



7 February, 1997

Mr. Ed Willett
Executive Director
National Competition Council
GPO Box 250B
Melbourne 3001

Dear Sir,

Rather than individually commenting on each of the varying combinations of applications before you from Australian Cargo Terminal Operators Pty.Ltd. we would like to provide you with a copy of the recent submission made by BOC Gases to the House of Representatives Standing Committee on Communications, Transport & Microeconomic Reform.

In addition we provide our summary of views on the range of issues before you.

1. Greater levels of competition are required on airports for ground ramp handling services and for cargo handling services. The process of enabling competition should aim to attract investment dollars to airports for infrastructure and equipment (not license fees) which will improve the quality of airport services and reduce the levels of congestion around aircraft hardstand aprons. A faster turnaround time for aircraft will result in a more competitive airfreight market.
2. An airport is just one element in the global supply chain through which airfreight is channelled. To improve the quality of freight movement through our airports it is also necessary for smooth and efficient interaction with the other supply chain participants, such as Australian Customs Service, the airlines, the freight forwarders, the road distribution companies, the manufacturers and the growers. The critical need for new and better competition within airports to provide higher levels of service to supply chain participants is a very different issue to that of allowing access to aircraft hardstand for the thousands of users of the national road network.
3. There are many possible outcomes should the airport become further congested through unlimited vehicle access by anyone who has an interest in the numerous freight consignments arriving or departing on each and every aircraft throughout the day. Safety and security are key concerns. Aircraft load balancing and weight checking of the entire manifested load and the application of proper cargo handling techniques utilising purpose built equipment and facilities are significant factors in aviation safety. Security is always of high importance and whether we like it or not, significant international security issues will be on our doorstep very soon.

The consequence of allowing the thousands of national road network users to congest the limited airport ground space could be a deterioration in the cohesiveness between the connecting supply chain participants and a reduction in the quality of Australia's airfreight capabilities. The balance of activities for loading and unloading outbound and inbound cargo will become disjointed and the benefits of using IT systems to coordinate the management of these functions will be lost.

A severe disincentive to invest will exist in an aviation environment where the cost of world standard air cargo facilities and equipment is a competitive financial disadvantage compared to an operator who only has a truck on airport.

High quality competition backed by investment will be curtailed and replaced by a fragmented and transient fleet of service providers characterised by high debt and low capital investment with diminishing quality of service in pursuit of the cheapest possible price to obtain a market share.

BOC believe that competition on airports for the provision of ramp handling and cargo services is essential and that it is in the national interest to ensure services are maintained to an acceptable level of quality, safety and security standards.

To lower the quality of air cargo handling services through disincentives to investment and by congesting the aircraft hardstands further, would change the profile of service providers but would not enhance the competitiveness of Australian airports in the global air cargo market.

Should the National Competition Council wish to have discussions with BOC on the current matters under consideration we would be pleased to make the time and personnel available to you.

Yours faithfully,



Steve Howe
Business Development Director

**Submission to
The House of Representatives Standing Committee
on Communications, Transport and Microeconomic Reform.
Air Freight Review.
By
BOC Gases Australia Limited**

Opportunities for Growth of Air Freight Exports:

It is not our intention to further quantify the available potential for air freight export growth, which has been well covered within submissions already made to the committee.

Ability of Airlines to Support Export Growth, including Perishables:

Historic Growth:

The recent historic growth rate of air freight has been substantial and in excess of 10% per annum. It is misleading to believe that this figure has been achieved as a consequence of inherent demand for freight exports. Rather, it is a matter of fact that available cargo space on aircraft, (lift capacity), grows as a consequence of decisions made by airlines in order to service their passenger traffic. The available 'belly-hold' cargo space is inevitably proportional to that traffic and often grows faster as larger aircraft are progressively introduced. This belly cargo is available at airports that suit passengers not freight and, in consequence, Sydney has enjoyed the greatest growth. There are freighter-only aircraft, but these are still treated as poor cousins to passenger traffic for the reasons noted below.

Ability to Meet Current Demand:

Obviously, Australia's exporters are free to choose sea freight as an alternative to air freight and the individual exporter will make his own economic decisions. It is inevitable that available air cargo space has been fully utilised, but it does not signal that sufficient is available, nor that the service levels are satisfactory.

The parameters that affect cargo movements are not limited to the aircraft themselves, but, principally, also include infrastructure at the airport and governmental bilateral agreements on air traffic movements. These latter agreements are again biased towards passenger traffic, although the announcement on 10th June, 1996 by The Minister for Transport and Regional Development indicates a clear intention to overcome this bias. However, the ideal position is more complex than simple bilaterals, because it does not follow that freighter aircraft exporting, say, perishables to South East Asia would be completing a return leg.

More likely, that same freighter would want to bring in necessary Australian imports in order to be economically positioned for the export flight. It is unlikely that the origin of imports coincides with the destination of exports.

Freighter aircraft need full freedom of the skies to plan global routes. These are not presently available. Australia's own airlines maintain a core interest in passenger traffic, which inhibit the airports from developing policies that enhance freighter movements.

