



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Reference: Air freight review inquiry

CANBERRA

Wednesday, 28 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

ARTHUR, Mr Nic, Assistant Director, Border Policy, Border Operations Branch, Australian Customs Service, Customs House, 5 Constitution Avenue, Canberra, Australian Capital Territory 2601	360
BROWN, Mr Alan, South Australian President, Australian Federation of International Forwarders, C/- Aircargo Traders, PO Box 20, Export Park, Adelaide, South Australia 5950	322
CHRISTIAN, Mr Jon David, Manager, Electronic Development, Australian Quarantine and Inspection Service (AQIS), c/- Department of Primary Industries and Energy, PO Box 858, Canberra, Australian Capital Territory 2601	354
CHURCH, Mr Des, Head of Freight Planning and Revenue Management, Qantas Airways Limited, Qantas Centre, 203 Coward Street, Mascot, New South Wales 2020	267
FRAMPTON, Mr Peter, Executive General Manager Freight, Qantas Airways Limited, Qantas Centre, 203 Coward Street, Mascot, New South Wales 2020	267
GALLAGHER, Ms Jayne, Manager Seaqual, Australian Seafood Industry Council, Unit 1, 6 Phipps Close, Deakin, Australian Capital Territory 2600	307
GRANT, Mr Norman, Director, Pacific Seafood Management Consulting Group Pty Ltd, Suite 6, 51-55 City Road, South Melbourne, Victoria 3205	307
HARMAN, Mr Graeme John, Principal Private Secretary, Minister for Transport, Western Australia, 2 Havelock Street, West Perth, Western Australia 6005	337
HETHERINGTON, Mr William, Acting Assistant National Operations Manager, Quarantine Operations Branch, Australian Quarantine and Inspection Service (AQIS), Edmund Barton Building, Barton, Australian Capital Territory	354
JEFFRIESS, Mr Brian, Director, Australian Seafood Industry Council, Unit 1, 6 Phipps Close, Deakin, Australian Capital Territory 2600	307
JOHNSTON, Dr Brian Graeme, Director, Agribusiness Co-operation and Development, Department of Primary Industries and Energy, GPO Box 858, Canberra, Australian Capital Territory, 2601	293
KERR, Mr John, General Manager International Relations, Qantas Airways Limited, 10 Moore Street, Canberra, Australian Capital Territory 2600	267
KITTO, Mr Neville, Manager Government Affairs, Qantas Airways Limited, Qantas Centre, 203 Coward Street, Mascot, New South Wales 2020	267
LORD, Mr Geoffrey David, Director, Air Cargo Management Pty Ltd as Executive Office to the Air Freight Export Council of Western Australia, Suite 15, 11 Preston Street, Como, Western Australia 6152	337

LOVELL, Mr Brian Paul, Chief Executive Officer, Australian Federation of International Forwarders, 403/Level 4, Westfield Office Tower, 152 Bunnerong Road, Pagewood, New South Wales 2035 322

MATTHEWS, Mr Kenneth Harry, Executive Director, Headquarters Group, Department of Primary Industries and Energy, GPO Box 858, Canberra, Australian Capital Territory, 2601 293

MILLIGAN, Mr Michael, Project Officer, Australian Seafood Industry Council, Unit 1, 6 Phipps Close, Deakin, Australian Capital Territory 2600 307

PATERSON, Mr Alan, Director, Import/Export Applications, Cargo Facilitation Branch, Australian Customs Service, Customs House, 5 Constitution Avenue, Canberra, Australian Capital Territory 2601 360

SCHWARTZ, Mr Robert Bertrand, Manager, Plant Programs, Australian Quarantine and Inspection Service (AQIS), Edmund Barton Building, Barton, Australian Capital Territory 354

VASSAROTTI, Mr Colin, National Director, Commercial Services Division, Australian Customs Service, Customs House, 5 Constitution Avenue, Canberra, Australian Capital Territory 2601 360

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

Air freight review inquiry

CANBERRA

Wednesday, 28 August 1996

Present

Mr Vaile (Chair)

Mr Baldwin

Mr Wakelin

Mrs Crosio

Mr Willis

Mr McDougall

The committee met at 9.09 a.m.

Mr Vaile took the chair.

CHAIR—We are going to resume hearings here in Canberra today into the impediments to air freight export from Australia of perishable and time sensitive goods. This follows on from hearings conducted in Sydney on 7 and 8 August 1996 and in Adelaide and Melbourne during the previous parliament. This morning the committee will be taking evidence from Qantas, Department of Primary Industries and Energy, the Australian Seafood Industry Council and the Australian Federation of International Forwarders. This afternoon witnesses from the Air Freight Export Council of Western Australia, the Australian Quarantine and Inspection Service and the Australian Customs Service will give evidence.

When the committee took evidence in Sydney, several witnesses were critical of Qantas's air freight and cargo terminal operations. This hearing affords Qantas the opportunity to respond to those criticisms and provide the committee with the Qantas view of the factors which hinder air freight exports. The committee is interested in hearing about the projects aimed at addressing air freight export impediments which have been funded by the Department of Primary Industries and Energy. The department will also bring to the inquiry the perspective of a line department representing the producing sector of the industry.

Seafood is regarded as the high end of the air freight export market for primary produce as it has greatest value. However, seafood is also one of the most vulnerable to breakdowns in quality controls and delays in the export chain. The work by the Australian Seafood Industry Council in overcoming these impediments will be of significant importance to primary product exports.

The final witnesses this morning represent the freight forwarding industry, an important link in the export chain. The industry has been criticised by some and the committee will be keen to explore further views on impediments and possible solutions. The Western Australian Air Freight Export Council, which appears this afternoon, was established to address the impediments to air freight exports from Western Australia and has been lauded by other inquiries as a potential model for the way forward. Whether the council's experience and insights can be translated into the wider field will be of interest to this inquiry.

Other inquiries have pointed to the need to review air freight clearance procedures and processes. This will be raised with representatives from the Australian Quarantine and Inspection Service and the Australian Customs Service in order to determine whether such a view is justified. On behalf of the committee, I welcome everyone appearing before the committee today.

[9.11 a.m.]

CHURCH, Mr Des, Head of Freight Planning and Revenue Management, Qantas Airways Limited, Qantas Centre, 203 Coward Street, Mascot, New South Wales 2020

FRAMPTON, Mr Peter, Executive General Manager Freight, Qantas Airways Limited, Qantas Centre, 203 Coward Street, Mascot, New South Wales 2020

KERR, Mr John, General Manager International Relations, Qantas Airways Limited, 10 Moore Street, Canberra, Australian Capital Territory 2600

KITTO, Mr Neville, Manager Government Affairs, Qantas Airways Limited, Qantas Centre, 203 Coward Street, Mascot, New South Wales 2020

CHAIR—For the record, 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 parliament. For the benefit of Hansard, I would ask that at the conclusion of your evidence that you do not leave the hearing room before Hansard has been able to check with you regarding any names or quotations you may refer to in your evidence.

We note that you have distributed a copy of an opening statement. I am just wondering whether Mr Frampton might be able to give the committee a quick run through that or a shortened version so we can get on with some questions.

Mr Frampton—It will take us about five minutes to take you through the statement. Qantas welcomes the opportunity to appear before this committee and make comments in support of the two submissions we have made which focus on what we believe are the key issues in the air freight chain. Qantas does have a vested interest in the growth of profitable exports by air from Australia. Freight provides a significant opportunity to increase the Qantas group revenue. The freight division itself provides jobs for 750 people and handles about 460,000 tonnes of freight through the Australian terminals. Freight revenue contributes significantly to Qantas's position as the third largest exporter in Australia with over \$3.7 billion worth of revenue in the year 1994-95. About 40 per cent of the freight volume lifted out of Australia does move on Qantas jets and that accounts for about 90 per cent of the Qantas freight turnover on our passenger jets.

Qantas has not only contributed to the review here today but to a number of previous and parallel reviews at government and industry levels. Qantas does commit significant resources to the joint activities with industry groups to achieve better and more profitable outcomes for all concerned in the industry. At the same time I think it is important that we are mindful that now Qantas is a listed company it must meet the requirements of its shareholders in a very competitive world marketplace. Accordingly, there will be some occasions when our interests do not necessarily coincide with the interests of other parties.

In appearing today before the committee we want to take the opportunity in our opening statement to touch briefly on some of the issues that were raised in other submissions and during some of the testimonies. Air freight is a business driven industry. We believe there are no regulatory barriers of any consequence in this country standing in the way of contenders for a place in the industry as carriers or as the terminal operators. Airline industry yields have over the past 20 years been falling and we would just like to show you a graph.

Overhead transparencies were then shown—

Mr Frampton—This shows the decline of yield in the last 20 years. Every year, if we showed our forecast, there appears to be an uplift but it never seems to happen. This shows an average decline of about 2.9 per cent a year over the past 20 years.

Mr WILLIS—Do you want to explain yield?

Mr Frampton—This is the price at which we sell per kilogram. It is the price rather than the contribution. We would just like to show two other slides.

Mr WILLIS—That is price in nominal terms is it?

Mr Frampton—That is an indexed price. So, if it was at \$7 before, it has dropped down to somewhere around the region of \$3.40 over the 20-year period.

Mr WILLIS—Over that period we are talking about it in nominal terms, not real.

Mr Frampton—Yes. In absolute terms, if we took the dollar value of a particular piece of freight and we looked at it over 20 years, it has been progressively dropping year on year by 2.9 per cent. That is the price that we get for the movement of that freight. Now, if we look at the growth in cargo traffic over the same period—and this is particularly important—in the last year, cargo traffic capacity has outstripped cargo traffic growth. That is the first time for many years. The yellow bars are the actual growth in capacity and the green bars show the growth in demand and in revenue. Therefore, if the green bar is shorter than the yellow bar, it means that capacity is moving ahead faster than the growth of freight exports.

Just compare that with the passenger side of the business where the reverse is true. The blue line represents the demand and the red line represents the capacity. The key difference in this is freight markets where freighters have entered the market. This is in world markets. There has been a big growth in freighters. Those are the latest data figures covering the month this year compared with the same month the previous year.

Airline profits—and Qantas is no exception—continue to rely on cost cutting rather than revenue gains and therefore investment in new passenger aircraft is constrained and investment in pure freighter capacity is in our opinion not a viable prospect. However, Qantas is continuing to expand its passenger service network into new and existing markets and is in itself adding significantly to our ability to meet the freight requirements in those markets. This does have a major advantage for consumers and exporters of enabling us

to offset the full cost of providing freight capacity by subsidising it. That is a very important point. We can subsidise freight rates against passenger revenues and this ensures that freight needs are met in the most rapidly growing economies, particularly in our Asian region.

Declining yields will continue to drive carriers to maximise revenue by concentrating on freight at the upper end of the market with a corresponding fall-off in capacity available for those commodities at the lower end. However, shippers who are prepared to manufacture or grow the right products for the high value export markets will continue to get the capacity they need, but carriers will not be able to guarantee space for lower yielding freight at the expense of high yielding items competing for the same capacity.

Qantas will continue to concentrate on filling the available space on passenger services and on maximising the revenue and yield from this resource. We have no intention or plan to own our own freighters and we will continue to lease freighter capacity only where it is profitable for Qantas and where it complements our existing services.

Qantas, or any other Australian operator, has a fundamental disadvantage, in our opinion, in operating freighters, particularly when competing with carriers who hub within Asia. Competitors such as Singapore Airlines and Cathay can operate out of Australia with traffic not only to their home base but to all of the worldwide connections available from that base. If their aircraft then continues on to another port, the load ex-Australia can be supplemented by loads from other countries of origin to that final destination.

The same load situation applies in the reverse direction, so that foreign carriers' plane loads and yields can be significantly higher than those of Australian operators, who in most situations would have to rely only on third and fourth freedom traffic.

We note that the committee has been advised in prior submissions that there are 24 foreign freighters operating from Australia. This in itself suggests there might be a fundamental lack of opportunity for Australian carriers to operate such freighters.

It is our contention that Australian negotiations with other countries need to make greater recognition of this difficulty and seek additional beyond rights for Australian freighters where required as part of a meaningful exchange of traffic rights. Australia, of course, has the option to back haul traffic through Australia but, in our opinion, it is not practical in the real world and it is uncompetitive.

It is our contention that freighter capacity is only ever mounted through Australia to facilitate the carriage of imports. It is well documented that Australian exports barely cover freighter operating costs, let alone contribute to the capital overheads of carriers. Our recent experience of diverting freighters through Adelaide in concert with the financial underwriting of the South Australian government bears testimony to this. Failure to cover the operating costs of the diversion led to the early demise of this service.

Competition in our markets is increasing as the government opens up routes to more capacity from new and incumbent carriers. This has caused Qantas to make significant adjustments to its freight operation and services, including converting our two former Combi 747 aircraft into all-passenger aircraft.

We also have highlighted in our second submission the possibility that, were this additional competition to erode yields to unsatisfactory levels, we would have no choice but to consider cancelling the leased-in capacity which replaced that of our Combis. One outcome of this will be a significant reduction of capacity for chilled meat exports to the USA.

Our submission last year to the 1995 Prime Minister's study showed Qantas was operating a number of freighter services into Australia. Since that submission, one of those freighters from the USA has been discontinued due to falling profitability, and the joint service from Europe, in cooperation with Lufthansa, will be discontinued from 1 November 1996.

We believe that the recently announced policy of the minister to allow third country freighter operators on to routes into and out of Australia will pose a significant additional threat to our remaining freighter services and seriously dilute the yields in our passenger aircraft. This, of course, undermines our contribution to the profitability of the whole Qantas airline.

In conclusion, we would like to mention cargo terminals. Qantas is only operating cargo terminals where cost and service benefit analysis shows that it is cheaper and more effective for us to do this than using other cargo terminal operators. We have over \$100 million invested in our Australian terminals; we have recently opened a \$22 million international freight facility in Brisbane; and Qantas is committed to continue to invest in its other Australian terminals and facilities. From 1 September we will reduce our terminal charges to exporters.

One final point we would like to make relates to Japan. We believe it was alleged in one of the hearings that Qantas and Japan Airlines have worked together to restrict capacity and drive up prices between the two countries. Clearly, this claim has no factual basis. In fact, we have seen rates drop by over 20 per cent in the past year alone and there is no lack of competition to Japan. That concludes our opening statement and we are happy to take any questions.

CHAIR—Mr Frampton, in one of those final points you referred to the minister's announcement earlier this year. The previous Prime Minister's task force report notes on page 31 that any proposal to increase the amount of air freight capacity ex-Australia should take into account the effect that this would have on inbound freight rates and the ability to maintain existing levels of cross-subsidisation. What is your view of the new guidelines for air freight charter operations announced by the minister on 10 June?

Mr Church—I will answer that, if I may, by giving an example. If, for instance, a third country operator decided to come down from the USA to Australia—and the impact of capacity is generally to dilute yields or reduce yields—that, of course, would affect our own yields on that route and we would then need to reconsider the profitability of those aircraft.

They are very much stand-alone aircraft. There is a very separate balance sheet and profit and loss account for those aircraft, so we can detect almost within the week the viability of that service. We will then make a judgment as to the ongoing viability over the next few months. We have escape clauses in those contracts so that if we get concerned about the state of the market and the decline in the yields, we will then make a fairly hasty decision to retreat from that because of the impact on the import rates, which is what

sustains the service.

CHAIR—On a weekly basis, does Qantas run any dedicated freighter services?

Mr Frampton—Yes, we run five dedicated freighter services. We run four out of the USA into Australia, which originate in New York. That is two 747s and two DC8s. We also share a freighter out of Frankfurt into Melbourne with Lufthansa. That is the one I referred to which will be terminated on 1 November.

Mr WILLIS—Is the New York one run as a Qantas flight? Is it a Qantas plane?

Mr Frampton—It is on a wet lease to Qantas, so we take the full capacity on the flight. The aircraft and the crew are provided by an American operator.

CHAIR—What happens with that once it arrives in Australia? Do those five flights dead-leg out of Australia?

Mr Church—If I can deal firstly with the two 747 aircraft, one of them exercises traffic rights from Melbourne to Hong Kong, and that is the only traffic right we have at the moment that is available for freight; the second one ferries empty from Sydney to Hong Kong. The two DC8 aircraft operate ex-Australia as scheduled Qantas flights back to the USA. They currently, I might add, are also under fairly severe scrutiny in that the profitability there is somewhat less than desirable.

The fifth aircraft is the cooperative venture with Lufthansa. We do not take any space on that ex-Australia. The costs that were offered to us to purchase that space from Lufthansa were such that we felt there was no question about it; it was a straight-out loss. So we do not take any space ex-Australia. I am not sure about Lufthansa's current situation. They had an allocation of about 10 to 15 tonnes, which was all they were allowed to sell. The aircraft basically ferried empty to Penang, where most of the space was reserved for Penang exports back to Europe. Lufthansa was prepared basically to fly empty from Australia.

CHAIR—With the number of aircraft that Qantas and other companies are involved with that are leaving Australia empty, that are dead-legging out of Australia up into Asia, what would you see as the major reason for that? Is it the air traffic rights restrictions, or is it the lack of freight that has the ability to pay the break-even freight rate?

Mr Frampton—Certainly, there are air traffic restrictions, because these aircraft actually return with the other carrier up to Hong Kong, and there is one that has no traffic rights. With the other one that flies with rights up to Hong Kong, the rates are too low to fully recover the costs of a freighter, and in some cases not even the operating costs. So the risk on that sector is taken by the owner of the aircraft, not by Qantas.

CHAIR—But those aircraft on their circuit are going Australia to Hong Kong?

Mr Frampton—Yes.

CHAIR—If you had a freight forwarder that wanted to send freight into another port in South-East Asia, those particular aircraft would not be available to carry it because that aircraft is going Australia/Hong Kong and back to the States?

Mr Frampton—On some of the rotations we do have time within the rotation and we do operate a number of ad-hoc charters, as we did for the sugarplums out of South Australia; we ran six in a row. So there is an opportunity to provide that capacity on that return leg, providing there is an ability to pay the costs of operating the freighter. But it is only the marginal costs we are looking at; in other words, not the full operating costs, but the recovery costs of carrying to those additional ports.

CHAIR—And even at that lower rate I would imagine a lot of freight going out of Australia has not got the capacity to withstand that cost?

Mr Frampton—A lot of the freight that is offered does not have the capacity, that is quite right—particularly the lower end produce market.

CHAIR—In this inquiry there are lots of exports that we are talking about, obviously. There has been a fair bit of mention about the export of seafood products out of Australia as higher value products that can withstand those higher freight rates at a break-even point. What is your experience as far as the whole freight chain is concerned? Do you find the infrastructure that is being utilised at the moment is adequate to service that market and service our producers and get it into the marketplace in adequate time and in a suitable fashion?

Mr Frampton—I think in general the answer to that is yes. Talking to the seafood producers, that is certainly the view they pass to Qantas. But there are some areas, such as getting seafood out of Tasmania, that are difficult simply because of getting wide-bodied aircraft economically out of Tasmania. But from the mainland ports, certainly those high value seafoods in our experience gain the capacity they need and the service levels they need.

CHAIR—Is that predominantly going as belly cargo in passenger flights?

Mr Frampton—I would say it is almost exclusive. There might be some items on freighters but most of it is direct flights, belly space capacity.

CHAIR—Is there much flexibility as far as Qantas is concerned to vary that freight rate per kilo when you are running it as belly cargo in a passenger service as opposed to a dedicated freighter service?

Mr Frampton—Enormous. Effectively the belly space is a form of by-product from the passenger services. Now I do not like the word, but that is effectively what it is. That does give us the opportunity to marginally cost if there is an opportunity. Again it is driven by supply and demand: if they are tight routes we tend not to discount in those areas, but if we have got empty freight space then we will try to match the need of the ship and the forwarder. The shipper has a big influence on this; we need to understand what he really wants from us. We have a number of examples of moving meat into Japan. Instead of shipping to

Narita we are shipping to Nagoya. It has proved beneficial, and all three parties have managed to achieve more exports and a better place in the marketplace, so there is a flexibility there.

CHAIR—I think you have indicated that in your opening statement, and you see that as being the future of freight out of Australia on a complementary basis to the passenger services. Do you often come across the situation where a shipper cannot get on a flight, when they need to get a product into the marketplace, because of the lack of capacity?

Mr Church—Yes, I think that happens quite frequently, particularly in the peak season. I would think perhaps not so regularly for probably seven to eight months of the year, which is not the real peak. Most of that sort of problem happens with the peak season. It comes back to looking at the type of product the person is trying to get on the aircraft, and it has to then compete with whatever other products are trying to get the same space.

CHAIR—Okay.

Mr WILLIS—Could I just follow up on the question that the chairman raised with you first, that is, this announcement of freighter policy by the minister for transport in June? You seem to be saying that this has quite serious implications for your freight operations and even for the profitability of the whole airline. Would you like to elaborate on that a bit for us?

Mr Church—Where a third party operator comes on, as I mentioned previously, it does have the impact of substantially diluting the yields. Now it is not only the yields on freighter aircraft that are affected in isolation, it is the yields that apply to the freight that is carried on all of the other services as well, so it has that very broad impact on the yields right across—

Mr WILLIS—If it is such a marginal operation, why is anyone else going to come onto it?

Mr Church—They only come on for imports, not exports.

Mr WILLIS—So why does it not pay Qantas just to do the same thing if someone else can do it? Why prejudice your services?

Mr Church—Let me give an example. If, say, Singapore Airlines elected to operate from the USA to Australia and back into Singapore, they can secure reasonably good loads down from the USA to Australia; they would have a marginal leg from Australia to Singapore, and then they can get some very solid and high yielding loads ex Singapore to wherever else they are going. They can also, from the USA, bring Singapore and other destined traffic down on the same route through Australia, so that traffic also contributes on the Australia-Singapore leg. Singapore, I should just add, can then distribute from their hub in Singapore, so they have the potential to gather all sorts of other traffic in on the same flight. Now if Qantas is doing that, when we get to Australia we either have to turn the aircraft around and go back to the USA, or gather what we can to get it up, say, to Hong Kong where the operator wants to take over the aircraft. So we have much less opportunity to gather the quantity and the amount of high yielding traffic onto the same flight.

Mr WILLIS—And what has actually happened since that announcement in June? Has anybody else come onto the—

Mr Church—No. We just see this as a threat rather than if it starts to happen—

Mr WILLIS—Do you expect that other people, other operators, will come on?

Mr Church—I think it is a distinct possibility with people like Singapore or Cathay or Martinair. We even had some interest the other week from Cargolux. It is a very informed set of operators out there and they know all of the flows and all of the yields, so there are not too many little hidden pots of gold that you can hide away from people. If they are there, people will go looking for them.

Mr WILLIS—So your expectation is that other operators will come on at some stage and that this will have an adverse effect on your—

Mr Church—If they came on we believe it would have an impact, yes. I do not know of any immediately about to come on, but we mention it as a threat.

Mr WILLIS—Obviously a matter of great interest to this committee is these sorts of dead legs flying from Australia to Asia, which seems like a golden opportunity in one sense but we can understand the sorts of economic issues that are driving this. I wonder if you could give us any idea as to how you could see those dead legs becoming rather more alive and useful in providing a means of Australian exports to be taken to South-East Asia? I take it from your submission that you believe that the only way is through higher value exports which can meet higher freight costs?

Mr Frampton—Can I just say that obviously the opportunity to pick up at other ports on the way through Asia—and Des might just give an example of that—starts to allow us to perhaps build the yield. The first thing is to have the rights to fly somewhere, and the second thing is the issue we made on the fifth freedom rights which Des might just give an example of.

Mr Church—If I could make a couple of points there, one is yes, we get almost infuriated by the same situation because our product is a perishable product itself and, once the plane takes off, it is dead. We cannot put it away and we cannot sell it. It is a source of immense annoyance to us. Our view on it, I guess, is probably longer term, and it has got a few directions that we can work on.

Firstly, we have got in train some initiatives in-house at the moment to find products to fill empty space. That is not necessarily higher value, but find something. Secondly, we are looking at another campaign with some key exporting people in the industry to try to develop higher value exports, to move into the sort of value added type of process. Now that is not something that will happen overnight but we are working on that.

I think the third direction is the point that Peter briefly alluded to. When freighter negotiations take place with other countries—and I am not talking about the passenger side; freight has now been isolated and I believe negotiations for freighters should recognise a one-for-one exchange, and I am not just talking

Qantas, I am talking about Australian operators—it should recognise that.

