



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Air freight review inquiry

SYDNEY

Wednesday, 7 August 1996

(OFFICIAL HANSARD REPORT)

CANBERRA

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND
MICROECONOMIC REFORM

Members:

Mr Vaile (Chair)

Mr Albanese	Mr Peter Morris
Mr Bob Baldwin	Mr Neville
Mr Ross Cameron	Mr Randall
Mrs Crosio	Mr Tanner
Mr Hardgrave	Mr Wakelin
Mr McArthur	Mr Willis
Mr McDougall	

The air freight inquiry is 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 should 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.

WITNESSES

CHUDLEIGH, Professor John, Principal, Orange Agricultural College, and Chairman, New South Wales Agricultural Education Cooperative, Leeds Parade, Orange, New South Wales 2800	175
EDWARDS, Mr Tim Connor, Managing Director, Australian Cargo Terminal Operators, PO Box 2167, Bowral, New South Wales	106
FERGUSON, Mr Alexander Stuart, Chief Executive Officer, Central West Economic Development Group, Inland Marketing Corporation, PO Box 617, Orange, New South Wales 2800	175
FOSTER, Mr Kym, Assistant Director, Asia & New Zealand Section, International Relations Branch, Aviation Policy Division, Department of Transport and Regional Development, GPO Box 594, Canberra, ACT 2601	81
HECKENDORF, Mr Warwick John, Riverina Regional Development Board, PO Box 1156, Wagga Wagga, New South Wales 2650	141
JAMES, Mr Brian Knight, Managing Director, James Transport Co Pty Ltd, Bellevue Street, St Peters, New South Wales 2004	131
McKINNON, Mr Donald Allan, Mayor, Wentworth Shire Council, PO Box 81, Wentworth, New South Wales 2648	193
McMILLAN, Mr David John, General Manager, Wentworth Shire Council, PO Box 81, Wentworth, New South Wales 2648	193
MELLOR, Mr Thomas Ross, OBE, Facilitator/Coordinator, Habitat Trust and Asia Freight Airlines, 104 Ferguson Street, Williamstown, Victoria 3016	157
MONTGOMERY, Mr Stephen James, Property Manager, Federal Airports Corporation, Sydney Airport, Airport Central, 241 O’Riordan Street, Mascot, New South Wales 2020	122
MRDAK, Mr Michael, Director—International Policy, International Relations Branch, Aviation Policy Division, Department of Transport and Regional Development, GPO Box 594, Canberra, ACT 2601	81
POWER, Ms Loretta, Assistant Director, International Policy Section, International Relations Branch, Aviation Policy Division, Department of Transport and Regional Development, GPO Box 594, Canberra, ACT 2601	81
ROBERTS, Mr Mark Christopher, Riverina Regional Development Board, PO Box 1156, Wagga Wagga, New South Wales 2650	141

**HOUSE OF REPRESENTATIVES
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REFORM**

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Present

Mr Vaile (Chair)

Mr Ross Cameron

Mr Randall

Mr McDougall

Mr Tanner

Mr Peter Morris

Mr Willis

The committee met at 9.31 a.m.

Mr Vaile took the chair.

CHAIR—I declare open this public hearing of the committee's inquiry into the impediments to export of perishable and time sensitive exports via air freight. This is the first public hearing of the renewed air freight review inquiry conducted by the House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform in the new parliament and continues the work of the previous committee from the 37th parliament.

The previous inquiry received 25 submissions and public meetings were conducted in Adelaide on 13 December 1995 and in Melbourne on 14 December 1995. This hearing today will complement evidence received by the previous committee. Since the inquiry recommenced the committee has received over 30 additional submissions. The committee is aware of several other inquiries into the opportunities for and impediments to the export of perishable and time sensitive goods by air freight, notably the review by a task force commissioned by the previous Prime Minister.

The committee feels it is important that the issues raised previously be addressed expeditiously if advantage is to be taken of the potential markets in Asia and elsewhere for Australia's perishable produce. However, it is important that in times of economic restraint the solutions proposed be cost-effective and place a minimum additional burden on Australians. Within these constraints the committee is prepared to support innovative proposals that may impact on the freight chain and infrastructure but will need to be convinced that such proposals are practical.

The committee will begin by receiving evidence from the Department of Transport and Regional Development, providing an update on the situation concerning air freight. The developments proposed for Sydney (Kingsford Smith) Airport will then be examined. This afternoon's witnesses will provide the committee with their experiences of the air freight chain and some proposals which might alleviate problems. Tomorrow the committee will take evidence from some of those involved in the carriage of air freight. On behalf of the committee I welcome everyone appearing before the committee today. Our first witnesses are from the Commonwealth department of transport.

[9.33 a.m.]

FOSTER, Mr Kym, Assistant Director, Asia & New Zealand Section, International Relations Branch, Aviation Policy Division, Department of Transport and Regional Development, GPO Box 594, Canberra, ACT 2601

MRDAK, Mr Michael, Director—International Policy, International Relations Branch, Aviation Policy Division, Department of Transport and Regional Development, GPO Box 594, Canberra, ACT 2601

POWER, Ms Loretta, Assistant Director, International Policy Section, International Relations Branch, Aviation Policy Division, Department of Transport and Regional Development, GPO Box 594, Canberra, ACT 2601

CHAIR—Just before we start I remind you that the proceedings today are legal proceedings of the parliament and warrant the same respect that proceedings in the House demand. Although the committee does not require you to give evidence on oath you should be aware that that does not alter the importance of the occasion and the deliberate misleading of the committee may be regarded as a contempt of the parliament. We have received a further submission from the Department of Transport and Regional Development. I am just wondering whether Mr Mrdak wanted to make a brief opening statement.

Mr Mrdak—Mr Chairman, Deputy Chairman and members of the committee: the department welcomes the opportunity to provide a submission to the reconvened freight export inquiry. I would like just to make a few opening comments, if I may, to describe briefly the framework in which international air services operate and the basis on which Australia's international aviation policy works.

The framework under which international air services operate comes out of the Chicago Convention which was a conference held in Chicago in 1944 to plan the future of international civil aviation. As the delegates of the 52 countries represented at that conference were unable to establish a multilateral agreement for international aviation rights and did not establish a mechanism for an exchange of rights, since 1944 international traffic rights have been exchanged on a bilateral government-to-government basis.

Scheduled international air services under these agreements operate between pairs of countries. Basically, each nation establishes its air spaces as sovereign territory and allows foreign carriers commercial access to it by agreement with the government of that country. Air service agreements are of treaty status. There are more than 3,000 such agreements worldwide and Australia has 49 air service agreements. Each of these agreements will have been concluded and amended from time to time, often only after intensive bargaining by the individual pairs of countries.

The International Civil Aviation Organisation, which is the United Nations body responsible for international aviation, held a conference in late 1994 to examine the future of international air transport. The 130 signatory countries who attended that conference, including all of Australia's major bilateral partners in Asia, all endorsed the current bilateral system as the most appropriate means of allowing the further development of international aviation. Given this, it is considered that there is very little scope at present to move away from the present bilateral system in the near future, given the worldwide endorsement of the

current system.

The bilateral system, however, does not prevent countries or groups of countries from pursuing more liberal, plurilateral or multilateral arrangements when it suits their interest. In fact, the bilateral system allows for a wide range of outcomes, within a bilateral air service agreement from a very restrictive regime, to an open skies regime, depending on the policies of the two countries which are parties to that agreement. It is important to note that each bilateral agreement represents an amalgam of the views of the two countries involved based on the benefits that will accrue to each party, the value each side places on the rights being traded and the rights of exchange and the relationship between the agreement on offer and those that have previously been traded with other countries.

Bilateral air service agreements by their nature reflect a balance of benefits for the two countries concerned. Trade in air services occurs with the expectation of reciprocal benefits being received. This makes the trade in international air rights different from trade in other goods and services, which are traded on the principle of comparative advantage. Air service agreements have formalised the notion of reciprocity. Usually the agreement includes the specific aim of achieving fair and equitable opportunity for both parties in the market.

The outcome of any negotiation is therefore dependent on the relative negotiating power and current aviation policies of the two countries party to the agreement. In agreements governments will generally reach agreement on matters such as the routes to be served, the size and capacity of the aircraft that can be operated and the frequencies. There are a range of other issues, such as technical matters, aviation security and the like which are also covered in the agreements. The capacity provisions vary from agreement to agreement, but generally they contain the capacity negotiated in terms of specific aircraft size, that is, eight Boeing 747s per week for each country on a route.

I have distributed some charts to you indicating the five freedoms which are traded under bilateral rights. In addition to the direct freedoms—what are called third and fourth freedoms—the right to operate between the two countries under an agreement, governments also trade access to third country markets in bilateral negotiations. For example, Australia has given access to the Australia-New Zealand market to airlines from the United States, the United Kingdom and a number of Asian countries. In return we have obtained valuable access to third country markets between those nations and other countries. The negotiation of this third country capacity—what is referred to as fifth freedom capacity—is a vital competitive pressure on the efficiency of the operation of services under a bilateral system. In most cases, Australia's air service agreements do not distinguish between passenger and freight capacity and airlines are able to choose whether to use this capacity for passengers or freight only operations or as combinations.

I would like briefly just to outline Australia's international aviation policy and how it fits into this framework. Australia has adopted a relatively liberal approach to negotiating capacity and bilateral air services negotiations and has a very liberal freight policy. Australian policy is to seek to maximise international benefits from air service negotiations and to agree capacity outcomes well ahead of market demand. To this end, Australia's policy has a number of features. Firstly, we seek to maximise the national benefit and our negotiating position no longer principally focuses on the interests of carriers involved through negotiations. The clearest example of this is where we seek to have capacity on the shelf, well ahead of

market demand.

Secondly, our policy provides for multiple designation, which allows competition between Australia's carriers on international routes and also increases the number of foreign carriers operating into Australia. Up until 1992, Australia had a single designation policy and Qantas was the only Australian international carrier. We now have a multiple designation policy and we now have two start-up Australian carriers, Ansett International and National Jet Systems which are operating international services.

Thirdly, the Australian government's policy allows Australian carriers to develop integrated domestic and international networks. Previously Qantas was precluded from operating domestic services. It is now able to. Similarly, Ansett was precluded from operating internationally. That is now able to happen. They are now better able to integrate their two networks.

Finally, we have a liberal approach to bilateral negotiations which takes into account broader consumer, trade, tourism and foreign policy interests as well as the needs of the aviation industry in developing and negotiating the position for talks. This policy position over the last few years has had a number of positive outcomes for the carriage of freight. The capacity negotiated has increased by almost 50 per cent in the four years to June 1996. The number of international airlines operating to and from Australia has increased from 40 to 55, including two new Australian carriers since 1992. The number of scheduled passenger flights per week has increased from just over 430 to over 700 since 1992. This increased number of flights serves a larger number of gateways in Australia and it has also increased direct services into a number of overseas gateways. Additionally, there are currently 24 dedicated scheduled freight operations each week into Australia internationally. This freight capacity has been expanded by our liberal policy on supplementary flights under ASAs and our freight charter policy which allowed some 760 freight charter flights in the year ended June 1996.

Australia's relatively liberal policy places it at the forefront of international aviation reform. While aviation remains outside the earlier GATT and the current WTO deliberations for a variety of reasons the initiatives taken by Australia are consistent with broader trade liberalisation policies and principles and places us well in front of many of our bilateral partners—particularly our key bilateral partners—in the Asian region. In developing Australia's bilateral position for bilateral talks we conduct our formal consultation process which provides an opportunity for trade, tourism, foreign policy, airline and state and territory interests to be fully considered.

I would also like to mention that there have been a number of new initiatives undertaken by the federal government in relation to air freight policy. On 10 June this year the Minister for Transport and Regional Development announced the new policy towards air freight on both scheduled and charter services. The minister announced that the government will firstly seek to negotiate significant increases in dedicated capacity for freight services in key export markets in bilateral talks. This will occur as talks take place and it will be an ongoing process. However to date an additional 6.5 B747 equivalent units have already been negotiated in talks with our bilateral partners in Bahrain, Brunei, Indonesia, the Netherlands and Kuwait.

Additionally, we will seek to develop an APEC model air freight agreement for greater liberalisation of freight operations in the APEC context. We have also announced that we will consider removing

restrictions for third country freight operators to operate on routes into and out of Australia and the government has already liberalised the freight charter guidelines for carriage of Australian exports. The new international passenger and freight charter guidelines provide for automatic approvals for proposed freight charter programs of up to three months and makes provision for approvals for programs up to twelve months providing the applicant is not currently operating scheduled services and is able to demonstrate a continuing high carriage of Australian exports.

Overall, the department submits that Australia's aviation policies are not an impediment to the supply of freight capacity. However, it must be recognised that the implementation of these policies, particularly in the bilateral air service negotiations, is tempered by the views and negotiating positions of our bilateral partners which may differ radically from Australia's.

I would like to outline some of the key points in our recent submission to the inquiry. As we have outlined in our submission, the department considers that the current level of freight capacity operated both by dedicated freighters and in the belly holds of passenger aircraft flying to and from Australia is generally sufficient to meet the current demand for air freight exports. The analysis shows that there is a large amount of unutilised capacity overall on international routes to and from Australia. However, the analysis also shows that constraints do exist on certain routes, particularly during peak export seasons. To overcome these constraints, as I have described, Australia has a very liberal approach to negotiating dedicated freight capacity and approving supplementary and charter services to meet market demand during these peaks.

The department submits that any expansion of dedicated air freight operations will require a number of structural and commercial issues to be addressed by exporters and the air freight export industry. These are, firstly, better utilising the available freight capacity on existing passenger services and dedicated freighter aircraft; secondly, developing a critical mass of exports which can meet sufficient air freight rates to attract and sustain the provision of dedicated air freight capacity; thirdly, ensuring that the dedicated freight capacity is not limited by bilateral air service agreements; and, finally, developing a commitment to exports to ensure the supply of products with high demand that can justify commercial investment in both international freight capacity by airlines and airport and freight handling capacity.

The department has also flagged in its submission a number of aspects of regulatory procedures and industry operating procedures in the movement of air freight exports which the committee may wish to examine. These include: opportunities to better utilise the existing capacity; current freight booking practices and the implementation of electronic solutions, including EDI, to overcome these difficulties; development and uptake of appropriate packaging and handling technologies; and the role of freight forwarders in the air freight export chain as it impacts on the efficient use of capacity; the viability of loads available to dedicated freighters; and the airports through exports move. In conclusion, the department looks forward to assisting the work of the committee and would be happy to provide any further information and analysis that the committee would like to request.

CHAIR—When the department goes out to negotiate an air transport agreement on a bilateral basis, what sort of consultation takes place with industry, with particular relevance to what we are conducting this inquiry about? What initiative is taken by the department as to what countries you go and negotiate with or attempt to increase the capacity with? What feedback is there to those industries that have expressed interest

in those routes?

Mr Mrdak—In terms of negotiating a new agreement, we often work from the approach of, say, a foreign airline or one of our airlines to seek access to a region or a country. We do consult widely. We have a formal process where we consult through the relevant Commonwealth agencies, such as the department of industry, department of trade and foreign affairs and the department of tourism to try to get those broad interests. They have networks which extend into the various state and territory interests and the various business interests that they deal with on a regular basis. Through those mechanisms we get formal consultation feedback, but we also receive a great deal of informal consultation feedback through dealing directly with the carriers, who are often at the front line of receiving requests for moving freight to certain locations, and directly through the states and territories and business groups and exporter groups who approach us informally in relation to where they believe capacity should be going.

We do undertake a formal consultation process in the lead-up to talks. We write to the relevant Commonwealth portfolios, state governments and airlines alerting them that we have talks coming up with a particular country and that we would seek their input on what they feel Australia should be seeking at those talks and how our negotiating position could be developed. We then consult with them. They generally put in a formal submission to us and we then go back to them and hold talks with them prior to developing our negotiating position. Additionally, in respect of where we feel there may be a need for an air services agreement, we try to develop links with industry and the like to get feedback on where they feel there should be more capacity allocated and the like.

CHAIR—After you have negotiated increased capacity with some of the Gulf countries you highlighted a moment ago in your opening statement—and it is based on X number of 747s—what is the process and who makes the decision as to what percentage of that capacity is allocated to passenger and what is allocated to freight?

Mr Mrdak—Generally, we negotiate the agreements to allow for interchangeability. The capacity can be used either for freight or passenger capacity. It then becomes a commercial decision of the carriers as to how they utilise that capacity. Most recently, as I have indicated, the minister announced that in future talks we will be seeking a dedicated freight capacity component. We have done that now with five countries and we will be seeking to do that with each of our bilateral discussions as they occur.

CHAIR—But if there is a dedicated freight capacity in a particular agreement on a particular route, who makes the decision as to who fulfils that freight capacity?

Mr Mrdak—In respect of the foreign airlines, that is a matter for the foreign government. In respect of Australia's airlines, we have set up an independent commission, the International Air Services Commission, which is a mechanism to allocate rights between competing Australian carriers. Prior to 1992, when Qantas was our sole international carrier under a single designation policy, it was simply a case of whatever capacity was negotiated was available to Qantas only. Since then, since we have introduced multiple designation, we have established an independent commission headed by Mr Jim Bain to which the airlines make competing applications. The commission then, using a range of public benefit criteria, establishes where the gross benefit lies and allocates the capacity between the competing Australian carriers.

Mr McDOUGALL—You mentioned that there were 24 dedicated freighters per week internationally and that three Australian airlines were involved. What about the international airlines? How many of them are there and how many flights a week do they have?

Mr Mrdak—The 24 dedicated freighters are all operated by foreign carriers. None of the Australian carriers operates dedicated freight aircraft in their own right. Qantas does have wet leased aircraft on a couple of routes, but it does not operate the aircraft in its own right. There are 52 foreign carriers operating to Australia and the dedicated freight capacity is provided by carriers such as Polar Air Cargo, Evergreen International Airlines, Singapore Airlines, Malaysian Airlines and the like.

Mr WILLIS—What is National Jet Systems? How significant are they? They are a very new player to me.

Mr Mrdak—At this stage they are operating two services a week, running Broome-Denpasar-Singapore-Christmas Island and return. They are a small player at this stage, but they are growing and they are looking very closely at getting into that near Asian region, particularly Indonesia and the like.

Mr WILLIS—They operate out of Broome?

Mr Mrdak—Yes.

Mr WILLIS—What do they fly from there?

Mr Mrdak—BAe146. They operate a service which, as I say, goes Broome-Denpasar-Singapore, across to Christmas Island and then back the reverse route.

Mr WILLIS—What is the main cargo?

Mr Mrdak—Predominantly supplies. There is some traffic that flies Singapore-Christmas Island in respect of the casino and the like.

Mr WILLIS—So it is mainly passengers?

Mr Mrdak—It is mainly passengers, yes.

CHAIR—It is not dedicated as freight?

Mr Mrdak—No. It is a passenger aircraft which carries belly hold freight.

Mr WILLIS—Is that the major means of people getting from Indonesia to Christmas Island for gambling?

Mr Mrdak—I think that may be the intent. Unfortunately they do not exercise any traffic rights out of Indonesia under the agreement, they are unable to. They only have traffic rights out of Singapore.

Mr WILLIS—It does not go to Jakarta?

Mr Mrdak—No.

CHAIR—When the Victorian Department of Business and Employment appeared before the previous committee at a hearing in Melbourne, it advocated separating passenger and freight aspects in bilateral negotiations. It added that Melbourne was being constrained in its development as a hub for south-eastern Australia. Can you comment on how practical that uncoupling would be?

Mr Mrdak—As I say, we have now taken steps in accordance with the government's new policy on freight to uncouple and, wherever possible, to seek to negotiate dedicated freight capacity. There have been cases in the past, clearly, where passenger and freight capacity is convertible under bilaterals and the greater commercial advantage for the carriers is to operate a passenger service where the high yield is and freight is very much subject to that and the demands of the passenger traffic. Clearly where there is greater commercial imperative for the carriers to operate passenger services than freight, they are not necessarily allocated to freighters. We are now trying to break that nexus by dedicated freight capacity being in the bilateral, effectively removing any impediment to any carrier wishing to operate dedicated freight services.

Mr PETER MORRIS—Does the department have outstanding applications from any aircraft operators to operate dedicated freighters to any ports in Australia?

Mr Mrdak—Not as far as I am aware.

Mr PETER MORRIS—Have you ever had any?

Mr Mrdak—In the past approaches have been made by foreign carriers and I think to date, as far as I am aware, all of those have been accommodated. Most recently, Martinair from the Netherlands was operating a dedicated freighter under charter approval. As a result of recent air service negotiations some two months ago with the Netherlands that is now available as scheduled capacity.

Mr PETER MORRIS—Between what ports are they?

Mr Mrdak—That is running between, I think, Amsterdam via Bangkok.

Mr PETER MORRIS—Not into Asia?

Mr Mrdak—I think it comes via Bangkok. I will check that and come back to you with some details.

Mr PETER MORRIS—That is for the carriage of perishables or other goods?

Mr Mrdak—Predominantly other goods. Predominantly imports from Europe is their main trade. At this stage they are running one scheduled service per week; they are considering going to a second weekly freighter.

Mr PETER MORRIS—The application or the interest is grounded on the transport of imports, not exports?

Mr Mrdak—Predominantly. The dedicated freight is operating into Australia predominantly carrying high value imports.

Mr PETER MORRIS—High value imports? Why do you say high value imports? Is there a connotation there that there is also a high freight rate inbound?

Mr Mrdak—Freight rates inbound are much higher than freight rates outbound.

Mr PETER MORRIS—Why is that so?

Mr Mrdak—Predominantly because of the capacity available into this market and the relatively low yield available from the carriage of Australian exports. Australian perishables in particular have found it difficult to bear the higher freight rates and so freight rates are being subsidised outbound by the availability of the inbound capacity and also by passengers.

To give you some example, the inbound capacity from some markets like Singapore is about \$8 a kilo for some goods. Outbound from some of those markets, anecdotally, it is probably as low as 60 to 65c.

Mr PETER MORRIS—From \$8 to 65c?

Mr Mrdak—Because of the higher demand.

Mr PETER MORRIS—So, virtually, it is hardly worth carrying?

Mr Mrdak—That is right. There are dedicated freighters operating into Australia, particularly from the west coast in the US, which do an empty leg out of Australia to pick up more high value product in north Asia. They fly a route from the United States—

Mr PETER MORRIS—Can everybody hear over there? You will need a loud voice.

Mr Mrdak—Some dedicated freighters are currently operating into Australia from the United States, which are actually operating via Auckland to Sydney. They are actually operating empty out of Australia because they do not feel that the load available in Australia is of sufficient yield to warrant them spending the time on the ground in Sydney loading—and the operational restraint. They fly empty out to ports such as Hong Kong and then load up with higher yield cargo to fly back to the United States.

Mr PETER MORRIS—Who?

Mr Mrdak—Polar Air Cargo.

Mr PETER MORRIS—I was asking because of some of the anecdotal evidence in the past about

this dead legging, that the rate of return available on some of the exports out of Australia was just so low it was not worth the hassle of even loading and incurring the expenses of loading. That is interesting.

Mr Mrdak—The Bureau of Industry Economics undertook a study a couple of years ago, as part of its performance indicators, and one of the performance indicators looked at aviation. It looked at freight rates ex-Australia and actually found that we have among the lowest freight rates ex-Australia in the world. They are much lower than rates intra-Asia and also far lower than rates from Asia into Australia. That is principally because of the nature of the cargo being carried in and the demand for that space. It means there is a lot of surplus capacity available and because it is subsidised by passenger traffic then the airlines are willing to fill those holds at relatively low cost.

Mr WILLIS—I note the previous Prime Minister's task force review had minimum air freight rates for freight only operation between \$1.77 to \$4.09 per kilogram and to cover costs you have recalculated that to 86c to \$2.26. Would you like to tell us what the differences are?

Ms Power—Last time round we used costs given to us by Qantas and Singapore Airlines. This time round the Bureau of Transport and Communications Economics have gone back to the direct operating costs based on a model they have called Aerocost. So the costs this time round do not include the same number of costs as last time round—some things such as ground handling and maintenance on the ground are not included this time round. That is why the direct operating costs are lower, so they are considered the lower bound.

Mr WILLIS—On a freight only operation you still need maintenance-ground handling. Why do you exclude those costs?

Mr Mrdak—Some submissions raised with us questioned whether the previous analysis was sufficient. We have asked the bureau to do very much a lower bound estimate if you solely look into direct operating costs without its making any contribution to fixed or variable fixed costs. We are asking what is the lower bound of just the direct operating costs for operating a dedicated freighter to answer some of the queries. It was raised with us that one airline's operating costs will be different to another's and we were trying to get to the bare minimum as best we could.

Mr WILLIS—Do you see any significance in those changed amounts? Do they change the economics of the operation in a way which should enable us to have an enhanced freight operation?

Mr Mrdak—I do not think so. I think they really reiterate the findings of the earlier study in the sense that if you compare that operating cost to the average value that has been gained for some of our exports, and particularly perishable exports, even at the lower bound of direct operating costs for a freighter, it is still a significant proportion of the cost of the value being gained of the perishable exports. If the average of that range is still 80c per kilo, you are still talking up to one-third of the value being gained for some perishable exports in some Asian markets.

It again indicates the fact that air freight is best suited towards a higher value product. And that is principally why, on some of the more capacity constrained routes such as Hong Kong, Japan and the like,

seafood is the predominant perishable export because that is better able to bear the cost of air transport. It is a higher value commodity. It is much more easily transferable by air and the like, and it needs to be there fresh in quality time, and that is why seafood predominates on some of those key north Asian routes.

Mr WILLIS—It just seems to me, if you had lower costs, then it would seem to indicate it is more feasible to carry lower value freight?

Mr Mrdak—I think the proportion, in terms of the value again of the export perishables in particular, still indicates that there is a significant proportion, even at those lower bounds, of the value of the goods. Clearly the perishables are being carried, and that is why perishable exports particularly are being carried in the belly holds of passenger aircraft where the rates are much cheaper than what could ever be gained on dedicated freighters.

CHAIR—Mr Mrdak, the committee is aware of proposals for new air freight hubs outside the present major airports. How much would it cost to build an international standard air freight airport at minimum acceptable costs and broken down into obviously the runway capacity capable of handling international freighters, terminals, cold storage, et cetera?

Mr Mrdak—It would be difficult to quantify. I would be more than happy to come back with some estimates. Drawing on experience, I know that the IMC concept at Parkes has given a costing that they have done of around \$50 million for what they are proposing as a Parkes regional airport, but we have not tested those costings. There have been some costings prepared for the second Sydney airport project. It very much depends on the level of infrastructure required. To operate scheduled services requires a higher level of infrastructure, I think, than most people understand is necessary. Most international carriers will not operate into an airport that does not have a control tower, rescue and fire fighting provisions, and sufficient apron and terminal space and the like. The operating procedures of most of the established carriers require at least that minimum level of facilities. It is not simply a case of laying a runway and some minimal facilities. If you are looking at a scheduled established carrier, they require a high level of infrastructure, but I will have a look at that and come back with some bounds.

CHAIR—Would those sorts of costings be readily available?

Mr Mrdak—As I say, the department has done some work in the past on the unit costings as part of the work on the second Sydney airport project. I will have a look at those and see if there is anything there which would maybe translate to new airport development and come back to the committee, if I may.

CHAIR—It would be appreciated if you could take that on notice and provide that information. It would be very handy.

Mr ROSS CAMERON—Mr Mrdak, your opening statement indicated you felt there was sufficient capacity and flexibility in the market at the moment and under the current regulatory and bilateral arrangement. One of the full recommendations of the Prime Minister's inquiry and report, which I understand the department was a member of, was that we needed to pursue more liberal freight aviation arrangements. Is there any inconsistency there?

Mr Mrdak—No. What the analysis has shown is, overall, if you look at the totality of the capacity available under our bilaterals, their capacity is well ahead of demand in terms of seats being operated. In our submission you will see some details of what capacity is available. At the moment negotiated capacity outstrips capacity being used at a rate of about 2.3, but there is no doubt that on certain key export markets we are up against our capacity limits. For instance, on Japan, Hong Kong and Thailand, Australian carriers are operating all the available capacity that is available to Australian carriers, and there is clearly at peak seasons a capacity issue on those routes.

We have done some analyses in our most recent submission which for the first time actually looks at, on a month by month basis, not just capacity negotiated but actual capacity being operated and also the freight being carried on those routes. Clearly, on a route such as Hong Kong, I think there are some three to four months where the actual carriage of freight exceeds the capacity available and being operated. That is being met predominantly by charters and supplementary flights but also by freight being routed via third countries—hubbing through other ports. So, clearly, while capacity overall—if you look in the total bilateral context—in some of those key markets is available, in some of the north Asian markets clearly Australian carriers are operating at the full amount of capacity available and there is a need for additional capacity in some of those markets.

Mr ROSS CAMERON—And that has to be negotiated through bilateral arrangements?

Mr Mrdak—It does. The Prime Minister's study indicated there is need for greater flexibility and, as I mentioned earlier, the minister for transport's announcement in June to, for the first time, negotiate dedicated freight capacity is an attempt to do that. Our policy position is we will try, as far as we are able in the bilateral process, to remove any impediments to capacity. But, as I say, our negotiating position is, of course, tempered by the views of our bilateral partners whose carriers in some of those key markets are not using all of the capacity available to them. For instance, in all of those three key markets—Japan, Hong Kong and Thailand—the foreign carriers are not using anywhere near the total capacity available to them at this time.

Mr ROSS CAMERON—I guess what I am trying to understand is what are the areas where we are presently, as a government, presenting regulatory or international bilateral impediments to would-be freight users?

