



17 February, 1997

Mr Ed Willett
Executive Director
National Competition Council
GPO Box 250B
MELBOURNE VIC 3001

Dear Mr Willett,

I enclose a submission on behalf of TNT which addresses points raised in the Issues Paper published by the NCC in relation to an application by ACTO Pty Limited for Declaration of Airport Services.

The contact office for this submission is Mr Geoff Clarke, National Line Haul and Service Quality Manager, TNT Express Worldwide who may be reached on 02 9317 7717. Alternatively, please don't hesitate to contact me if I can be of any assistance.

Yours sincerely,

Vanessa Fanning
GROUP MANAGER - PUBLIC POLICY

Enc.

AUSTRALIAN CARGO TERMINAL OPERATORS PTY LTD APPLICATION FOR DECLARATION OF AIRPORT SERVICES

COMMENTS BY TNT EXPRESS WORLDWIDE

CRITERION (A)

Applications S1, M1, S2, M2, M3 and S3

Three companies Qantas, Ansett and Australian Air Express provide a combination of CTO and ramp services. In essence this is a duopoly in that Australian Air Express is majority owned by Qantas.

Under the existing duopoly we have observed there is essentially no price competition (ie. one party varies its charges, the other follows) and any service differentiation is extremely limited.

Further, the current duopoly is somewhat more restrictive in its impact than it appears. Should a forwarder wish to allocate its entire CTO business to one operator, the choice must be heavily influenced by the fact that one operator serves a substantially larger number of airlines than its competitor.

We consider that the entry of new players would be highly likely to stimulate price competition and service innovation and efficiencies. It is also probable that with the entry of new players the existing pool of client airlines would be more evenly dispersed among three or more operators rather than divided between just two as at present. This would enable freight forwarders a genuine choice of CTO or to use different CTOs for different classes of freight or destinations.

We would like to address the issue of competitiveness and downstream markets by quoting some observations from the 1995 TNT annual report. Its comments,

“In today’s competitive market place, the race against time is a fundamental business challenge. In the business of international time-sensitive freight, we assist our customers in this race against time ... Time is the product. Companies are now focussing beyond costs and quality to include responsiveness. The transport and logistics industry is probably the most stark example of the trend towards time-based competition ... whether the market is around the corner or around the globe. It is the race against time which is fuelling the rapid growth in the international time-sensitive freight market. According to forecasts produced by the Boeing International Corporation, international time-sensitive freight is set to grow by an average of 18.0% per annum over the 20 year period 1995 to 2015.”

Clearly the willingness of manufacturing companies that depend on time-sensitive business to locate in Australia, such as suppliers or users of high technology equipment and parts managed on a “just in time” basis, will be importantly influenced by the efficiency and competitiveness of our time-sensitive air freight services. Equally, the competitiveness of Australian exporters of time-sensitive produce, such as fresh food, in international markets, is critically effected by the efficiency of the air freight supply chain. The efficiency with which ramp and CTO services are delivered is an important element of this supply chain.

We would contend, therefore, that opening access to the services upon which ramp and CTO services depend will enhance the competitiveness of a wide variety of businesses either using or providing time-sensitive freight services.

The inability of CTOs to meet the performance requirements of the time-sensitive freight industry to date has led Express forwarders such as ourselves to develop mechanisms for by passing these facilities where possible. For example, the majority of express operators consign freight as passenger baggage or unaccompanied baggage in order to ensure the required levels of speed and reliability for the lodgement and recovery of cargo. Qantas has built a facility at KSA Mascot to handle this product. However, this is the only facility of its kind in Australia. Further, Qantas is able to restrict access to this facility by its competitors for a large class of services giving its own Qantas Express product a distinct advantage, it will only handle the Qantas Express product in-bound. Any competitor to Qantas is thus once again dependent on the relevant CTO operator. The way access to this facility is managed is complex and could be explored further in oral evidence.

The entry of new providers of ramp and CTO services would facilitate competition with Qantas' monopoly Express facility.

We have generally addressed the issues on the basis that ramp and CTO services should be looked at in an integrated way. Although ramp services may be physically separated from CTO operators, we consider that ramp services are an integral part of the total service provided by a CTO and that a CTO needs to have guaranteed access to and control over ramp services in order to control the quality, efficiency and cost effectiveness of their service to customers.

