



17 February 1997

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

Confidential

Ref: Australian Cargo Terminal Operators

Dear Mr Willett

The Australian Chamber of Commerce and Industry (ACCI) welcomes the opportunity to make known its views on the application by Australian Cargo Terminal Operators (ACTO) for an access declaration for certain services relating to international freight operations at the Melbourne and Sydney airports.

The ACCI has been a strong supporter of a broader approach to competition policy, as a means for raising the international competitiveness of Australian business and the efficiency of the Australian economy.

More efficient and effective competition across a wider cross-section of the Australian economy, especially in those areas regarded as non-traded (but which still impact on our international performance) and government business enterprises, is essential to Australia's longer term commercial and economic prospects.

The ACTO in their application address the national significance of the Sydney Kingsford Smith Airport (KSA) and the Melbourne (Tullamarine) Airport for Australia's international air freight industry, and by association for export-users of these services.

They point out: these two airports account for 70 per cent of Australia's trade by air; there is no practical alternative to the two major international airports in these cities; and, some 20 per cent of Australia's trade by value takes place by air freight, and is particularly important for businesses involved in, or using, express shipments, overseas air mail, and/or just-in-time type commercial or industrial activity.

The application for an access declaration by ACTO is particularly timely: firstly, given the recent report by the Australian Parliament into the adequacy of air freight services, entitled "Jet Fresh: Paddock to Plate" (also known as the Vaile Report); and, secondly, because of the need for business, governments and others to flesh out in a practical way a number of the important elements of the new national competition policy arrangements, such as the access regime.

As the National Competition Council (NCC) would be aware, competition in cargo terminal operations (CTO) was addressed by the Vaile Report, at paragraphs 2.24 to 2.52 inclusive. We commend this Report to the Council for its consideration in this matter.

The Report noted a number of criticisms of the existing cargo terminal arrangements. (While the Vaile Report was looking specifically at the movement of perishable and time sensitive products, it does contain a number of useful, broader messages for the cargo terminal process.)

These criticisms included: the provision of poor quality service at a premium cost; insufficient capacity; the requirement for non-resident airlines to buy services from CTO's owned by their competitors (although the ACCI would suggest this situation is not unique to Australia); conflict of interest problems for CTO employees when loading aircraft (between those of their employer vs their employer's competitor(s)).

It concluded there was room for improvement at Sydney KSA, in particular for exports for perishable products (reflecting its specific terms of reference).

The Vaile Report recorded a representative of the Federal Airports Corporation (FAC) as acknowledging real benefits from greater competition in the supply of CTO services, stating "the feasible outcomes of increased competition could include increased cargo volumes, increased efficiencies and lower costs." (at para 2.37), all of which would, in the ACCI's view, be of benefit to the trading community.

Not surprisingly, the Report concluded (at para 2.39): "competition in cargo terminal operations should be encouraged as it will provide choice to airlines and forwarders and, through that choice, encourage improvements in service and potentially lower prices.... However, the gains of increased competition may not eventuate if existing barriers to market access continue despite the entrance of a new cargo terminal operator."

The ACTO group in their application to the NCC point out greater competition in the provision of CTO services would deliver a number of benefits in the national interest: generally better quality and service; more reliable freight movements, most notably lower turnaround times; lower cargo terminal fees; reduction in conflicts of interest, including better treatment of non-resident airlines; and, potentially increased revenues for the FAC. Failure to act, they argue, could cause international carriers to reduce their operations in or development plans for Australia.

The Vaile Report also addressed the issue of off-airport cargo terminal operations, on the premise off-airport CTOs could compete with on-airport CTOs. That is, encouraging contestability by allowing off-airport CTOs to consolidate or break-down containers off-site, competing against other CTOs doing the same on-airport.

According to the Vaile Report, Ansett Freight Services pointed out such an arrangement, which could prevail for them after 1998, would place them at a competitive disadvantage against Qantas, which would continue to have on-airport CTO services. It may also impact on the products off-airport CTOs were prepared to handle.

The FAC is reported as acknowledging there would be security issues, such as entry and exit procedures for trucks (and presumably personnel) travelling onto the airport, although the Report observed this did not appear to be regarded as a problem by either the Customs or the Quarantine authorities. (Such matters do not appear to have been insurmountable to those companies providing in-flight catering supplies.)