Mr Mrdak—Certainly from the perspective of the air service agreements, as I said, given the views of our bilateral partners, we are trying to the best of our ability to negotiate additional capacity to meet those demands. I think to a large extent we have removed any policy impediments to charters and to supplementaries as far as we can to circumvent any capacity problems directly under the ASA, and also we have indicated a willingness to look at third country operators and the like. The policy position is clearly, as much as possible within our powers, to remove any policy impediment or regulatory impediment in the air service agreements. However it comes back to the point that, again, it is very much subject to the views of our bilateral partners.

Mr ROSS CAMERON—But where are our partners making it difficult for us?

Mr Mrdak—There is a range of issues. Each country varies.

Mr ROSS CAMERON—Say Japan, for example, where we are up against a capacity limit. They are saying they do not want any more. They are not flexible in terms of us.

Mr Mrdak—It is not clear as yet what their position will be. We have air service negotiations coming up with Japan in the next few months. We are currently trying to establish a firm date for those. It is difficult to say at this stage what the Japanese position will be up until we get into those talks. But certainly the last talks, I think, with Japan were held in 1995, and as the Japanese carriers were not using at that time their available capacity, Japan at that stage felt that it was inappropriate to seek additional capacity. But we will not really know what the Japanese position is until we get into the talks later this year. Similarly with Hong Kong; we are scheduled to have air service talks with them before the end of this year and we now have, for the first time in several years, been able to set a date with Thailand for talks in September. For some years we have been seeking talks, and the Thais have agreed to talk in September.

Mr Foster—Just to put it into a broader perspective, we have a program of some 20 bilateral negotiations that we are trying to undertake this year, and in the key markets where there is some constraint—Hong Kong, Taiwan, Japan—we are seeking talks, so we are making our best efforts to bring the negotiations on.

Mr Mrdak—That is right. Going back to the question by the Chairman at the start, we do have a strategy which sets out where the key areas of talks are required and we do have a rolling program of bilateral talks throughout the course of the year, particularly with our key trading partners. We do try and have those talks very regularly. So, when we are aware there are capacity constraints, we try and seek talks as quickly as possible with a bilateral partner.

Mr ROSS CAMERON—So do you need support from foreign affairs or other agencies to get leverage in those discussions? Is that like a department-to-department discussion? Or should we be doing more to put pressure on these countries?

Mr Mrdak—It is a difficult issue in the sense that aviation is not being picked up in a broader trade sphere. As I mentioned, aviation rights are specifically excluded from the GATT-WTO round because of difficulties of accommodating the present bilateral structure within that move to a multilateral framework. But certainly we do talk very closely with the Department of Foreign Affairs and Trade sometimes at a minister-to-minister level in respect of forthcoming talks. On occasion we do elevate aviation issues into the broader discussions happening at the Foreign Affairs and Trade level with our bilateral partner, yes.

Mr McDOUGALL—I would like to ask whether you can give us your idea of the impact that passenger hubbing in South-East Asia has had in relation to restriction of freighting on the basis that, when you go into hubbing, obviously the smaller aircraft fly out of cities other than Sydney and then the hubbing takes place either in Bangkok or Singapore. What effect do you believe that has had on the capacity of perishable freight exports from cities other than Sydney?

Mr Mrdak—Certainly I am aware that airlines are operating smaller aircraft to a number of cities in

Australia. I know the South Australian government has raised concerns about the move to predominantly 737 operations away from wide-bodied aircraft. Clearly that does place restrictions on exporters from some of these cities who are having to tranship freight from, say, Adelaide or Darwin and the like via other ports from a narrow-bodied aircraft and are not able to get the loads that they would like. That is a function of commercial demand as much as anything. I think the airlines are reacting to what the available supply is and the value of the product coming out of some of those markets. In terms of South-East Asia, I think that Australia is benefiting from some of the development of freight hubs, particularly in places like Singapore—they have eased our transshipment. As I said, access through third countries is a very important competitive mechanism for getting into what would otherwise be constrained bilateral markets. Certainly access through hubs such as Singapore and other ports is of benefit. I think that the modern facilities of places like Singapore—when KL comes on stream there in a couple of years—and Hong Kong and the new airport and the like will probably ease some of those transshipment problems through some of those ports.

CHAIR—The previous Prime Minister's task force looked at the cost of air freight issues and calculated a minimum cost recovery rate for dedicated air freight operation. That process was criticised to a certain extent by the Central West Economic Development Group on a number of bases. I am interested to hear your comments as to whether those findings by that task force—in which the department participated—would have been different if there had been an analysis of the use of a different type of aircraft such as a DC8.

Mr Mrdak—Certainly they may have, but I think we tried to capture it. As I mentioned earlier, it was in response to comments by groups like the central west group that we asked the BTCE to recalculate the analysis to take in a broader range of aircraft types and to give us a lower bound cost on the best available data. I think we have tried to pick up many of the criticisms made of that earlier analysis by groups like that in the current analysis which is before the committee.

As to the operation of DC8 aircraft, they are an older type of aircraft and while there may be some benefit in lower overhead costs in terms of lease or purchase costs they do come at cost in terms of greater fuel usage, capacity and the like, so there are trade-offs there. I think what we have tried to do in the BTCE analysis, which is before the committee, is to capture the representative types of aircraft freighters which are being used in Australia; it is predominantly the 747-100, 200 and 300 series, I think, which have been calculated. We have tried to address those concerns in the latest analysis.

CHAIR—Going back to one of the key issues that seems to be arising with regard to the decision making process in the allocation of air freight capacity: ultimately that rests with the minister, does it?

Mr Mrdak—No, it does not. For Australian carriers it rests with the International Air Services Commission. As I said, when we moved to multiple designation in 1992 it was felt appropriate that we separate the negotiation of the capacity from the allocation. The reason for that was to prevent a situation where the negotiation would predetermine the allocation. We have established that the minister, through the department, negotiates the additional capacity following detailed consultations with a wide variety of groups. Once that capacity is negotiated under the bilateral agreement we have what is called a Register of Available Capacity. It is a public document which lists what capacity is available. The International Air Services Commission has been established as a statutory authority which actually allocates the capacity to competing

Australian carriers. For instance, we have recently negotiated capacity to Indonesia; that capacity then goes to the IASC. They advertise that capacity as being available and seek applications from Australian carriers to operate that capacity.

CHAIR—Either passenger or freight?

Mr Mrdak—Either passenger or freight. In the case of Indonesia, we have actually negotiated dedicated freight for the first time in May. The commission has that capacity. Australian airlines can then apply to the commission for that capacity and they are judged on the basis of a range of public benefit criteria. Firstly, the commission establishes that the carrier is reasonably capable—that is, that it has the financial resources, operational expertise and the like to operate its services. If there are competing applications for available capacity it makes a judgment based on a range of public benefit criteria set by the Minister for Transport as to which carrier's application best serves the public interest, then it divides the capacity accordingly or makes an allocation to one carrier over another.

Mr PETER MORRIS—Looking through the submission from the Australian International Pilots Association there seems to be a mirror image of world shipping in that we have got those ships of shame—old ships long past normal operating dates, poorly maintained—becoming rate cutters and, as rate cutters, they then become rate setters. As a comparison, you are referring to the 747-100 which is what? A 30-year-old aircraft?

Mr Mrdak—Of that order, yes.

Mr PETER MORRIS—The TWA 100 that went in a few weeks ago was a 100 which was 30 years old. I am drawing the conclusion that, whilst you are benefiting from old aircraft, what was a surplus of aircrew and contributions to the cutting of rates, yet you are facing up to a situation where those aircraft have to be replaced. Costs and rates will escalate coming out of that. Is that something the department has looked at or have you got a view across that?

Mr Mrdak—It is an issue; the aging of aircraft across the world is an issue, as you are well aware through your previous committees in relation to Australian aviation. In respect of freighters into and out of Australia there are some restrictions on older aircraft operating into Australia.

Mr PETER MORRIS—With noise restrictions.

Mr Mrdak—Noise restrictions predominantly. Aircraft operating to and from Australia must meet chapter 3 requirements of noise certification. Any chapter 2 aircraft must cease operating into Australia on the 25th anniversary of its certification. All chapter 2s are unable to operate to Australia after 2002, so there is a process there and that process is being mirrored in Europe, the United States and elsewhere; there are restrictions on some of the older types of aircraft. Also, I think that the analysis is indicating that with the range of costs available from some of the older aircraft—as I say, it is a trade-off—the older aircraft do not necessarily relate to lower rates in the sense that they come with a cost penalty in terms of fuel burn and the like, vis-a-vis if there are more modern aircraft, and an operator makes a judgment as to adopting the higher overhead costs of a new modern type of aircraft—

Mr PETER MORRIS—Would you speak slower and louder like I know you can, please?

Mr Mrdak—I do apologise.

Mr PETER MORRIS—Just imagine you are asking a question in the House.

Mr Mrdak—As I say, it is a trade-off for operators as to whether they operate a more modern aircraft type which has got higher overhead costs in terms of lease or purchase costs as opposed to an older aircraft type which has higher direct operating costs.

Mr PETER MORRIS—But the reality is that the lower rates emanate from those 747-100s; it is the older aircraft that are the great cutters.

Mr Mrdak—They may be, although I do not think that is the experience at all times. I think it varies very much. It is not necessarily a case such as with the shipping industry where the older type of equipment is providing the cheaper rates. It very much depends on the type of operations of the company.

Mr PETER MORRIS—Obviously we will come back to this later when we have the pilots association before us. I just wanted to test your view of it and the department's view of it.

Mr Mrdak—I think it very much depends upon the company and the way in which they operate the aircraft.

CHAIR—One of the submissions that the committee has received is from Asia Freight Airlines with a proposal that revolves around Avalon Airport in Victoria. Part of the basis for that proposal is the consideration of a free trade zone. The Avalon proposal envisages a substantial amount of incoming and transfer-through air freight which they suggest could warrant the creation of a free trade zone. Could you indicate to the committee what the implications of such a proposal may be?

Mr Mrdak—It is a proposal which we are aware of. It is not one we have been directly looking at at this stage. It does require a great number of coordination issues, particularly on the customs, immigration and quarantine front, to be ascertained and developed. It has to look at those broader issues of barrier clearance and the like. In terms of the viability of such a project it is very dependent on the ability to be a hub and where you are going to be drawing your trade from. Australia geographically is not well placed to be a hub for air freight world wide. We are sitting at the end of the world in a way. We do not have the geographical advantages of a Hong Kong or a Singapore in that sense.

Avalon has some advantages. It is already designated as a restricted use international airport so it can operate international services there subject to meeting all the customs, immigration and quarantine requirements. But by the same token I think the viability of Avalon has always been difficult to ascertain given that Melbourne airport is being developed as a freight hub and has a great deal of support from the Victorian government and the Federal Airports Corporation. Given the level of passenger capacity being operated into Melbourne it would be difficult, I think, for Avalon to attract a significant amount of capacity from scheduled carriers. An Australian operator out of Avalon certainly could operate, but it would require

solving some of those barrier entry issues.

CHAIR—Just going to a further point: you would see that the geographic location might not necessarily be advantageous as far as the Avalon proposal is concerned by virtue of the fact of its proximity to Tullamarine?

Mr Mrdak—I think that would be an issue which you would have to look long and hard at as to whether you would be able to get the level of capacity into Avalon given the level of capacity being operated at relatively low export rates up at Tullamarine. The economics of dedicated freight for the sorts of exports that we are carrying out of Australia are not good and that is why the predominance—90 per cent—of our perishable exports are all going in the belly holds of passenger aircraft because those rates are best suited to the lower value commodities we are exporting.

CHAIR—We keep coming back to this point of the economics of air freight and using the belly cargo system in passenger aircraft. Some of the complaints from producers, not necessarily freight forwarders, is that the problem is getting into the terminal, across the tarmac, onto the right plane and out of the country. Has the department done any sort of research analysis on that? This comes purely from a local perspective of mine in my electorate where I have one of the largest oyster producers in Australia. He attempted to get into overseas markets but because of the problems getting across the tarmac onto the right aircraft, and even to the extent of having it all organised and then that aircraft did not have the volume capacity available, the perishable good has just gone, it is history. So he has given up on the prospect of trying to export his product. Has the department done much research in that particular area of the process?

Mr Mrdak—The 1995 study, I think, for the first time touched on many of these issues and really that was the ongoing work that is now going to be carried forward by the government strategy on the supermarket to Asia idea which will be announced as part of the budget. The government has a commitment to a strategy of perishable exports and some of those announcements will be carried forward to the budget context. Certainly the department did some work last year and it is currently engaging in an integrated logistics project which is looking at these linkage issues and seeing where the policy makers and transport policy can assist where there are breakdowns in that sort of communication or the transport links.

At this stage it is very much at the preliminary stage of doing some scoping work, talking to industry and just seeing where those breakdowns are occurring and how we might be able to assist. But predominantly while there is a lot of anecdotal evidence, as you have mentioned, of those sorts of problems the bulk of them, I think, are being addressed really on a commercial basis. In our submission we have drawn attention to—and the committee may wish to look at this—the whole relationship between the airline, the freight forwarder and the exporter and how that can be best addressed. We have not done too much work on that front at this stage.

Mr WILLIS—The *Prime Minister's Study into Removing Impediments to the Export of Perishable Produce* made a set of recommendations. In your view, is there any need for this committee to look beyond those recommendations? Your department was one of the members of the working group which has looked into this area. Do you see a need for any further recommendations to be pursued, other than those reached by the working party?

Mr Mrdak—There are a couple of areas which were not covered in those recommendations, specifically in relation to air freight, which we have drawn attention to in our submission, such as the nature of the air freight forwarder industry and how that impacts on the nature of the freight being exported and the problems there.

Mr WILLIS—We received your submission this morning so none of us have had a chance to read it.

Mr Mrdak—I do apologise. Issues like the structure of the forwarding industry, the broader issue of price and the economics of air freighters are some of the issues we have tried to address to go further than that study. As I say, there are some other initiatives going on within government in relation to the Supermarket to Asia strategy by the government which will pick up some of the regulatory issues on a broader sense in terms of those markets and also those markets—

Mr WILLIS—Most of the recommendations of the working party related to regulatory issues, so presumably that is what is being worked on, is it?

Mr Mrdak—That is right. There is some work going on in those, and also in relation to the market development issues in terms of getting the right signals back to our producers of what goods are being demanded and the quality that is required in those key markets.

Mr WILLIS—What I was really getting at was: is it your view that basically the work in this area has been done and the committee just needs to read the report and the working party can give it a tick?

Mr Mrdak—I do not think it would be my place to say that. Certainly from an aviation policy perspective, I suppose our position would be—I cannot comment on the broader regulatory and other issues, which are outside our portfolio—that, in terms of our capacity and bilateral negotiations, I think it is important the committee be a process whereby people gain a better understanding of the processes that have gone on in terms of the negotiating capacity and what some of the restraints and constraints upon us are.

For a long time the focus in terms of talking about air freight was, ‘If only we could get more capacity.’ I think this committee is an important process to show people that, even if the capacity is negotiated, there are crucial questions of price and supply which dictate whether you will get that—

Mr WILLIS—There is a tendency towards a cargo cult in all of these things. People think that, because you have the additional space in the bilateral agreement, there is therefore capacity in the bilateral agreement and all sorts of things will flow. But it does not necessarily follow.

Mr Mrdak—That is right. It is all part of shifting the debate away from the supply side to the demand side.

Mr WILLIS—Sure. But just on that point—and this possibly gets outside your expertise—it does seem to me that, at least in some parts of Asia like Japan, fruit and vegetables, which I see are described in your submission and I think in the working party report as ‘low value’, seem to be of extremely high value. A nice basket of fruit in Japan can cost \$100, which we would pick up for probably one-tenth of the price in

Australia. What are we doing to tap into that market, which is certainly high value? Obviously there is a tremendous premium put on freshness, presumably to command such incredible prices. It would seem to me that that is an area where Australia ought to be looking at trying to get high quality produce into the market and taking advantage of a market that is prepared to pay an incredibly high price for good quality produce.

Mr Mrdak—Absolutely. If you look at the Japanese market and the bulk of the perishable exports, then you are right. Some of our fruit and vegetables do attract a much better price in Japan than they do elsewhere. By the same token, the bulk of the perishables going to Japan are seafood, which is even higher value. The freight space is going to the highest value commodity.

Mr WILLIS—We ought to be looking at trying to get some more dedicated freight space for high quality fruit—I do not know about vegetables—into Japan, for instance.

Mr Mrdak—As I say, certainly we have been trying for some time and we are hopeful that during our discussions with the Japanese we will be able to obtain additional capacity into that market. It then becomes a commercial choice. It depends on the particular flights. I am aware that there are certain flights on which demand for space is high which leave Australia in the late evening and which can then operate into Japan for the early morning, which gets fresh quality seafood into the markets the next morning. That is the premium they pay.

Anecdotally, the department has been talking to freight forwarders informally and the rates vary. We have been told as recently as yesterday that the rate to a market like Singapore can be as low as 60c a kilo for some commodities on certain flights. On other flights such as the overnight flights—

Mr PETER MORRIS—Guaranteed capacity available? Or is it possible capacity?

Mr Mrdak—It is possible capacity. That is the rate. But on other flights which have a better time in terms of getting it overnight up into some of those key markets we are expecting—

Mr PETER MORRIS—If you want guaranteed capacity at the time you want it, you pay for it?

Mr Mrdak—The rate is \$4 to \$5 a kilo.

Mr WILLIS—It is \$4 to \$5 compared to 60c?

Mr Mrdak—Yes.

Mr McDOUGALL—Just taking that point a bit further, do you see as a department any restriction in the current Qantas-Japan Airlines agreement to the availability of potential freight opportunities to Japan?

Mr Mrdak—As I say, I really could not comment on what the Japanese position will be until we get into the talks with them. It is difficult to say at this stage.

Mr McDOUGALL—I am talking about the existing agreement. Does the existing agreement of a

closed market between Qantas and Japan Airlines restrict opportunities in export to Japan by other freight movers?

Mr Mrdak—I am not aware of any agreement which would do that. I can certainly take that on notice and investigate.

Mr Foster—In the Japan market, anyway, you have also got Ansett operating, and also ANA.

Mr McDOUGALL—But Ansett has been in there five minutes. The Qantas and Japan Airlines agreement has been around for a long time in relation to the controlling of flights and the controlling of capacity. Has that been a restriction in relation to opportunity?

Mr Mrdak—It has not been raised with us as a restriction, but, if I may, I will investigate that issue and come back to you.

Mr PETER MORRIS—Ansett and ANA would be grabbing it at 100 miles an hour.

Mr Mrdak—Qantas does have some market advantage in Japan in the sense that it is able to operate to Tokyo airports. As the committee will be aware, the slot constraints at both Tokyo airports are such that Japan is no longer allocating any capacity into Tokyo. Qantas, by virtue of being there for some time, has been grandfathered access to those airports, as have JAL and ANA. But Ansett is unable to operate to Tokyo and must operate to Osaka. So there is certainly a competitive advantage to Qantas in terms of having been in that market for some time and in terms of access to Tokyo. I am not aware of any other arrangement with JAL, but I will certainly take it on notice if I may.

Mr WILLIS—Have they opened the second runway at Narita yet?

Mr Mrdak—No.

Mr WILLIS—That is due to be opened some time soon, isn't it? I think they have cleared away the last farmer. There was a farm in the middle of those runways.

Mr Mrdak—I am not too sure if they have started construction as yet. I think they have only just got rid of the barrier to gaining the land access.

Mr ROSS CAMERON—Of the recommendations in the Prime Minister's study, it seems to me that number one is the establishment of a private sector-led national freight export strategy group. You have got three other recommendations, which are basically government housekeeping issues to some extent. When you talk about shifting the debate from the supply side to the demand side, and when I look at the content of that report, it seems to me that what you are really saying is that the impediments to the growth of this industry are not supply side impediments. You are basically saying the real difficulties are commercial; it has got to do with the marketplace getting itself better organised than it presently is and that, from the department's standpoint, there aren't really major regulatory or bilateral obstacles to this business growing?

Mr Mrdak—That would be our overall position, but, as I have indicated, on some key export routes there certainly are capacity constraints. We are operating up to our limit of capacity and our carriers would like to be operating more capacity. That is something we are seeking to address with our bilateral partners. Overall, you are absolutely right: that would be our position—that as far as possible we have tried to remove any policy impediments to capacity. It then becomes a matter of commercial relationships and practices as to how that capacity is best utilised—

Mr ROSS CAMERON—Is that what you mean when you talk of shifting the debate from the supply side to the demand side?

Mr Mrdak—Yes. As I mentioned previously, a lot of the debate previously when people talked about air freight—when Mr Morris commissioned a study in the mid-1980s into air freight, when he was Minister for Transport—was about getting more infrastructure and more capacity and freeing up the charter approval process and the like. A lot of that has happened. The infrastructure is largely there. The capacity has grown, as I said, by over 50 per cent in the last four years. We have significantly liberalised charter policy from the mid-1980s when it was a single entity charter policy to now, a very liberal regime where we are prepared to give virtually open approval for charter freight programs.

So, as much as possible, where we have come up against constraints in the bilateral, we have sought through the charter process to circumvent those. Again, charters are also subject to the views of our bilateral partners. Not all of our bilateral partners have as open and liberal policy on charters as we do and, again, that is something we try to take up with them.

Mr ROSS CAMERON—So in relation to the idea of dedicated regional freight centres, the department's view is that basically it is a pipedream—it is not supported by rigorous economic analysis, it is something that local councils like to put a press release out about; but that, ultimately, international carriers are not going to go there as we do not have the volume to support that sort of dedicated infrastructure.

Mr Mrdak—I would not say it is a pipedream but, certainly, a great deal more analysis needs to be done, and we would question the viability of a number of proposals, particularly in respect of their ability to attract carriers to them. Scheduled carriers operate to the major east coast ports because that is where they are able to consolidate loads, gain the highest yields and gain the greatest reach of market. It would be difficult to envisage an established operator making a commitment to infrastructure at a regional port given the attractiveness of operating to a port such as Sydney, Melbourne or Brisbane.

In our bilateral process, we have a policy of trying to attract capacity to some of the other airports, some of the other state capitals in Australia and the like. But commercial reality is that foreign carriers and our own carriers are predominantly interested in operating to the primary east coast ports.

Mr ROSS CAMERON—I think Mr Willis referred to the re-costing of what it costs per kilogram to run that freight service, and I think your new figures are almost half what the original ones were. In the original question I think Ms Power was saying that that was because you took some costs out of the formula. Is that the full explanation for that difference; is it just a fact of removing costs?

Mr Mrdak—It is to focus on the lower bound of direct operating costs but also we have looked at a range of aircraft types being operated. We have also changed some of the assumptions in relation to loads to try to get a range. So we now have a range of values at, I think, 60, 80 and 90 per cent of loads to try to get a better range because, clearly, price is very much determined by quantity. If you are able to guarantee 90 per cent loads, then the rate is obviously much lower than if you are able to supply only 60 per cent of an aircraft's capacity. So we have done some analysis to show the broad sweep.

We have also asked the bureau to do an analysis of the increase in direct operating costs relative to distance in Australia to try to get a feel. We have had approaches from airport operators in, say, Queensland who feel that they would have lower direct operating costs than a proposal at, say, Avalon or Parkes. We have tried to give a ballpark figure on the base unit cost if the regional airport was at Avalon, Parkes or Longreach. I think it was around \$1,000 per 100 kilometres. So it gives the committee some view on locations because there are competing bids from a range of councils around Australia that their airport should be developed as a freight centre. So we have tried to find some quantitative data.

Ms Power—It is about \$1,000 for every extra 100 kilometres. It is about 1.8c per kilo at 60 per cent utilisation. That is how much the cost increases for every extra—

Mr WILLIS—So every additional 100 kilometres to travel is 1.8c per kilo in additional cost?

Ms Power—Yes.

Mr PETER MORRIS—Is it reasonable to summarise, listening to everything that you have said now, that the overview is that, given the relaxed state of negotiations, arrangements and air service agreements, it is essentially a matter for commercial judgment whether you want to open another airport and just dedicate it to freight or operate services? It is a matter of business at work, is it not?

Mr Mrdak—That is correct.

Mr WILLIS—But not in all markets.

Mr Mrdak—Not in all markets; wherever possible.

Mr WILLIS—I think you were saying that in a place like Japan freight capacity is basically at the limits already.

Mr Mrdak—That is correct. We have pushed the bounds out, I think, on the bilaterals as far as we can. We are getting signals from some of our key bilateral partners that we may have pushed the envelope a little too far in liberalisation. But certainly, as far as it is within our policy ability to deliver, we are determined to push capacity ahead of demand. Then it will become a commercial decision as to where that capacity is taken up.

Mr WILLIS—It seems that getting additional dedicated freight space to Bahrain or Kuwait is fairly minimal compared with getting additional space to Japan, the US or some major market.

Mr PETER MORRIS—But the Japan case you are talking about is a seasonal window, it is not year-round activity.

Mr Mrdak—But, still, you are right. There are certain markets—

Mr WILLIS—I have been there at various times of the year and the price of fruit seems pretty horrendous whenever you go.

CHAIR—We have run over time a little bit on our program. I thank the representatives from the Department of Transport and Regional Development for appearing before the committee this morning. Is it the wish of the committee to receive the document entitled, *Structure of bilateral air service agreements*, presented by the department, to be taken as evidence and included in the committee's records as exhibit No. 1? There being no objection, it is so ordered.

Before the Department of Transport people leave, on those couple of questions you took on notice with regard to some of those costings and what have you, it would be handy if we could get a bit of information back. We will be meeting in the next couple of weeks, so the secretariat will forward you a copy of the *Hansard* as soon as the proof is ready for you to check.

Mr PETER MORRIS—May I suggest, Chairman, that we have them back later to test some of the views put, once we have heard the other witnesses during the inquiry.

CHAIR—Yes, and I am sure that they will be very accommodating in doing that.

Mr PETER MORRIS—Yes, I dare say they will be.

[11.50 a.m.]

EDWARDS, Mr Tim Connor, Managing Director, Australian Cargo Terminal Operators, PO Box 2167, Bowral, New South Wales

CHAIR—We have received a submission from you. Would you like to make an opening statement?

Mr Edwards—Yes. Just to put perspective on my comments, I am almost thrilled to say that I see the findings of a report that I wrote for the Rural Industries Research and Development Corporation in 1992-93 have been reflected in the subsequent report to the Prime Minister. In addition to that, I was general manager of freight with Qantas for three years. I have had senior positions with DHL. I have consulted the Federal Airports Corporation and the freight forwarding industry. That is by way of background.

My purpose today is to show you that the cargo terminal function is an under-emphasised and under-appreciated function in the air freight chain. It is important to the quality of air freight service, and it is therefore important to the development of exports—perishable and otherwise.

There are three kinds of cargo terminal operations that we could have in Australia, of which we have one. We have airline owned cargo terminal operations. We could have independent CTOs and we could have off-airport independent CTOs. I think it is important that we put in place the policies required to enable the latter two; that is, an independent CTO and, in the short term, an off-airport independent CTO. The policy actions are not difficult, but they are pro-active kinds of policy actions. I will get specific about those.

The key aspect of it is that an off-airport CTO is available within a very short space of time. On-airport cargo terminal developments will take a long time to develop, and the benefits from independent CTOs are quite important.

Mr WILLIS—How do off-airport CTOs operate?

Mr Edwards—I will go into it. Fundamentally, when we unload an aircraft the pallet or ULD transfers to a main deck loader; from the main deck loader to a dolly; and from that dolly into a cargo terminal in the on-airport case. If it goes from main deck loader to truck or main deck loader to dolly to truck and then to an off-airport facility, it is essentially no different from the on-airport operation. It is really a paradigm problem—the presumption that on-airport facilities are a necessity. I would like to explain some of those comments.

Overhead transparencies were then shown—

The purpose of my presentation is to describe the need for an independent cargo terminal operator to increase export air freight and to recommend actions to enable an independent air cargo terminal operator and, in fact, an off-airport operation. I emphasise that it is a practical necessity that, in the short term, the initial CTO be off-airport in Sydney. My company is indifferent as to whether it is on-airport or off-airport, but the practical reality is that if we want to do it soon—I am talking a matter of months—then off-airport is the way to go in Sydney and the other international gateways. Does that make sense? Feel free to break in at

any time.

Mr WILLIS—Perhaps you should start by telling us what is wrong with present arrangements that necessitates the others?

Mr Edwards—That will come.

Mr WILLIS—Right.

Mr Edwards—Let me start with a structural description of the air freight market.

Overhead transparencies were then shown—

You are probably well aware of the first part. Twenty per cent of our international trade by value is carried by air freight. That is over \$25 billion per annum. Of course, air freight is leading edge trade, not the least of which are our high quality perishable goods, but also other goods—both inbound and outbound. Growth in demand has been phenomenal. I believe it is over 10 per cent for the last decade, and it is forecast to continue. Of course, high quality air freight services are fundamental to increased exports of perishable goods.

Today, international air freight services are provided by, I thought, 57 airlines. Someone said earlier it was 55. In any case, the vast majority is passenger aircraft provided. I think the figure offered earlier was in the order of 90 per cent for perishables. Fifty-five non-resident airlines make a major contribution to our capacity—over half. Whether it is over 60 per cent I am not 100 per cent sure, but a good chunk of the air freight capacity available to our exporters comes from non-resident airlines. The CTO service that is available to those airlines right now is of course critical and it is owned by Qantas and Ansett. So if you are a non-resident airline you have to buy your CTO services from Qantas and Ansett.

The role of a cargo terminal, just to go right back to basics in the export chain, the basic chain is from producer to freight forwarder, to the cargo terminal, to the airline. No freight goes forwarder to airline; it has to go through a cargo terminal whether it is on-airport or off-airport. The cool chain therefore must be respected throughout that process, and similarly in import terms. What I have done in my submission is listed the actual activities involved in the CTO providing those functions.

