

DHL WORLDWIDE EXPRESS

February 25th, 1998

Professor Richard Snape
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Professor Snape,

Re: *Industry Commission Inquiry International Air Services*

I refer to advice from your office that you have commenced an inquiry into the arrangements for negotiating entitlements under air services agreements and the process of allocating capacity entitlements to Australian carriers. As a major participant in Australia's air carrier trade, DHL has a long-term strategic interest in the availability of freight capacity into, and out of, Australia.

This submission outlines some initial views on the current operation of the air service agreements as they affect freight operations, and provides views on potential developments for the industry that the government should consider in conjunction with any policy changes in this area.

Background on DHL

As an international company, DHL is focussed on the domestic and international freight markets, servicing 227 countries/territories. There is a major emphasis on working directly with companies to satisfy their global distribution requirements. The company was founded in 1969 and has developed to an operation with a revenue base in excess of \$US 4.5 billion. Globally, the company has a fleet of approximately 12,200 vehicles and 209 aircraft.

Within Australia, the company has operations in all Australian states and territories, concentrated around major cities within each state. Current employment level is approximately 680. The company predominantly utilises international airlines for carriage on most routes. However, we do operate a dedicated DHL 727 freighter servicing trans-Tasman trade.

Australia's Export Focus

Recently the Government has produced a number of reports which highlight the need for Australia to focus on our export potential, including the need to reduce barriers which hinder the entry of our goods into overseas markets. These reports include:

- Investing for Growth - industry policy
- In the National Interest (White Paper) - foreign and trade policy
- Paddock to Plate (Jet Fresh) - inquiry into airfreight exports of perishable and time sensitive Products

All of these reports show the importance that high value exports will have on Australia's economic well being into the future. They also identify the need for the Australian Government to actively foster this environment within Australia, and facilitate this push through bilateral and multilateral contacts.

The Express Carrier Industry

The recent industry policy statement, Investing for Growth, has progressed Australia into a position where it has a greater ability to complement its successful Regional Headquarters program with developments as a regional manufacture and regional warehouse centre for Asia.

The potential for Australia to maximise benefits in international markets will be limited by many factors including the ability of Australian companies to supply goods into such markets in a timely manner. The development of best practice management, incorporating Just In Time supply chain structures, will continue to place pressures on manufacturers supplying product at a time that suits the market, and is not reliant upon the scheduling of passenger aircraft.

DHL has been a very strong supporter of the concept of the development of a 'free trade' regime in Australia and has welcomed the Government's recent announcement regarding the expansion of a manufacture in bond capacity in Australia. It is felt that with this change, Australia may now be able to successfully compete with the numerous free trade zones throughout Asia, in the attraction of regional production and distribution activity.

For many years, international industry has viewed Australia as being too far removed from other countries for the timely supply of goods. An opportunity now exists for this perception to be countered, however this will require a concerted effort by both the private and public sectors.

In this environment, the air carrier industry will become an increasingly important member of the trade arena, providing an essential transport logistics service for the delivery of time sensitive products throughout the region.

Air Service Capacity and Demand

The role that the Air Service Agreements (ASAs) play in the transport of perishable and time sensitive products was addressed in some detail in the Commonwealth's *Jet Fresh Report*, issued in November 1 1996

The report quite succinctly outlined the role that the Government has in ensuring that our industries are not hindered through an inability to freight goods into our foreign markets (pg. 31):

The challenge for the Department of Transport and Regional Development (DTRD) is to continue to anticipate demand for capacity and, through the bilateral negotiation process, maintain the available capacity in excess of demand for airfreight capacity. The task is made more difficult because the demand for capacity can change rapidly in response to market variations, whereas the ability to respond if available capacity is tight may be limited by the air service agreements negotiation process.

The Jet Fresh report concluded that there is currently an overall surplus of freight capacity for the export of Australian goods. This is predominantly through capacity on passenger flights, international freight services and ad-hoc charters. Some concerns were expressed regarding the potential restraints for freight "into Japan, Hong Kong and Thailand during peak periods".

Unfortunately the report was focussed to a greater degree on the movement of lower value product which may rely on the 'discounted' freight rates be offered on passenger services. Accordingly, the committee focussed on the possible adaptation of supply chains in Australia to fit with these passenger services.

DHL would suggest that if Australia is to become a successful regional centre for Asia, the suggested flexibility in supply chains may not exist.

Successful regional manufacturing operations, focussing on high value products, will demand that goods be dispatched 'as late as possible' on one day for delivery to the customer 'as early as possible' on the following day. We will need to provide a true overnight delivery from Australia into the key Asian centres.

As an example of this industry demand, DHL has committed a significant resource into the development of an overnight trans-Tasman service. In considering that service, the potential existed to utilise the capacity of some 60 passenger flights per week. However, the timing of these flights did not satisfy our clients needs. Accordingly, and despite the relative capacity that existed, DHL commenced its current dedicated 727 freighter service.

It is in this environment that DHL suggests that the authorities need to ensure that adequate and appropriate freight capacity is available for the expansion of our export markets.

Within the *Jet Fresh Report* considerations, several options were put forward to increase available dedicated freight capacity. These included:

- greater use of foreign owned freight company services carrying goods from several Australian airports into Asia, following the delivery of USA-Australia product; and
- an uncoupling of freight from passenger entitlements under bilateral air services agreements.

It is recognised that Australian industry's increasing need for adequate and appropriate freight services will compound the process of predicting our air services needs and ensuring that increases in capacity remain ahead of these increases in demand. However if the government is to succeed in fostering a successful export environment, this is critical.

Accordingly, should the above options (or others including 'open skies' agreements) provide a more responsive system for our changing needs, then appropriate changes to the control environment should receive greater consideration.

Post-Agreement Action

A final remark relates to the role that the Government should play in ensuring that the terms of any bilateral agreements are fully observed. DHL recently commenced operations to/from Papua New Guinea having obtained rights for such a service under the terms of the relevant bilateral ASA. Unfortunately within a week of commencing that service the PNG Government suspended that operation. The cost of this action to DHL was significant.

While operations have now recommenced, this situation highlighted the need for the Australian government to closely monitor the operation of these agreements, and ensure that Australian industry's interests are properly protected.

Summary

It is expected that in the coming years, Australia's export profile throughout Asia will increase. If Australia is to maximise its potential as a regional manufacture and distribution centre it will be essential that adequate and appropriate freight capacity is available to service such operations.

Should the provision of increased freight servicing necessitate a change to the current operating procedures in terms of negotiation of ASAs, then DHL would strongly support such changes.

Yours sincerely,

DHL International (Aust) Pty Limited

Paul Hampson

Services Manager - Australia