



# **HOUSE OF REPRESENTATIVES**

## **STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM**

**Reference: Air freight review inquiry**

**CANBERRA**

**Wednesday, 9 October 1996**

**(OFFICIAL HANSARD REPORT)**

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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.

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*Air freight review inquiry*

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Present

Mr Vaile (Chair)

Mr Albanese

Mr Neville

Mr Ross Cameron

Mr Randall

Mr McArthur

Mr Tanner

Mr McDougall

Mr Wakelin

Mr Peter Morris

The committee met at 9.09 a.m.

Mr Vaile took the chair.

**CHAIR**—We resume hearings in Canberra today into the impediments to air freight exports from Australia of perishable and time sensitive goods. This follows on from hearings conducted in Sydney and Canberra during August and in Adelaide and Melbourne during the previous parliament.

This morning the committee will be taking evidence from TNT Ltd and Woolworths Ltd and will conclude with evidence from the Department of Transport and Regional Development.

The committee hopes today to cover, among other things, issues surrounding the coordination and tracking of produce through the air freight chain. It is important not only that produce move speedily through the transport chain but also that players can efficiently track its progress. This enables critical points to be identified and solutions sought. TNT's expertise in this area will be of value to the inquiry.

At the committee's previous hearing, evidence was received that the Australian Seafood Industry Council was developing quality assurance agreements of relevance to the handling of seafood. The committee understands that Woolworths has also developed a quality assurance process for its lines of supply. The lessons Woolworths has learnt may be of use to those wishing to promote quality assurance through the air freight export chain.

Woolworths' Group Managing Director, Mr Clairs, is also a member of the Prime Minister's Supermarket to Asia Council. The committee is interested in the role of the council and how its work will mesh in with other coordinating bodies already in existence or proposed.

Evidence from witnesses from the Department of Transport and Regional Development will conclude the series of hearings at this stage of the inquiry. The department's appearance gives the committee the opportunity to seek answers to some of the outstanding issues.

On behalf of the committee, I welcome everyone appearing today.

[9.12 a.m.]

**COUTTS, Mr Paul William, Managing Director, TNT Express Worldwide, 280 Coward Street, Mascot, New South Wales 2088**

**FANNING, Ms Vanessa, Group Manager, Public Policy, TNT Ltd, TNT Plaza, Lawson Square, Redfern, New South Wales 2016**

**TELFORD, Mr Don, Executive General Manager, Logistics, Australia, TNT Ltd, TNT Plaza, Lawson Square, Redfern, New South Wales, 2016**

**CHAIR**—For the record, I remind witnesses 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.

Before the committee proceeds to questioning, do you want to make a brief opening statement?

**Ms Fanning**—Thank you, Chairman. I have prepared a brief opening statement, and I have a copy for *Hansard*. We made a submission to the Prime Minister's study into removing impediments to the export of perishable produce. At the time, we also gave a slide presentation to that group. I have formerly indicated to you that we would like our submission to the earlier Prime Minister's study to be forwarded as a submission to this committee. I would also like to table copies of our slide presentation. Unfortunately, they are not all in colour, but we do want to refer to these in the course of our remarks today. So I will pass them across. It is basically the slide presentation that we gave to the earlier group. We have updated some of the information and some of the comments we have made, but it is not a completely new document. So would you bear in mind that it was prepared some 12 months ago.

In the course of updating it, we have not been in a position to reflect in our presentation on the impact the current offer from KPN may have on our Asian capability and strategy. I think it is sufficient to say that we believe that that move will be wholly positive and expansionary.

We endorse the view that Australia has enormous potential to be a major exporter of fresh and processed food to Asia. Committee members would be aware that David Mortimer, the Chief Executive of TNT Ltd, was recently appointed to the Prime Minister's Supermarket to Asia Council.

There were a few themes in our earlier submission and our slide presentation which you now have before you that bear repeating. I think it is universally acknowledged that Australia has underachieved its potential as a food exporter. It is very disappointing that New Zealand, South Africa, Chile, Brazil and Canada not only export more fresh produce than we do, but that their exports, in general, are growing faster than ours.

In our view, the reasons for that are much more fundamental than a perceived inadequacy of air cargo capacity. In putting that view, TNT is basing that on our experience as an airline user and as a freight

forwarder. Time-sensitive freight and total supply management—what we call logistics—are our core businesses, and members will be aware that we have now divested our 50 per cent share in Ansett.

When we were preparing our earlier submission, we reviewed some of the factors that make Australian produce exports less competitive than New Zealand. We believe that those can be summarised as being that we have traditionally treated export markets as a residual rather than the primary market; hence often it is only the leftovers that go to export. We believe that successful export countries such as New Zealand and Israel have very strong product and country of origin branding and have to meet strictly enforced product specifications. By contrast, our horticulture is diverse and fragmented at every stage of the supply chain from production to marketing. We have seen a lot of evidence that quality control on the production side is often missing.

Australia also currently does not have the volumes, coordination or cooperation to utilise economies of scale. Production and packing costs are high in Australia and post-harvest handling of horticultural products is more complex and specialised than for our traditional pastoral products, and its importance for export is not well understood. In summary, that all comes down to two major issues: quality management and integration of the supply chain from the grower to the market.

We would recognise that there are, at times, problems with the availability of air cargo capacity. The availability of air freight capacity is influenced by yield; seasonality factors; whether volumes are consistent and regular and reliably presented; bilateral negotiated capacity that is available; and the trend to smaller, less freight friendly aircraft.

Others have commented that air freight capacity represents a derived amount. In other words, if there is a genuine and consistent demand for the produce requiring air transport, and if that produce is of a quality to earn a good margin in its destination market, then it will be able to command the availability of air cargo capacity.

This view is supported by one startling fact: New Zealand exporters, who we know are solidly outperforming Australian exporters, are in fact using the Australian supply chain via Sydney to access Asian markets.

**CHAIR**—Supply chain or freight chain?

**Ms Fanning**—Freight chain. It is cheaper for New Zealand fresh produce exporters to fly their produce to Asia via Sydney than to fly out of Auckland direct. That is covered in our slide presentation, and Don can talk you through that shortly. Very recently, TNT has won other time sensitive business which involves the product being transported to Australia from Hong Kong and then air freighted on to other Asian destinations. This is cheaper for the exporter than air freighting directly out of Hong Kong.

We believe most of the supply chain logistics for Australian exporters are in place. The biggest deficiency, in our view, is in air side refrigerator capacity. And the ground logistics in some Asian countries are also difficult. We believe that the stimulus to making the investments to rectify these shortcomings will be to ensure that we have quality products for which there is an export demand. If the demand is there and

we have a quality product to satisfy it, then the transport solutions will be found.

We agree with the five key areas identified as needing improvement in the December 1995 working group report, and we also support the recommendations. Most of all, we think the key to improving Australia's performance in exports of time sensitive freight produce is to adopt a very tightly focused approach. We think it is inordinately ambitious for any group, whether government or private sector, to seek to resolve every impediment to every product, with targets ranging from workplace reform to the removal of tariff barriers across the board.