Let me just take as an example, off the top of my head, Indonesia or something like that—I do not even recall the precise details of the agreement at the moment. If we said to Indonesia, ‘You take a freighter, we will take a freighter,’ what do we get? We get the rights to operate from Sydney to Jakarta and back again and Garuda, or whoever, gets Sydney to Jakarta. You might think that is the same but, in effect, they can fill up their aircraft with Sydney to Jakarta or Sydney to Hong Kong, Sydney to Japan and they can get a number of markets put onto that aircraft. So their ability to generate a more profitable loading is higher than ours.

You could counter that by saying Qantas can take Indonesian traffic to all those places and bring it back through Australia. But the commercial reality is that it is extremely difficult to back haul freight and then redistribute it from a hub based in Sydney as opposed to redistributing from a hub based in Jakarta or Hong Kong, Singapore or somewhere like that.

If you are just talking a pure freighter negotiation, a one for one does not seem to be very fair to Australia and, again, I am not talking Qantas; we do not mind who operates them. To give us some access to more than say Sydney-Jakarta loads—and it is probably very difficult to negotiate—if we said, ‘Look, Indonesia, you have so many markets you can put on your aircraft. Give us the ability to pick up some load in your country to go onto a third country, for instance, Japan,’ so that if we had that flight operating we could carry Australia-Indonesia, we could carry Australia-Japan and we could carry Indonesia-Japan. We would have a much greater composite load at a better yield. That would be an ideal example, for instance, for the one aircraft we have at the moment that ferries empty when we go to Japan. We have done many studies on getting that to go Sydney-Tokyo back to Hong Kong but every time we do it we just fall short of the additional operating costs. If we could supplement that with two other markets, that is, Australia-Indonesia, Indonesia- Japan—this is hypothetical, please, you understand that—we are in a different ballpark.

Mr WILLIS—How realistic is it to expect to be able to get that kind of right?

Mr Church—It may be very difficult but the point I am making here is that when we just do a simple ‘Here’s yours, here’s ours’ and they are both an example I mentioned, it is not a meaningful exchange to us. We cannot use it whereas others can.

Mr WILLIS—Are these points you have made to the department of transport which conducts the international—

Mr Frampton—I might comment. We know it is extremely difficult.

Mr Church—We appreciate that it is difficult but we find it a source of annoyance that it is seen as an equal exchange and we do not believe it is.

Mr Frampton—We are trying here to highlight what the impediments might be. Of course, there is the tyranny of geography as well. It comes from that.

CHAIR—It is purely a result of our geographical location.

Mr Frampton—Of course.

CHAIR—In that example, if Indonesia was where we are and we were up where Indonesia is, it would be a different story on that analogy.

Mr Church—But looking at the reality of what has actually happened, you feel a bit short-changed.

Mr Frampton—Exactly, Mr Chairman. We are just trying to highlight potential impediments and an opportunity that exists. We are just flagging it and saying there is an opportunity there. We know how difficult it is to negotiate rights.

Mr WILLIS—Can I just follow that through and ask what you are doing, if anything, to try to promote additional business from Australian exporters. You have the capacity there. Given that there are difficulties in the access to markets through the rights that you have to fly, are you trying to get a wider array of Australian potential exporters to utilise that space?

Mr Church—Yes.

Mr Frampton—I might just give two examples there: the first one was, as I say, meat out of Queensland where they had lost the market on competitive position and we sat down with the forwarder and the shipper and talked about the opportunities—‘What price do you need in freight to actually move this?’ We said we could not move it to Tokyo as we do not have the space but to Nagoya and allow for the road haulage costs. We came to an agreement on that and we now move two and three pallets a week from Brisbane up into Nagoya. That was an opportunity that was not there before. So we just have to work together, and I think it is a three-way relationship. We work very closely with our forwarders but we involve with them the shipper as well and really find out what output the shipper wants then we can start to match that. Sometimes you win, sometimes you do not. That is an example of where we have won.

A second one is the opportunity to work with Mr Simms to move the sugar plums out of the hills of Adelaide. We have worked very closely with him and we did, I think, four or five charters last year. He had grown a product that the market wants. That is very important, too, that the growers actually grow something for export and there is not just domestic surplus. That is a very key issue. We then shifted those in five charters out of Adelaide up into Hong Kong, using the right we have and doing it as ad hoc charters. We worked closely and we managed, with the government, to arrange those charters to go into Hong Kong. We believe the same arrangement will exist this year. So we do have to look for those opportunities and it is a three-way arrangement.

Mr WAKELIN—How important is the air freight business to Qantas in your overall focus as a company?

Mr Frampton—Air freight is a critical part of our business. In fact, in the last year, the freight product has become the fourth core product of the airline. We have economy class, business class and first

class and we always put freight at the top, but it definitely is part of the core airline and it is reported as part of the core group result. An airline needs passengers and freight to make acceptable profits. They are absolutely vital.

Mr WAKELIN—In terms of loading an air freight at Sydney, or anywhere—you might care to broaden it out—how good is the Australian capacity to handle air freight? World best practice?

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

Mr WAKELIN—Is there any restriction? There was a little bit of evidence, I seem to remember, at Sydney talking about some delays-hiccups that can happen. What sorts of things might affect that?

Mr Frampton—Unfortunately, or fortunately, air freight is a very peaky business and most aircraft want to arrive early in the morning or leave late at night. Therefore, it is very difficult always to man a terminal totally—and costly—to those peaks and troughs. I believe we are trying to achieve that. In fact, our opening hours of our terminals are the longest in Australia. They are far in excess of many of the other terminal operators. So, from time to time, we will see some delays; but, in general, the service standards here are equal to those I see around the world. But, equally, customers' expectations continue to increase. Unless we continue to invest as we are now, then we will be left behind. We are spending immense—and I have given some indications of the numbers—sums of moneys on terminals.

Mr WAKELIN—The import businesses: I keep making the point that manufactured imports are the crux of Sydney and Melbourne and that the export component is very difficult to balance.

Mr Frampton—There is a high degree of highly perishable products.

Mr WAKELIN—So I am interested in that general focus of import, which obviously you regard as critical, where you can pick up a premium or sufficient profitability but there is actually very limited opportunity in the export component. Will that be ongoing? What is your projection in that area?

Mr Frampton—I would like to make one point on that. Ninety per cent of our traffic is carried on our passenger aircraft and we can accommodate exports and imports on that. Most of the discussion we have just been going through has been on the profitability and the viability of freighter aircraft. So I do not see it as a situation on the belly space side because of the nature of the way the aircraft are costed and the majority of the cost is picked up by the passengers when we have an opportunity cost that allows us to match most of the needs of the exporters.

Mr WAKELIN—But I just want to press that a little in the balance between the ability to get the profitability out of the import sector compared with the export sector. In your submission you make a very strong point about perishable product which should be just seen as an excess on domestic production—it has to be niche marketed. You made some comments about New Zealand as well, so I am just fascinated. Do you see at some point in the future or do you see opportunities now where that export component related to the

import-export, which has to have the balance, improving? I particularly relate that to this criticism that you have made in your submission about Australia's ability to market effectively into, particularly, the Asian area, and I include the New Zealand experience that you reminded us about.

Mr Frampton—There are two parts to that. I think the first part is that, as I said, we have to continually work smarter and involve the shipper, understand the shipper. I have been very involved with the Western Australian model of how we work together there. I think that has been a good model to work from. We have to involve the shipper and look for opportunities, like the meat one I just mentioned. There are some of those out there, and they will continue to arise if we understand the needs and there is a genuine exporter out there.

The second part is the New Zealand experience, and that really came out of a presentation that a Japanese flower importer made. He said, 'The flowers we see from New Zealand appear to be grown for the Japanese market. The flowers we see from Australia appear to be grown for the Australian market but there is excess and they supply them to Japan.' That was a comment from someone working in the marketplace. He said that, as a consequence of that, the value that the product can command in the marketplace in Japan is roughly double that of an equivalent bloom from Australia. Therefore, it can afford and does afford the air freight rates to get them to the market.

Mr WAKELIN—In other words, the only opportunity you could see for a more profitable export component of your freight business is making sure the product is there that can command the premium. That is the bottom line reality.

Mr Frampton—No, there are two elements to it. There is one where the value of the product can command and can create the value. It has genuine guaranteed space. The other opportunities are where we do have some sectors that are light. It might not be going directly to the port that people want, but it is in the right country, as we did with Nagoya. Together, we can operate at a cost that allows the exporter to move his freight and ask them to move it into the right marketplace for him once it gets into the country. So there is a difference there.

Mr Church—If I can add a couple of points to your question, I have some documents here which I can table. These are copies of documents we put out every week to our staff in Australia and New Zealand, and they highlight the available capacity on scheduled services. When you see them, you will see that they actually do highlight a lot of spare capacity on scheduled service aircraft. That is capacity that is going, regardless of anything else.

As I said earlier, we hate to see the space wasted. We put this out for our sales people and we also put a little note on the bottom which says, 'Contact your regional manager if special pricing is required.' That means, after covering your handling costs, your fuel and everything else, get out there, speak to the exporters and don't waste the space. That is one of the messages we send. That is on the scheduled services and that happens every week. You might also be quite surprised when you see the amount of space that is still there that is not used and that we are desperately trying to sell to people. It is not for the lack of pricing because the pricing is mentioned.

Mr WAKELIN—That is a perfect lead-in for my next component in terms of the comment about a national cooperative approach. You may be aware of the comment, which apparently the committee received before my time, from the South Australian Farmers Federation, relating to flight QF81—no doubt that would be a regular flight. The product is road freighted from South Australia to Sydney to board QF81 which then flies to Adelaide and then, if there is spare capacity, it is topped off before flying north. Obviously, you get the picture. Is that a fair comment?

Mr Church—I saw that comment made and, frankly, did not understand it. It is something quite strange. It is not the sort of practice we would do as a normal business practice.

Mr WAKELIN—You would expect that that would be picked up?

Mr Church—Normally, what happens on an average sort of a flight is that the capacity is allocated, not just on the day, but ahead, and we obviously try to allocate it in a logical manner. It certainly would not include that sort of exercise unless there was something quite strange happening. I could not answer the particular question.

Mr WAKELIN—This is my last question: in terms of Adelaide—and obviously there has been a chequered career there for a range of reasons, maybe the runway and the viability of the business—I would be interested in a few comments generally about what might be the prospects there. That is one part of the question. The second part is in relation to that skirmish with Hong Kong when you could not get the agreement. What are some of the realities of the hard-ball play in the marketplace, government to government and operator to operator?

Mr Frampton—Obviously we are more aware of hidden trade barriers from time to time and delays in approving a flight means that you cannot start at the very last minute. That is the issue we were making and therefore opportunity was lost because people do have to plan to get their produce ready for shipment. There is no doubt that there was an issue there when the delays appeared every time right to the last minute and then we would get final authority. No-one could say we had been refused the flight, but our ability to use it was simply ineffective. That is an issue, but that occurs around the world. We have learned to manage that.

Mr Kerr—The regulatory problems with Hong Kong have in fact been overcome on the freight side. The difficulty had always been the extent to which there would be convertibility between passenger and freight capacity. Hong Kong always played very hard ball on that, but in the past few months it has been agreed that capacity is now fully convertible. It can be used as freight capacity or it can be used as passenger capacity. So there should not be a recurrence of those particular regulatory outcomes.

Mr WAKELIN—There is just one more part of that question concerning general comments about Adelaide. I would be interested in the tuna component of that as well. Could you make just a general comment about Adelaide and its projections as you see it?

Mr Frampton—Do you want to comment on the Adelaide diversion that we did and then I will perhaps talk about the tuna?

Mr Church—I will comment briefly on the freighter diversion that we had in cooperation with the South Australian government. We came to an understanding or an agreement with the South Australian government that we would divert the Evergreen freighter that operates from Melbourne to Hong Kong through Adelaide on the basis that the South Australian government underwrote the additional cost incurred—and I meant just purely the operating cost—so that we were not actually going backwards, to see if the load or the revenue gained from Adelaide offset that. We were not interested in any payment or anything. We just wanted to make sure that the thing did not go negative. I cannot remember now the exact number of flights.

Mr Frampton—I think it was six or seven.

Mr Church—Something like that and admittedly there was trouble with the Hong Kong government there. The bottom line was that we were prepared to renew it, but we had further consultation with the South Australian government and they felt that the revenue potential from the number of producers that they had put together to support the flight just was not going to sustain their underwriting. Unfortunately it was an interesting experiment that did not work.

Mr WAKELIN—Implied in my question was the extension of the runway and the general capacity of emerging aircraft, that type of thing. You may have something on that or not on the tuna issue.

Mr Frampton—As we know, a lot of tuna comes out of South Australia. The problem we were hit with this year was when they had problems with tuna contamination or the death of the fish. When you talk about the importance of freight to Qantas, that was a huge hole in our revenue because it is almost impossible to replace. Whether we lifted out directly from Adelaide or moved it by the so-called ‘bitumen Boeings’ down the highway, that is a very standard practice in world air freight. It is not just a phenomenon for Australia. There are huge road networks feeding all the freighter services and the belly space throughout Europe, and there is an even bigger one throughout the United States. It is a very common practice and it does not in our view in any way detract from the product and the way the product arrives on the marketplace.

Mr WAKELIN—What about the extension of the runway and your general future? Are you increasing the size of aircraft?

Mr Frampton—The major effect of extending the runway would almost certainly avoid a Darwin technical stop which had to happen with a full load. You cannot carry enough fuel for the Darwin extension. So the offsetting cost is the cost of the aircraft against not diverting to Darwin.

CHAIR—With regard to the schedule that you have there, does that come out on a weekly basis?

Mr Church—Yes. I will table those for you if you would like to have a look at those. They are just some samples.

CHAIR—And that is an indication of available belly space in commercial aircraft?

Mr Church—Yes, and it is almost a plea for our sales staff to get out and sell it.

CHAIR—In your experience, is there much of an experience of actual double booking by freight forwarders at all?

Mr Church—An incredible amount of double booking.

CHAIR—So that is a common occurrence?

Mr Church—Yes. Sorry, I have not answered the question correctly there. What I meant was that there is an incredible amount of cancellations by forwarders; not double bookings.

Mr Frampton—There are examples of booking on two airlines, but not double booking on the same airline.

CHAIR—The point I am getting at is that—and the majority of the capacity going out of Australia is belly cargo—the committee is interested to know if there is a common occurrence of freight forwarders double booking to ensure that they have got freight space, because of the limited capacity.

Mr Church—I cannot prove that, but our anecdotal evidence suggests that forwarders do do that.

CHAIR—What you have just said with regard to the prevalence of cancellations would indicate that it does.

Mr Church—It is quite often related to that, yes. There can be a couple of reasons. It can be that either the product just did not eventuate—that is, they did not catch the fish, pick the crop or whatever—or that they got a cheaper rate on another carrier so they dump Qantas and go to the other carrier. If I can add another point there. One of the things that we are looking at in addressing that issue is that we have just spent something like \$5 million on a revenue management system which is still in the process of being developed. One of the things that it will enable us to do on our part is to selectively overbook flights, as we do on the passenger side. There is a small degree of risk there but this management package will help us to come out and hopefully get it right 99 per cent of the time. We do not currently overbook.

CHAIR—At the moment you do not overbook the freight capacity?

Mr Church—No.

CHAIR—With this management system, you are hoping to?

Mr Frampton—Some airlines do. There are a number of major airlines that do look at their profiles. They look at the amount of cancellations they have, how often they went out with a certain percentage empty and overbook to that amount based on that profile in a similar way to the way the passenger profiles are run.

CHAIR—What do you do when it all turns up?

Mr Church—Panic. You would invariably end up with some sort of compensation or something like

that. That would have to be an acceptable part of our strategy. If we are prepared to gain the benefits there, we would obviously need to be prepared—when we get egg on our face—to compensate.

Mr Frampton—There would have to be feedback to review the amount of capacity that you do overbook. It will vary by route.

CHAIR—You would not keep your customers for very long if you just consistently dump them. That would be crazy.

Mr Frampton—The other issue that we look at constantly is the amount of the aircraft that we actually issue as allocations to forwarders as opposed to free sale. Recently on a number of routes we have suspended permanent bookings just to free sale it all so that we try to overcome this problem. We are always looking for good solutions to that. It is always a difficult issue and on the passenger side as well.

CHAIR—Can we go to your cargo terminal at KSA? How many freighters can you load simultaneously there?

Mr Frampton—The apron will take about four, so that really restricts. We can put four there, but the apron outside is FAC controlled. It is not controlled by Qantas. So, if you saw a freighter outside the Qantas terminal, it would not necessarily be a Qantas handled freighter.

CHAIR—But it is either going to be Qantas handling the cargo or Ansett, is it not?

Mr Frampton—Yes, or Australian Air Express is the third one.

CHAIR—Which is Qantas.

Mr Frampton—Which is 50 per cent Qantas and 50 per cent Australia Post.

CHAIR—Yes, but the point I am making is that the apron capacity can only accommodate four freighters.

Mr Frampton—I am not sure whether it is four or five.

CHAIR—Whether they are being dealt with by Qantas, Australian Air Express or Ansett.

Mr Frampton—Yes.

CHAIR—I take it from the remarks you have just made that that is an impediment that is under the control of the FAC or the Sydney Airport Authority.

Mr Frampton—Obviously there is a capacity. If we had four or five freighters arrive at nine o'clock, we could not handle them all at once. I cannot think of a mechanism whereby you could build a terminal to handle four or five on one day of the week at one hour and then have the capacity and resources laying

around for the rest of the week. We try to make certain that we plan freight arrivals that are our own to not only meet the customer need but also allow us to be able to service those freighters. I do not believe it is a major issue, but there are times during the peak times when people have to wait longer. There is no doubt about that.

CHAIR—In the industrial relations arena, with the people you have operating within the cargo terminal, the people you have operating outside loading freighters and the people you have loading passenger aircraft, are there any impediments there as far as the smooth flow of the freight chain is concerned?

Mr Frampton—In all our terminals we have a single union, the TWU, apart from Sydney, where the NUW operate the actual main freight terminal. Certainly, the interface between ramp and the terminals can be improved. I feel that the issues now and the relationships with the staff have improved to the point where we will progressively make that a seamless transfer.

Mr WILLIS—Does the situation in Sydney with the two unions which we heard about, that actually went to your terminal, create any substantial problems in terms of demarcations?

Mr Frampton—It is one of those issues that always has the potential to create that, but I think more and more we are working to make everyone believe they are Qantas staff. I think we winning that.

Mr WILLIS—The impression I got was that there was a problem with demarcations, putting restrictions on what people could do.

Mr Frampton—There are certainly demarcation lines, but I believe that with the current EBA and the actions we are taking now, they will progressively be smoothed out.

Mr WILLIS—I notice in your submission you say that you are going to reduce terminal charges from 1 September. Why is that?

Mr Frampton—For exports.

Mr WILLIS—Why is that happening?

Mr Frampton—For exports.

Mr WILLIS—Yes.

Mr Frampton—We have looked at the various charges that we have in our terminals and made certain they now align with our activity. One of the results is that we have actually reduced the export charge. We have reduced a number of minimums as well throughout our terminal. We believe they more aptly fit the cost of that particular activity.

Mr WILLIS—Do you expect that to attract more business?

Mr Frampton—Reducing any charges certainly will not frighten business away from our terminals or from our services. Whether there are opportunities that people take from the change in charge, whether people are going to go out and suddenly export more products, I would say it would not necessarily be the clinching factor.

Mr WILLIS—There is nothing altruistic here. I assume you are doing it because you are thinking this improves your business position in some way. I just wonder whether that is related to the possibility of beating the competition or increasing the volume.

Mr Frampton—No. I think we have issued what we believe are a new, balanced set of charges which are operating from 1 September. Within those charges there are a number of changes, a number of minimums reduced. There are some charges that balance our activity. For instance, the question that was raised by the chairman on handling freighters and the volume of freight that comes in in the peak, that is very labour intensive, particularly if that is breakdown freight.

We have made certain that with those activities there are two things we can do. We can either take those activities off-site, which is an option, or we have to make certain we recover the costs. It is no different from the recent government initiative on customs, where the cost of imports has been increased and the cost of exports has not been touched. So we are trying to match and make certain it is a cost recovery, to make certain that our activity and costs are aligned. This is one of the areas where we believe that was a fair charge to make for the import market.

Mr WILLIS—One of the submissions that you are probably aware has been made to this committee is that there ought to be more terminal operators allowed both on-airport and even off-airport. What is your view about that?

Mr Frampton—I think ‘allowed’ is probably not the right word. As we say, there is no barrier to a terminal operator coming into the airport, apart from any decision the FAC might make.

Mr WILLIS—It needs the FAC to give approval and at this stage, apparently, it has not been forthcoming.

Mr Frampton—I really cannot comment on the FAC’s initiative there.

Mr WILLIS—No, but if the FAC were to allow it, do you have any views about that?

Mr Frampton—Certainly, at some of our airports, they do allow it. Some airports are restricted. Certainly, at Kingsford-Smith there is a restriction. If we go to the Brisbane airport, there is more sand there than there are terminals. It is just that the FAC are unable, at this stage, to attract the other operators. We have the only investment there, with \$22 million at the airport.

Mr WILLIS—What is your view about off-airport cargo terminal operators?

Mr Frampton—I would rather step back from that. If you ever have time to look at our new

Brisbane terminal, it is quite different from anything else that has been built. In fact, we have tried to move terminals away from being warehouses. I think there is a misconception that what you should do is have a warehouse on the airport. It is the wrong place for a warehouse. It is the most expensive land; it should not be there.

In our new terminal we have 36 roller beds, front to back of the terminal. There is no racking; the last thing we want is freight to stop. You will see progressive alteration to our current terminals to operate mainly for through-cargo. We certainly continue to review—and it is not a secret—whether we should be building and breaking down pallets, whether it is an activity that should be done on airports. If we can find a more cost-effective way of doing it, it is something we will seriously consider.

Mr WILLIS—Do I take it from that that you think the practicality of cargo terminal operators getting the cargo together and off airport is enhanced by—

Mr Frampton—I believe it is an initiative that should constantly be reviewed, and I think terminal capacity is constrained because they are being used as warehouses.

Mr McDOUGALL—I do apologise for being late, but I did start at 6.20 this morning in Brisbane and got into Canberra at 9.35. I will not say which airline I was flying on.

Mr Frampton—I will not ask you.

Mr McDOUGALL—But I will say that I did come through Sydney. I appreciate that probably many of the questions have been asked, but I was interested in your report of 10 October 1995 when you talked about raising the competitiveness of Australian products and about the fact that there needs to be a fresh approach and better communication between all the players in the game from exporter, forwarder, airline to buyer—and I stress the back end, the buyer. Where do you see you, as a major freight carrier, playing a role in assisting the exporter and the buyer to get together to produce the right product which is going to give you business and profit?

Mr Frampton—I think that is very pertinent. The first issue I would raise is the relationship of the shipper or the actual exporter, the producer, the forwarder and the airline. I believe that more and more that is an increasingly important relationship in the trade, and that is one I gave some examples on earlier of how we are working. We are now putting into our sales a number of case studies because some of this results in the retraining of sales teams as well. Previously airline sales teams have tended to be brokers of space but now there needs to be much more understanding of the needs of the three parties involved in that part of the chain and seeing how we can match those together.

In the interests of the buyer or the consignee selling, we do now run programs to bring overseas consignees down here to look at the facilities and to talk and to involve them in that four-way relationship. We are concentrating now on the first part of the three-way relationship. But if our shipper needs to go to his market or needs to bring a buyer to this market we facilitate that, and we will continue to do that. A Shanghai inaugural went yesterday that had a lot of customers on that flight—particularly shippers; I do not think there were any forwarders, only shippers—to take them to the Shanghai market to look at the

opportunities there for a new initiative from us.

Mr McDOUGALL—Excellent. Just following on from that, you made mention earlier of support for the Western Australian export council in their initiatives, and I read from a submission here from Air Cargo Management. I do not know whether dot points are always put in priority when people write submissions, but one assumes that they tend to be the priority in which they think of them. It is interesting to me that the priority in relation to ‘What is the product we are going to sell’ and ‘Who are we going to sell it to’ are the last three priorities on the list. I just wonder, from the comments that you have just made to me now in regard to your initiatives, why is the Western Australian one working so well if they seem to have the thing back to front?

