesting situation which we, as a fairly unique player in these circumstances, felt was worth covering.

MRS OWENS: I suppose it's a question of when is a start-up no longer a start-up?

MR WARRANDER: Exactly. The other thing I think we need in the last round of determinations - this really impacts on to the casting into the future. If we are deemed an incumbent carrier in terms of a bilateral - a determination for bilateral capacity, we probably would not be covered by what is called the start-up criteria upon the expiration of that determination. That perhaps for a start-up carrier has implications because upon commencement of operations we need to - it's our requirement to secure long-term debt capital. If we are looking at really, as a start-up, operating a licence with a relatively short time-frame, it may cause difficulties to negotiate an equitable long-term financing package. So hopefully that - -

MR PALMER: I think the other problem arises also in this is where the incumbent carrier; that is, it could be a large carrier like, say, Qantas, something like that, they suddenly become a start-up carrier, I believe under these circumstances if they're applying for a new route. I think that was our problem too, wasn't it?

MRS OWENS: They're classed as a new entrant.

MR PALMER: They're being classed as a new entrant and if we're already on that route we're classed an incumbent on it, even though we're the new entrant on the route and they would have an advantage over us as a start-up carrier, even though they've been operating for 75 years. So that's where the difficulty arises.

PROF SNAPE: I guess though, what it is, is you want start-up in fact to be interpreted as a start-up airline.

MR PALMER: Yes.

PROF SNAPE: Which of course then, if it were to be interpreted that way, might give rise to some interesting subsidiaries of existing airlines.

MR PALMER: That could be covered, I think.

PROF SNAPE: Yes, we take the point. Thanks for that elaboration. On page 5, if I may refer to where you're talking about the funding under this subheading 8(1) on the funding there and you've got:

The aviation industry model should give consideration to allowing start-up airlines to adopt higher levels of foreign investment.

That runs into problems with bilaterals, doesn't it?

MR PALMER: Yes, I think that we put a last paragraph that we did realise that ran into problems because the receiving country might consider you are not an Australian airline.

PROF SNAPE: Exactly.

MR PALMER: I suppose there would be some financial mechanisms which could be put in place. I suppose if they were non-redeemable preference shares or something of that nature where there was an expiration of the time eliminated that interest and either turned it into loan funds or something of that nature, one could overcome the problem but it is difficult because to get funding for an airline in Australia is nigh on impossible and there's not a lot of venture capital here I believe at this time, but particularly for an airline. I think probably we get thrown up at us here of course the two Compasses. That's why one has to go overseas for it and then that creates difficulty because if they're going to put a substantial amount of funding into it, they want to have some interest in the airline.

PROF SNAPE: Debt is not enough. You need equity to get it?

MR PALMER: Yes, I think they want the protection of equity and the benefits of equity as well as the benefits of loan funds, but they do want the benefits of equity and it becomes rather difficult. Also, you know, you could become involved with another airline, I suppose, and 25 per cent is difficult. They say they want a little bit more interest in it to protect themselves so those things do make it difficult to start up an airline because finance is extremely difficult to obtain for an airline.

MRS OWENS: I was going to raise an issue that you mentioned on the previous page, on page 4, relating to airport access, and you made an interesting aside that:

The privatisation of Melbourne Airport will offer the airline added advantages to use terminal and other airport facilities.

I was wondering if you could expand on that comment as to what difference the privatisation is actually making or will make in the future?

MR WARRANDER: That comment was made really to highlight - we have met with Melbourne Airport, the operators of Melbourne Airport, and we have obviously had - given the amount of time we have been seeking a determination we have obviously talked to the previous operators of Melbourne Airport, both of which have provided us with and afforded us a great deal of support and time and of which we're greatly appreciative of. Obviously the airport as a distribution point for our product is of vital importance and I think that point was made in our submission really just to highlight that the current operators of the airport, as new operators of a business, are particularly keen to encourage utilisation of their business by new or existing viable operators. We've met with them on a number of occasions and they are particularly keen to work with us along those lines, especially as we will base our operations in Melbourne. It's obviously an advantage to us to have such a fine facility in Melbourne Airport.

MR PALMER: We also must be able to ensure us access to facilities that we don't get inferior services out there to other carriers because we are going to - we're obviously not going to have our own staff. We will be subcontracting aircraft handling, catering and things of that nature so we would want to ensure that those were readily available to us even though we were in competition with the people who have to supply some of the services to us.

MRS OWENS: What are you doing about maintenance? I think we discussed this when we had our earlier visit from you. Are you being required to get maintenance done through the competitors or are you going offshore for maintenance - this is maintenance of the aircraft.

MR PALMER: Yes, we'll be contracting this out obviously and we'll be looking for the best arrangement, the best costs arrangement and the most satisfactory standards

that we can possibly get. We've budgeted a very substantial amount for every flight for the maintenance because that takes up the progressive, you know, heavy maintenance which an airline must take on periodically. So it really depends largely on the sort of contractual arrangements that we can make. We would certainly hope that we could get this done in Australia. We would like to have it done here and we have had some preliminary discussions and I think you'll find the suppliers here like the two airlines probably do operate these as cost centres and we would therefore expect that we would probably be able to get a satisfactory arrangement here. That's what we would hope for.

PROF SNAPE: Just picking up on the point on the contracting in general - I don't mean maintenance specifically. I mean the things that you were talking about in general. Have you had any reaction from the Air Services Union in relation to that or have you discussed it with the union in relation to that?

MR PALMER: No, we haven't. The simple reason is this: that we believe - and I think this is reasonable. I've had a fair amount of experience in the commercial airline industry and I think that if we are subcontracting this out to people, to organisations, I mean, say take maintenance and catering - we could well be subcontracting those out to Qantas or to Ansett or to someone already in the business, so it's not like as if we were operating and then taking that out of our system and putting it out to a subcontractor and therefore affecting the staff that we had employed. We haven't employed any staff so therefore it should be of benefit to the members of the union if we were giving additional work to those areas where the union already had their members employed.

PROF SNAPE: We are having the unionists coming to speak to us this afternoon. We have a submission from the union, and of course in that submission they are not too keen on contracting, but they don't address the question in their submission of new entrants.

MR PALMER: No. As I say, I think or I hope we're protected largely by the fact that it's not as if we were destroying the employment of existing employees by taking it out to another organisation. I think if we start off on that premise in the beginning we're on fairly safe ground.

PROF SNAPE: I think I've exhausted the questions that I noted and I think that Helen has too, and so I just ask you if there's anything else that you would like to add in view of the discussion that we've been having.

MR PALMER: I really don't think so. We appreciate the opportunity to address the commission. The situation at this stage, of course - it's difficult for us to go into great detail because we haven't got the operating experience at the present time. I hope that you didn't think that that was treating it too lightly in the rather small submission that we put to you. No doubt if it had come at a time perhaps when we had operational experience for a few years it might have been different. But what we've addressed is really those matters that we see that have a very profound

influence on us at the moment, such as the regulatory arrangements through the International Air Services Commission. It's been a hard process - I don't want to underestimate that - but we certainly don't want to make any adverse comment about them because they've handled us very well within the framework of legislation.

The code-sharing was a problem to us and I think we've explained the way we see that operating. The airport facilities, as we've mentioned here - we just want to make sure that those are going to be readily available to us and there's not going to be any competitive action taken against us, that it would interfere with our effective operation of the airport. The other one was the financing arrangements, which we've found quite difficult. Some liberalisation in that area would certainly assist us. But those really are the main issues at this time.

The contracting arrangements are yet to be dealt with but, without wasting your time, I should mention that we have done an extensive amount of work in talking to people all along the route - at alternate airports and all along the route that we propose to operate. We've spoken to pilots and prospective pilots, prospective flight attendants. I might say we've been deluged with applications from people. We have something like 600 people. It must be because we're such nice people; they all want to work for us.

MRS OWENS: No, it's because you're going to be based in Melbourne.

MR PALMER: Yes. Humility prevents me from making any further comment about ourselves. But those matters are well-advanced, and on the contracting arrangements we've already had quite a number of preliminary discussions and communications with people in that respect, and we don't see at this stage any difficulty in that. We've taken great care in those matters because we have a few people who have quite a lot of experience in the aviation industry working for us, and I think that's one of the virtues of our organisation. Thank you.

PROF SNAPE: Thank you very much. Simon?

MR WARRANDER: I would just like to thank the Industry Commission for allowing us as a fledgling start-up airline the opportunity to present to what we feel is a very important inquiry into a very important industry sector. I concur with what my colleague said about the International Air Services Commission. Thank you very much.

PROF SNAPE: Thank you very much. It's of great advantage where people speak about the areas in which they have particular experience. Your experience in knocking on the door for such a long time is unique I think, so you can give us a perspective that others can't and we're very grateful for that. Thank you very much for your participation both in the submission and in appearing today to talk to us.

Next on the agenda was Tourism Tasmania, who have decided not to appear today. We then were planning to have morning tea and then the South Australian

government. We could break for morning tea. It may take a little time. I think if we could perhaps resume at 10.15.

PROF SNAPE: We shall resume our hearing. We now have the South Australian government. John, I wonder whether you would identify yourself and who you are representing for the benefit of the transcript, thank you.

MR EVANS: Certainly. Good morning everybody. My name is John Evans. I'm the manager of policy advice and strategic projects with the South Australian Tourism Commission. I should add a rider that I'm actually here representing not only the South Australian government interests in this inquiry but particularly the author of the submission that's been put forward by the state of South Australia, Mike Milln of Transport South Australia. Mike unfortunately is currently on compassionate leave in the UK and is not expected back until later this month. I must perhaps add a rider that, whilst I may not be across the fine-grained detail that Mike as the author of the report may be, I'll certainly endeavour to answer questions that people have this morning, and if it's appropriate, Richard, to perhaps take some advisement and come back to the commission in due course.

PROF SNAPE: Yes, certainly, John. Thanks for much for that and, yes, we are very happy for you to go back and check things out so that we can get things as accurately as possible, of course. Would you like to begin by speaking to the submission?

MR EVANS: Yes. Can we say first of all that we certainly applaud the Commonwealth's initiative with this particular inquiry and in particular the opportunity for South Australia to make submission to this particular inquiry. South Australia and Adelaide in particular, we would see ourselves - or Adelaide - as being a very significant secondary gateway airport in the Australian context. We defer to Sydney, Brisbane, Melbourne and Perth in terms of being primary points of entry into Australia but we certainly see ourselves as being a very significant secondary gateway in the scheme of things, probably along with places like Hobart, Darwin, Cairns and possibly Broome, to name some.

What we would particularly draw the inquiry's attention to from South Australia's point of view is what we see as the fragility of the Adelaide and the South Australian market. The Commonwealth has the potential to greatly influence outcomes where Adelaide and South Australia are concerned. Whilst we are perhaps a comparatively small player in the scheme of things, there are elements that can occur - I guess I'm talking here particularly about - on the one hand the Commonwealth have indicated that they're seeking to spread the benefits of international air access more widely throughout Australia and yet there are probably some aspects of bilateral negotiations and agreements that inhibit international carriers from contemplating using Adelaide in some particular fashion.

I guess we're looking here at the relatively high opportunity costs of international airlines looking at, from a commercial point of view, the attractiveness of Adelaide being a secondary gateway. What we're suggesting in the detail of the report that has been submitted to the inquiry is that if we can't look in the short term at removing limits on capacity, then perhaps more realistically making capacity

available specifically for use at secondary gateway airports - and I don't limit that to Adelaide alone but in fact to perhaps a multiple of secondary airports - without the necessity to look at any, or at best, perhaps minor benefits in return on a reciprocal basis.

There are sometimes some economies of scale and a commercial attractiveness in giving international carriers the opportunity to look at more than one secondary point of entry or operation in Australia itself. We would certainly commend those aspects to this inquiry. I perhaps might pause at that moment and perhaps invite questions that might allow me to perhaps elaborate on some of the content, the specific content of South Australia's submission to the inquiry.

PROF SNAPE: Thank you very much, John. Perhaps picking up on the major points that you were on at the end there and on page 10 where you had the section, the issues for the inquiry and you are suggesting at 6.1 there:

The bilateral system of air service agreements limiting capacity and frequency would impose opportunity costs on those airlines operating scarce capacity to secondary gateways like Adelaide -

that is, that within the capacity the airlines would in fact be directing - having to make choices would be going to the highest yielding and thereby ignoring those which might be profitable but because of the capacity constraints they don't serve because they're not as profitable as the other ones.

MR EVANS: That's right. It's very much a matter of degree and I guess the commercial attractiveness in terms of return on investment.