From a carrier's point of view, it is critical that the CTO provide service to the airline that enables him to provide a premium service to his clients. Whether it is import or export, the competitive advantage of the carrier is determined on the ground. Once schedules are set, once we have decided what aircraft we are operating and when those aircraft operate, then the service advantage is determined on the ground.

As to the structure of the functions today, all international air freight must be handled by a cargo terminal. The two resident airlines, Qantas and Ansett, provide the vast majority of CTO services. They have virtual exclusivity. They perform a service which is separate from their airline role in functioning as a CTO. You could really take the business and create a separate entity. It is a matter that has been proposed. In fact, just recently, BA announced that it would no longer provide CTO services to client airlines; it would only

self-service. You raise eyebrows, but that is a very interesting move for British Airways to take.

A key aspect of cargo terminal services in relation to perishables is that there is more chiller and cold store capacity on Auckland airport than all international gateways combined in Australia. The reason for that actually comes back to the matter that you were discussing earlier today. New Zealand exporters export high quality merchandise. They earn a premium price for that merchandise and they provide a quality product in order to earn that premium. That enables them to invest in quality services, including cool chain capability.

As CTOs, Qantas and Ansett face a lot of constraints. Right now the key issue is that they are terminal capacity constrained—that is, space constrained because cargo terminals are expensive and the capital of those two organisations is primarily directed to aircraft development and other core, primarily passenger, development activities. CTO services are not seen by those airlines as being as profitable as air transport services. The vast majority of Qantas freight profits, of course, come from the carriage of freight, not from the operation of CTO services.

In fact, it is quite the reverse. The way that Qantas views its CTO services to client airlines is it uses those services to subsidise its activities. If it were not for that purpose, they would not bother doing client airline services at all. That is not wrong; it is just a statement of fact, whereas an independent CTO views it as his primary business to provide excellent service at the lowest possible price.

In the past 10 years we have seen tremendous capacity expansion in airport facilities for passengers, tremendous capacity expansion in freight forwarding facilities—you need only drive around Sydney airport to see the large facilities put in place—but we have seen virtually no expansion, other than at Brisbane, in cargo terminal services. Because of that lack of expansion there was absolute capacity constraint at that time leading to the problems that we are all well aware of anecdotally.

They also have labour practice problems because their labour practices are determined by their airline considerations rather than their CTO considerations and, ironically, as the sole CTOs, they have had to provide services to their client airlines which impede their ability to create competitive advantages for themselves as freight carriers. Once they provide a service to themselves, create a new and better service as a freight operator to themselves on the ground as a CTO, they tend to have to pass that on to their client airline.

Capacity constraints have gotten to the point that client airlines are now reconsidering their schedules, that is, choosing lesser schedules or in fact choosing not to fly to Australia, or preferred ports in Australia, because they cannot get CTO service. It is of course critical that CTO capacity be expanded for the purpose of trade, and the scary matter of the Olympics under our current CTO constraints is really pretty shocking.

With regard to issues surrounding the CTO function, and I think these are well established anecdotally, as I say at the end, ‘Measures of these service issues are not available, which is an issue in itself.’ That is, how do you know how bad it is? But the issue is that it takes longer to lodge freight for export purposes than it need do, which risks perishable quality. There is a lack of specialised perishable handling facilities, as I described earlier in relation to Auckland, due to a lack of space and a lack of capital being put into the functions. There is a lack of reliability in the freight chain caused by the high utilisation.

Reliability is a much more serious issue than slowness—that is, ‘If I can’t depend on the service’, like the oyster exporter, ‘then when it breaks down my business fails. Even if that happens in one in five or one in ten cases, my business fails, whereas if the whole thing just happened slower, that would be okay.’

There are very high handling costs for non-resident airlines and, of course, resident airlines. Those costs are going up because the two providers of CTO services face no competition. There is a lack of innovation because it is not core business to them. For a company like mine, for which it is core business, we would of course provide the best possible service we could. For a CTO owned by Qantas or Ansett, it is not clear that that is their role in life.

Taken together, all of those issues add up to a tremendous burden on trade. It would be hard to prove, but I think we are talking about hundreds of millions of dollars in foregone exports because of those issues. It does not take many businesses to be frustrated in the way that you have described earlier for that to happen. Of course, because we are a perishable exporter, that is largely a perishable issue.

My company has established the ability to provide CTO services in Sydney. That has been done by way of an off-airport CTO. We have gained Customs and AQIS agreement in principle, and I see no barriers to their agreeing to the specific terminal that we are now developing for this purpose. We have proposed a cooperative relationship with Qantas and Ansett, and in fact received a positive response from one and a neutral response from the other because they, too, realise that their capacity is constrained, that it is an issue, and they probably want to solve it.

We are in negotiating space and operational requirements with the Federal Airports Corporation. Those same arrangements can be extended to Melbourne and Brisbane. In fact, I think we will be required to make the service available in Melbourne in very short order—that is, the client reaction that we are getting. We are eager, as I emphasised earlier, to be on-airport, but the FAC is not ready—buildings and facilities do not exist. We cannot move into a non-existent building. Buildings do exist off-airport—warehouse facilities—and we can use those facilities and provide the service with no loss of quality, in fact, with an improvement in quality. When the FAC is ready, we will be on-airport.

In doing all of that, to serve Australia as an export CTO, you have to focus on the perishable requirement in CTO terms. So that certainly would be what our company would do, and we would do it in much the way that has happened and developed on Auckland Airport.

I argue that our services will be superior to those of our on-airport counterparts. As I was explaining at the beginning, there is really no operational difference between an on-airport terminal transfer from a ramp to dolly to off-airport terminal. There is no significant issue there. We would not have capacity constraints. Right now I have a 2,500 square metre facility which is empty—fortunately, I am not paying for it—that will not be capacity constrained.

Of course, we will be perishable oriented, and we will be able to customise our services in response to our client airlines—the non-resident airlines, and, for that matter, the resident airlines if they so choose. This does not have to be entirely a competitive issue. We can, by the way, also assist Qantas and Ansett while providing a degree of competitive pressure and initiative. I have, in fact, indicated to both that—and I will

make it clear later on—there is just no future in our being absolutely in a conflict position. Yet we can be seen to be providing initiative and benchmarking that will help the on-airport CTOs to put their performance in perspective.

With that, by way of background, what I want to now focus on is the need for implementation procedures and, particularly, the questions of what, when and how to establish an independent CTO. Let me start by identifying the issues. I say that CTO facilities are not available today on the key airports. They will take time to plan and build in what represents about 80 per cent of our export airports. They will take in the order of, at best, 12 months, probably more like 24 months, to provide a serious increase to CTO capacity. In the meantime, Qantas, Ansett and the FAC can block short-term solutions if they choose to. I am not suggesting that they would, but more curious things have happened. So I think it is important that we put in place policies that will encourage a cooperative and helpful stance to an independent CTO rather than the opposite. I will explain both of those issues.

We start with the FAC point of view. CTO facilities are not available at the key airports. They will take time. Sydney has just begun research and Sydney is the linchpin. From an independent CTO operator's point of view—whose clients are the international airlines—if they cannot buy service from me in Sydney, they do not want to buy service. We have to have service availability here. The FAC traditionally in Sydney has said, 'Look, there is no space on-airport,' and they are studying their way into it, which is right. It needs to be done, but it will probably take 18 months to be realised.

As I have argued, off-airport facilities are available now. There is no need to delay permission for an off-airport operator. An off-airport operator will cause significant CTO expansion. The quality of service and the cost of service will be improved. I think I have essentially been through these arguments.

The provision of an off-airport service will not have a negative impact on long-term facilities development. There is no reason for it to do so. In fact, my view would be, as per the situation around the world, that off-airport CTO services exist and have developed around the world in concert with on-airport facilities. It is, in a sense, a niche operation that will continue.

Mr PETER MORRIS—Can you be a bit more specific about what you mean by 'off-airport'? There is considerable consolidation of cargoes off-airport already. What specifically are you referring to?

Mr Edwards—The consolidation of off-airport is done by a freight forwarder whose client, of course, is the shipper or receiver. My client is the airline, as an off-airport operator, and I have a particular status as a CTO; that is, I have to land the freight in customs terms and hold it in bond prior to clearance. A slightly technical point: there are two steps to the customs process—the landing of the freight, and then the clearing of the freight through the payment of duty. CTO does the first and can do the second. The freight forwarder never does the first. He does only the second. So the point is that a freight forwarder cannot do what a CTO does.

Mr PETER MORRIS—That is inbound freight. Now, outbound freight? Or are you talking only about inbound freight?

Mr Edwards—I am talking absolutely about both. In the outbound sense, a freight forwarder cannot advise Customs and AQIS that a flight has been prepared for departure; a CTO must provide that function. You cannot eliminate the CTO function. What I am talking about is providing competition to the CTO function as it exists today, simply by moving it off-airport. I referred earlier to its being a bit of a paradigm shift. What is it about an airport which, when you put a gate around it, means that what is on this side of the gate is different from what is on that side of the gate? The only difference really is the function of Customs and Quarantine. With their endorsement of an off-airport CTO, that fence has disappeared; it is no longer relevant.

Mr WILLIS—Doesn't it mean that there is a handling step with the off-airport CTO?

Mr Edwards—You can get the feeling that there is, because we have to load a truck. But there is really nothing to stop us from going main deck loader to truck, just as the on-airport operator goes from main deck loader to dolly.

CHAIR—There are no security problems in all of that?

Mr Edwards—No security issues.

Mr WILLIS—I must say I have not understood what you have just described.

Mr Edwards—We have a pallet on an aircraft; it comes onto the big scissor lift that you have seen; it comes off the aircraft down to a lower position where it can be moved onto a dolly—those little trolleys that move around the airport—or it can be moved onto a truck. The dolly goes to an on-airport CTO; the truck goes to a off-airport CTO. No difference. The same in reverse.

Mr WILLIS—In reverse, the truck would come right into the airport to the plane?

Mr Edwards—We now get into the question of how we structure this. There are a number of ways. I prefer to do what you have just said, because it is the simplest and it is the most efficient. But there are questions of space and there are alternatives. We can take pallets and units and put them right through the roller bed system that exists for Qantas and Ansett, or we can put them through what might be an open air facility, where the truck comes onto the airport but not into a part of the airport that is a high intensive location, and there the transfer would be made to truck. So those are matters that need to be worked through, but they are not matters that do not have substantial precedent outside Australia: Los Angeles, Heathrow—all over the world this is done.

CHAIR—Off-airport CTOs?

Mr Edwards—That is correct.

Mr PETER MORRIS—To clarify this, what you are saying is that there is a regulatory obstacle to your being in that business, or to other people being in that business?

Mr Edwards—More a policy obstacle.

Mr PETER MORRIS—On whose part?

Mr Edwards—The Federal Airports Corporation.

Mr WILLIS—Is that because they don't want unauthorised transport moving around the airport, for instance?

Mr PETER MORRIS—Or they do not think they can rent from you? That is the critical question.

Mr Edwards—Yes, absolutely. The answer is that the FAC to the best of my knowledge—I cannot speak for them; they will speak later for themselves—do not have an absolutely clear policy on this matter. That is the primary reason. On the matter of rent, we at least and, I think, most independent ground handlers would be quite happy to pay more than the rent equivalent if we were located on-airport. Do you see my point?

Mr PETER MORRIS—If the chairman buys Sydney airport, he is not going to be very happy about people running these services off-airport. He wants you on-airport where he gets a contribution to his revenue, doesn't he? Or is it a commercial decision?

Mr Edwards—It is a commercial decision. That is the established paradigm, but it is not the case. We are quite happy, and most ground handling operators are quite happy, to pay a levy to the airport owner. The levies range between five and as high as 10 per cent around the world as a levy applied to airport access. In fact, that levy applies whether you have land on-airport or don't. There is an important point in all of that, because the value of that two or five or 10 per cent will make a major contribution to the value of the FAC when it establishes the levy, which is, by the way, inevitable in one form or another.

Mr RANDALL—You might need to comment in relation to the imminent privatisation of the major airports. You are talking about the FAC in particular. Their role might be completely changed shortly and give you opportunities that you do not think you might have now.

My other comment is that, being a Western Australian member, I am slightly taken back that we provide 26 per cent of the nation's exports and you do not mention us very often. We do tend to have a lot of perishable cargo that goes through the Perth airport.

My other point is that I believe, being pretty hands on with Perth airport mainly within my electorate, there is a lot of room on airport sites at the moment that you would or should have access to.

Mr Edwards—On the matter of privatisation, I do not know what the schedule is; I am not sure anybody does. But I can assure you that the provision of off-airport services will be much faster than the process of privatisation; that is, literally we will be in operation in a matter of months once we have resolved the question of airport access. I have an intent to provide services to an international airline in late September. But I need to resolve the policy question of airport access.

On the matter of Perth, I do not mean to do that. I am well aware of the opportunities and demand in

Perth. From my point of view, the client airlines exist to a far greater extent in Sydney, Melbourne and Brisbane. The issue of competition to CTOs is exactly the same in Perth; that is, there are, to the best of my knowledge, Qantas and Ansett; and if you want an independent CTO, you are out of luck in Perth as well as all the other international airports.

CHAIR—That is a fairly important point and we have received a number of submissions from different groups criticising the duopoly. Do you agree with that criticism of the duopoly?

Mr Edwards—Criticism is not helpful. It has grown up from historical happenstance.

CHAIR—Comment on the duopoly.

Mr Edwards—The effect of the duopoly is that the service is low and cost is high because there is no competition. The second key factor is that it is not a core activity of an airline to provide CTO services to 50-plus per cent of the capacity made available to Australia. So what do they quite naturally do—and I do not even criticise them for it—they provide the minimum quality service at the highest price. They operate commercially. An independent CTO would see the international airline—non-resident airline—as his core business and he would provide the best possible service he could at the lowest possible price. To really put an emphasis on that, I know that I can operate at much lower costs than Qantas or Ansett as CTOs and so I am looking at the situation and saying, ‘Why don’t I do that?’

Mr WILLIS—How do you reduce the costs?

Mr Edwards—How do I operate lower than they?

Mr WILLIS—Yes.

Mr Edwards—I guess the most practical answer is that I have costed it out and I am certain that my costs are low. As to whether they are actually lower than Qantas or Ansett, I would have to know what their costs are to be sure. What I do know is that my costs are well below the prices that they charge their clients and so there is a significant gap for profitability. There are other factors: they have historical approaches to facilities, the terminals have been built very expensively, and they have work practices which are airline-wide work practices rather than CTO work practices—there is a whole range of reasons. To take the EDI situation, the import document fee and export document fee is \$20 an airway bill. That generates something in the order of \$25 million to \$30 million for CTOs in this country and all it is is an information system that did not cost \$20 million to \$30 million to put in place.

Mr ROSS CAMERON—This issue is raised in the Department of Transport’s submission which we just received this morning, so you will not have seen it. I wanted to give you a chance to respond to it. There are a couple of paragraphs I would like to read to you. It says:

The Working Group received 14 submissions supporting the development/upgrade of cold storage facilities at international airports. In the Prime Minister’s study report, the Working Group noted the provision of chiller and cold storage facilities by airlines and freight forwarders is essentially a commercial decision, dependent on the demand and willingness of exporters to pay.

We might come back to that point. You are putting to us that there is also a policy question involved and that it is not really a market decision at the moment. The department then goes on to say:

Any proposals for development of new on-airport freight handling or cold storage facilities need to be carefully examined and subject to detailed financial and cost-benefit study. Proposals for a significant pre-emptive investment in freight facilities at airport sites must be considered as part of the total export supply chain process. Submissions to the 1995 Prime Minister's Study noted that in some situations proposed cold storage developments on-airport may simply replicate existing off-airport facilities without any benefit to exporters. The nature of airport operations means that most air freight moves relatively rapidly through on-airport freight handling facilities and the on-airport facilities merely supplement the warehouse/ coolroom facilities offered by forwarders for exporters. This recognises the relatively limited space and the value of airport land.

I will just read, with your indulgence, the last paragraph:

The Committee may wish to examine with the links in the airport chain ie shippers, forwarders and transport providers, whether additional on-airport freight handling facilities could be economically justified at this time given the relatively low value of Australian perishable exporters.

I presume your response to that would be that if you are willing to put up the money and take the risk then the market ought to decide—the market rather than the committee ought to decide—whether we need those facilities.

Mr Edwards—Yes, what I need the committee for, so to speak—but also what the country needs the committee for—is to break the barriers to my being able to do what you said is the first thing. I need airport access for trucks or I need the FAC's indulgence to come up with the policy which will enable competition to CTOs. Then—now we get into an entirely new topic—we need to find a basis for the other ground handling services not to be used as leverage against the development of an independent CTO. Let me explain: Qantas and Ansett also run the ramp and they run the engineering services and the catering services. So, for an international airline who wants to buy the full range of ground handling services, it is important for the development of an independent CTO that that airline not be told, 'If you take your business to that CTO we will not provide you with ramp or catering or whatever,' or, 'We will jack up the prices so that it is uneconomic.'

I think there is a very strong parallel here to other public infrastructure situations like, say, Telstra, where you necessarily have a restricted number of players—in this case, the provision of ground handling services. As we increasingly privatise, it is important that rules be put in place so that those entities do not have excessive market power. Does that make sense?

Mr WILLIS—Mr McDougall, that might already be there through the competition act.

Mr Edwards—Yes, but any new, independent operator would be forming a brand new business. Anyone doing that and depending on competition policy as a fall back position is in a pretty tough position. We have seen lots of examples of people who have fallen by the wayside for that reason. I am not saying it does not exist; I am just saying it is not all that practical.

Mr McDOUGALL—You are proposing to us to open up the marketplace, and I can understand your arguments in relation to the two airline system in CTOs that operate. How far do you open up the market system? You can look at this in two ways, and I put it to you in two ways. If you are dealing with combined passenger-freighter aircraft, you open up the market system, and, I would imagine, you could end up with a plethora of vehicles, bodies and CTOs operating around an aircraft, and I could see some possibility of constraints. I could see that possibly being greatly improved if they were freighter only aircraft and away from passenger terminals.

How far do you propose, however, that the CTO operation should be opened up? Do you see it as a limited opening up? If you do not, would it not be possible, on a limited opening up of CTOs, that you still come down to the price controls—let us not say controls, but the competitiveness of prices? In the long run those price controls may not be there if you are in a controlled CTO situation even though it is expanded slightly.

Mr Edwards—To your first point, the fact is that independent CTOs and off-airport CTOs number in excess of 10. In fact in the case of Heathrow I think we are talking about something like 20 separate organisations. That is not a factual statement. It is not my job to figure out what that is per se, but it is a high number on most international airports. We are out of date in our ground handling policy. I do not intend to answer the question of how far it gets opened up. It is for the FAC to work that through and make its own decision. But, obviously, I would encourage more than less.

On the question of how far you could open it up, I think four would give much greater price competition and service quality competition than two—more than twice as much, if you take my meaning. The provision of off-airport CTOs really provides unlimited potential for competition.

CHAIR—Mr Edwards, you would be aware that in a number of submissions we have received there has been the proposition of dedicated freight hub type airports outside of the main gateways now. Given that existed, say, with the development of infrastructure at Parkes or at Avalon in Victoria, how would you see the CTO operations there?

Mr Edwards—Firstly, let me say that practical feasibility is dubious, as per the previous witness. Eighty or 90 per cent of our export and import services are being provided by passenger aircraft. So if we are not talking about passenger aircraft—we are talking about freighter operations only, and we are talking about building infrastructure on a very narrow base—I cannot say that it is impossible, but you would be hard pressed to find precedent around the world, and that has to be a very good test.

Where do we see a freight dedicated airport around the world and what is its cost and so on? I expect that whomever—just to finish up—establishes that kind of an operation would want a high degree of control on his CTO function as well as his aircraft operating function in order to squeeze every last penny out of the process. He would kind of want a degree of monopoly.

Mr ROSS CAMERON—With the FAC's response, you mentioned that the FAC and the two major domestic airlines could present a blockage to you. The domestic airlines obviously have a very powerful commercial interest in the outcome. The FAC does not have the same sort of direct commercial interest in it,

but does it have any other kind of conflict of interest beyond just the comfort of historical precedent and of having always done something a certain way?

Mr Edwards—That is my view. I know the FAC has embarked on a study at Kingsford-Smith, for the purpose of better understanding and better managing, to come up with a freight handling policy. It is just a matter of time before that extends to the other major gateways. You can debate whether that should not have happened some time ago. It does not really matter, it has not happened and it needs to happen. We can be in operation in a matter of months and every day we will make a contribution to the quality of air freight services. I think it is important that the FAC and the committee address these issues in the short term rather than waiting for CTOs to be built on-airport.

Mr ROSS CAMERON—So you would like the committee to make a specific recommendation about how we create a competitive environment for a new entrant as a CTO against sort of ‘David against two Goliaths’?

Mr Edwards—Let me just see what I actually recommended. In relation to Qantas and Ansett, I believe we need to encourage Qantas and Ansett to cooperate with an off-airport CTO. I do not think it is necessarily all that hard actually. I think just presence might turn the tables. But I also feel that an independent CTO must be assured of ramp services from Qantas or Ansett at a reasonable price and at a reasonable service level. So if that is an answer of yes to your question, then that is what it is.

Mr RANDALL—How would you see that as being regulated? If you thought it was unreasonable, who would regulate it?

Mr Edwards—I am not sure I am in a position to answer that. I think the FAC has a role, but I guess it would be the prices surveillance groups and so on. It is not difficult. It is very easy to know what the value of ramp services are. They can be quoted all over the world; they can be specified in activity terms. We know the cost of the people, we know the cost of the equipment, and it would be a fairly easy thing to nominate the price and to specify the service levels.

Mr RANDALL—Yes, but what I am trying to say is that if you thought you were not getting a fair go, how would you see that as regulated? For example, the Compass Airlines’ complaints seemed to have difficulty getting heard and dealt with?

Mr Edwards—Good point.

CHAIR—I think the answer is that the ACCC would be overseeing that as the watchdog on competition.

Mr Edwards—Non-resident airlines must be assured of access to heavy engineering from Qantas and Ansett, regardless of other considerations. If my company or another company was to put in place CTO ramp services, the final leverage that Qantas or Ansett has is, ‘Well, if your aircraft goes US unserviceable on an Australian airport and you need heavy engineering, I’m sorry, you can’t buy it from Qantas or Ansett.’ I am not saying that they would do this, but it is important that these things be dealt with—and the corollary of

that in terms of our clients. So those were my recommendations.

Mr McDOUGALL—You commented earlier about New Zealand and its effectiveness in being able to handle the CTO area effectively and being able to help in the competition.

Mr Edwards—Yes.

Mr McDOUGALL—How much do you see New Zealand's activities and benefits coming from that area? Or do they come from their ability to niche market with the products that they produce and they are going to get there anyway because of that?

Mr Edwards—I think I said earlier that I believe, on the face of it, that New Zealand's ability to niche market, not such small niches either, to market effectively, to produce a premium quality product and to charge a premium price enables them to gain share and reinvest in the freight chain and keep the ball rolling.

Mr McDOUGALL—You would be a CTO for inbound freight as well as outbound freight. As a CTO for importers, do you believe that if we had dedicated freighters, and more dedicated freighters, in a size and capacity that was suited to the market places that we are trying to go to, would there be a capacity to carry inbound freight, let us say at cost, to create more capacity to get outbound freight travelling on freight dedicated to be able to get the profit margin from those products on export?

Mr Edwards—We do not carry freight, so I cannot influence that situation. The way that I believe the chain of events would occur is that through the provision of our services we would improve the quality of CTO service and, therefore, the quality of freight services offered to freighter operators. That would enable them to generate more demand and higher revenues for their aircraft. Frankly, whether that improvement in revenue for an aircraft is inbound or outbound, it is more revenue which pays for the aircraft. So if that is what you were driving at—

Mr McDOUGALL—I am trying to find somebody who is going to give me the handle on the fact that if you want dedicated freighters out, you have to get product in. If you can get product in to bring the freighters in, can somebody in the industry tell us that there is inbound freight available, albeit at a cost, which may then bring the plane into the place to create the capacity to get the freight out, and at what level or what area would they be? That is the nuts and bolts of what I see the whole problem being about.

Mr PETER MORRIS—Or one way earning.

Mr McDOUGALL—One way earning is a bit difficult on a competition basis. We get told that because we are at the wrong part—

Mr PETER MORRIS—But if a market is as rosy as so many people are telling us, it will have no trouble funding its operations on revenue outward bound only.

Mr Edwards—The first thing I would say is that the demand inbound exists, that is why the prices are high. Often there is more demand, in a sense, than there is capacity made available inbound. As we heard

earlier, there is much more outbound capacity than there is demand for that capacity. In order to fill the available space on outbound flights, we need to produce a better product and sell it at a price that can pay for the services. Part of that is putting in place the services that will enable that better product to be made available, and that is where my service comes in.

Mr PETER MORRIS—The substance of what you are saying is that lower rates inbound mean higher rates outbound, does it not?

Mr Edwards—Lower rates inbound?

Mr PETER MORRIS—Yes. The capacity of an airline to subsidise outbound rates is reduced if you drop the inbound rate because the cross-subsidy from inbound freight rates is considerably higher. So if you lower inbound rates, more competition on inbound rates and inbound services reduces that revenue and, ultimately, it is going to result in a higher outbound rate?

Mr Edwards—That is true, but how would you lower the inbound rate? The inbound rate is absolutely demand driven.

Mr PETER MORRIS—All I am saying is that if there is more competition, more capacity inbound—

Mr Edwards—Yes.

Mr PETER MORRIS—Can I just get clear that what you are really putting forward, what you want, is open access for off-airport cargo terminal operators—

Mr Edwards—To the airport.

Mr PETER MORRIS—Or just one more? It is like the car rental arrangement: it used to be two and a certain Bob Ansett ran a very large national campaign to open up the market but only to let one more in and make it three. You are not suggesting that, are you? You just want it opened up and freed up.

Mr Edwards—Absolutely. Of course, if it is opened up then my company will be there to compete.

Mr WILLIS—Your second recommendation is that the FAC be encouraged to support the operation of an off-airport CTO in the short term. How unencouraging are they at the present time? Are they saying to you that they will not have a bar of that? Or are they saying that this is part of the longer-term study into the on-airport facility, or what?

Mr Edwards—The latter case. It does not serve my position to be highly critical of the FAC; I have to do business with the FAC.

Mr WILLIS—But you are asking us to make a recommendation to change something; we want to know what we are trying to change.

Mr Edwards—First, as a strategic position, the committee ought to adopt the position that independent CTOs are a good thing and that an off-airport CTO is a good thing or not to be discouraged. Then, to the FAC: will you please embrace this prospective offer for CTO and enable them to get on with their business? Right now, with no ill-will intended, I cannot have that conversation because the FAC is busy doing things which are 18 to 24 months out. I can understand that. If you run an airport, you want to build a big building and do all of those things on your land. The matter that you can apply a levy and earn just as much money doing something simple that would not create a building and an operation on your airport is much less appealing.

Mr RANDALL—You want a decision?

Mr Edwards—I want you to direct the FAC to enable an off-airport CTO to be established now and prior to the finalisation of on-airport cargo handling plans.

CHAIR—That is part of the submission. Are there any further questions?

Mr McDOUGALL—Mr Chairman, I cannot find that page.

Mr Edwards—I will give you my notes from today which make the recommendations a touch clearer.

CHAIR—Would you undertake to provide those to the committee? It would be much appreciated to help with our deliberations and the requests that you have made. I might have to call an end to that evidence at this stage; we have run a little bit over time. I thank Mr Edwards for appearing and for his presentation. Could you provide that information as soon as possible? The committee secretariat will provide you with a copy of the *Hansard* for your proof reading as soon as it is available.

[11.45 a.m.]

MONTGOMERY, Mr Stephen James, Property Manager, Federal Airports Corporation, Sydney Airport, Airport Central, 241 O’Riordan Street, Mascot, New South Wales 2020

CHAIR—I welcome the representative of the Sydney airport administration, better known as the FAC. Mr Montgomery, have you got an opening statement you would like to make before we pursue any questions the committee has?

Mr Montgomery—Yes. I allude to the comments by Mr Tim Edwards about the study that Sydney airport has now entered into. Sydney airport has come under considerable negotiations with various freight orientated organisations in the last six months, probably the last 12 months. It became very obvious to the somewhat new management at Sydney airport that there was a need to investigate very quickly the freight capacity of Sydney airport and in fact what freight was on Sydney airport. So, as Mr Edwards has alluded to, we have entered into a study, which we expect will take two to three months, with a view to coming to terms with that.

Mr WILLIS—How long did you say it would take?

Mr Montgomery—The study itself will take two to three months, I expect, at this stage. We have been into it now for about three weeks.

Mr WILLIS—I thought we were looking at 18 to 24 months or something.

Mr Montgomery—Mr Edwards was referring more—and this is my opinion—to the issue of the privatisation program and associated works. We at Sydney airport are very aware that we cannot wait 18 months to get the freight issues under way.

CHAIR—So the study you are referring to is purely into freight?

Mr Montgomery—Freight, cargo and ground handling at Sydney airport.

CHAIR—So you say that it is within a couple of months of completion?

Mr Montgomery—We expect it will be finished by September-October this year.

Mr WILLIS—And does that include the issue of possible off-airport CTOs?

Mr Montgomery—Out of the study we hope to get indicative direction as to how we should manage the asset of Sydney airport with respect to freight. I am almost certain that out of that we will have some direction about off-airport CTOs.

Mr RANDALL—Can I just go back to the time line, please, Mr Chairman. You said two to three months for your study.