Mr Frampton—You are now making the assumption that the priority is determined by the place on a list. I do not feel that it is the case. Certainly, from the WA government initiative, which brought together at a major symposium consignees, shippers and producers, there was a greater understanding. I and most of my team spend a lot of time around the states talking of these initiatives, and more and more those meetings are with the shipper and the forwarder together, and that is a new initiative. It is all in the last two years for us. I got a note from Eric Charlton yesterday saying that Qantas has been very supportive of these initiatives.

One of the big criticisms that came out is the way airlines handle claims, and we ran a symposium there because most of the people did not understand how the mechanism worked. Those initiatives are making it a little easier for people to export because their whole business could be threatened by delays in the export chain.

Mr McDOUGALL—If this has been operating since 1994—and, from the way I read it here, it started in 1994—to improve the situation, what sort of increase have you had in tonnage of exports going out of Perth following these initiatives that have taken place?

Mr Frampton—I do not have those figures to hand, but we can provide them to you.

Mr McDOUGALL—I would appreciate that.

CHAIR—We are running short of time, but there are two final questions, one from Mr Wakelin and then one from Mr Willis.

Mrs CROSIO—Well, I have got a couple too, Mr Chairman.

CHAIR—Sorry.

Mr WAKELIN—I will be very quick. Qantas is not without its critics. You would be well aware of them; they have been made to this committee. What efforts are you taking to address them, and could you, just for the purposes of the committee’s deliberations, give us some response? The comments you would be well aware of; they are on the public record—BOC Gases, DHL—you have seen the transcripts no doubt. Would you just respond? Obviously there is a view out there in the marketplace that there is a comfort zone between one or two major operators. Now you have made the comment that other operators can come in—

and that is up to FAC and we understand that—but can you just give me, anyway, and the committee perhaps, some reassurance that Qantas is fair dinkum about its customer relations in that area?

Mr Frampton—There are a couple of issues; we might share that question around. Let me just respond to the DHL question first where comments were made that, since the alliance arrangement with British Airways, our prices have gone up from \$3½ to \$7 per kilo. We have no idea where those figures came from. We would like to show DHL's rate published along where they actually charge \$92 a kilo to London and \$73 a kilo for non-dutiable documents.

Mr WAKELIN—I think the committee understands that is a very specific niche part of the market—

Mr Frampton—We cannot find the rate DHL say we charge, we have no record. There were some amendments, there were some increases to express rates in March 1995, six months before the JSA came into existence, but we can find no reference to the DHL claim. We would just like to put on record that we have no idea where DHL got its numbers from. That was the first we had heard.

Secondly, I have talked about the initiatives to improve the use of line haul, which is obviously profitable for Qantas, by involving the shipper. I think we could bring many shippers to this table to show the initiatives that we have taken with them and the forwarder. We want to make that point, that the forwarder is a very important part of this chain, and this has led to increased exports out of this country.

The other major level of criticism comes in comments on terminal operations. We invested \$22 million in a new terminal in Brisbane. We have a program that will invest something like \$30 million in systems and terminals over the next three years. That program will continue. We guard our ISO 9002 very fiercely, and we believe that there is always room for improvement with those standards, particularly as to customer expectations. Perhaps what we have not done is move ahead of customer expectations in some areas. We will endeavour to do that.

The final part is communication. There have been some communications by press release. We believe face to face is the better way, and we are making certain our sales team and in fact all our personnel are out there talking and trying to understand the shippers' problems. The relationship with forwarders in general is excellent. There are certain issues that—

Mr WAKELIN—Fine. I am conscious of the time.

Mrs CROSIO—You have mentioned about the freight cancellation. Is there any cost involved when that cancellation takes place?

Mr Frampton—There is not. We do not charge a cancellation charge.

Mr Church—Do you mean cost to the airline or cost to the person who cancels it?

Mrs CROSIO—Cost to the person who cancels it. In other words, they have booked the space and that is on trust. They have cancelled the space—

Mr Frampton—We look at that regularly. It is similar to a passenger situation where you can book and you do not show. On a full fare ticket there is no penalty.

Mrs CROSIO—Following up a question that the chairman asked regarding how many freighters you are loading in Sydney, and you made a comment about it that it is very labour intensive, is that labour provided with the information on hand on how to handle specific perishable goods?

Mr Frampton—Sorry, Mrs Crosio. The point I was making in fact was that they come off the freighters as pallets of freight. If we have to break them down into their constituent parts, that is very labour intensive. For the actual physical handling off the aircraft, there are automatic systems within the aircraft. Then we have, obviously, our automatic loaders that take it from the aircraft onto what we call the dollies and then tow it to the terminal. If it then goes straight through the terminal on a roller bed, the labour is minimised. It is when we have to then take the nets off and break it down into lots of little boxes.

Mr Church—If I could add to that, it is one of the reasons that Mr Frampton mentioned earlier, because we have to break down the import freight, whereas most of the export freight, if we can get it palletised, goes straight through the terminal. That is one of the reasons we are reducing the export rate and putting up the rate where the labour is being applied.

Mrs CROSIO—Also, one of the things in your submission today that you talked about was the increase in traffic. We know there is an increase in traffic that is coming to Australia. Is that going to have any impact on future freight if you are having an increase in passenger traffic?

Mr Frampton—I think the point we made in one of the paragraphs in the submission is that the more passenger aircraft operating, obviously, for Qantas, the more opportunities there are to move freight in and out. But as I think our chairman said this week, with our annual result, we are not going to chase market share per se, we have to make certain we drive the airline forward profitably.

Mrs CROSIO—Can I also refer to your submission when you talked about the deal that has been in operation with Lufthansa since 1984. You have also supplied information to us that it is coming to an end in November for yield reasons. Has any other operator taken up that space?

Mr Church—It would be a combination of a number of carriers, people like MAS, Singapore Airlines, Cathay, all increasing their capacity from Europe into Australia via their home hubs. The impact on the rates in Europe is such that they are coming down to the point where it is more than a struggle, it is now into a loss situation. Lufthansa have got enough problems without having to support this aircraft.

Mr WILLIS—As you are aware, there have been suggestions put to this committee about the desirability of developing regional airports as international freight airports so that they could deliver in a very short time perishable products to international markets, save on road haulage, et cetera. Do you have any views for the committee about the practicality of these suggestions?

Mr Frampton—I think the outcome of the Prime Minister's study, where that was reviewed and discussed fairly extensively, suggests at this stage it needs a lot more work. We cannot find any legs to make

that work at this stage. Certainly, obviously, when 90 per cent of our space is belly space, then passengers do not want to go to a regional airport. The big issue is really perhaps a mirror of what happened in Adelaide. There is always the opportunity there until you actually fulfil the opportunity or fulfil the need; then the chance of getting 100-tonne slugs of produce in one go are very hard, very difficult to sustain. I think at the moment the sheer volume that is required to support freighter traffic will make that unlikely, in our view.

CHAIR—Thanks very much. We have run pretty well over time. I am sorry to keep you but it is a very important issue and it is important that we got a lot of that information from you. We have received one document from Qantas, ‘Capacity control by schedule and space availability, August 1996 until early September 1996’. That will be listed as exhibit No. 9. There was one question that you took on notice.

Mr Frampton—There was the question as to the change or the increase in exports out of Western Australia.

CHAIR—Yes. If it is possible to provide that information back to the committee, it would be appreciated.

Mr Frampton—To the best of our ability, we will do that.

CHAIR—As soon as the *Hansard* record of the evidence that has been taken this morning is available, we will forward a copy to you for your checking. Thank you very much for your attendance this morning.

[10.23 a.m.]

JOHNSTON, Dr Brian Graeme, Director, Agribusiness Co-operation and Development, Department of Primary Industries and Energy, GPO Box 858, Canberra, Australian Capital Territory, 2601

MATTHEWS, Mr Kenneth Harry, Executive Director, Headquarters Group, Department of Primary Industries and Energy, GPO Box 858, Canberra, Australian Capital Territory, 2601

CHAIR—Mr Matthews and Dr Johnston, we apologise for the delay in getting you before the committee. I note that you have been listening to the evidence from Qantas and probably have found it quite interesting. Would you like to make a short opening statement?

Mr Matthews—I am not sure if it is good news or bad news, but yes, I do.

CHAIR—I ask you to keep it reasonably brief so that we can allow more time for questions.

Mr Matthews—What we tried to do is to distil what we would like to emphasise into about five to seven minutes. From the perspective of the perishable food exporting industries, this inquiry is a very important one. The Department of Primary Industries and Energies' most recent main involvement in perishable air freight issues has been in two areas: first, through the Prime Minister's study into removing impediments to the export of perishable produce, which was completed in December 1995—and Dr Johnston was a principal author of that document and is available to discuss it—and, secondly, through the funding of agribusiness projects which have been examining in more detail the impediments to exporting some specific perishable produce.

From DPIE's perspective, to realise Australia's opportunities in perishable exports, we would like to see improvements in six key areas of the air freight chain. So our submission today is framed around these six issues. The first is the development of an export culture in the perishable produce sector that secures for Australian producers a price premium in export markets in return for Australia's quality and reliability of delivery. So the first one is an export culture in these exports.

The second is the provision of efficient, cost competitive transport and handling services that give priority to delivering a quality product to our export customers in a timely and reliable manner. The third one is developing improved packaging and handling technologies that reduce spills and wastage and can deliver the product to overseas customers in a ready-to-eat form with good shelf life. That is the R&D packaging area.

The next one is encouraging world's best practice in perishable produce exports, including export clearance arrangements. Finally, developing more effective linkages with our Asian neighbours on food issues, including the transport and handling systems and the way we link up with them.

Let me expand briefly on each of those issues. Firstly, with regard to developing an export culture, the Prime Minister's study identified opportunities for improvement in producers' attitudes and practices with regard to perishable food exports. Agricultural sectors such as horticulture and, to a lesser extent, seafood,

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

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

However, as export markets have grown and buyers have become more demanding of quality, these practices are changing and growers are entering into longer term contracts for the supply of a specified quality, delivered according to a pre-determined schedule. This results in a number of benefits.

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

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

These changes in export culture are gradually occurring in response to market forces and in some cases food exporters have been assisted by government business programs to adopt improved quality assurance and transport and handling systems. This process of cultural change needs to be continued and, if possible, accelerated.

Let me turn to the provision of efficient transport and handling services. The Prime Minister's study identified the need for better logistics planning and coordination in perishable exports. The key issue is the availability of airfreight space. While it is accepted that air freight capacity out of Australia generally meets demands of perishable exporters, when examined from the peak demand perspective there is evidence that air freight capacity to key Asian markets is looming as a more significant issue.

The bulk of perishable exports are seasonal from September to March and during these periods some perishable exporters have reported difficulties in securing sufficient air freight capacity. Also the export of perishable produce is highly concentrated in four key markets: Japan, Hong Kong, Singapore and Taiwan. These four markets took 91 per cent of the value of air freight of perishable produce from Australia in 1994-95. The scope for increasing export freight capacity, particularly in peak periods to those markets, does warrant further investigation.

The choice between air freight and sea freight for perishable produce is another key issue. For lower value perishable produce such as fresh fruit and vegetables the economics of air freight are marginal and the

choice between air freight and a shipping service is more critical. Modern container systems with controlled atmosphere or refrigeration can transport fresh produce over long distances in good condition and shipping services could become more important in the future. In these circumstances quick and reliable loading and unloading at ports will become critical.

The third point is the development of improved packaging technologies and practices. Perishable produce is particularly vulnerable with respect to mishandling and inappropriate packaging because breakdowns in temperature controlled environments result in rapid deterioration in freshness, quality and the ability to command a price premium in overseas markets. Packaging for perishables needs to be robust and effective in order to handle possible unexpected delays in transport.

Submissions to the Prime Minister's study identified a range of packaging problems with perishable produce but particularly in the live seafood area. DPIE is supporting a project by the Australian Seafood Industry Council which is examining quality handling procedures for seafood including packaging technologies. The science and technology community has been making significant strides in the packaging and preserving areas and we think this research work should be encouraged.

The fourth point is to encourage world best practice. If the Australian perishable sector is to compete successfully in Asia, it needs to adopt world best practice throughout the chain right from the paddock to the plate. Exports of perishable produce face strong competition in Asian markets from exporters such as New Zealand, the US and the newly emerging exporters of South America and South Africa.

Countries such as New Zealand have a reputation for quality based on widespread use of quality handling agreements between the producers, the exporters, the transport companies and their extensive use of cool storage and chiller space at airports. In Europe there are some specialised companies which have emerged to offer quality assurance in the transport and handling of perishable produce and there is scope for the application of such approaches in Australia. The Prime Minister's study also noted the opportunities that might exist for streamlining export clearance procedures by the use of electronic data or EDI systems.

The final point is to develop more effective links with our Asian neighbours. We believe there is scope to build better links with Asian markets with respect to transport handling systems. Australian producers and exporters have little control over the handling and transport of food exports once they leave Australian shores and any breakdown in the cool chain arrangements also impacts adversely on the premium available for our own export produce. We think there may be scope under APEC to examine these issues perhaps through the work of the APEC food task force but there are other forums as well. That concludes my opening statement.

CHAIR—Thank you, Mr Matthews. The government recently announced a Supermarket to Asia policy initiative in the budget. How do you see this addressing some of the impediments to air freight exports and also the problem that you enunciated revolving around the export culture?

Mr Matthews—The Supermarket to Asia strategy has been announced in outline but more details of that will be announced by the Prime Minister in the next few weeks. We certainly do see it as an opportunity to deal with some of the issues that we have been talking about.

The Government has expressed a strong interest in trying to make something of our export opportunities into Asia. The Prime Minister is personally very committed to it and there is a high degree of very high level industry support for it.

The proposal, in outline, is that a very senior council will be formed which will be industry driven and which will need to devise its own set of priorities for how to capitalise on the Supermarket to Asia opportunities and the vision that the Prime Minister has articulated.

The details of the council, as I said, will be announced shortly. But we would expect that the first task of that council would be to respond to a scoping study, which was produced over the last few months, which tries to define the sorts of issues that Australia would really need to grapple with.

Some of those issues relate to perishable produce and, in that instance, if there is a particular impediment or area of activity that this high level council thinks should be given priority to, that would happen. But it is really up to the council itself to define whether that, for it, is a priority.

Mr WAKELIN—We seem to be critical of producers. We are interested in the airlines, for example, or the freight people like Qantas seeing the opportunity there but they cannot get the Australian product up to scratch. I am fascinated by that drive, and I guess they see it on the ground.

What do we learn from New Zealand? What are we not doing right? You people are as close to it as anybody, what is your guideline? How do you see that issue?

Mr Matthews—Two issues come immediately to my mind. The first is that New Zealand has been more successful than Australia in developing this paddock to plate culture, so that every link in the production, transport, distribution and retailing chain is all equally interested in maintaining quality.

Mr WAKELIN—I might mention I have just come back from New Zealand so I am a bit aware of it—but go on.

Mr Matthews—You can tell me if you disagree. The first thing is having integrity to every link in a chain to deliver a quality product on time. The second thing that New Zealand is doing well is concentrating on high value added and that, too, came out in some of the discussion with the previous witnesses. High value products mean there is plenty more opportunity to provide returns that justify investments, quite apart from high value added being economically good in its own right.

Dr Johnston—The additional area that New Zealand seems to have taken further than we have at this stage of our perishable exports development is that they have actually moved to develop formal quality assurance or quality agreements amongst the players specifying what each party will do if something goes wrong.

So, rather than having the situation that we often have in Australia whereby once the produce leaves the farm gate in effect the farmer loses control and really does not know where that produce is at any point in time, if it is being handled correctly or if it has had to be bumped off a flight for whatever reason, the

New Zealanders seem to say, 'If you want to get quality right, everyone has to take responsibility,' and they have moved to the step of formally developing a quality agreement.

Mr WAKELIN—Who drives it? There has to be the linkage—and we have talked about it previously with Qantas—of who is doing what. Who drives it?

Dr Johnston—It has to be the exporter. It has to be the person who has the most to gain at the end of the day from securing a price premium for his product in the export market. Now in Australia, of course, you would realise that in the horticultural area in particular it is a very fragmented industry. We do not have a single horticultural industry; we have 100 individual little subsectors of the industry. So we have been trying to encourage different sectors of the horticultural industry or the seafood industry to actually get their own acts together to form networks of producers or groups of producers to focus on the quality that is required to secure the price premium, and then to work with the key players through the chain to get them to do so.

Mr WAKELIN—Therefore, is that what you would call export culture? Is there anything additional that you would add other than what you have described?

Dr Johnston—No.

Mr WAKELIN—That is the export culture. You mentioned the quality assurance people—that is, companies—actually doing that as a business. Can you just explain that to me? In Europe, I think you said.

Dr Johnston—There are a number of major companies. Europe of course—as most of you would have been to Europe—is a completely different situation to Australia. You have got huge markets right on your doorstep; product comes in from all around the world, is exported from all around the world—huge volumes—and therefore there has been the economic incentive for some service companies, if you like, to come in and basically say, 'We will look after the whole chain for you; we will provide that service, but you will have to pay for it.' So there are major companies like BOC. Lufthansa itself, for example, has a whole quality department which is responsible for the handling of produce on Lufthansa planes.

Mr WAKELIN—In other words, do we pick up from some of that direction? And what are the opportunities in Australia relating to that experience, excepting the scale of the market?

Dr Johnston—I guess what we are saying is we do not think there is anything particularly new to be discovered in all this. It is a question of getting the parties to work together, we think, driven by the exporters, to get the chain working correctly and to utilise the services of some of these companies and specialised services.

Mr WAKELIN—Well, that was my question. How is that link made? It is all right for us talking about it but, in a practical way, how does that happen—linking those companies doing it—and how does it apply to an Australian model?

Dr Johnston—It is not only the European companies that have that expertise. There are companies in Australia such as TNT, Mayne Nickless, which have connections into Asia which has that technology. We

have started working now because we have realised that the exporters themselves are fairly fragmented at times and geographically very dispersed. We have to find some way of building some critical mass and getting the key players together, so we have just recently started working with the department of transport actively on a project called an integrated logistics project. We were going to bring some of those exporting groups together with some of the companies that can provide these services; examine the chain; identify where these companies could in fact provide some specialised services to make it work more correctly, and try to get those partnerships working. But there is no simple solution to building partnerships; it takes work.

Mr WAKELIN—Thank you.

Mrs CROSIO—You have listened to Qantas's evidence before us in the committee. They maintain that most of their handling, even on the labour intensive areas, is virtually containers and it is done very quickly. In both of your submissions, the 1995 one and your recent submission, you are concerned that the perishable goods are not being handled correctly.

Dr Johnston—Yes.

Mrs CROSIO—Now how have you been able to get that information? When one sits here talking to people who are obviously transport operators, saying, 'No, no; most of it is packaging; we will just put it on.'

Mr Matthews—We will start on the basis of the submissions that were made to your review.

Dr Johnston—You will be aware of the Prime Minister's study. I think the important point to realise with a company like Qantas is that perishable air freight is only a very small part of their business, and to a large extent it has been a relatively unprofitable part of their business. So the first point to make about Qantas is, I suppose, that you have to take it in their total business context of what priority and effort are they going to put into getting perishable produce systems working more efficiently compared to other parts of their business, that is, passengers and high value freight like manufactured motor parts or mail. So we have found that it has been very difficult to engage Qantas seriously up until recently on working with producer groups to try to get the perishable air freight chain working properly.

Mrs CROSIO—Why has it been difficult, may I ask?

Dr Johnston—Again I think it comes back to this point, that essentially it is a relatively small part of their business and they have had other priorities.

Mrs CROSIO—And if you are looking further down for quality assurance, are you looking at the source? Are you identifying the breakdowns and where it is happening?

Dr Johnston—The Prime Minister's study invited submissions from over 100 players in the game, and one of the questions we put to them all was, 'Are you able to cite instances of produce being left on the tarmac or inappropriate handling practices,' and they were all able to give examples. But they are not everyday occurrences—something goes wrong in a major way and, when it goes wrong, everyone knows about it. It is not easy to systematically obtain that data on what does go wrong.

Mrs CROSIO—So you are sure it is happening?

Dr Johnston—It is happening, but we feel that the only real way to fix it is to work with the industry groups and try to get this quality working back through the chain using whatever means we can. In the past, as we have indicated in our submission, we have used the agri-business program funds from DPIE to do that. We are now in the position, of course, where those funds were cut in the budget, so we are now looking at other mechanisms for trying to encourage that activity, including through the Supermarket to Asia Council.

Mr Matthews—If I could just add a little, I think all we can be assured about is that there has been anecdotal evidence provided to the group that prepared the submission to the Prime Minister that it has happened—not necessarily that it is happening. I accept what Qantas has been saying this morning, that there is a lot of good activity that has happened. There was a sense in their evidence that things are changing and are changing for the better. We accept that. But there was certainly some—in fact there were repeated anecdotes that were told to us about instances in the past.

Mrs CROSIO—It was not just a grudge or something like that?

Dr Johnston—No, it is a real incidence.

Mrs CROSIO—Could I ask another question then, too, particularly on your letter you have supplied to the committee as an update on 19 July? In about the fourth or fifth paragraph down, you are talking about transport and regional development—‘would encourage the Department of Transport and Regional Development to further liberalise the freight charter approval processes’. Are you virtually saying that you, through that, do support further liberalisation of the process of improving freight charter approval?

Dr Johnston—Yes, basically. We are of the view that the vast bulk of perishable produce exports from Australia for the foreseeable future are going to occur in the holds of passenger planes. That is where the capacity is at the moment; it is in the holds of passenger planes. Therefore, we have felt that the priority is to try to get the system through passenger planes working more efficiently for our export sectors.

There is a separate issue altogether, that is, the issue of dedicated air freighter planes or air freighter charters to handle situations, particularly during peak periods, where there is a major period of export of produce like lobsters from Western Australia, tuna from South Australia, et cetera, or salmon from Tasmania, where there may be scope for using a specialised airfreight charter. That is where the plane comes in, fills up completely with perishable product and away it goes. But at the moment that is a relatively small part, a very small part. I am not sure of the statistics, but it might be less than two or three per cent of total perishable air freight movement is occurring by that means.

But when we have talked to industries like the Tasmanian salmon industry, for example, they have said, ‘We’ve found it very difficult within the current rules and framework to actually get a charter plane when we want it,’ and we said, ‘Well, what do you mean?’ The department of transport, for example, has rules about the charter period being for a minimum of three months unless you can make a special case that you do not need it for three months and that you have got an urgent need for it. So there is still quite a bit, if you like, of paperwork and regulations to get around for a perishable food exporter to use a charter. We

would like to see those rules further relaxed so that if there is a real need to use a specialised air freight charter to provide a more efficient delivery during peak periods, for example, of product like salmon directly from Tasmania into Japan, we would like to see them be able to do that unimpeded on a commercial basis. That is really why we said we would see some scope for further relaxation of those rules.

Mrs CROSIO—So even if you had the scope for further relaxation, you have not done any further reports as to the economic viability of having something like that go on?

Dr Johnston—No, but we do know that it will only be the higher value perishable produce, like seafood—live lobster, salmon, oysters, abalone—that would be able to economically justify a specialised air freight charter service. One of the interesting things is that it is unlikely they would be able to justify one of those on their own. They would probably have to work together—salmon working with tuna or lobsters—to make those air charter arrangements viable, because you have got to basically fill the plane, and you have got to fill the plane both ways. There has to be an opportunity for that air freight charter to bring product back into Australia.

Mrs CROSIO—With all the other problems associated with that, from listening to the reports and reading the evidence, you do not really think that is a wish list, do you?

Dr Johnston—I do not personally see specialised air freight charters as the way to fix this problem. They will play a role, maybe an increasing role, during some peak periods where particular circumstances allow them to be used. The real opportunity for Australia is to make more efficient use of the air freight space that is in the cargo holds of passenger planes, freeing up those arrangements and giving priority to perishables.

Mrs CROSIO—So at this stage I can assume that you are not really looking at liberalising freight charter until all of these other steps have been taken.

Dr Johnston—It is not really for us to do that. It is up to the department of transport to look at whether further liberalisation is warranted. But we have raised it as an issue that should not be forgotten about.