Airports are cognisant that the Australian airlines are their premier customers and are, therefore, unlikely to provide landing slots to freighter aircraft in favour of passenger and, yet, landing fees for freighter aircraft on a per kilogram basis are consistent with those for passenger flights, which have a massive airport terminal infrastructure cost to recover. This position is more real for Sydney than other regions.

Airlines cannot provide 'lift', unless there is facility to 'handle' the cargo. For exports, this requires the provision of sheds on-airport, (with both landside and airside access), that receive the export product and assemble it into aircraft containers or pallets before transporting it to and loading it onto the aircraft. It is traditional, but not essential that major airlines provide their own 'handling' arrangements. Indeed, the historic position that Qantas and Ansett are generally the sole handlers on-airport enables restrictive practices within sheds that are already woefully under-capacity in terms of current cargo throughput. This not only leads to poor service for the exporter, but also a lack of freedom of choice to do anything about it. Additionally, there are negligible facilities to maintain the temperature control of perishable products. The under capacity for cargo handling is exacerbated by the lack of investment in the present cargo sheds in modern and efficient mechanical handling systems which, when combined with suitable IT warehouse management systems and electronic links to industry, can increase total throughput capacity to some 16,000 tonnes per sq. metre from the industry norm of 11,000 tonnes per sq. metre for conventional equipment levels. These figures further compare with an average achieved capacity of around 8,000 tonnes per sq. metre within the major Australian airports. Airlines dominated by passenger demands are unlikely to make these necessary investments, but even were they so to do, there would still be a distinct lack of capacity to accommodate future growth.

The available cargo lift is predominately centred on Sydney as the passenger traffic grows. This is not convenient for either the manufacturing or horticultural industries of, for example Victoria, within which so much export growth potential exists. There is an unnecessary and costly excess of commercial road traffic up the Hume Highway to Sydney which has limited economic opportunity for full load returns and, in the case of perishables traffic, adds time to the journey and detracts from both sales shelf life and quality. The principle is true for other regions, including even NSW's own fertile belt beyond the Blue Mountains.

These weaknesses need to be addressed professionally and with focus. It is implicit that a third party cargo handler that specialises in freight without deference to passenger priorities would be better placed to deal with these matters. More so, if that third party is knowledgeable and expert in perishables traffic.

Meeting the Projected Needs of Exporters:

There is not sufficient capacity within the predicted growth of air cargo lift to satisfy the Nation's ambitions for export expansion. That lift capacity is inhibited by the under performance and limited throughput capability of the existing cargo terminal operators (CTO's), who are not competent in the specialist needs of perishables traffic. The available freight capacity is located to suit passenger traffic, principally at Sydney, which does not suit the predominant export producers in Victoria.

The provision of adequate freight capacity must be consistent with the natural growth in capacity that arises in parallel with passenger traffic. Thus, Sydney is undoubtedly a key location for belly cargo, but is equally less than ideal for freighter-only traffic. Freight traffic should be located as close as possible to the point of production, although it should be remembered that the economic drivers for freight aircraft include the availability of maintenance facilities as well as economic fuel prices. In principle, however, freighters should use regional airports.

This requires that additional handling capacity is installed at both Sydney and appropriate regional airports. It is usual that such handling is provided by commercial organisations, but it is incumbent on the airport operator to provide supporting infrastructure, including apron stands for aircraft parking, taxiways, and landside access. Historically, there has been a reluctance to invest in freighter specific infrastructure. The danger for the Nation is that total Sydney traffic is already adequate to attract self-interested commercial investment, whereas the ideally placed regional investment is not attractive to a commercial enterprise, because the volume of traffic at such regional airports is insufficient to guarantee financial returns. This situation is potentially self-perpetuating, since further passenger growth at Sydney will detract from future freight growth elsewhere and, yet, the Nation's total needs can be under capacity.

Providing for Perishables Export Cargo:

In order for Australia's horticulture production, (wine excepted, which is not a perishable in the accepted sense), to compete in international market places it must be of adequate quality and presentation. It is beyond the scope of this review to deal with these matters in detail, but it is essential for the producers to provide what is specifically required, rather than produce and thence ask if anyone wants to buy. It is unlikely that such a change can be successful without a national product development board. The very success of, for example, ENZA for New Zealand, CapeSpan for RSA, and Agrexco for Israel emphasises this reality.

It is not generally economically feasible for individuals to provide the necessary marketing skills or infrastructure to enable their product to compete. Yet, that competition is impossible without these basic skills in place. Implicitly, the infrastructure needs to be supported by Government. It does not require that Government runs or controls these mechanisms. It is enough to provide subsidy to commercial organisations to off-set their otherwise negative returns.

In the case of temperature sensitive perishables it is impossible for a multiplicity of commercial organisations each to invest in the necessary facilities on-airport that will maintain temperature integrity. It would seem advisable that such facilities operate on a common-user basis, although, clearly, the operator should be skilled in the especial needs of such products. The history, custom and practice at airports does not bode well for the function of multi-user facilities. Parochialism tends to prevail to the detriment of the common good. Additionally, the facilities should be located close to the point of production and offer added-value services such as packaging, labelling and atmosphere inerting.