Mr Montgomery—Yes.

Mr RANDALL—But that does not mean to say that you will come up with some findings or anything in that time.

Mr Montgomery—No.

Mr RANDALL—When will you come down with some findings?

Mr Montgomery—I have undertaken to Mr Edwards, with the authority of the airport, that as the study progresses and the issues of CTOs become clearer—because, if you can understand, please, that a lot of the people in management level at the airport are relatively new—we would be prepared to make an interim decision as to whether or not CTOs can go off airport and come to an agreement quickly on the basis that, at the end of the study and the outcomes of the study and when those outcomes are known and understood, the situation can be undone if necessary and the new management procedure can be put in place.

CHAIR—Do you see the infrastructure improvements improving air freight exports?

Mr Montgomery—I am probably not going to be terribly helpful to you here because I do not think it is appropriate for us to comment on what we expect of the outcomes of the study. We have taken the viewpoint at Sydney that what has been done in the past may be, in fact, quite wrong or it may be quite right as well; but we do not want to prejudge the outcome of any study. It might be at the end of the study that we have completely different recommendations to what we have at the moment, in fact, or otherwise. It would be unfortunate if the outcome were prejudged. But to answer your question: maybe.

Mr WILLIS—Is this study being done by the Sydney airport administration only? Why is it not being done by the whole FAC? The issues are relevant not just to Sydney but, presumably, to all the major airports. This seems to be purely a Sydney study.

Mr Montgomery—The issues at Sydney are probably more significant because of the land restraints. It comes out of the changing culture of FAC as well as independent organisational directions. It is being undertaken in other areas, or is about to be. Perth, for instance, has undertaken or will be undertaking some studies.

Mr WILLIS—If it is, it would be done by the separate airport administrations, not by the FAC as a whole?

Mr Montgomery—No. At this stage that is the way it is going. Although, as the FAC is evolving into stand-alone airports for privatisation purposes, there very much is a push to make these decisions on-airport.

CHAIR—On an individual basis. What is the scope of the study? Are you going to look at what is being done in other international passenger and freight gateways?

Mr Montgomery—The scope is very broad and it has looked very, very broadly at cargo, freight and ground handling. We will be talking to anybody and everybody in those areas and beyond, internationally and

intra-nationally. It is being conducted by a company called Western Global, who are in fact in this room today taking notes for us. Western Global are experienced in this type of study, very broadly so. We expect they will bring a lot of expertise, along the lines that you mentioned, to the study.

Mr WILLIS—Who are Western Global? Are they some international firm?

Mr Montgomery—No, they are actually West Australian based consultants in this field.

Mr ROSS CAMERON—You said, Mr Montgomery, that you hoped to be in a position to make an interim decision on the basis that it could be reversed if necessary?

Mr Montgomery—Yes.

Mr ROSS CAMERON—When would you hope to be able to make that decision?

Mr Montgomery—I have indicated to Mr Edwards that within three to four weeks of about a week ago we may be in a position to have a feel for which way we are going with our study, and my comment was made very much to him in good faith. I suggested at the time that he would be unwise to go off and form long-term financial arrangements for leasing of buildings and that sort of thing, because at the end of the study it might be that the direction of the management of the airport in respect of freight would be different to what, in fact, he is proposing. Clearly, no-one would want him to go and spend money on infrastructure and other things long term—five- to 10-year leases, for instance—if that were not appropriate with the outcome of the study and the ongoing management of the airport. But we have been very aware of his push to do something and the specific issues he is facing. The airport comment, through me, was made very much in recognition of his immediate requirements. At the time he indicated that that probably would solve his problem. But I will be talking with him.

Mr PETER MORRIS—Are there others?

Mr Montgomery—There are a lot of people very excited about our study. I think Mr Edwards probably is foremost in terms of his day-to-day relationship with the airport.

Mr PETER MORRIS—More specifically, are there other parties who have been seeking access to the airport?

Mr Montgomery—Yes, there are other parties.

Mr PETER MORRIS—One, two, 10, 20?

Mr Montgomery—I have a list of about 12 organisations, national and on-shore and off-shore organisations, who are interested in freight on Sydney airport.

Mr McDOUGALL—With your freight handling facilities there at the moment, what sort of capacity are you running at in relation to your current operations?

Mr Montgomery—Some of you will be at Sydney airport tomorrow and I will be able to give you, at that stage, some notes and details if that is appropriate. At the moment, I understand, it is about 250,000 tonnes a year.

Mr McDOUGALL—What is the total capacity able to be done?

Mr Montgomery—We do not know yet.

Mr McDOUGALL—You do not know yet?

Mr Montgomery—No.

Mr RANDALL—Given the chance of more competition of CTO handling performance, et cetera, do you see that adding to volumes, and, if so, any rough ideas?

Mr Montgomery—Once again, this will be detailed in the outcomes of the study, we hope. That is one feasible outcome, that volume will increase, or efficiencies will increase; there is a whole range of possibilities that might result. Cost will be lower, for instance. So there is a whole range of fairly obvious things that will come out of increased competition. But really it is very hard for us even to predict that until we have a better feel for the whole freight industry, and the outcomes of the study will show us that.

Mr RANDALL—The number of handlers on the tarmac or the apron—do you see that as a manageable situation or a real problem?

Mr Montgomery—It is a very real problem, as is security on the airport. That is probably more critical today than it was even three weeks ago. They are some of the very real issues that are the nub of our concerns in this freight study, and they are going to have to be very carefully considered from a management point of view by Sydney airport as we go forward with it.

The issue of congestion on aprons at Sydney is critical because of the very constrained nature of the airport. The average 747 is worth a quarter of a billion dollars. You really have to be very careful when you start pushing things around aprons.

Mr WILLIS—Do you agree with Mr Edwards that many countries around the world now have a much freer system, with independent CTOs, and presumably they are able to handle the security and traffic problems?

Mr Montgomery—Yes, certainly. As we understand it, that is correct. One of the things that will come out of our freight study will be how in fact that is done off-shore, how it is done best and how we can best implement it, given the restraint of Sydney airport, land size and a whole range of other issues.

Mr PETER MORRIS—Who does ground handling at Singapore—is it still just the authority itself?

Mr Montgomery—Singapore is done by the Changi Airport Authority, I understand.

Mr PETER MORRIS—So there is only one ground handler for all of these services?

Mr Montgomery—I believe so, but I will have to correct that for you if I am wrong.

Mr ROSS CAMERON—Obviously you do not want to pre-empt the study but will the study examine the question of where Sydney airport's interests lie in terms of doing something on-site as against doing it off-site?

Mr Montgomery—Yes, we would want to understand the up and down benefits financially for the airport, because one of our goals is to add value to the airport. If we were to suffer significant cash flow out of the airport because of off-site CTOs, we would need to understand the viability and the option of some sort of levy or access fee to the airport, for example.

Mr ROSS CAMERON—Presumably that is part of your negotiating position of strength, to some extent, in terms of financial outcomes?

Mr Montgomery—Yes.

Mr ROSS CAMERON—Prima facie, it does not make any difference whether you build it on the airport or off, does it?

Mr Montgomery—Yes, that is exactly right, although it might be—and I do not want to pre-empt the study again—that there is an efficiency gain for everybody by doing something very clever on airport, for instance, which would far outweigh the off-airport higgledy-piggledy solution. That is a pre-emptive comment and I do not wish it to be relied upon too much.

Mr WILLIS—Your study seems to be done from the basis of the interests of the airport, which is understandable, but our interests go beyond the airport to the national interest and it would be in the national interest to get better freight handling to enable better export performance. When we see your report or when your report is finalised, should we look at it somewhat askance as being just in the interests of one party and not in the national interest necessarily?

Mr Montgomery—Your comment is valid, but I think we will be looking at the management of Sydney airport far more pragmatically than that, and looking at it as a good neighbour to Sydney, New South Wales and Australia. I know our general manager, who is in fact in Atlanta still, would be very concerned if he thought we were just looking at Sydney airport from a dollars value point of view, although that is very important. We will be looking at it certainly in terms of improving Sydney airport for all users of Sydney airport, particularly, in this case, freight users and end users of the products they transport.

Mr PETER MORRIS—Being a bit more blunt about all of this, everybody is looking at Singapore airport as how you could maximise return on possible investment. That is all very nice; they are all nice words you are saying. But, under privatisation, that is going to be just simply a milch cow, isn't it? It is a beautiful bit of property with a beautiful bit of business going through it.

Mr Montgomery—I am probably not able to answer that one for you.

Mr McDOUGALL—Could I ask a question in relation to airport charges. Obviously you supply services to the airlines in relation to the facilities you have to give them, and I would imagine that there are different costs between a dedicated freighter and a passenger freighter—not counting it as a combi, just counting it as a passenger aircraft with freight capacity. Can you give the committee any idea of the difference in the landing charges and servicing charges to a freighter versus a passenger aircraft with freight capacity?

Mr Montgomery—No, I can't absolutely but I understand that aircraft are charged landing charges on a weight ratio, a dollar rate per tonne, and I understand it translates directly to passengers with cargo as it would to dedicated freighters.

Mr McDOUGALL—Do you think that is a fair way, that we should be just looking purely on a weight basis? I would assume that for an organisation like the FAC supplying services to passengers would be a lot more expensive than supplying services to freighters. Shouldn't we be looking at a different ratio? Why should we just stick to a total tonnage weight of plane?

Mr Montgomery—That is an issue that will be addressed in this particular study, but we will take it on board to look at.

Mr RANDALL—Do you have any problems with making available to the committee your interim report, that you are talking about publicly to us, and also your final report?

Mr Montgomery—I would have to take advice on that, but I do not see why not, if it was held within confidence.

Mr RANDALL—It has been alluded to, but do you think we could be looking at suggesting that the other airports which are significant gateways take on your study as soon as possible?

Mr Montgomery—I think the Sydney study is directed very specifically by difficulties at Sydney. How it would translate to other airports I just do not know, but there is a degree of merit in what you are saying.

CHAIR—You are appearing here representing Sydney airport administration. What has been the process that has taken place within the FAC? Is Sydney airport administration a business unit within the FAC?

Mr Montgomery—Sydney airport is now a company within FAC. Sydney airport is its own company within FAC in New South Wales. It still reports through the national FAC board, but Sydney airport has its own board. In fact, my colleague Mr Robinson is not here today because he is on the board and the board meeting is today. That board makes representations to the larger FAC board.

CHAIR—Is that the case with Melbourne, Adelaide and Perth? There are individual companies and

business units in each one of those airports within the umbrella of the FAC?

Mr Montgomery—All airports that are to be divested have been created as companies, yes. Certainly Melbourne, Sydney, Brisbane, Adelaide and Perth have all been incorporated.

CHAIR—Just going back to the point that Mr Randall raised, the inquiry that you are doing into freighting out of Sydney airport, it is particularly relevant to the peculiarities of Sydney airport and the problems there. It would be up to the companies running those other airports for FAC at the moment to conduct their own inquiries if they want to.

Mr Montgomery—Yes, unless it was directed by the national board. This has been a Sydney initiative.

CHAIR—So I suppose that is the point I am getting at. Has this been initiated by the Sydney airport administration or FAC?

Mr Montgomery—Sydney airport administration.

CHAIR—The previous committee received evidence from a Tasmanian company that priority is given to passenger traffic to the detriment of freighters. What is the situation at Sydney and are the proposed new facilities likely to improve the situation?

Mr Montgomery—Can I take that on notice and come back to the committee?

CHAIR—I thought you might. I suppose it all revolves around the question that Mr Randall asked with regard to providing the results of the inquiries. Are any questions with regard to infrastructure going to fall into that category? Do you want to take those on notice?

Mr Montgomery—Yes, please.

Mr ROSS CAMERON—Since we have a couple of minutes left, I think it may be only tangentially relevant to the committee, and perhaps outside of your brief, but watching the exodus from Atlanta—which I understand is one of the busiest and highest capacity airports in the world—I feel a deep nervousness in the pit of my stomach on that issue. It seems to me that we have a big problem there at the end of that exercise, both for freight and for passengers. Can you give us any kind of encouragement?

Mr Montgomery—It is outside my brief. I will take it on notice and perhaps tomorrow, for those of you who can come to Sydney airport and have a look, will be an appropriate time to chat informally about it. There has been an awful lot of work done in anticipation of the Olympic Games and an awful lot of work will be done. I think that politicians in Australia can take a lot of comfort in the way that things will be handled.

Mr WILLIS—Just on that point though, I heard that there were half a million passenger movements a day in Atlanta during the Olympics. What is the number at Sydney now at peak time?

Mr Montgomery—Nowhere near that.

Mr WILLIS—What is it?

Mr Montgomery—I will have to come back to you on that. There are significant studies being done at the moment to schedule all this and understand it. It is fair enough to say that our situation at Olympic time will be very different to Atlanta's.

Mr WILLIS—Very much less. Is that what you are saying?

Mr Montgomery—That is not what I meant.

Mr PETER MORRIS—I think if you have a look at the report that this committee did previously on the Sydney Olympics on aviation infrastructure, you will find the conclusions there a little different to what you are suggesting.

Mr Montgomery—Really this is outside my expertise.

Mr PETER MORRIS—I realise that and I would take it on notice, if I were you.

Mr Montgomery—I will take it on notice. Cancel everything I said, please.

CHAIR—Are there any further questions for Mr Montgomery?

Mr Montgomery—My apologies for not being able to answer that in more detail.

CHAIR—That is okay. I would just like to thank you very much for appearing and those matters that you have taken on notice—if you could endeavour to provide that information for the committee so it can be incorporated in our report, it would be much appreciated. The evidence that has been taken this morning will be provided by way of a proof of *Hansard* as soon as that is available to you.

Mr Montgomery—Thank you very much.

[12.19 p.m.]

JAMES, Mr Brian Knight, Managing Director, James Transport Co Pty Ltd, Bellevue Street, St Peters, New South Wales 2004

CHAIR—Mr James, we have received a submission from your company. You might just give us a brief outline of your involvement in the air freight handling chain.

Mr James—My company has been a tenant of some Federal Airports Corporation land for 40 years. It is a 10-acre parcel just north of the airport, but it has been owned all along by the Commonwealth government. We have occupied it for 40 years as a transport site; it was originally a truck stop with transport facilities. We got involved with shipping containers; we built a very significant rail siding into the place. We became a significant part of the cotton export chain by using our rail siding and shipping containers and our expertise.

Basically, we have seen the need to bring our facility into the 21st century. We are next door to the airport but we are separated by a canal and Qantas Drive. We have come up with a concept of putting a bridge across Alexandra Canal and across Qantas Drive—so we can make a significant part of our place on-airport, as distinct from off-airport—about which there has been some discussion. We also have some adjoining state property which we hope to develop with some freight forwarding facilities. But the intention is that we want to build a significant cargo terminal in our place linked directly to the airport, accessible directly by tractors, dollies and all the usual airport paraphernalia.

We also expect to be able to provide facilities from engineering to catering to all sorts of other things that may be mooted by the airport. But we are also in the unique position of having a rail facility and good road transport access. We see that for international forwarding per se we are in a unique position. We are now finalising our development agreement with the FAC. I have located a major worldwide operator who is the largest operator in CTO facilities in the whole world. We are finalising our arrangements with them, and we expect to be a very viable cargo terminal alternative to the present duopoly at Sydney airport.

CHAIR—So in the chain you would categorise yourself as a freight forwarder?

Mr James—No.

CHAIR—No?

Mr James—My own company—I know it gets very complicated—but I see myself as someone who is building, who has occupied land for a long time, who is recreating facilities, modern warehouse facilities, that will be entirely suitable to be used as a cargo terminal operation, or facilities that will promote international forwarding.

CHAIR—The proposed access that you are talking about, you have obviously had negotiations with the FAC or the Sydney airport administration on that, and so that is going on at the moment, is it?

Mr James—Yes. We have been negotiating for eight years. We have had this concept, and we are now finalising it. No-one has ever said it was not a bad idea. It is a wonderful idea, but it has been put on the backburner, shall I say, while third runway issues and ownership issues were clarified and all sorts of things, but we are now in a position to go ahead and, depending on the exact needs of the customers and how they interrelate and what the commercial niceties of it are, we would be in a position not quite to duplicate the present cargo facilities, but to substantially increase them.

CHAIR—As a transport operation, are you not independently reliant on air freight? You also, by the sound of it, operate through railroad and sea freight.

Mr James—We intend to just provide facilities for those sorts of people that use us. Even though we are called James Transport Company, we have not had trucks since 1962. But on the site there at the moment we do provide facilities, very old facilities and run-down facilities, because we have been hoping to do this redevelopment over the period of the last eight years.

Mr RANDALL—Mr James, you referred to the duopoly and the fact that you are in negotiations with a significant international carrier; is that right?

Mr James—A provider of those facilities.

Mr RANDALL—Now, is this your criticism, or can you make some sort of observation about the duopoly situation and any problems with the current situation and what positive measures could be taken to help increase volumes and help us through the current criticisms?

Mr James—Because I am not an active freight operator, and you have got to understand that, I am not an expert in that field. However, I can say that I have had considerable interest from people. For instance, the Australian Federation of Air Freight Forwarders have indicated quite clearly that they are very dissatisfied with the cargo handling facilities that presently exist at Sydney airport. They have given their support for the concept of my project which will substantially enhance those facilities.

As far as the duopoly or any other ‘opoly’, I cannot directly comment on that. I realise there are two-and-a-half significant operators there. We just see ourselves as fulfilling a need in a growing market where there is at present a significant problem and, with growth, we can see it as being a much more significant problem. We see ourselves with a rail facility as being in a unique position to provide export facilities and the interchange with freight rail and the airport. That is something very few airports in the world have. We also see ourselves as being in a unique position when someone builds the second airport in Sydney and presumably, having a rail interchange, we will represent, at this stage anyway, the only rail freight head for Sydney airports. We see ourselves as being very important in that regard as well.

Mr WILLIS—Mr James, could you just clarify where these negotiations have got to? You said they have been going on for eight years, which hardly indicates a rush to judgment by the parties involved. You seem to be implying that you actually had agreement of the FAC or the Sydney airport administration but, from what we have heard from previous witnesses, including the Sydney airport administration itself, it is still considering whether it will get into this area of other cargo terminal operators—and your proposal is

essentially that, to be a cargo terminal operator. Are you saying that Sydney airport administration has agreed already to this development?

Mr James—It has already passed the Sydney airport board.

Mr WILLIS—So, in other words, the Sydney airport administration has now agreed to another cargo terminal operator who at the moment is off-site, but with a proposal to come on-site through a bridge; is that right?

Mr James—Can I say that they have approved me to provide facilities using these two bridges across the canal and across Qantas Drive to create a facility which will be open to all sorts of people to rent from me, but 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.

Mr WILLIS—So as far as you are concerned you have been approved to operate a cargo terminal facility in your establishment.

Mr James—Yes. I want to draw the distinction that it will be absolutely an on-airport facility because the land—

Mr WILLIS—Apart from the bridge.

Mr James—is already part of Sydney airport and has been for 50 years. So it is by means of this—

CHAIR—So the land you currently lease from the FAC?

Mr James—That is right. And it is surrounded by state government land.

Mr WILLIS—You lease it from the FAC but, as I understand it, it is not part of the airport per se because—

Mr James—It is. It is zoned airport, actually. It was acquired in 1949 or 1950 or something because it was an old H C Sleight oil depot and it was compulsorily acquired because it had tanks and facilities there that were not at that stage thought suitable to be near the end of the runway. My father's company, which is this company, took over the lease in 1955, and we have held it since then.

Mr WILLIS—So you are not asking this committee to seek any particular changes, you are just really informing us of what is happening; is that right?

Mr James—I am using this information to inform you, gentlemen, that this is the stage we are at, and I am quite excited by it. It is something that we have not yet made press announcements or anything on. I have not quite finalised my development agreement; I am still arguing about some points—and it is books about that thick, the agreement. It is not really ready for press release, but I thought it was quite important, seeing the importance of your inquiry, that I actually come and make my submission.

Mr WILLIS—I think it is quite interesting.

Mr McDOUGALL—In relation to part of your submission, you talk about the development proposal—and correct me if I am wrong—but basically what you are saying is that you are a developer who is proposing to develop a facility tied in with the airport for others in the professions of CTOs and other freight forwarders to be able to come in and, through your development, operate their services to the airlines and to the industry as a whole. Along with that development, you are talking in your submission about branching out into other commercial activities like convenience stores, service stations, restaurants and that type of thing. On that basis, would you not see that those sort of extended uses may be at conflict with some of the operations, particularly in a CTO if they are operating under security and bond store operations? Will the site be able to be secured so it could be used in that way?

Mr James—It all revolves around the design. But it also revolves around the concept that part of the place will be secured airside and it has customs and everyone else's approval for the concept of how it should be. It will be absolutely secure, as secure as the inner part of the airport and it will be under closed circuit TV control and all that. That has all been discussed. There will be other parts, which will be for freight forwarding, engineering, maintenance or whatever, which will be more akin to an industrial park. On a small scale it will have facilities that will complement what should happen.

Mr McDOUGALL—There has been a fair bit of criticism about the lack of cold storage. Is there much cold storage in the design that you are proposing?

Mr James—I just came back from Europe last night and this was discussed quite specifically and in some depth. We have also had approaches over the last few years of our negotiations by flower export people and all sorts of people that have requested the ability to get on-airport access and to process their things. I have not got a specific commercial organisation hammering on my door, but I have certainly had inquiries from people like that saying, 'We desperately need these facilities.' I once again stress the importance of the ability to rail into the place and that we have freight rail access into the place. I also stress that the new rail link to Sydney airport which is being constructed is specifically passenger only; it is not a freight orientated run.

CHAIR—The location of your site is actually on the northern end of the airport complex?

Mr James—It is. As you enter on the main runway when you are landing at Sydney airport in the normal fashion to the south, if you look out the window you are going straight over it. In total the area is about 25 acres. The FAC component is 10 acres.

Mr WILLIS—Can I just get clear how this CTO is anticipated to operate? Do you see its being entirely independent of the current cargo terminal operators on the airport? Whom do you envisage the customers to be? Is it entirely the non-Australian airlines or would it include some work for Qantas and Ansett as well?

Mr James—Other than in a general sense, I cannot say other than that all the clientele and potential clientele have been considered and to some extent approached by my potential tenant, but because I do not

have a direct relationship, I cannot give you a direct answer. I can say that it has been quite widely canvassed that they should provide worldwide competitive facilities in something like 60 cities around the world at the moment. They will be a significant addition to the expertise and infrastructure around Sydney airport.

Mr WILLIS—Do you see yourself as being quite independent of the existing cargo terminal operators?

Mr James—I can see that, if the operator I have in mind establishes on my premises in the way I think he will, he will act quite independently.

Mr WILLIS—So you would see yourself as leasing out that whole operation, would you?

Mr James—Yes.

Mr WILLIS—You have got the facility but you will not operate it. You will lease the whole thing, will you?

Mr James—Yes, I just want to be a facility provider. We have been facility providers there for 40 years. We stopped trucking in 1962. We intended to provide facilities and that is all. I have an air container repair facility as well. That is something that I presently do on my site and that is something I will continue to do on a new site, but I would be in an independent situation.

CHAIR—On that point, you just indicated your company's interest as far as aircraft containers and the manufacture of them. There have been criticisms that international containers for wide-bodied aircraft are incompatible for domestic flights. Tassal Limited from Tasmania says they cannot even use Ansett's wide bodied aircraft because their doors are too narrow. Would you like to comment on this and what possible resolutions there may be of the problem?

Mr James—Unfortunately I am not an airline operator. I understand the specific problem because quite clearly the design of domestic aircraft is, by and large, different from the design of international aircraft. I think that maybe time is going to cure that when the airlines fly bigger aircraft domestically, but that is only my hunch. I am not an expert.

Mr PETER MORRIS—I am just a little puzzled. You are already in the transport handling business in road transport, so you—

Mr James—No. With respect, we have not had trucks since 1962. It is the name of our holding company that holds the lease from the Federal Airports Corporation. It is James Transport.

Mr PETER MORRIS—I just read the first paragraph in your history where you said you operated a number of businesses that related to road transport, shipping containers and fuel distribution. That is in the past tense, is it? Currently you are just—

Mr James—Yes, but at the moment we have a CHEP pallet agency and we also have a business

repairing air freight containers. But otherwise I operate as a sub-landlord of the FAC with facilities which already existed on the place but which were badly in need of being pulled down and rebuilt.

Mr PETER MORRIS—I went to the next page and you say:

We have operated heavy transport vehicles from this site 24 hours per day over most of the last 40 years and we have no nearby residents or access problems.

If you are not in the business how could you have an access problem?

Mr James—The answer is that all my tenants operate heavy vehicles, so perhaps I used the word incorrectly.

Mr PETER MORRIS—Yes, that is what tossed me a bit.

Mr James—I am sorry, but that was my general meaning: that it was Australia's first truck stop when it started and it still has a lot of the features of a truck stop.

Mr PETER MORRIS—So, in answer to Mr Willis's question, your role—if all this is tidied up with the FAC and everything proceeds as you want it to proceed—will be simply as a landlord leasing your premises?

Mr James—Yes, exactly.

Mr PETER MORRIS—Are you going to be so venturesome as to say who this tenant is or who the people are? You have got all this lined up, have you?

Mr James—I would rather not say because it is commercially sensitive.

Mr PETER MORRIS—It is commercially sensitive, but it does come a little bit into our reasoning. Maybe you had better have a bit of a think about that because if there are other players and there is an argument being put that this is a really pressing problem it is going to colour our thinking a little bit later on. I do not want it now; I do not want to put you in that position.

Mr James—What I am saying is not to exclude anyone else either. I am not saying that there is not a need for all sorts of people providing cargo terminal facilities; I am just giving you an example that we are able to provide one.

Mr PETER MORRIS—Can you tell us who it is not? I was going to say Mr Edwards. I am trying to get some sort of a handle on the picture and how pressing a problem this is or whether it functions pretty well. There is plenty of land available there—there are 25 acres that are in the airport environs.

Mr James—There is 10 acres—

Mr PETER MORRIS—But I am not going to pressure you.

Mr James—I am sorry, I am just not in a position to make that—

Mr PETER MORRIS—I reckon you scrubbed up very well. You came in from Europe last night: what is the secret?

Mr James—Fly business class. Haven't you seen those ads?

Mr ROSS CAMERON—Mr James, you emphasised you are an on-airport facility by virtue of the bridges and the zoning and that probably has marketing advantages. But in terms of delivery of the service it seems to me you have got a range of variables you have got to manage which include things like Customs, security issues and the speed of getting goods from a supplier onto the aircraft. But, if you can address all those issues, what difference does it make whether you are on-airport or off-airport?

Mr James—There are a time and operational issue and a cost issue. Quite clearly, it is cheaper to operate in and out of the airport with the existing type facilities for carrying containers. Quite clearly, there are some security and customs aspects when containers actually leave the physical environs of the airport. They are not insurmountable, but there is a difference. I would say that there is a time difference, an operational difference, a cost difference and a security difference.

Mr ROSS CAMERON—If somebody leased a piece of land next door to you that was not zoned, ultimately—

Mr James—There is no doubt that they could run a facility. It is not a problem.

Mr ROSS CAMERON—When Sydney airports was talking to us they talked in particular about the security issues. Over the secured area you have a closed-circuit TV. If you are concerned about explosives or something like that, how do you monitor that interchange in such a way to avoid that?

Mr James—There will be two specific bridges. One will be a landside connecting bridge between our present facility and Qantas Drive. It will give landside access to road type vehicles. We will have our existing access off the Princes Highway and we also have an access off Qantas Drive for landside vehicles. In addition, there will be a specific secured area with specific warehouse access for secure buildings that will be linked by a different bridge—an entirely different and private bridge—across the canal, across Qantas Drive and link into the inner perimeter road of Sydney airport. That will give it the status of being totally on-airport and totally secured, albeit with closed-circuit TV and things like that which will be linked to the airport system.

Mr RANDALL—I wish to pursue the matter of CTO. There is a presumption that you have already been given the status of an independent CTO. You seem to have an agreement with Sydney airports that others would not mind having. We have mentioned things such as access around aircraft. Is that what you are seeing yourself as at the moment? You are saying that you are providing the facility, but you are also providing that service for somebody to be an independent CTO.

Mr James—Because I am not a CTO operator per se I cannot tell you exactly what the operator we have in mind is going to do. However, I understand that a lot of these operational issues have been addressed. We are also in the position that we have been given permission to build a parking area for freighter aircraft adjacent to where my bridge is. As well as the potential to link in with the rest of the airport, we will also have the ability to use our own freighter facility if we so desire.

Mr RANDALL—I am sorry to keep pursuing it, but I do not know whether I am making myself clear enough. It appears that you seem to have something that, for example, Mr Edwards would not mind, but he is still negotiating. In other words, you have that agreement in principle already.

Mr James—The difference is that I am on airport land, and have been for 40 years, so it is an entirely separate issue.

Mr RANDALL—Qantas and Ansett seem to be the handlers of the duopoly that you mentioned earlier.

Mr James—There is a third handler.

Mr RANDALL—Who is that?

Mr James—Australian Air Express.

Mr RANDALL—So you have three, and you will provide the fourth independent handling at Sydney?

Mr James—You say ‘independent’.

Mr RANDALL—Independent of the others.

Mr James—Qantas and Ansett are not independent, but they handle for third parties. I believe—I am not certain—that AAE is half owned by Qantas, but they handle for other airlines.

Mr RANDALL—So you will be the fourth one handling for other parties?

Mr James—That is right.

Mr ROSS CAMERON—It seems to me that the point you are making—maybe we should be asking the FAC this—is that the FAC is saying, ‘We are not giving other potential operators a guernsey because as a policy issue we don’t want to prejudge the inquiry’, but you are saying that Mr James’ arrangement seems to prejudge the inquiry.

