

**The Parliament of the Commonwealth of Australia**

# **Jet fresh: paddock to plate**

**An inquiry into air freight exports of  
perishable and time sensitive products**

House of Representatives  
Standing Committee on Communications,  
Transport and Microeconomic Reform

November 1996

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## 37th Parliament

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# Members of the Committee

## 38th Parliament

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# Preface

The export of perishable and time sensitive products contributes significantly to Australia's balance of trade. A high proportion of these exports are sent to countries in Asia and this report focuses on that market.

Australian producers are renowned for producing many high quality products. For exporters what is important is the value of the goods which is measured by the market price paid by overseas customers.

Jet fresh, high value products will provide sufficient returns to pay for high levels of service throughout the export chain which will maintain the quality of products as they are transported from paddock to plate.

Success in exporting perishable and time sensitive goods lies in focusing on high value and high quality products, produced in sufficient volumes to maintain a presence in the overseas market.

Australian exporters are moving towards an export culture with the creation of networks and alliances to achieve best results. The work of the Western Australia Air Freight Export Council demonstrated how an industry-driven export-focussed group can improve export performance. The creation of similar groups could encourage the further development of an export culture. Whatever initiatives are adopted, the incentive for change must be commercially based.

The impact of the air freight regulatory environment on the export of perishable and time sensitive products is influenced by the global nature of air traffic and by the negotiations between governments on international traffic rights between Australia and other countries. On the balance of evidence presented, the demand for air freight can generally be met with available capacity on passenger flights supplemented by dedicated freight services and ad hoc charter services to meet peak demand periods.

Australian freight rates for exports are some of the lowest in the world and are sustained by passenger services and inbound freight rates. This has allowed low value products to continue to be exported. The amount of capacity available to exporters will be determined by the demand for passenger services and inbound freight. If exporters wish to use dedicated freight services, they may have to pay a premium.

It is likely that exporters of low value agricultural products will continue to use the capacity offered on international passenger flights. The rates which dedicated freight service operators have to charge to remain economic means that their services are best suited to exporters of high value products or those who are able to coordinate high load factors and exploit particular windows of opportunity.

The impediments to the export of perishable and time sensitive products do not lie primarily with the transport sector. Individual producers or groups of producers who are able to coordinate regular loads, over extended periods, or anticipate capacity needs well in advance will be able to access the guaranteed capacity obtained from the airlines by forwarders.

The wider implementation of quality assurance handling agreements is essential to creating a successful export culture. Such agreements specify the requirements for appropriate handling of products as they move through the export chain. This will help to assure that premium prices are paid for Australian products in overseas markets.

The committee considers that solutions to infrastructure problems need to be made on a sound commercial basis. Extensive further assessment is needed on the proposals for inland international air freight hubs. However, on the limited evidence provided to the committee, such proposals are unlikely to be commercially viable.

*In summary*, the story of air freight exports of perishable and time sensitive products is the need to export products valued by the foreign market. In a nutshell exporters need to:

- target markets;
- target high value products;
- change the culture throughout the export chain; and
- get the quality right to meet the needs of overseas customers.

The conduct of the inquiry would not have been possible without the help of the air freight export community. On behalf of the committee, I wish to thank the many people who made submissions, provided exhibits, and participated in the public hearings.

I wish to thank the Chairman and members of the previous committee and my colleagues on the current committee for their contribution to the work of the inquiry. The committee expresses its appreciation for the work of the secretariats of both the previous and the current committee.

Mark Vaile MP  
Chair

22 November 1996

# Terms of reference

## 37th Parliament

In July 1995 the then Minister for Trade, Senator the Hon Bob McMullan requested the House of Representatives Standing Committee on Transport, Communications and Infrastructure to inquire into and report on whether there are any systemic deficiencies in Australia's air freight export infrastructure.

The committee was asked to consider:

- the extent to which air freight capacity matches the existing and projected needs of Australian exporters;
  - in particular the needs of exporters of perishable and time sensitive products operating outside the main air freight forwarding centres of Sydney and Melbourne;
- the commercial and regulatory considerations which impact on air freight capacity;
- policy and industry options to facilitate better air freight links; and
- the costs and benefits of pursuing change to the current regime.



# Terms of Reference

## 38th Parliament

In June 1996 the Minister for Transport and Regional Development, the Hon John Sharp MP, requested that the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform undertake an inquiry into air freight exports.

The air freight inquiry was asked to examine the opportunities to improve efficiency in the exports of Australian products, particularly perishable produce, through enhancing Australia's air freight services and developing infrastructure and to make recommendations on changes that are required.

The Committee was asked to consider:

- The opportunities for the growth of air freight exports.
- The extent to which airlines are able to meet the existing and projected needs of Australian exporters, in particular the needs of exporters of perishable and time sensitive produce.
- The extent to which regulatory procedures and current export industry operating practices and procedures impact on the development of air freight opportunities.
- Opportunities for improved coordination and linkages in the export air freight chain.
- Opportunities to improve market development and access.
- The need for, and the viability of, additional infrastructure, particularly to meet the needs of regional exporters for access to air freight centres.
- The ability of exporters to meet the cost of the provision of dedicated air freight capacity.



# Abbreviations

ABS	Australian Bureau of Statistics
ACS	Australian Customs Service
AFEC	Air Freight Export Council [Western Australia]
AFIF	Australian Federation of International Forwarders
APEC	Asia Pacific Economic Cooperation
AQIS	Australian Quarantine and Inspection Service
ASIC	Australian Seafood Industry Council
BTCE	Bureau of Transport and Communication Economics
CTO	cargo terminal operator
CWEDG	Central West Economic Development Group
DPIE	Department of Primary Industries and Energy
DTRD	Department of Transport and Regional Development
FAC	Federal Airports Corporation
IMC	Inland Marketing Corporation
ISO	International Standards Organisation
KSA	Kingsford Smith Airport, Sydney
NUW	National Union of Workers
RAAF	Royal Australian Air Force
TWU	Transport Workers' Union of Australia





# Executive summary

## Executive summary

In the course of conducting the inquiry, the committee found that to successfully export perishable and time sensitive products, producers need to concentrate on high value products which meet the specifications of target markets.

This is in contrast to the perception of some witnesses that the difficulties in exporting perishable and time sensitive products are due to:

- inadequate capacity negotiated in Australia's air service agreements;
- inadequate service throughout the export chain; and
- lack of appropriate infrastructure.

Evidence given to the committee confirms that the export of consistent quantities of high value products can provide sufficient returns to:

- command the air freight capacity required on aircraft;
- pay for a high level of service as products move through the export chain; and
- sustain investment in infrastructure.

To export successfully, producers of perishable products need to produce:

- high value products which meet the specifications of target markets;
- consistent volumes of products for export over time; and
- consistent quality of products for export.

Australians produce many high quality perishable and time sensitive products but for exports it is the value (market price) given to products by the foreign market that is important.

The committee found over and over again that for Australia to succeed further as an exporter of perishable products, the key message was the need for a significant cultural change among all participants in the export chain. The committee is of the view that the incentive for change must be commercially based.

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that this is crucial for ensuring transparency and accountability in the organization's operations.

2. The second part of the document outlines the various methods and tools used to collect and analyze data. It highlights the need for consistent and reliable data collection processes to support effective decision-making.

3. The third part of the document focuses on the role of technology in data management and analysis. It discusses how modern software solutions can streamline data collection, storage, and reporting, thereby improving efficiency and accuracy.

4. The fourth part of the document addresses the challenges associated with data management, such as data quality, security, and privacy. It provides strategies to mitigate these risks and ensure that data is used responsibly and ethically.

5. The fifth part of the document concludes by summarizing the key findings and recommendations. It stresses the importance of ongoing monitoring and evaluation to ensure that data management practices remain effective and aligned with the organization's goals.

6. The sixth part of the document provides a detailed overview of the data collection process, including the identification of data sources, the design of data collection instruments, and the implementation of data collection procedures.

7. The seventh part of the document discusses the various methods used for data analysis, such as descriptive statistics, inferential statistics, and regression analysis. It explains how these methods are used to interpret the data and draw meaningful conclusions.

8. The eighth part of the document focuses on the importance of data visualization in presenting the results of data analysis. It discusses various visualization techniques, such as bar charts, line graphs, and pie charts, and their effectiveness in communicating complex data.

9. The ninth part of the document addresses the ethical considerations surrounding data management and analysis. It discusses the need for transparency, informed consent, and data protection to ensure that the organization's data practices are ethical and compliant with relevant regulations.

10. The tenth part of the document provides a final summary and concludes the report. It reiterates the key findings and recommendations and expresses the hope that the information provided will be helpful in improving the organization's data management practices.

11. The eleventh part of the document discusses the importance of data security and the need for robust security measures to protect sensitive information from unauthorized access and theft.

12. The twelfth part of the document focuses on the role of data in strategic decision-making. It discusses how data can be used to identify trends, opportunities, and risks, and to inform the development of strategic plans and initiatives.

13. The thirteenth part of the document addresses the challenges of data integration and the need for standardized data formats and protocols to facilitate the exchange and sharing of data across different systems and departments.

14. The fourteenth part of the document discusses the importance of data literacy and the need for training and education to ensure that all employees are equipped with the skills and knowledge to effectively use data in their work.

15. The fifteenth part of the document concludes by summarizing the key findings and recommendations. It stresses the importance of ongoing monitoring and evaluation to ensure that data management practices remain effective and aligned with the organization's goals.

16. The sixteenth part of the document provides a detailed overview of the data collection process, including the identification of data sources, the design of data collection instruments, and the implementation of data collection procedures.

17. The seventeenth part of the document discusses the various methods used for data analysis, such as descriptive statistics, inferential statistics, and regression analysis. It explains how these methods are used to interpret the data and draw meaningful conclusions.

18. The eighteenth part of the document focuses on the importance of data visualization in presenting the results of data analysis. It discusses various visualization techniques, such as bar charts, line graphs, and pie charts, and their effectiveness in communicating complex data.

19. The nineteenth part of the document addresses the ethical considerations surrounding data management and analysis. It discusses the need for transparency, informed consent, and data protection to ensure that the organization's data practices are ethical and compliant with relevant regulations.

20. The twentieth part of the document provides a final summary and concludes the report. It reiterates the key findings and recommendations and expresses the hope that the information provided will be helpful in improving the organization's data management practices.

# Recommendations

## Chapter 2 An export culture

### *Competition in cargo terminal operations*

#### Recommendation 1

**The committee recommends that the Federal Government and the Federal Airports Corporation facilitate effective competition in cargo terminal operations. (paragraph 2.40)**

#### Recommendation 2

**The committee recommends that the Federal Airports Corporation facilitate the creation of off-airport cargo terminal operators subject to operators meeting Australian Customs Service and Australian Quarantine and Inspection Service standards. (paragraph 2.49)**

### *Marketing*

#### Recommendation 3

**The committee recommends that the Federal Government initiate action to improve the export business and marketing skills of producers who produce, or are capable of producing, high value perishable and time sensitive products in accordance with export market requirements. Particular attention should be given to:**

- **improving skills related to market research, promotion, and negotiation; and**
- **facilitating strategic alliances and partnerships. (paragraph 2.78)**

#### **Recommendation 4**

**The committee recommends that the Federal Government, in consultation with business, initiate action to facilitate industry support for research and development projects to develop appropriate packaging of exports of perishable products, including packaging which:**

- **maintains product quality throughout the handling process;**
- **is supermarket-ready; and**
- **extends the shelf life of the product. (paragraph 2.79)**

#### *Communications*

#### **Recommendation 5**

**The committee recommends that the Federal Government initiate action to:**

- **facilitate the creation of export network information systems as industry models and widely disseminate the outcomes; and**
- **assist industry to design a low cost, track and audit information management system which can be used by small scale businesses and participant networks in the export chain for perishable and time sensitive products. (paragraph 2.100)**

#### *Achieving critical mass to access markets*

#### **Recommendation 6**

**The committee recommends that the Federal Government assess the feasibility of establishing industry-driven freight export groups based on the model of the Western Australia Air Freight Export Council. (paragraph 2.138)**

## **Recommendation 7**

The committee recommends that, if industry-driven freight export groups are feasible, the Federal Government provide seed funding provided it is:

- matched dollar for dollar on an annual basis by state/territory governments and/or industry; and
- subject to review within two years of the commencement of funding. (paragraph 2.139)

## **Chapter 3 Air freight regulatory environment**

### *Matching capacity to needs*

#### **Recommendation 8**

The committee recommends that the Department of Transport and Regional Development consult widely when reviewing available passenger and freight capacity particularly on high demand routes. (paragraph 3.66)

### *Impact of export regulations and clearance procedures*

#### **Recommendation 9**

The committee recommends that the Australian Quarantine and Inspection Service review its hours of inspection with a view to meeting the export clearance requirements of its clients and report the outcomes to the Minister for Primary Industries and Energy by 31 October 1997. (paragraph 3.79)

#### **Recommendation 10**

The committee recommends that the Australian Customs Service and the Australian Quarantine and Inspection Service (in consultation with the Australian Bureau of Statistics) jointly initiate action to improve exporter knowledge of export clearance regulations and procedures. (paragraph 3.84)

## **Recommendation 11**

**The committee recommends that the Australian Customs Service review, with advice from the Australian Bureau of Statistics, the accuracy and completeness of export data supplied to the Australian Bureau of Statistics and report the outcomes of this review to the Minister for Industry, Science and Technology by 31 October 1997. (paragraph 3.89)**

## **Recommendation 12**

**The committee recommends that the Federal Government explore with the freight forwarding industry ways to facilitate the cost effective capture of export data. (paragraph 3.90)**

## **Chapter 4 Transport and infrastructure**

### *Developments in handling*

## **Recommendation 13**

**The committee recommends that the Department of Primary Industries and Energy disseminate widely to participants in the export chain information concerning quality assurance handling agreements being developed by the Australian Seafood Industry Council. (paragraph 4.72)**

## **Recommendation 14**

**The committee recommends that the Federal Government facilitate the further development of quality assurance handling agreements between participants in the export chain for perishable and time sensitive products. (paragraph 4.73)**

*Infrastructure at domestic airports*

**Recommendation 15**

**The committee recommends that the Federal Government should make no decision to fund the construction of inland international air freight hubs without extensive further assessment into such proposals. On the limited evidence before it, the committee believes such proposals are unlikely to be viable. (paragraph 4.129)**

*Final recommendation*

**Recommendation 16**

**The committee recommends that the Minister for Transport and Regional Development report to the Parliament on the progress of the initiatives in the recommendations in this report by 31 October 1997. (paragraph 4.141)**

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes the need for transparency and accountability in financial reporting.

2. The second part of the document outlines the various methods and techniques used to collect and analyze data. It includes a detailed description of the experimental procedures and the tools used for data collection.

3. The third part of the document presents the results of the study, including a comparison of the different methods and techniques used. It discusses the strengths and weaknesses of each method and provides a summary of the findings.



# Chapter 1 Introduction

## Background to the inquiry

1.1 On 21 June 1995 the then Prime Minister, the Hon Paul Keating MP, announced in his 'Winning Markets' statement that the then Minister for Trade, Senator the Hon Bob McMullan MP, and the then Minister for Transport, the Hon Laurie Brereton MP, would initiate an inquiry into export-related air freight issues. Subsequently, the Minister for Trade wrote to the chairman of the House of Representatives Standing Committee on Transport, Communications and Infrastructure, the Hon Peter Morris MHR, to request that the committee inquire into, and report on, whether there are any systemic deficiencies in Australia's air freight export infrastructure.

1.2 The committee had not reported when the House of Representatives was dissolved on 29 January 1996. In the new Parliament, the Minister for Transport and Regional Development, the Hon John Sharp MP, in his letter of 20 June 1996 to the chair of the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, Mr Mark Vaile MP, requested that the committee inquire into, and report on, air freight exports under revised terms of reference.

1.3 There have been a number of inquiries and reviews concerning air freight, the most recent being a study commissioned by the previous Prime Minister in September 1995. The report of the study, *Removing Impediments to the Export of Perishable Produce*, was completed in December 1995.

1.4 While there is overlap in the terms of reference with the then Prime Minister's study, the committee has been able to re-examine the issues and build upon the findings of that previous study.

## Conduct of the inquiry

1.5 The inquiry undertaken by the House of Representatives Standing Committee on Transport, Communications and Infrastructure was advertised nationally on 19 August 1995 in the *Weekend Australian* and on 23 August 1995 in the *Financial Review* and the committee invited submissions from interested persons and organisations. In addition, the committee wrote to government agencies and state governments seeking submissions.

1.6 At the commencement of the inquiry in the 38th Parliament, the committee advertised the revised terms of reference on 1 July 1996 in *Lloyd's List Australian Weekly* and on 3 July 1996 in the *Daily Commercial News*. In addition, the committee wrote to all persons and organisations which had provided submissions to the inquiry in the 37th Parliament and to the previous Prime Minister's study. Further, letters were sent to other interested persons and organisations. In total some 100 invitations for submissions were sent by the committee.

1.7 Over 100 submissions were received and these are listed at Appendix 1. The committee also received 38 exhibits which are listed at Appendix 2.

1.8 The committee of the 37th Parliament held two hearings, in Adelaide and Melbourne, in December 1995 and the committee of the 38th Parliament held a further four hearings, in Sydney (two public hearings) and Canberra (two public hearings), in August and October 1996. In total evidence was taken at public hearings from fifty nine witnesses and from thirty one organisations. Details regarding the public hearings conducted in both Parliaments are listed at Appendix 3.

1.9 In addition, the committee inspected the air freight handling facilities at Kingsford Smith Airport, Sydney, on 8 August 1996.

## Structure of the report

1.10 **Chapter 2** identifies that in Australia there needs to be a greater commitment to an export culture at every link in the export chain. The existing market structure is discussed and opportunities are canvassed for changing that structure through increased competition, better marketing, and better communication systems. The chapter finishes with a discussion of the need for all participants in the export chain to form networks that can influence the export market.

1.11 **Chapter 3** assesses whether the regulatory environment adversely affects the export of perishable and time sensitive products. The capacity that is provided by bilateral air service agreements (passenger and dedicated freight services) and by ad hoc freight charters is discussed in terms of whether that capacity is adequate to meet the demand by exporters of perishable and time sensitive products. The chapter finishes with an examination concerning whether some regulations and procedures required by customs and quarantine are impediments to the export of perishable and time sensitive products.

1.12 **Chapter 4** addresses transport and infrastructure issues. The chapter commences by discussing whether there are impediments to the transport of perishable and time sensitive products: by the requirement for some producers to move products inter-state, by the freight rates within Australia, by the existing air freight booking practices, and by difficulties with handling perishable products. The second part of the chapter covers infrastructure, and begins with an examination of the need for air-side cold stores at Australia's international airports. The chapter finishes with an assessment of the adequacy of existing, and need for additional infrastructure at foreign and domestic airports to support Australian exporters of perishable and time sensitive products.

1.13 **Recommendations** by the committee appear throughout the text following the related discussion of the issue. The recommendations are also reproduced at the front of the report (with cross referencing to the relevant section in the body of the report) to assist readers.

# Chapter 2 An export culture

## Introduction

**2.1** This chapter discusses the need for a greater commitment in Australia to developing an export culture at every step in the export of perishable products and some possible opportunities for change. It commences with a description of the existing market structure for the export of perishable and time sensitive products. This is followed by a discussion of opportunities to change that market structure aimed at reducing impediments to producing a high value product with well targeted marketing.

**2.2** The majority of evidence presented to the committee concerned exports to Asia and the committee's report reflects this focus on the region which is Australia's largest export market for perishable products.

**2.3** However, the committee does not wish its comments to be seen as applying only to enhancing Australia's performance in exporting to Asia. Export initiatives to other countries, such as those in the Middle East and elsewhere, are recognised by the committee as valuable.

**2.4** In examining the evidence the committee found over and over again that for Australia to succeed further as an exporter of perishable products, the key message was the need for a significant cultural change among all participants in the export chain, which will take time. The committee is of the view that the incentive for change must be commercially based.

## Commitment to an export culture

**2.5** Mr Ken Matthews, Executive Director, Department of Primary Industries and Energy (DPIE), described Australia's export focus as follows:

Exports were initially developed to clear the periodic surpluses of produce available at domestic wholesale markets. This approach to exporting inevitably results in opportunistic behaviour by exporters who seek to clear temporary surpluses of produce by disposals into wholesale markets overseas at small margins and securing transport and handling services on an as-needed basis without any forward planning.

The quality of the produce, which has been handled many times and can be delayed during export, inevitably suffers and can only be sold at discounted prices overseas. The behaviour and products of this quality lower the overall reputation of Australian food in those markets. (*Transcripts*, p. 294)

**2.6** Mr Matthews added that growing export markets and buyers who were becoming more demanding of quality are leading to changed practices:

... growers are entering into longer term contracts for the supply of a specified quality, delivered according to a pre-determined schedule. This results in a number of benefits.