There is every reason to judge that access to the services which are the subject of the application will promote competition in the ramp and CTO markets by ACTO and indeed by other players. Air freight generally, and particularly the more time-sensitive segment of the air freight market, depends on these services being delivered as efficiently and cost effectively as possible. The full growth potential of this market will only be achieved if we can realise the benefits that would result from competition and ensure that the performance of our air freight facilities meets worlds best practice standards.

CRITERION (B)

Application S3, M3

The proximity of a CTO to the airport is critical to its ability to provide an efficient, time sensitive service to its customers. As indicated above, for the express freight industry and its clients, maximising the efficiency and minimising the time involved in ground handling is a critical determinant of competitiveness.

An off-airport CTO operation would be disadvantaged relative to an on-airport operation by:

- the increased cost involved in labour and equipment to transport freight to and from the airport
- the extra time required for lodgement and retrieval of cargo

A further consideration is that most freight forwarders use a variety of airlines. The current co-location of CTOs within a relatively confined on-airport area facilitates the effective use of labour and vehicles by freight forwarders operating between CTOs. Any CTO located off-airport would be less accessible to its clients and hence less competitive.

CRITERION (B)

Applications S1, M1, S2 and M2

We have no comment on the first three issues. We suggest others would have more comprehensive information.

On the two latter issues, we are of the view that it is unlikely to be efficient or economic to develop another facility.

On the matter of alternative approaches to service provision, we do not have a firm view. We recognise that ramp handling services involve significant capital costs. Hence it is important for the operation to be able to achieve the level of utilisation necessary to enable economic operation. ACTO has indicated that it believes it can operate viably in this regard and we have no evidence to the contrary. As indicated above, the efficiency and cost of ramp handling services is absolutely critical to a CTOs ability to deliver a satisfactory standard of service to its clients.

We are aware that there are precedents for the provision of ramp handling services by a single provider to multiple CTOs in other countries. If this approach were to be adopted, CTOs would need to ensure the service was subject to enforceable contractual arrangements governing cost and performance parameters and subject to transparent costing and pricing arrangements. This arrangement would work best if any common user ramp handling service were not vertically integrated with any single CTO.

CRITERION (C)

Application S2, M1, S2 and M2

We endorse the view that the volume and value of international air freight moved in and out of Sydney and Melbourne airports is of national significance.

We consider that the facilities described by the applications are very much integral to the airports themselves and hence that it is at least arguable that the significance test should be applied to the airport itself. If the significance test were to be applied to the airports themselves we would consider the facilities in respect of international air freight to be significant in their own right because of their size and importance to the national economy and because of their impact on the international competitiveness of Australian businesses as outlined in Criterion A. If the significance test were to be applied to the entirety of the airport's operations or widened to include passenger facilities then we would still expect the significance test to be met.

CRITERION (D)

Applications S1, M1, S2, S3, M3

We do not consider that the granting of access to any of the services described in the application would generate any additional health or safety risks. Clearly all operators would need to be required to meet the same health and safety requirements and to be subject to a non-discriminatory operational and safety regulatory framework.

CRITERION (E)

To the best of our knowledge ACTO is correct in suggesting that there is no effective access regime currently in place.

CRITERION (F)

Applications S1, M1, S2, M2, S3 and M3

Privatisation of Melbourne Airport

We understand the access principles embodied in Part IIIA of the Trade Practices Act should apply regardless of ownership. So in that sense the 'imminent' leasing of Melbourne airport should not be a relevant factor. It may however be appropriate for the Council to take this issue into account in making a recommendation on practical aspects such as the duration of any declaration. We would also observe that the provision of access to the services requested by ACTO is likely to improve the efficiency and competitiveness of the services in question which should, in turn, enhance the value of the airport. We can see no grounds on which access might be judged to be contrary to the public interest.

Air Freight Exports Inquiry

TNT supports Recommendation 1 of The House of Representatives Standing Committee and believes that this would be consistent with a decision by the Council to recommend declaration of the services covered by the application.

Duration of declaration

The duration of the declaration should be designed to ensure that any new entrant is neither advantaged nor disadvantaged relative to Ansett and Qantas.