We would advocate that, if we took the same approach as has been taken very successfully in Israel and New Zealand initially to identify just a few potential markets for a few selected products, then there is every reason why a cooperative approach to solving every issue can work. The sort of approach I am suggesting is that if we take year one, then we do some very careful research and just focus on achieving excellence of product to meet market requirements, promotion and supply chain management for, say, three products targeted to particular markets. And we then go about in a very tightly focused way with those selected products and selected markets, attempting to address the problem of standards, product specification and compliance, transport logistics, branding and marketing.

You can do that in a very powerful and integrated way if you have narrowed your focus at the outset. We believe that is the way we need to go: tackling the issues in manageable segments and, at the same time, setting up case studies in quality management, branding and export success. That can be emulated progressively by other products and in other markets. That is all I have by way of opening remarks, Mr Chairman. As I indicated, we have passed around the slide presentation and there are a couple of issues—that example of how New Zealand is using the Australian freight chain is a very interesting one.

**CHAIR**—I apologise for the tightness of time, but if we could just go to that issue in the presentation before we go to questions that would be helpful.

**Mr Telford**—Would you like to turn to six pages from the back. What we have done there is to identify the cost of shipping a container to three ports in Asia—Singapore, Hong Kong and Tokyo—from Auckland. Those containers are shipped direct via Sydney hub and from Sydney direct. As you can see, in each case the price difference is significant.

If you turn to the next page, where we have included domestic logistics and local cartage, combined with the air freight, so we really understands what it means. From New Zealand to Singapore direct it is \$2.10 a kilogram; from New Zealand via Sydney it is \$2.06 a kilogram; and from Australia to Singapore it is \$1.29. The same differences apply when you ship to Hong Kong. It is \$2.99 from New Zealand direct; \$2.27 via Sydney; and \$1.46 from Australia. The same differences apply to Tokyo. So I think it is important that people understand that it is not necessarily the air freight infrastructure that is causing the problem with our exports. It is a far more fundamental problem. The other point I would make is that these numbers are 12 months old. As Vanessa indicated, this study was done 12 months ago.

**CHAIR**—But between themselves, they would still be relative.



**Mr Telford**—Yes. We are seeing some cost impediments coming into the Australian market at the moment with the Federal Airports Corporation applying a 14 per cent increase at this time. It is going to have an effect on our cost basis here. We are also seeing within the customs area charges being applied, although that does not apply so much to our imports. But for any product that was brought in for reprocessing and then exported there certainly is an imposition there on costs.

**CHAIR**—As a freight forwarder, going to the critical points in the freight chain, where would you see the most important area that is in urgent need of attention at this stage in that freight chain? Where is it breaking down as far as perishable goods are concerned?

**Ms Fanning**—I think we would say it is the chiller capacity at airports. When we made a submission to the previous committee we suggested that there are ways of getting around this that are not necessarily terribly expensive. For instance, you could provide hard stands at airports where you might actually plug in refrigerated container capacity rather than build a whole refrigerator facility. There are short-term, flexible solutions to that problem. We would advocate that there is some merit in going that way rather than making a decision now—particularly if government investment is involved—to select a hub as the centre for refrigerated exports and then find this was not what the marketplace was telling you. We think that, in the short term, that problem can be addressed quite easily by basically having movable facilities, where the investment is fairly low in the first instance.

**CHAIR**—Do you want to add to that?

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

There was a cold store established on the airport in Adelaide, which has been bankrupt three times—or twice that I am aware of—through lack of use. I do not think it is used any more. As I understand it, Paul, Qantas has just set up a chiller facility in Brisbane.

**Mr Coutts**—That is correct. Qantas has invested fairly heavily in the last few years in building a purpose-built facility, particularly for chilled foods. They can now take up to 22 units. We congratulate Qantas on that medium- to long-term strategic thinking.

**CHAIR**—So one of the fundamentals is basically a culture change at the producer and processor supply end of the chain—not just the market orientation but the packaging, the development and the time constraints; not just supplying when there is an oversupply.

**Mr Telford**—That is right.

**CHAIR**—You put a submission to the former Prime Minister’s task force on this issue, which basically revolved around a proposition with the IMC in the Parkes proposal. Given that existing culture at that end of the supply chain, how would that affect the Parkes proposal getting off the ground?

**Ms Fanning**—I do not think we have a view on the merits of the Parkes proposal as such. What we are saying is that building a facility in Parkes will not solve the problem. The problem is fundamentally about identifying your export market, identifying what that market needs in terms of quality and product specification, and then producing a product that meets that market demand and understanding that, if you have got a quality product for which there is a demand in the export market, then you are going to be able to support the supply chain requirements that are involved in your domestic market. But it comes back to that issue of culture. It may be that Parkes is the right place to put a hub. I do not think we would have a strong view about that. What we would have a view about is that you need the integrated supply chain management; you need the quality focus; you need the export focus.

**CHAIR**—That would be at the top of the priority list, would it not—to change that culture and that attitude?

**Ms Fanning**—Absolutely.

**Mr ROSS CAMERON**—I am just trying to understand. It seems to me that your central thesis was that the problem was not so much with the mechanics of the chain, but more with the quality of the commercial exchange taking place. The New Zealand example would seem to suggest that the problem is not with the chain itself; the problem is lack of a high quality product. When you talk about it as a derivative exercise, you are really saying if the market forces are there, the chain will fall into place. It sounds as if, with the cold storage thing, that would be another example. You can put the facilities in, but if there is not a market there that is going to satisfy—

**Ms Fanning**—If the change in culture does not take place, I think that is right.

**Mr Telford**—Yes, it is the consistency of product flowthrough. At the moment everything is ad hoc, sent ad hoc and people do not treat exports seriously. There are a few exceptions, and we have mentioned a number of those in our slide presentation. But they are few and far between. They have niched particular markets. Antico, for example, are specialising in fruit and vegetable into Japan but they do it on a very limited basis and it is very focused. Those exceptions are few and far between.

**Mr NEVILLE**—I have two questions. We are talking mainly perishables, I assume. Is the Australian horticultural industry presenting its product correctly? I come from a very high production horticultural area, and I get the impression that certainly at the farm gate it is high quality. Where does it fall down? Does it fall down in the seeking of markets or does it fall down from the farm gate through the delivery train to the destination? If so, what major mechanisms would you put in place if you had the way to correct that? If you were able to influence the way it was done, what mechanisms would you put in place?

**Mr Telford**—The New Zealand example is perhaps as good as any example, where they have developed the marketing board for their dairy products. They have a marketing board that has promoted New Zealand dairy products right throughout the world, in fact, but certainly in Asia; and it has been very

successful. It is certainly at the marketing ends. It has established the markets and then ensured that we have got continuous supply. Previously there had been no continuous supply because domestic consumption is an easier market for our growers.

**Mr NEVILLE**—Is it just the domestic consumption or is it that, where windows of seasonality occur, there is not enough inter-regional flow? Is cooperation part of it, too?

**Mr Telford**—That would certainly have an effect.

**Mr NEVILLE**—Are you saying that, if the going rate is, say, \$15 a carton in Asia and the Australian market goes up to \$20 or something that they are pulling the export component out to put it on the domestic market? That is a simplistic example.

**Mr Telford**—Yes, there are exceptions to that. As I recall, the Bowen tomato growers were an exception to that, where they have targeted a lot more.