Mr McDOUGALL—I have got a few different areas that I would like to ask you questions about. In your submission, there are several projects where money has been committed; for argument's sake, in September 1995, \$75,000 in relation to an investigation for Tasmania to Avalon. Could you tell the committee what the outcome of that was?

Dr Johnston—Yes, I could. Under the agribusiness programs we have supported a number of projects or initiatives to try to improve exports of perishable produce. The Tasmanian air freight project is now completed. It was completed in July 1996. I am quite happy to table that report, if it would be of interest to members to dig into it a little deeper.

Essentially, that report looked at the problems that perishable exporters from Tasmania were having in terms of getting their product efficiently from Tasmania into export markets. Quite a detailed survey was

done by Price Waterhouse, as a component of that study, to identify what those particular problems were.

Without going into the details of it here, because time is short, the main finding was that, as far as Tasmania goes, there is a lot of double handling going on in order to get perishable produce from Tasmania into Asian markets. Basically, it has to first of all go across Bass Strait, and that means loading onto domestic planes. The configuration of those planes is not consistent with the configuration of international planes, so the stuff has to be unpacked at Melbourne airport and reconfigured into an international pallet. So you can see the cost and the day that that is going to take.

They came to the conclusion, essentially, from the study, that they need to work more closely with South Australia. We also supported, at the same time, a study by South Australia—not exactly the same study, but the one that the South Australian Farmers Federation was involved in—to look at trying to improve the situation out of South Australia. Both came to the conclusion that by themselves they do not have sufficient perishable air freight to justify some specialised charters or to justify a new commercial service. But working together, they may be able to achieve that. That is what they are now doing—talking to some of the major airlines like Malaysian, Qantas, Singapore, to see if they can get a service going.

The key thing to solve Tasmania's problem is to be able to pack the material into an international configuration at the point of production. So if it is salmon, it gets packed into an international container and it is air freighted directly. It could come through Melbourne or Sydney and then on to Asia, and that is fine; as long as it does not have to get unpacked and repacked again. Salmon is one of those products where they have tried to work for this premium value added product.

Mr McDOUGALL—You have answered the question relating to the South Australian Farmers Federation. I see that in May 1995 funding of \$200,000 went to the Air Freight Export Council of Western Australia.

Dr Johnston—Yes. That was money that went in to basically kick off that council. Back in 1994, when that initiative was being proposed, we thought it would provide a very useful mechanism for looking at the problems, getting all the players together and finding some solutions. You will hear evidence this afternoon, I believe, from the Western Australians that they have been able to achieve a lot by taking that approach. So, effectively, our money was seed money to enable the initial analysis and work to be done for the setting up of that council.

Mr McDOUGALL—I asked Qantas, and they are going to answer the question—and maybe the Western Australian Freight Export Council will answer the question—but can you answer the question: from that money spent, has there been an increase in tonnage out of Western Australia?

Dr Johnston—I think the short answer is yes. I think you will have that confirmed this afternoon. I cannot give you the specific figures but they may be able to. I think they would be able to.

Mr McDOUGALL—I noticed in your report that you are recommending again, I believe, that a National Air Freight Export Council be set up or investigated to be set up, whereas Western Australia in their submission are certainly saying no to that and that every state should have its own export council. Can I just have your comments in relation to that?

Dr Johnston—I think that is a good point. At the time at which we did the Prime Minister's study, which was last year, Western Australia was the only state that really had established an air freight council and was actively working. Victoria was working on developing one and there has also been some discussion in Queensland.

We believe that the Western Australian model has been very successful and we would certainly encourage other states to look at setting up the same model. The real question then is: having done that, if you could get these councils working effectively at each state level, would there be any additional value you could add by having a National Export Freight Strategy Council? I think that is an open question and you could explore it further with the Western Australians this afternoon. But, certainly, we think there is still a need to try to provide some forum where all the key players can be brought together to effectively work together to get this quality assurance through the chain.

Maybe the new Supermarket to Asia Council will want to take an interest in transport and logistics issues. It has certainly flagged that in the scoping study report that was completed—that transport and logistics issues were a priority issue for the food industry. So that will be an issue, I think, that will find further debate, possibly through the Supermarket to Asia Council when it is established.

Mr Matthews—It will certainly come up in the Supermarket to Asia Council context. The Western Australian model, which the study group found compelling, will be something that would be considered by that national group. But what would be considered would be a national approach and I think it is a moot point whether a national approach is definitely better than a decentralised approach.

Mr McDOUGALL—Mr Matthews, could I take you back to your opening remarks when you talked about packaging? You were, I think, talking mainly in relation to how the product is packaged to be able to get into the aircraft, through the transport system and to its destination. You raised the point—and I support your point—that we have got to get a lot smarter and develop a new culture regarding the produce that we are trying to export. We need to produce, not something that we want to export, but something that our customers and our potential buyers want to buy, and whether or not we are in that market and whether we can be. What work has been done by the department in relation to the presentation packaging of products at the point of sale, and how does that then fit back into the producer? Are we at a stage where the producer really knows, through work that has been done by yourself or combined with them, whether or not we are in the market of producing products that somebody wants to buy?

Mr Matthews—There are a lot of issues you have raised in that question. First of all, the packaging issue is certainly what you have said, that is, facilitating ease of transport, minimising repackaging and so on. They are the sorts of things that Dr Johnston was running through. It is certainly all that, but it is also to do with some of the newer technologies on controlled atmosphere and combining preservation and protection with logistics. There is a lot of interesting work that is going on now, not only in Australia but around the world. There is some ground breaking stuff that I think will change things for years to come.

As to what the department is doing, the Innovative Agricultural Marketing Program and the Agribusiness Program have each funded some interesting specific examples of how to pack both for logistics, preservation and the other issue you raised which is how to be attractive on the shelf at the other end. For

example, there have been projects that I can bring to mind on the packaging of broccoli in an attractive way and which happens to stack particularly well into transport containers, but which also at the other end can be opened up and is ready immediately to go onto supermarket shelves. They proved to be particularly attractive in Taiwan or Japan, where they just take them out and they are literally the most attractive product of that genus on the shelves. It has been put to me that a significant proportion of their value added was only in the packaging which was funded through the project. That is an example of the sort of thing that should happen.

Mr McDOUGALL—If I can just go back to attachment one and the first page of your submission. You say that a seafood project aims to develop through chain quality agreements to export live coral trout and oysters. I am very interested in the oysters. Are we exporting oysters because we want to export oysters or are we exporting oysters or trying to export them because we have a potential market and somebody actually wants to buy them?

Dr Johnston—There is absolutely no question that there is a huge market for oysters in Japan. In fact some recent work has been done by the Australian Quarantine Inspection Service to actually open up that market through reducing some of the technical barriers that have previously prevented oysters being exported to Japan. This has just occurred quite recently. One of the problems we are now finding concerns more our capacity to supply. It is quite frightening when you do finally get into some of these markets. They do not talk about a couple of tonnes a week; they talk about 50 or 100 tonnes a week.

The oyster industry is now in the process of re-examining how it can supply that market on a regular basis, which is one of the key criteria that buyers use. It is no use having oysters from Australia one week and nothing for the next month because they have to try and re-promote them, rehandle them and whatever. There is no doubt that there are huge market opportunities for Australian produce—that is, fresh produce such as seafood, vegetables and fruit—in Asia. It is going to be more a question of how we organise ourselves from the customer right back to supply that product.

Mr Matthews—Those opportunities are beginning to force changes to the structure of the industry in Australia, including in the oyster and mussel industry where there are some big investments being made in Western Australia to produce these long consistent lines of quality that would be available throughout the year. As you know, the oyster industry has traditionally been very fragmented and almost a backyard industry. But the very opportunities that you are talking about are causing a ramping up of the structure in Australia to some world scale production.

CHAIR—I am going to ask the last question because we are going to wind it up here. On that very point, I have arguably got one of the largest oyster producers in Australia in my electorate and his experience with exporting is that the freight chain broke down on the tarmac. He had product spoiled; it went off in the heat of the day. Because of the arrangements that exist in KSA belly cargo loading and double booking, he just could not get on a plane. He walked away from the export of that product, and he is an enormous producer of oysters. And so it goes with a couple of the responses we got from Qantas this morning. Have you done any research in that regard, because that is absolutely critical?

Dr Johnston—There is not much else we can add to be honest, except that this project that was referred to is actually being run by the seafood industry. Instead of this process of an individual exporter

putting his toe in the water and seeing if he can export and then having the bad experience because he has not had experience with the airfreight chain before—presumably it was his first time and he sees it as his last time—the Australian Seafood Industry Council is trying to develop a cooperative approach amongst a number of oyster producers to service the market and work on these quality agreements that all the oyster growers and the airlines will have to sign on to. In other words, it is trying to overcome that essential fragmentation that has existed in our rural industries.

CHAIR—But that begs the question that the enforcement of commitment at the middle section of the chain is very important, is it not?

Dr Johnston—It is. But Qantas and the others will only come to the party if they really believe there is business in it for them. If they started to think that the Australian seafood industry was developing a quality export strategy for oysters to Japan or other markets, then Qantas would take notice. They would come in and say, ‘What sorts of volumes are we talking? What months? What specialised packaging is needed?’ Whereas if an individual oyster grower rang up from Bermagui or something and said, ‘It looks like I am an going to have a couple of tons of oysters’, they would not be that interested.

CHAIR—Was there a document that you wanted to leave with us?

Dr Johnston—Yes, I will leave with you the Tasmanian and South Australian air freight projects which contain some quite relevant research material for the committee.

CHAIR—Gentlemen, thank you very much for your time this morning. We will make available a copy of the *Hansard* when it is ready.

[11.17 a.m.]

GALLAGHER, Ms Jayne, Manager Seaqual, Australian Seafood Industry Council, Unit 1, 6 Phipps Close, Deakin, Australian Capital Territory 2600

GRANT, Mr Norman, Director, Pacific Seafood Management Consulting Group Pty Ltd, Suite 6, 51-55 City Road, South Melbourne, Victoria 3205

JEFFRIESS, Mr Brian, Director, Australian Seafood Industry Council, Unit 1, 6 Phipps Close, Deakin, Australian Capital Territory 2600

MILLIGAN, Mr Michael, Project Officer, Australian Seafood Industry Council, Unit 1, 6 Phipps Close, Deakin, Australian Capital Territory 2600

CHAIR—Welcome to this morning's hearing. Do you have a short opening statement you would like to make to the committee?

Mr Jeffriess—Yes, Mr Chairman. In summary, seafood is export focused. We export \$1.3 billion of the \$1.6 billion production of the Australian seafood industry. As a result, it is one of the few sectors to be increasing jobs in the primary sector area. It is a high value added product. We are shipping fresh chilled, mainly. Our experience is that once you freeze the product, you either incur large costs or you get a problem with quality. That is not to say that everyone has that problem, but it is no accident that the people who are successful in food today are selling fresh food—Woolworths et cetera—and, of course, you get a far higher per tonne value for your product once you ship fresh chilled.

The seafood sector is the biggest air freight user in perishable commodities to Asia, and that point is brought out starkly in one of the graphs in our submission. In some key markets, like Japan and Taiwan, we are among the top three air freight exporters in total whether it be commodity or other items. A bar chart shows how far ahead in that area the seafood industry is compared with meat, fruit, vegetables and dairy products.

That is no accident. Looking at the seafood industry, it is almost a gift—here we are supplying the favourite food, with a limited supply, to the fastest growing area of the world in per capita incomes and population. Looking at it to some extent, only Australia could stuff it up and that is potentially what we are in danger of doing in some areas.

The problem is that this industry is among the most decentralised and diversified in Australia, which obviously creates major logistical problems in getting the product to market. For example, Tasmania, Cairns and Port Lincoln et cetera are decentralised areas in which passenger air services are not as frequent as in other areas and, therefore, freight logistics are important.

We are not complaining about the situation; we are trying to do something about it. We have initiated this seafood air freight study with assistance from the Department of Primary Industries and Energy and other groups. We are working closely with the airlines. Qantas and Ansett have an air freight committee which we

work closely with. We are working on packaging all the time.

This week, of course, the export of live fish using compressed oxygen was banned from key areas and that has had a major psychological and commercial impact on the seafood industry. It also reinforces the importance of packaging and airport services.

We are reviewing our facilities all the time. We have initiated trade barrier studies et cetera. That is all part of a total quality upgrade of the industry. The industry is dedicated to improving its quality. It is aware that the only way we will succeed in the end is to run faster than the opposition and that quality upgrade is part of it.

There is a perception that the seafood industry is limited in its volume, that is, that the majority of the wild stocks are over-exploited et cetera. That is a furphy. The reason, even in the wild sector, that volume will increase over time is a better exploitation of that stock.

For example, a large part of the juvenile rock lobsters are killed by other species or by negligence by particular groups or whatever it may be. We are trying, even in lobster, to now capture that juvenile product and grow it out, or at least even hatch the product in the longer term.

Aquaculture is the major growth sector. Lobster, abalone, salmon and tuna have tremendous opportunities. Abalone exports alone from farms could grow to something like \$300 million or \$400 million in about five or six years. Through all the hype of the recent years we finally seem to have got the technology right, better than most countries.

With aquaculture you can better phase the product onto the market which, in a sense, makes air freight a lot easier. It is easier to guarantee shippers that we will have available certain volumes of product on particular days; but it makes it more difficult in that we have much more volume to ship, and it is all fresh because that is what aquaculture is all about.

In summary, the volume will increase, even above what we have now. The industry is inevitably substantially dependent on air freight, much more than other primary commodities and much more than the rest of the Australian industry in total. So that is how important the issue is to us.

CHAIR—Obviously, the success of fresh seafood exports relies very, very heavily on that freight chain. We had evidence from the previous witnesses from the DPIE with regard to that quality assurance project going through that freight chain. What involvement does your organisation have in that? Could you just elaborate on that?

Ms Gallagher—Basically, the project has three stages. In the first stage, what we are trying to do is to assess the facilities and the handling practices from a seafood perspective around the eight major airports that we export from. Then we are going to undertake two case studies where we will try, through the involvement of everybody in the chain, to get what we call quality agreements. If I, as an exporter, deliver product to a freight forwarder in a certain quality condition and I have treated it and packed it in the way that they would like me to pack it, then they undertake to me to treat it in the way that it needs to be treated

before it gets to the next stage, which is on to the plane. There would be a similar sort of agreement between the freight forwarder and the plane, and then at the other end.

So we are looking at environmental conditions, temperature, product quality and the logistics, so that if the plane is going to be delayed and I have got live fish or live lobster going on board, I will get a phone call telling me it has been delayed and I can keep that fish or lobster in my holding tank, rather than having it sitting at the airport. Those are the sorts of things that we are looking at. The whole process is actually going to kick start probably next week. We are having a major meeting between the airlines, the air freight forwarders and the bigger exporters to start along that path.

CHAIR—You are almost getting to a stage where you have got agreement from all the players in the chain?

Ms Gallagher—That is what we would like to get to, yes. That is the aim. I think the conditions are right for that to happen now, because basically we are getting to a very critical point in our exports. We are a large player, the airlines have recognised that we are a very valuable part of their income as well, and we need to get it right. If I am an exporter of live prawns, I need to get those Karooma prawns to Japan alive. To me, they could be worth about \$150 or perhaps even more per kilo. If it gets there dead, it is worth nothing. So there is quite a lot of incentive for people all along the chain to get it right.

CHAIR—In structuring this agreement, are you basing that on agreements in place in other parts of the world?

Ms Gallagher—We have heard that there are some agreements in New Zealand but we have not been able to access them.

CHAIR—You are not modelling on theirs or other countries?

Ms Gallagher—No. In preparation for this meeting next week, we have reviewed as much information as we can from around the world and all the previous studies into airfreight. We have spent a lot of time examining what else has been done so that we do

not waste our time repeating past mistakes or reinventing the wheel. I am pretty convinced that what we are about to do is fairly unique, but we will be keeping our eyes open to ensure that we are up to date on what else is happening around the world.

Mr McDOUGALL—Your industry is one that has gone out and sought market demand and then has a product that the market wants to buy. I commend you on that. Obviously, that has a lot to do with your success. I am certainly very interested in your further aquaculture which is going to guarantee supply. Do the customs export regulations that we seem to have as an overabundance of detail and involvement have an effect on your operation as to timing or cost, or are they streamlined enough to make it effective for you?

Mr Jeffriess—Speaking as an actual exporter, we find it extremely streamlined and a necessary part of a system. A foreign government will not question a stamp from a government authority in Australia. What

we are concerned about is that the actual quality of that service be kept up to standard. As Jayne implied there, one hiccup and you have a huge problem.

Mr BOB BALDWIN—You stated that exporting of live fish is banned. Is that correct?

Ms Gallagher—What has happened is that the Hong Kong civil aviation department has banned all aircraft from using compressed oxygen in the live fish bulk containers, which has effectively meant that our live seafood has had to stop going to Hong Kong temporarily, while we go back to a previous method which is unsuitable from both the airlines' and the seafood industry's point of view, which is to put them into plastic bags with aerated water and put them into polystyrene boxes. That has a number of problems, as you can imagine, if those boxes break. Not only that, but we have a higher mortality rate. So it is not a very satisfactory system. Apparently, it has arisen out of what Qantas and Ansett have advised me is a misinterpretation of some IATA regulations, so we are working with them at the moment to try to sort it out.

Mr BOB BALDWIN—So it is the flammability of the compressed oxygen that is the problem?

Ms Gallagher—Yes, but the engineers from Ansett and Qantas say that our system is very, very safe, that they have tested it and that they are quite convinced it is within the regulations—way within the regulations.

Mr BOB BALDWIN—In what time frame do they see that being resolved?

Ms Gallagher—The worst scenario is that we might have to wait until the IATA Dangerous Goods Board meets next month, or we might be able to convince the Hong Kong authorities that we do operate a very safe system and that what we do is okay. That is the best case to the worst case.

Mr WILLIS—When I was asking about the history of this, you pointed to the roughly \$350 million worth of seafood exports which go by air freight. You also mentioned before that you are responsible for \$1.3 billion of exports out of \$1.6 billion. I did not understand that, I must say.

Mr Jeffriess—Traditionally, for example, rock lobster, which is by far the largest Australian seafood export, has been sold as frozen tails to the United States. That is changing rapidly in probably one of the great untold success stories of Australian primary industry. For example, Western Australia, which is the major exporter, now has over half its production of lobsters in the form of live whole lobster direct to Asia. Some people believe in cutting off their legs. I say that because, for the Japanese, if one leg or anything is missing, they reduce the price. The thing is to get them there undamaged. The point I am making is that it is rapidly increasing as a percentage of the total.

Mr WILLIS—What was the \$1.6 billion and the \$1.3 billion?

Mr Jeffriess—The \$1.6 billion is basically the value of production of the Australian seafood industry. The value of exports is \$1.25 billion, to be exact.

Mr WILLIS—Of which \$350 million is air freight?

Mr Jeffriess—Yes, to Asia.

Mr WILLIS—How rapidly has that air freight been growing?

Mr Jeffriess—Extremely rapidly, both in terms of rock lobster—

Mr Grant—It is up about 400 per cent in the past six years.

Mr WILLIS—You said that it is a remarkably unique position and that only Australia can stuff it up. If we got this rapid growth over the last few years, does that indicate that we are stuffing it up? It seems to me we are doing something pretty well.

Mr Jeffriess—We are. The potential for further growth is quite enormous. It is a matter of whether we have the management skills and the coordination skills to continue it. Air freight is a very good example where there is apparently a lack of coordination. That is not just the fault of the airlines, government or whatever it may be. The industry is as much at fault, if not more than most. For example, in the tuna industry, which I come from, we do not necessarily coordinate our shipments onto the market, let alone shipments by particular air freight forwarders, as well as we should. It is another type of industry where management skills are at a premium and need to be improved.

CHAIR—Do you see that, with this freight chain agreement, that path you are going to head down is improving a lot of that?

Mr Jeffriess—Oh yes. It is the first time outside, say, the Western Australian Air Freight Council model that the average air freight operator and the fishing operator have a model on which to work.

Ms Gallagher—The key to value adding in seafood is to get it there as fresh as possible, or alive. If you ever look at the prices you can get for a live fish versus a fresh chilled versus frozen, the quicker we can get it there and in the best quality, the more money we will get for that fish, so it is really imperative that the air freight chain works well to ensure that we are getting the most that we can for our product. So that is of critical importance to us.

Mr WILLIS—So this growth in value of, I think you said, 400 per cent in the last six years, is an extraordinary amount of growth. Is that reflecting this higher value aspect—not just volume, but higher value?

Mr Grant—That is right.

Ms Gallagher—The volume I think has only grown by about 100 or maybe 200 per cent, but the value is just going ahead.

Mr Grant—So there is this general shift across from frozen, chilled exports to live in particular.

Mr WILLIS—We cannot be doing it too badly with such a rapid rate in growth. What would we

have done if we were doing it right and were not stuffing it up?

Ms Gallagher—We would have 1,000 per cent.

Mr WILLIS—Do you really think you can keep that kind of growth rate going if you have a better coordinated system?

Ms Gallagher—I think so. I think on a tuna case, if we can cut off one day, we could get—

Mr Jeffriess—The average tuna shipped from Port Lincoln to Japan gets from harvest to table in four days. If we could cut that time to three days, instead of getting \$35 a kilo we would get \$45 a kilo. It is that kind of margin. It is not just freshness. The freshness reflects in, say, tuna in the colour of the meat, which is the sought after premium aspect of this particular fish.

Mr WILLIS—What happens from Port Lincoln? How does it actually move from there?

Mr Jeffriess—The product is actually almost all trucked to Sydney or Melbourne and then goes on—

Mr WILLIS—Trucked?

Mr Jeffriess—Yes. And then goes obviously air-freighted to Japan, so you lose a day at least.

Mr WILLIS—Why can't it be flown in a smaller plane?

Mr Jeffriess—There is a whole range of reasons. It is not economic for a start. A smaller plane, for example, which we have investigated many times, can only take about four tonnes, and we are talking about 30 or 40 tonnes a day. Even that four tonnes cannot be shipped economically and, as Dr Johnston from DPI said, it is never in the configuration of the final plane carrier, and that is a major problem. But we are looking now at charter flights which can carry payloads of, say, 40 tonnes, which would carry 30 tonnes of tuna and be topped up by rock lobster or something like that, and that would run direct from Adelaide or Port Lincoln via Adelaide to Japan.

The Japanese are astute in this. They know that a charter plane—say a 747 with 80 tonnes on—is coming the next day, and obviously the marketability of that product is not as good. If you can ship only 30 or 40 tonnes, which the market normally accepts day to day anyway, then it is a viable marketing proposition as well as a viable cost proposition.

Mr WILLIS—What is the prospect of air freighting it out of Adelaide? We have heard that efforts to do some of that have fallen over in Adelaide, but is there any future prospect of doing it through Adelaide to save time and the cost of trucking it halfway across Australia?

Mr Jeffriess—A lot of it depends on the entrepreneurial skills of the airlines. There are a few small charter operators around now who appear to have those entrepreneurial skills, but that is not to say charter operations will become a large part of the total load carried. We will still depend on regular services for a

long time, unfortunately. The thing is to actually filter every proposal, be proactive ourselves, which we are trying to be. We could increase the value of our product by \$20 million or \$30 million overnight if we could get that kind of service, as well as the long-term benefits of improving your image in the market.

Mr McDOUGALL—Talking about freight capacity, we have heard a lot of criticism about freight capacity not being available. Then we find out that there are 12 freighters a week leave this country empty, and we hear of reasons why that happens. We are told that 90 per cent of the freight is carried under belly in passenger aircraft. While I take on board your comments about what you are trying to do in the future, do you have a current capacity problem, albeit that you have got to do it by road from Adelaide to Melbourne, but do you have a problem with capacity at the moment?

Mr Jeffriess—Some ports do—particularly Cairns has a problem, now and in the future, because there is a lot of tuna, for example, coming from the Solomon Islands and New Guinea direct to Cairns for transshipment to Japan. That is a specific problem. Out of South Australia, for example, there is no real capacity problem once you get to Sydney. The only capacity problem arises in peak periods when, say, asparagus and New Zealand product which is transhipped via Sydney are at their peak.

Mr McDOUGALL—How about other ports around Australia?