PROF SNAPE: Yes. Do you have any hard evidence that there are airlines that would in fact want to fly into Adelaide and be prepared to fly into Adelaide but which are not because of the considerations that you are specifying in that paragraph? Is there hard evidence?

MR EVANS: Richard, that's probably one of the several questions I'm going to have to take on notice. I myself personally haven't got a succinct answer to that. I would need to go back and take advice and just check that aspect out.

PROF SNAPE: Okay. I would be very grateful if you could because obviously that's a very important point and one can see the point in principle, but of course one of the tests is whether in fact the constraints are biting in that manner. I think in the next page we go on to your suggestions that really one way to overcome this would be in fact to be specifying secondary airports - of course you mean Adelaide by that.

MR EVANS: Although bear in mind my earlier comment that we don't necessarily seek any special consideration of Adelaide as a secondary airport in isolation but rather the potential attractiveness to international carriers to look at the potential and possibilities to provide linkages. One of the limits I think we have in this as a nation is

the degree of competitiveness between states and territories when a spirit of cooperation and complementary effort could see in fact a much better result for Australia as a nation rather than perhaps the degree of fragmentation that currently exists.

We for example in South Australia have already started to see potential benefits flowing from looking at linking tourism and visitor products and experiences with neighbouring states and territories, notably the Northern Territory, Victoria and to a degree with Tasmania. It really is a question of looking at this situation from the perspective of the interest of the prospective visitor to Australia rather than perhaps looking at it from an end user's point of view. It's probably fair to say that from South Australia's point of view we are very much about removing and breaking down barriers to access into the state of South Australia. Obviously aviation is a key, particularly where international and to a lesser extent domestic markets are concerned.

PROF SNAPE: Yes on page 9 in 5.2 you do advocate in fact that the airport operator should have "a single-minded focus on the development of the airport in its own right rather than as part of a national network," which does to me suggest that there may in fact - if that is pursued in that manner that there may be some conflict between the national and the state objectives.

MR EVANS: I think it's a case of making a distinction between operational considerations, which would be a significant focus to whoever the successful bidder is for Adelaide Airport in the sale of that facility which is currently going on, and the role that the state tourism body takes in marketing and promoting South Australia as a destination in either isolation or, as I mentioned, in concert with neighbouring states and territories. We would see ourselves as working in tandem with the airport operator. We're not necessarily suggesting, although we do see some advantages in terms of the three bids that are currently being considered by the Commonwealth - there are some potential synergies in the interests that some of those bidders have in respect of other airports in other parts of Australia.

That's perhaps a roundabout way, Richard, of saying that we see our role as being - we're the prime movers in terms of instigating cooperative arrangements with neighbouring states and territories. That would not be necessarily the prerogative of the operator of Adelaide Airport per se.

PROF SNAPE: You don't see a risk of competition between airports, state airports, developing in what might be regarded as an unhealthy manner rather than a healthy manner, for example in competitive subsidies?

MR EVANS: We would hope not. The last thing we would want to see are, I guess, destructive anti-competitive practices or indeed I guess subsidies that may serve to mask the true commercial nature of operations. It is certainly not, to my knowledge anyway, South Australia's intention to in any way contribute in a subsidy fashion to skewing the playing field in some fashion.

PROF SNAPE: We have a submission that I think we will be considering this afternoon from Melbourne Airport where they speak of offering discount landing charges for new airlines, international airlines servicing Melbourne Airport. Do you see this as something that could develop competitively between airports?

MR EVANS: Yes, it could, and given that we perhaps are facing the prospect of ownership of airports, significant airports around Australia, being vested in different parties, the degree to which organisations may go with the offering of a range of incentives to act as a means of attracting airlines to use those facilities, yes, it's probably fair to say that there may well be potential for that, particularly in the area of incentives, both their degree and the length to which they may be offered in some start-up phase.

PROF SNAPE: And assisted by state governments?

MR EVANS: I don't know what South Australia's position is with regard to that. Speaking in terms of the bid process for Adelaide Airport, we are certainly from the state's point of view keen to - and have had discussion with the three principal bidders - sound out the degree to which we feel they are serious about getting involved in international airline attraction into using the facilities, both present and those planned for Adelaide Airport in the foreseeable future.

MS OWENS: Can I come back to the suggestion in the submission in part 6.4 about making capacity available specifically at secondary gateways or removing the limits on capacity. Later on that page in 6.6 you say this could happen but you still end up hitting a problem with scarce equipment, ie aircraft, and hence any open skies regime could, at least initially, also result in a concentration of services at the larger gateways. So on the one hand you're saying, "We should be in some ways trying to relax this capacity constraint," but then recognising that it still mightn't work in favour of South Australia. So I'd like you to just comment on that and then I'll ask you something else related to that.

MR EVANS: Again it's fair to say that - I suppose Mike Milln in preparing this particular paper looked at two scenarios basically - one being an all-slather open skies, no limits, no holds barred - and indicated in the paper that that could have prejudicial effects on the interests of South Australia in that carriers would commit and operate their capacity through more significant gateways to obviously realise a greater return on their involvement and investment, including Australia, in many cases in their global network of operations. The other point that Mike makes in his paper is he indicates that that's probably not a realistic option. It's one that he put into the paper I think more for the sake of making a contrast or a comparison.

But what he says in the paper is that he's looking more realistically at - looking at almost a two-tiered arrangement that on the one hand recognises the interests of primary gateway ports in Australia but at the same time making some provision and recognising the role that secondary gateways can play in terms of where international

carriers are concerned - and again we get back perhaps to what appears to be a sort of a bilateral log jam at the present time whereby it's difficult to trade rights because there's a bilateral aspect hanging off of considerations. If capacity was made available specifically for use at secondary gateways without that impinging on bilateral consideration, I think is the point that Mike is making in his paper.

MS OWENS: I suppose it's a matter of whether the airlines will take up that opportunity. They're going to be looking at the potential demand. It's a bit of a chicken and egg thing.

MR EVANS: Yes, it is a chicken and egg situation.

MS OWENS: They're going to be looking at whether they can actually just get the load factors into those secondary airports and so it may have limited effect.

MR EVANS: It may have, that's quite correct. It may have, but at least it opens the door a crack. At the moment I guess there's a sense that the door is firmly closed and that there is little scope because of this limited capacity into Australia at the end of a - it's the end destination in a very long haul, particularly when you look at originating passengers in the northern hemisphere, particularly UK, Europe, coming all the way out here to Australia. Even though that may not necessarily free up the log jam in some respects at least it would give South Australian interests that opportunity to negotiate on the basis that there was that chance, in other words, that secondary gateway considerations didn't impinge or impact directly on bilateral arrangements between perhaps other nations and major gateways into Australia.

MS OWENS: So you think there's some scope at the margin to get more business?

MR EVANS: Yes, and if I just go back in my earlier point, that an international airline may be favourably disposed to re-looking at Australia if there was an opportunity to operate through a series of secondary gateways. For example, we see in the longer term some significant benefit in linking Darwin and Adelaide for example with operations out of South-East Asia in the longer term, so that instead of looking at Adelaide as a single destination in isolation, rather to look at a linking with other ports that are perhaps of a secondary nature to suddenly create a critical mass that makes the route more viable than treating secondary gateways in isolation.

MS OWENS: Although your submission does make the point that the Adelaide Airport has actually benefited from two things that have been going on. One is code sharing and the other is the formation of Ansett International and both of those do in an indirect way serve a similar sort of purpose, don't they?

MR EVANS: Yes, they do. What we say in our submission is that we're looking really, from Adelaide's point of view, for an adequate mix in direct international flights into and out of Adelaide and domestic links with major hubs around the Australian coastline, particularly on the eastern seaboard. Code sharing to a point is advantageous to Adelaide's interests because Adelaide geographically is in a unique

situation - and Richard may recall my comment at our earlier discussions in Adelaide recently. We talked about the fact that overseas carriers coming into Australia do so from three points out of four of the compass and that's north, east and west.

Now, Adelaide is situated in such a way that you have to come over a part of Australia before you get to Adelaide and that is not the case with virtually every other - both major and secondary gateways around Australia's coastline. So as I said, by some means people have got to come across a part of Australia, either direct or of course changing carrier at Melbourne or Sydney to come on to Adelaide, particularly from North America. North America is one of our significant emerging markets from a tourism point of view. Richard, if I may at this point, I'd like to perhaps tender for the commission's information and consideration - I've brought along a copy of the commission's corporate plan for the next 5 years. It's only about 5 days old, the ink is still drying. But it will certainly put into perspective some of the comments I've made today and it will also be a helpful adjunct to the submission that Mike Milln has provided.

PROF SNAPE: Thanks very much for that, John. I think in looking at the open skies, the option that Mike apparently thought was too radical to give a great deal of attention to - and I'm referring to paragraph 6.6, which was where Helen was a moment ago too. If one were to have open skies and to be auctioning the slots, to selling the slots - or should I say, giving the opportunity to sell slots, not necessarily by auction but giving the opportunity to sell slots at Sydney airport where the capacity constraints bite most tightly, then that would in fact increase the cost of using Sydney, at least in the opportunity cost sense. That is, if you've got slots at Sydney they now have a price and the fact that you want to continue using them has a cost greater than what it is at the moment, that would then help to shift the balance to secondary airports.

MR EVANS: Yes.

PROF SNAPE: Simply that action on its own would do so - and indeed you could do that even without open skies. Even under the current bilateral arrangements making the slots saleable would in fact increase the opportunity cost of using Sydney and shift the balance. Have you given any thought to more than a passing reference, which is all that it gets at the moment I think, to that consideration?

MR EVANS: I suppose as recently as the Four Corners program on Monday where yet again we see the long history of Mascot and Kingsford Smith being trotted out before Australian viewers, we see recurring reminders to the aviation industry in this country of the very significant pressure point that Sydney represents to international global aviation into and out of Australia. Mike talks earlier in his submission about the fact that South Australia would welcome the opportunity to look at ways and means of neutralising, minimising or otherwise offsetting the significant opportunity, the greater opportunity costs, to attract international carriers to secondary airports than perhaps is presently the case. One of the approaches that Mike has used in his paper is to refer to I think the work of a Prof Chris Findlay.

PROF SNAPE: Yes.

MR EVANS: I would refer to - I think it's the last page of Mike's submission. I might add, by the way, that whilst we have been going through this, I seem to have a document that has a numbering system that is at variance with the paper you have, so please bear with me.

MS OWENS: You can talk about para numbers.

MR EVANS: Yes, yet there are numbers you quote that I don't even go up to, so I'm not quite sure what has happened. However, we have got this far.

PROF SNAPE: We look for the secret script as well as the - - -

MR EVANS: But if I'm reading it correctly, the last page of Mike's submission on the state government's behalf talks about what he terms a landing slots based system called "landing slots plus" or LSP. I think it's fair to say that those last three or four paragraphs - that's starting 11.5.7 and moving through to 11.8 - talk in some degree of detail about this particular system. What Prof Findlay's paper purports to indicate is that by applying such a system to all gateways, the Commonwealth could use it as a means to encourage wider distribution of international air services among gateways, in the sense that secondary gateways may have slot prices under this proposal set at or near zero, according to their commercial value, particularly vis-a-vis the obvious premium that carriers place on landing slots and access into and out of Sydney airport.

What Mike indicates is that in the absence of a free availability of total capacity, this sort of system may operate usefully as a redistributive mechanism. So I would commend the commission to those particular paragraphs especially, in terms of fleshing out the fine detail of this particular LSP proposal.

PROF SNAPE: Yes, great, thanks very much.

MS OWENS: Can I ask, while we just talk about that, whether any work has been done in South Australia to estimate what the potential demand would be for slots at Adelaide Airport? There's a graph on page 6 which shows in about 1993 it peaked; the passenger movements into Adelaide Airport, the direct ones, peaked at about 240.

MR EVANS: Yes.

MS OWENS: I was wondering whether there's been any modelling work done to determine what the level might be if you could free things up. Has anybody tried that?

PROF SNAPE: If I could just add to that perhaps, on page 14 at paragraph 8.4, where you speak about "about 20 agreements with 20 countries include specific or unspecific entitlements for their airlines to serve Adelaide, more than 20 others do not", that would suggest that there's already the ability for 20 airlines to fly there and

it's not using it. So really, is there evidence that the other 20 airlines are in fact being constrained, which is another way of Helen's question.

MR EVANS: I suppose the fact that there is in place some degree of constraint at the present time, I suppose we are looking for that opportunity to remove and have unfettered, shall we say, access in terms of treating Adelaide as we have mentioned earlier, given its status as a secondary gateway into Australia. I suppose the state would seek that opportunity to be able to, where appropriate, open and pursue negotiations with carriers whom we believe it would be in their commercial interest to consider including or adding Adelaide to their current operational pattern without any constraint where Adelaide is concerned.