**Ms Fanning**—It is really a commitment to premium produce. We have to get in at the top end of the market. It is no use shipping out our second-rate goods. We need to be targeting for the absolute top end of the market, because that is what New Zealand and Israel are doing. Of course, that is also the produce that can support investment in the supply chain.

**Mr McDOUGALL**—I think you have answered most of the points for me on the market chain and the product. With the necessary bilateral negotiations and arrangements with regard to hubbing in Asia—I am just picking up from one of your slides about the Asian air network expansion—do you see it as necessary that we actually have to make this whole thing work with a hub operation in Asia to effectively operate in Asia? Or do you see that we would operate directly out of a hub in Australia to individual ports in Asia?

**Ms Fanning**—I might have a go at that and then pass over to Paul. I think, philosophically, we would support the liberalisation of the bilateral air cargo arrangements. They certainly can be an inhibition to hubbing activities. Our experience with our Asian air network is an interesting case. We have a small share in an airline that hubs out of the Philippines, but because it is not a majority Australian owned airline the Australian Government cannot negotiate rights on behalf of that airline, even though we have a substantial interest in it. So I think the liberalisation of air cargo arrangements generally would facilitate hubbing arrangements developing in the most logical sense in the market.

**Mr PETER MORRIS**—This is gamekeeper turned poacher, is it?

**Ms Fanning**—It sounds like it, does it not?

**Mr Coutts**—I think it is important to stress some of the reasons behind creating an air network, particularly within Asia, and creating a hub facility. It is important to stress that we still use commercial aircraft over and above our own network. The added advantage in having both is that it can increase the flexibility through the production cycle during the day to get the goods into the marketplace within Asia as

soon as possible. If we take some of the main points in Asia—for example, places like Singapore and Hong Kong—you really have to have your produce ready by three o'clock to catch commercial aircraft. We overlaid our own Asian air network, which now means that customers can produce right up until the end of the day—five o'clock or six o'clock—and still have their product into the market the following day, using our air network and using our hub. So, really, it was about increasing the flexibility and improving the time flow of that produce into the marketplace.

**Mr McDOUGALL**—Just to follow on from that, you were talking about using underbelly of passenger aircraft. Where do you see the change, how long would it take to change, or is it necessary to change, from that method to direct freighter?

**Mr Coutts**—We already use what we would call direct freight—that is, unit load devices, containers, on aircraft—and we use that on a point-to-point basis. For instance, we would move it from, say, Sydney direct into Singapore or Sydney direct into Los Angeles. We also use, as you have just described it, the belly holds of aircraft for air express produce, time sensitive goods, which may go on passenger aircraft during the day. So, really, we are using a combination of line haul—some of our own, some belly hold and some unit load devices on a direct freight basis.

**Mr McDOUGALL**—You gave the example of Auckland via Sydney. Was that direct freighter, your distinct freighter, or underbelly passenger aircraft?

**Mr Telford**—As I recall, it was container freight, as shipped on current commercial airlines.

**Mr PETER MORRIS**—Passenger aircraft?

**Mr Telford**—Yes.

**Mr RANDALL**—It appears from what you have already said that you are in agreement that, in respect of Australia's ability to export perishable air freight, we have not really tapped into the downstream processing side of it as well as we might; in other words, value adding. Would that be correct?

**Ms Fanning**—I do not think we commented on that.

**Mr RANDALL**—I think you alluded to it.

**Ms Fanning**—Our observation would be that there is, I believe, huge value just in being able to present a fresh product. It depends on how you define value adding.

**Mr RANDALL**—For example, it was put to us in a previous hearing that in New Zealand, kiwi fruit, rather than being shipped out by the case, are far more valuable if they are shipping out wrapped and bar-coded to land in a market—it increases their value per kilo by presenting them like that.

**Ms Fanning**—Yes, we are still talking about the fresh product, not the canned product or whatever, but you are adding value by packaging, bar coding and targeting to a particular market.

**Mr RANDALL**—Would you agree that is where we break down in Australia at the moment?

**Ms Fanning**—Yes.

**Mr Telford**—Again, it is part of this marketing concept. If you are marketing in the correct way, you market as your customers want the product, and you add the value where it is required. So it is really a marketing issue. This whole issue is very much built around marketing. Again, you have to have a source of supply that is going to be there on an ongoing basis if you set up the market.

**Mr RANDALL**—To pursue this, you have said that you believe one of the impediments is the freezer capacity. Is that correct?

**Ms Fanning**—Chiller capacity.

**Mr RANDALL**—Chiller capacity. What we saw at the Kingsford-Smith airport did not seem to be a great amount of capacity, both at Qantas and Ansett. You have already said that at Adelaide they cannot use what they have there. So I suppose if you do not have anything worth exporting, you are not going to use the capacity in any case.

**Mr Telford**—That is right.

**Mr RANDALL**—So that is one. What is your comment—

**Ms Fanning**—Again, I would just like to make the point that it is the top quality produce that can sustain that investment in quality freight handling in chiller capacity. But if you are trying to export tomatoes that are already a month old, no amount of chiller capacity in the world is going to help them. Also the exporters of that produce are not going to be able to afford to pay for chiller capacity because they will not be able to command a price in the export destination that can support it. So it comes back again to choosing your market first, producing for that market and having the highest quality produce. Premium produce will be able to sustain a premium freight chain. But putting a premium freight chain in place will not create the premium produce and command the premium price.

**Mr RANDALL**—We have heard time and again that we have dedicated freighters leaving Australia empty. Do you have any comment on how we could make best use of those dedicated freighters, to get some capacity on them?

**Mr Coutts**—There are a couple of opportunities, as I see it, and one certainly is on the perishables front. There is also the time sensitive movement of high tech electronic components which are high value and, as such, security sensitive. Experiences that we have had in Europe have shown us that duty free trade zones are particularly attractive for high tech electronic companies who may be sourcing components from a number of different countries on a global basis, perhaps with components from Brazil, Belgium, Singapore, and then assembling those at one central point and re-exporting them. That import and re-exporting process is made extremely simple from a customer's perspective. If we start to look at a pipeline of logistics or a logistics chain and make that a bit more attractive from a customer's perspective, we start to see a large

movement on freighter aircraft as we have experienced in Europe.

**Mr PETER MORRIS**—Do you have capacity constraints? If so, what times of the year?

**Mr Coutts**—The capacity constraints that we tend to find are certainly the November-December period, so the next few months in particular will be fairly extreme.

**Mr PETER MORRIS**—For what products? What products generate that capacity?

**Mr Coutts**—That would be our general international air freight traffic so it is a wide range of products.

**Mr PETER MORRIS**—Not perishables.

**Mr Coutts**—It happens at the same time as the perishables market is also in high demand.

**Mr PETER MORRIS**—So there is a seasonal peak for non-perishables round November-December.

**Mr Telford**—There is a graph in here that outlines that seasonal peak. Both the general freight and the seasonality—

**Mr PETER MORRIS**—But the flight freight demand variation?

**Mr Telford**—Yes. If you take that and the previous page, it says that the season is consistent for approximately eight months, high point matches general cargo seasonal high, and low point matches general cargo seasonal low. So, unfortunately, there is a mismatch there with the cargo times. Again, because there is no consistency of supply, it causes the produce to be what they call bumped and left behind. Therefore, quality deteriorates, and it is not treated as prime quality product.