First, the transport and handling chain is considerably shortened as produce moves in this case directly from the farm to export. Second, transport and handling logistics can be simplified and streamlined. Direct contracts between growers and exporters allow quality handling procedures to be specified and properly planned for by the transport companies.

Third, and most importantly, the grower is able to secure a price premium for quality that enables the transport and handling companies to be properly rewarded for their services. Fourth, it introduces stability and predictability into the planning and scheduling of transport. Finally, the grower gets market information directly back on price and quality, allowing the growers themselves to adjust their growing and transport arrangements to improve margins in the future. (*Transcripts*, p. 294)

2.7 The committee believes that such changes indicate an increasing demand for improved services throughout the export chain (by producers, road transporters, agents/consolidators, forwarders, cargo terminal operators, airlines), and the presence of a growing export culture among producers. An export culture with a commitment to produce high value products that meet foreign market specifications and guarantee reliable supplies will enable Australia's producers to become price makers in export markets rather than price takers.

## Market structure

2.8 The export of perishable and time sensitive products contributes significantly to Australia's balance of trade. Information provided in a report commissioned by the then Prime Minister, the Hon Paul Keating MP, indicated that in 1994–95 total exports (by air and sea) of perishable products amounted to \$3.2bn of which \$2.7bn was exported to Asia (Exhibit 34, p. 7). The potential for improvement is indicated from recent estimates that, by the turn of the century, the total Asian food market will be \$685bn of which over \$83bn would be met by imports (Prime Minister the Hon John Howard MP, Media Release, 'Supermarket to Asia', 12 September 1996).

2.9 The four most important categories of perishable goods are: seafood, fruit and vegetables, meat, and flowers. Seafood comprises by far the most valuable export. In 1994–95 the total value of seafood sent by air freight to Asia was \$349m, at an average value per kilogram of \$20. This compares to the second most important perishable commodity, fruit and vegetables, which amounted to \$120m at an average value of \$2.2 per kilogram (Exhibit 34, p. 7). Mr Matthews told the committee that in 1994–95 Japan, Hong Kong, Singapore and Taiwan were Australia's four most important markets for exports of perishable goods and accounted for 91 per cent of the value of perishable exports (*Transcripts*, p. 295).

2.10 Australia's geography and broad range of climates allow perishable products to be harvested across extended seasons in a clean green environment. However, Australia's geography and agricultural history has also contributed to the development of a fragmented, poorly coordinated agricultural export sector characterised by large numbers of relatively small producers primarily focused on the domestic market. These producers are situated in different climates so experience different seasonal variations.

**2.11** To export successfully producers of perishable products, over a long time period, need to produce:

- high value products which meet the specifications of target markets;
- consistent volumes of products for export; and
- consistent quality of products for export.

**2.12** The creation of strong horizontal linkages among producers to achieve critical mass, and strong vertical linkages involving all participants in the export chain to facilitate the efficient movement of products to export markets, was seen by DPIE as essential to export success, especially for newer exporters and those located away from major transport centres (Sub 18, *Submissions* p. 279).

**2.13** The fragmented nature of sectors in the export chain extends beyond producers into freight forwarding operations. This sector provides important support services to producers. Mr Brian Lovell, Chief Executive Officer, Australian Federation of International Forwarders, told the committee that his organisation represented some 450 freight forwarders country wide. He noted that:

... it would be a mammoth task to find out exactly the number of freight forwarders ... There are a lot of very small operators calling themselves freight forwarders, but then you have to define the term 'freight forwarder'. (*Transcripts*, p. 322)

**2.14** The land transport sector in Australia is also characterised by the presence of many businesses of varying size transporting perishables mainly to four export gateways. Aviation statistics provided by the Department of Transport and Regional Development (DTRD) reveal that to the year ended June 1996 total tonnages exported from Brisbane amounted to 25 800t; from Sydney, 53 200t; from Melbourne, 34 800t; and from Perth, 21 600t. Perishable exports from all other airports amounted to about 12 300t.

**2.15** Potentially, the existence of many producers and freight forwarders offers the benefits of competition in the form of least cost production, lower prices and higher service quality. While this may serve the domestic market well, it can create some management hurdles to successfully exporting products, especially in relation to meeting the coordination and communication needs of all export participants. This is discussed later in this chapter.

**2.16** In contrast to the existence of many producers and freight forwarders, cargo terminal operations are dominated by three entities, discussed below. The impact of having a small number of cargo terminal operators on market access, price and quality of service, is discussed below.

**2.17** The submission from DTRD indicated that some 90 per cent of perishable exports are carried in the belly hold of passenger aircraft which are operated by 55 international carriers providing some 700 services a week to and from Australia. This is supplemented by 24 dedicated freight services per week and additional ad hoc freight charter flights (Sub 61, *Submissions* pp. 758–9).

**2.18** Australia is considered by the airline industry as a 'back haul' market with export freight rates set at less than full commercial rates. Export freight rates are sustained by either passenger services or inbound freight rates. For example, DTRD advised that freight rates ex-Australia to Tokyo could be as low as \$1.32/kg, and to Singapore as low as \$0.53/kg. This compares to the import rates to Sydney of \$12.44/kg and \$5.82/kg respectively (Sub 101, *Submissions* p. 1286). The higher import freight rates sustain the freight rates on exports, including low value perishables.

**2.19** The availability of air freight services for export is determined by passenger services and air freight imports. Passenger services and air freight imports have a major impact on what is able to be exported, when, at which rate, and from which gateway.

**2.20** It is important also to recognise that, although there are just four key foreign markets for Australia's perishable and time sensitive products, Japan, Hong Kong, Singapore, and Taiwan (*Transcripts*, p. 295), there may be a number of routes to those countries. Opportunities therefore exist for innovative scheduling and routing by exporters and airlines.

**2.21** Australia's potential export market is comprised of many buyers who are:

- geographically dispersed;
- located at some distance from the producers;
- quality conscious;
- able to access many of the products from various sources in the quantities required; and
- able to obtain substitutes for Australia's products.

**2.22** Consequently, Australia has considerable difficulty in influencing the final market for its perishable and time sensitive products. Distribution chains in export markets have a number of competing participants and possible destinations which can include wholesale distribution centres, supermarkets and hotel/restaurant chains. Australian producers face keen competition in the market (Sub 13, *Submissions* p. 129). Competitors include:

- producers within the foreign country;
- experienced exporters such as New Zealand and Israeli companies which may have established a brand name advantage;
- emerging exporters such as those from South Africa and South America which may have an advantage of lower labour costs; and
- large scale producers such as those in the US.

**2.23** In summary, the air freight export market structure for perishable and time sensitive goods is fragmented and currently enjoys less than full commercial freight rates ex-Australia. Australian producers face keen competition in foreign markets. If Australia is to achieve a successful export culture a stronger commitment to exporting is essential throughout the whole chain, from producer to the point of sale in the foreign country. Attention should be focused on how best to produce a high value product meeting the foreign customer's preferences and deliver that product in a short time frame to achieve a premium price.

## **Opportunities to change the market structure**

### **Competition in cargo terminal operations**

**2.24** A commitment to the provision of service is an important aspect in creating a successful export culture and several submissions and witnesses to the inquiry have criticised the level of service provided by cargo terminal operations. This has led to the call for additional operators to be given access to the market to provide increased competition. Cargo terminal operators (CTOs) are responsible for loading freight received from the freight forwarder onto aircraft. After taking evidence in Sydney the committee took the opportunity to inspect the cargo terminals operated by Ansett and Qantas and, although the debate has centred on access by potential competitors to Sydney's Kingsford Smith Airport (KSA), the committee considers its conclusions have relevance to arrangements at other airports in Australia.

**2.25** Market access is a key issue in this inquiry. The situation at KSA is complicated by the lack of space and this has led to an additional issue of the appropriateness of off-airport CTOs. In such operations, cargo containers could be packed at the CTO's premises outside the airport boundary for transport direct to the aircraft for loading (for import air freight the process would be reversed).

### ***On-airport cargo terminal operations***

**2.26** Currently Qantas and Ansett enjoy considerable market power in their provision of cargo terminal services. A third CTO, Australian Air Express is half owned by Qantas (*Transcripts*, p. 284). There is a fourth CTO at KSA, DHL International (Aust) Pty Ltd. Mr Brian Roberts, General Manager and Director, DHL, told the committee that, while his firm was able to load and unload its own aircraft, loadings to Qantas and Ansett aircraft had to be through Qantas and Ansett CTOs. He added that Ansett had recently agreed to allow DHL increased access (*Transcripts*, p. 204).

**2.27** During its inspection of CTO facilities at KSA, the committee was informed that cargo could wait some three hours before being loaded. Such delays could lead to serious deterioration of perishable products. If left exposed to the elements the quality of perishable products is likely to be significantly reduced, resulting in lower market prices and/or failure to adequately supply target export markets. The need for cold storage facilities at airports is discussed in chapter 4.

**2.28** Other criticisms levelled at existing cargo terminal arrangements at KSA include:

- the provision of a poor service at a premium cost (Sub 57, *Submissions* p. 720);
- insufficient capacity leading to quality of service problems (Sub 74, *Submissions* p. 1029);
- non resident airlines have to buy services from CTOs owned by their competitors (Sub 74, *Submissions* p. 1030);
- a conflict of interest arises since existing CTO employees have to allocate priority to either their employer's aircraft or those of a competitor (Sub 74, *Submissions* p. 1030); and
- competition would allow entry of a specialist for whom the CTO function would be core business (*Transcripts*, p. 246).

**2.29** At a hearing in Canberra the committee explored the quality of service provided by CTOs by asking Mr Peter Frampton, Executive General Manager Freight, Qantas Airways Ltd, how good was Australian capacity to handle air freight and whether it operated at world best practice.

**2.30** Mr Frampton responded:

We are accredited to ISO 9002, and all of our terminals in Australia are accredited to ISO 9002. They were, I think, some of the first in the world to be so; they have been like that for over two years now. So if that is the measure of world best practice, we are at or close to it most times. (*Transcripts*, p. 278)

**2.31** Mr Frampton also advised that Qantas would be investing some \$30m in systems and terminals over the next three years and continued:

We guard our ISO 9002 very fiercely, and we believe that there is always room for improvement with those standards, particularly as to customer expectations. Perhaps what we have not done is move ahead of customer expectations in some areas. We will endeavour to do that. (*Transcripts*, p. 290)

**2.32** However, Mr Geoff Serbutt, Manager International Cargo, Ansett Air Freight, was more candid when commenting on cargo handling in Australia. He acknowledged that when compared to some foreign terminals, there was room for significant improvement in Australia's performance. He added that freight was an important component of Ansett's operations:

But at the end of the day, it has got to be a return on investment and Ansett now, being an international player, has got to seriously look at what it is going to do in terms of cargo handling. (*Transcripts*, p. 253)



**2.33** Under sections 4.15.3 Storage and 4.15.5 Preservation, ISO 9002, International Standard, *Quality systems—Model for quality assurance in production, installation and servicing*, it states that:

The supplier shall use designated storage areas or stock rooms to prevent damage or deterioration of product, pending use or delivery. ... In order to detect deterioration, the condition of product in stock shall be assessed at appropriate intervals. (ISO 9002, 4.15.3 Storage, p. 8)

The supplier shall apply appropriate methods for preservation and segregation of product when the product is under the supplier's control. (ISO 9002, 4.15.5 Preservation, p. 8)

**2.34** In its initial submission to the inquiry of October 1995, Qantas advised that the limited amount of cool room space was purely for the use of import or transit freight (Sub 14, *Submissions* p. 164). Further details sought from the Australian Quarantine and Inspection Service (AQIS) confirmed that both Qantas and Ansett's KSA cool room facilities are only export registered for meat commodity air freight (Sub 94, *Submissions* p. 1240).

**2.35** Consequently, the committee believes that there is room for improving the service provided at KSA to exporters of perishable products.

**2.36** Mr Stephen Montgomery, Property Manager, Federal Airports Corporation (FAC), said that the FAC was undertaking a major inquiry into the management of freight at KSA. The inquiry was due to be completed in late 1996 and would include the issue of off-airport CTOs (*Transcripts*, pp. 123–4).

**2.37** Mr Montgomery predicted that feasible outcomes of increased competition could include increased cargo volumes, increased efficiencies, and lower costs (*Transcripts*, p. 125).

**2.38** Mr Brian James, Managing Director, James Transport Pty Ltd, advised that his company had received approval from the FAC to upgrade its facilities which were adjacent to KSA and that two connecting bridges would be constructed to bring the facility 'on-airport'. Mr James said his aim was:

... to create a facility which will be open to all sorts of people ... it will be a multi-user, multi-modal facility, a significant part of which will be a cargo terminal. Obviously, it is an air freight cargo terminal. We expect that that will be finished by the end of next year. (*Transcripts*, p. 133)

**2.39** The committee considers that 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. The potential for increased competition resulting from the initiative of James Transport is therefore welcomed. 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.

## 2.40 Recommendation 1

**The committee recommends that the Federal Government and the Federal Airports Corporation facilitate effective competition in cargo terminal operations.**

### *Off-airport cargo terminal operations*

2.41 The committee acknowledges that at KSA there are significant constraints on available space and consequently has explored with witnesses the possibility for, and viability of, cargo terminal operations being based off-airport.

2.42 When the issue was raised with the current CTOs the witnesses from Qantas declined to comment on the grounds that it is an FAC initiative (*Transcripts*, p. 287).

2.43 The witnesses from Ansett were more forthcoming and told the committee that the FAC had advised them that their CTO lease was due to expire in 1998 and that they needed to move. Mr Serbutt commented that Ansett would not be happy if Qantas remained on-airport and Ansett was forced off-airport if this put Ansett at a commercial disadvantage. He added that if someone wanted to invest \$20m on an off-airport handling facility that was part of doing business. Ms Anne Buttsworth, Manager International and Regulatory Affairs, also commented that those advocating an off-airport CTO would be seeking a return on investment from handling high value products rather than from low value perishables (*Transcripts*, pp. 257–8).

2.44 The security aspect of additional CTOs was raised by Mr Montgomery (*Transcripts*, p. 125). This is an important issue for off-airport CTOs as entry and exit clearance procedures may need to be completed outside the perimeter of the airport as trucks would be travelling between the off-airport CTO's premises and the aircraft.

2.45 The committee raised this issue with witnesses from the Australian Customs Service (ACS). Mr Nic Arthur, Assistant Director, Border Operations Branch, responded:

On the discussions about off-airport CTOs or additional CTOs, we developed a number of principles which we would require any operator to meet. They are not designed to be restrictive in the sense that we are trying to block any player out of the process, but they are simply arrangements which we believe are necessary in order for us to meet our statutory obligations. (*Transcripts*, p. 364)

2.46 Mr Arthur added that ACS faced 'no philosophical disagreement' concerning off-airport CTOs (*Transcripts*, p. 365).

2.47 A similar response was provided by Mr William Hetherington, Acting Assistant National Operations Manager, AQIS (*Transcripts*, p. 358–9).

**2.48** The committee sought from DTRD information on CTOs operating at foreign airports. The subsequent submission from the department provided information on seven foreign airports. For these foreign airports, the majority of CTOs are located on-airport but one CTO out of the six at London's Heathrow airport is off-airport. The committee considers that this supports its view that increased competition is practical and that off-airport cargo terminal operations could be viable.

## **2.49 Recommendation 2**

**The committee recommends that the Federal Airports Corporation facilitate the creation of off-airport cargo terminal operators subject to operators meeting Australian Customs Service and Australian Quarantine and Inspection Service standards.**

**2.50** Notwithstanding its two recommendations concerning cargo terminal operations, the committee acknowledges that the success or otherwise of any additional operator should be determined on purely commercial grounds.

### *Access to ancillary services*

**2.51** Mr Tim Edwards, Managing Director, Australian Cargo Terminal Operators Pty Ltd, one of the proponents of increased CTO competition raised the possibility of unfair competition. He stated it was important that:

An independent CTO must be assured of access to ramp services from Qantas or Ansett at a reasonable price and at a reasonable service level.

Non resident airlines must be assured of access to heavy engineering from Qantas or Ansett regardless of other considerations.

An independent ramp operator must be assured that its client airlines would have access to heavy engineering. (Sub 83, *Submissions* p. 1113)

**2.52** The committee has no evidence to suggest that existing CTOs have in the past or are likely in the future to engage in such unfair practices as implied by Mr Edwards' submission. A risk, albeit small, remains however, and the committee believes that airport authorities and regulatory bodies should be vigilant.

## Marketing

**2.53** An important feature of a successful export culture is an investment of both time and money in vigorous marketing. Three aspects have been considered by the committee:

- the provision of information about foreign markets to producers;
- the active use of market intelligence by producers and exporting groups; and
- the level of commitment to exporting.

### *Provision of information*

**2.54** The report commissioned by the then Prime Minister, the Hon Paul Keating MP, concluded that market development and market assistance programs then operating needed improvement. The report observed:

Small emerging exporters also find it difficult to access information on market opportunities for perishable product in Asia and to deal with the range of trade and quarantine issues that arise when initially getting into exporting. (Exhibit 34, p. vi)

**2.55** It was recommended that the Rural Industries Research and Development Corporation prepare 'a series of in-depth Asian country-by-product analyses for high value perishable products and disseminate this information to producers' (Exhibit 34, p. vi).

**2.56** The committee agrees with the report's emphasis on high value products. As Ms Vanessa Fanning, Group Manager, Public Policy, TNT Ltd, said:

We have to get in at the top end of the market. It is no use shipping out our second-rate goods. We need to be targeting for the absolute top end of the market, ... that is the produce that can support investment in the supply chain. (*Transcripts*, p. 375)

**2.57** However, the recommendation concerning provision of in-depth analyses was criticised in the submission from the South Australian Minister for Transport, the Hon Diana Laidlaw MLC. It was suggested that such analyses were impractical because of rapid change in foreign markets and that:

Its dissemination to producers provides immediate opportunities for buyers in the markets to drive prices down and competitor countries to put counter strategies in place before our producers have had time to act on it. (Sub 72, *Submissions* p. 1007)

**2.58** The committee believes that while this may be true for low value products, well targeted, high value products will be more robust to competitive forces.

**2.59** The committee supports the view that in-depth analyses would be valuable but the South Australian minister's point concerning the volatility of foreign markets highlights the need for real-time information on demand and prices, and a more active approach to gaining and using market information.

**2.60** The committee believes that the provision of information from government agencies while useful should not be seen as adequately meeting the marketing needs for a successful export culture. The point has been well made by the submission from Australian Fresh Harvest Pty Ltd:

Asian buyers see their Australian suppliers as passive marketers in an arena dominated by aggressive competitors. They say Australia's competitors gather far more market intelligence and implement aggressive marketing programs. ... far too little face-to-face contact between Australian firms and their Asian buyers, with too few exporters actively seeking out and incorporating their customers' requirements into their business. (Sub 40, *Submissions* p. 513)

### ***Market intelligence***

**2.61** In obtaining market intelligence, producers need to identify how the demand for various products in foreign countries can be matched to the features of localities in Australia—for example, climate, soil characteristics, proximity to export gateways, and distance from foreign markets.

**2.62** Good market intelligence should enable Australian exporters to:

- target suitable sectors in foreign markets;
- produce appropriate products;
- supply the correct amount of product;
- design appropriate packaging; and
- negotiate successfully with foreign buyers.

**2.63** Targeting more manageable markets such as tourist and up-market hotels, and specialty supermarket chains was advocated by a report commissioned by the South Australian Farmers Federation. This was because it was impractical to attempt to supply the total market and even the smaller sectors in foreign countries were large when compared to the Australian domestic market (Exhibit 11, p.15).

**2.64** The point was reiterated by Dr Brian Johnston, Director, Agribusiness Co-operation and Development, DPIE, when he said in relation to the Japanese oyster market:

It is quite frightening when you do finally get into some of these markets. They do not talk about a couple of tonnes a week; they talk about 50 or 100 tonnes a week. (*Transcripts*, p. 305)

**2.65** The committee considers the identification of manageable target markets is an essential prerequisite for successful exporting but it is also necessary for producers of perishable and time sensitive products for export to commit themselves to supplying that export market rather than using it as a method to off-load surpluses arising from the domestic market.

**2.66** A strategy for producing appropriate products for the export market has been initiated by the Dubbo City Development Corporation. The corporation's submission advised that a six month joint venture study had 'identified opportunities for both traditional vegetables and Asian vegetables to be grown within the close vicinity of Dubbo.' Growers were increasing plantings and the next steps included the establishment of a central packhouse and growers visiting Asia to understand markets (Sub 80, *Submissions* p. 1069).

**2.67** The committee considers that this is a good example of a measured marketing approach which is likely to benefit producers. Identifying and meeting each market's requirements should be the driving force for production and can be enhanced by face to face contact between producer and foreign customer, as identified by a number of witnesses.

