

Federal Express

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Prof. Richard Snape
Commissioner
Industry Commission
Level 28
35 Collins Street
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Dear Prof. Snape

Industry Commission- International Air Services Inquiry

I would like to thank you and Helen Owens for your hospitality and the opportunity to present our views on Open Skies.

As promised, I attach a copy of the report prepared by the General Accounting Office of the U.S. Government on international aviation. You will see that this report covers a number of issues set out in your mandate and may be of some assistance.

You and Helen as well as a number of the participants raised some very interesting issues. I thought it might be helpful if I briefly addressed some of them.

Buying and Selling Slots

One of the concepts you raised was airports permitting airlines to have grandfathering rights over slots and parking spaces subject to those slots and parking spaces being utilised. If they are not utilised, they are forfeited. You suggested that this system could be coupled with the ability of carriers to buy and sell slots and perhaps parking spaces.

The advantage of this is that it introduces a market mechanism to better ensure that scarce airport resources are properly allocated and utilised.

While I would support the introduction of free competition and market mechanisms, such a system could substantially raise the cost of using airports. This cost may be partially or fully passed on to the consumer. The consumers may end up paying more for air services without any corresponding improvement in those services.

Grandfathering coupled with a "lose it or use it" regime should ensure a fair and equitable allocation of resources.

For your information I attach the IATA Scheduling Procedures Guide 23rd Edition January 1998. This Guide lays down a comprehensive procedure for allocating slots and parking spaces without the introduction of a market mechanism.

Multi Lateralism vs Pluralateralism

You raised the question whether it would be feasible for a small group of like-minded countries to create and be bound by a standard form, fully liberalised ("open skies") aviation treaty, which would be open to execution and adoption by any country which wishes to do so.

Your view was that this pluralateral approach will ensure that there is uniformity in the application of the concept of total liberalisation or "open skies". Separate bi-lateral agreements tend to have slightly different wording and this in practice frustrates the efficient operation of a fully liberalised regime.

While I believe that this is an excellent point in theory, I fear that in practice we have to face the reality that the bi-lateral system is so entrenched that introducing this mechanism prematurely will slow down the spread of liberalisation.

It may be difficult to persuade countries to accept the wording of a single aviation treaty even if they broadly accept the concept of full liberalisation.

However, it seems to me that it is simply a matter of time. The more countries that enter into fully liberalised bi-lateral treaties, the more workable a pluralateral treaty will become.

I think that pluralateralism will therefore be the next stage but I do not believe that aviation has quite reach this point.

Cabotage

You raised the issue of whether FedEx would be interested in cabotage services in Australia.

FedEx is interested in total operational flexibility in order to maximise the returns on our routes.

The right of cabotage could, in the right commercial circumstances, enable FedEx to support more customers in Australia by opening up several co-terminal points.

However, as I mentioned, it would appear that if Australia were to offer cabotage, it is likely to be on a unilateral basis. There is very little support for permitting cabotage rights in the United States.

Airport Privatisation

We share Qantas' views that airport privatisation often brings with it increased cost.

As there often is very little elasticity of demand in using airports, airport operators tend to have greater negotiating power than the airlines and other airport users.

Certainly, FedEx would be obliged to use an airport which would best accommodate its customers and our flight schedules.

FedEx is concerned that prices will increase in airports in Australia as a result of privatisation. If they do, the consumers may once again bear the brunt of the costs, without necessarily receiving a proportionate increase in the quality of services.

Full Liberalisation vs Protection of Local Airlines

Qantas and Ansett made the point that liberalisation is inevitable but that it should be gradually introduced, to enable local carriers to "fairly" share in the benefits.

It seems to me that there is a fundamental flaw to this argument.

Perhaps the flaw can be best described by an analogy.

Let us suppose that there are two runners in a race and that one runner is naturally faster than the other.

Under this scenario, being "fair" could either mean permitting both runners to start from the same starting line at the same time. Alternatively, it could mean that the faster runner is somehow handicapped by being required to run further or by starting later, so that both runners finish at the same time.

It seems to me that ensuring that the runners start from the same starting line at the same time, best describes full liberalisation and open competition. Handicapping one runner so that both runners finish at the same time best describes the so-call "gradual liberalisation" approach.

The reality of the gradual approach is that it is impossible for governments to regulate commerce such that the "runners" finish at the same time. Instead, the slower runners become slower and the fast runners become more handicapped.

It is impractical for the government to ensure that Qantas and Ansett receive the same revenues and returns on investment as Northwest Airlines, Singapore Airlines or JAL.

While it is impossible for governments to ensure that the "runners" all finish at the same time, it is, on the other hand, quite a straight forward matter to ensure that the "runners" start from the same starting line at the same time.

Open competition, full liberalisation and open skies will achieve this.

Perhaps even this analogy is inadequate, for social and economic development is not a race. There is no end to it and there is not one single "winner". Social and economic development is an ongoing process and any country, which is progressing as fast as its resources permit, is a winner .

Restrictions on air rights artificially restrain the optimum development of a country's economy. It creates "losers".

I hope these comments will be of some assistance to you.

Thank you once again for giving us this opportunity to present our views.

Yours sincerely

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Encs.