Mr RANDALL—That is right.

Mr James—I think in all fairness, Mr Randall, you would have to acknowledge that eight years of negotiation to do exactly this probably gives me some start.

Mr RANDALL—Please do not get me wrong; I am not being critical. In fact, I applaud what is happening. I think it is good that you are getting somewhere. It is a pity it has taken eight years. By the same token, this is where I think we are all heading. I am surprised to find out that is where you are already when we are being told it is very difficult to get there. That is all I am saying.

Mr James—We are coming at it from different sides. That is all I can say. I am an existing airport tenant. I have been for 40 years. I came up with this concept eight years ago. I have worked my guts out to get where I am now and that is where I am.

Mr RANDALL—Please do not think I am being in any way critical or intrusive. I just found the feedback interesting in light of what we were discussing.

Mr James—To the best of my understanding, the freight inquiry only started some months ago and it relates to wider issues of the whole freight aspect of the airport. If I could be slightly critical of the FAC—I do not want to do it—there has been a lack of information gathering on freight throughout Sydney airport for a long time. I am sure the freighter inquiry is very timely but my negotiations were going on quite independently a long way before this freight inquiry.

Mr PETER MORRIS—Mr James, who are the tenants surrounding you or adjacent to you? Who are the businesses operating nearby you?

Mr James—I could be described as the lord mayor of Tempe tip, because that is basically where I am. I do not have any neighbours.

Mr PETER MORRIS—Didn't you say you were surrounded by state land?

Mr James—That is land that I lease. It is all part of my complex.

Mr PETER MORRIS—Are the properties adjacent to your property?

Mr James—Yes, they are all part of the 25 acre complex in total. It is state government land that I have occupied for 25 years or so, but otherwise I do not have any other neighbours, but Tempe tip. If you go up the top of the hill, you will find the Salvation Army and then you are on the Princes Highway.

CHAIR—On behalf of the committee, I would like to thank you, Mr James, for coming along and giving evidence. The secretariat will provide you with a copy of the evidence that you have given from *Hansard* as soon as it is available for proof.

Luncheon adjournment

[2.35 p.m.]

HECKENDORF, Mr Warwick John, Riverina Regional Development Board, PO Box 1156, Wagga Wagga, New South Wales 2650

ROBERTS, Mr Mark Christopher, Riverina Regional Development Board, PO Box 1156, Wagga Wagga, New South Wales 2650

CHAIR—I welcome witnesses from the Riverina Regional Development Board. Would you like to make an opening statement?

Mr Roberts—No, we are tabling our submission. We also have another item that we would like to table if we could.

CHAIR—We could take that as an exhibit if you want. Did you want to make an opening statement, Mr Heckendorf?

Mr Heckendorf—We are representing the western Riverina councils on the possibility of exporting perishables directly from our area.

Mr Roberts—Firstly, I thank you for giving the Riverina the opportunity to be able to make a submission today. Just as background, the Riverina has been pursuing active regional development strategies since the early 1990s, since 1991, when, through the board and in conjunction with councils and the community, we established the Riverina economic development strategy to guide the development of our economy, which currently has a gross regional product of around \$3.6 billion over initially a 10-year plan reviewed further ahead.

It is important to note that agricultural production represents about \$1.1 billion of product within the region. Of that, about \$450 million worth is horticultural production, largely fruit and vegetables. Allied to that is the growth of the food processing sector building upon that product. Because we are also in close proximity to the Collie-Amberley irrigation areas and the Murray irrigation areas, basically the south-western tract of New South Wales is very much an anchor as the largest conglomeration of horticultural production in the country.

As identified in our submission, the regional development strategy has picked up on factors that were well outlined in the Mackenzie report in terms of the growth of regional economies. We firmly endorse the direction that was taken in the Mackenzie report in recognising that we see our regional economy largely growing through the move into exports. Spearheading that is the exports of perishable products. So the issues of regional air freight services and such is very important to us, filling this sort of opportunity that we feel our regional economy has potential for.

In our submission, we have tabled information of productive capacity. We have something like a quarter of a million hectares of irrigated land within the region. Quite obviously, while our region stretches

from Gundagai, Tumut, 500 kilometres down the Murrumbidgee valley out onto the Hay plain, the great majority is concentrated in the western Riverina and the MIA.

The diversification in the food products within the region has seen not only a substantial annual growth in the tail product in horticultural production over the last 15 to 20 years but also a greater diversification of that product. We are also tied with the regional economic planning, moving in a state context and tying in with initiatives on a wider state and national level.

What I have just tabled as a secondary exhibit is an example of the fact that we are pursuing very comprehensive planning for the food processing sector and horticultural production. In fact, last Friday we had the state minister, Richard Amery, in Griffith at a forum looking at horticultural production and food processing and also the internationalisation of that aspect of our economy where we have been the focus of the pro-veg 2000 strategy for New South Wales, which was launched by the minister on the day. The state is backing that potential up by the minister's announcement of the special centre of excellence for New South Wales being set up at the Yanco Institute, and about 10 senior professional officers will be put in place to develop exactly what we are talking about here with the economy.

In looking at the issue of air freighting more broadly, we recognise that it is a very complex issue. It is one that has an exposure to a wide range of variables, particularly cost variables, both at the production and the market ends. This can radically affect the cost viability of transport and the distribution mechanism vis-a-vis, in this case, air freight. When you couple that with the time and quality control constraints involved in the export of perishable foods, which, as we have identified, is a major product of the Riverina, the equation does indeed become substantially more problematic.

Getting down to the nuts and bolts of the delivery mechanism that we are talking about in air freighting, I think it is fair to say that, notwithstanding considerations of the Riverina putting its hand forward for potential consideration of siting any facilities in any upgrading or improvement of national air freight infrastructure should a regional option be viable, we understand fully that it does come down to that—viability. We have to take any rose coloured glasses off and understand that as a national delivery mechanism it has to be commercially viable, it has to be realistic, and as a nation we must come together to understand and appreciate that and to put in what is an overall nationwide delivery mechanism that will be viable.

To that end, I would just like to restate the philosophy of where we are coming from in terms of what was incorporated in our submission. We are pleased to see the parliament taking a lead role in trying to address this issue, which was something that we felt was a bit lacking, particularly during last year. There has been a lot of activity and a lot of work done in various areas, but what national context was it being placed into?

We feel that we need to look at the weaknesses of the current system for air freighting goods, especially perishable produce, from the nation's major production areas, of which we identify ourselves as one. We need to look at what are the opportunity imperatives towards capitalising upon that potential for improved or expanding air freighting for export. Given the outcome of that, does new infrastructure need to be provided? If yes, what potential exists to provide this, either wholly or in part, in a non-metropolitan location as part of a national delivery mechanism? If yes again, we implore the Commonwealth to implement

a process to investigate various site options related to delivery systems in that wider context. If having met that point, we specifically request that the western Riverina, particularly focusing on the facility of upgrading Narrandera airport, be incorporated into that.

It is fair to say also that there have been substantial proposals from other areas looking at large scale aircraft operating from served facilities. That may or may not be viable. We think there is also scope for less super deluxe models to be put in place potentially in regional areas to fit into this national overall delivery mechanism.

In terms of the opportunities for growth of air freight exports, focusing back onto the Riverina again, substantial work was done in the late 1980s in air freighting. A study was done under the country centres project in 1988-89 focusing on the MIA and Griffith airport and what product could potentially be air freighted out of the region. It was identified that at the time there was in the order of 4,000 to 6,000 tonnes of product that was currently being air freighted out through both Kingsford Smith and Tullamarine airports. That was somewhat dependent on climatic conditions through the growing season from year to year. It was also noted that something like 65 per cent of that overall annual demand was occurring in January and April. So we do have a fair seasonal skewing, which, in terms of permanent facilities, is an important issue.

It was also identified, though, at the time, particularly with the consultative work that was done, that the total quantum of this product was growing at a fairly rapid rate, even, potentially, up to something like 20 per cent per annum. It was also identified that provision of some facility within the region, whether it be hub and spoke—and there is a lot of argument as to whether that would be viable or not—or direct air freight out, would have the potential to possibly increase that by over 50 per cent because people could then make investment decisions to increase capacity knowing that a particular delivery mechanism was in place.

The study also, quite rightly, identified that there were other alternatives—for example, the provision of cryovac and other technologies involved with sea freighting—and that they come into the equation and that there have been major steps forward there and the technology has a potential to step forward further. I do not know whether Sunraysia has been involved in contributing to this inquiry or not, but I know that was an area that they were looking at fairly strongly a number of years ago. Our understanding is that, with the advent of cryovac, their considerations for air freight export of citrus, for example, have eased because of the advance of technology.

Again, the scope and the resources available did not allow that study to look further to any great degree beyond the MIA but, given its strategic location, it did, for example, suggest within the Sunraysia district being able to access the MIA and any facility located there. For example, the table grape production industry had up to a 4,000-tonne potential at the time, again for export fresh into North-East and/or South-East Asia.

Our submission has included again two further anecdotal pieces of evidence, gleaned through our network of regional councils, of a range of products that potentially can be exported. I will not go into further details of those.

The extent to which the airlines are currently meeting the needs of exporters of perishable products:

our region does have a substantial advantage possibly compared to others in that we do have reasonable proximity to Tullamarine airport. I do not know in terms of the split between the airports and air freighting but, for example, as a whole, between the two entrepôts of Sydney and Melbourne, a slight majority of product, be it in bulk or smaller quantities, actually does go out through the ports, vis-a-vis air or sea, from Melbourne as opposed to Sydney. Obviously there are cost charges involved in terms of routing of product through to Tullamarine, for example, which does present an element in the equation about cost competitiveness.

I think where there is substantial scope for improvement, if we are focusing on the existing delivery mechanism, looking at the intermodal links is very important. Within the region itself, we have a number of major transport operators but there is a fair amount of work also going on into the possible development of intermodal facilities within the region—road/rail, for example. That does not have terribly much scope in terms of looking at the airline situation with bulk removal of product down to the airports by rail, but it is an example of the fact that the region is very focused on the importance, when it comes to cost competitiveness, of having an efficient delivery mechanism in place for intermodal transport.

Allied to that is the handling in terms of changeover. There has been anecdotal evidence provided to us about situations—how frequently I am not 100 per cent sure—of problems in terms of handling at the airports with product being left for one reason or another in non-quality controlled areas in terms of loading onto planes; and again tied in with the availability of space, because we have got a national system that is largely built around passenger aircraft, the prioritisation of that product relative to passenger baggage and such. Apart from any options of putting specific facilities into regional areas, we think there is substantial opportunity for improved coordination through the freight trade as it stands now vis-a-vis the transport that I have mentioned.

I think also one of the problems that needs to be overcome is the education that is involved there. It is something that we have also mentioned in our submission under 'Impediments to establishing air freight facilities' and others. The fact is that there is a lack of understanding of the process involved in successful exporting. I also work as regional manager for the New South Wales Department of State and Regional Development, and in partnership with the Austrade and AusIndustry programs we are working to try and develop the understanding between the producers of the processes involved and again the vertical integration through the chain.

It is the case that we do have limited vertical integration. We are seeing movement in terms of linking producers, processors and marketeers. It is something that was discussed at length in the forum in the region last Friday. There is some problem there—and I can understand potentially, particularly more with processed food, where they may be coming from in terms of a reluctance to move into actual production by those operators. They do want to deal direct contract with the producers and that does put extra responsibility on the producers to lift their understanding and their training and the scoping of exactly what is involved right through the value chain, right through into the market into Asia, for example.

Tied with that is the understanding of existing and future marketing opportunities. With the various industry groups that operate—for example, apple and pear growers associations, horticultural associations—we are seeing greater resource being put in by those groups through their secretariats to be able to address

these issues. I think another positive thing is that there is an understanding that there may need to be a greater level of cooperation between them to provide an economy of scale in sharing resource and activity on that. Tied to that there is the need to boost up professional support in regional areas for such organisations as those.

The Riverina also understands that, again in terms of economies of scale and the cost competitiveness for Australian product in general, we need to work more closely with other productive regions. For example, we have just done a major exercise hand in hand with Hume Province Redo along the Murray Valley, looking at the development of business exports to northern Malaysia, which was very successful. A lot of that transpired more in the non-food sector.

We realise that we have to get out and be doing a lot of that work ourselves. We have to get smarter and we have to work together and, again, by linking the various productive irrigation areas in southern New South Wales and north-east Victoria, we are in a much better position to be able to provide an overall package to markets in South-East and North-East Asia because of the sum being greater than the individual parts.

I do not really feel that it is important to go through any other things that we have listed in our submission in detail at this stage, given the time, but we would be happy to answer any questions taken from that.

Mr Heckendorf—I could probably add a little to that. In the Murrumbidgee valley, about six per cent of the water from the Murrumbidgee is actually diverted from the river to be used to produce about 180,000 tonnes of perishables at the moment. The potential is there to quadruple that in a fairly short period of time. It would take the average farmer about five or six years to bring himself up to speed on growing vegetables if he had to switch to growing vegetables. Mr Amery said in his opening address at the group last week that something like \$100 million is brought into our area just from vegetables alone—and that is not the other perishables.

The Ricegrowers did a study about seven or eight years ago which said that, for every dollar that comes in, it is about a dollar to federal revenue in tax. So for \$100 million coming in from vegetables, with the multiplier effect, you get about \$100 million back in tax. We believe the potential is there to increase the vegetable and perishable productions quite dramatically within the Murrumbidgee valley because the rice growers are getting a bit nervous with the environmental concerns about growing rice in certain areas. In a lot of areas rice is very suitable. If they can make a dollar out of growing vegetables or perishables, they will certainly switch, particularly with what the New South Wales Minister for Agriculture is doing in putting extra people into Yanco to train the farmers to grow the vegetables. I think that is a good thing for the whole area. That is the way I feel about it at the moment.

We have live cattle being air freighted from the Rockdale feedlot at Narrandera at the moment. ICM have been freighting live cattle out in the past, and I think something like 700 tonnes of asparagus is being air freighted out of Jugiong.

CHAIR—Going to where?

Mr Roberts—Mainly to Japan, out of Kingsford-Smith.

CHAIR—How does that process work? Is it being trucked to KSA?

Mr Roberts—The Jugiong plant is only about a kilometre and a half from the freeway, so it is in the fortunate situation of being straight onto one of the nation's best transport routes by road.

Mr Heckendorf—One of the problems presented to us by some of the Griffith packers was that they had been sending air freight down to Sydney and it was being left on the tarmac. They said it only happens to them once and they will not send it by air freight again. That has been one of their major problems.

CHAIR—I think that was one of the issues identified in evidence this morning. Mr Roberts, you indicated the percentage break of the produce coming out of the region and which direction it was being freighted out from was predominantly down through Melbourne?

Mr Roberts—Yes. The majority of product goes to Melbourne. For example, Wagga Wagga at the eastern end of the region is slightly closer to Melbourne than it is to Sydney. It is one area of strategic advantage for the region and has been a factor in terms of our growth, particularly in food processing. In our location we are serviced by three national highways linking Sydney-Adelaide, Sydney-Melbourne and Melbourne-Brisbane. We have the Hume corridor with the main southern railway—something that is being pursued with the inland rail bridge, again running through Narrandera and adjacent to a potential airport site for any future facility and linking through to Brisbane. That is a project that may not transpire to get off the ground, but it recognises the strategic location as well.

We understand there is another model. The Inland Marketing Corporation will be speaking later on. We will wait and see whether that transpires to be viable or not, but there are some important fundamentals that have been incorporated in the work that they have done. For example, they understand that any facility, if there is a substantial facility, has to have a very wide catchment, and they may look in a regional location in south-east Australia. It is not an individual region as we said. It recognises the fact that there is growth and production in a number of river valleys across New South Wales and in other areas. It is fairly disparate. In terms of being careful in the provision of our transport infrastructure, that is a problem for Australia that we have to overcome. That model also looks at a whole delivery mechanism as well. It is not just in terms of an airport, marketing and things like that.

Again, if something along that proposal does get off the ground—if it is deemed to be viable and fits well within this national context going through a careful process—that will be a valuable exercise and will have an advantage to our regions, as it will to others. While there are some fairly strong considerations about potential for looking at sites within our region, we understand that there are other potentially viable options there. Anything that is considered to be appropriate and as a step forward in the national context we see as a value to our region as well.

Mr McDOUGALL—Your report gives us the tonnage of production in the statistical region. What, of those tonnages, are you looking at for domestic consumption, and, of those tonnages, what would be available in relation to air freight, taking into consideration that there is obviously a possibility of upping tonnages for

export if you have markets available? Of those products listed there, how many of those products are wanted overseas by a domestic market to buyers? It is not what we want to sell but what they want to buy.

Mr Roberts—That is exactly right. At the time, the figure that was listed was 4,000 to 6,000 tonnes. Our current estimate is that in the order of 9,000 tonnes is currently being exported. The table on page 5 shows actual production in individual commodities. Again, if you total that up—it is probably something you are pointing out—the total proportion is quite low considering the great volume. Again, while there is substantial growth in exports, a lot of the product from our region is servicing domestic markets and such. That will continue to be, far and away, the largest proportion.

What we are saying is, and as we have outlined before, we understand that that has very limited further growth potential. Where we go from here in terms of expanding will be to look at our exports. Of that, air freight represents a significant figure. But, with a range for the other products that we have, there are options again for sea freighting.

For example, we have a major citrus industry, and that accounts for 161,000 tonnes. There would be options there for potential air freight. It may vary from market to market. For example, Japan has a propensity to buy high quality fruit that is individually wrapped. Again, you are getting a certain market premium there that you would not get in other South-East Asian markets. That, in that context, given exchange rates and other factors at the time, may make it viable to direct air freight whereas, for others, that currently may not necessarily be the case. For other markets it would not be the case. It is hard to get a handle on.

Mr McDougall—What I am trying to get at is what sort of market research have you done in the markets you are trying to sell too that is going to equate through to tonnages and then you equate those through to freighters or passenger aircraft. At the end of the day, what are we really looking at as a real potential of shipping out of an airport if the facility was put there?

Mr Heckendorf—I do not know whether we have actually done that. We are hoping that the federal government would be able to institute a major study to find these things out. We may possibly have the capabilities to do it, but it costs a lot of dollars to do a major study like that.

Mr Roberts—There is a certain amount of work that has been done by various industry groups. In the limited time to get to the submission, we have not been able to pull together very definitively what that is. It is an area, as Warwick has identified, where there needs further substantial work. In terms of definitive, we do not really have that at this stage. We recognise that there is where a lot of further substantial work has to be developed. Again, working with our estate agency and others, building on marketing and promotion and market investigation, research and development was a key thing that was discussed last week. Through the centre for excellence which is being set up, there are one or two specific officers who will be pursuing work on that.

CHAIR—Better access and a more professional service through the existing outbound gateways is certainly going to improve the situation for your region, isn't it?

Mr Roberts—Yes, definitely.

CHAIR—Going back to what you were just saying, to come back the other way, what is it going to take to substantiate that that sort of infrastructure development is a critical part of putting the picture together to substantiate the usage that it would get?

Mr Roberts—That is where a lot more work needs to be done. It is very important because, as we say, in looking at specific facilities and things like that in the future, we are talking about substantial levels of investment and we are potentially looking at substantial changes in the provisions of the investment as well. Given the fact that a substantial amount of investment has gone into upgrading metropolitan based airports vis-a-vis them moving towards private ownership, which may change the equation further, it will be interesting to see the outcome from that. Also, recognising that a lot of the export operators and bulk handlers have put in substantial investment adjacent to those airports, some sort of wholesale relocation is not going to be viable.

Some sort of satellite service may be developed by a couple of operators tied in with a couple of airlines. They may wish to set up as specific stand-alone operations—we are not really sure. Again, that is something that the Inland Marketing Corporation, with their model, have pursued in greater detail. I am quite sure, given the length of work they have done, that they have a substantial amount more information which would include our region. They can probably elaborate on that.

Mr McDOUGALL—Can I follow up by suggesting that one of the reasons that New Zealand is so successful is that they go out and source their market first to find out what they are really looking for, what is available and what they can produce at a profit with the freight. Do you think we put the chicken before the egg?

Mr Roberts—You are substantially right on that. There is no doubt—again, I cannot speak specifically for various industry groups—they have had major success in moving into exporting. The wine industry is another example within our region where a lot of that work has been done. The comment that you are making is a very valuable one for this country and for areas such as our own. We have been able to do very well from a supply-side focus on it, but that equation has changed. We understand that the world does not owe this country a living, nor does it owe the Riverina a living. That is where we have to take a leaf out of New Zealand's book, particularly where it has been very successful, for example, in dairying, in our consideration in this context or others.

Mr WILLIS—How big is Narrandera-Leeton Airport? How long is the runway, for instance?

Mr Heckendorf—I cannot say exactly. It is about 100 metres short of the one at Wagga or Albury.

Mr WILLIS—How big is that?

Mr Heckendorf—About 1,900 metres, I think.

Mr Roberts—It is 1,620 metres long for the sealed runway and there is a gravel runway of 1,000 metres.

Mr Heckendorf—There is a gravel section on either end of it which can be extended about three kilometres.

Mr Roberts—I can table some further fairly poor quality information, if you want the Scott specifications.

Mr WILLIS—So to run major export freight aircraft out of that airport would require a mammoth extension.

Mr Heckendorf—Yes.

Mr WILLIS—Does it have an air traffic control tower?

Mr Roberts—It is not controlled airspace.

Mr Heckendorf—Wagga is the only controlled airspace.

Mr WILLIS—So you would need that as well, presumably, if you had these sorts of planes coming in.

Mr Roberts—It can be an advantage as well in not being tied up with adjacent controlled airspace with other passenger aircraft. We understand that, for any facility in Narrandera or Parkes or anywhere else, there is quite a range of infrastructure that needs to be put in place. There is quarantine, as we have listed in there. It is an exercise that has to be very carefully thought through and all that comes into the viability equations.

Mr WILLIS—In your submission you have given us a lot of reasons as to why there is not any such operation at the moment. Section 4 of the submission sets out a stack of reasons as to all the problems that you face in getting a viable operation, but then you say that if the Commonwealth decides it is worth having a regional facility, then let us put it in our territory. On the face of it, you would have to reckon it would be a massively uneconomic operation.

Mr Roberts—Picking up that theme, we are being quite open and honest that any air freight facility along the lines of a substantial operation in a regional area—be it ours, Parkes or anywhere else—will require a substantial amount of infrastructure to be put in place. It does have a number of considerations. I will arrange quarantine and other elements that come into this whole delivery mechanism. That is why we have tried to take a very straight bat with this in many respects as highlighted in the opening statement about the context of where decisions are made.

Let us look at this in the national context. If there are opportunities or reasons why to further develop it, let us go to the next stage and look in greater level of detail at possible regional sites. It may transpire that

it does not pass that first test. That is what you are potentially alluding to, and if that is the case then that is it. Whether that change is 20 or 30 years time down the track may be another matter, but that needs to be looked at then.

Mr WILLIS—It seems to me that you cannot make the assumption that the Commonwealth ought to make an investment into something which is going to be massively uneconomic and that the private sector would never bother investing in. It requires an extraordinary leap of faith in government largess to expect that that is going to happen.

Mr Roberts—We understand that and understand the context of government finance at all levels these days and the careful consideration of a return in investment. Your comments are very valid there. Again, there is a little bit of the chicken and the egg. I do not know whether other substantial national investments—maybe the Snowy Mountains scheme—would have been considered in today's context as being a viable return of investment. Was it necessary to have a full return of investment then or further down the track? My personal opinion is that—

Mr WILLIS—I agree that, making any assessments, you do not just look at the next two or three years. You do a projection over the life of the project and look at the present value of the cost benefits over that period of time. So we are not just taking a short run view of this. But there seem to be some very substantial problems to overcome here. The amount of investment is enormous, and then there are all the other logistical problems that you point out yourself which would make it very difficult for it to become an economic operation.

Mr Heckendorf—Would you look at it from the point of view of an economic investment by the Commonwealth in view of the fact that, if 100,000 tonnes of produce is freighted out there, the Commonwealth is going to get a substantial revenue increase in the taxation returns.

Mr WILLIS—Maybe, maybe not.

Mr Heckendorf—It gets \$20 million to do the airstrip.

Mr WILLIS—I do not know where your assumption about the dollar for dollar comes from?

Mr Heckendorf—That is how we work it out.

Mr WILLIS—It would be a brave assumption, I would imagine.

Mr Heckendorf—I do not have the paperwork here to substantiate that. The rice growers did that.

Mr WILLIS—While we are talking about the rice growers, you referred to environmental problems. Were you talking about soil salinisation for them or something else?

Mr Heckendorf—With the rice?

Mr WILLIS—Yes.

Mr Heckendorf—There is a feeling among some of the rice growers that the environmental movement could make it a bit harder for them to grow rice. Some of them are looking towards growing crops other than rice. In some areas, they have stopped them from growing rice now because—

Mr WILLIS—What is the environmental problem if it is not soil salinisation?

Mr Roberts—Hydrology salinisation, for example, is a key area there and also affecting the growing of the same crop over and over again. Changing the soil profile and things like that may be affecting its other alternatives.

Mr TANNER—What other environmental problems are there, apart from salinisation? There is overuse of water, obviously.

Mr ROSS CAMERON—Just on that chicken and egg question—it may be in the submission but I have not picked it up—what is the current tonnage of air freight export? What tonnage would we need to make a dedicated facility viable?

Mr Roberts—As I mentioned before, our current estimate, based on an extrapolation from the study that was done in 1988-89 and other discussions, is around 9,000 tonnes, which is a fairly small figure. Having gone through the process, if a regional location is viable, it would have to be drawing upon a major catchment.

We also recognise the potential catchment that goes out of facility in the Riverina—for example, drawing upon the Goulburn Valley in northern Victoria. That is only 90 minutes from Tullamarine. So it would have to be a pretty good equation to switch from that option. In terms of the fall-back position, if such a facility is not viable, it would be worth improving the current delivery mechanism—for example, the work that has been put in place for the improvement of roads to accessing ports in the metropolitan areas.

There are current transport issues. There is not so much of a problem in the regional areas, only once it gets to the metropolitan areas—for example, here in Sydney with the rail getting onto the actual port facilities. Substantial infrastructure investment there will benefit our region in being able to get product there quickly and more timely. It will be less prone to other traffic problems or things that can throw a spanner in the works.

Mr ROSS CAMERON—If it is 9,000 at the moment, what would we need?

Mr Roberts—I do not know in terms of a specific facility for Narrandera. If there would be further work looking at that option, further study work would have to be done. Parkes is probably much more advanced.

Mr TANNER—I have two questions. Firstly, I just want to clarify what your expectation is with respect to water usage based on the increased perishable production that you are envisaging. I noticed the

suggestion that people get out of rice and into other things which would potentially lead to lower water usage. I am just wondering what you would envisage occurring on that front because it is in the Murray-Darling basin and it is obviously a highly sensitive problem.

Secondly, I wonder if you could just very succinctly state for me what you see is wrong with the status quo. You mentioned one example of somebody with their produce left on the tarmac at KSA. Is it price, accessibility, reliability or a combination of all three? In very brief terms, what would you say is the problem with the status quo for you?

Mr Roberts—In relation to the first question about water, obviously it is a very primary issue in our region, like any other in the Murray-Darling basin. There is a phenomenal amount of work going on and there are new state policies coming in with water management which are affecting the equation. There is a lot of focus going on about how to use water more effectively. You are right when you say that, if less land was available to rice and we maybe went over to higher return fruit and vegetable production, we would actually drop. All I can say is that a lot of work has been going on looking at water management in the valley over time. Fortunately, we have a substantial quantum and a good infrastructure in place to work with.

Of the other factors about what is wrong with the current status quo, from our understanding, which has substantial limitations at this point in time, no one major thing stands out about understanding the knowledge at our end in terms of production and tying in with markets about the transport, physically, into the current entities vis-a-vis Tullamarine and KSA, the intermodal transport and such. There is continuous scope for improvement of those. It is a different situation from ports to some degree in terms of progress that has been made on turnover times and cost competitiveness for sea freight.

Mr TANNER—For example, I want to get a fix on the extent to which it is cost versus accessibility. Certain produce will only be available to be exported within a certain amount of time. You are dealing with an accessibility issue there, not a cost issue, because it is wasted after a certain amount of time. To what extent would you estimate that the problem at the moment is a cost issue—in other words, in different modes it becomes uneconomic because of the transport costs, for argument's sake, as opposed to an accessibility issue where you have highly time sensitive produce that you simply cannot export or it is very difficult to export because the modes are either unreliable and the risk of it ending up sitting on the tarmac and rotting is too high or the times are just too substantial?

Mr Roberts—It is just in terms of the cost—whether it is substantial to gain a reduction in costs by improving the mechanism as opposed to continued use of sea freight relative to the technologies available. I cannot put a definitive figure on that. That would be an element in the equation which would be substantial to a fair number of operators but particularly in what future investment they would make.

Again, to a certain degree the improvement of the actual mechanism and turnaround is substantial. It is hard to say how definitive that would be, not having a producer itself to be able to sit in here and put it in his context. So I will be open and honest about that.

Mr PETER MORRIS—Assume that somebody provided the money for this. It seems, from listening to both of you, that your expectation is that the Commonwealth government, God or somebody would provide

the money. Is that correct?

Mr Roberts—If it was viable, it would. We are not saying it necessarily is. An argument could be made that if it is fully viable in the current context then why has the private sector not picked it up themselves and taken it on now.

Mr PETER MORRIS—Would you like to frame that question to yourself? That is the next part of it if it was viable. But assume that somehow that all happened. Which airline, cargo operator, freight forwarder or consolidator has indicated any firm interest in operating from such an airport?