PROF SNAPE: Again - and I appreciate the point of one can't really know what constraints there are until you take them on - - -

MR EVANS: Yes.

PROF SNAPE: - - - but if in fact you do have any evidence of those constraints being binding then we would like to see that and that really is a combination of the graphs on page 6 and the point in paragraph 8.4.

MR EVANS: Right.

MRS OWENS: Just coming back to code sharing, do you see it on balance as being an advantage or a disadvantage for Adelaide? You do mention in different parts of the submission that it could be of benefit but then you talk about the Singapore Airlines and I think BA-Qantas, code sharing is actually working in the opposite direction because it limited the number of direct flights. I suppose it's a question of whether you put value in the direct flights more than the indirect flights.

MR EVANS: Again, I get back to my earlier comment that we're looking for that adequate mix or balance between direct international, core international flights into Adelaide and international arrivals into some other gateway with a domestic connection. At the present time it is fair to say that on balance code sharing does serve Adelaide and South Australia's interest. To give an example, arrangements across the pacific, for example, between - from memory I think it's American Airlines and Ansett; anyway it's Ansett and an American carrier. The ability for a wholesaler or particularly a retailer to be able to look at a reservation system and see a city pair of Los Angeles-Adelaide on a code share basis we believe works in Adelaide's interest. It removes - even though there may be a change, obviously, of carrier and aircraft type at a principal gateway into Australia, from the point of view of the retailer and of course the consumer, as far as they're concerned there is that perception that there is ease of access and that Adelaide is a destination that is recognised in this international fashion without necessarily showing it as being at the end of a multisector particular trip.

The same applies with code sharing from other points of the compass. The ever present concern I suppose from South Australia's point of view in terms of striking this balance, is that code sharing taken to the nth degree could see all services into and out of Adelaide, if we took the extreme case, moving into a code shared arrangement between two carriers to the exclusion of international services into Adelaide and of course we're mindful of the BA-Qantas alliance, the planned or proposed Singapore Airlines-Ansett alliance. All of these we're watching with great interest from an obvious point of view because, I suppose, from Adelaide's point of view we don't want to see a diminution in at least the current frequency of 19 international services through Adelaide provided by five carriers at the present time. So we would like to see, I guess, a balance between code sharing that works to the advantage of Adelaide as a destination or as an end point in somebody's itinerary without prejudicing the viability and the attractiveness of Adelaide as part of those five airlines' international network.

PROF SNAPE: I suppose it's a good question as to what is an international flight, isn't it? If you've got both Qantas and Ansett and if Ansett are in - their alliance comes to fruition then you could see perhaps both of them hubbing from other places into Adelaide. Does it really matter if they're hubbing out of Singapore rather than out of Sydney, Perth or Melbourne?

MR EVANS: I suppose that there's an extra consideration comes into the equation. One is the potential as far as outbound traffic is concerned and the attractiveness of that opportunity to take an international service direct from your home port. Adelaide has been in an international situation that it is at the moment since 1982 with fairly modest beginnings. Before that, with the exception of perhaps the odd charter it was a bit like overseas shipping coming into outer harbour in South Australia. It was a rare beast indeed and what we found is - and it's very hard to quantify but in terms of - and I'm going to get very parochial here and just talk in terms of I guess the state's interest and the state's standing and status with the prospect of international carriers including Adelaide as part of the global operating network.

Nobody likes change. Even though you might have a fairly seamless process in terms of baggage and ticketing and so forth, no-one really likes changing carriers and going through problems, going between domestic and international terminals. If it can be done in a more straightforward fashion involving fewer flight stages it becomes increasingly attractive to people and although they may not be aware of it at the time they start out on their journey they find out very quickly perhaps that there has been more than one stage involved in their flying into and out of Australia, particularly out of South Australia and I talked earlier about the fact that you've got to travel over a part of Australia's continent before you make landfall in Adelaide, no matter what direction you basically come from.

The other - can I just add to that - is the consideration of freight in this. We haven't really raised freight at this point and I'd like to perhaps include it at this juncture and talk in terms of the highly perishable nature and the premium prices that South Australian produce attracts on the global market. Just a 24-hour delay can

enhance the rate of deterioration or particularly the perceivable true value as those consignments are landed at destination. One of the tenets in our tourism strategy is to make a great play for our food, our wine and our natural, I guess, environment and our produce particularly.

MRS OWENS: Is this what's attracting the Americans?

MR EVANS: In part. Certainly the North Americans are being drawn by, I guess, the natural environmental nature of South Australia. Certainly our food, our wine and the value for money equation that is inherent, with due respect to our eastern seaboard neighbours. We talk in terms of things being at Sydney or Melbourne prices and we invite our visitors to make the favourable comparison with what we're charging in South Australia and Adelaide in particular. Now I've lost my track.

MRS OWENS: Sorry. I shouldn't have interrupted.

MR EVANS: No, that's all right. I was talking about freight, particularly export opportunities and the fact that at the moment a significant percentage of our freight destined for overseas destination travels the first part of its journey by road interstate to either Melbourne or Sydney to gain uplift out of Australia. With extensions taking place at the moment to Adelaide Airport's runways, due for completion around about June of this year, it will enable long haul carriers to uplift greater amounts of payload than they perhaps are able to do so at the moment, particularly if they're flying direct from Adelaide to an overseas destination.

And so export freight opportunity for us is a very important one and I guess in a more philosophical sense, as I alluded to earlier, it's including Adelaide and South Australia in a global context as a place that has potential to be attractive to investors and to be a state that has favourable terms of trade in terms of just doing business basically. There are some significant advantages and I might just at this point mention the fact that - again, just a statistic that in terms of the growing convention, conference and incentive and exhibitions industry, South Australia lays claim to something like about 17 to 18 per cent of the national market. Now, on a per capita basis we have about 8 per cent of the nation's population and on a per capita basis that is far and away a very, very good trading result and given that that is on the increase, we're already building on a very strong base at the moment and those particular events mean volume numbers of people coming into and out of Adelaide particularly and access for those people becomes increasingly important.

PROF SNAPE: On the freight, could I just check one fact which surprised me in 9.6 where it says "74 per cent of its exports are transhipped by road to passenger flights out of Sydney." Should that read "Melbourne or Sydney"?

MR EVANS: It probably should read Melbourne or Sydney, yes. I will clarify that point for you.

PROF SNAPE: Because it did conflict with a figure that we got in another submission.

MR EVANS: I will be happy to clarify that and I'll come back and notify the commission accordingly.

MRS OWENS: You mentioned about the importance of the convention market just a minute ago and I was wondering if you would care to comment on the issue of charter flights and whether you see that there's greater potential for the charters into South Australia. If you've got a significant convention market there it may be viable for charter operators. I mean, are they coming in now and if not why not?

MR EVANS: They are coming in now. I'm sorry I can't give you the rate of frequency but I could certainly find that out for you and give a summary of arrivals or movements throughout that airport of a charter-based nature. It may be worth perhaps including both passenger and freight charter movements for your information. We certainly do see not as a proxy for other tactics that we're suggesting in this paper but rather as an enhancement. We certainly see significant opportunities for charter operators to use Adelaide Airport, particularly where significant simple uplifts or movement of people are concerned. I gather from Mike's paper that there are concerns that perhaps some of the impediments that lie in the path of would-be charter operators into Australia, the degree to which they have to seek various approvals and rights to operate into - I guess I'm speaking for Adelaide now. And if there are ways and means of looking at that aspect and perhaps making it a more conducive environment to allowing charter operators - by their very nature of course they are ad hoc rather than RPT operators. But it would certainly serve Adelaide and South Australia's interests to I guess create a more attractive environment for would-be charterers to consider Adelaide or Australia generally in their operating pattern.

PROF SNAPE: I think that there we get on the one hand into charters, the charter passengers. On the one hand, if one has a bilateral system one doesn't want to undermine the bilateral system for a non-charter but on the other hand at the other end of the spectrum, I suppose, it's a question of consumer protection and it's really a question as to what extent should there be greater consumer protection in that business than there is in other businesses. At the moment it seems to be with the process that one has to go through to get the approvals, that there is significantly greater consumer protection being given to the consumers of charter passenger services than there is to most other services in the community or most other similar services one might say in the community.

MR EVANS: I think that would underscore the very nature of charter operators, how we hold the view that there are some charter operators of long standing who have worldwide a very good global reputation for the quality of their operation and the manner in which they deliver their service.

PROF SNAPE: If I can turn to the summary on page 3 of my copy anyway.

MR EVANS: No, I have the same copy now.

PROF SNAPE: 2.7, which is a summary of the things that you're looking at and you've got, "Free exchange of granting of third and fourth freedom in freight," which would seem to go fairly close to open skies on freight.

MR EVANS: Yes, although we would stress that it is in respect of freight that we are looking at this consideration.

PROF SNAPE: Yes, and so it's really open skies on freight and then the next point is really the relaxation of cabotage, at least on some domestic sectors of international flights. That's for freight also so you're really going for a very open system on freight both with respect to open skies and also cabotage.

MR EVANS: Yes, that's right and I suppose it gets back to my earlier comments about the significant potential that South Australia has in terms of delivering export products of worldwide top quality, premium quality, to significant markets in the world and at the moment it's probably fair to say that there is a constraint on that both in terms of capacity in a direct fashion out of Adelaide but also the fact that much of this export - we really do talk in terms of tonnage - is obliged to go by another transport medium to a principal gateway out of Australia and we take the view though we're talking here about perhaps a significant relaxation where freight is concerned, not passengers but freight.

We believe that this would act significantly in South Australia's interest and indeed in an indirect fashion, Australia's as well because of, as I said, the sheer quality of the product that we're talking about here going into global markets which is designed to obviously enhance South Australia's standing in the global community where these types of foodstuffs are concerned. They (a) rate a premium price in the markets. They are very sensitive of course to spoilage and to any delays in transit or indeed a lengthy transit and South Australia has the capacity to, I guess, produce more and at the same time of course you've got significant flowons in terms of economic benefits to a regional economy which South Australia is both from the point of view of export earnings and as I mentioned a moment ago, employment opportunities as well.

PROF SNAPE: I wonder if I could go further up the same page on 2.3 where you're saying that, "The industry changes taking place favour primary hub gateways so that direct international service is likely to slow for Adelaide." I wonder if there are not some developments which may be going the opposite direction and again, it's a question of what is the hub which is servicing Adelaide? We've heard views expressed by manufacturers of planes as well as others that there's a tendency for smaller planes rather than the 747s - that is, of course the 777s and the 767s - on international routes and maybe others as well and that's the way in which they're anticipating the growth of the industry much more in that category of plane rather than the 747s. And if in fact you're thinking of Singapore as a hub rather than Sydney

then of course one can be thinking much more of those smaller planes coming out there. So I wonder whether one takes into consideration the hubbing from Singapore, the hubbing from Kuala Lumpur or from Bangkok to name three - whether in fact the tendency will be as he suggests in 2.3 and they're not forces operating in the opposite direction.

MR EVANS: It's probably fair to say that yes, there are forces working in the other direction. We certainly acknowledge the prerogative of international carriers to look at providing a level of aircraft equipment commensurate with the demand, either likely or proven, over given routes. If in the interests of maintaining frequency and a presence in South Australian skies a rationalisation of aircraft equipment is necessary then naturally we would support those changes made of a commercial nature by international carriers. The point that we'd like to make in respect of 2.3 is a couple of aspects that are peculiar to South Australia's marketplace and other people at the hearing this morning may be interested to hear some of these facts.

The ratio of Australian residents to foreign residents - and I'm referring to 4.6.1 on international flights through Adelaide Airport is roughly 60:40. For Australia that ratio is the reverse. It's 40:60. What that means is that our state at present, at least - we rely disproportionately on a relatively fixed and small resident market to support international services. However - - -

PROF SNAPE: You wouldn't be suggesting that it's South Australians trying to get out of the country more than other Australians?

MR EVANS: Dare I say it - but yes, that is partly the consideration but let me go on. Giving that we are targeting - South Australia is over the foreseeable future targeting an annual increase in international visitation into South Australia of 8 per cent per annum. It's our view that visitor growth is certainly now outstripping resident growth quite significantly so that over time we see that the South Australian market is going to conform more closely to the national mix as time goes by and moves so that there is less dependence on South Australian content on international flights but rather the bona fide international visitor coming into South Australia for South Australia's own sake.

The other point I would make in this context in 4.6.2 is that we have an overwhelming dependence on the mature markets in Europe and the UK in particular. Europe accounts for 46 per cent of Adelaide's traffic whilst the equivalent figure for Australia is only 20 per cent. North Asia contributes 13 per cent of Adelaide's total but 24 per cent of Australia's total. So they're just a couple of aspects that I guess are characteristics in South Australia's international passenger market but perhaps differ markedly from the Australian experience.