Mr Jeffriess—My understanding of salmon is basically that it is a logistics problem rather than a capacity problem out of Melbourne itself. JAL and ANA have now provided very good services out of Sydney to add to the basic Qantas service.

Ms Gallagher—In the past, capacity was an issue and it still is in the peak periods; but, generally, from all the people I have spoken to in the industry, it is more the logistics of getting it from A to B to the plane to get it on. Occasionally some odd things happen, but generally the capacity seems okay.

Mrs CROSIO—No-one in the industry at present has experienced things like oysters sitting on the tarmac and going bad or—

Ms Gallagher—Yes, that is quite a different issue.

Mr Jeffriess—That happens all the time and you have absolutely no protection against it. To avoid that problem, we have often shipped via Fiji or Kiribati even, amazingly enough. That is the extent of the problem. The issue is that, if one load of tuna, for example, gets left on the tarmac, you have lost a third of the value of the product and have potentially lost the whole value.

The airlines are not sympathetic towards insurance claims or claims on that because of that. But they have some points about that which we are looking at, in terms of the actual amount we pay for air freight. They have shown a natural preference for passenger loads before. Also, some exporters of some products pay a higher amount per tonne or per cubic metre. Those are all issues that we are looking at; it is not all the airline's fault.

Ms Gallagher—Part of our project is to assess the facilities and handling practices at each of the

airports, because problems happen where stuff gets off-loaded and you do not get told that it is sitting on the tarmac—you cannot do anything about it if you do not know about it. The other thing is that I have heard anecdotal reports that a lot of airports do not use their coolroom facilities and that some airports cannot use their coolroom facilities because they are not AQIS registered or whatever. So there is a whole range of issues that we really need to go around and document and see what we can do. If it is the case that you cannot put product bound for export in the coolroom because it is not AQIS registered, then maybe we can do something about it. But, if we do not know about these issues, we cannot deal with them. That is the focus of that part of the project.

Mr Jeffriess—There is the famous story about the abalone which was destined for the emperor's wedding; the abalone got left on the tarmac in Sydney. That kind of thing is a standing joke in Japan. It does not do your image any good.

CHAIR—Just on that issue: in your submission I think you refer on page 5 to the need for exporter access to information regarding current and future cargo space availability, flight scheduling and aircraft types. Is that going to become part of this project you are doing? Have you got any suggestions on how that can be achieved?

Ms Gallagher—Those are the sorts of things we will be looking at. In terms of how this could be achieved, first of all we need to find out what sort of information people need to meet their requirements and then how they would like to receive that information. It is no good us producing a book if they are not going to read it. It is no good us putting it on the Internet if none of our exporters is on the Internet. So we need to think of various ways of getting the information, not just one way, and make it in a way that is accessible and meaningful to the people who need it.

CHAIR—We were handed a document this morning that we took as an exhibit, which Qantas freight sales people evidently have, that indicates capacity available. Obviously that information is not getting to industry.

Ms Gallagher—No, not generally. Usually the chain is quite long. For people within the chain, for instance, if I am an exporter, I probably only deal with my freight forwarder. The freight forwarder might have got that information from the airline and has not given it to me. So part of this is to try to include other people up and down the chain who also need to know about other constraints. Last year some space was cancelled because somebody had heard that the rock lobster season had closed. It had only closed in Western Australia; the southern rock lobster was still going. They arrived at the airport to put their product on the plane to find their space had been cancelled because somebody said, 'The rock lobster season has closed.' So those sorts of information lines certainly need to be improved.

Mr Grant—But you are right in pointing that out. The information flow that parallels this whole logistics thing is the biggest challenge that we face. It is a very decentralised industry and often a lot of problems arise and get solved at a regional level which does not flow through to the national level. As the scale of the business grows, so the need to manage that information grows. It is not just about logistics and problem solving; it is about market intelligence and other marketing requirements flowing back the other way that will aid that process as well. So that is a real challenge for us.

Mr Milligan—One of the practical outcomes of the project will hopefully be the production of a series of handbooks for people in the industry so that they can access one source of information which will have the whole range of statistics and information about the airport, what facilities are there, what capacity, what flights, what types of planes, et cetera, so that they will have just a single source document which will hopefully help all those logistics problems.

Mr McDOUGALL—Can I take that point a little further? I noted something in the Qantas submission which surprised me when I read it. For instance, they talk about the freight capacity of a 747 as underbelly freight going from Sydney to Singapore versus Sydney to Los Angeles. The difference is Sydney-Singapore 18 tonnes, but the same plane with the same passenger load going to Los Angeles is two tonnes, and that is because of the fuel and all the other things that go with it.

Obviously, Japan is an enormous market. Usually, their passenger load is fairly full. In this booklet that you are trying to produce, what is the sort of freight capacity available on the Japanese flight, considering it is a 10 hour flight? One would assume it is carrying a fair lot of passengers and a fair bit of fuel, although not as much as the LA flight. What sort of capacity are you talking about? They do not say here what sort of capacity that limits their flight to. Is that the basic reason why, as you grow, you are going to have to go outside the passenger aircraft?

Mr Jeffriess—That is right. If you believe the tourism projections, then the actual number of passenger planes into Sydney, for example, will not increase at anywhere near the same pace as the seafood industry exporting requirement. So, in the end, you are forced to go outside. It is how well you can organise that additional freight space that is the issue.

Mr McDOUGALL—So you are going from one freight area where you have got capacity at the moment, but as your product's demand overseas increases, you are going into another era of freight demand, which other industries may not be experiencing because they are still at the early stages of development?

Mr Jeffriess—That is right, although we are fully aware of the potential for, say, fruit and vegetables and other commodities. Within seafood, the potential for oysters, for example, is enormous. It is just a matter of resolving a lot of issues that need to be resolved in Australia itself, like clean food authorisation and things like that.

Ms Gallagher—I think there are opportunities for cooperation between various industries. When we are developing these quality agreements, we are working with the horticulture industry so that we do not require them to do something that is opposite to what they have to do for horticulture, so that we provide them with some clues—maybe you can pack live prawns with fruit but you cannot pack them with meat and those sorts of things. On the capacity issue, if we can cooperate and coordinate freight, we would be going a long way.

Mr Grant—Part of the process we are going through now is developing improved relationships and improved understanding between the different components in the value chain. There is no doubt that the airlines at the moment have got this philosophy of passenger driven freight capacity. Maybe one of the improvements there will be a slight alteration in their philosophy.

Mr WAKELIN—Just following on from that, I would like to ask about airport infrastructure. Could anyone pick that up? There is no need to be too specific but, in terms of the airport infrastructure, is there anything obvious that comes to mind? I could go on: there is the development at Sydney and Melbourne, the description of packaging, and the attitude of Qantas. You have touched before on the emerging freight load and the emerging change of culture within the airlines themselves but, within the infrastructure of airports themselves, is there anything obvious?

Mr Jeffriess—There certainly is in regional centres—there is no question about that. For example, one of the charter operations that we are investigating is Port Lincoln direct to Japan. To accept that kind of aircraft—for example, 757s or whatever it may be—we would have to upgrade Port Lincoln airport to the extent of probably \$6 or \$7 million. That kind of money is very difficult to achieve in the current environment, so we are obviously looking at ways around that: for example, upgrading one of the cross runways in Port Lincoln, with that to be done at a relatively minor cost. Then it can carry a load of fuel payload to Adelaide, refuel in Adelaide and go direct to Japan from there. All these things are being looked at.

We do not blame the airlines for everything. We are not in the business of asking for money that just is not there in the current atmosphere or that cannot be justified economically. But, out of Port Lincoln—just a little city like that—we expect 7,000 tonnes of air freight to Japan and Hong Kong within two years. It is already there. It is not a matter of this being just wishful thinking: the products are already in the water waiting to grow out and be shipped. Exactly how governments see that and the payback on that kind of investment is something we are looking at.

Mr WILLIS—What is it now? You said 7,000 in a couple of years.

Mr Jeffriess—About 4,000 tonnes.

Mr Milligan—To add to what you were saying before, Mr Wakelin, there are some small practical issues like the coolroom facilities at airports. If they are not AQIS registered we cannot store our produce in them. So just going through that very small stage of getting AQIS registration for coolroom facilities would make an enormous impact. I think Qantas even said in their submission that their coolroom facilities are only used for the storage of imports, so it seems strange that we allow the storage of imports but our exports suffer because we just do not have those facilities.

Mr WAKELIN—Exactly, thank you. I have come into this inquiry rather late and it has been going for some time, but there is a consistent feeling in many parts of the industry that perhaps Qantas—and Ansett, perhaps, to a similar degree—have just not quite adapted as quickly as they might have. They make other counter accusations. It is not the place and I would not expect you to comment on it, but it is just that there seems to be a degree of comfort zone there. You would think that opportunities like that were obvious and quite remarkable. We were given this list on spare space that Qantas managers are expected to be selling, and yet it seems quite remarkable, as the Chairman has pointed out, that there is not the linkage. You would think that someone would be selling. It is a phone call or something. I just find it quite remarkable. Thank you for that. It is practical impediments and infrastructure—Brian has touched on that. Is there anything else that comes to mind? I think it is quite important.

Ms Gallagher—This is again anecdotal, but I have heard that the coolroom at Hobart airport—which was recently built, I understand—is not used because, from a practical point of view, it takes too many people to push the stuff in there and too many to pull it out. They do not use it because it takes too much time. There are those sorts of practical issues. When we go in to do this study we hope to turn up some practical things that we perhaps have a chance of fixing and that could have some quite big effects.

Mr WAKELIN—You mentioned, I think, eight airports, did you? We are sort of focused on Sydney and Melbourne—the big two—and there are good reasons why in infrastructure. There are a lot of issues as to why and there is the interaction: was there any particular reason? Was it because the eight looked to be the most obvious? Was it just where the product was?

Ms Gallagher—Yes, basically, because we export from all eight in some form.

Mr WAKELIN—These are early days, but you will be developing a better understanding of the strengths and weaknesses of the interrelationships of that, will you?

Ms Gallagher—Yes.

Mr BOB BALDWIN—Can you just explain to me what sort of loss in dollar value or percentage is occurring from cancelled or overbooked space on the air freight leaving Australia?

Mr Jeffriess—Cancelling is very expensive. If you cancelled longer than, for example, in our case three days forward, you pay. So you are very reluctant to cancel. As we move to aquaculture, of course, you—

Mr BOB BALDWIN—I am not talking about you cancelling—

Ms Gallagher—The other way.

Mr BOB BALDWIN—I was asking about people who have overbooked the space and the air freight company is not able to take your freight. What cost to the seafood industry is in that?

Mr Jeffriess—In the case of tuna, every day that that product is late you lose from a third to a quarter of your price.

Mr BOB BALDWIN—What sort of volume in dollars are we talking about?

Mr Jeffriess—If it happened with every tuna shipment you would lose \$20 or \$30 million.

Ms Gallagher—We have not got those sorts of figures right here at our fingertips, but we can probably put them together for you. We do have a whole stack of anecdotal evidence of things that have gone wrong, so we could probably give you some idea. But certainly it does cost a lot. There is the example with the rock lobster: it went all the way to Melbourne before they found they did not have the space and it had to come all the way back to Port Lincoln to be put in the holding tanks to wait for free space to be rebooked.

That would have cost a hell of a lot of money, I would think.

Mrs CROSIO—Mr Jeffriess, did you say that if you cancel you have got a cost involved?

Mr Jeffriess—If you cancel within three days of the shipment.

Mrs CROSIO—The direct question I asked Qantas, through you, Mr Chairman, was: what about cancellation and what costs are involved? They said, ‘No, we do not charge when they cancel.’

Mr Jeffriess—We do not pay Qantas direct; we pay our air freight forwarder. If Qantas are saying that, obviously we will take it up with our air freight forwarder.

Mrs CROSIO—I think we had better ask Qantas, because I specifically asked that.

CHAIR—The witnesses from Qantas indicated that a similar circumstance is a full fare passenger ticket with a no-show. There is no charge but, if it is a special deal that has been done, then you pay. That was what the Qantas witnesses indicated. It is an interesting point.

Mr WILLIS—Mr Milligan, just to follow on that point about the coolrooms not being AQIS registered, are you talking about all coolrooms or is it just some of them? If so, where?

Ms Gallagher—We do not know yet.

Mr Milligan—We do not know yet—that is just what we have been told. The Qantas submission to this committee actually alludes to it without saying it by saying that all their coolroom facilities are only used for imports. So that would indicate that it is extensive but we do not have a—

Mr WILLIS—I must say I missed that point, and when we did that inspection that point was not made to us either.

CHAIR—No.

Mr Milligan—That was in Sydney?

Ms Gallagher—These are the sorts of issues we are hopefully going to bring up through our study which we will have finished by the end of the year or early next year.

Mr WILLIS—Is there any difficulty involved in getting AQIS registration for a coolroom? I would not have thought there would be.

Ms Gallagher—I do not know.

Mr Jeffriess—There is a cost involved—and rightly so, too.

Mr WILLIS—But just for the first inspection to make sure it meets the standard and then presumably that is it?

Mr Jeffriess—There has to be a certain infrastructure standard and, again, rightly so. We believe strongly in cost recovery.

Mr Grant—There would be certain work practices that go with that in the way you operate a facility that is AQIS registered.

Ms Gallagher—Yes, that is true.

Mr WILLIS—Would you like to elaborate on that?

Mr Grant—For instance, you would not be able to wander in and out with greasy clothes on—that sort of thing.

Mr WILLIS—I see, yes.

Mr Grant—So there would be some constraint there as well.

CHAIR—As there are no further questions, we thank you very much for making the effort to come. That was very interesting. There was a question from Mr Baldwin that you took on notice with regard to some indication of costs with regard to delays on tarmac or between the freight forwarder and the aircraft. If you could get back to us with that it would be very helpful. We will provide you with a *Hansard* copy of the evidence that we have taken this morning so that you can check it as soon as it is available. We thank you very much for appearing.

[11.57 a.m.]

BROWN, Mr Alan, South Australian President, Australian Federation of International Forwarders, C/-Aircargo Traders, PO Box 20, Export Park, Adelaide, South Australia 5950

LOVELL, Mr Brian Paul, Chief Executive Officer, Australian Federation of International Forwarders, 403/Level 4, Westfield Office Tower, 152 Bunnerong Road, Pagewood, New South Wales 2035

CHAIR—Thank you for your attendance this morning.

Mr Lovell—Thank you. Our organisation merged recently, combining the Airfreight Forwarders Association and the Seafreight Forwarders Association. We represent 450 freight forwarders countrywide consisting of 195 corporate organisations. All the majors and a majority of small forwarders would be members of our association.

Mr Brown—I am here with our Chief Executive Officer of AFIF, also in the capacity of South Australian president and as a private enterprise perishable freight forwarder. Brian has asked me to join the hearing today to mostly speak on the perishable side of the inquiry.

CHAIR—Have you got a brief opening statement you would like to make?

Mr Lovell—We would like to talk this morning about approval of landing rights as one of our prime issues. I might just touch on a couple of questions raised by the previous speakers because I think those need to be addressed very quickly so we do not leave them in your minds too long. One is the release of flight information and availability of information, et cetera. There is a security issue here. You would be aware of the department of transport aviation regulations which passed through parliament in the last government and were implemented on 1 February this year. Is everybody aware or should I perhaps expand on that?

CHAIR—No. Move on, please.

Mr Lovell—Under the International Civil Aviation Organisation, ICAO, there was a directive that all states or countries implement a program to prevent acts of terrorism on civil aircraft. Australia signed up to that agreement as did most countries around the world and our programs commenced in February this year.

The working party that sat to develop the program involved us, the department of transport, the airlines and Australia Post; and we came up with a program which is workable for industry and exports, our association and the airlines. It is about building a series of hurdles or walls over which a terrorist might find it difficult to jump to do their act of terrorism. It will not prevent the ad hoc person who wishes to target an aircraft of their own free will but it will prevent a planned act of terrorism. That is the philosophy and, God help us all, we do not want that to ever be tested.

The previous witness spoke about release of flight information. The problem here is that flight details will not be issued to an exporter until the cargo is in the safe custody of a cargo terminal, be it the cargo terminal of the freight forwarder or the carrier. When the lady said that she was not able to get information,

that is one of the prime reasons. If the committee wish to have more information on that I can provide the whole program and the processes that freight forwarders and exporters need to go through as part of that program.

Brian Jeffriess spoke about cancellation fees in relation to product which I presume had been booked. They had been charged for fees prior to export. Alan, you might like to comment on that issue.

Mr Brown—The only cancellation fee that as a forwarder we are aware of involves just one carrier and it is a commercial contract to secure guaranteed weekly allotments on a particular flight to a particular destination. It is a you pay, we pay agreement. That is, if the exporter cancels within 48-hours he pays half the freight, within 24-hours he pays all the freight. However, if the airline does not deliver for any reason after they have received the cargo, if they do not perform, they pay. So it is a commercial arrangement. It is not strictly a cancellation fee; it is a commercial agreement. There is no other airline operating in or out of Australia that charges a cancellation fee other than those.

Mrs CROSIO—And that is a signed contract?

Mr Brown—Yes, it is a commercial agreement. It works both ways.

CHAIR—So it is between the airline and the freight forwarder?

Mr Brown—And the freight forwarder has an agreement with the exporter. That space belongs to the exporter. It will not be sold to anyone else. It is guaranteed there every week—to Tokyo if he wants to sign up for Tokyo. So he has access to that, and it is a privilege against his competitors. For that he makes a guarantee to use it and he is given some leeway, up to 48 hours prior to release, without any cost. When you work inside that time parameter you are responsible for some of the cost. If you leave it too late, that carrier cannot resell it and they charge you the full price of that shipment. However, if they do not perform accordingly, they will reimburse that freight amount.

Mrs CROSIO—Have you had an example of where they have not performed accordingly?

Mr Brown—No. This was introduced I think around six or eight months back. I am not talking out of school because I have a contract with a carrier myself for my own company. It works very well. It maximises the capacity because if there is a problem the airline knows at least 48 hours out and can resell it, so that capacity is used. That is the idea of it. It is transshipment airline. It goes from Australia to Singapore and then transships, for example, to Tokyo. As an Australian office, that airline has to bid against all the other stations that is in their network to secure the on carriage from, for example, Singapore to Tokyo. They have to bid for it and win it. If they do not use it, they jeopardise losing it. To protect that space that they bid for and won, they introduced a system where it keeps everyone honest and, to the best of our ability, that on carriage that has been won by the Australian office gets used every week. That is the commercial agreement. You can call it a cancellation fee is you cancel within 48 or 24 hours, but it is fair, on the other hand, if the airline does not perform.

Mr WILLIS—So that is about seafood, is it?

Mr Brown—Anything.

Mr WILLIS—That covers the situation that was raised by the Seafood Council?

Mr Brown—Yes.

Mr Lovell—Just to sum up, carriers do have a concern that some freight forwarders on behalf of exporters may block book multi aircraft to cover the shipment in the event that they may negotiate a better rate or whatever. So the carrier is concerned that they might suddenly be left empty if the forwarder decides to go with airline Y instead of airline X. The threat of cancellation fees is often there but very rarely applied—not in our experience.

I will just go back to the start of our summation here. We would list operators in three grades: grade 1 is a passenger or scheduled passenger freight operator; grade 2 or grade B is a scheduled freight operator; and grade 3 is a charter or tramp operator—and I do not mean tramp in a rude way; I am talking about the old tramp steamers.

We believe that operators who wish to service this market on a long-term commitment should be given first consideration. Perhaps that should be backed by a sound business plan supported by exporters, freight forwarders and perhaps the criteria should be set by an independent committee—and that committee should evaluate the submission as to whether this operator should be given landing rights.

We believe that landing rights should be outside of the normal bilateral arrangements for freighters because Australia has no equivalent freight operators to protect. We believe that if an operator wishes to come here with a freighter they should be given those rights, but it should be backed by a sound business plan, it should not necessarily be regulated by government but perhaps by an independent organisation and they should refer that to organisations such as ourselves and others in the chain for comment.

Mr Brown—As an example, we had a dedicated freighter aircraft operating from Melbourne to Singapore. Late last year the bilateral rights between our two governments—the Singapore government and the Australian government—meant the foreign carrier had to make a decision, because he had a limit, whether to drop a passenger service or drop a freighter service. The agreement made between our governments gave us no leeway and no negotiating power to break that agreement. Therefore, the airline chose to maintain the passenger service and drop the freighter service.

We intervened and asked for some consideration to be given to the 100 tonnes that normally goes on that aircraft every week. What happens to the exporters and their contracts and their commitment and reliability? But the bilateral agreement was more important than that. After three months of arguing with the department of transport in Canberra, the resolution was that the rights be terminated and renegotiated as soon as possible. That freighter came back on again with about a four or five month gap—just after when we needed it most.

What our association is saying is that we would much prefer to have a foreign carrier come in and help our exports than have bilateral toing-and-froing and bargaining and something in return. If we can just delink the freighter situation from the passenger: a lot of the bad blood and the arguments come into it when

the passengers are part of the equation. We would love to see the freighter side delinked because Qantas and Ansett really do not have a freighter service. They are our two indigenous carriers. We have really got nothing to lose or nothing to protect in the freighter area. If a foreign carrier wants to take a commercial risk and fly a \$150 million piece of machinery in to pick up our exports, I cannot see any reason why we should not let him if it does not disadvantage our indigenous carriers, but that does not seem to happen.

Mr Lovell—I think we should ensure that the operator is supporting the growth of air freight exports in the long term. That is why we talk about the business plan; that is why we talk about getting the long-term support.

Mr McDOUGALL—Mr Lovell, I would like to go back to the points that you were making in relation to the flight capacity information availability by Qantas and the security thing that you were talking about. I would like to give you an example which Qantas have given us. I would like you to take us through whether it can happen and, if it cannot happen, why not. If Qantas issued to their freight sales manager on 15 July a list of flights, capacity of containers and tonnages available and it was for flights that would happen on 17 July, is that a feasible thing to do? Can people get into operation to meet those dates?

Mr Lovell—You can talk in terms of capacity and potential availability; you cannot talk in terms of matching cargo to a flight. In other words, you cannot say to an exporter, ‘Your 10 tonnes here is guaranteed to go on that flight on that day.’ What you are doing is advertising that that cargo will match that flight. A would-be terrorist—they are talking about would-be terrorists—may be able to target that aircraft by placing a device within the cargo that would go on that flight. That is the idea—

Mr McDOUGALL—But what I am coming back to is: if the sales manager in Qantas got that information and passed it on to a freight forwarder, could that freight forwarder give it to the client and say, ‘On such and such a day in Sydney or Hong Kong you can get X on?’

Mr Lovell—The carrier—the airline—can give the information to the freight forwarder, yes.

Mr McDOUGALL—And then immediately the freight forwarder can give that to the client?

Mr Brown—Under certain circumstances you can, certainly.

Mrs CROSIO—You were talking about specific dates—the 15th to the 17th or something—weren’t you? It is two days.

Mr Lovell—That is right. You cannot guarantee that that cargo will go on that flight. It is absolutely against the law.

Mr McDOUGALL—If that is the case, what is the use of putting out the bit of paper if you are dealing in perishables?

Mr Brown—There is a very limited way of doing it. The Air Navigation Act does have a little bit of flexibility when it comes to time-sensitive cargo like live lobsters. If the freight forwarder has a model that

he has got an agreement with the department of transport in Canberra to allow him to release flight details to a regular customer that has complied with the whole chain of security right from his premises to arrival at the airport and if that is all in place then you can disclose the flight details and say, 'It is going to be Qantas 1 to London on the 17th. Have you got any freight for it?' If you have got general cargo or any cargo outside that agreement, by law you cannot release that it is Qantas 1 on the 17th that has that capacity.

Mr Lovell—It is an exception to the signed program that the freight forwarder agrees to certain conditions. You are allowed to release this information, but stricter records must be kept of who you gave the information to, the product, the flight, et cetera.

Mr Brown—At the end of every month we have to report every shipment for which we disclosed the flight details before we took possession of the cargo.

Mr McDOUGALL—Okay. On that basis then, would you say that the current rules and regulations in relation to terrorism are a problem and a disincentive or is it too restrictive to allow you to get freight on when there is a capacity available?

Mr Lovell—The department of transport have worked very hard to try to make it a little bit easier for the perishable exporter. They have tried, but there are still certain restrictions which would then contravene the International Civil Aviation Organisation agreement. At the end of the day we are trying to make air travel safer, but there are—as Alan says—ways that specific regular shippers can get this information, but they have to be regular.