Mr Roberts—No-one at this stage because that has not been pursued.

Mr PETER MORRIS—Out of all the publicity, has somebody not come forward to put up their hand?

Mr Heckendorf—We had the air freight forwarders come to Narrandera in 1994. They were suggesting at the time that we should be hubbing it out, but I have been told this morning that that is impractical.

Mr PETER MORRIS—They have told you it is impractical?

Mr Heckendorf—We were told it could be impractical because it is too expensive to have it air freighted from, say, Narrandera to the city. They have suggested to us that possibly we can, if the plane brings in the back-loading, drops the back-loading off in Sydney and brings the empty container out to load at the inland port wherever it is. As you say, it is a chicken and egg thing, there is no doubt about that.

We had a similar situation last year when the Commonwealth government put natural gas into our area—it has just boomed since they did that. There is no way that private enterprise could have done that.

Mr PETER MORRIS—Yes, I have been looking at the submission. When you get home, I wonder if you or Mr Roberts might look at the submission from the South Australian and Victorian governments to this inquiry. Look at what the South Australian government is saying about the total export out of South Australia in 1994-95, which is the current year we are looking at. By air, it was 21,000 tonnes. That is all of South Australia. Seventy-five per cent of those were perishables and most of it was seafood. They are putting forward ideas similar to what you and other submissions have put. Then they say that 52 per cent of the South Australian exports by air required trans-shipment by road to Melbourne. What they want to send out, because they do not have enough services, they send to Melbourne. Melbourne told us that they were liaising with South Australia to develop Melbourne to a greater level of activity as a centre for air freight. That is not what South Australia told us; they were bemoaning the fact that their cargo was going out through Melbourne rather than Adelaide.

Here you are sitting somewhat in the middle of all of this. Let us dream a little bit and say Adelaide gets what they want and Melbourne achieves what they want. Where is your market and everybody else's market going to be?

Mr Roberts—That is right. If there is other alternative infrastructure and further development, which has been the case with the major metropolitan airports, then the scope diminishes even further. That may transpire to be the case.

Mr PETER MORRIS—That may be the best solution.

Mr Roberts—It may well be so long as it is thought through in a national context of all the elements. It may be the preferred scenario to go. There has been massive investment in those metropolitan airports in recent years.

Mr PETER MORRIS—I think Adelaide has a heavy overcapacity of coolroom facilities, has it not? It is bemoaning the fact that they are not being used. Maybe there are some lessons for all of us to learn out of that, or rather for the investors because I think they are private investment. That facility is there and obviously well ahead of the market. We should look at the overall picture. What you are saying is admirable. You are really saying in your verbal presentation, as I understand it, let us look at the total picture to see where Narrandera and the Riverina fit into all of that and whatever comes out of that as the most viable and most efficient solution ought to be the solution.

Mr Roberts—There is only a certain amount of money that the nation can spend in the infrastructure.

Mr PETER MORRIS—Yes, I think that is a pretty noble approach.

CHAIR—We have run a little bit over time. Gentlemen, thank you very much for appearing before the hearing today. Is it the wish of the committee that *The Western Riverina*, Australian development opportunities document, be taken as evidence and included in the committee's records as exhibit No. 2? There being no objection, it is so ordered. The secretariat will provide you with a copy of the evidence that has been recorded by *Hansard* this afternoon, for your reference and proof-reading as soon as it is available.

Mr Roberts—All the best with your future deliberations on what is a very important issue.

CHAIR—Thank you very much.

[3.23 p.m.]

MELLOR, Mr Thomas Ross, OBE, Facilitator/Coordinator, Habitat Trust and Asia Freight Airlines, 104 Ferguson Street, Williamstown, Victoria 3016

CHAIR—We have received a submission. Would you like to make an opening statement?

Mr Mellor—Yes. The patron of the Habitat Trust is Sir Ninian Stephen. It relates to strategic overviews from Westgate Bridge and the city of Melbourne, Avalon airport, including Geelong and the Bellarine Peninsula and the hinterland that that services.

I have copies of my opening statement for everybody, which I will just go through rather quickly. Thank you for allowing us to appear. As you will see from our submission, we appear from a rather interesting viewpoint: we were perhaps the link that created a group of people who—we did not have the money—finally put up a bid for the purchase of Avalon airport. Although I am privy to the bid and its current status, one of the people in the group which we put together, apart from Asia Freight Airlines and Meyraz Israel—an Israeli agricultural company interested in being involved in Australia and some partners in Australia—was Westgate Holdings Group, which also has, as part of their operation, Salta Constructions, which is quite a large development company. The principal there is Mr Sam Tarascio, whom I know particularly well. He is a very successful private transport operator in the west of Melbourne, with a private company which currently runs about 480 trucks, with 780 on the staff on that side of his operation.

The thing that interested me particularly and members of the trust and the group was that they were very sophisticated logistics people who understood a great deal about the capacity and the needs for transport of fresh fruit and vegetables, cut flowers and other product into the marketplace and also a number of the other issues that are involved.

Ultimately, at the invitation of the sales task force, we established a proposal for the purchase of Avalon airport. A lot of my evidence will come from the point of view that we are dealing with real players in the game in terms of how they see the market development of fresh fruit and vegetables, cut flowers and other freight systems in this issue.

I would like to say a couple of things right at the very beginning and, with your permission, I would like to make some introductory remarks which encapsulate and highlight the issues contained within the body of the submission I have presented to the inquiry. I also wish to present additional documentation to you and the members of the committee for your later perusal. I will list these in a moment. You will find that these enhance the essential concept of integration of facilities and objectives which culminate in national enterprises and national benefits through to development of a sophisticated system of air freight exports, particularly that of clean fresh food.

Very rarely, in our opinion, do we get an opportunity to directly influence and set in train actions which have long-term national socioeconomic significance at every level of community activity, regional and international. We believe your committee has the unique opportunity and a challenge to establish a positive sense of direction for air freight exports as a part of that total national drive and sense of direction to the

significant benefit of the national economy through a window of opportunity that presents itself at this time. The window of opportunity exists because the fundamentals are present and in place to provide the basis for a paradigm shift in technology and management of attitude so essential to develop a national export regime capable of earning Australia a place in the global marketplace which will underpin the Australian national economy and enhance our future wellbeing.

The fundamentals which are demonstrably in place in the south-east region of Australia and which create the base for a model to be monitored and developed as a transferable asset are Avalon airport and the port city of Geelong. I will go over that again in a few moments, but it is a unique situation that exists. It has one of the longest runways to exist in Australia. It is, I believe, over 3,000 metres in length. It is a greenfield site with port facility systems right alongside and major national links creating a national hubbing system throughout the four-state hinterland. I would just like to say that, with the coming of the Western Ring Road, which will in fact link within the next four months, you virtually have a system which links the Hume, the Calder, the Western and the Princes highways all through the one system out of the Riverina, Victoria, South Australia and, of course, the air-sea freight system out of Tasmania into Port Phillip.

There are people skills in the area. There is major research and development capacity. You are all aware of the capacity of CSIRO, the three universities in the area and the agricultural research centres at Werribee. I doubt whether there would be any other place in Australia that would have more people actually at work in the area of research in terms of agriculture and so on as there are between Werribee and Geelong.

Education and training: if we are to go into this sort of enterprise, it is not a matter of somebody growing a few vegetables or thinking they might export. The whole thing actually requires quite a technological paradigm shift in which people have to be trained and educated. There has to be a whole new ball park in terms of skills, whether it be on the industrial side or in the actual agricultural manufacturing system, as we would call it, and also in regional centres where you really do need a great deal of skill if you are going to up the production rate to the capacity whereby you can actually meet your share of the market.

Industry base and associated technology: I think anyone would know that the whole of the West Port Phillip system of the bay is a very sophisticated industrial system. There are regional centres out in Bacchus Marsh, Ballarat, Bendigo, Shepparton, Colac and then on up into the Riverina which are all part of this natural network. You have got climate, soils, and a variety of private capacity; and we do know that there is a major market to be serviced. I see that questions have been asked about the major market, as to whether it is there. I think there is no doubting the fact the market is there. The real problem has been: have we got a capacity, a direction and a sophisticated system to get the product into the market and maintain its presence in the market and then establish it in terms of its cost effectiveness back to the grower?

The challenge is to coordinate and harness these resources which exist through a system of production and delivery which will ensure success on the global market. In AFL language, somebody has to pick up the footy and kick it somewhere. Somebody has got to drive the game. From our point of view, at the present time our group is trying to drive the game. One of our groups tried to buy an airport as part of the process to drive the game.

We think, from a parliamentary point of view and a national point of view, this committee is in a very

important strategic position to create the paradigm shift and the support required to achieve long-term national economic goals through an air freight export system. It is a dedicated air freight system linked to development of national enterprises and in some cases it may be truly dedicated air freight systems as Asia Freight is proposing with Meyraz and other people whereby they are dedicated, contracted, to fly the material, when it is grown, to the markets. You get into the Israeli model of a seamless system of production where you grow to order and deliver to order—and on the day. Any of you who have been to Israel will know what I am talking about.

The Avalon airport provides a unique and major opportunity to create a freight airport specifically geared to the exacting requirements of a national export culture. I suppose you have all been there. If you haven't been there, we should go and have a look at it. It is a greenfield site; it is somewhere about 3,000 metres long. It is a military airport really into which can fly 747s and Antinovs, but basically, apart from ASTAS and some other issues, it is a greenfield site. You have 4½ thousand acres with a port down the bottom end and, as I will show you in a moment, less than a kilometre away is the national highway system and the national rail system.

So really you have got a site that I do not think is equalled anywhere else in Australia in terms of major national infrastructure that, in fact, has already been paid for in that sense. Of course, that is one of the fundamental interests that our group, Asia Freight Airlines, Meyraz and particularly Westgate had in seeking to bid for the airport, because what is established there is a major facility. It is at the focal point of the infrastructure system.

I would like to repeat that: the Avalon Airport provides a unique and major opportunity to create a freight airport specifically geared to the exacting requirements of a national export culture. Might I say, without breaching the confidence of the Westgate-Habitat bid, that the Westgate people have talked to a number of airlines and they are involved with Asia Freight and other people about their requirements that need to be built on the airport. They are not looking to the Commonwealth to build it on the airport: if they are the successful bidders, they are looking at building the facilities on the airport to be part and parcel of the system. The Commonwealth, I think, can come to the party in making sure that this system becomes part of a national export culture and the way you do those. There might have to be some research done in certain areas with the operation, but in terms of the capital expenditures, to a very large degree, we think that this can be done from within the private sector system to build on the infrastructure that the state and Commonwealth have already put there through the rail system, the road system, the port system and the airport.

There are other things, but I will not go into them now to any great degree. I would like to leave them with you so that you can look at them. I spoke to Dr Carter about this yesterday. The first is that one of the groups interested in this is also a transport company called the CRT Bulk Haulage Group. They are a very interesting company. They do a great deal of very sophisticated bulk haulage of chemicals at the present time, but they are going into the rail business. I leave with you a video of what they call the 3R system. They have bought a licence from the Canadian owners of this project of road to rail to road. The Victorian government, through the Parliamentary Secretary for State Department Barry Steggall, whom I know you know, is very interested in this exercise. It relates to being able to pick up product across railway lines and then drive the system down into the port of export, whether it be port or whether it be in the airport system.

I have been present at discussions with senior officers of the Victorian government in the last three weeks and they are seeking to operate this model within 15 months in Victoria, particularly in the area that relates to the southern Riverina—up where Barry Steggall comes from in the Mallee at Robinvale, across in those areas—and it is designed specifically to operate 350 to 600 kilometres out from the port or the airport. You will see in here that the operation has the capacity to drag about 60 semitrailers in the one load. It can range from three or four right up to 60. I just provide that as one piece of evidence as part of our work looking at the way in which you start to make the infrastructure link into a collectable system so that you are bringing your designing right from the very beginning. You are not just talking about the plot growing the vegetables and all the other stuff; you are really talking about how you manage the sophisticated logistics and the way in which it all rolls together on time as managed on the airport system.

If we are talking ultimately about billions of dollars of product in the system, you can see why I make the comment to you all that we are talking about a sophisticated freight export system. If you go on like we are doing it at the present time in bits and pieces, then you do not really get into the business of a sophisticated freight export system; you just fiddle around the edges. On the other hand, if you say the market in Asia is \$1,000 billion or somewhere about that figure—give 100 billion or two; it is such a large market—you have actually still got to become very sophisticated about your packaging and delivery system.

The next item is from sales task force B which indicates why they were interested in our conceptual projections for Avalon. Originally it was a concept of growing its own freight combined with air freight links. It certainly needs to be explored and that is how we got into the argument. We were involved with the city of Geelong and this shows you that we were involved with that city and the port of Geelong in our answer to the Freightway Melbourne study. I might tell you that when the Victorian government did the Freightway Melbourne study I was one of the people who actually, I suppose, if I could be a bit kind, destroyed that study because they left Geelong—the port, the airport, the rail terminal and the industries—out of it as not being part of Melbourne. In an international global trading city sense, the city around Port Phillip is really the global trading city and Geelong is a very significant element in that. Now the Freightway Melbourne study is being rewritten and redeveloped with Geelong, Avalon and the port involved. I just table that as a bit of evidence.

The last item I have here is from a man by the name of Leon Virtue who is the Operations Director of Kemcor. Kemcor, as you know, is owned by Exxon and Mobil; 50 per cent each. They are in Altona. Mr Willis knows the company well. It is the largest producer of plastic resins in this country. Leon Virtue is a member of the board of the Habitat Trust. We have had discussions with him and Warwick Bisley, who is head of Kemcor, and in fact they have indicated by this comment here that if the Avalon project was to proceed they would certainly be very interested and quite instrumental in the production of high capacity plastics which would aid and abet the development of export product. These do not exist in Australia at the present time. They are not used here because there is no utilisation for them because there is not the flow of product. But if you step around from the other end of the exercise and say, 'We've got a national enterprise, we've got a national infrastructure system, we've got somebody prepared to have a go at buying the airport,' then you have got somebody starting to say, 'We're going to put in high technology production systems which other people will follow as well.' Then they say, and I think you might be interested in that, 'We're very interested in making sure that major producers of plastics will be developed in Australia to produce the quality product that is required to enhance your export potential.' That is where I am at the moment.

I would like to show you four or five overheads, but perhaps you might like to ask me some questions first of all about the body of what I have said.

CHAIR—I am sure that the committee has a number of questions that they would like to ask. The whole proposal, particularly the air freight component, is underpinned by the proposition of what you are going to produce on the site there as far as perishable food is concerned.

Mr Mellor—There are two aspects. When we began to look at the airport system, first of all that was so. The Meyraz company was very interested in developing in Australia and a number of people that I know have seen their operations, but they are not the only ones in Israel who produce. They were interested and they had a look at a number of airports around Australia. They wanted to produce as close as they could to the airport and, of course, Avalon gave that opportunity because to the north of Avalon is the Melbourne metropolitan sewage treatment plant which can be a source of water as well. But there is land capacity—up to three thousand acres—in the close vicinity and their proposal is that eventually, over a period of years, they would put three thousand acres under plastic greenhouses. If they were going to do that they had to have an absolute guaranteed capacity to get the stuff away and that is with Asia Freight built into that proposal as a dedicated air freight system.

That is going to take a while to get going under the best of circumstances—a year, 18 months, two years—whilst some major research is done and that is what the Israelis are indicating. The Westgate transport people, when they came into the discussion, said, ‘Well, look, we have got to do two things: (a) we understand that is the proposition’—and then Food Victoria, with Barry Steggall and other people said, ‘Yes, there is a range of areas that can produce product to standard and to order under certain conditions, but that takes a while to educate and train people so that you have got product on line that will meet market requirements and specification.’

So their first part was, can we build a freight airport out of Avalon? So what we have done with the bid is put a bid into two parts. First, can it stand up by itself? And I can tell you that they have letters of intent from a number of people who said, ‘If you provide this facility, this facility and this facility, we will use it.’ With the coming of the western ring road, the capacity to get product into Avalon is in many ways quicker than it is into Tullamarine, if you know how Tullamarine fits and Avalon fits because, when you come off the ring road, 25 minutes later or less you are in Avalon. By the time you come over the Westgate Bridge and go around, or you come in the back entrance to Tullamarine, it is a longer haul and you are in the northern suburbs of Melbourne. So what we are saying here, in fact, is that it is not Tullamarine versus Avalon; you are talking about a complementary approach to establish facilities which benefit the national outcomes.

I might tell you that just recently we had some quite significant people out from Israel and Germany looking at this whole exercise. As Mr Willis might tell you, some people who live where he lives at Williamstown think that Avalon is a long way down the track. We were going down the Geelong Road and these fellows said, ‘What a marvellous position for a downtown Melbourne airport.’ So it is just a different view, the way we think about things, and then somebody comes in from Japan, Germany, the UK or the USA and all of a sudden they see it very clearly, that this major airport with all its facilities is really downtown. It is 30 minutes away by car from the Westgate Bridge. If you go out to Gatwick, it is 2½ hours or two hours

or whatever it is—or in Los Angeles or wherever. So we had to look at it as an airport that had a complementary function, and that is the basis.

So to answer your question the long way round, you did not say, ‘Well, if the fruit and vegie business does not get off the ground straight away, it is all done.’ What it is all about is getting it operating as a freight airport if they buy it, which means that Asia Freight are already in discussion with a number of people from the region there who want to ship material out already. If by any chance Westgate were not the successful bidder, the other bidders have already been to see us to talk about the possibilities of the transfer of the project into the next phase.

Mr TANNER—Why is there need for a complementary function? Given that Avalon is only about an hour away from Tullamarine, what produce that is going to be produced that might be freighted out of Avalon could not equally be freighted out of Tullamarine? You are talking about an hour differential.

Mr Mellor—The answer is very clear—volume.

Mr TANNER—So it is the capacity, the air freight capacity of Tullamarine.

Mr Mellor—Yes, volume. On one hand you are talking about a few semitrailers a day and at present no railway. On the other side of things, you are talking about many thousands of tons of products—

Mr TANNER—You mean volume being transported by land transport, or volume of freight that Tullamarine is capable of for air freight?

Mr Mellor—Both, if you have a dedicated system down in Avalon.

Mr TANNER—But how many flights a week would you be envisaging from Avalon?

Mr Mellor—At the present time, the estimates on our basic estimates at the moment, they would start with three a day and would go to 10 to 12 a day within five years.

Mr TANNER—Why could that not be done at Tullamarine?

Mr Mellor—You have got product to get in and service and pack and facilitate, and you cannot do it at Tullamarine. If you have a real good look at it, you cannot get the product in satisfactorily.

CHAIR—Does it come back to the problem we were confronted with this morning in some of the evidence that was given with the control of the facilities by Qantas and Ansett?

Mr Mellor—That could well be. To answer your question, if you are going to be in the business of having a national export market then you have to start not with what you produce now, but with what the market is there and what percentage are you going to aim at. Then you have to make sure that your infrastructure system works to enable you to do that, otherwise you are cutting yourself off at the socks right at the very beginning.

I know how people think about this. You are looking at the bloke who in 1956 said there was a salinity problem in the River Murray. I was actually sued by the Victorian government to stop me talking about it on radio 3SH and 3MA. But by 1958 they gave up because there was a salinity problem in the River Murray.

You really have to have a look at what the issues are. If you are going to be in the business of major national export of fresh food you really have to design the system to handle as much product as you can finally get on the market, otherwise you really are not achieving anything in the national interest.

I suppose it is interesting to point out that Israel, which produces 40 per cent of Europe's winter fresh fruit and vegetables, has it nearly all go off from Ben Gurion airport—and Israel is one-sixth the size of Victoria. It has pretty poor soil capacity and the water is not too hot. I think that is an indication about those issues.

Mr PETER MORRIS—Can you tell us a bit about the players in this project? The committee would be interested to hear quickly just what Meyraz does from Israel in terms of export to Europe. You mentioned it briefly, but I do not think most people understand exactly what happens. Could you also tell us who Asia Freight Airlines are.

Mr Mellor—Asia Freight Airlines, we have here the directors Don Thompson, Bob Mulligan and also Sir James Rowland who is known to a number of you here, and Sir John Atwill. They have been interested in the air freight business for some time. I think one of this committee's predecessors heard an application for a freight licence to Taiwan at one stage. They have been very interested in a dedicated air freight system and are now linked into this to establish an air freight system. They are currently backed by Turnbulls, the merchant bankers. Their whole purpose in life really is to link to that particular prospect.

Meyraz is an agricultural engineering company, one of a few in Israel. They are part of a proposition—I do not know if you know how this whole exercise works in Israel—but the Israeli government invests quite significantly in research and development, mainly because there are two factors, as they call it, of 20-minute die time: everything has to be in such good order that they can survive 20 minutes from an attack from somewhere else, and there is a 60 per cent tax regime. Everything you do and export has to be quality. You are not in the business of third level product with half of it being in the Third World market system. It has to be good and it has to be to the very highest standard, all to specification and to order and on time.

The Israeli people, of which Meyraz are a part, have a process run through Agresco, which is the Israeli government company in this case but it is linked with them all, and El Al operates as the dedicated freight system. They actually produce the fresh fruit, vegetables and cut flowers as examples in climatologically controlled greenhouses six months in advance of the order. They take out those examples to the people who order. They order the product with a 25 per cent payment to a specific day six months after, and the Israelis deliver it on the day right throughout Europe. What they are all on about is quality, high productivity, sophisticated skills and the best return right back through the system because they have a 60 per cent tax regime and they have to defend themselves and survive.

Mr WILLIS—But the thrust of this study is out of the field and into the hotel or restaurant, whatever

it is, within 24 hours.

Mr Mellor—There is one example that I can give you. If you are around Europe in the melon season and you see lots of melons, you will find that the melons have come out of Israel. They transport out of Ben Gurion. Every day about \$1.25 million worth are sliced, packaged and forwarded to a specific delivery point. As I indicated before, Westgate is quite a significant transport company with a lot of skill in logistics and with skills in their other arm—Salta Constructions Development. Many of their skills and capacities relate to on the ground logistics for fresh food, vegetables and other sophisticated items.

Mr RANDALL—Mr Mellor, were you here this morning?

Mr Mellor—No.

Mr RANDALL—I think it was quoted that at least 80 per cent of air freight that leaves Australia is in commercial airlines as part of the passenger operations. It is probably more than that—about 90 per cent. You are talking about a dedicated freight system from a stand-alone airport, so you are going contrary to everything that has been done at the moment. I have lived in Israel for a while and I do know the way they do business and their quality and the way they tap into the European markets. But in my opinion we are talking about something quite different in this case. I am referring to the tyranny of distance that Australia has. The high handling charges, et cetera, are enormous compared to what I believe I saw in the European countries and Asia.

I take Mr Tanner's point: you are an hour away from an airport where we are trying to free up the duopoly in the airports at the moment to get competition, bringing more efficiency and lower costs. Within an hour of that, you are talking about setting up a parallel system. In my mind, you talk about markets, but I do not know if you really have any forward commitment on these. From what I can see, I admire your vision, but you do not have a lot with which to substantiate it at the moment.

Mr Mellor—I think we do. I cannot give you the exact figure, but one of the people in the exercise has put a lot of money on the table. At the moment they say they want to buy the airport to start the process. As far as the markets are concerned, we have done quite a bit of work on various parties to the exercise as to what sort of prices and what sort of products can be got out through that airport at Avalon. We have no problem about that at all.

The issue is our attitude as a nation as to whether we are in the business of a national export culture or not and we are gazing at our navel. That has been one of our basic issues and problems all along. You have been in the business of non-value adds in this country since Adam was a pup.

Mr WILLIS—A further point that is relevant to the point that has been made by Mr Randall and Mr Tanner is that as, say, distinct from Narrandera and Leeton, where you have massive development costs for an airport, here the airport basically exists with a runway that is essentially adequate, with air traffic control and aircraft maintenance facilities on site, right next to the runway, because there is major aircraft maintenance undertaken on both commercial and defence aircraft at the moment at that place.

So this is a uniquely different kind of established infrastructure compared to any other regional airport that I can think of around the country. It does give it some special qualities which, if you are looking at it in comparison to Tullamarine and you were looking at having to spend enormous amounts on infrastructure there, with Tullamarine an hour away, you probably would not bother. But when you do not have those expenditures, you obviously have some, like Customs, AQIS, security, et cetera.

Mr Mellor—Most export airports are paid for by the—

Mr WILLIS—There will be some additional costs, but they will be minimal compared to the major infrastructure development costs, plus you do have some other advantages like the national rail line going past the airport, plus a major link into the Melbourne port as well.

Mr Mellor—Yes.

Mr TANNER—The airport is not going to be bought for tuppence halfpenny, though.

Mr Mellor—That is right.

Mr TANNER—You have a capital cost of actually buying the airport, which would be substantial.

Mr Mellor—Yes, that is what I said. I know what the bid is and it is not insubstantial. But the homework has been done, because you have all the infrastructure systems already in place.

Mr TANNER—It just puzzles me though. I am asking genuine questions and, even if you do get to 12 flights a day, that is a pretty small amount of traffic to run an airport of that size for, with air traffic control, et cetera.

Mr Mellor—We are only talking about some of the issues relative to some of the initial parts of the fresh fruit, vegetables and cut flowers businesses. We are not talking about other things. I can show you that nine out of 11 airlines have indicated something between 55 and 95 per cent interest in transferring quite a deal of their work to Avalon, provided if Westgate got it and built the facilities that they said they would.

Mr TANNER—This is general aviation sort of traffic?

Mr Mellor—No, major airlines.

Mr TANNER—Are we going to have Ansett and Qantas passenger flights?

Mr Mellor—No, air freight.

Mr TANNER—But the dedicated freight business at the moment is not very large though.

Mr Mellor—No. But that is what we are saying. We are starting off from a viewpoint that nothing is possible. I can only say this to you, that the market is very big and there are people who are prepared to

invest in the longer term to make it work. They think Avalon is a much better proposition than any other airport in Australia for this purpose, because the infrastructure system is already there which allows them to do a number of things.

This is not being critical of you, but I built Pioneer Settlement in Swan Hill after the Holt credit squeeze in 1961. There was one motel and three old pubs. Holt's credit squeeze meant that almost 1,700 people out of 7,000 lost their job. I happened to be the mayor and I did a bit of work with Roy Grounds and we built Pioneer Settlement. There was not one bus company that came there; there was no bitumen road from Swan Hill to Mildura; the Sturt Highway did not exist; and the road to Pinaroo did not exist. From 1964 to 1970, 19 motels were built with 2,000 beds and an occupancy rate of 96.4 per cent. We changed a whole regime of issues because we recognised the market.

The view of the people I am involved with is that there are major opportunities in the Asian market. If you only get a small percentage, it is very large indeed. You have to have very good facilities that are going to work. They have to be driven not by government but by private enterprise in that sense. You have to start off with a green field site to try and develop a freight specific airport. Otherwise you may as well say you are not in the export business. You are starting to muck around with this business in the back alley playing marbles.

Mr ROSS CAMERON—I have to say that the thing that impresses me most about it is that it is a very bold vision. I am impressed by the fact that you have some substantial corporate players who are saying they are putting some money behind it. Part of me says that you have nothing to prove to us as a committee. Ultimately, assuming you can win the bid, you will stand or fall on your own.

Mr Mellor—That is right.

Mr ROSS CAMERON—And I say, good luck to you. I hope you make a fortune. I am interested in Habitat, which seems to me to be a curious entity. Reading the vision statement, it is very lofty and wonderful. It is changing the culture of Australia and getting out of the back alley, if you like. So who are the beneficiaries of the trust?

Mr Mellor—The beneficiaries of the trust is the community at large. We were offered a statutory authority status a number of years ago and we refused that. What we establish is a network of probably the best universities, people in government and people in industry. We have not got any money as such, but very often you are dealing with people with very large budgets, and you can bring those people together in like-minded situations to advance their particular cause. But you have to have strategic overviews, and that is one of the things that we do not have in Australia.

I have not mentioned here today that I am a Kennett government appointee to the Melbourne metropolitan strategy review. The blood is somewhere about knee-deep on me at the present time, because we had to try and convince everybody to understand that it was not terra nullius on the other side of Westgate. Westgate bridge and the western ring road interchange had been originally designed as an escape route out of Melbourne. What they really did not understand was that it was a funnel into Melbourne. So the fundamental issue that is really going to arise within four months is that all of the network systems are going to come back in.

I, as Habitat, was appointed to that committee. We have carried the battle to a point where now the Commonwealth government—both federal and Labor—regard from Geelong to Westgate as the south-west national economic corridor. So we have got that view. Once you get there you start to coordinate the strategic overviews of local government; you bring in a whole range of people from universities and research organisations, and you get their advice. We walk around and talk and we get people to think, to coordinate their brains.

Mr ROSS CAMERON—So you were created just for this project?

Mr Mellor—Not for this. We have got five other projects of quite significant magnitude, which I cannot mention here today. Ralph knows some of them.

Mr RANDALL—Mr Cameron said much of what I believe; that is, if you have got a financially viable project, it will stand alone in any case. In my opinion, you have really come here just to tell us what you are doing. There are other examples of people who do have markets, who have methods of individually disseminating them. For example, Royal Brunei Airlines flies a substantial amount of perishable stock out of the Perth airport direct to Brunei. So, if you can do it, well done. It sounds as though you do not need much government help at all, because you have the infrastructure.

Mr Mellor—We are not talking about government help in that sense. What we do say is that there needs to be a monitored model—if we have got the people who are going to put the money in and the thing works, with the various groups that are involved, and it is in the national interest. There has to be a thing called a national interest in Australia. If you go down the line of no national interest—some of you come from areas in the bush, and I lived in Swan Hill for a long while and know what it is all about—you end up not having a collective view about a whole range of issues that bring financial and social stability to the country.