PROF SNAPE: I think that that exhausts the points that Helen and I had to ask you, John. Is there anything that you would like to add in view of the discussion which has taken place?

MR EVANS: Could I close by again thanking you for your patience and forbearance this morning. I hope I've been able to satisfactorily respond to most of your questions. I've taken on board those that we will come back to you with some concrete answers on but we have appreciated both the opportunity to make a written submission - we found from the state's point of view that it has been a useful exercise from South Australia's interest in drawing together a number of disparate issues and placing on us a little bit of discipline and rigour to actually put down these particular issues into a reasonably succinct document that of course is the basis of our submission to you. So we have (a) both welcomed the opportunity to submit and equally to address this hearing this morning. We thank you for that opportunity.

PROF SNAPE: Thank you very much, John. It was a very good and helpful submission and - - -

MRS OWENS: The team has actually asked us to ask you if we could get hold of the material that you mention in section 4.10 relating to case studies that were undertaken in 1995 which showed the additional costs per day of additional transport time.

PROF SNAPE: A melon is worth nothing after 4 days.

MRS OWENS: Yes. So I thought just to make the team happy we should ask you - - -

MR EVANS: Yes, indeed. I'll undertake - on Mike's return we'll endeavour to provide that material to the commission.

PROF SNAPE: Again, thank you very much, John. It was a very helpful and good submission and we've appreciated your elucidation of it but also the difficulties that you were placed in and would you pass on our best wishes to the author.

MR EVANS: Certainly. Thank you very much.

PROF SNAPE: We have now completed the proceedings really for this morning, that is, for the people who are on the list. Tourism Tasmania have deferred and Tourism Victoria are having some problems getting the premier's signature on their submission. He seems to be otherwise engaged. The times for the other people who are appearing this afternoon are not very flexible - that is, the Australian Service Union and Melbourne Airport - so we can't bring them forward very much in time. Perhaps I should ask at this juncture if there's anything that others in the audience wish to raise? Does anyone want to make a submission or a statement on the spur of the moment? I don't include the staff in that invitation. If not, then we'll adjourn at this stage and in view of the timetables of the people who are coming this afternoon, we will resume at 2.30 this afternoon. Thank you very much.

(Luncheon adjournment)

PROF SNAPE: We now resume our hearings and we welcome the Australian Services Union and we would appreciate it if you could identify yourselves for the benefit of the transcript, thank you.

MR LEE: My name is Tim Lee and I'm an assistant national secretary with the Australian Services Union.

MS WHITE: And my name is Linda White. I'm an assistant national secretary of the Australian Services Union.

PROF SNAPE: Thanks very much and Tim or Linda, would you like to speak to your submission?

MR LEE: Professor, we as you know have provided - albeit a little bit late for which we apologise - a written submission dealing with the issues that are before the inquiry. I guess as an opening statement the two key issues we see as being paramount in your consideration as to what recommendations you make to government in respect of this industry are jobs and safety. In respect to the issue of jobs we have spent some time giving at this stage a cursory view of what we see as being the structure of the industry and what we see as being its importance, if you like, to the Australian domestic economy. We also pointed to the fact that other countries take a strategic view with respect to their aviation industry and ensure that it has some - I think we referred to Singapore and to Holland in particular; countries that have taken an approach that have seen their aviation industries be used as a platform if you like for the development of other industries they see as being strategically important to their economic development.

So in that context we say that it's important that the Industry Commission take a view of the industry which recognises the complex and strategic nature of it and is very careful that its recommendations did not place in jeopardy the substantial levels of employment that exists not just directly in the aviation industry but indirectly through the multiplier effects that it inevitably has.

In respect of the second major issue, the safety issue, which is drawn into play - well, drawn into play when there's consideration of an ending - well, moving towards a more deregulated environment, an open skies environment and drawn into play through considerations of moving away from cabotage, we do not seek to be alarmists in any way about that but we do want to underline the extraordinarily good safety record that the Australian aviation industry has enjoyed and we are not backwards in saying that we feel that the membership that we represent have had a big impact on ensuring or helping to ensure that the industry is as safe as it is. However, of course they don't do that alone and if there is a propensity to move towards a more deregulated environment with significant commercial pressures on airlines and if there is an increase in the level of involvement of international airlines that do not have anything like the safety record of the Australian airlines then obviously that would be of concern to the Australian community. So just in terms of making an opening

statement they're probably two of the big issues that we raise in the context of what's being considered.

Perhaps one other issue is the issue of contracting out more generally which we're not quite sure the extent to which that will be contemplated within this forum but we have made some reference to that in our submission. We've made in particular reference to submissions that the ASU has made through the ACTU in an earlier inquiry of this body which culminated in the report contracting out by public sector agencies or should I say competitive tendering and contracting, CTC, as the latest lingo has it.

PROF SNAPE: It was deliberately not called contracting out as you would know.

MR LEE: Yes, we were in this room and we had quite an extensive discussion about that, professor.

PROF SNAPE: Yes.

MR LEE: So our concern with contracting out as we outline in the submission also goes obviously to the safety issue and is related to those issues of accountability that we raised, obviously not in the airline sector but in a range of other sectors that the ACTU was involved in that we raised before the Industry Commission in the previous inquiry. Obviously safety issues in airline travel take us far beyond any of the safety issues that we raised in some of the industries that we talked about in front of the commissioners for the earlier inquiry which were as diverse as garbage collection and architectural services. Obviously safety of airlines is another matter altogether and obviously we're concerned about the capacity of competitive tendering and contracting to have a damaging effect on conditions of employment and numbers of employees in the industry. But as I say, we're not quite sure of the scope of the inquiry in that respect and if indeed it is something that is going to be intensely considered by this commission then we might consider putting further material on that further into the inquiry but that's probably an opening statement from us, if you like.

PROF SNAPE: Thanks very much Tim. Linda, do you wish to add?

MS WHITE: No, I think that - my view accords certainly with Tim's in relation to an opening statement.

PROF SNAPE: Thanks. I think that on contracting, whether it be in or out, that is probably not going to be a major part of it but I notice the point there that you were referring, I think, to Kevin O'Connor's study in which he was talking - was it he who was talking about the value jet experience?

MR LEE: Yes, that's right.

PROF SNAPE: And the difficulty of determining, as recorded there, who was responsible for what and I take the point there that that may have that side effect. I

think that I might mention however that this morning we had a submission from Australia World Airways who are contemplating starting up on a route which is not currently served and they have an application before the IASC to do this and they have essentially got approval, conditional on them obtaining finance. This is a route not currently being served. It's a shelf capacity which has not been taken up and they're contemplating - they want to do it. In fact, they've been wanting to do it for several years. So it would not seem to be a route or a service which would be competing, taking business away from any existing Australian airline. It would seem to be adding but as part of that as a start-up airline they of course are contemplating contracting out because they've got no-one to contract it into - contracting out quite a number of the activities. What would the union's attitude to that be?

MR LEE: Well, again, it would depend on the types of services that are being contracted out. The commission would be well aware that we don't take a deliberately ideological approach in terms of the contracting out issue and there are certain services that we would say are quite appropriately managed through a contract environment so to put a question what would our view be of a start-up airline engaging in contract is a difficult one to answer because it would depend on the nature of the contracts. It would depend on who they were contracting with and it would depend on what sort of services were going to be supplied.

Suffice to say we are concerned about the value jet type phenomena, the virtual airline phenomena, where there is total reliance on a contract environment. We certainly are not saying to you that airlines should directly employ every single requirement that they need. Nor have we ever said, for example, that a public sector agency should directly employ every service that it requires. All sophisticated organisations require a mix. What we are concerned about is industries that are traditionally seen as core to an organisation no longer being seen as core even in an accountability or safety sense, those sorts of things being contracted, like maintenance for example.

MRS OWENS: Any other examples of what you consider to be core?

MR LEE: I think the easiest way to answer that would be to take one of the major Australian airlines and look at how they've operated up until the last 12 months, let's say. Strike the last 12 months out, if you took an airline like Qantas before they embarked on some of their more recent escapades, they essentially provided the bulk of core activities, ground staff, maintenance function etcetera, ramp provision - all of those other airline type functions directly. However, they may well have contracted in their legal services, perhaps graphic design functions - all those sorts of things, which may well be appropriate.

PROF SNAPE: Yes, I think with a new airline which is only contemplating this one route in the first instance with two or four flights a week, it's very unlikely that they could find maintenance was efficient to be doing internally and indeed in this case it would be a possibility that they may contract it to one of the existing airlines.

MR LEE: That's right.

PROF SNAPE: So if one were to say, "You must do your own maintenance," then probably that would kill the venture and there would be no employment.

MR LEE: Precisely but that's why I said it would depend on who they were contracting with and the nature of the relationship. If they were going to contract to one of the existing airlines they're aided by the fact that we do have existing airlines. What we're concerned about is that the globalisation of the industry, which may be exacerbated by embracing open skies type deregulation which brings it within this context, could lead to a situation where Australia doesn't become competitive in those types of functions which could be done anywhere in the world.

PROF SNAPE: I think probably if I were starting an airline that was an international airline I would be a little bit wary of having one of the other Australia international airlines do my maintenance. I might be put to the end of the queue.

MS WHITE: Certainly the overseas experience that when that has occurred you have no control over the quality of it, nor do you have any control over the labour relations of the people to whom you contract to which also obviously affects the reliability of the service and also the quality of the service.

MRS OWENS: I suppose this particular company is going to have an interest in running a safe airline and they want to build up a reputation for safety and good quality service so it's going to be in their interests, I would presume, to do whatever they can to ensure that safety is maintained and part of what they will be doing will be leasing the aircraft. If they lease those offshore part of the contract might be for the big maintenance jobs at least to be done offshore, I don't know. I mean, I don't know what they're going to do but I'd presume that they will have an interest in maintaining safety and there are other mechanisms for maintaining safety such as CASA. Would you care to comment?

MR LEE: I don't think there's any doubt that there are some ways in which safety and accountability are regulated and it would be ludicrous to suggest that if you have a situation where something like maintenance was provided by contract that ipso facto that means that you are going to have a less safe aircraft. What we would put though is that in the generality the more you go down that route towards regulating your services by contract as opposed to a direct relationship the more exposed you are to the service not being up to standard. That has simply been our experience.

MS WHITE: And similarly, I mean, what airline is going to not say safety is a major consideration. You'd have no-one flying if you didn't say outright that's the case but the reality is in the last 6 months in the AsiaPacific area there's been a number of aircraft that have fallen out of the sky. I mean, those airlines, I would have thought, would never have represented to their passengers that they were unsafe. So no-one is ever going to say that, are they?

PROF SNAPE: I take the point about accountability and it's well met.

MRS OWENS: I was going to ask a more general question and that is throughout the submission you talk about the problems of deregulation and you use the word deregulation and I'm wondering what aspect of deregulation you're most concerned about? Is it open skies policies? Is it issues relating to cabotage? Is it issues relating to ownership restrictions or is it all of those things?

MR LEE: It's all of those things. I'd say open skies and cabotage would be the biggest issues and as the submission states, they become big issues because they have or they're likely to have a direct impact on the viability of Australian airlines and the safety issue.

PROF SNAPE: Could I pick up on the cabotage for a moment and ask whether you just draw a distinction between cabotage for passengers and cabotage for freight. We had a submission this morning from South Australia, the South Australian government, in which they're advocating that cabotage for foreign international airlines be allowed for freight, at least on some routes - those going in and out of Adelaide of course they're particularly concerned about and that was to overcome some of the problems that they have at the moment insofar as there are no domestic wide-bodied aircraft servicing Adelaide and so therefore the freight basically has to be repacked and they're operating on - they're concerned about freight which deteriorates very rapidly and so fresh is a concern. So they were very concerned, sort of, to develop that type of industry in South Australia. So it's got regional implications of course and one thing they were suggesting was that international cabotage, international airline cabotage of freight be permitted.

MR LEE: In terms of the cabotage issue, in terms of what we see as being the key reasons that it exists, not just in Australia but in most developed economies, is clearly a protection issue in terms of protecting existing carriers and obviously that's one of the key reasons it exists also in shipping and also of course the safety aspect, again similar in shipping, to ensure that there is not a proliferation of carriers getting about on your domestic turf, as it were, who were not up to standard. So in that sense we would say that there is no distinguishing feature between freight and passenger movement. However, I would say this: if there is a particular issue that is identified - and this really goes to the heart of the major thrust of our submission of taking a strategic view to these things.