**2.68** Successful suppliers have recognised that this principle applies to all markets. Mr Peter Pokorny, National Merchandise Manager Produce, Woolworths Ltd, told the committee that his company was taking its growers to visit foreign markets:

We visited the service providers; we visited the customer; and then we got everyone together and we talked about how we have to go about developing the market. Now we will not get a short-term, and I daresay we will not get a medium-term, return on that investment, but we will get a return. (*Transcripts*, p. 396)

**2.69** Mr Pokorny added that the focus should be on serving the needs of the customer irrespective of where that customer lived:

Really, the same psyche, approach and methodology has to be in place. If we are serving a grower from the Sunshine Coast in Queensland going to a customer in Melbourne, it has to be the same psyche and methodology as serving a customer in Hong Kong. There should be very little difference: maybe the product specification, that is about it. (*Transcripts*, p. 397)

**2.70** Supplying the correct amount of product to the foreign market is also vital. Too little and the product is unable to establish itself, while over supply will depress prices and consequent returns, and place in jeopardy the recognition of the product as being of high value.

**2.71** The point was well made by Mr Brian Jeffriess, Director, Australian Seafood Industry Council (ASIC). He told the committee that it was a viable marketing proposition to provide the Japanese tuna market with 30–40 tonnes per day (the amount normally accepted) but oversupply via chartering a Boeing 747 with its payload of 80 tonnes would depress prices (*Transcripts*, p. 313). The warning that ill considered charter flights could create gluts in foreign markets was also made in a submission from Ms Genine Wallinga, Deputy Manager Aviation Policy, Ansett (Sub 4, *Submissions* p. 32).

**2.72** Designing appropriate packaging is a critical aspect of market intelligence. Packaging should allow the products to be safely and efficiently transported, enable transfer to the point of sale with minimum handling, and also be attractive to customers. Mr Ken Matthews, Executive Director, DPIE, described to the committee one such project:

... the packaging of broccoli in an attractive way and which happens to stack particularly well into transport containers, but which also at the other end can be opened up and is ready immediately to go onto supermarket shelves. They proved to be particularly attractive in Taiwan or Japan, where they just take them out and they are literally the most attractive product of that genus on the shelves. It has been put to me that a significant proportion of their value added was only in the packaging ... (*Transcripts*, p. 304)

**2.73** A similar comment was made in a submission from Mr Brian Roberts, General Manager, DHL International (Aust) Pty Ltd. He stated that exporters should pack and price the goods in Australia so that they could go straight to the shop shelf reducing handling and time at the destination (Sub 57, *Submissions* p. 720).

**2.74** The committee agrees that supermarket-ready packaging is an important aspect of marketing. Although producers may have to invest in market research and/or technology to achieve this, the returns, if other requirements of successful marketing are met, should be able to meet the cost of the investment. Moreover, by being prepared to commit particular lines of products to specific outlets in foreign countries, producers will have demonstrated a commitment to export and the achievement of an export culture.

**2.75** Negotiating with foreign buyers is another aspect of marketing. The importance of negotiating skills was raised in the joint submission from the Northern Territory Departments of Transport and Works, and Primary Industry and Fisheries. This drew attention to some growers becoming frustrated with the service they were receiving which had caused them to begin freight forwarding their own products. Problems had subsequently arisen due to the growers' lack of export marketing knowledge (Sub 36, *Submissions* p. 479).

**2.76** The committee believes that market intelligence skills need further development if an export culture is to be achieved throughout the export chain for perishable and time sensitive products. This is not to say that particular groups are not already moving towards the attainment of this goal, rather it is that progress is sporadic and would benefit from encouragement and guidance through the promotion of best practice models.

**2.77** The committee believes that changes designed to improve Australia's export culture should be industry-driven. Governments may have a role in promoting change by providing modest seed funding to facilitate industry driven projects.

### 2.78 Recommendation 3

The committee recommends that the Federal Government initiate action to improve the export business and marketing skills of producers who produce, or are capable of producing, *high value perishable and time sensitive products in accordance with export market requirements*. Particular attention should be given to:

- *improving skills related to market research, promotion, and negotiation; and*
- *facilitating strategic alliances and partnerships.*

### 2.79 Recommendation 4

The committee recommends that the Federal Government, in consultation with business, initiate action to facilitate industry support for research and development projects to develop appropriate packaging of exports of perishable products, including packaging which:

- *maintains product quality throughout the handling process;*
- *is supermarket-ready; and*
- *extends the shelf life of the product.*

### *Commitment to exporting*

**2.80** *An export culture requires commitment by all those in the export chain. An important feature is a commitment to consistently supply quality products.*



**2.81** The committee believes that the size of Australia's land mass and climate variations faced by producers in different regions of the continent, could be used to advantage. The committee was encouraged by the comment from Mr Stanley Cavanagh, Assistant Secretary, Northern Territory Department of Asian Relations, Trade and Industry, when he said:

... I think we need to take a broader view. I think we need to look at the whole of Australia, which has seasonality. ... Maybe we should integrate all of those seasonal peaks and see just how it would work across Australia, rather than us just doing a four-month gap for the Northern Territory. (*Transcripts*, p. 28)

**2.82** As well, producers could investigate exploiting the variations in their production areas and use suitable varieties of seed and/or species to extend the harvesting season for particular export products.

**2.83** The committee is aware that successful, experienced exporters have demonstrated a commitment to the long term supply of high value products. A study for the South Australian Farmers Federation commented that major export agents 'have built up strong bonds with their suppliers and their freight forwarders' and that these agents 'will often mix produce to meet customer requirements' (Exhibit 11, p. 12).

**2.84** The committee recognises that such business relationships are valuable but that they appear to be sporadic and those entering the export market may find joining such arrangements difficult. The committee discusses possible solutions on this issue later in this chapter.

**2.85** Once exporters are providing products over the long term they are in a better position regarding the booking of freight capacity with forwarders and airlines (Exhibit 11, p. 12).

**2.86** Ms Megan Burges, Project Officer, Northern Territory Department of Asian Relations, Trade and Industry, told the committee that territory producers were unable to obtain a regular allocation of capacity because they were unable to fill capacity for the six-month allocation period (*Transcripts*, p. 30). The point was reiterated by witnesses from TNT Ltd with Ms Fanning adding that advance booking, even a year ahead, was important (*Transcripts*, p. 380). Transport issues are discussed in detail in chapter 4.

**2.87** Another consequence of being able to supply regular lines of products over extended periods is that this engenders a reciprocal commitment from foreign buyers. Thus Australian exporters will be better placed to withstand competition from other exporters and in addition the branding of products as 'Australian' is likely to be more successful. The committee cautions, however, that brand recognition is a two edged sword. Those adopting such strategies must be confident in their ability to maintain quality and meet the delivery preferences of target markets—it is difficult for a brand to shake off any acquired adverse reputation. Brand recognition of exported products as 'Australian' will only be successful if it is backed by an export culture.

**2.88** The export culture must be robust. This is because a corollary to the need for a long term commitment to export is that exporters must be prepared to supply foreign customers even if this results in temporary disadvantage, such as short term lower returns on exports than from the domestic market. Instances recalled by a witness from the Northern Territory when products destined for export were diverted to the domestic market because of higher prices (*Transcripts*, p. 31) are likely to generate ill will in foreign markets towards Australian products. A similar example was provided to the committee concerning the export of products from the Ord River in Western Australia—producers withdrew from the export market when domestic prices rose (*Transcripts*, p. 345).

## **Communications**

**2.89** While the gathering of market information is an important aspect of marketing, its impact will be diminished if communication of that information is not time critical. The committee would expect that in a fully operating export culture environment, information flows would be pertinent to the exporter's needs, accurate, and provided on a real-time basis allowing the exporter to respond quickly to market opportunities.

**2.90** DTRD has identified that poor communication between all participants in the export chain results in a relatively uncoordinated approach to exporting, and is a key area where improvements can be made. In his opening address to the committee, Mr Tony Wheelens, Assistant Secretary, International Relations, DTRD, told the committee:

... the lack of coordination and information exchange between producers, exporters, freight forwarders, transport providers and buyers. I believe the committee will have observed the poor communication flows between these sectors via the conflicting information presented to it. If any steps forward are to be taken the department believes that greater information flow is the key. (*Transcripts*, p. 405)

**2.91** The committee considers that the fragmented nature of the export market coupled with the low value of many of the products exported has contributed to, and been exacerbated by, a lack of investment in appropriate information links among export participants. The committee agrees with the department and considers that improvements in information flows are needed between participants at each link of the export chain so that product quality can be monitored as it moves through the export chain and the requirements of each player, including the customer, can be efficiently disseminated.

**2.92** The committee received evidence concerning two aspects of communications, information systems, and the release of aircraft flight information to producers.

## *Information systems*

**2.93** The submission from the Central West Economic Development Group (CWEDG), based in Parkes, NSW, has advised that it intends to use a bar coding system to enable the auditing of each link in the export chain to ensure compliance with quality assurance standards and the rapid identification and rectification of quality assurance breakdown. Such a system would allow continuous tracking of the product and:

... the resultant database will be interfaced with similar systems already operational in SE Asia. ... The resultant network will allow instantaneous communication and fully electronic trading and marketing. (Sub 41, *Submissions* pp. 544)

**2.94** The CWEDG states that its aim is to 'send clear market signals to the producer, reducing the "static/fuzz" characteristic of the current system and caused by the plethora of middlemen' (Sub 41, *Submissions* pp. 545). Mr Alex Ferguson, CWEDG's Chief Executive Officer, told the committee that:

You have got classically 'gate to plate'—the producer, road, capital city markets, agent's cold store, freight forwarders, terminals. ... in the [Inland Marketing Corporation] we are looking to take all of that out. ... you will probably find in a new world, which is already the overseas experience, that lots of agents who stand in the middle will not be there unless they add value to the process. (*Transcripts*, p. 179)

**2.95** TNT's submission to the then Prime Minister's inquiry indicated that a real-time tracking system using barcode scanning is used by TNT Ltd:

TNT has developed a proprietary supply chain management software package which actively monitors the progress of all items moving through the supply chain, warning of critical events and proactively managing anomalies across the entire supply chain.

A key component of the supply chain software is the ability to actively track and trace shipments. TNT, through its international express operation, has a state-of-the-art track and trace network integrated with lasernet barcode scanning technology.

With this end-to-end visibility of the produce, all stakeholders are constantly updated on the progress of the traffic. (Exhibit 35, p. 7)

**2.96** The committee acknowledges that such tracking systems are beyond the reach of many individual producers, small freight forwarders, or export agents. Moreover, low value products are unlikely to sustain the investment in such systems. It is therefore important that industry support be given to facilitate the creation of networks of export participants and that producers focus on producing high value products for specific markets to enable investment in better communications systems.

**2.97** While the decision on the implementation of particular communications systems should be based on commercial factors, the committee believes industry and government could beneficially form partnerships in order to facilitate the development and adoption of more effective communications networks between all participants in the export chain.

**2.98** Further, research is needed to determine the most effective way that such systems can provide feedback to producers on customers' preferences on product, price and quality. As Ms Jayne Gallagher, Manager Seaqual, ASIC, told the committee:

... we need to find out what sort of information people need to meet their requirements and then how they would like to receive that information. It is no good us producing a book if they are not going to read it. It is no good us putting it on the Internet if none of our exporters is on the Internet. So we need to think of various ways of getting the information, not just one way, and make it in a way that is accessible and meaningful to the people who need it. (*Transcripts*, p. 315)

**2.99** It is important that information systems are based on accurate, reliable and timely data.

## **2.100 Recommendation 5**

**The committee recommends that the Federal Government initiate action to:**

- **facilitate the creation of export network information systems as industry models and widely disseminate the outcomes; and**
- **assist industry to design a low cost, track and audit information management system which can be used by small scale businesses and participant networks in the export chain for perishable and time sensitive products.**

### ***Release of flight information***

**2.101** A second aspect of communication, relating to improved information flow, was raised during the committee's inquiry. In its submission, the Australian Seafood Industry Council (ASIC) identified the need for exporters to have 'access to information regarding current and future cargo space availability, flight scheduling, aircraft types etc' (Sub 47, *Submissions* p. 688). Such information is available to freight forwarders.

**2.102** Mr Brian Lovell, Chief Executive Officer, Australian Federation of International Forwarders (AFIF), told the committee:

Under the International Civil Aviation Organization, ICAO, there was a directive that all states or countries implement a program to prevent acts of terrorism on civil aircraft. Australia signed up to that agreement ... in February [1996]. ... flight details will not be issued to an exporter until the cargo is in the safe custody of a cargo terminal, be it the cargo terminal of the freight forwarder or the carrier. (*Transcripts*, pp. 322–3)

**2.103** Mr Alan Brown, South Australian President, AFIF, added that details of flights could be revealed in certain circumstances:

The Air Navigation Act does have a little bit of flexibility when it comes to time-sensitive cargo like live lobsters. If the freight forwarder has a model that he has got an agreement with the department of transport in Canberra to allow him to release flight details to a regular customer that has complied with the whole chain of security right from his premises to arrival at the airport ... (*Transcripts*, p. 326)

**2.104** These arrangements were confirmed at a later hearing by Mr Raymond Turner, Assistant Secretary, Aviation Security, DTRD, who added that there were 'fairly severe constraints' on how the information on flights was given out (*Transcripts*, p. 411).

**2.105** The committee is satisfied with the general arrangements by which information can be provided by freight forwarders to producers and notes the system allows some flexibility. Such flexibility is, in the committee's view, an indication of an emerging export culture and a reasonable balance between facilitating exports of perishable and time sensitive products, and meeting important security commitments.

**2.106** The example, however, serves to highlight the advantage for producers of perishable and time sensitive exports who become regular customers of particular forwarders. The information so released would enable producers to coordinate their production and domestic transport arrangements to meet particular flights.

### **Achieving a critical mass to access markets**

**2.107** The committee is of the firm view that, despite indications that individual participants and groupings are moving towards an export focus, there is still some way to go in developing an export culture. An important step, again which has been achieved in some cases, is the creation of alliances of participants working towards the common goal of exporting perishable and time sensitive products. Such critical mass groups when formed will be able to influence the market to the benefit of their members and, through them, the nation's balance of trade.

## *Core groups*

**2.108** The committee has received evidence that experienced exporters to some extent coordinate their suppliers to fill export contracts (Exhibit 11, p. 12). However, the committee believes that there is room to create strategic networks of producers:

- of similar or export-compatible products (for example, products requiring similar handling conditions or destined for the same foreign market); or
- from particular regions.

**2.109** The committee envisages that such networks would comprise of members drawn from throughout the export chain with the common goal of improving the ability of each player to maximise their returns.

**2.110** The committee is aware of networks of producers with an export focus being formed, such as that described by the Dubbo City Development Corporation (Sub 80, *Submissions* p. 1069), initiatives in the Riverina of NSW (*Transcripts*, p. 145), the Queensland Vegetable Exporters Group, and the Fine Food Suppliers Consortium (Sub 25, *Submissions* pp. 434–5).

**2.111** However, evidence presented to the committee shows that strategic alliances have sometimes been slow to form or occasionally have not been beneficial. For example, ASIC's Mr Jeffriess told the committee that in the high value tuna market shipments are not as well coordinated as they could be (*Transcripts*, p. 311). Growers frustrated with existing arrangements tried to freight forward by themselves but experienced difficulties due to a lack of export marketing knowledge (Sub 36, *Submissions* p. 479).

**2.112** An alternative way of creating critical mass is by using bodies that coordinate the export process by sourcing products from a number of producers to fulfil foreign contracts.

**2.113** Examples of new ventures are the Central West Economic Development Group (CWEDG) project being administered by the Inland Marketing Corporation (IMC) referred to above, and the Habitat Trust.

**2.114** A supplementary CWEDG submission to the inquiry indicated that the IMC's aims were, 'within the context of increasing on-farm profitability':

- To develop and manage a producer driven agency operating between producers and markets.
- To build and manage the necessary infrastructure to interface farm production with market demand. (Sub 41, *Submissions* p. 521)

**2.115** IMC's objectives included:

- identify and develop export markets, and
- change farmers' attitudes from being production driven to market driven to benefit from these market opportunities. (Sub 41, *Submissions* p. 521)

**2.116** The committee considers that IMC's aims of developing a producer driven agency developing export markets and engendering a market driven approach, is an appropriate strategy. When achieved, this could result in the critical mass required to access and influence export markets and potentially, benefit producers in the central west of NSW in terms of understanding market requirements and improved profits.

**2.117** However, the committee has some reservations on the economic viability of the infrastructure envisaged by the IMC and discusses this issue in chapter 4.

**2.118** A submission from the Facilitator/Coordinator of the Habitat Trust, Mr Ross Mellor OBE, outlined Habitat Trust's proposal which involves the production and export of perishable products from Avalon Airport, Geelong, Victoria (Sub 42, *Submissions* pp. 589–90).

**2.119** If bold ventures like these are to be successful over the long term they must be financially independent of government.

**2.120** Other companies such as Woolworths Ltd already have the critical mass in its networks of suppliers and are able to facilitate market access for producers. Mr Pokorny explained Woolworths' attitude to its suppliers:

... from our perspective size is irrelevant. It comes back to the attitude and it comes back to the customer focus. In fact, in several instances we have been able to provide an export facilitation for some of the smaller producers that are coming into our domestic operation. Their product is excellent quality; they have a very good understanding and view of where the business has to go; and we work with them in a very successful relationship. ... they provide the production expertise, if I can call it that, and we provide the market access. ... I think there are other people who operate in a similar way or are certainly looking at rejigging their business in a similar way. (*Transcripts*, p. 398)

**2.121** For individual producers wishing to enter the export market approaching existing exporters is a viable option. The example of Woolworths, however, shows it is critical that emerging exporters have a commitment to the export of high value products.

### ***Broad-based groups***

**2.122** The previous review of impediments to the export of perishable products recommended there be established a National Export Freight Strategy Group based on a revitalised Agri-Food Council. One of its tasks would be to determine whether there was a need for a network of export freight councils (Exhibit 34, pp. iv–v).

**2.123** This recommendation was overtaken on 12 September 1996 by the Prime Minister's, launch of the Government's Supermarket to Asia Strategy which includes the establishment of a Supermarket to Asia Council comprising four senior ministers and:

... industry leaders to work together on removing barriers to greater exports of food products to the region. ... These representatives will work hand-in-hand with Government to remove unnecessary regulation, reduce the cost of doing business and increase opportunities for new markets. (Prime Minister the Hon John Howard MP, Media Release, 'Supermarket to Asia', 12 September 1996)

**2.124** Mr Tony Wheelens, Assistant Secretary, International Relations, DTRD advised the committee that issues to be examined by the council include:

- quality and sustainability;
- business competitiveness and productivity;
- trade and market development;
- communications; and
- transport and logistics (*Transcripts*, p. 403).

**2.125** The committee believes the council is a positive development. The committee also recognises that the Supermarket to Asia Strategy by definition focuses on Asia. Any improvement in Australia's exporting effort in one region can be expected to have benefits for producers exporting beyond Asia.

**2.126** There needs to be a link between such a body consisting of ministers and industry leaders and smaller local or product-based groups. It is here that industry bodies could have important leadership and coordination roles.

**2.127** In the course of taking evidence, the committee's attention was drawn to the Western Australia Air Freight Export Council (AFEC) as a possible model for a broad based group to address impediments to air freight exports.

**2.128** Mr Geoffrey Lord, Director, Air Cargo Management Pty Ltd (which acts as the executive office to AFEC), told the committee about the background to AFEC:

- the council was a Western Australia Government initiative in July 1994;
- it arose following increasing complaints from exporters involving the lack of air freight capacity from Western Australia;
- the council comprises industry-selected representatives from each of the main industry sectors involved—producers, freight forwarders, airlines and relevant government departments; and
- each industry representative is self-elected (*Transcripts*, pp. 337–8).

**2.129** The committee notes that this initiative also received seed funding from DPIE (*Transcripts*, pp. 302–3).



**2.130** AFEC has undertaken initiatives in providing education and training, facilitating workshops, and organising Western Australia representation at foreign trade fairs (Sub 43, *Submissions* pp. 618–19). However, Mr Lord identified three major breakthroughs arising from AFEC's efforts:

- the introduction of a weekly Singapore Airlines Boeing 747 freight service on an Auckland–Perth–Singapore route, which allowed two uplift points to fill the 120 tonne capacity;
- the negotiation of air cargo rights to a Britannia Airways service to back haul 12 tonnes of freight per week to Singapore; and
- the gaining of permission from the Indonesian Government to transit cargo at Denpasar (Bali), thereby providing 200 tonnes per week additional capacity from Perth—an increase in useable capacity of about thirty per cent (*Transcripts*, pp. 340–1).

**2.131** The committee believes that AFEC has made a significant contribution in addressing air freight impediments from Perth and has raised with witnesses representing AFEC whether there should be a 'national AFEC' or a series of smaller regional bodies.