**Mr PETER MORRIS**—That capacity that is available is the capacity in which you are involved with your own organisation, or is it that plus what you can buy from other aircraft?

**Mr Telford**—That is the total capacity of the whole industry we are talking about.

**Mr PETER MORRIS**—How much of your business is with your own organisation and how much is placement with other air freight operators? Is it fifty-fifty? We have been told that this practice of bumping happens if you have individual airline operators and they have some spare capacity. The higher value cargo that can pay the higher rate gets priority and the lower value, lower rate cargo gets bumped. How do you fit into that picture?

**Mr Coutts**—We only contract about 10 per cent to other freight forwarders. Ninety per cent of our business goes on a direct basis through the airlines.

**Ms Fanning**—How much on our own aircraft?

**Mr Coutts**—Out of Australia it is 90 per cent on commercial airlines. We do not operate—

**Mr PETER MORRIS**—The point that Ms Fanning made earlier was about your relationship with Ansett. If you read all of your bumf here, it is really saying, ‘We can provide you with an end-to-end service and we have access to all these aircraft and all of these points of destination.’

**Mr Coutts**—That would be through our permanent booking system. We have permanent bookings that are allocated to us on a daily basis. So we would book 2,000 kilos or 3,000 kilos with the airline—

**Mr PETER MORRIS**—That is the next point I am coming to. Given those seasonal variations you have referred to and the nature of the cargoes, the next step is: how much of the space you make available is on a term contract basis; how much is on a year-round basis and how much is on a spot basis? How much of the capacity you are offering to industry is on a year-round basis? If I want to book now several months ahead, have you got contracts covering that space several months ahead?

**Mr Coutts**—The majority of our business—about 70 per cent of our total volume of traffic exported out of Australia—would be on a contracted basis with the airlines.

**Mr PETER MORRIS**—What are those terms? Are they usually months—six months, 12 months?

**Mr Coutts**—Twelve months. We have a service level agreement in place where the airline has to deliver to a particular service specification at a certain rate. We pay a premium to get guaranteed uplift, and the airline has a penalty if they do not reach the service specification.

**Mr PETER MORRIS**—So, if I turn up tomorrow or this afternoon and I want to get some tomatoes to Hong Kong very quickly, I am just a spot customer and I will take my turn, comparing it with whatever rates are available, and you take the higher rate that you can get for the cargo.

**Mr Coutts**—The problem comes when, even though we have booked, say, 3,000 kilos, a customer turns up on the day with 4,000 kilos. Then we have a problem in trying to negotiate with the airline. If there is a space constraint, we may have to pay a premium over and above that to guarantee the space.

**Mr PETER MORRIS**—That seems, Chairman and colleagues, to be what we are hearing a lot about, that people turn up. There is a spot arrival who has not contracted over time but complains the most that they cannot get space, they cannot get on their promised space, and when they get there they are bumped. What is the answer to that?

**Mr Coutts**—I think really the answer to it is to have better projections in terms of the marketplace and that would happen if we streamlined the production in a consistent flow. It gets back to what we were saying earlier about planning better in terms of what are the entry points and times into the marketplace. There will always be a spot market in terms of freight, but I think there is a lot we can do to reduce what is currently now within the marketplace.

**Mr PETER MORRIS**—To turn it around the other way, what we are being told all the time and

what has been said this morning is that there is a great potential there. The producers are being told there is a great potential there, but when they go out they come back to us and say, 'We could not get it on the aircraft' or 'We got bumped off the aircraft' or 'The rates are extortionate.'

**Mr Telford**—But again, it is consistency of supply. The point we were trying to make earlier is consistency of supply. If you are prepared to contract, if you are prepared to guarantee or take some form of supply that we know is going to be there for eight, nine, 10 or 12 months, at least it can be planned and catered for. The current process is that everything is ad hoc, with the exception of a few companies that are practising world best. They are companies like Antico that know exactly what their business is and are supplying to their market in Japan, week in, week out.

**Ms Fanning**—Or even when it is seasonal. If the whole process has been planned and you have targeted an export market, then you can say six or 12 months in advance, 'I am planning to send X thousand tonnes of asparagus to Hong Kong in November.' But is a matter of planning and targeting that market, booking the air freight, rather than turning up in November with the asparagus.

**Mr PETER MORRIS**—So you have contracted the space 12 months ahead with an airline in expectation that some will come along. With most of your freight, you are saying, it is the exception where you have term contracts for use of that space?

**Mr Telford**—We have a business that generates X volume every day. We know that our general freight products—

**Mr PETER MORRIS**—Most of which is just spot.

**Mr Telford**—That is right.

**Mr PETER MORRIS**—So you are buying space on a term basis but you are selling to customers who are buying on a spot basis.

**Mr Telford**—That is right. But some of those customers are regular customers, so we are able to predict what we are going to use. We take the risk: it is the risk—

**Mr PETER MORRIS**—I am just trying to get a grasp of how it all fits together, the flowthrough. And you bump customers from time to time? You would have to, would you not?

**Mr Coutts**—We do not bump the customers, as such. What we try to do is negotiate for the space on the airline to a particular sector.

**Mr PETER MORRIS**—But you have your space contracted. If I turn up, the chairman turns up and Paul Neville turns up, and I can pay the highest rate, if there is not enough space for the three of us, who gets the space?

**Mr Coutts**—Normally it would be the first person that has made the booking; it would not be the



person who has paid the highest premium.

**Mr PETER MORRIS**—Even though I am paying twice as much as he is? You are not going to tell me that?

**Mr Coutts**—But you have already made the booking by prior advice—

**Mr PETER MORRIS**—No, we all turn up today. Most of your business is done on a spot basis, you are telling us, but you contract the space. So you have the space there. How do you decide it?

**Mr Coutts**—What I said earlier was that 70 per cent of material is in actual fact on a service level agreement basis with the airline, but 30 per cent is on a spot basis. I wanted to correct that.

**Mr PETER MORRIS**—We are not prying; we are just trying to understand because there are all sorts of variations about this.

**Mr Coutts**—With the other 30 per cent, normally what would happen is that the customer who comes in the door first and makes the booking with us would get priority. It would not be on the rate that they have actually paid on that particular day. There are some freight forwarders who actually operate the opposite way. What I am saying is that we do not within TNT. It is the case that with the customers who come in first, they have asked for the space; space is available; we will contract it to them.

**Mr PETER MORRIS**—And you get bumped by the airline sometimes?

**Mr Coutts**—We do get bumped by the airline, particularly in November-December.

**Mr PETER MORRIS**—What do you tell them then?

**Mr Coutts**—We tell the customer that it has been offloaded due to lack of space—for instance, high passenger load. This is a particular difficulty, come November-December. You get a high passenger load, it is peak passenger time. You also have a peak mail time and, of course, mail is priority traffic. Therefore, it just reduces the space. It can be within half an hour that the airline has lost 6,000 or 10,000 kilos of its freight capacity.

**Mr RANDALL**—Why do you not try to get one of the dedicated freighters to take the space up?

**Mr Coutts**—Again, it is dependent on the time and the sector. Those dedicated freighters are, firstly, an expensive option. Secondly, they are not always available to contract to a particular destination because they are there to fill other needs.