Indeed, it is this access per se to the airport which forms an essential issue in the application by the ACTO organisation. In simple terms, one of their key complaints is they are not allowed fair and reasonable access to the two airports in question, namely Sydney and Melbourne, and this places them at an unreasonable competitive disadvantage against other operators.

In particular, ACTO is seeking access to space on-airport where it can park and maintain its equipment, and operate truck loading and unloading activities. They also seek that this space be accessible to the freight and passenger apron of the airports, and be of sufficient area to enable its truck loading and unloading operations.

In essence, to quote from the ACTO formal application: "ACTO is merely seeking permission to operate in a way comparable to and compatible with the way that Qantas and Ansett are permitted to operate by the FAC."

As a matter of principle, the Australian Chamber of Commerce and Industry would support the maximum degree of contestability in the provision of cargo terminal services at Australia's airports, and this contestability be conducted objectively under a common set of transparent rules applied equally to all players, both current and aspiring.

The regulatory framework should not unnecessarily discriminate between operators, with the impediments to entry, conduct and exit being kept to a minimum focusing primarily on security, safety, customs and quarantine issues. Any regulatory arrangements should be designed to reasonably defend these issues, and not act as a means for allocating licences to operate in a discriminatory way.

The ACCI considers the current ACTO application an important matter, and one which warrants the full consideration of the NCC at an appropriate time, following open and transparent public consultation. However, the ACCI would question whether the matter should proceed at this time, or be deferred for re-submission at an appropriate time in the future.

The ACCI understands from confidential discussions with the FAC they have been undertaking a study of air freight arrangements at Sydney KSA, which has included an examination of how CTO services could be improved. This matter has been (unrelatedly) reported in the media (Daily Commercial News, 16 January 1997).

In these discussions, the FAC indicated they would be advertising sometime in either late February or early March of this year seeking expressions of interest for CTO's wishing to provide services to airlines at the Sydney airport.

The process would involve an open, competitive tender for a prescribed number of licences for potential players to provide CTO services, rather than an 'open-slasher' approach. Those seeking licences would have to meet certain criteria (these were not disclosed), although the ACCI interprets this to mean they would apply consistently to all applicants.

Given the presence of large aircraft, many of which carry large numbers of passengers often quite considerable distances, over desolate land mass or ocean, safety issues must be paramount. Similarly, given the need for Australia to maintain effective barriers to contraband, customs and quarantine requirements must be strictly implemented.

The ACCI observes, from the ACTO application, they are able to meet the requirements of the Australian Customs Service and the Australian Quarantine Inspection Service, and are confident of being able to do the same for necessary airport security passes and airport drivers licenses.

Taken as a whole, the ACCI believes the better approach, for the time being, may be for: (i) the FAC to advertise in the national media at the earliest opportunity seeking expressions of interest, under an open and transparent competitive tender arrangement, for the provision of CTO services at all Australian capital city airports; and, (ii) ACTO stay its current application for a reasonable period to allow this process to be completed.

Subject to the FAC proceeding in this way, a number of outcomes can be foreseen: the FAC could develop the parameters underpinning the expressions of interest process into a more formal 'access undertaking'; ACTO could withdraw its application, if it were successful in securing one of the operator licences; or, ACTO could re-commence its application before the NCC, either on the existing or on a new basis.

However, in the event this approach is not acceptable to one or other of the main parties (that is, ACTO or the FAC) or to the NCC, then the ACCI would reiterate its fundamental position of principle.

Namely, the ACCI supports the maximum degree of contestability in the provision of cargo terminal services at Australia's airports, and this contestability be conducted objectively under a common set of transparent rules applied equally to all players, both current and aspiring.

However, because of capacity constraints in land-space at KSA, this may mean prescribing the number of CTOs allowed at this airport, although the regulatory regime per se should not define who they should be. In the case of the Melbourne (Tullamarine) Airport, given the greater physical space, it may be appropriate to allow a higher number of players, although the underlying principles remain the same.

In these circumstances, the ACCI would propose the NCC endorse the ACTO application, with a recommendation in favour of declaration being made to the responsible Minister.

Should you require further information on this matter, please do not hesitate to call me on 06-273-2311 during business hours.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Brent Davis', written in a cursive style. The signature starts with a large 'B' and ends with a long horizontal stroke.

Brent Davis
Director, Trade and Policy Research