**2.132** Mr Lord did not support a national AFEC but added there might be a role for a national body to meet biannually in order to cover national issues. Mr Graeme Harman, Principal Private Secretary, Western Australia Minister for Transport, explained:

From the [Western Australia] government's point of view, there are certain things that a national body would assist us with. Those are obviously areas where the national government has control. We would always come for assistance with customs, landing rights, bilaterals ... The success of what we have done seems to work on the fact that we have got these people around the table who have local knowledge ... It really is grassroots. That is the success of it. The success being that these people relay that information to their growers whom they represent ... if that were extended to a national scene, would the same communication be there? (*Transcripts*, p. 347)

**2.133** Despite the apparent advantages of creating broad facilitating bodies, some states have not established such formal groups. The submission from the Premier of Tasmania, the Hon Tony Rundle MHA, indicated that the Tasmanian Government believed 'these often achieve little and become an end in themselves rather than developing solutions', their cost was 'prohibitive in the Tasmanian context, either through industry levy or through Government grants.' The Tasmanian Government also considered it was up to the industry to develop solutions (Sub 85, *Submissions* pp. 1121–2).

**2.134** The committee agrees that such councils, if established, need to be industry-driven with industry membership if they are to engender the commitment that is vital to their long term success. The committee notes that participants in the Western Australia AFEC are self-nominated but that the council, however, has received financial support from the Federal and Western Australia Governments.

**2.135** The committee is satisfied that the AFEC initiative has been of benefit and believes that there is a role for such bodies in encouraging an export culture and increasing the export market potential for Australian industry. Such councils would also be able to apply at the micro level the initiatives arising from the Prime Minister's Supermarket to Asia strategy.

**2.136** The committee believes the key role for such bodies would be to act as a conduit for market research, and linking producers with customers. This facilitation role should seek to:

- facilitate the creation of networks throughout the export freight chain;
- attain world best practice for the handling and transport of products;
- develop packaging suitable to the foreign market's requirements;
- encourage the use of electronic information systems to monitor and maintain the quality of products from farm to market;
- source products from networks both within the region and from other regions to meet market demands; and
- provide feedback from participants to government.

**2.137** The committee is of the view that any provision of Federal Government seed funds to help create any facilitating AFEC-style industry-driven body must be matched by the respective state/territory government and/or industry, and move to be fully funded by industry. Such contributions would indicate a commitment by industry to further develop the initiative.

### **2.138 Recommendation 6**

**The committee recommends that the Federal Government assess the feasibility of establishing industry-driven freight export groups based on the model of the Western Australia Air Freight Export Council.**

## **2.139 Recommendation 7**

**The committee recommends that, if industry-driven freight export groups are feasible, the Federal Government provide seed funding provided it is:**

- **matched dollar for dollar on an annual basis by state/territory governments and/or industry; and**
- **subject to review within two years of the commencement of funding.**

## **Conclusion**

**2.140** The committee believes that there is increasing demand for improved services throughout the air freight export chain (by producers, domestic transporters, agents/consolidators, forwarders, cargo terminal operators, airlines), and also the presence of a growing export culture among producers.

**2.141** The air freight export market structure for perishable and time sensitive goods is fragmented and currently enjoys less than full commercial freight rates ex-Australia. Australian producers face keen competition in foreign markets. If Australia is to achieve a successful export culture a stronger commitment to exporting is essential throughout the whole chain, from producer to the point of sale in the foreign country. Attention should be focused on producing high value perishable and time sensitive products that meet foreign market specifications and on guaranteeing reliable supplies that will enable Australia's producers to become price makers in export markets rather than price takers.

**2.142** The committee believes that opportunities exist to change the existing market structure for the export of perishable and time sensitive products to the benefit of all participants. These changes include:

- increased competition in cargo terminal operations which will provide choice to airlines and forwarders and, through that choice, encourage improvements in service and potentially lower prices;
- improved market intelligence through identifying and meeting each market's requirements, enhanced by face to face contact between producer and foreign customer, and supported through the promotion of best practice models, including quality packaging such as supermarket-ready packaging;
- a greater commitment to export evidenced by exporters being prepared to supply foreign customers on an on-going basis and not just to clear domestic surpluses, even if this results in temporary disadvantage by foregoing short term higher prices on the domestic market;

- improved information flows between participants at each link in the export chain so that product quality can be monitored as products move through the export chain and the requirements of each player, in particular the final customer, can be efficiently disseminated and acted upon; and
- the creation of alliances of participants working towards the common goal of *successfully exporting high value perishable and time sensitive products.*

**2.143** The committee considers that the Federal Government should look to assist the creation of facilitating bodies modelled on the Western Australia Air Freight Export Council. However, support for such bodies must be matched by the respective state/territory government and/or industry, and move to be fully funded by industry.

# Chapter 3 Air freight regulatory environment

## Introduction

**3.1** This chapter considers aspects of the air freight regulatory environment which affect the exports of perishable and time sensitive products. It commences with a review of bilateral air service agreements and then considers whether the regulatory environment which provides air freight capacity is an impediment to exporters. The chapter finishes with an examination of the impact of regulations and procedures carried out by both customs and quarantine on the export of perishable products.

**3.2** After considering the evidence, the committee is of the opinion that the air freight regulatory environment does not present significant impediments to the export of perishable and time sensitive products. In general, available air freight capacity (on passenger flights, supplemented by dedicated freight services plus ad hoc freight charters during peak periods), is adequate to meet the current needs of exporters of perishable products. However, the committee recognises that there are capacity constraints into Japan, Hong Kong and Thailand during peak periods.

**3.3** In general, only high value perishable products can absorb the commercially derived freight rates charged by dedicated freight services or ad hoc freight charters. The committee believes that attention should be focused on finding better ways to use existing air freight capacity on passenger flights because of its affordability and encouraging exporters to focus on high value exports capable of paying higher freight rates for a higher level of service. This will necessitate better coordination and communication throughout the export chain (discussed in chapter 2), and will encourage exporters to be innovative in choosing routes and markets to target for best results. The committee believes that success in these areas may alleviate any mismatch between available air freight capacity and the delivery preferences of export markets.

**3.4** The committee was satisfied that export clearance requirements do not impede the export of perishable and time sensitive products. However, the committee felt that there was room for streamlining export data reporting requirements through improved electronic reporting systems and a further tailoring of services provided by the Australian Customs Service and the Australian Quarantine and Inspection Service to better meet the requirements of exporters.

## Capacity

### Bilateral air service agreements

3.5 The scheduled movement of passengers and freight between countries is covered under bilateral air service agreements negotiated government to government. Australia has 49 bilateral air service agreements out of a world wide total of more than 3000 (*Transcripts*, p. 81) and these agreements are reviewed from time to time.

3.6 In considering the outcomes of these agreements, the committee believes that it is important to emphasise the global nature of the air traffic environment, that the process involves two (or more) governments, that some governments may not be sympathetic to Australia's goal of acquiring additional capacity on certain routes, and Australia may not be prepared to trade some of its rights required by another country in order to increase capacity.

3.7 The framework for bilateral air service agreements began with the 1944 Chicago Conference which was held to plan the future of international aviation. The outcomes of the government to government agreements are dependant on the negotiating power and current aviation policies of the countries involved and are influenced by national interests. Negotiation proceeds in the expectation of reciprocal benefits being granted (*Transcripts*, pp. 81-2).

3.8 Most of Australia's air service agreements do not distinguish between passenger and freight capacity. Consequently, airlines are able to choose whether to use this capacity for passenger schedules, designated freight services or a combination (*Transcripts*, p. 83).

### Charter arrangements

3.9 Any shortfall, over and above scheduled passenger and freight capacity negotiated through bilateral air service agreements, can be met by ad hoc freight charters. These services do not fall under bilateral agreements as they are the province of private sector negotiations with subsequent approval by the relevant governments.

3.10 Freight charters have been used to export perishable products into key markets and during seasonal peak periods. The rules governing access into and out of Australia have been further liberalised with the announcement on 10 June 1996 of new air charter guidelines. The Minister for Transport and Regional Development, the Hon John Sharp MP, believes that these new guidelines will allow carriers to meet the seasonal export needs of Australian producers and enable exporters to test and develop markets (*Minister for Transport and Regional Development, the Hon John Sharp MP, Media Statement, 'Australia opens up charter freight markets', 10 June 1996*).

## Adequacy of capacity

**3.11** Demand for air freight capacity is increasing. The International Air Transport Association forecasts that international air freight tonnage will grow at a rate of 10.5 per cent per annum from 1994 to 1999 (Sub 61, *Submissions* p. 770). The report commissioned by the then Prime Minister, the Hon Paul Keating MP, indicated that in 1994–95 the value of perishable product exported by air was \$0.75bn out of total air exports of \$14bn (Exhibit 34, p. iii). This reflects the low value of perishable products when compared with total air freight exports.

**3.12** In 1996 some 55 international airlines operated to and from Australia, accounting for over 700 scheduled passenger flights each week. In addition to passenger services, as at August 1996 there were 24 scheduled dedicated freight services leaving Australia each week (*Transcripts*, p. 83).

**3.13** 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 air freight 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 agreement negotiation process.

**3.14** The new freight charter arrangements have the potential to assist in meeting any shortfall. Mr Michael Mrdak, Director, International Aviation Policy Division, DTRD, told the committee that some 760 freight charter flights were operated in the year to June 1996. These flights were permitted through a combination of supplementary flights allowed under bilateral air service agreements and flights approved under the freight charter arrangements (*Transcripts*, p. 83).

**3.15** Mr Mrdak also said that, in attempting to predict demand, his department consulted with other departments and participants to ascertain industry needs and emphasised that the Government's policy is to maximise national benefits from air service negotiations by negotiating capacity ahead of demand (*Transcripts*, p. 83).

**3.16** He advised the committee that capacity negotiated under bilateral air service agreements had increased by almost fifty per cent over the last four years and that in 1996 'negotiated capacity outstrips capacity being used' by about forty per cent (*Transcripts*, pp. 83, 92). The DTRD submission detailed the amount of Australia's negotiated air freight capacity utilised as at July 1996 (Sub 61, *Submissions* pp. 805–12).

**3.17** Mr Mrdak told the committee that Australia's initiatives in aviation placed it 'well in front of many of our bilateral partners—particularly our key bilateral partners—in the Asian region.' As evidence he cited the new freight charter arrangements intended to meet peak capacity demands and drew attention to the Government's decision to include the uncoupling of passenger and freight capacity in future agreements (*Transcripts*, pp. 84, 88).

**3.18** However, Mr Mrdak acknowledged that there are existing capacity constraints into certain key markets, notably, Japan, Hong Kong and Thailand and that these constraints were more pronounced during seasonal peak periods. He added that Australia's negotiating position was tempered because the foreign carriers were not using 'anywhere near' the capacity available to them under the existing agreements (*Transcripts*, pp. 92–3).

**3.19** As mentioned above, a possible way to meet capacity shortfalls is by way of dedicated freight services. However, the committee received evidence that the lack of the right to carry air freight to a third country (a fifth freedom) prevents a significant number of foreign owned freight operators from carrying Australian cargo on their scheduled flights to other destinations (Subs 92, 100, *Submissions* pp. 1167, 1283).

**3.20** The submission from Mr Alex Ferguson, General Manager, Central West Economic Development Group (CWEDG) labels this as a 'misuse of capacity':

American and European carriers adopt this practice because they are exploiting 5th Freedom rights. 5th Freedoms allow an airline to fly on to a third country, rather than having to return directly to the point of origin ... abuse of 5th Freedoms lies in their using the triangulation to increase trans-Pacific market share with little benefit to Australia. ... regulation corrupts markets. (Sub 41, *Submissions* p. 537)

**3.21** The committee sought information from the air freight operators.

**3.22** Mr King, Partner, Phillips Fox Lawyers, representing Polar Air Cargo Inc, noted that their direct flight between Australia and Hong Kong operated empty because Polar Air did not have the fifth freedom rights required to off load product in Hong Kong under the US–Hong Kong air services agreement (Sub 100, *Submissions* p. 1283). Mr Grenville Stevens, General Manager Australia and New Zealand, Martinair Holland, stated that his freight services experienced similar operating constraints (Sub 92, *Submissions* p. 1167).

**3.23** These airline operators, far from exploiting fifth freedom rights, complained to the committee that these rights were unavailable to them and they wished to be able to carry freight (Subs 92, 100, *Submissions* pp. 1167, 1283–4). Indeed, they occasionally operated as ad hoc freight charters on the Australia–Asia route (Sub 92, *Submissions* p. 1167).

**3.24** The committee notes, however, the advice from Mr Tony Wheelens, Assistant Secretary, International Relations, DTRD, that in the case of US carriers:

... to date no approach has been made by the US Government to Australia to try and obtain beyond rights to North Asia for their freight carriers 'dead legging' to Asia. I believe this displays a lack of interest by the US carriers in operating these traffic rights. (*Transcripts*, p. 405)

**3.25** The committee considers that this apparent lack of motivation from some foreign dedicated air service operators might be overcome if Australian exporters were able to provide regular high yielding loads on Australia–Asia routes.



**3.26** On the balance of evidence presented, the committee believes that, in general, exporter needs for air freight can be met by available capacity on passenger flights supported by dedicated freight services, plus ad hoc charter services to meet peak demand periods, and is satisfied that DTRD will continue to make every effort to acquire adequate capacity in advance of freight export demand. The committee therefore believes that negotiated capacity does not pose an impediment to the export of perishable and time sensitive products.

**3.27** The committee's view that negotiated capacity is generally adequate should not be interpreted as meaning it also believes that the level of service offered by airlines (and forwarders) meets the level of service sought by exporters, such as providing direct routes into target markets, guaranteed delivery times, and access to space on preferred flights. Booking practices and other transport issues are discussed in chapter 4.

**3.28** When considering the adequacy of air freight capacity for the export of perishable and time sensitive products, the committee believes it is important to distinguish between negotiated and available capacity. Negotiated capacity may be regarded as adequate on a particular route or during a particular season but, as alluded to above, other factors may reduce access to that capacity.

## **Matching capacity to needs**

**3.29** The evidence before the committee has contained a number of criticisms relating to the ability of exporters to match their requirements to the capacity provided in Australia's current bilateral air service agreements. These criticisms included:

- capacity constraints on key routes such as Japan, Hong Kong and Thailand, particularly during peak production (*Transcripts*, p. 92), and to Singapore and Malaysia (*Transcripts*, p. 6);
- the inability of airline passenger schedules to guarantee delivery to foreign markets on preferred flights to meet the target market's timing preferences, including the effects of delays in passenger-based schedules in meeting connecting flights (Sub 85, *Submissions* p. 1120);
- the lack of adequate numbers of direct flights to Japan, particularly from Melbourne (Sub 59, *Submissions* p. 737);
- the existence of non-direct routes and transshipping requirements adversely affecting product quality (Subs 22, 70, *Submissions* pp. 336–7, 991);
- the concentration of services at eastern sea board airports to the detriment of freight from other regions which has to be transported to these export gateways (Sub 72, *Submissions* p. 998; *Transcripts*, pp. 5, 20);

- the need to separate passenger and freight capacity on certain routes to better meet the needs of freight (*Transcripts*, p. 39); and
- the practices of dedicated freight services leaving Australia with empty or partially filled holds to relocate to other countries (Subs 18, 41, *Submissions* pp. 278, 537; *Transcripts*, p. 89).

**3.30** The committee acknowledges these criticisms as resulting from real concerns of participants in the export chain. However, the committee believes that participants should temper their criticisms with an appreciation of the global aviation environment surrounding the negotiation of Australia's air service agreements and the commercial realities which impact on an airline's decision to travel to Australia and to uplift Australian perishable and time sensitive products.

**3.31** In this light, the committee believes that it is important to emphasise the following commercial realities which characterise the air freight market:

- the amount of freight capacity offered is determined by the demand for passenger services and inbound freight; and
- outbound freight capacity and level of services offered will depend on whether the exporter is willing to pay premium air freight rates in return for a premium (guaranteed level) service.

## **Passenger services**

**3.32** Airlines have made a commercial decision to schedule the majority of passenger flights through eastern seaboard gateways because these gateways are the strongest origin/destination of passenger demand and destination for inbound freight. In its submission, DTRD advised the committee that it regularly advocates the use of other gateways to bilateral partners but to no avail (Sub 61, *Submissions* p. 776). The submission from Qantas, referring to Sydney and Melbourne, stated:

... the lion's share of capacity available for export is also concentrated on these two cities. Freighter (and other) operators have no incentive to add to their costs by diverting capacity via the smaller Australian gateways when demand in those markets is almost entirely driven by low value cargo which fetches low freight rates. (Sub 14, *Submissions* p. 156)

**3.33** Unfortunately, this commercial reality translates into increased inter-state freight transshipment costs for perishable exports from other areas including South Australia, Queensland and Tasmania. The committee acknowledges that the increased transport times and handling requirements may also reduce product quality before it leaves Australia.

**3.34** The ability to afford export air freight capacity depends on the demand and the price paid for the goods in foreign markets (Sub 61, *Submissions* p. 757). Australia's perishable products, with the exception of seafood, are generally not of a high enough value, or available for export in either the volume or the regularity required to absorb commercially derived freight rates and the superior service levels associated with these rates. Most of Australia's perishable and time sensitive products are able to be carried in the belly holds of passenger aircraft at subsidised freight rates.

**3.35** Indeed, the committee heard evidence which indicated that air freight rates ex-Australia were among the lowest in the world (*Transcripts*, p. 101). Further, witnesses from TNT Ltd presented information comparing air freight rates (in passenger aircraft): from Australia; from New Zealand via Sydney; from New Zealand, to Hong Kong, Singapore, and Tokyo (*Transcripts*, pp. 372, 376; Exhibit 36, p. 21). The information is summarised in the table below.

**Table 2.1** Comparison of air freight rates to Hong Kong, Singapore and Tokyo (Australian dollars)

Destination	ex-Australia	ex-New Zealand via Sydney	ex-New Zealand
Hong Kong	1.26	2.06	2.78
Singapore	1.05	1.85	1.89
Tokyo	2.70	3.50	3.66

*Source* Exhibit 36, p. 21

**3.36** The witnesses from TNT noted that New Zealand exporters were taking advantage of the low air freight rates from Australia to fly their products to Asia via Sydney (*Transcripts*, pp. 370-1). New Zealand exporters have successfully identified Asian markets and expanded their export of high value products taking the opportunity to use available capacity out of Australia.

**3.37** As a consequence of low freight rates from Australia, airlines offer lower levels of service to some exporters of perishable goods in comparison to those offered to exporters of high value exports and exporters who can guarantee a significant volume of product. This is often reflected in the lack of choice of export gateway to uplift produce, flight departure times geared to passenger requirements rather than the needs of foreign markets, and uncertainties surrounding the amount of freight capacity offered on any given day. The effects of these service levels have resulted in reports of instances where low value perishable products have been off loaded in preference for higher priority freight (Exhibit 11, p. 13).

**3.38** However, airlines have demonstrated that they are prepared to market their existing passenger aircraft belly hold capacity to exporters. For example, Mr Peter Frampton, Executive General Manager Freight, Qantas, described how Qantas had enabled a meat exporter to freight produce to Tokyo via Nagoya:

We said we could not move it to Tokyo as we do not have the space but to Nagoya and allow for the road haulage costs. We came to an agreement on that and we now move two and three pallets a week from Brisbane up into Nagoya. (*Transcripts*, p. 277)

**3.39** This example demonstrates that negotiated capacity even on the tight Australia–Japan route can be adequate through innovative logistics arrangements.

### **Dedicated freight services**

**3.40** The capacity offered by scheduled dedicated freight services and ad hoc charters provides exporters with alternatives to using the capacity offered in passenger services. Several witnesses have suggested ways to increase dedicated freight services. The question remains, however, are exporters willing to pay for the capacity that is available through such services?

#### *Increasing access*

**3.41** There are some twenty four weekly dedicated freight services leaving Australia (Sub 61, *Submissions* p. 758). The proposals for ways to increase capacity provided by dedicated freight services have included:

- allowing empty freight services to fly to another Australian airport to pick up freight with no additional imposts;
- the creation of free trade zones; and
- the uncoupling of freight from passenger entitlements under bilateral air service agreements.

**3.42** Mr Norman Mackay, Managing Director, Skytraders Pty Ltd, said there were about eight freight services which flew empty to Hong Kong each week and that such flights represented an 'enormous wealth of untapped export capacity' (*Transcripts*, p. 239). He suggested that the empty aircraft should be allowed to fly to other airports within Australia to pick up freight, without incurring additional air navigation charges or landing fees. When asked whether he envisaged such flights being re-routed to proposed inland freight centres, Mr Mackay responded in the negative (*Transcripts*, pp. 236, 238–9).

3.43 The committee sought to test Mr Mackay's proposal by requesting further information from DTRD. The department provided Bureau of Transport and Communication Economics (BTCE) Aerocost statistics for the Sydney–Darwin route. The figures show that the airport and en route charges make up 10.5 per cent and 7.5 per cent, respectively, of the \$48 600 direct operating cost of the flight which is only part of the total cost (Sub 104, *Submissions* pp. 1311-2).