**Mr PETER MORRIS**—And the airlines are always fair dinkum, they always tell you the truth when they bump you?

**Mr Coutts**—They certainly tell us why they are bumping us.

**Mr PETER MORRIS**—They give you a reason why they are bumping you. Do you get bumped by the airlines? Don has his airline—he has Qantas—and he suddenly has a customer turn up with a higher rate than you are offering. He takes the space himself. That happens, does it not?

**Mr Coutts**—That certainly used to happen prior to our having agreements in place. Since we have had the agreements in place, which has only been for the last 14 months, we have had very few offloads. It tends to have been for technical reasons as opposed to a rate problem.

**Mr PETER MORRIS**—You mentioned in your submission the 727, 18 tonnes capacity, stationed in Perth. Is that the consolidation of domestic cargo prior to export, or is it the actual export journey itself? This is in the submission to the IDC—airlift capacity. It is on the second last page of that submission. It says:

To support that capacity, a 727 freighter with 18 tonnes capacity stationed in Perth can be made available for carriage of freight to Asia.

**Mr Telford**—During that submission we had someone from Ansett attend. In fact, I do not recall exactly what that was in regard to.

**Mr PETER MORRIS**—You might care to have a look at that. The reason I asked that is that, looking at this whole question of rates, if you have a 727 that is sitting there and you can suddenly pump it into an international journey, how would that rate compare with the 747 outbound rate on a passenger aircraft?

**Ms Fanning**—That was Ansett's part of our submission which—

**Mr PETER MORRIS**—So we should disregard that part of the submission?

**Ms Fanning**—It is something that Ansett would need to answer. We can certainly follow it up.

**Mr PETER MORRIS**—With all those things we have talked about—the bumping, the contractual, the spot markets and everything else—can you tell us how that all fits together, given that according to your other chart here New Zealand is making major use of Australia's outbound service. Who gets bumped there—the New Zealand service, or is New Zealand contributing to the shortfall in capacity that is required? How does it all fit together?

**Mr Telford**—Again, we are going back 12 months, but my understanding of it was that New Zealand, because they have consistency of supply, booked regular contractual slots, not dissimilar from the way we do it ourselves. They have premium product and charge premium prices. They are paying \$1 a kilo more.

**Mr PETER MORRIS**—Do we have any information on that, Chair? Is this really a New Zealand generated problem? Sufficient capacity would be outbound, if it was Australian product going out, but the space is being contracted by New Zealand.

**Mr Telford**—I would think that they run into the same problem during the seasonal position and that

they probably revert to the higher cost. Out of New Zealand direct, they pay a premium, and they probably pay the premium during the high season time and use our capacity during low season.

**Mr PETER MORRIS**—I think it is fairly fundamental to the whole issue. We are told that there is product there to be exported from time to time. What the industry and all of you, virtually, are telling us is that you need to upgrade the value of your product, lock into longer delivery times so we can secure the space and have it contracted there for you. New Zealanders have done that. They have grown their market; you have not grown your market. Not only that, they are using your air freight capacity outbound to do that and selling a higher value product. If you could help us with that, I would be grateful.

**CHAIR**—That leads into one other question. We are talking about the coordination of freight—more than just arriving on the spot on a day with 10 tonnes of freight to go somewhere. You would be aware of the establishment of the Western Australian Air Freight Export Council. Is that sort of organisation that is going to coordinate, on a longer-term basis, freight of time sensitive goods a step in the right direction in addressing this particular problem?

**Mr Coutts**—Certainly from my perspective, those types of councils have had great success in Europe in coordinating different flows of produce on an export freight basis. The potential is certainly there.

**Mr WAKELIN**—On the first page you mention that it excludes government charges between New Zealand and Australia. Mr Telford actually mentioned the 14 per cent rise with the Airports Corporation. Does that change the numbers a bit between New Zealand and Australia? Does it change very much the various government charges?

**Mr Telford**—Does it change the numbers between—

**Mr WAKELIN**—Australia and New Zealand. All these costs, I understand, exclude government charges.

**Mr Telford**—What we are saying is that the cost in Australia is going to increase. It will increase to the New Zealanders in the same manner.

**Mr WAKELIN**—I understand that, but in terms of all the government charges in New Zealand and Australia, does it change these basic costs? Forget the 14 per cent—that was an example of it. With the total government charges, New Zealand, Australia, your disclaimer at the bottom said that these costs exclude government charges, and I am interested to know whether it does change the numbers very much.

**Mr Telford**—I could not answer that, but I will take it on notice.

**Mr WAKELIN**—Okay. So we presume the Australia and New Zealand charges are basically similar and therefore the result would be—

**Ms Fanning**—I think that would be a fair presumption.

**Mr Telford**—When we did the study at the time, I am sure it was not relevant, otherwise we would have included it.

**Mr WAKELIN**—But I take the point about the 14 per cent which was obviously going to change things a bit.

**CHAIR**—Would it be possible just to clarify that and get some information back to us? Thank you.

**Mr WAKELIN**—To Vanessa Fanning, I understand you have had some experience in negotiating bilaterals. Could you take us through some of the difficulties in negotiating bilaterals? Particularly what sort of formal input is there from all the stakeholders? Your experience is what the committee was seeking in terms of the bilaterals.

**Ms Fanning**—Chairman, I think it is not really appropriate for me to comment on the negotiating process. I know that you have had a submission from the Department of Transport. They are currently responsible for conducting the negotiations. I could add nothing to what the officials who are currently handling those negotiations could say. Briefly, on your question about the input from stakeholders, the Department of Transport does consult very widely, and a very intensive effort is made to absorb and balance the interests of the various parties who make submissions prior to a negotiation taking place.

**Mr WAKELIN**—In other words, it is a useful process.

**Ms Fanning**—It is a bilateral process, so you are never totally in control of the outcome.

**Mr WAKELIN**—I was interested in the comment about the airline trend to smaller aircraft and about ‘being supplanted by 767 and A320’. You also say, ‘similar passenger loadings without freight capacity’. That changes the game. Could you give me some background on that?

**Mr Coutts**—Certainly what we saw in the late 1970s and early 1980s was that the availability of combi aircraft, combined passenger and cargo aircraft, was particularly healthy and was very productive on a global basis. What we have seen within the last three or four years is a scaling down of combined passenger and cargo aircraft, and converting more combi traffic to passenger aircraft with some form of cargo availability—mainly belly load traffic. So that has reduced capacity in certain routes.

**Mr WAKELIN**—Do the internal security arrangements have an impact on people’s ability to know how much freight is available? Is there any impediment there?

**Mr Coutts**—None that I can think of. We have security procedures in place which are both for our regular shippers but also for what we could call spot users, ad hoc users of our business. For instance, if an ad hoc customer comes up with maybe a slightly lower processing time of that material, but none that would really hinder the overall transit time or cost of the export—

**Mr WAKELIN**—So freight forwarders would not regard it as an impediment in any way, the security

arrangements?

**Mr Coutts**—No.

**Mr McDOUGALL**—We have heard from various people who have all got their arguments about where a hub should be situated, how they get freight out of the country. We know that people ship around Australia. We know that the bulk goes out through Sydney, in relation to the fresh food area because of the freight availability in numbers of planes. In your submission back in 1995, in one of your critical issue areas you made a statement in relation to location of hub, indicating that there was a requirement for a hub operation. You suggested in that that it would be better to have a greenfield development to be able effectively to have a proper operation. Bearing in mind that we have got a very diverse supply market over a very large area of Australia, do you still think that it would be more beneficial to have a single hub, or do you think we are better off going down the path of using our existing export airports?