Mr Brown—They have to qualify to achieve that. If you had \$1 million worth of computers that you are transferring to London you do not qualify. It may be 20 tonnes of computers; you do not qualify.

Mr Lovell—There is no such thing as, 'I need the information because it is urgent.' That does not hold any weight any more in relation to the aviation security regulations. The fact that your product is perishable will hold a lot more weight than the fact that it is urgent per se.

Mr WILLIS—We have heard information before about Qantas coolrooms not being available for exports. They say that the freight forwarders have the coolrooms for exports and Qantas do not have any AQIS registered coolrooms. I have a couple of questions about that. Firstly, do you think it is a problem that the cargo terminal operators do not have coolrooms available for exports, particularly for perishable products?

Mr Lovell—Just before I hand over to Alan, one of my members specifically advised me that they would not like us to present a general opinion on this because they, for example, add a value to their service by providing a coolroom for their exports. If there were one on the airport it might take business away from their own facility. I cannot speak for the whole industry on this one. I would imagine that the smaller freight forwarders would welcome that, because they could then target business on the basis that they could move the freight into the coolrooms at the airport but still handle the other services. We have a difference of opinion because we have large and small freight forwarders as members.

Mr WILLIS—If you have a coolroom in a freight forwarder's establishment, do you actually also

need one at the airport?

Mr Lovell—For short-term storage prior to uplift, yes.

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

Mrs CROSIO—But if it is on site it is not going to make any difference if they are still taking it out two hours before?

Mr Brown—If the carrier has coolroom facilities air-side where they are in control of the cargo, it may be able to be left in that coolroom until say half an hour before departure. So out of that two hours you could probably cut down the time it is exposed by two-thirds if you had a coolroom air-side.

Mr McDOUGALL—On the site, are they?

Mr Brown—There is one in South Australia which is a private enterprise owned by the Farmers Federation. It is a \$6 million coolroom which has air-side access. So the cargo arrives, it is packed, it is put in a coolroom and goes out the back door to the aircraft, perhaps 45 minutes before departure, and it is perfect. But at Tullamarine, Sydney—and I am not sure about Brisbane; I think they just got a new terminal and I do not know whether it has export coolrooms—the two major hubs, Melbourne and Sydney, there is no protection. So we have transported it in refrigerated road transport, we have kept it in the forwarder's coolroom until we have packed it and at the last moment we take it down to the carrier and that is when it is exposed. If there were coolrooms on airports air-side, it would protect the product much better.

CHAIR—What you are saying is that it is probably just as important that there be adequate coolroom space air-side as there is in the cargo operator's terminal?

Mr Brown—Yes, for sure. We have a three-hour cut off in Adelaide. Our flights are basically planned by Sydney. A lot of the aircraft operating from Adelaide to Singapore originate in Sydney. So we have an extra hour in Adelaide as against Melbourne and Sydney because of the flight planning and the fuel calculations. That is the reason why this cool store was built five years back.

Mr WILLIS—Assuming there is a half-way house here, you could stick them in that coolroom, you could leave them in the shed, where they are not exposed to the direct sun rather than take them out on the tarmac. Why don't they do that at least for perishable products?

Mr Brown—There is nowhere to put them; there is no warehouse. There is the ETV, elevation transport vehicle, at Tullamarine, which may put it in the shade, but the higher you go the hotter it gets in the

shed. It is not ideal. The problem that Brian was also concerned about is that a lot of forwarders around the country have invested in coolrooms. If there was a coolroom integrated into a cargo operator's terminal, it may affect those private enterprise companies that have invested heavily in coolrooms. We really do not see, in the long term, those coolrooms being put in the cargo terminal operators' premises.

Mr WILLIS—How would it affect them? Doesn't it have to come to you, to a freight operator, in the first place?

Mr Lovell—Not necessarily, it goes straight to the airport. Then the paperwork is lodged at the cargo terminal to match the cargo. So the freight can go directly from the exporter to the carrier's cargo terminal and the paperwork is just delivered there.

Mr McDOUGALL—Would you see an expansion of the existing two CTOs into a greater number at the airport as a way to improve the situation that you are looking for?

Mr Lovell—You are probably getting me onto a pet subject now: cargo terminal operations are probably closest to our heart at the moment—not just for perishable cargo, of course, but general cargo too. We have an ongoing situation with some new charges and conditions which have been proposed by the three current CTOs. We have some questions regarding their applicability and their legality. The ACCC, the Australian Competition and Consumer Commission, have been looking at that. As I said in my brief notes, we are not privy to their investigations or what they are doing, but as an association we are very concerned about the new charges.

Also we are concerned about storage-free periods for export cargo which I know are the terms of reference for this particular hearing. This may mean that our industry has to change its work practices. There may be greater costs to our industry in meeting those shorter storage-free periods at the cargo terminals. I guess the position of our organisation is that we would support competition in whatever form. That could be on-airport or off-airport; I know of both proposals, particularly at Sydney. We would urge this committee to direct whomever they have to, I presume the FAC, to investigate those most seriously and offer some real competition and services out there. That would probably affect the charges that the others levy and the services and the spread of hours that they operate under.

Mr WAKELIN—What percentage of the freight forward business would your organisation represent, do you estimate?

Mr Lovell—Eighty per cent.

Mr WAKELIN—Thank you.

Mr McDOUGALL—Could I just have a follow-up question. I raised that CTO thing because I was interested in your first paragraph. What sort of charge increases are they talking about in percentage terms?

Mr Lovell—Are you just interested in export?

Mr McDOUGALL—If it is affecting both, let us have both.

Mr Lovell—The prime charge—and I will not bore you with all the bits and pieces—is 10c per kilo import delivery fee to be levied on all cargo in excess of 100 kilos. That would represent approximately a \$19 million increase in charges which the freight forwarder would initially pay and then pass on to the importer. In our initial press release and take-up of this issue we were told that that should be an importers association matter. However it became a problem for our members because the importers were pushing them so then we took it up as an association. So \$19 million is a figure that we believe would be an impost to the importer. There are other charges but they are of a much smaller nature. In relation to exports, the storage-free periods have been reduced, therefore if a freight forwarder needs to deliver that cargo a little bit earlier for one or many reasons, then they will be paying storage charges which were not paid before.

Mrs CROSIO—Can you give us a time; is it reduced from two days to one?

Mr Lovell—Forty-eight hours to 24 hours. That in effect means that if a freight forwarder receives the cargo on a Friday night and the flight goes on a Sunday and they wish to deliver that cargo that night, they will pay storage charges prior to the flight on Sunday. The cargo terminal's opinion on that is, 'We operate a seven-day a week operation; if your organisation or your members don't that is their problem, not ours.' But that of course then means that the freight forwarder has to change its work practices and staff—

Mrs CROSIO—But the facility is there for them to move in on Saturday is it?

Mr Lovell—Oh yes, but then again some of the hours are not to our members' liking and there is no consultative process as to what would suit our members best. Probably one of the main reasons we were up in arms to say the least is that we are not part of the consultative process. The carriers and the cargo terminals organise the prices, the terms and conditions. The freight forwarders are told and that is what they have to comply with.

Mr McDOUGALL—This is a new charge. What does that mean per kilo to an export product if it stays there for 24 hours?

Mr Lovell—We have not done the figures on that, in effect, because we have not agreed to anything yet. They have told us these are the new hours. They told us initially that they would be put into place on 1 August. They have been delayed until 1 September. But nothing has been finally agreed.

Mr WAKELIN—What percentage of the freight do you handle? Do you want to finish that same subject, Janice?

Mrs CROSIO—Yes, I am still on that subject. I understood from the submission from Qantas this morning—I do not know whether you were here then—that in September their charges are coming down.

Mr Lovell—Yes, I heard that comment, too. I was not here, but I heard the comment. They are probably referring to the air waybill fee. They were talking then as Qantas the carrier, not Qantas the cargo terminal. The air waybill fee is not a cargo terminal fee. The second point is that that fee is an air waybill fee

which is requested of the freight forwarder to charge the customer. If the freight forwarder completes the air waybill correctly, they are allowed to keep the money. In other words, it does not go to the carrier at all. So they cannot say that they are reducing the prices for the exporter.

Mr Brown—They are reducing the income of the agent that is performing the cutting of the air waybill.

Mr Lovell—Yes, they are reducing the freight forwarder's income.

Mr WILLIS—They said they will reduce—

Mrs CROSIO—Terminal charges to exporters; that is in their written submission. It was read out: 'From 1 September we will reduce our terminal charges to exporters.'

Mr Brown—They have not told us about it.

Mr Lovell—No, but they have put the air waybill fee in their cargo terminal charges. Are you familiar with the term 'IATA 512(b) resolution'?

Mr WAKELIN—No.

Mr Lovell—I will not go into lengthy details, but this fee came under IATA resolution 512(b), which allowed the three terminal organisations to discuss prices under an authorisation given by the Trade Practices Commission. That authorisation still exists.

However, as the carriers did not agree to any of these fees, Qantas and the others jumped outside of the authorisation and unilaterally decided to impose their own charges. That is where we came in and said, 'Hold everything, because we believe this is unacceptable.' So, when they talk about reducing export charges, I can only imagine they are talking about that air waybill fee which was contained within the cargo terminal charges.

Mr WAKELIN—What percentage of the freight business are you responsible for? One hundred per cent?

Mr Lovell—I think I explained—80 per cent.

Mr WAKELIN—Eighty per cent of your membership. What about the percentage of the total freight load going out or coming in? Do you handle all of it?

Mr Lovell—Our membership—

Mr WAKELIN—Is 80 per cent of the players.

Mr Lovell—Yes. They would organise 80 per cent of the freight movements air freight in and out of the country.

Mr WAKELIN—Sorry, we therefore had a misunderstanding; the usual part. What percentage of the freight forwarders are members of your association?

Mr Lovell—We have tried to do figures on this and it would be a mammoth task to find out exactly the number of freight forwarders. You would have to put that at around about the same figure. There are a lot of very small operators calling themselves freight forwarders, but then you have to define the term ‘freight forwarder’. You are getting into another argument there.

Mr WAKELIN—The differential between the import and export of 300 per cent, 250 per cent, 350 per cent you referred to—

Mr Lovell—You are talking about the freight rates?

Mr WAKELIN—Yes. Just take me through why you think the differential is so great.

Mr Lovell—Alan, you might like to elaborate on that.

Mr Brown—In relation to the information that has probably come through to you this morning, a lot of it is perishable cargo related. Most of that air freight is perishable, that goes out of Australia, and a large volume of it is low value and high weight. When you look at imports, you see high-tech products, value added products—

Mr WAKELIN—But there is no other reason other than the value of the product?

Mr Brown—Yes. If the rotation of an aircraft goes from A to B and back to A, if it is coming from B with high-tech products that are value added and \$2 a kilo on something that is worth \$20,000 a kilo, it can stand it. Over the years the air freight rate has been structured so the inbound loads carry around 75 per cent of the cost of the rotation of the flight. That allows us to export our lower value products. Otherwise, if we had to pay real freight rates that are paid around the world, we would not be in the race.

Mr WAKELIN—So there is a constant theme about the export rate.

Mr Brown—I will give you an example. We send Mr Jeffriess’ tuna from, say, Adelaide to Tokyo for around \$2 a kilo, when you pack it up in the maximum size shipments. To fly that from Singapore to Tokyo, it would cost you about \$3.50 per kilo. So you can see how the world rates compare with our Australian export rates. So that is half the journey and nearly double the rate.

Mr WAKELIN—Okay, thank you. I will just move on because I am aware of the time and the Chairman will be on my back very quickly. It would seem to me impossible to have a free flow of information about the availability of space. It is impossible—

Mr Lovell—Availability of connecting dedicated cargo to a dedicated aircraft flight—matching the two.

Mr WAKELIN—To know when and where it is at a particular time is just about impossible.

Mr Lovell—Yes, but understand that you would need to look at the bigger picture of how that could be attractive to someone wishing to target a particular aircraft and so on.

Mr WAKELIN—I understand all that. But, put the terrorism to one side, what I am interested to know is whether you would agree with the proposition I put—that is, that it is physically impossible to know the availability of space, so it is no wonder there is a communication issue.

Mr Brown—There is communication between the airlines and the forwarder. As a forwarder I receive a call from an airline saying that there is space available but it is strict—

Mr WAKELIN—The whole theme of this inquiry, particularly this morning, has been—and I am only new to it—the total lack of communication and the uncoordinated process. This is the key factor. What I want to lead on to is the use of aircraft. We have the passenger freight mix; we have talked about fuel mixes and all the rest of it. What this implies to me is—and it is only hypothetical—that trying to get space allocation is an increase in just an exclusive freight forwarder freight aircraft without passengers. That would have to put enormous pressure on.

Mr Lovell—Australia does include freighter aircraft in the security regulations in terms of its crew. Not all countries have got that. In other words, they deem that the crew of the freighter are expendable in terms of security.

Mr WAKELIN—Yes, but Australia includes them in the same category as passengers.

Mr Lovell—Yes.

Mr WAKELIN—But there will be an argument—and no doubt the argument has been had already—that there is obviously a lesser security risk in exclusive freight as combined freight and passenger.

Mr Lovell—But, if you are a known shipper, a regular known shipper, with a strict security program in your own premises and you are dealing with a forwarder who has a strict security program, you are allowed to exchange information.

Mr WAKELIN—What I am leading to is that it puts you people in a very powerful position, doesn't it, in terms of information and selling of space?

Mr Lovell—That is one way of looking at it, but the freight forwarder's job is to be the seller of the air carrier's space.

Mr WAKELIN—Yes, I need to understand very clearly that you would agree with me that it does put your members in a special position in terms of the availability of information.

Mr Brown—Yes, but they go through the costs of setting up and applying the security regulations—

and there is a quite enormous cost to that.

Mr WAKELIN—Alan, you put a supplementary submission in on the South Australian situation. You mentioned that the TACT rate is at 25 per cent and that the two carriers will not offer discounts. Could you just give us an oversight of Adelaide's position? Obviously you have a strong interest there—and I have too. For the committee's benefit, could you tell us where Adelaide is situated in the broader picture and relate it to this issue that you have raised, South Australian impediments?

Mr Brown—The Seafood Exporters Council are probably one of the biggest users of Adelaide, together with meat, other seafood, livestock and all sorts. Adelaide is in the precarious situation—and it has been for a long time—where we are commonly rated with Melbourne and Sydney for pricing. If you have a unit of freight to go, it is commonly rated for Adelaide, Melbourne, Sydney and Brisbane. The rates in Western Australia, because of its closer proximity and lesser flying time, are structured differently.

Mr WAKELIN—And the passenger/freight ratios vary?

Mr Brown—I think Perth has got a lot more flights than Adelaide as well.

Mr WAKELIN—That is right.

Mr Brown—So when we go west, the tariff rates there are lower than Adelaide's. When we go to the eastern seaboard, there are flights in abundance that are under capacity. There is more capacity on those flights on a daily basis and there is competition between carriers. They offer incentives and discounts to win the cargo for their flight. That is all well and good, but an importer in Singapore who will ring Sydney and get a price for four tonnes of melons will ring Melbourne, Adelaide and then Perth as well. Invariably either Perth or Sydney will win on a locational advantage. It is not because Adelaide's product is inferior or our costs are too high, it is the location of the departure that wins the export job. We do not think that is fair to an exporter. We would far prefer to see an Australian rate rather than a port rate.

Mrs CROSIO—Cross-subsidies.

Mr Brown—We would want a level playing field, that is what we are asking. In South Australia, being in the middle, we find it very hard to compete with the capacity from Sydney giving cheap prices and cheap prices in Western Australia without competition. Our exporters in South Australia find it difficult to compete in the same market as their competitors around the country because of the very limited capacity out of Adelaide. There is a reluctance by the carriers that operate out of there to discount.

Mrs CROSIO—What about the cost out of Tasmania? They have got to freight it over anyway. Is it any different from going out of Cairns or out of Darwin?

Mr Brown—I think Tasmania is in a similar position to us. They are common rated with Melbourne but they have to get their product to Melbourne.

Mr BOB BALDWIN—Can I ask what a TACT rate is?

Mr Brown—It is The Air Cargo Tariff.

Mr Lovell—Like the international bible of freight rates. It is a guide only. Do you want to talk about Port Lincoln, because the previous witness spoke about Port Lincoln as a possible airport?

Mr Brown—Not talking out of school, but my own experience with Port Lincoln was with the farm tuna. I will just quickly cover it. We have looked at charters, lengthening runways and Whyalla. We have looked at all sorts of things over the last 10 years—and no-one is going to solve it. Logistically, it can be done, but the price is not workable. The only way to fix that sort of problem—and I have done it and proven it and tested it—is to do a deal using our surplus capacity on winter flights to, say, Singapore, and linking up with freighters out of Singapore that are under-utilised at that time of the year—people like Nippon Cargo Airlines that do not even operate in Australia.

I have been to Singapore and looked at their surplus capacity. We have looked at their pricing, and if Mr Jeffriess wants to pay me around 70 cents a kilo more for his tuna, I will get it there overnight and he will get his \$14 or \$15 a kilo extra. Dumping large quantities of tuna in one day on one plane depresses its price. It has been proven.

CHAIR—He indicated that this morning, too.

Mr Brown—Did he? We really do not see chartering of aircraft as a long-term solution. As I said earlier, if a foreign carrier is prepared to gamble and take the commercial risk of sending an aircraft down to Australia to carry our products out, I think he should have that right. That would help alleviate a lot of the capacity problems without dedicating one product to one flight for one day and depressing the arrival price in that market.

CHAIR—Thank you both very much for making your time available to the committee this morning. We will provide a copy of the evidence when *Hansard* has it ready. The secretariat will send it on to you. I do not think there were any outstanding questions that you were going to get back to us on.

Luncheon adjournment

[2.04 p.m.]

HARMAN, Mr Graeme John, Principal Private Secretary, Minister for Transport, Western Australia, 2 Havelock Street, West Perth, Western Australia 6005

LORD, Mr Geoffrey David, Director, Air Cargo Management Pty Ltd as Executive Office to the Air Freight Export Council of Western Australia, Suite 15, 11 Preston Street, Como, Western Australia 6152

CHAIR—Would you like to make a short opening statement?

Mr Lord—No, not unless you want me to. I think you already have most of that introduction in the content of the submission.

CHAIR—Would you like to make an opening statement, Mr Harman?

Mr Harman—Yes. Thank you for inviting us along. The Western Australian government has a very clear direction as far as its development of air transport in the state is concerned. In response to the significance of aviation to the economic and social development of Western Australia, an air transport directions document has been formulated to enable the state government to facilitate a strong and internationally competitive aviation sector in Western Australia. Copies of the document will be left with the committee as part of this presentation.

The strategy outlines seven priority areas for the development of aviation in Western Australia to the year 2000. These are the improvement in the state's access to air services; the achievement of the world's best practice in the state's air freight export performance for perishables, cultural and other value added products; the upgrading and improvement of the state's regional airport infrastructure and services; tourism aviation; better coordination of aviation developments across industry, transport modes and the various levels of government; the improvement of the state's input into matters that affect air safety and security; and the realisation of Western Australia's aviation export and training potential.

That is just a brief opening statement to put you in the picture of where we see aviation; and air freight is a component of our total aviation strategy. I will not go into the document; it is there for members of the committee to read at their leisure.

CHAIR—Would you like to provide a brief overview of the formation and structure of the Air Freight Export Council of Western Australia?

Mr Lord—The council started in July 1994. It was a WA government initiative which was really started by the increasing complaints that the government were receiving from exporters—complaints predominantly involving the lack of air freight capacity. So the government said, 'Right, let's go to the troops and see whether we can sort this out.' So they started that council in July.

Part of the recommendations from a study commissioned by the government prior to that by a company called Western Global was, firstly, the formation of a council and, secondly, the appointment of an executive office—which has proved to be a vital part—with experience of the entire air freight industry and one that is accepted, importantly, by everybody involved in the main industry sectors, obviously the exporter, the forwarder and the airline. We came on board in September.

I do not know whether I actually included who is on that council. It is chaired by the Director-General of Transport, who in fact has recently resigned from that job but he has been retained in the capacity of chairman. The main representation comes from industry-selected representatives from each of the main industry sectors involved. There are the fruit and vegetable people, the meat, seafood, dairy and lobster sectors and all that sort of thing.

There are representatives from the freight forwarding industry, the airline industry and the Airports Authority, the Department of Transport, the Department of Commerce and Trade and the departments of agriculture and fisheries. Air Cargo Management is the executive office. The important thing to stress is that each of those representatives is self-elected, which has worked very well. We said to each industry sector, 'You go off. Please consider putting somebody on this council, but you select who it is.' So a very open committee has resulted from that.

CHAIR—In your submission to the Prime Minister's task force, there seemed to be an indication of a possible problem with regard to long-term funding. Is that a real problem?

Mr Lord—It could be my problem, yes, from a personal point of view.

Mr Harman—It was interesting to hear DPIE talking this morning about the seed funding and the \$200,000. I suppose they can use that definition. Basically, the state government came up with the funds initially to fund it. Since then it is a CRF item in the Department of the Transport's budget.

CHAIR—Sorry, CRF?

Mr Harman—Consolidated Revenue Fund. But it gets looked at every 12 months.

CHAIR—So it is on budget; it is on line?

Mr Harman—Yes. We are currently going out for tenders in the next two months. Your current contract expires?

Mr Lord—Friday.

Mr Harman—Friday, okay. So we are currently going out to tender again. We do that process of going out and seeing who is out there in the market place and check it out. It will be another two-year contract on top of that. We will be doing the same processes as we have done before. It will be state government money, but we will also be coming to the federal government saying, ‘Are you supportive of this initiative? Look what we have done.’

CHAIR—I am sure we will look forward to seeing you.

Mr McDOUGALL—We were talking this morning about the \$200,000. Since it was injected in 1994, what sort of growth, in tonnage terms, have you seen in exports in perishables since that time?

Mr Lord—That one question covers quite a few points that are part of our program. Point one—I think I might have included it at some point in our submission—is that we are still having an ongoing, uphill battle trying to get accurate data on perishable air freight exports out of Australia, let alone out of Western Australia. It is a long story, but the bottom line is that we eventually went to ABS and got a first set of figures for November 1994 in which they declared, for example, that \$2.3 billion worth of air freight exports went out of Western Australia in that one month. That is wrong. Since then, we have noticed huge errors in the database being created by ABS who are, in fact, getting the information directly from Customs.

We think we are getting nearer the solution, and it is really coming back to Customs to improve the reporting system—I do not know if you are familiar with it—called EXIT. Every exporter is obliged to report what he is sending out per shipment. Some of the total tonnages are incorrect, but, more importantly, they are not showing the correct destination. For example, you have got maybe a 100 tonnes of lobsters showing Singapore as a destination port. We know, being in the industry, that Singapore does not order or buy one kilo of lobsters from WA; they are en route to either Taipei or Japan. So the end result is that we do not have the accurate tonnage figures.

After talking to the industry over the last year, they reckon there is about a 10 per cent growth. Another interesting factor that you might not have come across is that actually measuring in kilograms tells you nothing. You could have a major decline in tonnages yet your capacity or your volumes could be increasing by 20 or 30 per cent, as has happened over the last couple of years.

The kind of cargo that we have been moving out of Western Australia has changed from high volume shipments of, say, plums for the destination of Singapore to more long haul shipments of flowers and lobsters, which is much less volume. So your capacity is being used but your tonnage is going down. Even if I said to you accurately that tonnage has gone down, the instant reaction is, ‘Oh, that’s not very good.’ But, in fact, it could be superb because the volume of the product has gone up and the volume of shipments has gone up. Another thing, in terms of tonnages going up, is whether or not they are being used. But our major task to begin with was to attack this perception of lack of capacity. There is a perception and there is a reality, and it is very much the same-

CHAIR—Which was it?

Mr Lord—Both. In the peak periods of November and December it was actual, but you have the

same on any trading route in the world. Other times you would find that the complainants were the ones that were the have-nots, the ones that did not have their act together or did not understand the system properly.

Since we have been on board I guess, in terms of capacity, there have been two or three major breakthroughs. The council and the executive office were very much instrumental in sitting down with Singapore Airlines to introduce a full 747 freighter into Perth.