3.44 With the impending sale of airports, the issue of waiving landing charges will be a commercial decision for the new airport operators. The en route charges incurred by the aircraft flying to an intermediate destination make up a minor cost component of the flight to the foreign destination and would have to be weighed against the additional costs incurred (including extra time) landing at an extra airport, crew costs, and the loading of freight which, at the moment, is likely to be of low value.

3.45 The committee concludes that the suggestion would not provide sufficient incentive for operators of dedicated freight services to re-route empty aircraft within Australia.

3.46 Further, many dedicated freight services are operated by foreign companies which may not have the right to carry Australian products to a third country. If their aircraft cannot carry freight then flying out of another destination in Australia has no merit.

3.47 The creation of duty free trade zones, where components can be brought into an area for assembly and subsequent export without attracting import duty, was seen by Mr Paul Coutts, Managing Director, TNT Express Worldwide, as a way of increasing dedicated freight services. He noted that this was the experience in Europe (*Transcripts*, pp. 377–8).

3.48 The committee believes the creation of free trade zones should not be decided on whether capacity for perishable and time sensitive products would be increased. In this case other criteria should prevail which are outside the committee's terms of reference. However, the committee believes that any increase in dedicated freight services will benefit exporters by increasing available capacity providing exporters are willing to pay the higher freight rates associated with dedicated freight services.

3.49 Uncoupling passenger entitlements from freight entitlements has been advocated in several submissions and was seen as particularly important for the Japanese market by Mr Mackay (*Transcripts*, p. 250). Under nearly all bilateral air service agreements airlines are able to convert passenger entitlements to freight entitlements according to a conversion formula.

3.50 However, carriers are not obliged to use their entitlements so, in an 'uncoupled' environment, negotiating additional freight capacity may not increase actual capacity operated. Moreover, the committee cautions that any uncoupling of freight from passenger entitlements must not be at the expense of passenger entitlements. This is because the capacity in passenger aircraft is more affordable to exporters and there is potentially a greater number of passenger flights to a particular destination, thereby providing more flexible access to desired markets.

**3.51** Of the suggestions before it, the committee concludes that the most practical way to increase negotiated dedicated freight capacity is through uncoupling freight from passenger entitlements. However caution should be exercised. It should be remembered that the introduction of the new freight charter arrangements should allow any short term increase in demand for dedicated freight services to be met.

### *Costs*

**3.52** Australia is a back haul market (that is, for air freight the volume of imports is much greater than the volume of exports). Consequently, air freight rates charged to Australian exporters are usually set at less than full commercial rates, and they are sustained by inbound freight rates.

**3.53** Estimates of the break even rate for dedicated freight services have been provided by DTRD based on the BTCE Aerocost model and information supplied by Qantas and Singapore Airlines. DTRD reported that:

On a *direct operating cost only* basis, freight rates required to break even on dedicated freighter services between Australia and Hong Kong, Taiwan and Japan, range from \$0.86 ... to \$2.26 ... per kilogram.

These figures provide a *lower bound* estimate of the average cost of providing freighter services in the *short run* ... as they:

- do not include ground and freight handling costs;
  - do not include an allocation of variable or fixed overheads; and
  - assume 'old' aircraft market values and a lease method of financing.
- (Sub 61, *Submissions* p. 869)

**3.54** Evidence from Qantas on dedicated freight rates for its aircraft flying the Melbourne–Darwin–Hong Kong–Melbourne route indicates the extent to which operators are prepared to subsidise rates ex-Australia (a Darwin stop is necessary for refuelling to allow the maximum payload to be ninety five tonnes):

The cost per kg at 100 per cent load factor equals \$A1.43 and at 85 per cent equals \$A1.68. ... these rates do not include a profit margin for the operator ... consistent load factors even of 85 per cent can only be expected in the short peak season. ...the actual average rates ex Australia to Hong Kong fluctuate between about \$A0.80 and \$A0.95 per kg. ... Therefore the viability of any freighter operations on this route is possible only by the inbound demand/rates to support the outbound load. Current market rates ex Hong Kong are about \$A3.20 per kg and would appear to sustain a round trip operation if the freighter achieved high loads ex Hong Kong. ... additional freighter capacity ex Hong Kong is hard to justify as scheduled services continue to fly only about half full. (Sub 14, *Submissions* p. 169)

**3.55** In contrast, freight rates on passenger aircraft are much lower. Prices per kilogram range from:

- \$0.53 for some flights to Singapore (Sub 101, *Submissions* p. 1286); through to
- \$1.00 for Darwin–Hong Kong in peak season (compared with \$1.80–\$2.25 on a freight charter) (Sub 93, *Submissions* p. 1191); to
- \$1.32 for Australia to Tokyo (Sub 101, *Submissions* p. 1286).

**3.56** Faced with considerably lower rates on passenger flights it is little wonder that exporters have accepted the lower service provided by passenger aircraft and chosen to export the vast majority of Australia's perishable and time sensitive products on passenger services. As noted in chapter 4, the low freight rates on passenger services have enabled low value perishable products to continue to be exported.

**3.57** The committee has been advised by Qantas, however, that from 18 November 1996, the airline will impose a \$0.12 per kilogram 'oil surcharge' on freight carried on its long haul routes due to increased aviation fuel prices. Short haul routes, such as New Zealand and Papua New Guinea routes, will attract a \$0.06 per kilogram surcharge (Exhibit 38, pp. 1–2).

**3.58** The committee acknowledges that increasing freight rates is a commercial decision for Qantas but notes that a flat rate impost would have a greater impact on low value perishable and time sensitive products which can be dependent on existing low air freight rates on passenger services. Again this increases the imperative for exporters to focus on high value perishable and time sensitive products, as this will assist exporters to absorb fluctuations in costs.

**3.59** There have been attempts to increase opportunities for exporters to use dedicated freight services through the underwriting of the service. However, this has not been viable in the long term. The committee was informed of an agreement between Qantas and the South Australian Government to divert to Adelaide a Qantas leased dedicated freight service on the Melbourne–Hong Kong route. The South Australian Government initially underwrote the additional operating costs involved but in the long term decided the revenue potential of the venture did not warrant continued underwriting (*Transcripts*, pp. 281–2).

**3.60** Despite the higher rates associated with the use of scheduled dedicated freight services, such services have been viable when the products are high value exports with sustained volumes able to pay higher freight rates.

**3.61** For example, the Western Australia Air Freight Export Council has been instrumental in the introduction of a Singapore Airlines Boeing 747 dedicated freight service on an Auckland–Perth–Singapore route (*Transcripts*, p. 340).

**3.62** *The use of ad hoc freight charters has also been feasible. Mr Frampton told the committee:*

... we do operate a number of ad-hoc charters, as we did for the sugar plums out of South Australia; we ran six in a row. So there is an opportunity to provide that capacity ... providing there is an ability to pay the costs of operating the freighter. But it is only the marginal costs we are looking at; in other words, not the full operating costs, but the recovery costs of carrying to those additional ports. (*Transcripts*, p. 272)

**3.63** The committee concludes that under the existing pricing structure the use of scheduled dedicated freight services and ad hoc freight charters is very unlikely to become widely used by exporters of perishable products, which are mostly low value agricultural products. The rates which dedicated freight service operators have to charge to remain economic means that the capacity they offer is generally only available to high value products or to exporters who are able to coordinate high load factors and exploit particular windows of opportunity.

**3.64** Exporters will generally choose to use the available capacity offered on passenger services because of their lower freight rates. Those willing to pay higher freight rates for the improved service provided by dedicated freight services will find the available capacity adequate and will be able to obtain additional capacity via ad hoc charters when required.

**3.65** Consequently, the committee considers that the regulatory environment, as it affects dedicated freight services, is generally not a significant impediment. However, the committee recognises that there are problems on a small number of routes where demand for air freight capacity is tight, in particular, when peak harvest and holiday periods coincide in November and December.

### **3.66 Recommendation 8**

**The committee recommends that the Department of Transport and Regional Development consult widely when reviewing available passenger and freight capacity particularly on high demand routes.**

## **Impact of export regulations and clearance procedures**

**3.67** The requirement that exporters conform to various export clearance procedures imposes increased costs in time and money to exporters. Insofar as these requirements may be unnecessary or poorly administered, they could pose an impediment to the efficient export of perishable and time sensitive products.



**3.68** The Australian Customs Service (ACS) requires exporters to provide export documentation. Most food exports also require certification by the Australian Quarantine and Inspection Service (AQIS) that the product is safe for human consumption, free of animal or plant disease or pests, and is accurately labelled. These certifications require AQIS to inspect and clear exports as being free from pests and diseases and prepared in accordance with any other stipulated importing requirements.

**3.69** However, the requirements vary. For example, some goods prescribed under Australian legislation require an export permit but cut flowers are not prescribed. Importing countries may or may not have sanitary (for animal exports) or phytosanitary (for plant exports) certification requirements. For example, fruit and vegetables to Singapore are prescribed so they need an Australian export permit but they do not require any further certification. Further, 2 of the 123 countries importing meat from Australia do not require an AQIS certificate (*Transcripts*, pp. 355, 357).

**3.70** The committee heard evidence from a number of exporters suggesting that the practices and procedures followed by both agencies in clearing perishable and time sensitive products were impediments to exporters. These complaints included:

- the amount of export documentation and duplication in the information required by the two agencies (Sub 36, *Submissions* p. 480; *Transcripts*, p. 67);
- AQIS inspectors are only available between the hours of 7.30am and 3.30pm (Sub 59, *Submissions* p. 736);
- the lack of readily available information from official sources contributing to a poor understanding among exporters of the role of ACS and AQIS (Sub 44, *Submissions* p. 643); and
- the inaccuracy of export information provided by the Australian Bureau of Statistics (ABS) based on ACS data (*Transcripts*, p. 339).

**3.71** The first three criticisms were also received by the working group which undertook the previous Prime Minister's review of the export of perishable products (Exhibit 34, p. 44).

**3.72** In response to these comments, the previous review had recommended that ACS and AQIS:

... investigate jointly ways to improve freight clearance procedures/processes and expedite new perishable product approvals and bring forward a memorandum to relevant Ministers by June 1996 outlining a plan to achieve world best practices in freight clearance matters. (Exhibit 34, p. 51).

**3.73** The committee inquired what progress had been made in addressing this recommendation. Mr Alan Paterson, Director, Import/Export Applications, ACS, advised that while no joint action had been taken, ACS was addressing some of the issues raised through a review of its EXIT electronic system. The EXIT system is used to record export information supplied by exporters (or their agents) and cargo handlers which enables ACS to

perform its regulation and facilitation roles. Some of the data captured by the EXIT system is electronically transmitted to the ABS where it is used in reports that deal with Australia's export performance. The committee was informed that the results of this review would be reported shortly, with any enhancements to the EXIT system being implemented by 30 June 1997 (*Transcripts*, p. 361).

3.74 Regarding the efforts of ACS and AQIS to minimise the duplication of export data between both agencies, Mr Paterson said that ACS intended to connect with a number of AQIS electronic data interface products:

... so that the single point of declaration for those types of products will be through AQIS and we will provide the customs end of that directly between ourselves and AQIS. (*Transcripts*, p. 362)

3.75 Mr Paterson predicted that in relation to information requirements, the changes would eliminate duplication (*Transcripts*, p. 362).

3.76 The committee supports the need to eliminate duplication between government authorities and is satisfied that ACS and AQIS are working towards addressing the previous Prime Minister's review recommendation.

3.77 The complaints about AQIS inspectors being unavailable before 7.30am and after 3.30pm together with the rates charged for weekend inspection services warrant investigation. The committee believes that AQIS should review the hours set aside for inspections with a view to better meeting the export clearance requirements of its clients.

3.78 However, AQIS operates under cost recovery principles, a fact acknowledged in the Agri-Food Council's code of best practice (*Agri-Food Council, Industry code of best practice for the air freight export of perishable goods*, November 1995, p. 13). If clients require improved services from AQIS in the form of greater flexibility they must be prepared to pay a premium if such services increase AQIS's costs. AQIS is under an obligation to operate in a cost effective manner and not to impose an excessive burden on industry.

### 3.79 Recommendation 9

**The committee recommends that the Australian Quarantine and Inspection Service review its hours of inspection with a view to meeting the export clearance requirements of its clients and report the outcomes to the Minister for Primary Industries and Energy by 31 October 1997.**

3.80 The committee was pleased to learn that AQIS is playing its part in the creation of an improved export culture. Two examples of a better client focus through flexibility in meeting the particular needs of exporters were brought to the committee's attention.

3.81 The first example was the introduction of third party inspection systems, provided quality assurance systems approved by AQIS were in place in individual enterprises. Mr William Hetherington, Acting Assistant National Operations Manager, Quarantine Operations Branch, AQIS, told the committee that, for time critical product such as oysters, if a company were able to satisfy AQIS requirements then AQIS could prepare certification in advance (*Transcripts*, p. 355).

3.82 The second example was the introduction of AQIS regional one-stop-shop export facilitators to explain the export clearance process (*Transcripts*, p. 354).

3.83 However, the committee believes that more avenues of meeting client information needs could be explored by both ACS and AQIS as it is important for exporters to clearly understand how the information that they have to provide will be used. When exporters understand the value of this information they will have a greater incentive to ensure that it is accurate.

### 3.84 Recommendation 10

**The committee recommends that the Australian Customs Service and the Australian Quarantine and Inspection Service (in consultation with the Australian Bureau of Statistics) jointly initiate action to improve exporter knowledge of export clearance regulations and procedures.**

3.85 Concern about apparent inaccuracies in the data that ACS electronically supplies to ABS via its EXIT system was raised by Mr Geoffrey Lord, Executive Officer to the Air Freight Council of Western Australia. Mr Lord told the committee:

... we have noticed huge errors in the database being created by ABS who are, in fact, getting the information directly from Customs ... Every exporter is obliged to report what he is sending out per shipment. Some of the total tonnages are incorrect, but, more importantly, they are not showing the correct destination. For example, you have got maybe a 100 tonnes of lobsters showing Singapore as a destination port. ... Singapore does not order or buy one kilo of lobsters from WA; they are en route to either Taipei or Japan. (*Transcripts*, p. 339)

3.86 ACS has provided the committee with a copy of the data dictionary for its EXIT system. The committee notes that the export declaration required of exporters includes data capture fields for country of destination of the actual consignment as well as the quantity of goods exported (Sub 91, *Submissions* pp. 1158, 1160). The Committee notes that ninety seven per cent of export declarations are lodged electronically (*Transcripts*, p. 361), and suggests the data accuracy problem may lie with those responsible for completing export declarations. The committee suggests that either the information requirements of these export declarations may not be well understood or that the importance of the data is not realised by those entering it so there is little incentive to be accurate.

**3.87** Given the national importance of complete and accurate export data, the committee suggests that this matter could be investigated during the current review of ACS's EXIT system.

**3.88** The committee believes that it is imperative that any solutions considered to improve the accuracy and completeness of export data should be made with a view to streamlining information capture systems and reducing paperwork. For example, one such solution might be an electronic interface between the freight management systems operated by freight forwarders and the ACS EXIT system. This would not only achieve the objectives mentioned above but it would also enable freight forwarders to meet ACS's data lodgement requirements more efficiently.

### **3.89 Recommendation 11**

**The committee recommends that the Australian Customs Service review, with advice from the Australian Bureau of Statistics, the accuracy and completeness of export data supplied to the Australian Bureau of Statistics and report the outcomes of this review to the Minister for Industry, Science and Technology by 31 October 1997.**

### **3.90 Recommendation 12**

**The committee recommends that the Federal Government explore with the freight forwarding industry ways to facilitate the cost effective capture of export data.**

**3.91** The committee concludes that export clearance requirements administered by ACS and AQIS in general do not impede the export of perishable products. However, the committee believes, as indicated by its recommendations, that there is room for streamlining export data reporting requirements through improved electronic reporting systems and a further tailoring of ACS and AQIS services to meet the requirements of exporters, in particular those exporting perishable and time sensitive products.

## **Conclusion**

**3.92** When considering the impact of the air freight regulatory environment it is important to recognise the global nature of the air traffic environment, that the process involves two (or more) governments, that some governments may not be sympathetic to Australia's goal of acquiring additional capacity on certain routes, and Australia may not be prepared to trade some of its rights required by another country in order to increase capacity.

**3.93** On the balance of evidence presented, the committee believes that, in general, the demand for air freight can be met with available capacity on passenger flights supported by dedicated freight services, plus ad hoc charter services to meet peak demand periods. The committee is satisfied that DTRD will continue to make every effort to acquire adequate capacity in advance of freight export demand.

**3.94** The committee therefore considers that negotiated capacity does not pose an impediment to the export of perishable and time sensitive products.

**3.95** When considering the adequacy of air freight capacity for the export of perishable and time sensitive products it is important to distinguish between negotiated and available capacity. Negotiated capacity may be regarded as adequate on a particular route or during a particular season but other factors may reduce access to that capacity.

**3.96** The committee believes that exporters must recognise the following commercial realities which characterise the air freight market:

- the amount of freight capacity offered is determined by the demand for passenger services and inbound freight; and
- outbound freight capacity and level of services offered will depend on whether an exporter is willing to pay premium air freight rates in return for a premium (guaranteed level) service.

**3.97** Australian freight rates for exports are some of the lowest in the world and are sustained by inbound freight rates or passenger services. Under this pricing structure the use of scheduled dedicated freight services and ad hoc freight charters is very unlikely to become widely used by exporters of perishable products, which are mostly low value agricultural products. The rates which dedicated freight service operators have to charge to remain economic means that the capacity they offer is generally only available to high value products or to exporters who are able to coordinate high load factors and exploit particular windows of opportunity.

**3.98** Exporters will generally choose available capacity on passenger services because of the lower freight rates. Those willing to pay higher freight rates for the improved service provided by dedicated freight services will find the available capacity adequate and will be able to obtain additional capacity via ad hoc charters when required.

**3.99** The committee believes that the regulatory environment is generally not a significant impediment. However, the committee recognises that there are problems on a small number of routes, such as to Japan, Hong Kong and Thailand where demand for air freight capacity is tight, in particular, when peak harvest and holiday periods coincide in November and December.

**3.100** Regarding the impact of export regulations and clearance procedures, the committee believes that requirements administered by ACS and AQIS in general do not impede the export of perishable and time sensitive products. Although ACS and AQIS are working towards eliminating duplication in their procedures which affect exporters, the committee considers that:

- AQIS should be more flexible in its availability to inspect export consignments but should remain within its cost recovery principles;
- ACS and AQIS should explore more ways to meet client information needs;
- ACS should address ways to improve the accuracy and completeness of export data obtained from exporters; and
- ways should be explored to facilitate the cost effective capture of export data collected from freight forwarders, in particular to achieve a better interface between participants and the elimination of duplication between government agencies.

# Chapter 4 Transport and infrastructure

## Introduction

4.1 This chapter commences with a discussion of some of the potential impediments faced during the transport of perishable and time sensitive products. The second part of the chapter considers the adequacy of existing infrastructure at airports. In drawing its conclusions the committee emphasises that there needs to be a balance struck between the technical ability to provide improved transport services and infrastructure, and whether such improvements are economically sustainable.

## Transport

### Inter-state movement

4.2 In Australia there is a limited number of export gateways for the air freight of perishable and time sensitive products. Consequently exporters who are based at some distance from these gateways face the difficulty of transporting perishable products over significant distances, usually by road. This can significantly increase the time taken for time critical and climate sensitive goods to reach their foreign destination, with a corresponding loss of quality and returns to the exporter.

4.3 Aviation statistics provided by the Department of Transport and Regional Development (DTRD), reveal that the vast majority of perishable products exported via Brisbane, Sydney and Melbourne originates in their respective states. To the year ended June 1996, of the 25 800t exported from Brisbane, only 1700t come from beyond Queensland (mainly from NSW). Of the 53 200t exported from Sydney, only 19 300t come from beyond NSW (5400t from Queensland, 8100t from Victoria and 5800t from all other eastern and central states). Of the 34 800t exported from Melbourne, only 9600t come from beyond Victoria (1500t from NSW and 8100t from all other eastern and central states).

4.4 Although a significant proportion of perishable products have to be transhipped from Queensland, South Australia, and Tasmania to Sydney or Melbourne (Subs 61, 12, 86, *Submissions* pp. 894, 117, 1140), the total tonnage transhipped from these three states makes up only twenty per cent of the total exports of perishable products from the three main eastern gateways.

4.5 Most export agents are located in Sydney or Melbourne (Exhibit 11, p. 12). They are able to draw products from a variety of states to overcome geographic and seasonal variations in supply. The agents are also able to take advantage of the cheap rates and more regular capacity offered by passenger services from Sydney or Melbourne.