**Mr Telford**—Perhaps more than referring to a hub complex, if you look at those numbers I was showing you, in relative terms the cost per kilogram for local cartage is not significant. If you looked at the Parkes alternative, you would add perhaps an extra 4c a kilogram to transport from Parkes to Sydney. If the existing infrastructure can be developed sufficiently in each of the major airports, that is probably a better alternative. It is relative to transport cost, and the local component of the transport cost is relatively low, if you take it proportionally with the cost per kilogram we have outlined.

**Ms Fanning**—Between when we wrote that submission and when we developed our slide presentation, we also did some more thinking about it. Where we came out was that, if you make a *prima facie* decision about location of a hub or hubs, you are putting the cart before the horse. We were really saying that you need to come back to the issue of targeting your markets, targeting your produce, changing the culture and getting the quality right, using flexible and ideally low cost facilities of the kind I mentioned—perhaps mobile chiller capacity temporarily plugged in or whatever. You really need to see what develops, where you are getting runs on the board, what your success is. Then you have the underpinnings to make a major investment. But we did not feel we were in a position to judge where that investment should be. As Don has mentioned, people have made that punt, invested in various locations and lost heaps of money.

**CHAIR**—I have one last question before we move on to the next witnesses. Now that you have divested your interests in Ansett, is there enough competition on airport as far as cargo terminal operators are concerned?

**Mr Coutts**—That needs to be in some context. We only really have a problem in Sydney. It is not a problem for us in Brisbane, it is not a problem in Melbourne, and it is not a problem in Perth which is our main operations. But it is here in Sydney and yes, I think there is an opportunity for another operator.

**CHAIR**—We are going to have to suspend proceedings at this point because there is a division in the House. I thank the witnesses from TNT. Could you please provide us with the information from the questions that you took on notice, and we will provide you with a copy of *Hansard* once that is available. The committee accepts the document entitled 'TNT The Worldwide Transportation Group' as exhibition No. 36. Thank you all very much.

**Short adjournment**

[10.47 a.m.]

**POKORNY, Mr Peter, National Merchandise Manager Produce, Woolworths Ltd, 540 George Street, Sydney, New South Wales**

**CHAIR**—I welcome Mr Pokorny. Peter, I mention that we had invited Mr Reg Clairs, the group managing director, but he was unable to get here this morning.

**Mr Pokorny**—Yes, he had a personal problem and sends his apology.

**CHAIR**—Thank you, we note that. Peter, would you like to make a brief opening statement?

**Mr Pokorny**—Just merely to state my involvement with Woolworths, if that is appropriate.

**CHAIR**—Proceed.

**Mr Pokorny**—I have been with the Woolworths organisation now for just over 20 years. For the last 11 years I have been involved in the company's fruit and vegetable operation. In the last four years of that involvement, my task has been to coordinate the national organisation for fruit and vegetables and to take it into a new, more effective direction. That means we have been taking a higher profile in horticulture than we have before. At the end of 1994, I became involved in the company's new initiative to export fruit and vegetables predominantly to the Asian market, and also other opportunities as they arise in North America. Also, more recently, we have been evaluating the European market.

**CHAIR**—Woolworths are being recognised, to a certain extent, as leaders as far as quality assurance is concerned. Can you give us a quick overview of how you run that with your producers. Do you pay a premium for quality produce or are there penalties to your suppliers for substandard produce?

**Mr Pokorny**—If I could go back a bit, I was involved with the horticultural policy council which is now defunct, doing an evaluation on quality assurance. We had been, prior to the activation of that quality assurance evaluation committee, looking at the value of quality assurance driven from customer specifications. We became very concerned about the confusion in horticulture with exactly what was quality assurance, what was it supposed to deliver and how do I get my price premium for taking the initiative and being involved in quality assurance.

From sitting in the horticultural policy council, I think it was quite understandable why producers had such confusion about quality assurance. A lot of the programs really were not directed towards customer needs and requirements; they were merely focused around achieving some milestone in the operation of their business. We went forward and developed, in cooperation with particular consultants, a quality assurance program—the Woolworths quality assurance program. A lot of the components of that are based around food safety disciplines and, integral to the success of that quality assurance program are customer product specifications.

We have been working with a number of growers to implement that program. We are at various stages of roll-out; several have achieved accreditation. It is a third party accreditation scheme; it is certainly not a

gimme as such. It does require a close integration between our customer feedback and the producer's capabilities and then working on a structure, to deliver a more consistent product; and to deliver a product that is safe, both in terms of the way it is produced in relation to chemical residue issues, food purity and integrity, product contamination and microbiological contamination. Our specifications relate to particular markets. They could be different in a market in Victoria from a market in Hong Kong.

The program has been developed by people who were very much involved with the Western Australian government in the development of its SQF 2000 program. As a best parallel, a lot of the components in SQF 2000 are incorporated in the quality assurance program.

**Mr McDOUGALL**—What do you see as the Woolworths vision in relation to the export of perishables into Asia?

**Mr Pokorny**—It is fair to say that we see Asia as customers quite simply, and customer requirements in the various Asian countries are somewhat similar to the domestic customer requirements. They want quality product; they want product that is safe, that is clean and green; and they want it consistently. It must be fresh. There will be variations in size but certainly in terms of quality and consistency we really see very little variation.

Looking at our current infrastructures in both procurement and distribution, we believe we have an opportunity to expand our customer base. With a population of 18 million, our slow growth, that customer base now extends into Asia from our perspective, and will continue to grow. A lot of our focus has been on retailer to retailer relationships. There is an empathy between the two organisations, ourselves as a retailer and the purchaser, in relation to the importance of the customer.

**Mr McDOUGALL**—What do you see as the impediments that currently exist for you to be able to progress?

**Mr Pokorny**—The main impediment really starts in the field. That is a lot to do with the psychology, traditional farming practices and, in horticulture in general, the lack of customer focus. Many aspects of horticulture are really driven from agendas that preclude the customer. Until we work in a better and a collaborative approach, we are going to find it difficult to meet the demands of customers, because we are operating from tradition. We are not looking at specifications; we are not looking at consistency; we are not looking at the requirement for freshness. Until we address that and we work in a different manner, I think that is the main impediment. All other issues really run secondary to that.

**Mr McDOUGALL**—So you are saying that the problems that we have been told about within the freight chain should be put aside at the moment until we get the front end fixed up?

**Mr Pokorny**—Yes. I think there are larger problems than just the freight component. It is a bit of the saying that if you have the product, the services will come. And we see freight as a service.

**CHAIR**—For the benefit of the *Hansard*, could you just explain what SQF 2000 is?



**Mr Pokorny**—SQF is safe quality food. It is basically a Western Australian government initiative to ensure that their producers are providing a consistent quality, safe product that meets customers' expectation. And their goal is 2000. Our program is based around that with some further enhancements to meet our particular customer requirements.