If there is a particular difficulty on a particular route which could be alleviated by - without throwing the baby out with the bath water but through a fine tuning of the existing regulation and that decision was taken because it was in the public interest to see a particular industry to which you allude as being constrained in its development in South Australia because of lack of access to high speed and frequent transport then again we would not say, "No, we're just totally at odds and we're opposed to any change in cabotage." If there was some sound reason for doing it then we would most certainly say that's sensible but we would be concerned about saying that that particular problem in a particular area becomes the basis for saying,

"Let's get rid of cabotage on the freight movement throughout Australia." That would be our response.

MRS OWENS: So you're concerned about it being the thin edge of the wedge?

MR LEE: No, I wouldn't be concerned about it being the thin edge of the wedge because in terms of what I've just put to you, I wouldn't put that if I thought it was the thin edge of the wedge because I'd be saying that you would do it and you would be clear about the public interest reasons you were doing it which essentially in that case would be a regional development issue, regional economic development issue. We would be concerned though if you didn't bother with the thin edge and you just went for the thick edge and the outside cut and you went for total deregulation of cabotage in respect of freight which in our view would be not the right response.

PROF SNAPE: Your answer to this question will probably be the same but I'll put it anyway as another scenario again with Adelaide they're making the point - the South Australian government is making the point that in a system of regulation under the bilaterals that we have that with constraints upon the number of flights that can come to Australia, for example, from other countries, that they will naturally fly into those ports which are going to give them the highest return. There may be other ports that they would be prepared to fly into and in fact make a profit on but not as much profit as the other ones and so if you've got an overall restriction of course it's that second layer that doesn't get served, even though it would be profitable if the restrictions were off.

MR LEE: But these are layers that would then bring them into direct competition with existing carriers.

PROF SNAPE: Well, the question to which there was direct competition and there was additional business is another matter but it is that there would be services, direct international services - there could be, I should say, direct international services again hypothetically into Adelaide since they were making the point, direct international services into Adelaide if in fact there weren't the constraints on the total number of services coming but with that overall constraint they fly to Sydney because that gives them a higher yield but it may still be profitable to fly into Adelaide and so Adelaide uses that direct international service not because there is any constraint to flying into Adelaide in particular but because there is a constraint on the total number of flights into Australia.

Now, again you can see that there could be various ways that might address that. One would be in fact to allow the trading of slots in Sydney and so that it actually put a price on the landing slots and so there was an asset that they could in fact sell. That's one way. Another way would be to remove the constraints altogether and have a more open skies one.

MR LEE: When you say trading in slots you mean an issue of slots by the airlines.

PROF SNAPE: Yes, ownership subject to the condition that if you don't use them you lose them.

MR LEE: If you lose them - - -

PROF SNAPE: If you don't use them - - -

MR LEE: If you don't use them, right.

PROF SNAPE: So your ownership subject to that - there can be conditions upon the ownership. Ownership would be a constraint. So the putting a price - or at least allowing the selling of them would then in fact mean that they had an asset which was saleable and that if someone else wanted it they could do it and it might induce them to fly into Adelaide instead, for example. Another way is to remove the capacity constraints altogether and so you've got a much more open skies one. Another way would be in fact to remove the capacity constraints on secondary airports and so, you know, you don't have to trade one off against the other.

MR LEE: What would you describe as secondary airports?

PROF SNAPE: Well, typically what it is, is anything except Sydney, Melbourne, Brisbane.

MR LEE: Right.

PROF SNAPE: But draw your line where you like, as it was a South Australian submission, Adelaide was certainly the one they had in mind.

MRS OWENS: That was one of their recommendations, one of their proposals, that that be lifted - - -

MR LEE: The secondary airport?

MRS OWENS: Yes.

PROF SNAPE: And all of those - you see those are all going a bit more towards a market one way or another, if you like, or removing restrictions, removing regulations which in fact might have regional implications which would be beneficial.

MRS OWENS: It comes back to the quote you've got from the competition principals agreement where we need to take account or you suggested we need to take account of a whole range of things including economic and regional development, employment investment growth and so we are trying to take a broad perspective and that's one of the issues that we need to address but it is quite an interesting issue because you know, there may be trade-offs as far as - you might see that as a trade-off for some of these other concerns that you've got.

MR LEE: Yes.

MS WHITE: But that analysis presupposes that there's a demand. I'm sorry to downgrade Adelaide but that presupposes that by freeing up the spaces and trading that somehow people are going to want to go to Adelaide or go to Hobart or go to North Queensland etcetera. I mean, it isn't as pure as all that, is it?

PROF SNAPE: Indeed, certainly we've asked- - -

MRS OWENS: We asked that question.

MS WHITE: There you go.

PROF SNAPE: We asked for the evidence but also of course it is very often difficult to detect or impossible to detect what a latent demand is when it is shut out effectively. But yes, we have asked for whatever evidence there is.

MS WHITE: I mean, wouldn't you need to look at say, for instance, the load factors to Adelaide at what would have to be their peak time, the Adelaide festival. So are there people who couldn't go to the Adelaide festival currently at what must be 100 per cent load factors now, you would have thought, who could have gone had you had an extra carrier going in there.

PROF SNAPE: That's certainly one thing to consider. There probably are a number of extra flights going in at this stage but that certainly is one of the things that one can consider, but it is really, as Helen said, picking up the sort of points that you are suggesting that we should take into account and we are endeavouring to do that.

MR LEE: As we say, you need to take a - simply what we're urging is that there's a sophisticated view taken in terms of that particular public interest criteria.

PROF SNAPE: We're trying to be sophisticated.

MR LEE: I'm not suggesting that you're not, professor.

MRS OWENS: If you're having to make any choices, in terms of ownership of airlines, what's your preferred option - that we go along the current route that we've been going with code sharing and alliances or building up more international equity in our airlines, or have you got a view on that direction that things may go, which would be your preferred direction?

MS WHITE: I think the direction it's going to go is the way that it is currently going with the alliances. I think there will be fewer and fewer alliances and large numbers of airlines that are involved and they'll each interchange ownership between them because of this sort of business that they are in, in the attempt to maintain their oligopoly. That's what I would have thought is the way it's going to go and I don't

think that that's going to change because of the fact that it's a global industry. I think though that it is important to have some Australian domestic airlines and whatever Australian means, given that Qantas is 25 per cent owned by British Airways. But it is an airline that is centred in Australia. Its headquarters are in Australia. Similarly Ansett, you know, which is a domestic airline really first and an international airline along second, both of whom's whole operations are centred in Australia.

So ownership is - well, you can look strictly at its share terms and who owns it strictly. The ownership is a more complex matter, if you like, in that they are identified as Australian. I mean, the majority of their workforces are employed in Australia. So I think how you identify - the union's position is more to do with that side of it, not exactly who owns it, if you like, but where they're based and who, if you like, controls and runs them.

MS OWENS: Which country they identify with.

MS WHITE: Yes, where they identify. I mean, Qantas brazenly says that it's the Australian airline right across the world and Ansett, as I said, is a domestic Australian airline, Australian based, and those are things I think the union is concerned about, that the change may see that those players exit as Australian-based airlines.

PROF SNAPE: So there are times I suppose with the internationalisation that you are speaking about that it may come - I'm not saying it has come yet, but it may come that alliances are essential for in fact the sustainability of the Australian airline.

MS WHITE: I think, you know, certainly the recent decisions of Ansett and Qantas - well, not so recent in Qantas's - reflect that, yes. They see themselves as operating out of, not a hub but a spoke in international aviation economy.

PROF SNAPE: Yes. I think the ownership itself is at the moment fairly well constrained by the system of bilateral agreements internationally and while New Zealand has dropped the ownership one effectively in a bilateral with Singapore, it essentially doesn't count for much unless other countries are going to also take that same attitude and so while that bilateral system is in with nationally designated airlines depending upon ownership and control it's going to stay. That may change of course but if that changes it will probably be from changes abroad rather than changes initiated within Australia.

MS WHITE: That's fair comment.

MS OWENS: There's only one other question which is more of a hypothetical question and that is what you would see happening in Australia if we find that the rest of the world starts to liberalise. Do you think we can maintain the status quo if we have New Zealand that has gone that path, we've got US with its open skies policies and so on? Do you think we can hold the line?

MR LEE: We would say, I think, let's wait and have a look, and given the size of our industry relative to the US and the European and even the Asian industries, then notwithstanding recent developments let's wait and see how that goes. Let's look at Europe for example and see how far they really do go and let's not sacrifice our bargaining position, if you like, too early in the game. If we do end up with total global deregulation, then let's make an assessment at that time. But we'd be certainly urging that we not be the ones to be jumping in. The game is, certainly in terms of bilateral negotiations, apparently much more complex than that.

PROF SNAPE: Picking up the second-last sentence of your submission I think that probably some of the things that you were saying earlier and also then in response to Helen - but earlier I think probably you modified your position just a little bit on that one where you were suggesting you'd take a bit more of a pragmatic approach to be looking at particular regulations and the effects of removing or adjusting some of the regulations, for example the Adelaide one that I was quoting before and your response to that was, "Let's have a look at it and let's have a look at the various ones," whereas that second-last sentence seemed to be a pretty strong statement of the status quo.

MR LEE: That's certainly a status quo statement and I'd say we don't resile from that. I mean, what we're saying is that, going back to the Adelaide situation, take a careful assessment, a strategic assessment, of particular proposals. But we still say that the framework that we've got has served us well. We're particularly concerned that the - and our criticism of national competition policy in terms of the regulation review principle. Then based on this, the onus has been placed on those who say that there are benefits from regulation to demonstrate what they are. There's no onus on those who say that there are benefits from deregulation to do so because that is seen as being a fact flowing out of the application of neo-classical economic principles with which we've all become all too familiar.

So for the record, yes, certainly we would say that our position could always be modified to the extent that one should take a strategic view. But again in terms of that issue of freight movement one needs to be careful about not just looking at what will be the - as Linda's referring to, what's the evidence that there will be a benefit? I mean, that's really the question because - and what is likely to be the impact on the existing industry, because the history, the recent history of economic development and deregulation in Australia from our point of view has been one of saying that competition works always, that the market will work always.

There seems to have been a propensity to forget the principles that you taught me about at Monash University, professor, of externalities and so on, and assumptions of perfect knowledge of consumers and so on and so forth, and instead we've got an embrace of a particular view of the operation of markets which is ignoring some of those key principles. So, yes, in terms of modifying our position, by all means look at strategic change. But make a careful assessment about what's going to happen to the industry as we know it, because there is some certainty there. There is an industry, it's a strong industry. It maintains employment for a lot of people. We'd want to be

pretty sure, if we were going to put any aspect of that industry at risk - as Linda said, we'd want to be pretty sure about what was going to flow from that in terms of a benefit, linking that back to that public benefit test.

PROF SNAPE: I take the point that basically what you're saying in that penultimate sentence there is that it's where the onus should be rather than a definitive statement.

MR LEE: Yes.

PROF SNAPE: And I interpret it that way. I see how it fits in with your earlier remarks. Dare I say that since you confess to being an ex-student that I've got another one beside me.

MS OWENS: I said to Richard he has got a lot to answer for.

PROF SNAPE: I perhaps should say that what is often termed neo-classical economics in this sense, in this context, in fact has probably got more non-neo-classical Chicago and Austrian more than straight allocative neoclassical. But that is perhaps a semantic, but - - -

MR LEE: No, very accurate.

PROF SNAPE: And not much use to this inquiry, but I can't resist that sort of thing occasionally. So thank you very much. Helen, you're through with yours and I think I am with that. In view of the discussion, is there any further comment which you would like to make?

MR LEE: Nothing from me.

MS WHITE: No, nothing from me.

MR LEE: Thanks for your time.

PROF SNAPE: In that case thank you very much for your very helpful submission and we'll also chase up the Econo reference if we haven't got it already in our library and if we can't find it - - -

MR LEE: It's an unpublished paper.

PROF SNAPE: It's an unpublished paper. Do we have it?

MR LEE: Can I suggest that you pursue the - - -

PROF SNAPE: Evatt Foundation.

MR LEE: - - - research centre or foundation.

PROF SNAPE: It's the Evatt Foundation, isn't it?

MR LEE: Yes, and they will know of its status.

PROF SNAPE: Okay, good. Thank you very much for that and for the helpful paper and your participation both in the submission and, well, in the three things - the chat we had earlier but also in your submission and also in your participation in the hearing. Thank you very much.

MR LEE: We hope you enjoy your trip.

PROF SNAPE: We will adjourn now for - I think there's afternoon tea. We'll adjourn and we'll commence when Melbourne Airport people arrive, which is slightly uncertain but it should be by 4 o'clock and if they arrive before 4 o'clock then we shall commence before 4 o'clock, thank you.