You might say it is ‘high flier’. Somebody said the same thing about me when I told them there was a salinity problem in the Murray River a long time ago—and that is not being critical of you. But the point is that you have got to take a long view. We have got these people involved. What we have suggested to you in our comments here is that this committee ought to take a lead and say to the government, ‘We need these models of these airports.’ You should put it together and begin to drive the model forward so that you can actually develop a freight export airport system that determines you have got a major income stream.

Mr PETER MORRIS—You would wipe out the Inland submission, the Narrandera submission, the Adelaide submission, the Tullamarine submission. Do you want to be overarching over everybody and say you are going to do it all? Sydney handles 300,000 tonnes per year, most of which is in imports. Look at your figures. You say on page 5 of your submission that you are going to have three flights a day—three 747 freighters per day. After a five-year period, there will be 10 per day. Sydney—the air freight capital of the country—handles 14 per week. You do not need us.

Mr Mellor—We are not saying we need you, but what we are saying is—

Mr PETER MORRIS—So what do you want? You do not need us. Just go for it, good luck.

Mr Mellor—We would like some cooperation and we would like this to be regarded as a model where we could work with you and you would just make sure—

Mr PETER MORRIS—Just do it. It is a commercial decision, they are all commercial decisions. You have got players who want to put money in, you have got a market, you have got a foreign government, you have got a very relaxed system of international air service arrangements for freight. Go for it. Don't wait for us.

Mr Mellor—No, we are not going to wait for you. But the point is that we also need to have a cooperative regime that starts to look at the way in which some of the exercises in this country are already blocked.

Mr WILLIS—Apart from the asset sale, is there anything else that you think the government needs to do to enable this to happen?

Mr Mellor—Dedicated air freight licences.

Mr McDOUGALL—No infrastructure costs at all?

Mr Mellor—Not really.

Mr PETER MORRIS—You get a cheap airport, not much infrastructure; investment cost is low.

Mr Mellor—We know that; that is why our people are putting their hands up. But we need dedicated freight licences to enable some people to take the risk that they are required to take.

Mr PETER MORRIS—There is a very relaxed regime about air freight licences now.

Mr Mellor—Nevertheless, we need some people to say that and achieve it.

Mr TANNER—This is basically restructuring an earlier question which I did not really ask very well. My concern is not to pass judgment on your proposal, particularly given the discussion that has occurred. What worries me though is that implicit in it is an acceptance that there is something wrong with Tullamarine. There are other areas—for example, the east of Melbourne—where you have got the same potential for perishable products to be exported and stuff like that. Obviously it is going to be pretty hard for them to use Avalon—or much more difficult for them to use Avalon—as a place to export from.

The interest that I have got, and what I think should be the primary interest of this committee in what your group is proposing, is: what is wrong with Tullamarine? It is an airport that has got a lot of capacity and a lot of land. So whether it is Tullamarine or the existing airlines or whatever, I am interested to know: what are the key reasons why people who are potentially going to produce the produce that you are referring to would not want to use Tullamarine? That is the key issue that I think our committee needs to address—not so much whether you are on the right track or not, but what is wrong with Tullamarine.

Mr Mellor—That is the reason that is driving us; the land-based infrastructure system actually runs

more easily and more efficiently from the three land states into Geelong and Avalon.

Mr TANNER—So rail—

Mr Mellor—Rail, road.

Mr TANNER—With the western ring road in place?

Mr Mellor—Yes, absolutely.

Mr TANNER—The thing that puzzles me is that you are ultimately talking about an extra half an hour's driving time or something, as compared with the enormous capital cost of buying an airport.

Mr Mellor—But it is not a half an hour's driving time. If you check with some of the people who are already interested in this exercise, it is actually quicker to get into Avalon than it is drive into Tullamarine.

Mr TANNER—Yes, that is what I am saying: it is half an hour quicker to Avalon, but that also depends from where. Ultimately, that surely is going to be a pretty minor cost differential, compared with the capital cost of both buying and upgrading or building some infrastructure—things like that.

Mr Mellor—No, that is not the result of the people who have bid for the airport.

CHAIR—We have basically run out of time, but just to get a bit of a sharper point on this you could show the committee the overheads that you have. In your submission, you said:

We propose to this committee of the House of Representatives that it positively support the development of the Avalon model, particularly in reference to the necessity of dedicated air freight licences.

Probably, from a government perspective, the major obstacle is the necessity for Asia Freight Airlines to obtain a dedicated air freight licence. But the question is: do the new air freight charter guidelines help overcome that problem at all?

Mr Mellor—They probably would. We are saying that, if we are aiming at a national export system, there needs to be a significant look at the way in which this is done. I will not say there is policy on the run, because that is rude. But you need to really decide that what you are on about is a national export policy in which air freight is a significant part of a major industry. I would not know off by heart the figures on how much was sent out last year in fresh fruit and vegetables; Mr Morris might know.

Mr PETER MORRIS—In the Prime Minister's report—

Mr Mellor—It is relatively little compared with what the market is. If you are going to have a policy to do it, you have got to aid and abet the capacity to grow it; that is all we are saying.

Mr McDOUGALL—Who would be the one to receive the licence?

Mr Mellor—Asia Freight.

Mr ROSS CAMERON—The implication of your model is that we have the tail wagging the dog elsewhere. We have these graphs spread out all over the place and you are saying we build the infrastructure and build the production in this integrated model and it almost by implication suggests the other approach is inherently non-productive.

Mr Mellor—Absolutely, because you have a real problem. As you start getting contracts with individual growers, you are getting a whole range of failure points along the system. Does everybody understand what I am getting at?

Mr TANNER—It is vertical integration?

Mr Mellor—Yes.

CHAIR—Could we quickly run through the overheads you have got?

Mr PETER MORRIS—Do we need to, Mr Chairman? Could we just have copies of them, because there are a few other presentations?

Mr Mellor—I will take only about a minute and a half to show you a couple of things that are pretty important. You do have copies.

Overhead transparencies were then shown—

Mr Mellor—Nearly everybody looks at a map as a Mercator projection and forgets that these three southern continents almost join at the South Pole and each has its own sphere of influence. Australia has this area of influence, which is very significant indeed. We do not anywhere near service that market. There is one other item here which is very important, and that is the size of the market. Alan Carroll's information is 28 per cent of the GDP and in North America there are about 187 million in the middle class, in Europe there are about 185 million in the middle class, and here in Asia it is 440 million in the middle class; and the average age of the whole population is 23 as against the average age in the other two areas of 37. That will give you some idea.

The other issue here is what I call the four-state hinterland. It is very clear right through into the Riverina and Adelaide. There is the system which shows it. All of this part of Victoria is full of mountains. You have the whole system built in here. Historically, that has been the case since the very beginning. I might tell you that Robert Hill was very interested in this. He said, 'If they do not want to do it at Avalon, let us shift this whole concept to South Australia.'

Mr PETER MORRIS—Or New Zealand.

Mr Mellor—Absolutely. We must be able to beat them. Just look at that and then look at this sitting there. That was the road link primarily and here is the V-line freight links and the national exit run up into there. Then there is the three-R system of transfer into the process.

To give you a bit of an idea, if some of you are not aware of it, this is the system of infrastructure, and this answers your question to a degree about the pressure that is going on in the West Port Phillip system. This is the Western Ring Road interchange and these are the major highways. The linkage is the national rail and national road and the two ports.

CHAIR—Can you point out the airports?

Mr Mellor—Tullamarine and Avalon. So you have got a major system. That is why they said they are complementary. You have actually got a major system of two major airport systems that feed into an infrastructure system that goes into four states and the road/rail and airport system and the sea system is all there.

Mr TANNER—It is not quite to scale, though.

Mr Mellor—No, it is not quite to scale, but some people do not know that that exists. This is the south-west national economic corridor as stated by the Department of Planning and Development of Victoria and the Commonwealth, which incorporates all the issues that I was talking about before. Those of you who are not familiar with it, you might come down to Avalon.

We will not talk about Point Lillius today, because that is a subject that the Premier and I and others are having quite a discussion about. There is the Melbourne road and there is the standard gauge and the proposed links into the airport through the airport into Port Lillius or into the other areas of Geelong. So it is probably the only airport in Australia that has all of those issues and the links right down to the system. I think that probably covers everything, Mr Chairman.

Mr TANNER—Point Wilson is as big a problem for you as Point Lillius, isn't it?

Mr Mellor—Oh, you can get away with it.

Mr TANNER—Point Wilson you can get away with?

Mr Mellor—Yes, you can get away with it.

CHAIR—I would like to thank Mr Mellor for the presentation from Habitat and Asia Freight Airlines. We have got a number of exhibits that have been tabled by Mr Mellor which we need to get recorded. Is it the wish of the committee that the documents, the first entitled *The Ecorail Alternative*, be taken as evidence and included in the committee's records as exhibit No. 3? No dissent. Thank you. That the document entitled *From Road. . . to Rail. . . to Road* be taken as evidence and included in the committee's records as exhibit No. 4? Thank you. That the letter to Task Force on Asset Sales B be taken as evidence and included in the committee's records as exhibit No. 5? No objections. Thank you. That a submission entitled *Freightway Melbourne* be taken as evidence and included in the committee's records as exhibit No. 6? And that a letter from Kemcor be taken as evidence and included in the committee's records as exhibit No. 7? Thank you.

I would like to thank Mr mellor for his presentation and the submissions and those documents that

have been tabled. A copy of the *Hansard* transcript will be provided to you in due course for your checking and approval. Thanks very much.

Mr Mellor—Thanks, Mr Chairman. It would be a pleasure to work with the committee if they want to further discuss these sorts of issues as we go along.

[4.21 p.m.]

CHUDLEIGH, Professor John, Principal, Orange Agricultural College, and Chairman, New South Wales Agricultural Education Cooperative, Leeds Parade, Orange, New South Wales 2800

FERGUSON, Mr Alexander Stuart, Chief Executive Officer, Central West Economic Development Group, Inland Marketing Corporation, PO Box 617, Orange, New South Wales 2800

CHAIR—Gentlemen, submissions have been received by the committee. Do you wish to make an opening statement?

Prof. Chudleigh—I would like to clarify my position first, before handing over to Alex. My comments are principally to do with the youth of Australia and the problems of agriculture at the present time. I want to make these comments in terms of the future long-term vision for what we might have in Australia as an agricultural industry.

I think it important that the committee realise my background of 13 years as a consultant. I have been at the college 20 years. I was on the review of ag education in 1990. I was recently on the organising committee for the National Rural Summit and am now a member of John Anderson's activating group to ensure that that rural finance summit leads to some outcomes.

I speak widely around Australia about the prospects for Australia's agriculture and its commodities, and I have just returned from speaking engagements in South Australia and Tasmania. From that point of view, I have significant concerns about the future of inland Australia, particularly the opportunities for the youth that we are training.

The college deals in management education rather than technical education and has a strong thrust on marketing finance and in particular people management in our students. We are enabling our students to visit Asia during their courses and these students—and John Sharp who was one of our early graduates—are destined to be the leaders of what will become Australia's rural industries.

At the college we have the concept of the value chain. You talk about the marketing chain. I think we have advanced that concept internationally now to the value chain where we must insist on an understanding of world's best practice. We must move towards only having those people in the marketing chain who are absolutely essential to assuring that the product from the paddock to the palate gets there as efficiently as it can. We need an infrastructural system that will enable that to be facilitated.

Our major concern is with regard to air freight is that we live in a part of Australia which relies pretty well on the Sydney airport for access to Asian markets. I know from my own experience out there that the prospects for agriculture are bright and that there is a tremendous amount of latent innovation waiting for a signal from government to say, 'Come on, let's go.' A lot of people are successfully using the existing system, but the world is not going to wait for us to fight our way through the current constraints to put our place in the world. I sincerely believe that, if we try to impose an economic rationalist view on the establishment of something like the inland marketing corporations airport, then Australia is doomed to the

same sort of lackadaisical development that we have had for the last 20 or 30 years.

We have not had a Snowy Mountains scheme and we have not had an Opera House. We have had nothing like this that has come out of the imagination of politicians for some time. I am pretty harsh on the political process because we seem to have lost the concept of vision and leadership and we tend to bow to the will of our bureaucrats most of whom are economic rationalists and play the safe game rather than play a game with a little bit of adventure and a little bit of risk. We spent nearly \$100 million on the central west decentralisation scheme a decade or so ago and it led to very little. There was a lot of capital written off there and it mainly led to very little because the government seemed to want to control the whole process rather than setting up some infrastructure that allowed private industry to expand.

I sincerely believe that here is an opportunity to take a different approach to trying to come to rational viability with this particular situation and to think about the problem of the emptying of rural Australia and the social implications of what is going on out there in the bush. I have just come back from Tasmania addressing the rural councillors conference and there is a huge job still to be done in what is happening in rural Australia. To me this would give tremendous support to at least one area of Australia. It would turn around the emptying and give some incentive to those who are prepared to do something. I am not talking about running an airport here; I am talking about better utilisation of the water and the land and developing industries for which we know there is an emerging and growing market in the long run.

Really what I am looking for is the college's role which we believe is changing the paradigm shift in the future managers of rural Australia who understand what is wanted in Asia and who expect to have that facilitated as much as possible by government where they can, and then for government to let them get on with doing the job. I am quite convinced from what I have heard and seen—and even heard here this afternoon—that, if we do not do something that is fairly bold and innovative, then the rest of the world will just run over the top of us competitively. We have already had visitors from Asia looking for a product from Australia. I understand the quality, quantity and certainty of supply situation only too well. These visitors have moved on to other southern hemisphere countries for their supplies simply because they could not be assured because of the actual certainty of that product.

We have established at the college an Asian agri-business research centre which is looking at emerging markets. It is a small unit, but we would see that working closely with the marketing corporation in market development, as well as other parts of the University of Sydney. I think that is all I have to say. I will hand over to Alex to give you the facts and figures.

Mr Ferguson—I think it is important that everybody understands that I am not a latter day Biggles. The inland airport concept, the Parkes airport facility, was driven out of a lot research that actually started in a whole lot of other areas. The IMC concept came out of a federal government program run by regional development, known as the local enterprise program. That was a precursor, if you like, for the current Redo structure, with basic concepts, research, finding out what you have got, leading to a strategy, leading to outcomes—all basic stuff.

We took off under the local enterprise program. We had a good look at the central west of New South Wales and—surprise, surprise—95 per cent of it is rurally based. Put a line through Email Ltd and it is

almost 100 per cent rurally based. The whole economic structure is rural. With a bit of a dose of pragmatism I think you could agree that, if we were to have this conversation in 2005 or 2015, we would be exactly the same.

If we are going to be rural, we are going to have to be very good at it. If you stop and have a look at what we have got in the central west—and I suspect that it is very much the same for most of inland Australia, in terms of agriculture—it is more to do with the last century than with this century. The transport structures are set up for bulk commodities. Our farmer groups are ageing. They give their product to agents and middlemen—other people—almost straight from the paddock. There is very little value adding and very little understanding of world markets.

As we went down the line we looked at different opportunities. Once again—surprise, surprise—there was the Asia market. I think we have got to get away from seeing Asia Pacific as being the total focus of our view, because it is the world. There are significant markets in Europe and in other places. If you look at our performance in 1996 in Europe as against 1986 in Europe, you will see that we have lost a significant market share. In fact, it is quite frightening.

If you then say there is a market opportunity in South East Asia/the world, and you look at what is happening with the river systems and the agricultural structure of Australia, you will see that we are so far out of whack it is not funny. The real challenge has been to come up with a change model that can take what we have got to work with, which is some of the best land and some of the best water—although we waste most of it—and a huge resource called the Australian farmer, and actually twist them from being a production driven environment into a market driven environment. Somehow in all of that we need to throw in information technology, quality assurance and all these other bits and pieces.

We have looked at the markets. We have looked at road and rail; obviously, we have looked at air. If you are talking about perishables—meat products as well as vegetables, stone fruits, et cetera—you are really talking about air. I have not heard this said today, but rail and air do not mix. Road and rail mix; road and air mix. We have looked at training, we have looked at decentralisation, we have gone into regional development and, obviously, information technology and quality assurance.

When I arrived three years ago, the average age of farmers in the central west was 55 years of age. Three years later, it is 57. That indicates that there are no young people coming in. In a regional development sense, if we do not restructure on-farm profitability, we will miss all the other opportunities. It is that on-farm profitability that carries reinvestment for plant and equipment. You will be happy to know that the average age of plant and equipment in the central west is now 24 years. You can imagine that, with an average of 24-year-old equipment and 57-year-old farmers in a competitive physical environment, our production is going backwards, not forwards.

These are the issues we need to come across. Especially when you start looking in a regional development sense at the closing of the small towns, the dropping of the banks, the fact you cannot get a doctor for love nor money, it is all to do with the fact that there is not enough money coming out of agriculture. The spending power of agriculture is so weak that little is actually washing through the community. If you go into another round of government cutbacks, for instance, you would be happy to know

that about 52 per cent of the gross income of Parkes actually comes from government departmental funding. When you start doing a little bit of rationalist work there, then all of a sudden you can see how you attack the actual core structure of inland New South Wales and, I suspect, Australia.

So we have been down all of these roads, and here we are talking about the IMC in front of an air freight review board when in actual fact the IMC really is more to do with an agricultural change, a community change and a decentralisation change of which air freight is just a little bit along the way. In my view we have got to get through our heads a couple of very simple notions. Firstly air freight is a service industry; it is not necessarily an industry unto itself. We have been paying homage to aeroplanes since time immemorial. They capture our imagination but, ladies and gentlemen, five semitrailers equal one jumbo. It is very simple. A bit less perhaps—and there we will get into some nice technicalities shortly.

We have spent a fair bit of time today looking at air freight and at all of the ups and downs and ramifications thereof. I think we can look at this graph to get the figures. Just look at the trend line—passengers, freight. We have been running an industry which has in fact been subservient to passenger—see the graph lines—except for the last couple of years, 1993-94, where air freight started to kick in through dedicated freighters. You actually have a situation where freight has been captive of passenger. That is clearly understood when you look at freight rates.

When you start to get into things like ‘just in time’ methodology, actually, because of our lack of incoming capacity in air freight, we drive a lot of stuff that would otherwise be airborne into ships because there is no capacity. The bilaterals lock out. You will find reference to that in both of our submissions—the supplementary submission and, of course, the notorious response to the Prime Minister which I believe the secretariat has for circulation. The whole air freight thing is driven by inbound freight. There are something like eight freighters a week that fly out empty, dead legging, from Sydney, picking up something or other in Penang, Malaysia or Singapore, and then flying it at \$8 a kilo back to LA.

Mr RANDALL—Can you justify that—eight freighters a week flying out empty?

Mr Ferguson—In fact in here we actually name them.

Mr TANNER—It is the different profile between our exports and our imports. Most of our exports are bulk so it would go in ships.

Mr Ferguson—That is right. But also it is rather interesting that it is all the high value stuff that we are bringing in—it is the electrics, it is the yarns, it is the pharmaceuticals—it is all of these things. So there is a significant problem in that end.

But when we actually get down, as we have, to look at what has been going on in terms of air freight, you start to look at bits and pieces like this. You have got classically ‘gate to plate’—the producer, road, capital city markets, agent’s cold store, freight forwarders, terminals. We have even left uplift off there and, ultimately, markets. And of course in the IMC we are looking to take all of that out. I don’t want to get into trouble here today, but 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.

In saying that, what we are talking about is moving farmers up the value chain so they can make more money. If you look at Griffith—and my friends from Narrandera are here—then you look at Flemington Market, then you look at a freight forwarder, over here you look at Mascot without a cold store, and you start looking at our current linkages: from Griffith, about 12 to 15 hours in a semitrailer; Flemington Market, if they stuck to the agency rules they would charge 12 per cent, but they buy in their own right so most of the margins are up around 20 plus.

There is another freight linkage from Flemington Market, and it is doubtful whether our lovely, fresh, clean, green product even sees a cold store there—it is probably lying out in the sun. It has at least another half day until a freight forwarder, a diligent young man, charges between nine and 16 per cent for the privilege of looking at it. We drop it over at Mascot without a cold store, we leave it out on the tarmac; we are waiting for our friendly Qantas driver to come by and pick it up. Unfortunately, it is bad weather up the road; he has got his plane fully booked with passengers and he has got to take on an extra 10 tonnes of fuel for alternates and God knows what else, so out comes the freight.

In that exercise—which is not a cynical exercise, it is close to the truth—we are adding three to five days to the delivery and we are putting the on-farm price up by 45 per cent before it leaves the country. Now, how smart is that? That is what is happening every day of the week, and that is why people will not be in it.

What we have said with the IMC, and what we have seen from our work overseas, is that if we very simply put a catchment smack in the middle of New South Wales—and I hate to say we found Parkes, Parkes did not find us—then we say road everywhere in New South Wales from Inverell in the north, Uralla, Bourke, right through Batlow, Wakool. I mean, Narrandera is just three hours and 10 minutes in the Kenworth. You can actually bring into a central area a huge catchment. You can have it in there by lunchtime, leaving a packing shed anywhere in the state at about six o'clock in the morning. You can put it through a proper cold store system. That which already exists at the AT5 terminal in Singapore is going to be built into the new KL airport, et cetera. Aircraft out at about three o'clock in the afternoon and into a major hub—not flying destinations all over the South Pacific—into a major hub of Singapore or KL before about 11 o'clock at night, and then tranship.

The big problem with Australia is getting out of Australia. Once you get into that world trading band where planes are coming and going all the time you have a smorgasbord. That is why Singapore has built this new AT5 terminal, which is wall-to-wall cold store, information technology right across the top, vertically integrated quality assurance. That gives us the opportunity to be in every major market in South-East Asia by about nine o'clock the next morning.

When you can do that you can blow the pants off the Chileans and the Brazilians and the South Africans because, no matter that they pay their workers significantly less than we deem to pay ourselves here in this country, they have to pay real air fare rates, real freight rates for over twice the effective distance that we fly. So it turns around and bites them.

One of the questions that I think Graeme asked this morning, and it was to do with aircraft in, aircraft out, you cannot have dead-legged aircraft where your cost structures just fall to pieces. So we have actually

designed a JIT system—a ‘just in time’ system—which actually allows for freight deliveries to a central point. It gives us Brisbane 12 hours, Melbourne 12 hours, Adelaide just a little bit longer, and Sydney about five or six. Now that will always be supplementary, certainly in the case of Sydney, to underfloor capacity. We worked at great pains with Malaysian Airlines, with Singapore, with Cathay; we have done all the bits and pieces, and it works. In fact, we believe that we can get the tonnages pretty near neutral.

All of this is predicated on the question: do we have markets and can our growers grow it? We have been out into the fields and we have done all of that work. 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. But it is interesting to note that 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, reflecting water usages and other changes, they are talking about maybe 600,000 tonnes per annum.

It is rather interesting to note again that, if we have the debate about air freight tonnages, we are doing about 310,000 plus or minus this year of which about 65 per cent is perishable. If we put our crystal ball into gear and say, ‘What are we likely to do over the next 10 years?’, Australia is not likely to be a major force in manufacturing. The real growth opportunities are going to be in food product. How much is that food product? I do not know, but it is quite possible, even from our basic research, to chuck in 200,000 tonnes—nearly that much again.

At what point in time do you actually take the uplift to the catchment instead of dragging the catchment to the uplift and incurring all of this sort of problem at that sort of cost before you leave the country? I do not think there is anything in the IMC that is terribly radical. There is a hell of a lot there that is probably very pragmatic, but this might just about tidy it up for you. You have sections within sections. You have the grower, the transport, the distribution and the uplift as separate areas. All of that has to be carried within a QA and IT envelope and the whole exercise is marketing. We were talking about: do we have enough incoming freight? That is a marketing exercise. Do we have enough outgoing freight and is that outgoing freight at the right value? That is a QA marketing exercise. All of those things are beyond the airlines who we are actually pinging at the moment for not providing the service. The reason they do not provide the service is that the fundamental economics are not there for them and they cannot fix it. You have to get back and look at that total exercise.

The IMC is a bit different, because, as a change mechanism, if you accept that change in a parochial community is very difficult—and believe me it is—then you need somehow to lock them in. Just very quickly, we have formed the unit trust using four local governments, a \$4 company, Parkes Forbes, Lachlan and Cabonne and an independent board of directors. We do not want a retirement zone for old councillors with their role protected under the memos and articles of association. You have the operating trust and you have the unit holders of the operating trust. Each one of those is going to be a local government body and a unit is going to cost about \$50,000. As of today, we have 35 councils signed up as trustee for their communities.

It gets back to the very simple notion. If you are going to make serious change; if you are going to move whole sectors of the community, as we heard a little while ago, out of what was then to what will be, you actually have to lock them into the process. If you leave them out they can sit on the fence, bugger around and do all sorts of silly things. But if you actually put them there and give them ownership of the whole structure, then you can talk to them about the educational requirements, the skilling requirements, the information technology requirements et cetera, and we can start getting into world best practice models. That very quickly, gentlemen, is the IMC.

CHAIR—Thanks very much. Mr Morris has to go and catch a plane but I am sure that he is well across the proposition. It still hinges on primarily an element that we have been coming across all day in evidence that has been received before the committee. That is with regard to dedicated freight capacity that is available as far as the bilateral agreements are concerned. You have to go out and develop the markets, then the government and the Department of Transport have to go and negotiate the bilateral arrangements for the air freight capacity. Or are you suggesting that, if you develop the markets, we cut into the capacity for the passenger service?

Mr Ferguson—It is rather interesting—and the Department of Transport, to their credit, and both Minister Brereton and now Minister Sharp, have actually seen the light over the last six months. Minister Brereton's statement came out two weeks before the election and Mr Sharp's statement is almost a mirror image of Minister Brereton's statement about the deregulation or the breaking of the nexus between freight and passenger.

This is a battle that the department and I and many others have fought for about two years now. If you go back into another world and you say, 'Tell us the difference between a freighter aeroplane and a freight boat?', at the end of the day they simply provide a service for us to get our product to market. Under the bilateral structure in the first graph I showed you, you can see just how freight was completely locked into the growth of passenger.

We have seen the Deputy Prime Minister in Indonesia in recent months actually saying, 'We are going to have an extra 38 per cent increase in capacity and, by the way, there will be three dedicated freighters a week.' That is a good first step. It is true that there is a conversion rate between passenger and freight of 100 tonnes equals one jumbo 747. So 400 packs could be traded in the bilaterals.

But, as the bilaterals have been structured over the last few years, Qantas have been the net beneficiary of them. If you look at the imbalance—it is in our documentation again—between unused JAL flights into Australia and Qantas flights into Japan and the same for Hong Kong for Cathay, you will see that Hong Kong is more valuable to Qantas—as is Japan—than is Sydney to JAL or Cathay.

Of course, Qantas have been fighting hammer and tongs for their fifth freedoms because they make very real money on the overflow out of these other major ports. You may remember that there was a tremendous stoush between Continental Airlines and Qantas to do with basic fifth freedom negotiations out of these ports.

It is also rather interesting to note that Qantas, even though they do not own dedicated freighters, on

our estimation are moving between 40,000 and 60,000 tonnes by subcontract freighters, either Southern Air Services, Evergreen or whatever else. So, even though they would argue, as they have done in past inquiries, that there is this great 40 per cent of unused floor space, they are, surprise, surprise, actually running freighters as an adjunct.

They are, in fact, in the throes of a board decision taken in the last few weeks to move into some sort of dedicated freight. That supplementary documentation that I handed out a little while ago to you—Dr Carter—would indicate that Qantas have lost market share by tonnage in five or six of the significant market sectors which have shown significant growth.

So Qantas, because of an unfocused service mentality and having had it too good for too long, are starting to be beaten by Singapore Airlines, Malaysian Airlines, Cathay and Dedicated Freighters. So in actual fact there is quite significant lobbying to make sure that these other major players do not get any further advantage.

We would argue very strongly that if Qantas do not want to be in the freight business, that is okay but only as long as somebody wants to be in the freight business because we cannot trade as an agricultural nation without that uplift. So it really gets to be on a plane above Qantas's wellbeing, if you want to put it that way.

Mr TANNER—I quite liked your written submission, particularly in terms of depth, but I have a question about your attitude to a second airport for Sydney. I notice that you are quite dismissive of that. I do not know a great deal about the transport infrastructure immediately to Sydney's west but it would seem that, although it might not be the same degree of solution to having an international airport at Parkes, surely if an international airport at Badgerys Creek gets off and running with some of the problems of KSA solved, that would, at least, be a major improvement, if not the same level of assistance that you are seeking with a third airport.

Mr Ferguson—Mr Tanner, there are a couple of very interesting points there. First of all, timing: reading the *Financial Review* this morning on the front page, they are talking about four years before a decision is made, and with the engineering I would estimate another four to five years to actually get one up. So, effectively, we are going to lose 10 years from about now before we see such a facility, whether it is at Badgerys Creek, Holsworthy or whatever.

Secondly, anybody that has done any work on aviation knows that to get a 747-400 off the ground on a very hot day—and a 200 is even worse—you need about 3,300 metres. So to build a runway at Badgerys Creek of 2,800 is a nonsense and will never achieve what is meant to be achieved.

The third point is that the real issue in Sydney is passengers. Quite frankly, as this passenger debate builds—forget the Olympic Games—the scary thing is it is building at about nine per cent per annum on the last figures from the Department of Transport, a couple of weeks back—about 8.9, something like that. So it is holding its trend line.