**Mr ROSS CAMERON**—I want to pick up on Mr McDougall's question. There is a feeling that in New Zealand, for example, this change of culture has taken place there and we are getting left behind in a range of markets. We are asking ourselves the questions: are the problems in the freight chain itself; is it in government regulation; is it a commercial issue? Fundamentally, we are all asking how you get that shift in culture that you were talking about to an externally oriented market. One of the issues at the moment, when you get the producer taking tentative steps to look outward, is that they come up against issues in the freight chain. For example the might get bumped out or their produce becomes dehydrated on a runway or whatever. So they tend to withdraw.

Just letting the thing continue, it seems that there may be cultural and structural issues that are sufficiently strong to provide a ceiling against any major change in culture. So one option put to us as a government is that we ought to just take a deep breath and try to come up with a macro sort of jolt or big bang, if you like, that will have a dramatic impact on the culture of both producers and on all the links in the chain. The other approach is just to say that, over time, through slow increments, these things are going to happen. Has Woolworths got a view about the role of government in an exercise like this?

**Mr Pokorny**—I pick up on some of your first comments. You wondered if things such as the freight scenario that you are now challenging and querying are impediments to people changing their approach. There are a number of components that come into changing people's approach to the business. One of the things that we experience continually from our side of the operation—and I will say now domestically and export, because I believe they polarise in terms of the challenges and problems that confront us in horticulture—is that we have some very short-term views and attitudes. The question was asked before about quality assurance and how you go about paying premiums and so on. I am not sure, if I can come back to that, if quality assurance is anything about a premium. I think quality assurance is about cementing your position with customers.

It comes back again: we are not customer focused. We take very short-term views of attitudes, and we seem to have a psyche that says that, as soon as we take a knock on the head, let's pull our horns in and go back. I think that all the members of the supply chain in horticulture are guilty of that situation, including ourselves at times.

If I may, by example, answer your question: we are currently going through a process where we are reviewing how we interact with producers. We are now talking about supply chain delivering the requirements of customers and how we can go about facilitating opportunity for the producer to understand customer needs. How do we integrate the service providers more effectively into that situation? How do we interact with various government groups—AQIS, for example—to ensure that we are working to meet the customer needs?

I know that might sound very simplistic, but I believe that the business at the end of the day is

simple. If we can take it from that customer focus back, I believe you will find a change in attitudes. Again, by example, it is interesting when we bring producers into our supermarkets and we stand there and look at what the customer is doing and how the customer is acting. The difference in the psyche and the understanding that develops from that very simple exercise can have quite a shift in the focus of that relationship. When we have brought customers from various Asian countries to our retail operations for training, the difference in the understanding, the awareness and the attitude to opportunities with Australian produce changes quite dramatically.

In a lot of cases, where government has a role is maybe in facilitating this understanding and maybe facilitating some of the education processes. As to whether it has a role in legislating to ensure that Qantas has cargo aircraft or that they fly 747-400s instead of 767s which do not carry enough belly cargo, I am not sure if that really does not in some way hinder people by creating a lethargic attitude. We have seen that happen in some instances, and you quote New Zealand. I would suggest to you that the attitude of some market boards have actually deluded people from maintaining an aggressive position towards the market/customer.

It is a complex situation. Again, I can only relate by example what we are trying to do to address it. That is to lift awareness of the customer needs and then bring people together, almost like the glue in the supply chain, and stimulate them to respond. At the end of the day we all want profitable income. That seems to be a fairly good motivation to get a transporter or to get a service provider of chemicals or a packaging company to act in a manner that is more conducive to facilitating a profitable result.

**Mr ROSS CAMERON**—You say that Woolworths has this long-term view on customer focus. I thought that initially on quality assurance you said that one of your objectives was to work out how you get the price premium for the quality assurance investment.

**Mr Pokorny**—No, I am sorry, if I made that statement, can I clarify? One of the issues in quality assurance is to make sure that we cement success and longevity by better serving the customers. If that can relate to a price premium because we are giving the customers something ahead of their expectation—

**Mr ROSS CAMERON**—I thought that was your comment in your opening statement, but this is my real question. You are representing a massive organisation with deep capital resources, a huge distribution network and retail centres. The market is made up of these much smaller players scattered all over Australia, many of them effectively sole traders, most of whom have no capital resources. The question is: how do you drive a cultural change in that group of people?

We are having it put to us that there is a very specific kind of solution for this industry, recognising you have a huge number of very conservative Australian farmers. We have this difficulty in establishing a really fluid chain to get product from the field to a consumer somewhere in Asia. Some are saying the structure to drive change is a macro, one-hit solution in which, say, 50 local councils would all take shares in a major infrastructure project that would be specifically designed for this exercise. But it would require government to throw in some tens of millions of dollars.

To me, it is a high risk strategy, but the argument is that this is the only way you are ever going to

get real change. We are obviously not going to get all of Australia's farmers and wheel them, one by one, through your fresh produce area. So what do you think we ought to be doing as a government? Do we take the punt, the risk, or is there some more constructive, less intrusive way we should be involved?

**Mr Pokorny**—It becomes a risk if you put that infrastructure into place for some of these concepts. If you have not identified the market that you are chasing, then it does become very high risk. If you can identify a market that can be pursued and does have some longevity, and that market can be exploited at a profit and a return on investment for that infrastructure, I am not sure the risk is that high. There are obviously some jobs that people in Austrade and other such organisations as AHC should be investigating and giving you the market feedback to help you evaluate what the risk potential is of such an investment.

Again, if one puts infrastructure into place and one has that infrastructure sitting there without a market, it is very high risk. If you have a look at some of the Israel examples, we have looked very carefully at operations like Agrexco. Agrexco is often quoted because of the superior perishable air freight facilities they have at Ben Gurion Airport in Tel Aviv, an excellent operation. But that operation has sprung up to facilitate exploitation of identified markets. It has not been put there and they have said, 'Let's go and find a customer.' I answer your question again. To identify the customer, determine the longevity of that market and then support it with infrastructure, having a group utilising that infrastructure that is focused around quality assured product that meets customer specifications would be, you would have to say, a fairly low-risk, if not astute, investment.

**Mr PETER MORRIS**—We are talking now about exports, but you are also involved in import?

**Mr Pokorny**—Yes, indeed.

**Mr PETER MORRIS**—We are told consistently that the much higher rates for inbound freight cross-subsidise the outbound rates for export. Is that your observation? What is the variation between inbound and outbound? You are in both.

**Mr Pokorny**—With inbound freight rates, predominantly we bring in product by sea. Freight rate coming in is comparable. I could not give you exact figures to qualify that at this stage. But certainly for freight going out, we have not challenged the rate because we find we are competitive with existing rates. Coming back to this again, our single, biggest problem is getting the decent product to meet the customers' needs. We have not really been in a position where we have needed aggressively to chase down rates from Qantas, Ansett or other providers of air cargo.

**Mr PETER MORRIS**—Do you do that operation through a freight forwarder or consolidate or do you do it all direct yourselves?

**Mr Pokorny**—A mixture, depending on the market we are going to.

**Mr PETER MORRIS**—So it is location by location, depending on where it is—I mean, domestic location as well as their destination.

**Mr Pokorny**—Yes, indeed.

**Mr PETER MORRIS**—Is there a Mr Big, a villain, in all of this who makes air freight capacity not attainable, not available to the people who have product and want to export?