The general consensus was that the WA market could never sustain a full freighter—Adelaide would be the same for example. So what we did was that we routed that freighter to Auckland to Perth to Singapore, which was interesting. But if you work it out, to deviate to Perth back to Singapore is only about an extra three hours flying. Off the top of your head it does not make sense, but that is the case.

So the result of that is that you have two uplift ports to share that burden of filling that 120-ton aircraft, and it has worked quite well. Also, it has introduced to Perth for the first time regular main deck carriage, which means you can carry livestock and you can carry outsize cargo, which is important.

CHAIR—So what is the frequency of that?

Mr Lord—Once a week.

CHAIR—And that is still operating now?

Mr Lord—Yes, and they are talking about introducing a second one. It has worked quite well. That has created another 50 tons a week capacity. Britannia Airways, albeit the small supplementary carrier from the UK just carrying what we call bucket and spade tourists down to Perth during the peak season, were denied traffic rights by the Singapore government. The aircraft routed itself Perth-Singapore back to the UK. They said, ‘You can have passenger rights but you cannot have cargo rights.’ That basically was to protect their own airline on the Perth thing. So we, with the support of the minister, et cetera, approached the Singapore government and said, ‘Look, this is peak period; it is fairly small capacity; it is about 12 tons extra a week, but 12 vital tons. Would you please consider adding cargo rights to that route?’ So with the right communication channels we got it. We were quite pleased.

CHAIR—Can I just interrupt there? At that point what part did the federal department of transport play in those negotiations, if any?

Mr Lord—Federal did not; just state.

Mr Harman—We initiated it through the state government, through EFIC, and used the department of transport.

Mr Lord—Probably the biggest coup or success that we have had since we started is actually gaining permission—again it is in the submission—to transit cargo through Indonesia. Up until our arrival, Indonesia for some strange reason had never allowed international air cargo to transit Indonesia from one international carrier to another. You could go Garuda to Garuda but you could not, for example, go Qantas to China

Airlines or whatever. If you ask the question, you will find people have tried to crack that one for years. We went up ourselves as the executive office and were virtually shown the door pretty quickly—being told, ‘Not another one trying to sort this problem out.’ So we came back, we reported to the government, and they said, ‘What do you think we should do?’ I said, ‘We should write a letter to the Ministry of Finance in Indonesia who are responsible for Customs and say, "Please would you reconsider?"’ To cut another long story short, about three months ago we cracked that.

What that has done, very importantly, is this: there are about 15 flights a week between Perth and Denpasar, for example—all tourist traffic, obviously—with about a combined capacity of 200 tons a week. These were being under-used to the extent of five per cent because there is very little trade between Perth and Denpasar itself. Yet we did a bit of a survey and there are about 70 international flights out of Denpasar each week—Lufthansa, Japan Airlines, all the big boys, some of them with reasonable amounts of space—so we thought we could start utilising this space to Denpasar. What we have done in effect is increase the usable capacity out of Perth by 30 per cent, so it is there. All these things we are doing are sorting out some immediate problems, but it is very much in line with the state government’s aviation strategy. It is really to cover the next 20 to 25 years. We are planning. Even though people are not screaming for space just now, although you might be hearing that they are, we believe definitely they will be over the coming years.

You have additional changes; you can see the trend—and I was surprised Qantas did not bring it up this morning. With the purchase of 25 per cent by British Airways, that resulted in one of their twice daily flights in Perth being knocked on the head, just totally cancelled. So that is seven flights straight away out the system. You will see the trend throughout Australia of increased frequency but different aircraft type. For example, Singapore Airlines used to have a daily jumbo into Perth with a capacity of anything upwards of 30 tons. That has been replaced by twice daily airbuses with a capacity of about 10 tons, so you have got a reduction there of almost 25 per cent in cargo capacity. That is a trend we think is going to continue. I think the MD11 is no great shakes on cargo. Cathay Pacific introduced that. There is certainly one aircraft type, I am not sure which, where its cargo capacity, say, from here to Hong Kong is considerably less than a jumbo.

So on one side of the fence you are seeing declines which we are trying to counter by increasing capacity. Not only that, we have increased capacity by sitting down with the airlines to load plan their aircraft better. You have got, as you probably would accept, good airlines and bad airlines. The job of load planning your aircraft to see how much freight you can get on is not difficult, but you have got to know what you are doing. Some airlines are good at it, some frankly are terrible, and the end result is that they go up with considerable amounts of spare space.

With bad packaging—which we might go into later, I don’t know—you’ve got several different box sizes for, say, flowers or whatever. Nobody really has sat down and said, ‘Can we make this uniform so that they are compatible with airline containers?’ When you see an airline container packed with flowers, you see gaps all over the place. For example, the polystyrene that is used in lobster boxes takes up about 30 per cent capacity of an airline container, so we are trying to develop a new box which will increase that usage by 30 per cent. So everybody is in a win-win situation: the exporter can move more, the forwarder makes more and the airline makes more. It is difficult to get the industry to change, but this coming lobster season we have had the commitment from, I think, two shippers that they will convert, and I think the rest will follow.

Mr McDOUGALL—Just following on, it is a bit disturbing after two years—even though ABS have not done it. If the government is so serious about what they are doing and they have had two years to do it, why have they not set up their own mechanism to measure the increase within the plans of the export council?

Mr Lord—We did. There is an airline communication system called SITA, which is now a worldwide internal system. Prior to every flight that goes out of any country there is what is called an FFM message. It is a 'forward something manifest' message with supremely accurate figures—number of boxes, product destination. It took us about six or nine months to get special permission from the Paris headquarters of this company to install this system in ABS.

We said, 'Right; don't worry about Customs any more, don't worry about this; we've solved the problem.' We physically put the machine in ABS and then we waited and waited for some results, but apparently they found out afterwards that they could not use that information, that it was against the constitution because it was coming from a commercial source. So we went all the way back to square one. Quite honestly, we could write a book about this. It has been totally frustrating. But what we are concerned about is that if the problem exists in Perth or Western Australia, it has to exist right throughout the country. So your trade figures could be wrong.

Mr Harman—As an essential part of AFEC we wanted to find out the correct information on what is being produced, where it is going, how it is going, what time it needs to go and those basic questions. And, as Geoff said, when we got to ABS and some of the figures that they were supplying to us, they are obviously out of touch with reality—someone pushed the wrong button. It has taken a fair bit of effort from the executive and the department of transport to put their own systems in so we can get that correct data so we can start making some sensible decisions on how we approach people like Singapore Airlines and say, 'Okay, you want to bring a second freighter into Perth; this is what is going to be available at this time, this is where it needs to go and this is how much.' Then we can program and plan those things which are essential to answering some of these questions.

Mrs CROSIO—Can I follow through on that? That machine or whatever the technology was, a package, why did it have to go to ABS? Why could you not set it up—

Mr Lord—Confidentiality. The airlines would not release it. We said, 'You can put it in department of transport or put it in our office.' To begin with about half the airline industry would not even talk to us. 'Oh, this is confidential information', they said; and I said, 'Not if it is pooled as a whole; we don't want to know that X airline carries X amount of lobsters.' That is understandable. But I said, 'If I can tell you the total amount of lobsters that moved between Perth and Tokyo, that is very valuable information to the airline itself because obviously they are working out their own market share.'

As I said a minute ago, you have got some good airlines and you have got some bad airlines, and you have got some pretty inexperienced staff hanging around. But to answer your question, the airlines would only feel happy releasing that information to ABS because of the code of confidentiality that they offer.

Mrs CROSIO—Can I also follow through on what you were talking about on increasing the capacity,

how you have been able to do that with negotiation? Have you got at the market? You made another statement and said that, even though it is not being used now, it will be in the future. So what are you doing with that spare capacity now?

Mr Lord—Okay. One of the things we have got to do carefully is to try and increase capacity in a balanced way. Let's stick with lobsters because they are everybody's favourite; everybody likes to eat them and they make everybody lots of money. But you do not want to increase freight too much because, if you have got a surplus of two particular destinations—and I am not just saying out of Australia—all of a sudden you have got increased volumes and their overall market is diluted. So we work fairly closely with them. Not that we can control it totally but at least, as long as we are aware of it, we can say, 'Well, how much more freight do you want?' And of course now you have got the big players who have been there for years, and they say, 'We don't want any', because all the increased stuff is possibly going to let competitors in.

When we were first given the problem of capacity, after maybe six or nine months of working on it, we went to each industry sector and asked, 'How much business are you losing because of the lack of air freight?' To this date we have never had one person say to us that they lost X tonnage or X amount of revenue. So we are slowly but surely improving what we have got.

Somebody raised the comment earlier this morning that, in our submission, it appeared that we had our priorities around the wrong way. That is a valid point, but our initial tasks were—and still are to an extent—to get our own house in order: 'Let us get things right. Let us get this chiller room right'—and we can talk about chillers because it is a major concern—'then let us start developing markets and getting the product right.'

Mrs CROSIO—So which is the answer to my question: you have not got spare capacity or the spare capacity has not been utilised?

Mr Lord—We have at certain times of the year. Also the freight business, as you would probably appreciate, is a bit like the stock market because what happened last week is not necessarily going to happen again next week. There are so many factors that drive it. The dollar itself has been unfavourable to exporters in the last six months. The demand out of Perth over the last six months, even though we are in winter, has generally been considered the lowest in memory—certainly over the last 10 years. It goes in cycles. The lobster catch was probably the worst, and that goes in five-year cycles.

Mrs CROSIO—So at the moment there is enough freight capacity going out of Perth?

Mr Lord—Yes, overall I think there always has been. But what we have identified when we talk about developing new business is that some of the major exporters are reluctant to make any concerted drive to increase their business because they do not have the confidence that the freight space is going to be there. I think that is pretty important.

So we are not looking now—although we are—and attending to immediate problems, but very much, as I said, it is in line with this future strategy. Let us make sure that there is going to be enough freight space there for the future. If it means bringing freighters in, let us look at it. You heard this morning the economics

of running a freighter are totally different from passenger transport.

Mrs CROSIO—Couldn't someone analysing that statement say it is almost like the case of the cart and the horse: let us see if there is an export market being generated in Western Australia so you have a capacity for freight and you are saying let us get the freight before we get the market?

Mr Lord—No. We are very much going alongside—again, if you read the submission—the development of the regions. We have just started now going out to the three main regions of WA—the Kimberley, the Gascoyne and the Albany regions. A lot of the gear that is coming out of there is being exported, but there is a whole education program there.

I did it years ago when I was working for Singapore Airlines. I went up to the Ord River. They were selling superb melons to the Perth wholesalers. We knew for a fact that a large percentage of those melons were being exported, but the grower did not know. So I suggested to the grower that he start exporting either by forming himself into a co-op or by doing it individually. These guys are farmers; they are not businessmen. The reason I did that was that we had just started services out of Darwin and they were going out empty. Kununurra to Darwin was a dashed sight easier or nearer than Perth.

That worked quite well. We actually took the guys up to Singapore and Hong Kong, introduced them to the buyers, did all sorts of things and it started to work quite well. But then as soon as the domestic price went up, they said, 'We are not going to export this week. We will get the better price out of Melbourne.' You cannot do that. These guys have to learn to make the commitment to export.

So our work now is very much talking to what we call the second generation growers who have expressed an interest in developing the right product that will withstand air freight—half of them do not even know what to grow yet—and then to help them export. That really is coming out of our role as an executive office. But we are seeing that, without that development encouragement, we are not going to get the growth that we can go for. So we are really going back to basics on that.

Mr Harman—That is part of the strategy that you will read. It is all right to talk about air freight. We have only the Perth airport, but we are in competition with every other airport in Australia—contrary to the view of some in the federal department of transport, but we are. One of the strategies that we have is to develop regional airports in those second growth areas that are going to be exporters in the future.

The state government has taken that up. We see ourselves moving along in an ordered approach to do that because, otherwise, we are going to be faced with a situation where they are knocking on our door saying, 'We want to take this to here. We want to take that to there.' So we have to get to them, educate them now, get the communication up and tell them what is going to happen and how it is going to happen. It is a very key part of that communication process—or we think it is in our state. We have a situation where people in the Kimberleys road train their products down to Perth then the product flies back over them to Asia. We have to try to solve that problem for them.

Mrs CROSIO—Do you have in Western Australia—and excuse me for asking this, but I am not aware—the International Forwarders Association of Australia?

Mr Lord—Yes. They have changed their name. The guy that sits on the council is a director of his own freight forwarding company but is also the president of the WA chapter.

Mr McDOUGALL—I am getting very confused about how you develop all this infrastructure and pay for it all without a market. The industry says it had an increase in two years of about 10 per cent. Now whatever that is—whether it is tonnage, value or whatever—the information that I have been getting is that the majority of that 10 per cent would probably be crayfish or lobster—I am sorry if I got the terminology wrong.

We are talking about other perishables. For the life of me I cannot understand how anybody can justify through infrastructure expenditure a growth in commitment of taxpayers' money without knowing whether or not you even have the ability to grow a product that the market might want. You said it yourself in relation to the guy up north who was selling melons one day and then found a domestic market the next day.

Mr Lord—Yes.

Mr McDOUGALL—My understanding of economics and my background in corporate marketing was that you source the market before you determine whether you go any further. That was why I asked the question in the first place about the priority in relation to the list in your submission. It says, 'to liaise with growers, producers and others to maximise existing resources and focus on product development'. If you have had \$200,000 for two years and you have not got any answers about whether or not there is a market out there—

Mr Lord—We have. We have plenty of answers, but I am suggesting that you do not worry too much about the priority because it is all in a list of things, if you like, to be done. If we follow your logic—which is as logical to my mind as ours—and go out, get the product and go gung-ho but have not gone to Denpasar and have not talked to Singapore Airlines, then I would suggest that we are going to have a bit of egg on our face equally, aren't we? It is all happening together.

Mr McDOUGALL—But you have already said that you have freight capacity at the moment?

Mr Lord—We have because of the current market conditions. But are these market conditions going to stay for the next ten years? We are all looking at the crystal ball, but you can bet your bottom dollar now that the situation is going to improve.

Mr McDOUGALL—Let me come to the next point. You do not want a national freight council?

Mr Lord—No.

Mr McDOUGALL—Is that parochial or is it—

Mr Lord—No. I would not be here if it were parochial because a lot of the situations that we are coming up against are very much national. There are lots of similarities. Take your database for example. We

initiated it over there and, hopefully, once we sort that out, we will tell the world about it. Your chiller facility has capacity in its own right, but there will be capacity differences with, say, Victoria compared with WA.

What I am saying is that there is no way we want a national AFEC, but you might have a national sub-AFEC that might meet twice a year or whenever to cover the national issues. It is up to you guys whether you form a state by state AFEC, but it seems to be working pretty well in WA.

Mr Harman—From the government's point of view, there are certain things that a national body would assist us with. Those are obviously areas where the national government has control. We would always come for assistance with customs, landing rights, bilaterals and all those sorts of things.

The success of what we have done seems to work on the fact that we have got these people around the table who have local knowledge about what we can do and those sorts of things. It really is grassroots. That is the success of it. The success being that these people relay that information to their growers whom they represent and all that happens.

This may sound parochial, but what you have got to ask yourself then is: if that were extended to a national scene, would the same communication be there? We can give you examples where it has not been when things have been extended to a national scene. Again, it is integral for the federal government to be involved in these areas in certain places where we do have problems.

The Indonesian example was that we went up there, we talked to the people and we did not involve the federal government. We were able to do that in our own right, but I believe that was a one-off case. I think we could probably do that in some other places, but at some stage we will need the federal government support if we are to expand in other areas and open up other areas of capacity, like we have with Denpasar.

I do not class it as parochialism; I think it is a matter of grassroots and that flow of information getting back to the people who really count. In all the meetings that you have had this morning, the people who have talked have all come back to the one thing—communication and getting it back. DPIE was saying it must be the exporter who drives that freight change through.

Mr Lord—I am not sure, but I think it is a combined drive. We talked so much about chillers this morning, and that is my main baby. Out of Perth, over 80 per cent of freight is perishable. You kept asking the question, 'What really happens behind the scenes?' I have worked behind the scenes world wide and in Australia for 30 years, and I can tell you that some silly things happen. You have \$200 to \$300 boxes of lobsters drop-kicked into the rear hold of a 747, or a pallet of milk sitting in the sun. Somebody raised the point that, okay, a lot of forwarders are slowly but surely getting their act together and investing in chillers on their own premises, but that is not solving the main problem. I see the main problem occurring after you have lodged that cargo with the airline.

CHAIR—Out on the ramp.

Mr Lord—In relation to the kind of storage that is available now, I can quote both Qantas and Ansett

that they have no plans or intentions to invest any more money in increased chillers. That was a quote that we got when we had that conference last year. One must think about whose responsibility it is to supply these facilities. You have got Qantas, which is an airline, in transportation. Where does the buck stop in supplying ground facilities?

The bottom line is that everybody wants something better, but nobody is willing to pay for it. I would like to see the airport authorities doing it and charging for it. Everybody has to. That is my ultimate way of thinking. Eventually—and we would maybe call for state or even federal help on this—the government might bring out some rules. So just as we as passengers go through a terminal, go through immigration, get our passport checked and this, that and the next thing, the government might come up with some decree that says, ‘Thou shalt not allow your milk to sit on the tarmac in 40 degree temperatures.’ Even the EC has that. I do not know if you are aware of it, but a container of chilled meat will be tested for temperature on arrival. If anything is over seven degrees, that shipment could be rejected.

It might come down to something like 10c to 20c a kilogram having to be spent on the correct care of the cargo. But if everybody has to pay, everybody is in the same ballpark. It also should increase to some extent your shelf life at the other end. If Australia as a country—let alone WA—is really going to get serious and be recognised as a world exporter of top quality produce, it has got to happen, but it is not happening properly just now.

Mrs CROSIO—But the reverse would also be true. If a plane was carrying 400 passengers, you could have 400 passengers sitting there waiting because they had a problem getting the freight aboard. So therefore it would be another delay.

Mr Lord—No, that does not happen, unless it is a one-off problem. Your 747 is a remarkable aircraft—and we think we hold the record of carrying, actually uplifting, 45 tonnes on the lower deck area of a passenger 747 a few years ago. Funnily enough, it was of South Australian plums. All that stuff is loaded quite a bit in advance before the aircraft is ready to leave. It is pretty well automated. It works pretty well.

The chiller is a major issue. Markets like Japan are becoming more and more demanding in terms of fresh and live goods. They want that stuff in pristine condition. They want strawberries to Marks and Spencer in December and that sort of thing. They are leaving Perth in 40 degrees. As soon as they start getting heated, a reaction starts. They start turning into jam and, even if you belt them down to 10 or five degrees, it is too late. They are still edible, unless something really bad goes wrong, but they are not arriving as they could be.

CHAIR—What CTAs have you got in Perth?

Mr Lord—We have Ansett and Qantas.

CHAIR—Just the two?

Mr Lord—Yes, but Ansett is 11 kilometres away from the international tarmac. They carry all the perishables around in a peri truck in these terrible temperatures. That is not good for a start.

Somebody asked if there is room for another one. Most international airports throughout the world will have an independent handling company. In Perth we have looked at it and, honestly, the cake is not big enough to split up to make it viable. There are only about 13 international carriers, most of which are pretty insignificant in cargo uplifts; therefore, it is not viable. They would love to put one in Sydney, but there is nowhere to put it. That might change soon, I understand.

It is also the design of the things. You have probably seen chillers with big sliding doors. That is all right for longer storage, but what I want to see is trucks going in and loading in a controlled area which is about five degrees or 10 degrees. We do not want any of this business where, when you bring your flowers out to the airport in pristine condition, a Qantas guy or whoever says, 'Just put them in that container over there,' a container which is so hot that you could fry an egg on it. Your flowers are literally cooked in there before they even see an aircraft. This happens a great deal, I can promise you. We are working on how to fix it.

Mr WAKELIN—On education and training, you make the point that you thought it might be a bit of a surprise to us.

Mr Lord—To that extent I meant.

Mr WAKELIN—This whole issue of communication, is that really what you—

Mr Lord—It is part of it. As an example, I will never forget when we sat down with about 20 flower exporters with this Dutch guy literally banging the table. He had just harvested two hectares of some beautiful flower and had got a market in Amsterdam. He started cursing and swearing because there was no air freight—and this was in about November. So the obvious question was, 'How about checking that before you went into that growing program?' That is a simple lack of communication. We see every day examples of that.

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

Mr WAKELIN—I watch the way my case goes in sometimes.

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

We went through about 80 people, and then we have this constant ongoing demand in twos and threes.

Because of the logistics of putting these tours together—a lot of the exporters are quite far away and you have to put transport on—we have suggested that we do a training video. It is not parochial; you will find that the way we put it together will refer to the rest of Australia. So this training video can be given, sold or whatever.

Mr WAKELIN—What I was leading into was the relationship between these people. We have heard from various groups trying to develop programs. They ring up and say, ‘It is going to be a bit different. We are going to do this a bit differently.’ They are just developing a whole line of communication, which is what you are talking about. I am particularly interested in the relationship between the freight forwarder and the airlines. How many freight forwarders are there? You mentioned that you have one on your book.

Mr Lord—There are about 35 in Perth, but I think seven or eight would put through about 80 per cent of the business.

Mr WAKELIN—Therefore, is the relationship between the airlines and the freight forwarder variable?

Mr Lord—Very variable. Let’s not mention any airlines, but some are terrible. I can mention Garuda, but not in a derogatory way, because they have no cargo representation in Perth at all. They have over 30 flights a week out of Australia. We have said to them that we believe they are losing considerable business by not having local representation. They say, ‘Indonesia doesn’t want to spend the money.’ That is their commercial choice, so we cannot do anything further.

There are other airlines that will wave the big heavy stick and say, ‘Look, we’re going to do this, and you will do it without any communication.’ That totally gets the backs up of the forwarder and the exporter to the point that they will say, ‘Let’s black-list that airline until they sort themselves out.’ But that is really the same in any industry, where you have got the guys who are switched on and who are experienced managers.

Mr WAKELIN—If it were the road industry—I will not touch on rail—I just find it hard to believe that someone has not actually got it and communicated better. It is a bit amazing for me just to observe it. Is it just as amazing to you?

Mr Lord—Yes. It is the same the world over. I think one of the big things you have to remember—again, it came out this morning that some airlines are saying that air freight is very important—is that it is only fairly recently that some of the major airlines have realised that there is a quid to be made out of cargo.

Mr WAKELIN—We come back to that all the time, don’t we? It is the attitude of the airline.

Mr Lord—Yes, but there is a reason for it. Most international carriers will now earn about 20 per cent of the total revenue from air freight. Up until fairly recently, somebody even said cargo was a by-product. I really do not think it is a by-product at all. It is one of their major products but air freight would be looked after, probably casually, by a passenger sales manager. So he does not understand cargo. He does not like it because it is dirty work and it is not romantic. He does not want to know everything, but airlines

have separated a bit—

Mr WAKELIN—A box is different to a passenger walking on and off. That is the sort of psychology we are talking about. The same person is not used to handling that as compared with that.

Mr Lord—Yes, but you can take it back to grassroots, as a career path for a youngster. You will see queues a mile long for youngsters who are going to try to get training in airline ticketing. They will get a certificate and go and try to get a job in a travel agency. There is nothing for cargo.

Mr WAKELIN—I have one more question on that terrorism argument and the code, the communication blockage. What is your view on that?

Mr Lord—It is crazy. Some airlines give advanced information. They say that for the month of September they have got plenty of space to Jakarta or whatever it is. Honestly, the information is absolutely useless. It is of no use to an exporter who is looking at maybe most of his—

Mr WAKELIN—It is a real practical issue.

Mr Lord—Yes. They are looking for six-month contracts or supply patterns—this, that and the next thing. You will find that, if they are light on in that space, no matter what you do, you will not be able to sell it. It is probably to out at Woop Woop and nobody wants it anyway. If you give that information to somebody three or four days from the event, you cannot get your act together in that time.

Mr McDOUGALL—In your submission you talked about the deal that you have done with Denpasar and the one you are actually hopeful with in Jakarta. You have not put in there the dates that it happened and how long it has been running, but you have made the comment that it has given you an extra 200,000 kilogram capacity each week. I would just like to know when that became available and how much it has been taken up.