4.6 This may lead to some products at times retracing their journey as they travel on international flights. For example, the committee was told of South Australian products being transported to Sydney and loaded onto Qantas flight QF81 which flies to Singapore via Adelaide (*Transcripts*, p. 19).

4.7 The committee considers exporters of perishable and time sensitive products based in South Australia may make commercial decisions to road freight perishable products to eastern export gateways. A report to the South Australian Farmers Federation states:

Two large exporters of produce located in SA have both stated unequivocally that they will not use Adelaide Airport for dispatch of their produce. Their reasons are based on previous experiences of being 'bumped' by higher priority freight, particularly seafood ... (Exhibit 11, p. 13)

4.8 As discussed below, it is possible to provide additional international capacity from airports such as Adelaide but at a cost which exporters may not be prepared to meet.

### Freight rates within Australia

4.9 Transshipment within Australia can add a significant cost to exporters, in terms of time, money, and loss of quality (*Transcripts*, pp. 5, 63). These costs have resulted in South Australian apples and pears not being competitive in export markets (*Transcripts*, p. 5).

4.10 Mr Ian Lovell, Freight Transport Coordinator, South Australian Department of Transport, told the committee that the domestic air freight rate was higher than the international rate:

For example, for live lobster shipments from Port Lincoln through to Sydney—let us say that Sydney is the hub—the domestic airfreight rate is 106 per cent of the international airfreight rate. Just to move the goods by air on our domestic airfreight system to get our goods to Sydney costs us more than it does to fly them to Singapore. (*Transcripts*, p. 8)

4.11 He added that it was important to attract international services to Adelaide so that the international freight rates applied (*Transcripts*, p. 13).

4.12 The committee notes that air freight rates are discounted, being determined by capacity in passenger aircraft. Most passenger demand is to and from eastern seaboard airports hence attracting international flights to Adelaide as advocated by Mr Lovell is unlikely to succeed.

4.13 Indeed the submission from DTRD indicated the strategy had already proved difficult (Sub 61, *Submissions* p. 776). As well, caution needs to be exercised as airlines faced with uneconomic routes due to insufficient passenger demand may withdraw their service. Alternatively, they may attempt to recoup some of the costs by charging freight rates higher than the discounted ex-Sydney or ex-Melbourne rates. In either case air freight exporters would not benefit.



**4.14** Mr Lovell proposed another strategy:

It seems to me that there is some equity in the argument that, if airlines choose not to put services in Adelaide to collect freight and choose to use a hub port, they centralise or pay the cost of centralising the cargo to the hub because they are making considerable savings by operating out of it. (*Transcripts*, p. 13)

**4.15** The committee considers that this is feasible but should be a decision for airlines to decide on economic grounds. In some cases, the committee believes, airlines may choose this course. Information provided in a study for the South Australian Farmers Federation indicates that competition may have in some instances produced beneficial outcomes for producers of high value product:

... due to competition at Sydney and Melbourne substantially better rates are offered out of those airports. Additionally, some airlines have been absorbing interstate freight costs to assure high load factors out of Sydney and Melbourne where their profit margins are least. In the case of [one airline] this has extended as far as absorbing domestic airfreight charges on high value freight such as lobster and tuna. (Exhibit 11, p. 13)

**4.16** Another option is to subsidise the intra-Australian freight rates borne by exporters. The committee considers that this would be inappropriate for governments and the committee draws attention to the failure of the underwriting scheme for a dedicated freight service trialed by the South Australian Government, which is discussed in chapter 3 (*Transcripts*, pp. 270, 282).

**4.17** The committee believes that the low international air freight rates from Australia have enabled producers of low value perishables to enter the market. In addition, low freight rates have provided little incentive for producers of low value products to increase the returns from their exports by value adding.

**4.18** Producers who are not conveniently situated close to Brisbane, Sydney and Melbourne, and produce low value exports will be sensitive to the cost of transport from smaller production centres, located at some distance from the key export gateways of Brisbane, Sydney and Melbourne. If the products cannot sustain these transport costs, the producer is unable to enter or remain in the export market.

**4.19** The answer is, in the committee's view, not to artificially lower the intra-Australian rates paid by exporters of perishable and time sensitive products but to create the critical mass networks (referred to in chapter 2) and encourage producers to concentrate on high value products with increased volumes over time.

## Booking practices

4.20 During the inquiry the committee received comments relating to perceived inefficient booking practices including:

- overbooking of capacity by freight forwarders (*Transcripts*, p. 324);
- freight which is booked on flights failing to arrive at terminals, so called 'no shows' (Subs 14, 86, *Submissions* pp. 167, 1140);
- overbooking by airlines to compensate for freight forwarder practices (*Transcripts*, p. 283); and
- off-loading of products in preference to higher priority products (Exhibit 11, p. 13).

4.21 Previous inquiries have received similar comments. The situation as alleged was summarised in the submission from DTRD:

Anecdotal evidence presented to the [previous Prime Minister's inquiry] Working Group indicated that freight forwarders may overbook capacity with a single airline (particularly during peak export seasons) in order to try and assure space for their freight and also book capacity on more than one airline to try and obtain freight space at the lowest possible rates (there are currently no cost penalties for 'no-shows').

Exporter interests also claim that airlines overbook capacity assuming there will be some no-shows. This sometimes results in pre-booked cargo being unable to travel on the flights on which it was booked. One submission also claimed that the airlines have contracts with organisations that export non perishable goods and that if any last minute consignments from these companies require space, bookings for perishable freight may be cancelled in order to accommodate these needs. (Sub 61, *Submissions* p. 784)

4.22 It appears to the committee that some participants in the freight chain may be seeking to blame other participants but the committee considers apportioning blame is unproductive. It is more important to address the underlying reasons and to move forward from that point.

4.23 In the committee's view the inability to forward plan has been a key contribution to lower levels of service.

### *Producer-forwarder linkage*

4.24 Mr Don Telford, Executive General Manager Logistics, TNT Ltd, told the committee that a few companies which export perishable products are able to plan their requirements for air freight capacity. As a result they are able to supply their market in Japan, 'week in, week out' (*Transcripts*, p. 380).

**4.25** Mr Coutts, Managing Director, TNT Express Worldwide, told the committee that TNT had a service level agreement, guaranteeing uplift for a premium, which applied to seventy per cent of his company's volume of export traffic. The airline paid a penalty if the service specification was not achieved (*Transcripts*, p. 379). The committee considers this to be a good solution for meeting the needs of the exporter, airline and customer.

**4.26** Mr Telford acknowledged, however, that TNT was buying capacity on a term basis but was selling to customers mainly on a spot basis—TNT was prepared to carry the risk (*Transcripts*, p. 381).

**4.27** Regarding priority given to the products making up TNT's thirty per cent spot bookings with airlines, Mr Coutts said:

With the other 30 per cent, normally what would happen is that the customer who comes in the door first and makes the booking with us would get priority. It would not be on the rate that they have actually paid on that particular day. ... It is the case that with the customers who comes in first, they have asked for the space; space is available; we will contract it to them. (*Transcripts*, pp. 381–2)

**4.28** Mr Coutts added that there were 'some freight forwarders who actually operate the opposite way' (*Transcripts*, p. 382).

**4.29** The committee would expect that sophisticated booking systems, like those operating for passenger services, would provide different schedules for different agreed levels of service. Under such systems exporters would expect that a premium rate would give them priority over other exporters paying lower premiums. The committee believes that such systems are a reasonable part of doing business but the levels of service for varying rates should be transparent to those seeking freight capacity.

**4.30** The witnesses from TNT told the committee that products were bumped by TNT's carrier airline, particularly in November–December. This resulted from high passenger and mail traffic which was unpredictable and could result in an airline losing some six to ten tonnes of its freight capacity within half an hour. However, since the introduction of TNT's service level agreement with the airline, there had been very few off-loads, which had tended to be for technical reasons (*Transcripts*, p. 382).

**4.31** One such technical reason for off-loading was due to high summer temperatures leading to airlines imposing weight restrictions on aircraft payload (Sub 31, *Submissions* p. 465).

**4.32** The committee considers that individual producers or groups of producers who are able to coordinate regular loads, over extended periods, or anticipate capacity needs well in advance will be able to access the guaranteed capacity obtained from the airlines by forwarders. Those exporting via the spot market need to accept the associated risks. Producers accessing guaranteed capacity may have to pay a premium. For that reason they need to focus on improving the value of the products exported.

### *Forwarder-airline linkage*

**4.33** It is important for airlines to upgrade their booking systems to manage the risk they bear if they are to enter into service level agreements with forwarders and benefit from the resulting premium. In the past freight has often received little attention from airlines. DTRD has referred to the current freight booking systems in Australia as being antiquated with limited reliance on electronic systems (Sub 61, *Submissions* p. 784).

**4.34** The situation is improving. Mr Des Church, Head of Freight Planning and Revenue Management, Qantas, told the committee:

... we have just spent something like \$5 million on a revenue management system which is still in the process of being developed. One of the things that it will enable us to do on our part is to selectively overbook flights, as we do on the passenger side. There is a small degree of risk there but this management package will help us to come out and hopefully get it right 99 per cent of the time. We do not currently overbook. (*Transcripts*, p. 283)

**4.35** Mr Peter Frampton, Executive General Manager Freight, Qantas, added:

Some airlines do [overbook]. There are a number of major airlines that do look at their profiles. They look at the amount of cancellations they have, how often they went out with a certain percentage empty and overbook to that amount based on that profile in a similar way to the way the passenger profiles are run. (*Transcripts*, p. 283)

**4.36** The committee asked what would happen under Qantas's suggested booking regime if the freight that was booked actually arrived. Mr Church responded:

Panic. You would invariably end up with some sort of compensation or something like that. That would have to be an acceptable part of our strategy. If we are prepared to gain the benefits there, we would obviously need to be prepared—when we get egg on our face—to compensate. (*Transcripts*, p. 284)

**4.37** The committee notes Mr Frampton's advice that Qantas does not impose cancellation charges for no show freight, in a similar manner to no penalties being incurred for the non appearance of full fare paying passengers (*Transcripts*, p. 290). Imposition of cancellation charges by the airline sector would, in the committee's view, discourage any tendency for exporters to multi book capacity on a number of airlines.

**4.38** The committee also notes Mr Frampton's comment that Qantas has suspended permanent bookings to forwarders on a number of routes and introduced a free sale of that capacity. This might increase Qantas's revenue on high demand routes but the committee is concerned the uncertainty introduced might adversely affect exporters of perishable products.

**4.39** It is technically possible for airlines to introduce state-of-the-art electronic booking systems for freight traffic but its introduction would incur costs. Similar systems are used for passenger bookings because the passenger market is a high yield market and can provide enough returns to airlines to compensate airlines for the lost opportunity to use that money

elsewhere. For freight the introduction of sophisticated booking regimes will be determined by commercial considerations. If exporters are in a position to pay premium rates for better service such as guaranteed capacity they will be better able to influence the airlines' decisions. As Mr Frampton said:

... shippers who are prepared to manufacture or grow the right products for the high value export markets will continue to get the capacity they need, but carriers will not be able to guarantee space for lower yielding freight at the expense of high yielding items competing for the same capacity. (*Transcripts*, p. 269)

## **Difficulties with handling**

**4.40** The committee has received a number of comments critical of the handling procedures for perishable products moving through the freight chain. These have included:

- speed of movement;
- double handling; and
- mishandling.

**4.41** The challenge facing Australia's product distribution system (integrated logistics) to speedily deliver products to the customer was brought into sharp focus by Mr Peter Pokorny, National Merchandise Manager Produce, Woolworths Ltd:

The Californian strawberry producers have worked very effectively with US based exporters. They have worked very effectively with service providers in terms of air cargo operators, logistics operators on the ground. ... We can actually order strawberries out of California and have them delivered into Sydney airport quicker than we can get strawberries out of the Sunshine Coast in Queensland into our Sydney distribution centre. (*Transcripts*, p. 396)

**4.42** The committee believes that Australian producers and exporters, freight forwarders, and cargo terminal operators could learn from this example. As discussed in chapter 2, there needs to be better coordination, communications and customer focus at all levels throughout the export chain if Australian exporters are to succeed in world markets.

## ***Speed of movement***

**4.43** Speed of movement is essential for perishable products if they are to receive a premium for freshness. The committee has received evidence concerning the speed of movement:

- from producer to the airport where the products are to depart for their foreign destination; and
- within the air cargo terminal at the departure airport.

**4.44** For seafood the time taken to reach foreign markets can be critical. Mr Brian Jeffriess, Director, Australian Seafood Industry Council (ASIC), told the committee:

The average tuna ship from Port Lincoln to Japan gets from harvest to table in four days. If we could cut that time to three days, instead of getting \$35 a kilo we would get \$45 a kilo.

... In the case of tuna, every day that that product is late you lose from a third to a quarter of your price. ... If it happened with every tuna shipment you would lose \$20 or \$30 million. (*Transcripts*, pp. 312, 319)

**4.45** The committee is aware of the recently introduced Malaysian Airlines dedicated freight service operating via Adelaide. The South Australian Seafood Marketers & Processors Association's submission in July 1996, indicated that this service had not benefited the seafood industry. This was due to the long connection times to Japan, Hong Kong, Taiwan and the USA and capacity between Malaysia and Narita (Tokyo) being insufficient for the tuna industry's existing and future needs (Sub 70, *Submissions* p. 991). The extra time involved in transporting tuna to Sydney rather than Adelaide amounts to 'about seventeen hours' (Sub 72, *Submissions* p. 1003).

**4.46** ASIC has advised the committee that significant financial losses can arise from delays due to flight cancellation or re-routing, and also from the mishandling of products (discussed below) (Sub 99, *Submissions* p. 1281).

**4.47** Products have to wait before being loaded onto aircraft at the cargo terminal. The length of delay was criticised by Mr Norman Mackay, Managing Director, Skytraders Pty Ltd, who told the committee:

Normal airline cut-off times are two hours prior to flight departure. Therefore, provision of a safety buffer will normally require produce to leave forwarders' coolroom facilities no less than three hours prior to [estimated time of departure]. Whilst environmental control facilities are readily available once the cargo is loaded on board an aircraft, the concept that a 10-hour air transit to Japan should be preceded by a three hour period in which product is exposed to Australian summer temperatures is clearly unacceptable. (*Transcripts*, p. 244)

**4.48** A similar comment was made by Mr Alan Brown, SA President, Australian Federation of International Forwarders (AFIF) (*Transcripts*, pp. 327-8).

**4.49** The effect of delays at air terminals can be alleviated by holding products in cold stores. The committee discusses the adequacy of such infrastructure at Australia's airports later in this chapter.

**4.50** Regarding the operations at the Qantas cargo terminal Mr Frampton told the committee:

In all our terminals we have a single union, the TWU, apart from Sydney, where the NUW operate the actual main freight terminal. Certainly, the interface between ramp and the terminals can be improved. I feel that the issues now and the relationships with the staff have improved to the point where we will progressively make that a seamless transfer. ... There are certainly demarcation lines, but I believe that with the current [enterprise bargaining agreement] and the actions we are taking now, they will progressively be smoothed out. (*Transcripts*, p. 285)

**4.51** The committee believes any delays in handling air freight at cargo terminals are a major impediment to maintaining the quality of products before loading onto aircraft. If any demarcation disputes are causing delays, the committee urges Qantas and the unions to expeditiously resolve any problems.

**4.52** Increasing the level of competition in cargo terminal operations, recommended in chapter 2, would, in the committee's opinion, strengthen the imperative to improve handling times.

### *Double handling*

**4.53** The double handling of shipments travelling interstate has been raised as an impediment to efficient transport. Mr Philip Cooper, General Manager Export, Tassal Ltd, explained the difficulties faced by his company exporting salmon from Tasmania. International standard air freight containers cannot be carried by the domestic aircraft operating between Tasmania and Melbourne or Sydney. Hence product arrives at Melbourne either by sea or by air in individual cartons where Tassal's freight forwarder consolidates the goods in an international container (*Transcripts*, p. 65).

**4.54** The underlying problem is that domestic aircraft from Tasmania are narrow bodied and are unable to take international containers. Dr Brian Johnston, Director, Agribusiness Cooperation and Development, Department of Primary Industries and Energy (DPIE), told the committee that the 'key thing to solve Tasmania's problem is to be able to pack the material into an international configuration at the point of production' (*Transcripts*, p. 302).

**4.55** The committee is pleased to note that ASIC is undertaking a study, principally funded by DPIE, to 'investigate packaging systems, handling practices and transportation of the product from the time of export packing to receipt by the customer' (Sub 46, *Submissions* p. 686). The committee has discussed ASIC's work in chapter 2.

### *Mishandling*

**4.56** Mishandling, like double handling, can arise from circumstance. For example leaving products exposed to the elements prior to loading onto aircraft may be forced on cargo terminal operators because of lack of certified cold stores. Lack of knowledge can also lead to the mishandling of products.

**4.57** Mr Cooper recounted seeing baggage handlers mishandling his company's salmon exports:

There are baggage handlers in Hobart that I have actually seen who, instead of picking up a carton of product ... simply push the stack over, instead of picking it up and loading it onto the elevators. They just do not worry about the quality of the product. ... it is no wonder that we have complaints from our customers overseas ... (*Transcripts*, p. 64)

**4.58** ASIC has given the committee information about the costs incurred due to delays in the export chain and mishandling. On one occasion delays in the export of a shipment of live prawns cost the exporter \$14 000. On another occasion live prawns were incorrectly placed in a hold with frozen products. The subsequent death of the prawns cost the exporter 'in excess of \$30 000' (Sub 99, *Submissions* p. 1281).

## **Developments in handling**

**4.59** A way forward was suggested by Mr Geoffrey Lord, Director, Air Cargo Management, Executive Office to the Air Freight Export Council of Western Australia (AFEC). He told the committee:

I know some of these loaders personally. Some of them are quite awkward to deal with, but they are all human beings. They might have been loading aircraft for 10 to 15 years and nobody had ever stopped to tell them what was inside that box, how much care had gone into it, where it was going or the value of it. So we took groups of about 10 loaders—Qantas loaders and Ansett loaders—all around the main industry sectors to watch the process.

... conversely, you have the exporters and even the forwarders saying, 'What happens to my cargo after it is lodged? What is the process?' So we have conducted grand tours of Perth airport. Then they used to complain that there was not enough air freight space. So, to give them an idea of the space in an aircraft, we literally forklifted them up and loaded them in a 747. They saw it was finite. It just gives them a better understanding. (*Transcripts*, p. 350)

**4.60** The committee commends AFEC for its initiative and believes that cargo terminal operators should adopt a total quality management approach which would allow those handling freight to participate in devising standards and procedures. In addition, providing all participants in the export chain with an understanding of the export process is a highly effective strategy for improving handling practices.

**4.61** Other initiatives being undertaken by AFEC include:

- industry group meetings informing interested parties of current and potential problems, and opportunities;
- a training video being jointly produced with Curtin University aimed to improve the understanding among aircraft loaders, freight forwarders and exporters;



- a traineeship being jointly developed with the Transport and Storage Industry Training Council to improve the quality and availability of employees entering the industry; and
- a diploma and/or degree course developed jointly with Curtin University aimed at providing suitably qualified management level staff by offering advanced and comprehensive training throughout the export freight chain (Sub 43, *Submissions* p. 618).

**4.62** The committee is aware that government departments are working on getting key participants in the transport chain together. Dr Johnston, DPIE, told the committee that his department had:

... recently started working with the department of transport actively on a project called an integrated logistics project. We were going to bring some of those exporting groups together with some of the companies that can provide these services; examine the chain; identify where these companies could in fact provide some specialised services to make it work more correctly, and try to get those partnerships working. But there is no simple solution to building partnerships; it takes work. (*Transcripts*, pp. 298–9)

**4.63** The committee considers that this project is an important step in addressing the underlying causes of the handling concerns identified above.

**4.64** Another positive development was the release by the Agri-Food Council in November 1995 of its *Industry Code of Best Practice for the Air Freight Export of Perishable Goods* (the Code). The broad objective of the Code is to:

... engender a commitment to greater cooperation and coordination of effort in the air freight of perishable goods chain. ... to facilitate the development of an agreed vision by all participants in the air freight export chain and the development of a sustained export culture.

...

... serve as a catalyst for further developing the industry by identifying operating constraints and opportunities, defining rights and responsibilities, identifying and encouraging best practice procedures in areas of; reliability of supply from producers/exporters; sensitivity in handling and freight space allocations by airlines and air freight forwarders and improved coordination throughout the export chain. (Agri-Food Council, *Industry Code of Best Practice for the Air Freight Export of Perishable Goods*, p. 4)

**4.65** However, the submission from the Department of Industry, Science and Technology observed that:

Section 8 of the Code contains provisions for the establishment of a Code Development Committee (CDC). This would be undertaken by an industry led group which would have responsibility for overseeing the monitoring and implementation of the Code. ... To date industry does not appear to have taken up the initiative. This could be due to a number of factors including: waiting for clearer signals from government prior to taking action; lack of a unified industry view; lack of resources/commercial incentive to take action ... (Sub 76, *Submissions* p. 1055)

4.66 The committee notes that it is just a year since the Code was released and that changing the export culture will take time.