PROF SNAPE: We will resume the hearings now and we welcome representatives from Melbourne Airport and we ask you both, if you would, to identify yourselves for the purposes of the tape.

MR CONAGHAN: Geoffrey Conaghan, corporate affairs manager.

MR MARINOPOULOS: John Marinopoulos, research analyst at Melbourne Airport.

PROF SNAPE: Thank you very much. I'm not sure which of you is going to take the lead but if one would like to speak to the paper to start off with and we'll go from there.

MR CONAGHAN: Sure. Well, I'll kick off and John add anything that I happen to miss. First of all, we welcome the opportunity to respond to an inquiry. We think that it's particularly timely that the inquiry would be able to make recommendations on an overview of changes to air services agreements. The reason we think it's timely is that airport sales have and are continuing to occur so the environment in which aviation operates is changing. There are continuing changes to Trans Tasman aviation arrangements and there are changes within alliances of airlines. So in a nutshell there are three major changes in aviation industry. The other changes which support my comment that this is a timely review include changes to Australia's foreign income earning through tourism which have, in the last 10 years, placed tourism as the largest single foreign income earner for the Australian economy; and tourism's performance in job creation in the tertiary sector of the Australian economy which was always recognised as an area of economic development that greatly needed assistance because of our reliance on primary industry.

So having said that, given that the environment is changing, this inquiry is looking at the rules and regulations in which the aviation industry, tourism, trade and foreign income earnings can operate successfully into the future. I think underpinning the philosophy of our paper we have moved away from the position of either deregulation or open skies. We're proposing that the position of reregulation be reviewed. We all live and operate in a regulated environment. There's no reason to think that air services also wouldn't. However, we think it's timely to realign regulation with market trends and future opportunities. So they're some of the underpinning principles of our submission. Do you want anything - -

PROF SNAPE: Thank you, Geoff.

MR MARINOPOULOS: Just going on with what Geoffrey said, we've seen that there are a number of hindrances and helpings that come through from the air service agreements and various things like that. Just to parallel what he's saying, we see that there could be great hindrances to the competition or the ability for us to trade and that's one of the main reasons - along with the idea of increased trade and tourism and various other aspects like that - and that goes part and parcel with what Geoffrey's just said.

PROF SNAPE: Good. Thanks very much, John. I read the submission with great interest and I also read - I noted in it this distinction between deregulation and reregulation. I must say that when I came to the end, which on pages 14 and 15 - when I came to your recommendations and the overall position, it seemed to me that you were in fact advocating a very freed up system with the emphasis on foreign carriers as partners rather than foes; that you wanted to cease the reciprocity principle in the sense of equal - regarding it as the same weights on each side, if you like, and so departing from that. That part of it seemed to me to be saying that you would be going to a fair degree of unilateral open skies.

MR CONAGHAN: Yes, unfortunately, nobody has quite successfully defined open skies of deregulation and it does have - at one extreme it does have the flavour of anarchy under which no organised society can operate. What we were suggesting with the proposal of reregulation was looking at what market, industry and consumer needs and requirements would be and particularly market opportunities and reframing a set of regulations which would assist the process, achieve those goals.

PROF SNAPE: I wonder if you can be a little bit more detailed or explicit in what sort of regulation that would involve; what sort of framework of regulation it would involve, given the points you're making here, where you're saying, "Forget the bilateral reciprocity, welcome other airlines in," etcetera etcetera. What would - and, of course, we take for granted the safety aspects. Of course, you need a regulatory framework for those and so perhaps leave those on one line and look at rather the other aspects of it.

MR CONAGHAN: I think I would - I mean, given that we already have, to some extent, that sort of relationship operating with New Zealand at the moment, I would look at a model that was fairly easy to negotiate additional capacity.

PROF SNAPE: But you would want still to negotiate that capacity. I mean, at the moment with New Zealand we've got essentially an open skies or more than an open skies, a single market rather with New Zealand which is including cabotage rights and the major point at which it isn't a completely single market, as I understand it, is with respect to beyond rights. But apart from that anything goes, I think.

MR CONAGHAN: That could be one model and we've achieved that because of the cooperative working relationship between the two countries. I think we're probably moving towards something similar with Singapore. But for those countries that we didn't have that base understanding with, we could certainly look at suggesting that capacity would be negotiated at X percent and it would be in place for a period of 2 years, after which time it could either be renegotiated or increased in units of 25 per cent of the original. So as demand increased or in fact contracted, carriers could respond to those demands.

PROF SNAPE: So it would be basically at least progressively removing the constraints?

MR CONAGHAN: Yes.

MR MARINOPOULOS: Just on that, Richard, there's a point that you were asking specifically on how do we regulate. Within our paper we specified a couple of main points and this is that a reregulation is also a realignment of the purpose and practice that currently is operated. I mean, the way in which things are done at the moment is constrictive and it really doesn't allow free and open - well, we're not talking open skies here - but doesn't allow an expansion of commercial opportunity. The reregulated framework we would be looking at, as Geoffrey just pointed out, a change in the process in that one, instead of looking of masses delegations going and meeting someone else, then we could look at either some sort of mechanisms that can be brought along all the way through and be approved by either governments. They could then be able to go off and have some sort of automatic increment, as are in a fair number of agreements currently at the moment.

We could be looking at other things in terms of changes in the total set of protocols. We also should have a look at the purpose because the purpose at the moment is not really what we're all about. At the moment we seem to be trading aircraft landings, which is not really the purpose because an aircraft landing is essentially a way in which negotiating - or increase in trade and tourism - it's a vehicle upon which the trade and tourism increases. So consequently, we should be saying that the purpose rather than just the practice at the moment, that's really where we're looking at the reregulation of the framework at the moment so that it isn't tied up with these almost antiquated, at some times, negotiations.

PROF SNAPE: You would be comfortable with that reregulation, as you're putting it, even if that led to the demise of the existing Australian airlines?

MR CONAGHAN: It's a bit like asking us do we still bash our wives. I mean, we wouldn't like to - I was just imagining a situation where that could occur, that was why my response was delayed. I can't imagine how that situation would lead to the demise of the Australian airlines.

PROF SNAPE: I think there are many people who have been arguing and fear that it would. They may or may not be right.

MR CONAGHAN: I mean, if they're fairly commercially responsive they pull out of routes that aren't profitable and they get into routes that are. So it's not as though there are a number of - Qantas certainly is no longer tied to government legislation or government policy. It operates in response to its management, its shareholders and its board of directors and the market. So I can't imagine how they - I mean, it's not as though they would be operating under a set of rules that the other airlines wouldn't.

PROF SNAPE: I was not asking for a prediction as to whether it would, but merely putting the hypothetical. Would you still be comfortable with that position if it did lead to the demise of the Australian airlines?

MR CONAGHAN: Given that they're in there as commercial operators, like everybody else, I suppose if we're going to take that position, everybody is in there competing on international routes. Perhaps the Australian carriers may have to concentrate more on their domestic legs or the immediate region.

PROF SNAPE: To shift it a little bit so it's perhaps not quite so sensitive. Are there specific advantages to Melbourne Airport from having Australian international carriers?

MR CONAGHAN: Yes.

PROF SNAPE: Would you like to elaborate?

MR CONAGHAN: Because they bring us lots of passengers.

PROF SNAPE: Australian international operators rather than foreign operators.

MR CONAGHAN: Yes.

PROF SNAPE: Is there an additional gain from having an Australian international operator or two or three?

MR CONAGHAN: Ansett in fact doesn't make a significant contribution to international tourism into Melbourne. The vast majority of their international services are through other ports. Qantas handles about 45 per cent of our business, however, how much of that is due to current regulatory control which inhibits other carriers contributing to the total number is unclear. We haven't done an analysis of that.

PROF SNAPE: But if the total number stayed constant and it was of passengers going through Melbourne Airport, that they were handled entirely by foreign airlines rather than Australian airlines, would that make any difference as far as you were concerned?

MR CONAGHAN: No, I can't see any difference.

MR MARINOPOULOS: A lot of that's actually happened over the last 10 years when you look at Qantas's network used to be much broader than what it currently is. For instance, they used to have many more services into Europe but now they don't have those services but the number of passengers at Melbourne Airport still increases every year. In the last 10 years we've probably almost doubled.

MR CONAGHAN: As a parallel there's been a bag of new international services as a result of shifts in South-East Asia. China and India are cases in point. I think there are about 15 additional services put on, none of them into Melbourne but this was specifically by Qantas. So just by natural market development, each year we progress

along the number of passengers handled by Qantas is a smaller percentage of the total number of passengers.

PROF SNAPE: Yes.

MR CONAGHAN: That's just the way the market operates.

PROF SNAPE: The reason I'm asking this is a number of people argue that there are specific advantages to the country of having Australian international carriers. What I'm trying to do is just elicit one part of the Australian economy, that is the airports, whether in fact they see specific advantages from Australian carriers over foreign carriers, given the same amount of traffic. Your answer to that was, I think, no.

MR CONAGHAN: On a relationship between domestic and international our position may change because of the network effect of domestic and international services and connections. But our foreign carriers and our domestic services manage the same timetabling coordination anyway. So it sorts itself out.

PROF SNAPE: It may be that the number of passengers is related to having an Australian carrier or not, in which case the hypothetical I gave you would have been misleading. But nevertheless, I was just trying to find out where these benefits might in fact accrue.

MR MARINOPOULOS: Just on that, Richard, it's interesting that if you look at the number of carriers that actually do operate passenger services into Melbourne, there are about 27 and only two of those are Australian carriers.

PROF SNAPE: They handle a percentage of the - - -

MR MARINOPOULOS: They handle a large percentage, primarily Qantas. Ansett only have maybe - I think there are anywhere up to four flights a week. So you're only looking roughly at about 30 to 32 per cent of our flights are dedicated to Australian carriers. So over 70 per cent of our flights are foreign carriers. If you look in terms of freight, they're all by foreign carriers. We have none that are - -

PROF SNAPE: That's all the dedicated freight.

MR MARINOPOULOS: Yes, they're dedicated freights. They're a fairly substantial component for us, at least 10 per cent of our international business and an increasing part of our business as well.

PROF SNAPE: When you say "business" did you mean freight business or did you mean total business?

MR MARINOPOULOS: Our total business. In terms of our freight business they are an increasing component. With increasing freight services we've seen our international freight increase by a large amount every year for the last 5 years.

PROF SNAPE: Do you see Avalon Airport as a threat to that?

MR CONAGHAN: We haven't yet seen any evidence of it and I tend to think that they're going to be more of an asset to us than a threat because they increase the position that Melbourne has as a freight centre in Australia. I suppose it's a bit like wherever there's David Jones there's Myer or Grace Bros across the street. It creates critical mass.

PROF SNAPE: And Linfox serves them all perhaps.

MR CONAGHAN: Yes. It creates critical mass for a particular market and we see that as being very good. I mean, there are parallels - both airports have got no curfew, they're both well connected by road. We would like to think that we will feed off each other. So we're not treating them as a threat at all.

MRS OWENS: Well, the Avalon submission makes some comments about the Melbourne Airport - I'm just seeing if they've got it here - they argue - I probably can paraphrase them but probably not very well - that the facilities that you've got for cargo handling there are not adequate and they're trying - yes, they say:

International cargo facilities at Melbourne Airport are inadequate. There's considerable room for expansion but it can only be achieved at a vast cost.

I don't know whether you'd care to comment on that. That's their perception of the situation. We're not doing an inquiry in Melbourne Airport so you don't have to answer that.

MR CONAGHAN: We're quite happy to comment on that perception. The freight apron capacity has increased by 20 per cent in the last 12 months which has - you know, it means that we can go from four to five 747s being handled simultaneously out the front of the freight terminals and there has been an additional independent freight operator introduced to Melbourne Airport and they officially open on Tuesday. So they've just commenced operation. In terms of expense, Melbourne Airport is physically the second largest airport in the country with lots of room, particularly dedicated around the freight area. One of the constraints that we've had in attracting investors in the last 4 years has been the ready availability of cheap land immediately off airport, particularly with the development of the western ring road. If you can get something at a fraction of the price just off the airport, right on the intersections of major highways then that's very attractive.

However, as the market has sorted itself out in the last couple of years and land values have levelled out a little - the operator is BOC who have just commenced at Melbourne Airport, it was in their interests to locate on the airport. There are a

significant number - there's a huge ring of freight business located around Melbourne Airport because it's got 24-hour operation and easy access. They just whip the stuff in 2 hours before it's to go out, so it's never really been a problem.