Mr Lord—Nothing comes easy. The actual go-ahead came in April. There is another thing. Part of this job is going to be to market this alternative routing to the industry because, first of all, the average exporter will say, 'Hang on, trying to ship it through Bali is not going to work very well. My cargo is going to be stuffed up.' The second phase of this for Bali, though, to actually try to utilise that total 200,000, is to put suitable transit chillers in. There is nothing there just now.

Mr McDOUGALL—So there is no infrastructure in Denpasar?

Mr Lord—No, we have run out of money. But what do you want for \$200,000?

Mr McDOUGALL—No, but you are saying Jakarta has not got any infrastructure there either.

Mr Lord—No, but—

Mr McDOUGALL—So you really have not got a 200,000 capacity?

Mr Lord—Yes, of course, we have.

Mr McDOUGALL—Not for perishables.

Mr Lord—Yes, but it is a bit more complicated. For example, lobsters do not need chillers during transit. In a short transit of two or three hours you can transit without any chiller facilities. Towards the end of the lobster season we moved just under 30 tonnes of lobsters. The interesting thing with those was that the guys were not putting those through Denpasar for the love it. That was genuine overflow of capacity that they could not find on the traditional flights out of Perth—albeit small, but we have got to start somewhere.

The next thing is that we have got to put proper chillers in there, otherwise it is never going to work. But, with the Indonesian people now, we have cracked this permission and not only opened up a part of WA but also given them a site so that they could maybe start attracting freight from the whole of Australia and New Zealand, but somebody has got to whistle up the money. That is what is holding us back. It is between half a million and a million investment. It obviously not government funded; it has got to be industry funded.

CHAIR—We have gone a touch over time. Gentlemen, I would just like to thank you for making your time available, for the information and for your submission. The document from the Department of Transport, Western Australia, called *The way ahead: air transport directions for Western Australia*, which was presented by the Western Australia Air Freight Export Council, we receive as exhibit 12. Thank you very much, gentlemen. When the *Hansard* record of your evidence is available, we will send a copy to you.

Mr Lord—Thank you very much.

[2.50 p.m.]

CHRISTIAN, Mr Jon David, Manager, Electronic Development, Australian Quarantine and Inspection Service (AQIS), c/- Department of Primary Industries and Energy, PO Box 858, Canberra, Australian Capital Territory 2601

HETHERINGTON, Mr William, Acting Assistant National Operations Manager, Quarantine Operations Branch, Australian Quarantine and Inspection Service (AQIS), Edmund Barton Building, Barton, Australian Capital Territory

SCHWARTZ, Mr Robert Bertrand, Manager, Plant Programs, Australian Quarantine and Inspection Service (AQIS), Edmund Barton Building, Barton, Australian Capital Territory

CHAIR—Welcome. Would you like to make a short opening statement, Mr Hetherington?

Mr Hetherington—Perhaps just to cover the area of the branch and some of the things that we are involved in to give the committee members an idea. The branch responsibilities include responsibilities in relation to both imports and exports of a range of plants, animals and their products. In relation to exports of perishable goods, we have responsibilities in relation to live animals, fresh fruit and vegetables, flowers, grains, et cetera. I think that, with the representation that we have got this afternoon, we should be able to give detailed answers to questions that the committee members may ask. However, obviously AQIS is a fairly large organisation and if we need to consult other areas we will follow that through.

As another general comment, AQIS is required on its operations side to fully cost recover. That does not mean to say, though, that we have not looked at alternative means of cutting costs to industries and the committee will be aware that we have various quality assurance programs and so forth in place. They are not primarily designed to save money, but there is scope for the saving of some money in some cases.

Regarding the difficulties faced by small exporters, we do have what we call export facilitators in key regions around the country. These people are selected because of their personal traits in wishing to help people, et cetera and they act as a one-stop shop to try to explain the business of AQIS and importing country requirements to small operators. The committee will be aware that the government will provide up to \$2 million annually over the next three years for the food into Asia program. Part of those moneys will be used to try to break down some of the barriers to trade in relation to technical issues. Thank you, Mr Chairman.

CHAIR—Would you mind just briefly describing step by step the process an air freight exporter would have to go through to comply with AQIS export regulations, going through the process of freight forwarder and cargo terminal operator to the time it gets on the aircraft and out of the country: the involvement that he has got to go through with AQIS, say, in that area of plants, oysters and seafood?

Mr Hetherington—Perhaps if I cover the meat and seafood side and pass to Mr Schwartz for the plants. Basically there will be importing country requirements that have to be met in terms of inspection of the product. As I said, that can be done through various means, but we do have legislative requirements, et

cetera. There can be variations, depending on importing country requirements, of how the goods are inspected. If they are prescribed goods for export, then they must be accompanied by export certifications—sanitary or phyto-sanitary—and, once the goods have been prepared and are ready to go, we will provide appropriate certification in accordance with where they are destined for. Then it is really up to them and their agents to get the goods delivered, so I guess that amount of detail is sufficient for those sorts of products.

CHAIR—We will use the example of oysters. At what stage of the process do you need to conduct inspections? Where are you involved as far as getting to a stage where you can certify that export product?

Mr Hetherington—For seafoods, we would have a peripatetic presence at some places that have quality arrangements and in some cases now, I understand, we will actually issue health certificates in advance of product because they are perishable products. If the company has an arrangement with us, then they can actually prepare the certification and utilise certification that way. That allows that last-minute area to be better managed.

CHAIR—There would be a QA requirement on those companies at any point?

Mr Hetherington—Yes, very much so. Under normal inspection presence, once the product has been prepared and packed and placed under refrigeration we would provide certification at the time of shipment.

CHAIR—Okay. That leads me to my next point: refrigeration facilities at KSA in the cargo terminals there in Sydney. Are they AQIS certified?

Mr Hetherington—I am not familiar with that—KSA?

CHAIR—Sorry, Kingsford Smith Airport.

Mr Hetherington—Oh, Kingsford Smith.

CHAIR—Yes.

Mr Hetherington—I am not sure if they are registered for all products. We do not send out much in the way of meat. We would probably regard them as transit areas and already tapping into the export chain, but I could check up on that for you.

CHAIR—An issue that was raised a couple of times in evidence this morning—and it has been an issue right through this inquiry—is in regard to the limited amount of coolroom space. But then it was raised this morning with regard to Australian exports that the coolroom facilities—the chillers—are not AQIS certified and so, with some products, they cannot be used. Would you mind taking that on notice? You might get some information for us. I think that was with both cargo terminal operators—with both Ansett and Qantas at Kingsford Smith Airport.

Mr Hetherington—Yes, we will take that up.

CHAIR—If you would not mind, that would be very helpful.

Mr McDOUGALL—I have two questions and I will just carry on from that point. What are your charges in relation to these certificates and inspections and what sort of impact does that have on the export cost?

Mr Schwartz—AQIS charges vary depending on commodity and programs. Are there any particular commodities that you had in mind?

Mr McDOUGALL—I am just looking in general terms. Do you have a flat rate charge for a certificate or do you charge so much on the f.o.b price? How do you whack a price on your service fee?

Mr Schwartz—Perhaps I could go through the principles for plant exports. I believe they are applicable across all of AQIS. We charge on a mixture of fee-for-service charges and also documentation charges, and they are designed to collect the direct costs of providing our services operation. For plant exports, we currently have a half-hour inspection charge of \$83, for instance. There are other charges based on quarter-hour inspections. There are also documentation charges in relation to phyto-sanitary certificates, export permits and registration fees on premises. It is a mix of fees which is designed to collect the costs of delivering AQIS services, and these have been agreed with relevant industry bodies.

Mr McDOUGALL—Far be it from me to suggest that we should ever consider exporting products without some sort of certification, and obviously not with a problem because we do not want that. I think we have had enough examples of problems running around the world. But we know that fresh fruit and vegetables travel pretty freely around Asia on a domestic basis. Passengers can walk onto planes with boxes of fruit and vegetables without any restrictions whatsoever in most countries in South-East Asia, and travel them around.

People walk out of this country with boxes of fruit and vegetables as extra baggage, and it gets weighed in in their baggage, goes down the chute into the hold of the plane, and then is collected at the other end and walked out. Whether it is sold or whether it is used personally by family, it still happens. Now where does AQIS come into that? Really, how tight are our controls? Here we are imposing on an industry some reasonable charges and some ongoing costs for every shipment that goes out, yet we have a system that freely operates without any controls at all. I do not think that the country it goes to has any interest at all. I can actually remember taking sausages out of this country some years ago. I needed about 15 pieces of paper to get it out, and they were not terribly interested what was in the boxes when I took it in.

Mr Hetherington—Perhaps I could clarify some of that. Certainly, with the sausages, for historical reasons I guess, there is more concern about animal products, although there probably should be more concern about the movement of plant products around the world. Most countries around the world have fairly well-defined requirements for import, including passenger baggage for meat or products of animal origin. For the plant origin and the lack of charging of people going out, because we have not had to inspect at any stage, we have not had to levy a charge.

Mr Schwartz—In relation to perishable products such as fresh fruit and vegetables and cut flowers,

there are two distinct categories. Cut flowers are not prescribed goods and so, unless they require a phyto-sanitary certificate by the importing country, AQIS does not have a role and we do not charge for them. So they may freely pass into certain countries without impediment and we would not impose any additional charges on that.

With fresh fruit and vegetables, they are prescribed under legislation and require an export permit. However, for some countries such as Singapore, Hong Kong and Malaysia where a very significant proportion of our exports do go, there are no importing country requirements with regard to phyto-sanitary certification. So the only charges that we would apply to those would be an export permit certificate charge, which was \$30 last year, but I believe that it has just gone up so the charges there are relatively minimal. Where we have to supply phyto-sanitary inspection and certification to countries such as Japan where the requirements are often very strict, then more AQIS charges apply.

Mr Christian—With regard to meat, we traded with 123 countries last year and 121 of those countries required some form of certification such as a health certificate. In the case of certain commodities, there is far greater stringency overseas on certification than on other commodities.

Mr McDOUGALL—I just worry about the fact that we have industry having to do one thing and we have private people being able to do something totally different.

Mr Hetherington—We would like to see private enterprise being able to take all their products overseas without certification.

Mr WAKELIN—I have one question regarding additional cargo terminal operators in Sydney or anywhere in the country. Would that create any particular problem for AQIS in terms of exit or incoming?

Mr Hetherington—Additional?

Mr WAKELIN—Would there be any problem at all or any additional problems above what you are doing now? In other words, you basically have two at the moment, haven't you? What would be the implications for your operation for more operators?

Mr Schwartz—Are you talking about increased sites? I believe there was some suggestion of an airport at Parkes or more operators within existing sites.

Mr WAKELIN—I am interested in the breadth, but let us start at Sydney and let us spread it out. You are a national organisation; there would be various factors that implicate them. Just start at Sydney and then maybe we can look at other alternatives after that.

Mr Schwartz—I am not quite sure I understand.

Mr WAKELIN—The committee is aware of proposals for additional cargo terminal operators at Sydney airport. For example, the Australian cargo terminal has proposed an off-airport operation. Does this pose a problem for you people either on the entry or the exit side? That is Sydney, but it does have national

implications as well. In other words, there will be more competition. We might start with how you do it now in terms of what another operator might mean.

Mr Hetherington—In terms of staffing, if we had to service those areas we would have to perhaps have more staff and we would have to cost recover on that. Professor Mel Nairn is looking at our quarantine operations and he is very close to reporting. In relation to incoming goods, we will be looking very closely at his recommendations. In the case of imports, we may well have to put extra effort into imported goods. In the case of exports, we will still push very much wherever possible to develop third party systems. We have to cost recover, but at the same time we have to try to put ourselves out of business wherever possible. That is very much a balance for us and it is something we have not quite come to terms with yet.

Mr WAKELIN—It is really a matter of a fee structure. You do not see anything else. You are working comfortably perhaps with what you have got there now and obviously there are some changes ahead of you. You might look at a variety of operators. You do not see a problem with that?

Mr Hetherington—No, we would be quite flexible as long as we could honestly provide the certification that was required at the end of the day. We would be quite flexible if that approach is reached.

CHAIR—You touched on the prospect of other airports. You may or may not be aware that there are a couple of proposals that have been suggested to this committee with regard to dedicated air freight operations out of Avalon in Victoria or Parkes in New South Wales. That would require additional personnel, I would imagine.

Mr Hetherington—Yes.

CHAIR—What is the prospect of getting some efficiencies in that role? Is there any way that you could combine the role of an AQIS officer and an Australian Customs Service officer?

Mr Hetherington—From government's point of view, we would have to look very closely at that and try to get any efficiencies that were there.

Mr Schwartz—In regard to a lot of the inspection work that is done through export certification of, say, fresh fruit and vegetables and cut flowers, that is usually done at sites other than international airports.

CHAIR—Yes, I appreciate that. I understand the fresh meat and the seafood side of the things a little and I know where the industries, AQIS and the government are up to with acceptance of quality assurance as far as processes are concerned. What about the plant side of things? Are you accepting certification by QA officers within different industries or not?

Mr Schwartz—No. We have a system of quality assurance arrangements within our exporting industry. These are aligned with ISO 9000 systems but are more prescriptive and more relevant to AQIS operations. So often they are a much smaller and a more focused document. We will certainly recognise an ISO based system which covers all of AQIS requirements and look at it that way. Most of our industry clients on the fresh fruit and vegetable side and the cut flowers side are fairly small, and often the cost of

developing a full ISO quality management system is beyond them.

CHAIR—Thank you for your evidence. There was one question that you took on notice. We would appreciate it if you would be able to provide that information as soon as you can. It would help with the committee's deliberations as far as the final draft report is concerned.

Mr Hetherington—Can I get in touch with the secretariat and just make sure?

CHAIR—Yes. There were no exhibits. We shall forward to you a copy of the *Hansard* transcript as soon as it is available so that you can have a look at it. Thank you very much.

[3.09 p.m.]

ARTHUR, Mr Nic, Assistant Director, Border Policy, Border Operations Branch, Australian Customs Service, Customs House, 5 Constitution Avenue, Canberra, Australian Capital Territory 2601

PATERSON, Mr Alan, Director, Import/Export Applications, Cargo Facilitation Branch, Australian Customs Service, Customs House, 5 Constitution Avenue, Canberra, Australian Capital Territory 2601

VASSAROTTI, Mr Colin, National Director, Commercial Services Division, Australian Customs Service, Customs House, 5 Constitution Avenue, Canberra, Australian Capital Territory 2601

CHAIR—Thank you for attending this afternoon. I think we have your submission. Do you have an opening statement you would like to make?

Mr Vassarotti—I would like to say a few words, with your indulgence. Firstly, thank you for the opportunity to make an opening statement and to answer questions.

Customs is conscious of the importance of strong export performance by Australian industry and is committed to facilitating the export process. We acknowledge that the growth of the air freight industry involves constant change. In meeting the challenge that such change presents, Customs cannot lose sight of its role in delivering government policy on the facilitation of time sensitive exports and, at the same time, ensuring proper compliance with Customs and other agency requirements and, of course, associated processing of passengers and crew that might occur.

Any changes to the existing export arrangements from established international airports would present resource implications for Customs. Logistical issues, of course, would be compounded. We could resolve them, but they would be compounded by increasing levels of geographic isolation.

To protect the Australian community, the Australian Customs Service controls the movement of all aircraft, cargo and people entering and leaving Australia. Whilst compliance measures are required in order to deal with identified risks, the vast majority of cargo is facilitated through the border. Within this context, Customs undertakes activities to ensure compliance with the controls deemed necessary by government.

Customs acts on behalf of a range of other agencies and departments. An example is that we collect

trade data on behalf of the Australian Bureau of Statistics. In addition, we deal with a number of major permit issuing agencies such as AQIS, the Department of Defence and the Department of Communications and the Arts. There is quite a long list.

Customs is committed to the concept of a single access point to government to achieve a more seamless process for industry. An example is the existing working relationship between Customs and Quarantine. We believe streamlining could be managed by Customs or by another agency.

To provide industry with a predictable framework for their dealings with Customs we have developed electronic systems that are recognised internationally as world best practice. These systems allow industry to effectively comply with reporting requirements and also allow Customs to perform the regulation and facilitation roles. Continual assessments and enhancements to the systems also provide opportunities to reduce the cost to industry for complying with the regulations through the reduction of data duplication and elimination of redundant data.

The speed and reliability of cargo delivery is of fundamental importance to exporters, especially exporters of perishable and time-sensitive goods. Customs is continually assessing and improving service delivery to better meet the needs of industry, taking into account the diverse business practices and changing business trends.

In summary, the Australian Customs Service is committed to facilitating the movement of goods across the border and believes that the use of electronic data for reporting export cargo provides significant benefits to industry. At the same time, Customs is committed to contributing to the protection of the community, along with the maintenance of proper compliance with export requirements.

Mr BOB BALDWIN—I noticed in a letter from Mr Mitchell—the National Manager of Cargo Facilitation—in October 1995 that there was a review looking at the EXIT system, but I did not notice any correspondence there or a submission or a report on how that was actually operating from the stakeholder's point of view, which was what the evaluation process was about.

Mr Paterson—Perhaps I could answer that question. That process is continuing and it is continuing under the direction of an export industry consultative group. While Customs chairs that group, it is representative of all the sectors of industry involved in the export process. That is progressing fairly rapidly at this stage. We hope to have new arrangements—upgrades to our systems—in place by the end of this financial year.

Mr BOB BALDWIN—But, going back to the essence of what I wanted to get from that, what is the acceptance of the system by those users out in the marketplace?

Mr Paterson—The acceptance of the system in relation to exporters' declaration of intention to export is very high: around 97 per cent of export declarations are made to us electronically. In relation to the report of cargo by cargo carriers, which verify the fact of export, for air freight cargo 90-odd per cent of our export entries are reported to us electronically. So, while those figures are quite heartening, there is still room for improvement and we are in the process of doing just that.

Mr BOB BALDWIN—And the cost for the forwarder to be on-line in that system?

Mr Paterson—Customs does not charge for exports at all, so there is no charge from us. For the four electronic systems, he would be required to purchase his software and he is required to pay message fees to value added networks to transmit those messages.

Mr WAKELIN—Is there any duplication between ACS and AQIS? Is there anything obvious? If there is, is there room for common documentation?

Mr Paterson—Again, perhaps I can answer that. Part of our review and part of the AQIS EDI thrust is to reduce any duplication to an absolute minimum. With AQIS, for a number of their products, they are in the process of developing a system. We will connect to that system so that the single point of declaration for those types of products will be through AQIS and we will provide the customs end of that directly between ourselves and AQIS.

Mr WAKELIN—Do you think there is some duplication at the moment?

Mr Paterson—I believe that, in relation to information requirements, there is clearly a range of duplication. That duplication will be eliminated with the arrangement that I suggested.

Mr WAKELIN—The previous PM's task force recommendation was:

. . . that further examination is required in the areas of charging practices, export documentation requirements, new product approvals and inspection clearance procedures . . .

You would be aware of that, of course.

Mr Paterson—Yes.

Mr WAKELIN—Has any progress been made on that, or is it similar to the previous answer? It is a bit more broad ranging there, I guess.

Mr Paterson—I suppose the situation that we are having with our review of our export processes now is a very fundamental re-examination of our business processes and systems. Part of that process is to liaise with all permit issuing authorities to re-establish their requirements vis-a-vis the need for rapid processing of the export declarations. We are not looking at a one size fits all by any means. We are looking individually with individual permit issuing authorities about how they can best achieve their requirements or how their requirements can be best met in the shortest time frame.

Mr WAKELIN—World best practice is a bit of a common phrase, but how do we sit? I guess you have seen the other side of it around the world a bit. How do we sit at the moment?

Mr Paterson—I have seen some export processes throughout Asia in particular—for example, customs. We should remember also that Customs has been operating its electronic systems now for some six

years. It is still probably two years ahead of anything that I have been able to see. A lot of countries are now developing systems that will be as good as or better than Australian Customs Service systems.

Mr McDOUGALL—Earlier this afternoon, the Western Australian Export Council were unable to give us figures in relation to growth in exports, because, if I can say this, the ABS were not too good on being able to give exact or accurate information. I was interested in your comment a moment ago, Mr Vassarotti, and the fact that the customs officers are those who supply the information to the ABS. Are we having a problem here in relation to Customs not transferring the correct information off the documentation or ABS not being able to handle your information?

Mr Vassarotti—We certainly do broker the information, in the sense that it comes to us off the export clearance documents. I am not sure whether we hand this by tape or by—

Mr Paterson—It is by direct electronic transfer.

Mr Vassarotti—Okay. It is raw data off the export documentation. The ABS undertakes its own processes to massage that data and put it into the form that they believe is going to give the best picture.

Mr WAKELIN—Would I be correct in saying that the data you would give them would include f.o.b. value, weight and point of destination?

Mr Paterson—Perhaps if I could expand a bit on that, and I must admit I squirmed in my seat when I was listening to that. It depends on the type of information required. We seek information from an exporter, which would include country of destination, value and so forth. However, in relation to the actual loadings of aircraft, export methodology and so forth, that sort of information would be coming from reports of cargo by carriers. Carriers are required in their report of cargo to indicate the next airport of destination. So the export manifest that this information is being taken from would in fact show the first airport of landing afterwards; hence, I think there is the issue about Singapore as opposed to on-carrying to another country of destination.

Mr WAKELIN—But at least the tonnage and the value would be there, as per the documentation?

Mr Paterson—Yes. I believe so, although again I was not overly confident in the conversation that was had there. It is one that I have made a note of and one that I will follow up.

Mr Vassarotti—We cannot confirm that those specific fields are always included.

Mr WAKELIN—Mr Chairman, could we ask Customs to let us know what information they passed on.

Mr Vassarotti—We would be happy to take that on notice.

CHAIR—Do you mind doing that? It would be very helpful.

Mr Vassarotti—I just do not want to give you half an answer.

CHAIR—We asked the previous witnesses from AQIS for a comment with regard to the possibility of additional cargo operator terminals in Sydney and what impact that would have on staffing levels and the responsibilities of AQIS. I suppose the same question could go to the Australian Customs Service and, while we are at it, the proposals with regard to the establishment of a dedicated freight terminal at Avalon in Victoria and at Parkes in New South Wales. Would you like to run across those couple of issues from an ACS point of view?

Mr Vassarotti—I could comment in the broad and invite my colleague Mr Arthur to comment because he is responsible for, if you like, our border management activities. In the broad, we would see no problem with any of those propositions, subject to the caveat I made earlier that we would have to assess the resource implications.

The resource implications would be less in an established airport such as Sydney where we have the infrastructure. At Avalon there is no equivalent infrastructure and it would be more costly. The more remote you go, the more expensive it is likely to be. But there would be no impediment in principle from our perspective. I should add that, if you were to take the analogy of air charter flights for passengers, we have accommodated such charter arrangements to relatively geographically remote places.

CHAIR—Do you want to add to that, Mr Arthur?

Mr Arthur—Just briefly. Certainly Customs does not see it to be our role to ration, if you like, the number of CTOs that are in existence. On the discussions about off-airport CTOs or additional CTOs, we developed a number of principles which we would require any operator to meet. They are not designed to be restrictive in the sense that we are trying to block any player out of the process, but they are simply arrangements which we believe are necessary in order for us to meet our statutory obligations.

The second part of your question was how would we deal with a new title CTO such as in Parkes. I can only add to Mr Vassarotti's comment that, as we become more geographically isolated from our established airports and areas of Customs activity, we are going to face logistical problems. Whilst these are not insurmountable, these are things which we would have to work on and we would have to negotiate with any person who was seeking to establish a new CTO.

CHAIR—If you look at KSA in Sydney, as far as an off-airport CTO is concerned, you do not see any major problems with that as far as the operations that you have to undertake with the movement of freight in and out? You are saying that you would set down very clear guidelines as to how it would operate, but I am asking you whether there is any great impediment in the way of that being developed?

Mr Arthur—We face no philosophical disagreement.

CHAIR—Okay. There being no further questions from the committee, we would like to thank you for making your time available this afternoon and for your evidence. I think one question was taken on notice. We would appreciate it if you could get back to us as soon as possible on that. The secretary will provide you with a copy of the evidence that has been taken this afternoon. Thank you very much for your participation.

Resolved (on motion by Mr McDougall, seconded by Mr Baldwin):

That this committee authorises publication of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 3.26 p.m.