4.67 The committee believes that codes of best practice can be useful documents. They identify issues to be addressed but to change or improve practices often incurs costs (including time), and for such reasons there must be a commercial incentive to adopt new or modify existing practices to achieve best practice.

4.68 The committee was pleased to learn that ASIC is working towards providing such a commercial incentive in developing quality assurance agreements for the seafood industry. Ms Jayne Gallagher, Manager Seaqual, ASIC, told the committee:

... we are going to undertake two case studies where we will try, through the involvement of everybody in the chain, to get what we call quality agreements. If I, as an exporter, deliver product to a freight forwarder in a certain quality condition and I have treated it and packed it in the way that they would like me to pack it, then they undertake to me to treat it in the way that it needs to be treated before it gets to the next stage, which is on to the plane. There would be a similar sort of agreement between the freight forwarder and the plane, and then at the other end.

... so that if the plane is going to be delayed and I have got live fish or live lobster going on board, I will get a phone call telling me it has been delayed and I can keep that fish or lobster in my holding tank, rather than having it sitting at the airport.

... We are a large player, the airlines have recognised that we are a very valuable part of their income as well, and we need to get it right. If I am an exporter of live prawns, I need to get those Karooma prawns to Japan alive. To me, they could be worth about \$150 or perhaps even more per kilo. If it gets there dead, it is worth nothing. So there is quite a lot of incentive for people all along the chain to get it right. (*Transcripts*, p. 309)

4.69 The committee commends ASIC for its work in developing quality assurance handling agreements and believes that the creation of such agreements is a significant milestone on the way to creating a successful export culture. The committee considers these agreements could serve as a *valuable model to all exporters*.

4.70 With such quality assurance handling agreements in place, participants in each part of the chain know what is required of them by their customers. They also know that the participants further along the chain will provide the appropriate service. The committee believes that this will help to assure premium prices are paid in the foreign market. Each member of the chain should be confident in rewarding the attainment of performance levels specified by the agreement.

4.71 The introduction of quality agreements, while desirable, does not assure an optimal outcome. The process has to be driven by high value products in sufficient quantity to sustain the premiums necessary to support a quality service. Products which can achieve only low returns will continue to have difficulty in sustaining quality assurance handling agreements.

#### 4.72 Recommendation 13

**The committee recommends that the Department of Primary Industries and Energy disseminate widely to participants in the export chain information concerning quality assurance handling agreements being developed by the Australian Seafood Industry Council.**

#### 4.73 Recommendation 14

**The committee recommends that the Federal Government facilitate the further development of quality assurance handling agreements between participants in the export chain for perishable and time sensitive products.**

4.74 The committee concludes that the impediments to the export of perishable and time sensitive products do not lie primarily with the transport sector. As Ms Vanessa Fanning, Group Manager Public Policy, TNT Ltd, said:

If the demand is there and we have a quality product to satisfy it, then the transport solutions will be found. (*Transcripts*, p. 371)

## Infrastructure

### Air-side cold stores

4.75 Air-side cold stores are used to hold perishable freight which is in transit, awaiting uplift onto aircraft, or has been subject to delays.

4.76 It was widely acknowledged in the evidence presented to the committee that cold store facilities at some of Australia's major airports are inadequate. For example Mr Brown, AFIF, described the situation at Melbourne:

... we have to present the loaded cargo at least two hours prior to that aircraft departing. You can imagine what the temperatures are on the tarmac in the middle of summer; it is well over 80 degrees when the sun hits the skin of that aluminium container. It does not take long to heat those containers up. Once they have been weighed, they are just generally tugged out the back of the terminal and left ready to be taken out to the aircraft and put aboard. So for an hour and a half or two hours those containers are exposed to extreme temperatures. We put a plastic cap over uncontainerised cargo, such as citrus, but it may stand in a thunderstorm and be saturated. (*Transcripts*, pp. 327-8)

**4.77** Mr Brown added that Adelaide had a \$6m cold store with air-side facilities allowing freight to be stored until about forty five minutes before departure (*Transcripts*, p. 328). Unfortunately despite this facility about half of the South Australian perishable products are transhipped by road to Melbourne and Sydney (Sub 15, *Submissions* p. 177) and an earlier attempt by the South Australian Government to underwrite a dedicated freight service through Adelaide proved commercially unsustainable (*Transcripts*, p. 281–2).

**4.78** The South Australian Government has defended its cold store and referred to the recently introduced Malaysian Airlines dedicated freight service:

No one suggests that the fact that Adelaide Airport has the best on-airport cold store in the southern hemisphere—and the only one in Australia—is sufficient inducement, in itself, 'for new airlines to include Adelaide on their route schedules'. It was, however, a major factor in the attraction of the weekly dedicated freight service now operating to Adelaide. (Sub 72, *Submissions* p. 1009)

**4.79** Mr Brian Lovell, Chief Executive Officer, AFIF, was equivocal when asked about whether there was a need for air-side cold stores at Australia's other airports. He said one of his members had asked him not to put a general opinion on the matter. This was because some forwarders had their own cold store facilities thereby adding value to the service they offered. The creation of air-side cold stores might affect their business. In contrast, smaller operators, Mr Lovell said, might welcome such cold stores as they could target the market for perishable products and make use of the air-side cold stores (*Transcripts*, p. 327).

**4.80** This illustrates the diverse nature of the freight forwarder sector. However, in an efficiently operating cargo terminal, the use of air-side cold stores as warehouses may not be essential. As the submission from the Tasmanian Government said:

Improved freight facilities should not be seen as a measure to cope with poor handling, such as freight being off loaded or aircraft being overbooked. It is paramount that perishable freight reaches its market on time and in peak condition. Time spent in improved airport warehousing will not necessarily deliver these outcomes. (Sub 85, *Submissions* p. 1123)

**4.81** Mr Frampton, Qantas, has told the committee that his company intends to invest some \$30m in 'systems and terminals over the next three years' (*Transcripts*, p. 290). However, this may not include provision for cold stores. Mr Lord from AFEC told the committee:

... I can quote both Qantas and Ansett that they have no plans or intentions to invest any more money in increased chillers. That was a quote that we got when we had that conference last year. One must think about whose responsibility it is to supply these facilities. ... The bottom line is that everybody wants something better, but nobody is willing to pay for it. I would like to see the airport authorities doing it and charging for it. (*Transcripts*, p. 348)

**4.82** The comment confirms the committee's evidence that, although there have been many suggestions for improving the export chain, the funding of these proposals has received less attention.

**4.83** Any improvement in air-side or near-airport facilities will mean that those providing the funds will have to forego the possible benefit from using the money elsewhere. These opportunity costs should be met by those benefiting from the improved service, in other words, exporters. Whether the current traffic of perishable exports could sustain such investment is open to question.

**4.84** The committee is aware that investors are beginning to see the potential for facilities at major airports for handling perishable products. For example, Brisbane Export City Pty Ltd developed a proposal for a facility to handle perishable products being exported from Brisbane airport. At Sydney airport James Transport Co Pty Ltd has received approval for 'a multi-user, multi-modal facility, a significant part of which will be a cargo terminal' (*Transcripts*, p. 133).

**4.85** In addition, in chapter 2 the committee discussed the need for more competition in cargo terminal operations. New participants may be willing to build new cold stores.

**4.86** The committee considers as a possible interim step an innovative suggestion from Ms Vanessa Fanning, TNT, could be used to test the market for an air-side cold storage facility:

... there are ways of getting around this that are not necessarily terribly expensive. For instance, you could provide hard stands at airports where you might actually plug in refrigerated container capacity rather than build a whole refrigerator facility. There are short-term, flexible solutions to that problem. ... in the short term, that problem can be addressed quite easily by basically having movable facilities, where the investment is fairly low in the first instance. (*Transcripts*, p. 372)

**4.87** However a note of caution was introduced by Mr Telford, TNT, when he said:

... we did develop facilities at the Brisbane market to cater for export. The exporters were not willing to pay for a quality process, and we closed them down through lack of use. We ran those, and were prepared to run those, at cost to create an environment to increase the volume throughput. But it was much easier for growers and exporters to deliver direct to the airport and hope that their product would not stand on the tarmac for four or five hours and thus the quality deteriorate. I think the problem is more fundamental. The fact is that people must be prepared to pay to ensure the quality of product at the end of the day. (*Transcripts*, p. 373)

**4.88** The committee agrees.

## **Infrastructure at foreign airports**

**4.89** The infrastructure at foreign airports is often a forgotten aspect of the export chain for perishable and time sensitive products. Innovative scheduling and routing of exports could founder if the facilities at the destination airports are inadequate.

**4.90** Mr Ken Matthews, Executive Director Head Quarters Group, DPIE, told the committee:

Australian producers and exporters have little control over the handling and transport of food exports once they leave Australian shores and any breakdown in the cool chain arrangements also impacts adversely on the premium available for our own export produce. We think there may be scope under APEC [Asia Pacific Economic Cooperation forum] to examine these issues perhaps through the work of the APEC food task force but there are other forums as well. (*Transcripts*, p. 296)

**4.91** An example of the lack of foreign infrastructure was provided by Mr Lord, AFEC. An agreement had been secured by AFEC with the Indonesian Government to transit perishables via Denpasar in Bali and AFEC's task was to market the alternative route to exporters. Unfortunately there were no transit chillers at the airport. An investment of a half a million to a million dollars was needed (*Transcripts*, p. 353).

**4.92** Fortunately, some thirty tonnes of lobsters which were unable to be carried on traditional flights from Perth were able to be transited through Denpasar because, for a short transit time of two to three hours, lobsters do not need chiller facilities (*Transcripts*, pp. 352-3).

**4.93** The committee considers there is a need to examine existing (and possibly the creation of) infrastructure at foreign airports to cater for transiting Australian perishable and time sensitive products. Such initiatives, however, have international implications and the committee believes that the best way forward could include the formation of joint ventures between Australian and foreign investors of the country concerned.

### **Infrastructure at domestic airports**

**4.94** The upgrading of airports has been the subject of numerous submissions and comments during hearings. Suggestions have fallen into two broad categories:

- upgrading existing airports, for example at Adelaide, Canberra, Darwin, and Port Lincoln (Submissions 72, 88, 93, *Submissions* pp. 998, 1150, 1197; *Transcripts*, p. 317); and
- creating dedicated air freight centres, for example at Avalon, Balranald, Dubbo, Griffith, Narrandera-Leeton, Parkes and Wentworth (Submissions 42, 103, 80, 60, 49, 3, 10, *Submissions* pp. 589, 1308, 1070, 739, 696, 4, 95).

### **Upgrading airports**

**4.95** Passenger traffic is the driver for much of air freight capacity. The upgrading of moderate sized airports is a valuable goal.

**4.96** The committee considers that any improvements to infrastructure designed solely to assist exporters of perishable and time sensitive products should be carefully examined for commercial viability. For example, the committee is aware of the challenges facing those wishing to upgrade Port Lincoln airport to facilitate tuna exports. Mr Brown told the committee:

We have looked at charters, lengthening runways and Whyalla. We have looked at all sorts of things over the last 10 years—and no-one is going to solve it. Logistically, it can be done, but the price is not workable. (*Transcripts*, p. 335)

**4.97** This emphasises the committee's belief that solutions to infrastructure problems must have sound commercial bases. Technological solutions should not be pursued just because the technology is available.

### *Air freight hubs*

**4.98** The committee has received information on a number of proposals concerning the creation of air freight hubs.

**4.99** The Habitat Trust proposal is based on Avalon Airport, Geelong, and aims to create a freight terminal receiving imports to Victoria and exporting high value perishable products.

**4.100** The committee has considered the venture in terms of creating a critical mass to influence the market in chapter 2. However, there are a number of factors which would impact on the viability of the Habitat Trust proposal. These include the behaviour of incumbent competitors located relatively close by, with access to a substitute international airport at Melbourne which has under utilised capacity. Many participants have considerable existing capital investment in the existing international airport infrastructure and draw export products from the same region as the Habitat Trust proposal. The Habitat Trust proposal would therefore have to withstand vigorous competition.

**4.101** Another project has been proposed by the Central West Economic Development Group (CWEDG) formed from four local government authorities, Parkes, Forbes, Cabonne, and Lachlan. These four authorities have set up the Inland Marketing Corporation (IMC) as a unit trust to which thirty five councils have joined (*Transcripts*, p. 181).

**4.102** The initial submission from CWEDG stated:

The research commissioned by the CWEDG, and supported by the NSW Government, demonstrates that an international air freight terminal at Parkes, operated by a fully commercial marketing organisation (IMC), can reverse the present economic and social decline of inland eastern Australia by acting as the catalyst for change. (Sub 3, *Submissions* p. 7)

**4.103** The marketing aspect of the proposal is discussed in chapter 2 in the context of creating a critical mass to influence market structure. In the following section the committee outlines the evidence given on the proposal for an international dedicated air freight terminal at Parkes, NSW.

**4.104** Mr Alex Ferguson, Chief Executive Officer, CWEDG, told the committee that the site was a previous RAAF site:

It has got seven million litres of fuel capacity on a siding already there. The railway line is about 2½ kilometres away and the facility does not cross any houses on the way in or the way out. ... We, in talking to state and federal governments, have said we would like from government \$25 million from each over two years—\$12½ million and \$12½ million from each. (*Transcripts*, p. 188)

**4.105** The submission from CWEDG advised that the catchment area for the proposed freight hub would cover:

... inland eastern Australia; defined as the region stretching from the Goulburn Valley, Sunraysia (both in Victoria) and the Riverland (SA) in the south to the Darling Downs (QLD) in the north. ... Produce that could be uplifted by air to the Parkes hub from southern Australia; defined as Victoria, Tasmania and SA. (Sub 41, *Submissions* p. 553)

**4.106** Mr Ferguson told the committee that there was the potential for substantial volumes of products to leave from Parkes:

If we had an airport there tomorrow afternoon, we would have one and a half planes a day or 35,000 tonnes per annum. We have done all the financials. Price Waterhouse are our auditors; they have been right through it. We can actually make money at about 35,000 tonnes per annum. ... on some independent research carried out by a consortium of Queensland University and a few other universities, known as the Carid Associates, they estimate that we could probably achieve somewhere between 300,000 to 350,000 within 15 years and with major changes in players like Auscot and others, ... they are talking about maybe 600,000 tonnes per annum. (*Transcripts*, p. 181)

**4.107** Mr Ferguson said:

The IMC, the actual corporation, is a change mechanism and by simply charging a toll, if you like—something less than 10c per kilo—we actually pay for a self-funding change mechanism. (*Transcripts*, p. 189)

**4.108** The CWEDG also submitted its proposal to the previous Prime Minister's inquiry into air freight. The taskforce responded that CWEDG should provide more information on:

- the willingness of operators with established infrastructure at other Australian airports to incur additional set-up costs at another airport, such as Parkes;
- a more detailed assessment of airport charges needed to recover the costs of infrastructure at other Australian airports;
- a detailed assessment of land transport costs;
- realistic projections of perishable produce supply from catchments that would justify air freight capacity; and
- the costs of providing Customs, Immigration, Quarantine and security services at the proposed airport. (Exhibit 34, pp. 42–3)

**4.109** The IMC organisational structure outlined in a CWEDG submission indicates that the organisation intends to operate independently of operators with established infrastructure at other airports (Sub 41, *Submissions* pp. 548–9). The other aspects listed above have not been addressed in the submissions from either CWEDG or IMC.



**4.110** The committee also notes that CWEDG has given an outline of the actual dedicated freight operation using DC8 Super 70 series aircraft (Sub 41, *Submissions* pp. 567–8). However, despite criticising the estimates for the break even cost for dedicated freight services provided by DTRD (Sub 41, *Submissions* pp. 571–4), CWEDG has not provided indications of the actual freight rates it intends to charge exporters.

**4.111** During the course of the inquiry the committee took the opportunity to seek the opinion of a number of witnesses on the viability of the IMC proposal.

**4.112** One of the committee's reservations concerning the IMC proposal is that it may have difficulty in securing sufficient products from its projected catchment area.

**4.113** Producers in the catchment area, when given the alternative of using dedicated freight services—with their higher freight rates—or transporting products to Brisbane, Sydney or Melbourne where more frequent and cheaper belly hold capacity on passenger flights is available, will choose the latter. For example, the submission from Mr David McMillan, General Manager, Shire of Wentworth included the following:

... we do point out that an air freight centre based in Parkes is useless to the Sunraysia/Riverland area. For us to take advantage of Parkes would mean that we would have to transport our goods to Parkes. In reality, it would be cheaper and quicker for us to send our produce through the Melbourne or Adelaide gateway. (Sub 10, *Submissions* p. 95)

**4.114** In addition, Mr Telford from TNT said that in relative terms cartage would not be significant. It 'would add perhaps an extra four cents a kilogram to transport from Parkes to Sydney' (*Transcripts*, p. 386). The committee observes therefore that even local Parkes growers might choose to export via Sydney rather than pay the higher dedicated freight rates and the suggested 'less than ten cents per kilo' toll envisaged by Mr Ferguson.

**4.115** Another reservation of the committee concerns the lack of inbound freight necessary to subsidise the outbound freight rates. The submission from CWEDG acknowledges that 'demand for inbound freight drives the market' and that 'outbound freight is the backload'. The submission continues:

The main reason the Asian dedicated freight carriers have responded positively to the IMC is that they appreciate the IMC has the solution to raising both the volumes and yields of outbound freight to match those of inbound freight. They have said confidentially they have no problem with putting inbound freight into Parkes, provided the distribution network from Parkes will serve existing customers. (Sub 41, *Submissions* p. 555)

**4.116** The committee notes the information from Qantas that indicates that dedicated freight rates from Hong Kong 'are about \$A3.20 per kg' (Sub 14, *Submissions* p. 169), the information that belly hold capacity rates at about the same time were \$1.26 (Exhibit 36, p. 21), and that currently rates to Singapore on passenger services can be as low as \$0.53c per kilogram (Sub 101, *Submissions* p. 1286).

**4.117** In the light of this the IMC may have difficulty in meeting its prediction of matching the yields of outbound freight with any inbound freight.

**4.118** The IMC proposal appears to be based on the assumption that existing capacity and infrastructure is inadequate to meet demand for the air freight of agricultural products. The committee can not concur with this assumption. In chapter 3 the committee concluded that the problem for air freight exporters is generally not negotiated capacity. In fact, the committee accepts that, with the exception of a small number of routes where demand is tight in particular when peak harvest and holiday periods coincide, capacity exceeds utilisation.

**4.119** In regard to infrastructure, the committee concluded earlier in this chapter that while some aspects, such as air-side cold stores, may need to be examined, the problem is not just a matter of simply providing more infrastructure. This was amply demonstrated with developments in Adelaide and Brisbane.

**4.120** Economic viability requires sufficient volume of products over a sustained period of time with high value products as a prerequisite.

**4.121** This is likely to be difficult to establish in the IMC proposal given the established critical mass, in particular in Sydney and Melbourne, and the overwhelming importance of the export of perishable products being driven by high value air freight imports and passenger services.

**4.122** The committee has received comment on the IMC proposal from a number of enterprises including airlines. The submission from Federal Express stated:

Due to the perishable nature of cargo offered at Parkes and the current commercial rate per kilogram we would not find it economically practical to call at Parkes before returning aircraft to Asia. (Sub 98, *Submissions* p. 1280)

**4.123** Mr Norman Mackay, Managing Director, Skytraders Pty Ltd, an airline representative and general sales agent, gave the following opinion:

I think the concept of Parkes is a complete financial folly. It has no commercial merit whatsoever. The issue of selection of airports in Australia is all made as a result of one or two factors: those factors being either the requirements of passenger movement; or, alternatively, the requirements of inbound freight. So we have a situation in which ... the 747 comes in from the US, with an average yield of circa \$US3 a kilo, .... The only cargoes which we have available to us are, of course, primary produce. That primary produce yields, on average, less than \$A1, so less than US80c. Obviously, ... the aircraft is going to operate via the port which suits the \$3 cargo, not the airport that suits the 80c cargo. (*Transcripts*, pp. 236-7)

Going to Parkes is throwing taxpayers' money into a great big black hole that will never come back. (*Transcripts*, p. 239)

**4.124** The committee has also received evidence from Martinair Holland. This submission raises the third issue of concern to the committee—associated costs:

... the terminal would have to provide a highly efficient means of handling imports so that the cargo could be promptly moved to the consignee at ultimate destination with minimum delay and cost. This would require an efficient dual highway road access from the 'Terminal' serving all capital cities. Different types of trucks would have to be readily available to provide airride for delicate computer equipment, cooler trucks for sensitive pharmaceuticals, drop decks for high rise pallets etc etc. There will not be sufficient loads from metropolitan areas to the 'Terminal' for all these specialised trucks so one leg would be empty, resulting in higher trucking costs. All these additional movements/handling would also add to the final cost of the imported goods in turn affecting many aspects of the Australian economy. (Sub 92, *Submissions* p. 1168)

**4.125** Martinair Holland argued that increased costs would lead importers to try to secure capacity on incoming passenger flights, thereby eroding the returns for the dedicated freight operators. This could result in some dedicated freight services to Australia becoming uneconomic and operators withdrawing from the market (Sub 92, *Submissions* p. 1168).