Mascot will be over capacity by the turn of the century and, as it struggles to exist, freight will be the loser, more and more so. So you have competing forces. You have this debate in Sydney about another major

airline driven on passengers and we have the super market to Asia argument on the other side which actually has no chance in the wide world of succeeding unless, as we heard earlier again today, you match capacity with the market growth and, in fact, have the flexibility to pinch hit a bit there.

Mr TANNER—I am not quite sure what the article in the *Financial Review* is you are referring to, but I certainly read the front cover today and I cannot recall anything that dramatic.

Mr Ferguson—‘Sydney and the paired Sydney West airport project have effectively been ruled out of the process for up to four years because of the Coalition’s—’

Mr TANNER—That is the sale price. As a member of the opposition I have to give the government the benefit of the doubt on this. I have said that I suspect they are intending to delay but there is no concrete evidence to prove that that is yet the case. There is a suspicion. Assuming that that delay is not going to be 10 years, but for example it might be four years, and that you actually get a runway that is the correct size, the two problems you have identified are obviously both capable of resolution. Would it be a major step forward as compared with the status quo?

Mr Ferguson—No, I do not think so. If you were to believe any of the figuring that we have done, and which is available to you, and if we got anywhere near that 300,000 or 400,000 tonnes eight or 10 years out—and do not forget we are talking about a huge catchment with heaps of abattoirs and a whole lot of other bits and pieces—you can quite easily have both.

Mr TANNER—No, that was not the question I was asking. It is not whether you can have both; it is a question of, if you have a government that says, ‘Sorry, forget about Parkes,’ and that builds Badgerys Creek, it would seem to me on a very sketchy look at it that that still does advance your cause significantly, albeit nowhere near as much as having your proposed airport.

Mr Ferguson—Yes, I think we would probably have to sit down and have a very good chat about it. But I think you would actually lose a lot of the change impetus and I would see some serious downside in that.

Mr TANNER—I suppose the question I am really getting at is: would it not be a good idea from your point of view to also be in the alternative, for example advocating an airport at Badgerys Creek and one that does not have the faults that you see at KSA, that is, the cold store problems and stuff like that and had the capacity to knock out the Flemington market part of the chain that you identified and so forth? Would that not be a suitable alternative strategy for you to be advocating?

Mr Ferguson—I do not see that it is a strategy that we have any right actually to have an argument about. We have done our work fairly single-mindedly and we have tried like you would not believe to keep out of this Badgerys Creek passenger driven debate. I think there is also a problem with culture. Whatever happens at Badgerys Creek will be an overflow of the current airline and substantive industry culture. I think that is more to do with the past than something that will have anything to do with the future. I would very much prefer to be the chief executive officer on a green field site than to try to bring significant cultural improvements, such as for example the waterfront, to an existing albeit diverse structure run on the same

model.

Mr ROSS CAMERON—I appreciate your diagram about going back to the fundamentals and looking at the envelope. It seems to me that, when you hit your head up against the capacity constraints of the bilateral agreements, the problem there is not the constraints of the agreement because ultimately they are reciprocal arrangements, so long as you can offer the other side enough, they will give you what you want.

Is not the problem there the fact that at the moment we cannot make an offer to Japan or whoever it is? In the markets where we have constraints, if we go to them saying, 'We would love it if we could have another three or four more flights a week', they might turn around to us and say, 'In terms of the value of what we get out of the exchange, there is not enough in it for us from the freight market.'

Mr Ferguson—One of the problems we have is that, with all due respect, sitting down here next to New Zealand, we are out of the club. In Minister Sharp's statement he talked about a movement towards an APEC wide trading group. We would absolutely encourage that 100 per cent. To answer your question in a bit of a roundabout way, if you actually start looking at any of the imports statistics on Singapore, we put a lot of stuff in—far more than they could possibly eat on any given day—and then they actually on-sell it within their own APEC networks. I dare say some of it winds up in Japan, et cetera. We as a country have to be a lot better at forming partnerships that get around some of the direct bilaterally phyto-sanitary type impediments and actually go backdoor using other networks and other arrangements.

Mr ROSS CAMERON—If we have these dead leg flights going out, is there not the problem for the Japanese or whoever else is flying in? They come in and what we are offering them to take out of the country is not sufficiently valuable to them to make it worth their while to stop, load it up, unload it and so on.

Mr Ferguson—The dead-leggers are not the Asian carriers at all; they are the American loopies; they are fifth freedom.

Mr ROSS CAMERON—But don't they pick up in Asia? They bypass us?

Mr Ferguson—They bypass us. Sometimes they will take something if it is there, but they will not spend a whole lot of time. Once again, that is a marketing problem because our perceived organisation, probably at Mascot, and our perceived value, the sort of rates they can get, do not make it worth their while. So we have got a major marketing problem in that area.

Mr ROSS CAMERON—But is it a marketing problem or a quality of product problem?

Mr Ferguson—That is semantics.

Mr ROSS CAMERON—But if we can't offer them a product with sufficient margin to make it worth doing, isn't that the problem?

Mr Ferguson—Can I put it to you another way: if you go out and do all the statistics from

Flemington market through the department of agriculture, published and unpublished, you will find that most of our exports out of Sydney are domestic surplus. They are actually bought as a job lot and they are simply flogged up there as a commodity. We are not sending our best. It is not picked, it is not packed, it is not graded, it is not anything. If you understand that, then you understand the cheap rates and the lousy treatment at Mascot.

If you actually get back into the bush and you look at who is leading the export charge, the quality charge, it is about a football team, depending which code you follow—it is about 15 or 17 players. They are carrying our whole high quality export push. The rest are just giving to agents, off to Flemington, off to Melbourne markets, and somebody will come past on a motorbike and say, 'I've got a job lot for 25 tonnes of something or other; buy it here, buy it there and flog it up.'

Once again it gets back into that whole marketing thing. You can't just look at air freight in isolation without looking at all the quality, all the growing and all the culture in the whole exercise. I have been a bit critical, while we are jumping around a bit or I am jumping around a bit here, with the model that was put up in the Prime Minister's thing which was modelled on the Export Freight Council of Western Australia. It is, 'Let's form a committee, let's pull all these players in and let's have a bit of a talk about it.' It really did not address the actual process. It just focused on a very small sector of a very much larger unit—and really to no avail.

I think that is one of the problems that we have. It is that quality versus delivery versus selling versus marketing versus premium exercise, that whole value chain, and we cannot—even though we are trying to do it today—focus just on this one little bit called air freight. I simplistically said five semi-trailers equals one jumbo, but on the Newell Highway going up and down there are 1,450 semi-trailers every 24 hours. So what we are talking about is little.

Prof. Chudleigh—Could I just draw the review board's attention to that graph which shows the growth in trade exports from Australia, given the current situation without any change. It has tripled in the 10 years since 1985, so we have gone from 100,000 tonnes to 310,000 tonnes last year. If that exponentially increasing rate continues, the real question is—and I am not sure what proportion of that comes from New South Wales, but it is substantial—if you are going to put another 200,000 or 300,000 or 400,000 tonnes through Sydney by the year 2005, will the Sydney airport take that?

Really what we are looking at is not what is now, and I can assure you that out there in the bush, given any opportunity, that trend will quicken. The size of the market to our north is something that most of us do not even appreciate. We do not even understand the numbers of people with growing wealth that have the capacity. We provide 0.2 per cent of Asia's food at the present time. If we were asked to provide 0.3 per cent, we could not do it.

So we are unimportant from their point of view, but the opportunities from our point of view are just huge. I think we owe it to ourselves to try and facilitate that as best we possibly can. And I know that is your desire.

Mr WILLIS—What about the second Sydney airport? Is that not going to increase that capacity?

Prof. Chudleigh—I will not deny that would be better than nothing at all. The Sydney airport at the present time is just not adequate enough to cope with that sort of growth, even—

Mr WILLIS—That is where—at least I thought until recently—we recognised that there had to be a second airport in Sydney at some stage. The question was when and where.

Prof. Chudleigh—There is a mental block in the bush about coming over the mountain, just as there is in Sydney about Sydney people coming out to the bush. It is still an impediment to cultural change. I think we have got to keep that in mind in terms of the social issues that are involved in this as well.

Mr McDOUGALL—Can I just take that point a little bit further? I remember the slide you put up which showed a catchment area to drive this perishable freight through Parkes, and we are talking about this growing capacity and the opportunity. I do not think there would be anybody that would say that we do not recognise that there is a potential up there, whatever that potential is, and if we were smart we could do our own marketing in the right way to attack that. Looking at that map you had, recognising that we have already got three freight airports within that—and they are at the extremities, on the north and the south and the east—you are going to take, in freight terms, some into those airports anyway even if you have a dedicated freight operation in Parkes, because of sheer logistics. Some will go back the other way, particularly knowing that there is already a capacity there, even if it be on a passenger aircraft.

Knowing that to put this infrastructure in place in Parkes would be a major capital expense, not only in the actual airport itself but also in other infrastructure to put in towards it, have you done the sums that say, ‘That’s the cost. How many planes are we going to get a day and how many a week and what return are we going to get on the capital investment and over what period?’ I would have to look at that.

Mr Ferguson—Yes. In our submission, page 45 is the plan of the airport, page 49 is the cost. The airport has been designed by a company called Airplan, who did the third runway, who have done Cairns, who have done Hong Kong and a few others. So they are probably the best. You will notice there that in the costings for \$52.26 million there is an \$8.7 million fudge factor. So I think we have pretty well got it bracketed. We have done all the soil tests. You would be happy to know that, if we put in a five-kilometre runway, the centre line variation from one end to the other is six metres dead flat. It is the ex-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. With weather, with rain and with everything else, it would be the most technically competent airstrip in Australia with instrument landing systems both ends and so forth and so on. All of that work has been done.

I am always interested when people talk about significant amounts of money. 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. It is rather interesting to note that the road-rail or the bus-rail interchange at Blacktown cost \$27 million and that did not seem to be too much of a problem. And there have been significant amounts of money coming out of federal governments in different programs, and we do not need to be specific here.

We are talking about—and once again the work is here for you to see—job creation and likely

reskilling and whatever else, I am not particularly of the cargo cult mentality that says all regional development has to be driven by infrastructure programs, but by the same token there are key infrastructure programs that do facilitate significant change in regional development. I just flag the \$52 million.

In terms of the actual dollars and cents and returns, yes, we have done it all; it is commercial-in-confidence. I will pass it to the chairman as long as he passes it back. 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. It probably takes more time than we have got here today to go right through it. I am more than happy to take you through it at a later date.

Mr McDOUGALL—What about flights per day, per week at the end of the run down?

Mr Ferguson—We costed it on 35,000 tonnes per annum, which is one jumbo per day, seven days a week. It makes money. We believe that if it was there tomorrow afternoon we would have one and a half. We already have partnerships. We have had a longstanding relationship with Malaysian Airlines, Singapore Airlines and Cathay. In fact, the Prime Minister has a letter from the director of freight from Malaysian Airlines saying that if we put that in they will fly. I think others in government have that too. It has been around. I can provide that to you as well.

Mr ROSS CAMERON—I felt the argument was a bit circular: if you say 52 per cent of the economy is driven by public sector expenditure, so do not cut public sector expenditure because it is the lifeblood of the economy.

Mr Ferguson—I am sorry, I did not make that comment. I just made the point that that is the reality out there at the moment. I dare say it will be cut, and we just have to understand the effect of that.

Mr ROSS CAMERON—I felt what you were saying was that, if government takes the view of cutting back, you cut into the fabric of the city, the region and, potentially, all Australia. That is my concern. We have a proposal from Habitat saying, 'Basically, we've got a group of commercial backers. We've got a piece of infrastructure, we've got a concept'—and they are willing to risk their capital to make it work—'and all we want is a freight licence and a successful bid on the airport.' A lot of the logic of it is certainly attractive. Are we saying that we want 50 million total from the two levels?

Mr Ferguson—Yes.

Mr ROSS CAMERON—Is this a commercially feasible project or is it another species of a regional development initiative that is never really going to commercially make sense?

Mr Ferguson—No. First of all, we have done the figures and it makes sense commercially. But, if you go back to the ownership exercise I was talking about through the community, the way of the future in agriculture is going to be large scale cooperatives, which will be far more professionally based than they have been in the past. But it is going to be a collaborative effort.

You heard me say that I think that we will be locking communities into the change mechanism. The

only way we can have that change mechanism and the ownership structure surrounding that is if we get some grant funds to get the thing up and running. Short of that, we are going to have to float it or we are going to have to go to a boot scheme or we are going to have to do some other financing model. We can do that, but the net result of that is that the community will not have the ownership structure.

When you recognise all of that and you understand that an airport in that situation or a multi-modal freight distribution centre, as it is, in that situation is monopolistic, you can imagine what would happen if a major got their hands on it. It would then not solve the change aspects that we want to get out of the whole process.

What we have said—it is not tongue in cheek, Mr Cameron—is that these issues are of national importance. I certainly had a lot of sympathy for the Avalon presentation before because we have to get out of this risk averse nature. We have some significant problems in this country, and certainly the problems in agriculture are absolutely over the top. If we do not get in there and change and spend a bit of money in the process, I can assure you that, when we have this conversation in 2005, the amount of money that state and federal governments will be pumping into the bush to hold up lots of little old communities is going to be mind blowing.

We either spend it now and make some change, or we sit around and have this debate. Let me say to you that we know of 31 studies on this subject in the last three years. They are chronicled and we have them in our library. How long are we going to debate these issues? At what point in time are we going to say, 'We think it's about right. Let us, as a community of Australia, actually start testing some of these issues'? We have done it before, but we have not done it recently.

Mr ROSS CAMERON—It seems to me the difference is that the Habitat proposal is not risk adverse; it is just saying that Habitat will take the risk.

Mr Ferguson—The Habitat model, with all due respect, is very small compared to the IMC and it really does not cover anywhere near the number of issues that we have actually rolled into one structure. That is no offence to Avalon, but this is very significant. If you were to take the National Farmers' work done on employment in the conversion from wool-wheat, which is something less than one person per thousand acres of production, to high-value perishables, intensive meat and whatever else, at somewhere between nine and 12 people, we could reasonably, on the back of an envelope, get up around 15,000 new jobs—all the skills base which, by and large, does not inhabit inland New South Wales at the moment. If it were rolled into some sort of decentralisation model, that would be enough to send Australia into boom time. With all due respect, how much money have we spent under One Nation and through other Labor reform programs in the last 20 years—and let us not be politically sensitive about this—that really have not gone anywhere near that in terms of real jobs in far-flung, disparate communities? They are the sorts of issues that we are grappling with.

Mr McDOUGALL—Can I just take the cost matter a bit further? It has been put to us that if you look at—and I come back to the one freighter a day that you talk about—the FAC landing fees for 747 freighters, you would need 6½ flights a day to be able to service the investment.

Mr Ferguson—Yes.

Mr McDOUGALL—You are saying that you would need one a day. So you are contradicting the figures we are looking at.

Mr Ferguson—What I am saying is that in many cases there is a multiplicity of ways you can raise money at airports. If you look at the FAC model, they make far more money out of renting shops and boutiques than they do out of running a mainline aviation industry. If you step off into the next world of airports and actually start to look at the private, multiskilled, et cetera, you will find that the costs are nowhere near as great as they are. If you then start to look at cost recovery through the freight centre itself, actually own all of that and have all of those cash flows, of course, you can do it. Once again, we have modelled it all—I am a bit embarrassed, it is commercial-in-confidence and really cannot go flying around—and used Morgan and Banks for all the salary projections and all the bits and pieces, and it is all there.

Mr WILLIS—Did you make any submission to the Prime Minister's task force on the impediments to—

Mr Ferguson—Absolutely, yes.

Mr WILLIS—I know you commented on it afterwards.

Mr Ferguson—No. In fact, through the department of primary industry, who were one of the three groups, we submitted all of our work, all of our business plans. In fact, in that document, the department very kindly said of our work that it was the best researched. The department said:

An influential submission to the *Air Freight Review Inquiry 1995*—endorsed by the Prime Minister's study into *Removing Impediments* . . . (December 1995) as 'the most comprehensively researched'.

Mr WILLIS—Why was your response so infamous, to use your words?

Mr Ferguson—We challenged some of the 40 per cent under-utilisation of Qantas figures and other bits and pieces. I am sure that debate has still got some way to go, but it is rather interesting to note that the department of transport, as of 1 July, has commissioned a task force within their own structures to start looking at air freight and its effects on multi-modalism. So they are starting to look at all the dynamics that we have been talking about now for the last two years.

CHAIR—We have just about stretched our time to the limit. I would like to thank the representatives from Inland Marketing and Orange Agricultural College, Mr Ferguson and Professor Chudleigh, for coming in. We have a couple of documents to deal with. One is submission No. 66. Is it the wish of the committee that that be included in the committee's records? There being no objection, it is so ordered. We also have a document entitled 'Response to Agri-Food Industry Competitiveness Issues' presented by Inland Marketing Corporation. Is it the wish of the committee that that be taken into evidence and included in the committee's records as exhibit No. 8? There being no objection, it is so ordered.

[5.28 p.m.]

McKINNON, Mr Donald Allan, Mayor, Wentworth Shire Council, PO Box 81, Wentworth, New South Wales 2648

McMILLAN, Mr David John, General Manager, Wentworth Shire Council, PO Box 81, Wentworth, New South Wales 2648

CHAIR—I welcome witnesses from the Council of the Shire of Wentworth. Thank you very much for your patience through the afternoon. It has been a long day and we are running about half an hour behind time. We have received a submission from Wentworth Council. Would you like to make an opening statement.

Mr McKinnon—I will take that on board, and you may be pleased to know it will be a very brief statement; there are no fancy slides or anything like that. We are probably one of the many councils that believes an air freight terminal should be in its back door.

I have been listening to the previous speakers who I believe gave a very good address. I agree with the professor's talk, that we do have a market out there that has to be developed in our own area.

The Wentworth shire initiated a clean food campaign four years ago. This was taken up by the past Prime Minister who visited the Sunraysia area and initiated some money for the SunRISE 21 project. This is a three-year project for sustainable development of the river systems, the water systems, future growth and the use of less water but for better production. In as much as that has gone ahead, it has identified areas that need to be expanded.

On our own side, we have about 1,700 hectares for future development. In the Wentworth shire, the Coomealla irrigation area, which is a very large area for irrigation inland, has had a \$29 million refurbishment. That will allow hi-tech water systems to be used which will allow the undervine sprinkler system which is better than the furrow or overhead type which creates a lot of salt in the Murray Valley Basin.

The problem is that the markets are there to be developed. We have been a member of two Redo's of the previous Redo's as they were—or you could say we are in the shadow of them. We have the western Murray which goes down as far as Bendigo and comes back up to Mildura. We are in the outback Redo which encompasses Broken Hill and a little bit of South Australia—very large areas. We also back up to the Riverland.

Any indications we have had before about air freight have been the lack of supply of a commodity to service the industry. As such, no-one has warranted planting or changing the structure of that commodity. The Redo's that we have been part of have identified the high value Asian products that could be grown and, indeed, in SunRISE 21 that is what this future development is for.

For far too long we have relied on traditional crops in this country. It was alright when wool was a £1 a pound. We have the same with dried fruits and we have it a lot with the citrus market. The problem with

the traditional markets is that you have to rely on a disaster overseas before you can get value for money. Below that, we tend to still ship stuff overseas at a loss or subsidised.

This country has a mentality about tourism. We have the Olympics coming, so we will spend \$1 billion for a two week event. The social issue out in the bush at the moment of developing jobs, as the professor said before, has yet to be explored. It is all out there to be done. In the Sunraysia area we live in an oasis type country or in a very dry, arid country. We do not have to use all the insecticides. We do not get those problems that they get in the mountainous areas. That is why we went on the clean food push.

All these areas are there before us but we get into a problem that if you want to bring tourists in, you increase your airport size. It has been indicated we would only congest, from our uninformed point of view compared with our previous people. So why take the mountain to Mohammed or Mohammed to the mountain? Which way is it going to be? We have not worked along the line of an international freight centre or along some transit air freight centres.

As I said, \$29 million has been spent on the refurbishment of a water system on our side of the river. Across the river, the FMIT—the First Mildura Irrigation Trust—will spend \$100 million on upgrading their water system and they are lifting their plantings quite substantially.

But we traditionally test the markets, even with some of our base products such as fresh oranges to go overseas and our table grapes. We have got a very rapidly expanding asparagus market; we just recently had a convention in Mildura. Evidently, Sunraysia asparagus appeals a great deal to the Japanese market, and we have increased lots of plantings for asparagus. All of our other ventures we can get fairly quickly to the ports, but it always seems to be at a time when it is a good day to have a strike. Twice, the markets have been sown up and the orders have been placed. I think it has been pointed out in previous submissions that if you sign up to these Asian markets you have to produce the goods. If you have any unreliability about you at all, you just will not get that market.

We also believe from our research there are crops out there that are not even grown in Australia for the Asian market. They are of a high value market. But they have to be landed there as fresh produce. They have to get out of this country rather quickly; therefore, we cannot depend on the sea lanes. Our traditional crops can still go through the sea lanes because of their shelf life. Dried fruit will last indefinitely, and there are better packaging methods and freezing methods for the ports for the citrus fruits which will indeed allow them a three-week, six-week or an eight-week period.

So, if we want to expand the inland of Australia, use our capabilities, and the money that has already been expended around the place trying to prop us up when we could create a market of fresh produce to be landed in our nearest neighbours, we have to have an air freight centre. Whether that be one at Parkes or a series of small air freight centres that can pick up—as I think you pointed out before, if we had one our way and there was another one up a bit further—we could either back-load from Griffith, Broken Hill or Riverland to supply a particular order. Or, indeed, if it was to go the other way, it could go from us to one place or the other. I think that we have to provide the commodity. The second we do not provide the commodity is when we lose the market. That is why we would support any air freight terminal, or better facilities, to get the produce out.

If it is a tourism market—and, indeed, we have the mentality in Mildura itself; it is a great tourism place—on the broad figures, \$100 million is produced in the area for tourism; \$250 million is the staple diet, that is, the traditional crops, and the next biggest market is \$160 million on social service. It would be great to convert that social service market either way for the other commodities. But, for the long sustainable use and the infrastructure that is already existing—the land is there; the better production methods are in place; the better water systems, the high-tech systems, are going in place which will stop the river degradation continuing—Sunraysia is already marching ahead in that light.

But we need to get the product out of this country. It is a market, as was pointed out before. We have to take the risk. If it were tourism, we would take the risk. I cannot say that this country was built on the agricultural sector and that it will always be its staple diet, but I believe that is something we have to take a risk on and develop a good air freight system out of this country.

CHAIR—Did you want to add to that at all, Mr McMillan?

Mr McMillan—The mayor has outlined the proposal we put forward. Rather than build a new air freight airport somewhere or other, we would prefer to see the system where you use the current capital city airports and use a series of small technically efficient air freight centres scattered around Australia which would then link straight to the capital city airports and straight overseas.

We looked at this in Sunraysia, and that is the view we came up with, simply because of the produce that is grown in our area. Basically all of our asparagus is exported to Japan. As the mayor said, we only recently had an asparagus growers' convention in Mildura, and there is an opportunity for those sorts of markets to increase.

Mr WILLIS—How does that go out?

Mr McMillan—It goes through the Melbourne market. It is put on refrigerated transport and driven down to Melbourne—trucked to Melbourne and then flown out. I think that what we are saying is that, if you are going to get time-sensitive, perishable produce, that to put it on trucks and rely on road transport to get it to Melbourne, Parkes, Adelaide or Sydney, really is not feasible from our point of view. We would prefer to see it put on small planes—it would have to be small planes—and then taken to the capital city airports.

The mayor mentioned the Sunraysia project. I have got a copy of their draft report here and I will provide a copy of the report to the committee later on. I have not brought a copy with me. The draft report shows that, as a result of their work and as a result of the investigations and the work they have done on both sides of the river, it is possible to double productivity—that is the productivity that we have currently got—reduce water use by 10 per cent, reduce the production costs and reduce the impacts of irrigation on the surrounding ecosystem. We think that is pretty important. When you look at the fact that, as the mayor said, the Coomealla Irrigation Area is increasing its boundaries by about 1,700 hectares and the First Mildura Irrigation Trust is increasing their boundaries by 7,000 hectares, there is an opportunity to increase what is grown in our area.

At present we have a CSIRO horticultural research station based in Sunraysia, at Merbein South, and

that produces an enormous amount of new melon crops. I do not know whether you have ever been to Merbein South, but the melon crops that they produce there are just unbelievable. They are the sorts of things that you would export to Japan. They also produce a large range of nut crops, for some reason or other. I do not know why they do it there, but they do. The current estimate of the value of vegetable crops grown in Sunraysia is about \$100 million. We think there is an opportunity for that to expand. But to get it to expand and to get it to the markets, we need an air freight centre.

Mr TANNER—What infrastructure is not in existence at Mildura airport now that you would need? Given that you are talking about small planes, what is missing? Presumably, cold-store facilities and stuff like that?

Mr McKinnon—They have just done a runway extension and they have taken it up to a 737 capacity, which gives it 111 passenger capacity; that is a small jet. It has been built directly around a domestic terminal, it is landlocked where it is. They are going to build a cemetery on one side, the runway falls away to one side and it is landlocked where it is. It cannot expand any bigger than it is, because the zoning around it—

Mr TANNER—You mean expand further runway length?

Mr McKinnon—Yes.

Mr TANNER—I thought you were talking about small planes, though?

Mr McKinnon—Yes, we are. But the other problem with it is that it is bound on one side by the Sturt Highway and on the other side there is a growing urban residential population which would preclude—we believe, anyway—the building of any cold-stores and associated infrastructure that you would need in that sort of a situation.

Mr TANNER—So there is nowhere to build in the immediate vicinity?

Mr McKinnon—No, not in the immediate vicinity.

Mr TANNER—Isn't there a bit of a significant cost differential? You are talking about short-haul air transport as compared with, for example, road. Isn't there going to be a pretty major cost differential there that is going to be prohibitive?

Mr McKinnon—I suppose there is, but we were looking at the cost of actually increasing all of this production and then putting it on the roads. If you go down the Calder Highway, the Sturt Highway or even the Newell Highway in our area, you will see an ever increasing line of trucks, semi-trailers, B-doubles, we have now even got B-triples, and we have got road trains as well. They are all rushing up and down a highway that has only got two lanes.

Mr TANNER—I take the point absolutely that the nominal costs of road transport are not necessarily the actual costs, that the actual costs are significantly higher. But even if you allow for that, surely, there is a

bit of a problem in terms of the cost of actually whacking a given amount of freight on a small plane to fly from somewhere like Mildura to Parkes or wherever the case might be. Surely, that is going to make a lot of things uneconomic.

Mr McKinnon—I think it is the logistics of what you call a small plane—whether a small plane is bigger than a 737. I am not necessarily locked into a small plane concept.

Mr TANNER—Mr Ferguson knows all about the ratio between trucks and planes, so maybe he can tell us how many semis fit onto a 737!

Mr McMillan—Three.

Mr Ferguson—The costs of air are just astronomical.

Mr McDOUGALL—You talk in your submission here about \$220 million. What does that equate to in tonnage and how seasonal is that?

Mr McMillan—I could not tell you that at the present stage. Basically, all of our crops are seasonable crops. They are all crops that are grown in and around spring and summer.

Mr McDOUGALL—When you are looking at this in the bigger picture and you are trying to work out freights and systems of operation, we have to bear in mind that some of them are going to be seasonal and, therefore, linking into a bigger picture might be the way about it. But, if you say that \$220 million is going to be all incoming over a three-month period, and it equates to 10 tonnes at a guess, it puts a picture on what we are really looking at as an exercise.

Mr McKinnon—The biggest problem which I alluded to before are the traditional crops, which is the market we are looking at. Those traditional crops do not have any real viability with them at present. We are competing with Turkey, Chile and all these other places that grow the same product. If one of them has a frost or something overseas, then our market becomes viable. What we are looking at is changing the culture of our agriculture in the irrigated areas and changing the crop to what we have been told we can get a good price for in some of the Asian countries, and not what happens now seasonally in other places. The market there has yet to be expanded and that is where the sunrise plan comes in.

It is a change in the crops and the culture of people and better use of the land. But that is going to have to be bound up by getting it freighted out. We cannot continue to go through the traditional way of getting it out of this country by the port methods. I have seen many attempts to have the culture changed there and it is a very slow process. When we are talking about perishable goods, air freight would have to be the only feasible way to get it out. By the same token, we are producing a crop that is a viable crop and leaves enough margin in it for air freight.

Mr TANNER—Do you do much in the way of winter vegetables up there at the moment?

Mr McKinnon—They do the onions and all the other stuff there. Our winters are very mild.

Mr TANNER—The soil is probably not appropriate for it, I suspect.

Mr McMillan—The soil is all right. We could produce a range of winter vegetables, and that is basically what we are interested in. We are interested in utilising some of this expansion land that is available to do those sorts of things simply because of our weather advantages.

Mr McKinnon—It was set up as soldier settlement blocks in the first place. They were just set up for irrigation, and that is where it has been locked into all this time. We were very smart in the early days and we sent all our top research people from the CSIRO overseas. They showed the Turkish people how to grow fruit properly and now they are our biggest competitors. We have done the same with our oranges in other places. The time has come when we have to expand in other directions.

CHAIR—There being no more questions from the committee, I would like to thank the representatives of the Wentworth Shire Council for coming along here today to give evidence before this hearing. Is it possible for you to provide the committee with a copy of that document at a later date?

Mr McKinnon—Yes, I have made a note of that.

CHAIR—The secretariat will provide you with a copy of the *Hansard* containing the evidence that has been taken so that you can proofread it yourselves and check that out. Thanks very much for your attendance and we will close this part of today's proceedings. We will start off again tomorrow morning at 9 a.m.

Committee adjourned at 5.47 p.m.