It must be emphasised that currently such facilities and skills are all but non-existent at airports.

Providing for General Time Sensitive Products:

Products do not have to be foods to be time sensitive. The more valuable the cargo, then, by definition, the more expensive is inventory and time is of the essence. It matters for such exporters that service standards, particularly of turnaround times, are of the highest level. This is not the reality in established Australian airport cargo sheds.

The Impact of Regulation and Practice on Air Freight Development:

These matters have been substantially covered in the above paragraphs, but to reiterate these are:

Governmental bilateral agreements need to be specific to the needs of free trade and air freight. There should not be an interdependence with passenger traffic.

The air cargo industry is a fragmented supply chain with many individual activities. Optimisation of these individual links does not assure the aggregate national optimum. A number of examples of parochial impact are illustrated above.

There is one additional area of concern that impacts most specifically. The nature of Federal and State government is that individual Australian airports are prone to compete with each other rather than the rest of the world. It is healthy that they compete internally, but, ideally, a single face should be presented to the outside world.

It would be sensible for Melbourne, Perth and Brisbane to accept that Sydney is the international passenger hub for Australia and for Sydney to acknowledge that freight, other than belly hold, is better located away from Sydney. There is a tendency for airports to maximise their own volumes and, yet, sub-optimize the national total.

While BOC generally welcomes the advent of privatisation of the airports, there is evidence from abroad, the UK in particular, that parochialism can become endemic. Thus, we do have a concern that the private airport businesses will invest in shopping malls and car parks far more readily than in freight.

There is potential to identify perhaps one regional airport as both the designated and commercially encouraged freighter hub. Logically, demographics require that it be in Eastern Australia. Such an airport will need to be the centre for both imports and exports and could be more attractive if it were to operate on a 'freepoint' basis.

Improved Co-ordination of the Export Air Freight Chain:

Air freight is not an isolated activity. It is an alternative to sea freight and it is almost inevitable that it is preceded by road or rail transport legs. Presently, the procurer of an air freight movement has to deal with a number of parties to secure a series of quotations that comprise the total journey. It would clearly be efficient for that buyer if he could make a single 'phone call to get the job done, which would not require him to adopt special skills for a small proportion of his total job task. It may be argued that the freight forwarder provides precisely this facility. The rub, however, is that the forwarder has no interest in the quality and security of the product itself.

It becomes essential that the freight forwarder and the cargo handler and the road haulier provide a cohesive service. It is less essential that the airline be party to this co-ordinated effort. The current ethic of airlines providing their own handling on-airport runs counter to this desirable change. Not because the airlines lack logistic skills, but, because they place such emphasis on satisfying passenger needs to the detriment of freight. In practice, it is only the major regular users of air freight that could enjoy this 'one-stop-shop', but the matter is a non-issue for the occasional user of air freight. The emphasis is on major and regular. Thus horticulture producers really must gain bulk by co-operating under the aegis of a general export board.

In summary, a third party freight handler is better placed to provide that cohesive single quotation than an airline for which freight handling is adjunct rather than core.

Improving Market Development and Access:

It is not the purpose of this submission to create a marketing plan for either manufacturing or horticultural industry, but it is clear that these matters cannot be developed without the provision of adequate home-ground infrastructure.

The Need for Infrastructure to Access Air Freight Centres:

It is beyond the scope of BOC to determine the detail needs for road and rail links with air freight centres. However, we would argue that the investment outside the airport perimeter can be minimised by ensuring that the investment inside the perimeter is adequate at each regional airport to service the local export needs of that region. In particular, this emphasises the need for new and additional cargo handling facilities with state-of-art mechanical handling systems. This investment, perhaps with subsidy, will predominately be taken up by private commercial concerns. However, those sheds cannot operate efficiently unless the airport also invests in taxiways and apron on airside and in feeder roads on landside. This is a matter for government.

BOC would argue that investment in people is an element of infrastructure. We have identified a poor skill base within airport cargo handling and it should be incumbent on existing and new handlers to establish a plan for training and up-grading the workforce.

Ability of Exporters to Meet the Cost of Dedicated Air Freight:

If exporters alone are expected to change the current status then it will not happen, because they cannot afford the cost as individuals. If, however, government is able to support the costs noted in the section above then the enhanced facilities will of themselves enable more realistic operating costs for dedicated freighter aircraft and encourage more users. It has already been noted that dedicated freighter activity is dependent on turnaround time and fuel prices. Success begets success. Increased traffic enables lower airport operating costs and enhanced purchasing power.

It is most significant that individual businesses will not afford the on-cost of proper temperature control for horticulture and, yet, for the Nation avoidance of wastage, enhanced quality and extended transit life will see a net reduction in costs. Further, any export drive for these products is doomed unless they meet world quality standards.