**4.126** The committee believes the difficulties outlined above by Martinair Holland could eventuate even if governments provided the necessary funds to build an inland international air freight hub such as at Parkes.

**4.127** The committee received limited evidence on a number of proposals for other inland freight hubs. Based on the evidence given on the IMC proposal, the committee has serious reservations regarding the viability of inland international air freight hubs.

**4.128** Ms Vanessa Fanning, Group Manager Public Policy, TNT Ltd said:

... if you make a prima facie decision about location of a hub or hubs, you are putting the cart before the horse. We were really saying that you need to come back to the issue of targeting your markets, targeting your produce, changing the culture and getting the quality right ... You really need to see what develops, where you are getting runs on the board, what your success is. Then you have the underpinnings to make a major investment. But we did not feel we were in a position to judge where that investment should be. As Don [Telford] has mentioned, people have made that punt, invested in various locations and lost heaps of money. (*Transcripts*, p. 386)

#### **4.129 Recommendation 15**

**The committee recommends that the Federal Government should make no decision to fund the construction of inland international air freight hubs without extensive further assessment into such proposals. On the limited evidence before it, the committee believes such proposals are unlikely to be viable.**

## Conclusion

4.130 The committee believes that the impediments to the export of perishable and time sensitive products do not lie primarily with the transport sector. While it appears that some participants in the freight chain may be seeking to blame other participants for poor service, the committee considers it is more important to address the underlying reasons and to move forward from that point. Further, when assessing proposals for improvements it is important for participants to recognise that there needs to be a balance struck between the technical ability to provide improved transport services and infrastructure, and whether such improvements are economically sustainable.

4.131 The committee believes that the low international air freight rates from Australia have enabled producers of low value perishable and time sensitive products to enter the market. Producers of such exports will be sensitive to the cost of transport, especially from smaller production centres located at some distance from the key export gateways of Brisbane, Sydney and Melbourne.

4.132 The answer is, in the committee's view, not to artificially lower the intra-Australian rates paid by exporters of perishable and time sensitive products but to create critical mass networks and encourage producers to concentrate on high value products with increased volumes over time.

4.133 The committee considers that individual producers or groups of producers who are able to coordinate regular loads, over extended periods, or anticipate capacity needs well in advance will be able to access the guaranteed capacity obtained from the airlines by forwarders. Those exporting via the spot market need to accept the associated risks. Producers accessing guaranteed capacity may have to pay a premium. For that reason exporters need to focus on improving the value of the products exported.

4.134 It is technically possible for airlines to introduce state-of-the-art electronic booking systems for freight traffic but its introduction would incur costs. The introduction of sophisticated booking regimes will be determined by commercial considerations and, if exporters are able to pay premium rates for better service such as guaranteed capacity, they will be better able to influence the airlines' decisions.

4.135 Speed of movement is essential for perishable products if they are to receive a premium for freshness. The committee believes that any delays in handling air freight at cargo terminals are a major impediment to maintaining the quality of products before loading onto aircraft. Increasing the level of competition in cargo terminal operations would, in the committee's opinion, strengthen the imperative to improve handling times.

**4.136** The committee endorses initiatives aimed at improving the handling of perishable and time sensitive products. Such initiatives include:

- providing all participants in the export chain with an understanding of the export process;
- AFEC's projects to improve the quality and motivation of those entering the freight handling industry;
- the Department of Industry, Science and Technology's code of best practice for the air freight export of perishable goods; and
- the development of quality assurance handling agreements by the Australian Seafood Industry Council.

**4.137** The committee considers the creation of quality assurance handling agreements is a significant milestone on the way to creating a successful export culture. With such agreements in place, participants in each part of the chain know what is required of them by their customers. They also know that the participants further along the chain will provide the appropriate service. The committee believes that this will help to assure premium prices are paid in the foreign market. Each member of the chain should be confident in rewarding the attainment of performance levels specified by the agreement.

**4.138** The introduction of quality agreements, while desirable, does not assure an optimal outcome. The process has to be driven by high value products in sufficient quantity to sustain the premiums necessary to support a quality service. Products which can achieve only low returns will continue to have difficulty in sustaining quality assurance handling agreements.

**4.139** Regarding infrastructure issues, the committee considers that:

- The provision of air-side cold stores will be determined on commercial grounds and that exporters must be willing to pay for the improved service which such facilities provide if such facilities are to be commercially viable.
- There is a need to examine existing (and possibly the creation of) infrastructure at foreign airports to cater for transiting Australian perishable and time sensitive products. The best way forward may be joint ventures between Australian and foreign investors of the country concerned.
- At this stage there is no need for the construction of inland international air freight hubs.

**4.140** The committee believes that solutions to infrastructure problems need to be made on a sound commercial basis. Commercial viability requires sufficient volume of products over a sustained period of time, and high value products as a prerequisite, together with a recognition that export transport services are driven by freight imports and passenger services.

## **Final recommendation**

### **4.141 Recommendation 16**

**The committee recommends that the Minister for Transport and Regional Development report to the Parliament on the progress of the initiatives in the recommendations in this report by 31 October 1997.**

Mark Vaile MP

Chair

# Appendix 1

## List of submissions

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6	The VIA Consulting Group/Asia Freight Airlines Pty Ltd	27.09.95	56
7	Federal Express	28.09.95	64
8	Skytraders Pty Limited	29.09.95	66
9	Orange Agricultural College University of Sydney	29.09.95	91
10	Council of the Shire of Wentworth	29.09.95	95
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16	Australian International Pilots Association	12.10.95	193
17	Department of Foreign Affairs and Trade	23.10.95	231
18	Department of Primary Industries and Energy	25.10.95	269

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21	Thermal Storage International Pty Ltd	20.10.95	310
22	Queensland Fruit & Vegetable Growers	30.10.95	335
23	Department of Asian Relations, Trade & Industry (NT)	31.10.95	338
24	<i>Department of Business and Employment (VIC)</i>	08.11.95	415
25	Austrade (Australian Trade Commission)	12.12.95	426
26	Lufthansa Cargo	17.10.95	437
27	Department of Transport	25.01.96	439
28	Department of Transport	13.02.96	455
29	Department of Transport	19.02.96	459
30	Fairbairn Marine, Loss Adjusters & Associates Pty Ltd	08.07.96	461
31	Gibson Exports	07.07.96	462
32	Mr Peter Young	19.06.96	467
33	Department of State and Regional Development (NSW)	23.07.96	470
34	Safrate International Pty Ltd	16.07.96	472
35	Department of Primary Industries and Energy	19.07.96	474
36	Department of Transport and Works (NT)	22.07.96	477
37	Parkes Business Inc	24.07.96	497
38	Hay Shire Council	25.07.96	500
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40	Australian Fresh Harvest Pty Ltd	23.07.96	507



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42	Habitat Trust	07.08.96	581
43	Executive Office, Air Freight Export Council of Western Australia	23.07.96	616
44	NSW Agriculture	25.07.96	622
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46	Air New Zealand Cargo	23.07.96	683
47	Australian Seafood Industry Council/National Seafood Centre Pacific Seafood Management Consulting Group (PSM)	23.07.96	684
48	Building Business in Heartland NSW, Australia's Central Economic Zone	26.07.96	689
49	Narrandera Shire Council	26.07.96	692
50	Ansett Australia	26.07.96	697
51	Australian Meat and Live-stock Corporation	26.07.96	701
52	Mayne Nickless Limited	25.07.96	703
53	MSAS Cargo International Pty Ltd	24.07.96	705
54	Avalon Airport Geelong Limited	24.07.96	710
55	ACT Chamber of Commerce and Industry Limited	29.07.96	713
56	DANZAS Pty Limited	29.07.96	714
57	DHL International (Aust) Pty Ltd	29.07.96	717
58	James Transport Co Pty Limited	29.07.96	725
59	Business East	31.07.96	734
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61	Department of Transport and Regional Development	01.08.96	751
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64	Australian Cargo Terminal Operators Pty Ltd	07.08.96	913
65	Qantas Airways Limited	31.07.96	925
66	Central West Economic Development Group	05.08.96	932
67	Australian and International Pilots Association	08.08.96	943
68	Australian Customs Service	07.08.96	978
69	Cairns Port Authority	05.08.96	980
70	South Australian Seafood Marketers and Processors Association	29.07.96	982
71	Department of Primary Industries (Qld)	02.08.96	994
72	South Australian Government	07.08.96	995
73	Australian Cargo Terminal Operators Pty Ltd	12.08.96	1015
74	Australian Cargo Terminal Operators Pty Ltd	12.08.96	1022
75	Australian Federation of International Forwarders	12.08.96	1050
76	Department of Industry, Science and Tourism	09.08.96	1053
77	Mr Neville Whiffen	06.08.96	1059
78	Outback Regional Development Organisation	06.08.96	1061
79	Deniliquin Council	15.08.96	1062
80	Council of the City of Dubbo	15.08.96	1065
81	Department of State and Regional Development (NSW)	21.08.96	1074

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82	Inland Marketing Corporation	21.08.96	1079
83	Australian Cargo Terminal Operators Pty Ltd	23.08.96	1098
84	Central West Economic Development Group	20.08.96	1115
85	Tasmanian Government	19.08.96	1117
86	Queensland Government	21.08.96	1138
87	Department of Transport and Regional Development	26.08.96	1141
88	ACT Government	29.08.96	1145
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90	DHL International (Aust) Pty Ltd	06.09.96	1154
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92	Martinair Holland	05.09.96	1167
93	Northern Territory Government	16.09.96	1169
94	Australian Quarantine and Inspection Service	18.09.96	1237
95	Qantas Airways Limited	25.09.96	1258
96	Department of Transport and Regional Development	01.10.96	1267
97	Habitat Trust	07.10.96	1270
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99	Australian Seafood Industry Council	24.09.96	1281
100	Polar Air Cargo Inc	08.10.96	1283
101	Department of Transport and Regional Development	11.10.96	1285
102	Polar Air Cargo Inc	15.10.96	1307
103	Balranald Shire Council	16.10.96	1308

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104	Department of Transport and Regional Development	05.11.96	1310
105	Australian Dairy Industry Council Inc	13.11.96	1313
106	Australian Federation of International Forwarders	14.11.96	1315
107	Department of Transport and Regional Development	19.11.96	1320

## Appendix 2

### List of Exhibits

Number	Person/Organisation	Title
1	Department of Transport and Regional Development	<i>International Aviation Rights of Passage</i>
2	Various [provided by Council of the Shire of Narrandera and the Riverina Regional Organisation of Councils]	<i>Vegetable Processing in the New South Wales Riverina—Australian Development Opportunities</i>
3	Not known [provided by Habitat Trust and Asia Freight Airlines Pty Ltd]	<i>RT Bulk Haulage, The Ecorail Alternative</i> (video)
4	3R International [provided by Habitat Trust and Asia Freight Airlines Pty Ltd]	<i>From Road ... to Rail ... to Road</i>
5	[provided by Habitat Trust and Asia Freight Airlines Pty Ltd]	Letter to the Habitat Trust from the Department of Finance, Task Force on Asset Sales B, 1 February 1996
6	Geelong Joint Committee [provided by Habitat Trust and Asia Freight Airlines Pty Ltd]	Submission to the 'Freightway Melbourne' inquiry
7	[provided by Habitat Trust and Asia Freight Airlines Pty Ltd]	Letter to the Habitat Trust from Kemcor Australia, 21 May 1996.
8	Central West Economic Development Group	<i>Response to Agri-Food Industry Competitiveness Issues</i>
9	Qantas Airways Limited	Capacity control by schedule and space availability, end August 1996 to early September 1996
10	Tasmanian Apple and Pear Growers Association [provided by Department of Primary Industries and Energy]	<i>Tasmanian Air Freight Project</i>

<b>Number</b>	<b>Person/Organisation</b>	<b>Title</b>
11	AMTS Pty Ltd [provided by Department of Primary Industries and Energy]	<i>Feasibility Study, Dedicated Airfreight—Perishable Products</i>
12	Department of Transport [provided by Air Freight Export Council WA]	<i>The Way Ahead—Air Transport Directions for Western Australia</i>
13	Aerospace Technologies of Australia Ltd [provided by Avalon Airport Geelong Limited]	<i>ASTA Airport Development Options—Perishable Food Exports</i>
14	Aerospace Technologies of Australia Ltd [provided by Avalon Airport Geelong Limited]	<i>ASTA Perishable Food Exports—Feasibility Study</i>
15	Aerospace Technologies of Australia Ltd/Victorian State Government [provided by Avalon Airport Geelong Limited]	<i>Avalon Airport Strategy—An Airport for Industry</i>
16	Parkes Shire Council	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
17	Country Women's Association of NSW, Central Western Group	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
18	Tuna Boat Owners Association of Australia Inc	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
19	Air Freight Export Council WA (Air Cargo Management Pty Ltd)	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
20	Pacific Seafood Management Consulting Group Pty Ltd	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>

<b>Number</b>	<b>Person/Organisation</b>	<b>Title</b>
21	Gundagai Shire Council	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
22	Air New Zealand Cargo	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
23	Business Victoria and Agriculture Victoria	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
24	Parkes Business Inc	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
25	Australian Quarantine and Inspection Service	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
26	Victorian Fisheries	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
27	Murray Regional Development Board Inc	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
28	Department of Primary Industries (Queensland)	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
29	Australian Customs Service	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
30	Cairns Port Authority	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
31	South Australian Seafood Marketers and Processors Association	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>

<b>Number</b>	<b>Person/Organisation</b>	<b>Title</b>
32	NSW Fisheries	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
33	Council of the Shire of Wentworth	Sunrise 21 draft report, Sunraysia section of Adjustment and Development Proposal
34	Prime Minister's Working Group: Department of Transport, Department of Primary Industries and Energy, and Department of the Prime Minister and Cabinet	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
35	TNT Ltd	Submission to the Prime Minister's study into <i>Removing Impediments to the Export of Perishable Produce</i>
36	TNT Ltd	<i>TNT—The Worldwide Transportation Group</i>
37	Department of Transport and Regional Development	<i>Flying off Course—The Economics of International Airlines (2nd Edition)</i> , Harper Collins Academic, Chapter 12, <i>The Economics of Air Freight</i>
38	Qantas Airways Ltd	<i>Customer Notice, Fuel Surcharge</i>



## Appendix 3

### List of witnesses

#### Adelaide, 13 December 1995

**Mr Dean Bolto**, Policy Director, South Australian Farmers Federation

**Ms Megan Burges**, Strategic Services Group, Northern Territory Department of Asian Relations, Trade and Industry

**Mr Stanley Cavanagh**, Assistant Secretary, Business Services, Northern Territory Department of Asian Relations, Trade and Industry

**Mr Wayne Cornish**, President, South Australian Farmers Federation

**Mr Ian Lovell**, Freight Transport Coordinator, South Australian Department of Transport

**Mr Michael Milln**, Senior Adviser, Aviation, Transport Policy and Strategy, South Australian Department of Transport

#### Melbourne, 14 December 1995

**Mr Timothy Anderson**, Business Development Manager, Avalon Airport Geelong Limited

**Mr Philip Cooper**, General Manager, Export, Tassal Limited

**Mr George Deans**, Project Manager Aviation, Victorian Department of Business and Employment

**Mr Kym Foster**, Acting Director, International Policy Section, Aviation Policy Division, Commonwealth Department of Transport

**Mr Peter Scott**, Project Manager, Aviation Support, Victorian Department of Business and Employment

#### Sydney, 7 August 1996

**Professor John Chudleigh**, Principal, Orange Agricultural College and Chairman, New South Wales Agricultural Education Cooperative

**Mr Tim Edwards**, Managing Director, Australian Cargo Terminal Operators

**Mr Alex Ferguson**, Chief Executive Officer, Central West Economic Development Group, Inland Marketing Coroperation

**Mr Kym Foster**, Assistant Director, Asia & New Zealand Section, Aviation Policy Division, Commonwealth Department of Transport and Regional Development

**Mr Warwick Heckendorf**, Riverina Regional Development Board

**Mr Brian James**, Managing Director, James Transport Co Pty Ltd

**Mr Donald McKinnon**, Mayor, Wentworth Shire Council

**Mr David McMillan**, General Manager, Wentworth Shire Council

**Mr Ross Mellor**, OBE, Facilitator/Coordinator, Habitat Trust and Asia Freight Airlines Pty Ltd

**Mr Stephen Montgomery**, Property Manager, Federal Airports Corporation

**Mr Michael Mrdak**, Director, International Policy Section, Aviation Policy Division, Commonwealth Department of Transport and Regional Development

**Ms Loretta Power**, Assistant Director, International Policy Section, Aviation Policy Division, Commonwealth Department of Transport and Regional Development

**Mr Mark Roberts**, Riverina Regional Development Board

## **Sydney, 8 August 1996**

**Mr Grant Bowering**, Consultant, Federal Airports Corporation

**Ms Anne Buttsworth**, Manager, International and Regulatory Affairs, Ansett Australia

**Mr Rodney Cork**, Chairman, AIPA Airfreight Sub Committee, Australian and International Pilots Association

**Mr Paul Daff**, International Planning Manager, Ansett Australia

**Mr Norman Mackay**, Managing Director, Skytraders Pty Ltd

**Mr Brian Roberts**, General Manager and Director, DHL International (Aust) Pty Limited

**Mr Geoff Serbutt**, International Cargo, Ansett Air Freight

**Mr Wayne Studdert**, Member AIPA Airfreight Sub Committee, Australia and International Pilots Association

**Ms Genine Wallinga**, Corporate Advocate, Ansett Australia

## **Canberra, 28 August 1996**

**Mr Nic Arthur**, Assistant Director, Border Policy, Border Operations Branch, Australian Customs Service

**Mr Alan Brown**, South Australian President, Australian Federation of International Forwarders

**Mr Jon Christian**, Manager, Electronic Development, Australian Quarantine and Inspection Service

**Mr Des Church**, Head of Freight Planning and Revenue Management, Qantas Airways Limited

**Mr Peter Frampton**, Executive General Manager Freight, Qantas Airways Limited

**Ms Jayne Gallagher**, Manager Seaqual, Australian Seafood Industry Council

**Mr Norman Grant**, Director, Pacific Seafood Management Consulting Group Pty Ltd

**Mr Graeme Harman**, Principal Private Secretary, Minister for Transport, Western Australia

**Mr William Hetherington**, Acting Assistant National Operations Manager, Quarantine Operations Branch, Australian Quarantine and Inspection Service (AQIS)

**Mr Brian Jeffriess**, Director, Australian Seafood Industry Council

**Dr Brian Johnston**, Director, Agribusiness Co-operation and Development, Commonwealth Department of Primary Industries and Energy

**Mr John Kerr**, General Manager International Relations, Qantas Airways Limited

**Mr Neville Kitto**, Manager Government Affairs, Qantas Airways Limited

**Mr Geoffrey Lord**, Director, Air Cargo Management Pty Ltd as Executive Office to the Air Freight Export Council of Western Australia

**Mr Brian Lovell**, Chief Executive Officer, Australian Federation of International Forwarders

**Mr Ken Matthews**, Executive Director, Headquarters Group, Commonwealth Department of Primary Industries and Energy

**Mr Michael Milligan**, Project Officer, Australian Seafood Industry Council

**Mr Alan Paterson**, Director, Import/Export Applications, Cargo Facilitation Branch, Australian Customs Service

**Mr Robert Schwartz**, Manager, Plant Programs, Australian Quarantine and Inspection Service

**Mr Colin Vassarotti**, National Director, Commercial Services Division, Australian Customs Service

**Mr Paul Coutts**, Managing Director, TNT Express Worldwide

**Ms Vanessa Fanning**, Group Manager, Public Policy, TNT Ltd

**Mr Bryce French**, Director, Cargo and Mail, Aviation Security, Commonwealth Department of Transport and Regional Development

**Mr Michael Mrdak**, Director, International Policy Section, Aviation Policy Division, Commonwealth Department of Transport and Regional Development

**Mr Peter Pokorny**, National Merchandise Manager Produce, Woolworths Ltd

**Mr Don Telford**, Executive General Manager, Logistics, Australia, TNT Ltd

**Mr Raymond Turner**, Assistant Secretary, Aviation Security, Commonwealth Department of Transport and Regional Development

**Mr Tony Wheelens**, Assistant Secretary, International Relations, Commonwealth Department of Transport and Regional Development