MR MARINOPOULOS: Just to put it all into perspective, where it says, "The freight facilities are inadequate," currently Melbourne handles roughly around 190,000 tonnes of international freight, not just domestic but international which is roughly about \$12 billion value in terms of imports and exports to the Australian economy. So at the moment we handle a great volume of freight - the second largest in Australia just behind Sydney. If you draw a parallel along the lines that - what we've said before about Avalon and Melbourne Airport and if Sydney starts having major constraint problems, then logically freight should be able to come down to Melbourne - starting to be an increase in function of our business.

MRS OWENS: Some of it will go to you and some will go possibly to Avalon.

MR MARINOPOULOS: Most probably. But you will find that there could be - well, you find the externalities of it, the other businesses that come aboard because they realise they've got greater ability to be able to use air freight. There's differences in the way Avalon operate because they're a dedicated freighter airport, whereas we're a passenger and freight airport. If you think roughly that about 80 per cent of freight goes out in passenger aircraft, then what you find is that at Melbourne Airport there's a greater scope to be able to go to different destinations or come back from origins as opposed to Avalon where you probably find there's direct services with some airports. They can easily work hand in hand. There's no problems there.

MR CONAGHAN: Having said that I'd like to see further development of freight at Melbourne Airport and certainly Ansett and Qantas have both indicated plans to upgrade their facilities. So I think in the next couple of years we would see that.

MRS OWENS: I was going to refer you to your submission on page 7 where you talk about government regulation and industry participation. You have noted there that there's been negligible participation of industry and the processes relating to air service agreements and you specifically mention the privatised airports have not been included in the negotiation process. I mean, I'm not quite sure of the history of why that's the case - you might be able to fill us in - and we're really interested to know in what way you'd get involved.

MR CONAGHAN: It's early days at this stage with privatised airports but it is interesting that the sale of the airports has been on government agendas now for 4 years. So we would have thought there would have been plenty of time to prepare various government departments and agencies who deal in aviation to say, "There will be some new kids on the block so perhaps we need to change rules and regulations." Airports traditionally have not been involved in air service agreement negotiations because every major international airport except Cairns was owned and operated by the Federal Airports Corporation. With a single till philosophy, it didn't really matter where they landed, it was the fact that they landed. So the corporation had no

commercial interest in the outcome of where they went to largely, except of course for Cairns where they didn't have an airport in the area competing anyway. So that would have been destination driven rather than a choice to land at airport A or B.

The environment has changed and it's a case of, I suppose, evolution rather than revolution. We're being consulted but we're not being included in negotiations at this stage, although we have a distinct commercial interest in what the decisions are.

MRS OWENS: So you would want to be physically involved in the negotiation. I gather that most players would only just be consulted anyway. Wouldn't that be the case?

MR CONAGHAN: No, airlines are at the negotiation table, they're part of the negotiation teams.

MRS OWENS: So that's what you're wanting - to be at the table, but would that be every airport?

MR CONAGHAN: No, I think it would be - I would like us to be given the opportunity to put our case and then to be able to follow that case through if we identify that it's a service or a package of services that we are interested in or a destination.

MRS OWENS: Does it complicate the negotiation process still further or would it add to the time - - -

MR CONAGHAN: In the current arrangement of negotiation teams taking a long time and doing a number of overseas visits to set up and then conclude the agreements we don't imagine that we would be particularly keen in participating in that, especially when there are faxes and telephone link-ups that can be used. However, certainly at the planning stage and at the deal-doing stage, they're the points that we would like to be involved in.

PROF SNAPE: It may not be public information or information which you wish to disclose in public, but what percentage of your revenue do you get from the retail outlets?

MR MARINOPOULOS: I'm only doing this from memory, I think it's roughly around 25 to 30 per cent. We incorporate carparking and car rental companies and various other things like that. In terms of the aeronautical to non-aeronautical revenue split, revenue is coming from aeronautical landings, it's roughly around 40 per cent for aeronautical and about 60 per cent for non-aeronautical. Aeronautical revenue is a decreasing level of our charges. We are regulated at the moment by the ACCC in our charges. They do increase every year on an inflation minus 4 per cent basis.

PROF SNAPE: That's the aeronautical charges?

MR MARINOPOULOS: Absolutely.

PROF SNAPE: Not the other charges.

MR MARINOPOULOS: The other charges, for instance, carparking still has to go through to the ACCC and a number of other issues are commercially negotiated.

PROF SNAPE: So the 40, 60 was 40 - - -

MR MARINOPOULOS: To aeronautical.

PROF SNAPE: 60 - - -

MR MARINOPOULOS: Non-aeronautical.

PROF SNAPE: So when you said 25, 30 per cent before - - -

MR CONAGHAN: That's retail.

MR MARINOPOULOS: Looking at retail.

MR CONAGHAN: There's also property rentals, other external terminal concessions that are set up.

PROF SNAPE: One tends to think that it all comes from planes landing but not so.

MR MARINOPOULOS: No, our landing fees account for about 35 per cent - and this is off the top of my head - of ground charges to an airline.

PROF SNAPE: Right.

MR MARINOPOULOS: So it's actually a reasonably small component of their total ground charges and the airlines tell us it represents between 2 and 4 per cent of their total operating costs, the landing fees.

PROF SNAPE: On page 4 you say that there appears to be no advantage in city specifications - it's towards the bottom of your page 4. I think I can see the point that you're making there but what we tend to hear is that Australia is at the end of the world. The few places - the few beyond rights from Australia to be traded in contrast to a number of other places where beyond rights - or most other places where beyond rights are important, so Australia has to have something to trade in the negotiations.

MR CONAGHAN: That is part of the accepted wisdom that in fact we're challenging - we must have something to trade. What we're in fact trading are tourist and freight, not air services. However, it appears to us that the tail's wagging the dog.

In terms of that issue of Australia being at the end of the world, well, of course where there's cabotage in place and where there are no beyond rights, you do create the end of the world. So perhaps it's the mentality which has created the restricted framework which is up for criticism.

MR MARINOPOULOS: Just on that point with the specified cities, a point we made within our document is that Australia is one of the few countries that has multiple airports or multiple cities that people can fly into. If you go back to the Department of Transport records for the last 40 years we've had international passengers at multiple airports in Australia. Unlike most other countries around the world say, if you take a lot of the South American countries or the African countries or even some of the European countries, they've only got one international airport. So consequently the concept of trading a city against a city - it's to the overall benefit of the country to be able to go and give more cities and the availability to fly into more areas of the country to diversify and to give a different level of regional development rather than it is to specify on one gateway or two.

Consequently, for instance, we could look at helping out say, Perth or Brisbane or Melbourne or any of those other ports when we have extremely restrictive practices on some agreements.

MRS OWENS: Do you think there needs to be special arrangements for the secondary airports through the bilaterals? We've had the South Australian government here this morning and in their submission they have put in a number of suggestions, one of which is to have some sort of interim liberalisation of access at the secondary gateways. If you can't go to a full liberalisation, they're suggesting that could occur. They also talk about free exchange of granting third and fourth freedoms of freight and relaxation of cabotage on the air freight. I think given your broader interest possibly in other airports in the future, you may have an interest in doing something special for the secondary airports.

MR CONAGHAN: It's interesting that they classify themselves as a secondary airport because in our own internal analysis we review them as one of the big six because they are a gateway airport - they might be a small one. I can understand their position on wanting to make those relaxations. Just for your own information Melbourne Airport is disqualified from buying Adelaide Airport, similarly Brisbane and Coolangatta - there can be no relationship there.

MRS OWENS: Is that because of proximity?

MR CONAGHAN: Yes.

PROF SNAPE: Also Perth, I think.

MR CONAGHAN: Perth and Adelaide are restricted, are they?

PROF SNAPE: Perth was one of the original ones offered, wasn't it?

MR CONAGHAN: Yes.

PROF SNAPE: Multiple ownership of that first bunch was - - -

MR CONAGHAN: That's right, it was on a one-for-one basis. So I can understand the position they're coming from in wanting to make those sort of relaxations.

MRS OWENS: Would you support that sort of approach if that was the way it was to go?

MR CONAGHAN: Yes, I think so. John, do you - - -

MR MARINOPOULOS: I would probably have to reserve my judgment on that and be able to go off and have a look at how that goes at the moment.

MRS OWENS: Perhaps you can give us some feedback, have a look at what they've said and if you can, give us a bit of feedback on your views.

MR MARINOPOULOS: That would be fine.

MRS OWENS: Thank you.

MR CONAGHAN: My colleague is much more cautious.

PROF SNAPE: On page 11 you speak about the air service agreements constraining traffic. You've got a most impressive list of countries in which you're saying that the constraint is actually binding. There's China, Honk Kong, Malaysia, Philippines, South Africa, Mauritius, Thailand, Taiwan, Germany, Argentina, Italy, Egypt, France, India, Japan, Vietnam, Chile and Canada. It's implying that the constraints are actually binding on all of those. Is there evidence for that binding?

MR MARINOPOULOS: At the moment there are a certain amount of allowances for aircraft landings into and out of Australia and on a multiple number of those countries there are blockages in terms of increasing the amount of aircraft that could land - well, in particular we are talking about Melbourne. I can't go into those details because we are bound by a few confidentiality via the Department of Transport. But some of those carriers, in particular cannot - have to change the way they operate and have to get special dispensation from the Department of Transport to be able to operate a second service or multiple services and if that dispensation doesn't continue they have to scale back their services, cutting back the capacity to the routes that they serve.

There are other ones in which are constrained in that we cannot go to those countries and ask them to land at Melbourne Airport because of the fact they're not specified on the routes and we believe that there is a viable market for ourselves within that country. And there are certain specifications on freight in which we

believe there's a fairly large market there and in the way the agreements are framed that freight capacity is not available to us. So in each of those cases - I think it's 19 countries - there are constraints on each one of those cases that allow or that cut back increases to services or new services.

PROF SNAPE: Let's take Argentina and as I understand it, the agreement between Argentina and Australia makes provision for Aerolineas Argentinas to fly to Australia and also for Qantas to fly to Buenos Aires. Qantas doesn't fly to Buenos Aires and so it would seem that there is excess capacity there and it would seem then that, at least on one view of the agreement and use, that in fact even though there is a restriction on the total amount of traffic that it's not binding, that in fact all the capacity is not being used.

MR MARINOPOULOS: But there is a restriction on that in that Aerolineas Argentinas flies to Sydney and there is one point specified in the bilateral agreement and they cannot fly into Melbourne because that's the only port they can use in Australia and that's the constraint on our business.

PROF SNAPE: Do you think that they would want to fly to Melbourne?

MR MARINOPOULOS: Well, we have done our analysis of the market and we believe that there is a market for Victoria, not just for Victoria but for the surrounding region, including Tasmania, South Australia, Southern New South Wales in which coming into Melbourne would make some services viable for that region.

MR CONAGHAN: That's a classic example of having city specifications in place and the capacity between countries not utilised.

PROF SNAPE: Yes.

MR CONAGHAN: Why specify the cities? Because if the Argentinians want to specify Buenos Aires, I don't know why we're under any obligation to do a tit for tat and say, "Okay, we'll do a city as well."

PROF SNAPE: That's very interesting and we would be interested if there is publicly available information to substantiate the view that could be submitted.

MR CONAGHAN: We've signed a confidentiality agreement with the Department of Transport and I think that's fairly- - -

MR MARINOPOULOS: Fairly binding.

MR CONAGHAN: Yes. See you later, Richard.

PROF SNAPE: Where - - -

MR MARINOPOULOS: We do have all those documented - sorry, Richard - in terms of each of these countries and they're not just the countries that we're looking at. We have profiles on 60 to 70 countries that we regularly update for ourselves and we know where our capacity constraints lie.

PROF SNAPE: We would be first of all - we're not, of course, trying to break any confidentiality agreements that you have - but if there is publicly available information to add we would be very grateful to receive it.

MR CONAGHAN: Certainly, if it was at that level that we just gave that - to use Argentina's example - "Here's the opportunity, this is the restriction, and this is our criticism of it." We know all of that for each of those countries because we've worked through them.

PROF SNAPE: That would be very valuable because- - -

MR CONAGHAN: Then we've got the second list - this is our top 15.

MRS OWENS: We don't need to necessarily know- - -

PROF SNAPE: But it just helps us, of course, in writing our reports to be able to draw upon actual cases. Also if - and again without breaking any confidential agreements you have - you can also make confidential submissions to us which would be kept confidential and which may help to inform our discussion without, of course, breaking any confidentiality agreements. Again, while we prefer things to be open if they can be, if they can't be we would far prefer to have them as a confidential submission rather than not have them at all.

MR CONAGHAN: Okay.

MR MARINOPOULOS: Okay.

PROF SNAPE: You speak on page 12 of, "The effects of designated ports creates hubs" - and I can understand how that would occur, of course. But then hubbing occurs anyway and, of course, within the United States, which after all is the biggest air services market in the world by far, without any restrictions or without many restrictions within the United States for the domestic carriers, of course, you've got a whole network of hubs developing there which have just developed for commercial reasons. How would you see hubbing in Australia develop or would it exist at all without the designated ports?

MR CONAGHAN: I think hubs would be created around trade and tourism markets rather than to be created around city-specified airports. Overlaying all of that, Australia as a nation continent has got several geographic regions that have got different benefits for various tourist markets. So that would fuel, I think, the creation of tourism market-driven hubs that are destination based. I think they would occur, they would still occur. We would probably end up with Perth, Cairns, Melbourne and

Brisbane or Sydney as principal hub points. Certainly, Melbourne Airport is a major domestic hub for Ansett Airlines in our analysis. We carry a significant proportion of their domestic business, largely fuelled by west to east coast and Melbourne to Sydney - they're the two major routes. Those axes actually create an enormous amount of business because they connect in with Tasmania and then with markets in New Zealand and onto the west coast.

However, internationally we are not a significant player with Ansett and we suspect that's because of the city specifications trend. We can't work out why we're a major domestic hub for them which was a supplier of their international market and also a destination for it and yet we haven't developed as an international hub. There is an inconsistency there.

PROF SNAPE: You don't think that, as far as the international traffic is concerned, that some of the hubs may develop offshore if the type of recommendations which you have advocated were to be adopted, for example, that at Singapore, Kuala Lumpur, Bangkok, may in fact become hubs?

MR CONAGHAN: Singapore is already a huge hub. The Qantas-BA alliance has fuelled that. Singapore is a major airport, not only because of its trade and tourism attraction but because they have an extremely liberal air services agreement, it's just not with Australia but with many other countries. On top of that or perhaps because of that, their economic success underpins business opportunity and their hub status, in terms of feeding to Australia, has been in place for quite some time and certainly, has been capitalised on by the BA-Qantas partnership.

PROF SNAPE: I see that, of course, Qantas does divide its flight up into Sydney in Singapore and uses Singapore quite a bit as a hub. But if in fact there was greater freedom given to other airlines to fly to Australia, then maybe Singapore and Malaysian Airlines and Thai Airlines could each in fact develop what would be hubs serving various Australian, so flying directly to Adelaide, for example, on a 767 or even smaller, rather than flying to Melbourne and with the passengers then having to take a domestic flight to Adelaide. So it could be that Melbourne could lose if those hubs were to move offshore, if your type of recommendations were followed.

MR CONAGHAN: The hubs already exist. I mean, Auckland is developing an offshore hub status; Singapore has. I think that the very recent changes, in fact only announced this week, in services in and out of Bangkok and the privatisation of Thai Airlines - they've got about 22per cent up at the moment - and changes within government and industry relationships in Bangkok will see that airport establish itself as probably a secondary offshore hub serving Australia. It's already there. Melbourne hasn't suffered as a result of those offshore hubs.

MR MARINOPOULOS: You say Kuala Lumpur as well. Kuala Lumpur who are opening a new airport, they have fairly restrictive policies and they're not gaining as much of a benefit as anyone else. I think we've got Malaysian Airlines as being the main carrier into Kuala Lumpur but we only have one other carrier at the moment that

goes through Kuala Lumpur to Europe and that is Lauda Air. They've chosen to do that because they want to get away from Singapore because there's congestion there. There's a case in point in which - the next stage you're saying, "Look, would they go to Adelaide rather than going to Melbourne or Sydney or Brisbane?" They go to where the tourists want to go quite often, and there is a very high proportion of the market that wants to go to certain places say, for instance, let's pick Austria. They want to go primarily to Sydney and to - well, let's say New South Wales and Victoria because that's where a lot of say the visiting friends and relatives and the tourism market is. That's the advantage to it.

You find those markets grow progressively on their own. I mean, they're propagating themselves at this very moment. It's just somewhere along the line - how far are we restricting that market so that we can - are we tempering its growth? The point we're making is we believe that its growth is being tempered or could be tempered in the very near future.

PROF SNAPE: Are you trying to drum up charter or non-scheduled business? How do you find that?

MR CONAGHAN: It's very early days. I mean, the charter industry in Australia is largely non-existent. We are recipients of inbound charter services with Britannia Airlines. However, the likelihood of a charter company getting off the ground is, I think, hampered by the current arrangements - which I'm not on top of them, other than having read them and thought, "This doesn't look like it's a framework that's set up to encourage growth in that area."

PROF SNAPE: So you don't have specific recommendations of what should be done to the charter policy?

MR CONAGHAN: John, do you have any? Other than our position that we believe that scheduled services, freighter services and charter services should be dealt with separately in agreements and procedures. We don't have any specific recommendations at this stage, probably because we would be talking from no experience. You know, in an ideal world, this is what we'd like to have in place. We can certainly give those "in an ideal world" proposals to you but they wouldn't be the experience that we've had with scheduled work.

PROF SNAPE: I notice that you're trying to attract new airlines by offering discounts in landing.

MR CONAGHAN: Yes. We're actually trying to attract new services rather than new airlines. Airports sometimes suffer from the pursuit of tails rather than the pursuit of business - rather than just to see new airlines landing all the time. What we would like to see are more services from our existing customers, as well as new carriers when those markets open up. But certainly we've taken the position that we don't want to attract any business at any price on any route if it's going to cannibalise an existing good customer. So we are - - -

PROF SNAPE: Existing customer to Melbourne Airport?

MR CONAGHAN: Existing customer to Melbourne Airport, yes. So if we had airline X operating between A and B and our opinion was that they were adequately servicing that market, we certainly wouldn't be out attracting an additional carrier just for the landing fees.

PROF SNAPE: But you would be prepared to be offering discounts to attract business away from Sydney or Brisbane?

MR CONAGHAN: I mean, I suppose theoretically we would but I can't see that that - I mean, given that landing fees represent about 35 per cent of their ground costs. The discounted landing fees are really to help them get over the hump of start-up of new services.

PROF SNAPE: But you are offering them so you must feel it needs some- - -

MR CONAGHAN: Sure. We're negotiating with a carrier at the moment that currently services Melbourne and they want to increase their number of services to the existing port. We've discussed a discount of 30 per cent of landing fees in the first 12 months and for that money to be put into a cooperative marketing pool to assist the airline and therefore assist - of course, the benefit is also for Melbourne Airport, to ensure that the new services that commence are sustained.

PROF SNAPE: Do you see the possibility of a discount competition developing amongst the various airports?

MR CONAGHAN: It already exists with the discussion paper that Sydney airport have put out on increasing their landing charges by about 60 per cent between now and 2001. That initiative occurred simultaneously and without our knowledge of our - I mean, we've had this discount proposal in place since August 1997. So there are already differences emerging in the marketplace, some of which we've contributed to, others we've had no control over.

PROF SNAPE: That wasn't discounting, in fact was the opposite way in Sydney.

MR CONAGHAN: Yes. But what they've done is they've flagged an increase in the difference in landing fees. The carpet to my door has not been worn out with Sydney carriers coming to say, "Please, we want to shift." It's because it's destination-driven tourism.

PROF SNAPE: Yes. But again, you must see some effect or you wouldn't be offering a discount.

MR CONAGHAN: It's chicken and egg stuff. We offered the incentive in the hope or in the expectation that it would be picked up by carriers who were thinking of

adding additional services in the next 12 months and this would be of assistance to them in their start-up costs of that new service. I don't know if you've looked at the seating loads on new services but when a new service goes on it frequently might kick in at 10 per cent load and then it would work up to 20, 30, 40. So it can sometimes take 6 to 12 months or certainly 6 months before they're making money on that route to cover all of their costs. So it was done in recognition of those costs and the load factors of new routes.

MRS OWENS: Would you make a special deal for say, Australian World Airways? I mean, it's a new service and it's a new airline. Would you provide them with the sorts of discounts you're talking about?

MR CONAGHAN: Yes, it would depend on the route that they were proposing.

MRS OWENS: They're going to Sri Lanka, Greece and the Netherlands.

MR CONAGHAN: Yes, we would. We have nothing between Melbourne and Sri Lanka at the moment. In fact we have nothing between Melbourne and the Asian subcontinent.

MRS OWENS: I wonder why you would offer a discount because they've already made it public that they're going to be a Melbourne-based airline.

MR CONAGHAN: We might not give them all 50per cent. I mean, they've stated that intention for some time. They have - like everybody else starting up a new business - had to face shifts in opportunity and costs because of the Asian currency crisis. Everybody has had to go back and review their business base at the moment, even if we're not directly borrowing from a South-East Asian country that's had a currency problem. They're everybody else's customer, so everybody has gone back to have a look at what the effects are on their credit sources.

MRS OWENS: They'd be less affected than they may have been if they'd chosen a different route to try and operate in. If they'd chosen routes into South-East Asia, for example, it would have been much more difficult.

MR CONAGHAN: Yes. Again, it would depend on which South-East Asian country they were picking off. Singapore has stated its intention to go to double daily services out of Melbourne by October. They're currently on daily services and they'll go to 10 a week at the end of this month. So amid the Asian currency crisis there are still airlines that are growing. In fact, Melbourne has only had two services postponed - they said they haven't cancelled them, they're just not running them temporarily until the market recovers and that's Jakarta. So we got out of it very lightly.

MRS OWENS: Do you have a close relationship with the Victorian government in what you're doing?

MR CONAGHAN: Yes. I'd say our relationship with Tourism Victoria is particularly close and the Department of Business. It's a good working relationship. We generally know what each other are doing, certainly on a month-to-month basis, but sometimes on a more regular basis than that.

MRS OWENS: Have you had any financial support or is it- -

MR CONAGHAN: No, but we'd really like it. No. In what way?

MRS OWENS: I just wondered whether it was an expectation of coming into Victoria or when you're bidding on other airports and other states, an expectation that the government would get behind you.

MR CONAGHAN: No, that certainly hasn't occurred and I don't think - unfortunately, it wouldn't. No, I mean, they often tell us that they supply us with all of our customers and we should be very grateful. But then we point out that we supply them with Australia's best airport. So it's a symbiotic relationship.

MRS OWENS: Yes.

PROF SNAPE: I've got only one question I can see at the moment and that was respect to the IASC process where you say the process appears to be complicated and it's unclear why it's not streamlined. I wonder if you could elaborate on that. This is on page 13.

MR CONAGHAN: I suppose at the base of that position is it took me three readings before I could work out exactly what it was all about. I am neither an unintelligent person nor unfamiliar with the subject matter that they were discussing. Now, I thought, "Mm, that was three readings." I then had to go through and actually - I drew the processes up on the whiteboard and joined the circles with the dotted line. I figured if somebody was coming into this with a sales and marketing background from an airline to set up new services they would find it extremely difficult. I thought it was unduly complicated in the description and also the number of processes that have to be worked through.

PROF SNAPE: Do you have an alternative process in mind?

MR CONAGHAN: No, I think it probably gets back to the purpose and process. If the purpose is quite clearly defined, the process should then be developed to achieve the goals of what that purpose is. I didn't see any working relationship between goals and objectives and process put in place.

PROF SNAPE: Good. I think that that's exhausted my questions. I should now ask you whether you would like to make any further statement or any further - if you have further thoughts in the light of the discussions we've had, if you would like to add to what you've already said.

MR CONAGHAN: John, anything from you?

MR MARINOPOULOS: No, I think we've about - from my side I think we've about covered the issues there in terms of what was said.

PROF SNAPE: Good.

MR CONAGHAN: I think certainly our 11 recommendations that are drawn from the document pretty well frame where we're coming from and what we would like to see as a result of this inquiry. Other than to restate this inquiry appears to be extremely timely given the changes in the environment. If we could not have a framework or a set of regulations that were in place that were purpose driven and that purpose is about obviously foreign income earnings, trade, tourism etcetera, not only would the various partners in the process be able to operate a lot better, but certainly would be equipping ourselves very nicely for trade growth in the future.

PROF SNAPE: Then I should say thank you very much, Geoffrey and John, for your submission from Melbourne airport which has been very helpful and a very good submission. Also we've found the discussion we've had very instructive too. So I would thank Melbourne airport and you two particularly for participation in writing the submission and also coming to see us today to the hearings to speak to it. Thank you very much for that.

MR MARINOPOULOS: Thank you, Richard and Helen.

PROF SNAPE: The hearing will now be adjourned for today and the hearings will be resumed in Sydney on Wednesday of next week. Thank you very much.

AT 5.07 PM THE INQUIRY WAS ADJOURNED UNTIL
11 MARCH 1998 IN SYDNEY

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