**Mr Pokorny**—There are certainly some problems with air freight capacity at certain times of the year. There are situations with certain airlines which have a reputation for bumping cargo off because they want to increase their passenger carriage and their baggage and so on. We have experienced that. Is there a Mr Big who is masterminding that? We have not—

**Mr PETER MORRIS**—A Mr Big in the sense that there are one or two major factors that really inhibit all of the smaller exporters getting into the game. They say it is because the freight capacity is not there, the rates are too expensive.

**Mr Pokorny**—One of the problems we encounter in many cases is inconsistency of booking with airlines. Let me clarify that in greater detail. If you talk to any of the airlines and you can give them consistent air cargo, we have found them most accommodating. When you are running your business very much on an ad hoc basis because you have an order today, but you do not have an order tomorrow, and you are not sure when the next one is coming, it is very difficult for the airlines to service our needs based on those ad hoc requirements. In instances, we have not done a good enough job of securing market position for our product. So we are going to the airlines and finding it extremely difficult with the ad hoc arrangements.

We have had a consistency of product, for example, going into Japan and we found the airlines very willing to facilitate that, because we can preplan, we can organise and we can effectively exploit that market opportunity. We have been doing so with particular product now for 15 months, working with a large Japanese retailer.

**Mr ROSS CAMERON**—What is the product?

**Mr Pokorny**—Broccoli. When we go somewhere like Malaysia, a very ad hoc market for a lot of highly perishable goods, it is very difficult to get the level of service we require from the airlines.

**Mr PETER MORRIS**—Is it a range of products that you are exporting?

**Mr Pokorny**—The range of products? We basically will export whatever product we carry through our domestic operation.

**Mr PETER MORRIS**—That is ad hockery itself.

**Mr Pokorny**—The main products we are concentrating on would be citrus, broccoli—

**Mr PETER MORRIS**—Help me with citrus. Is that oranges mainly?

**Mr Pokorny**—Oranges predominantly, but also mandarins. We export to North America and Asian

ports. But we find one of the problems is that, in trying to secure a market, there is a general lack of confidence—and I am now talking as a horticultural entity, Australia. We do not have a strong reputation because we have failed to adhere to customer specifications consistently.

**Mr PETER MORRIS**—As I listen to you and hear observations about the horticultural industry, given that the Horticultural Corporation has been there for more than 10 years now—

**Mr Pokorny**—AHC?

**Mr PETER MORRIS**—Yes. What is wrong there? It has had 10 years; I heard those messages 10 years ago. What really is the problem there? Is it because we are itinerant exporters, or has the culture just not changed yet? How long does it go on?

**Mr Pokorny**—I do not want to comment on the Australian Horticultural Corporation.

**Mr PETER MORRIS**—No, but I am using that figuratively in the sense that it is representative of the industry. You have a corporation there with all—

**Mr Pokorny**—A quick summation of where we are with horticulture: there are still too many spectators and not enough active players. Many people will talk, there are a lot of motherhood statements, but there is very little action. As a corporation, we have changed our approach, even in the last 24 months, as to how we have to interact with major producers and other entities. If we stand on the sidelines and wait for it to happen, it is going to be a very long period of standing.

**Mr PETER MORRIS**—From some of the evidence I have heard, it is the same, almost verbatim, as what we were told in Adelaide at a meeting on this issue back in about 1986. It seems very little has changed in culture and in attitudes.

**Mr Pokorny**—I came into the produce/horticultural area of our company in 1985 and my observations then were very much as they are now, so I would agree with you. That is very much why we are moving to shift the way that we interact with producers. Even from our corporation point of view, we need to start to act in a more collaborative manner and understand that, if you are going to serve the customer—as I was describing before—you need to bring everyone together in a common focus. We cannot do it on our own.

There are excellent producers and we need to give them the confidence, the commitment and the courage to go forward and expand their operations. You cannot do that by bartering in the traditional manner; you have to look at a different way of procurement, a different way of operation. That is hard for some of our people who have been in the produce industry for decades and are now having some of their firmly entrenched beliefs challenged because we are talking about negotiating with different priorities and emphasis. It is not easy, but it is a progression that is taking place.

**Mr PETER MORRIS**—But it is all possible, is it not?

**Mr Pokorny**—Yes. I think there are some fine role models when you look at what is happening

round the world. We were privileged to have a presentation from the director or purchasing of a Dutch retailer, Albert Hein. You hear how they interact with their primary producers in Holland, and it is quite motivating. It is a much different approach, a more collaborative approach. Everything they do—and I know it sounds simplistic—is driven by the customer needs and wants.

**Mr PETER MORRIS**—Just contrast for us both sides of all this. You have told us about that compartment that deals with exporting and trying to grow that market with all the procedures and customer focus. Contrast that for us with the other side which is dealing with imports. With the exporter abroad who is trying to sell on our domestic market and is using air freight in our domestic market, is there a comparison you can draw for us there as to what they are doing? How does that contrast with what we are doing here?

**Mr Pokorny**—I refer to the example of the Californian strawberry growers who provide product into this country during various windows of opportunity. The Californian strawberry producers have worked very effectively with US based exporters. They have worked very effectively with service providers in terms of air cargo operators, logistics operators on the ground. They are the sorts of producers who, in association with their partners, visit markets, understand customer needs and then work together to achieve a result.

We can actually order strawberries out of California and have them delivered into Sydney airport quicker than we can get strawberries out of the Sunshine Coast in Queensland into our Sydney distribution centre.

**Mr PETER MORRIS**—I do not have any response to that. Colleagues, who is from a strawberry area? If there could be just a short card of instructions on what to do, it would be you jotting down some ideas and comparisons on a bit of paper for us on how our markets are penetrated by exporters abroad, and what we are failing to do in trying to penetrate markets abroad. It would help us.

**Mr Pokorny**—I will come back again. In our commercial operation, we have learned from the Californian strawberry exporters where they do go and visit the market. We are now taking our growers with us overseas. We talk, and we talk to the various airlines. Our most recent visit overseas was with a particular grower of a product. We visited the service providers; we visited the customer; and then we got everyone together and we talked about how we have to go about developing the market. Now we will not get a short-term, and I daresay we will not get a medium-term, return on that investment, but we will get a return.

**Mr McDOUGALL**—I would like to take that a bit further. You talk about how you are working with overseas and I, as an individual, have been observing how you and other major fresh food retailers have developed a relationship with the grower to produce a product which you put on your shelf, and you maintain quality, quantity, consistency and, obviously, a marketable price. If we are to put a new culture into the grower to be an exporter as opposed to being a domestic supplier, to be dedicated to export, and to make a meaningful foray into the Asian market with a long-term return, how long would it take us, in your opinion, to get producers up to speed to be able to venture into new markets, develop new markets, to be able to create this demand?

**Mr Pokorny**—We are still learning how to do it better in terms of the relationship and the customer focus, back down the supply chain. So we have a lot to do ourselves. I do not sit here and say I am a

professor of supply chain, a master in horticulture—far from it. You were also saying there: how do we get the grower to look at the export market? We possibly need to stop distinguishing between domestic and export, and start thinking about how to work together to better serve the customer.

Really, the same psyche, approach and methodology has to be in place. If we are serving a grower from the Sunshine Coast in Queensland going to a customer in Melbourne, it has to be the same psyche and methodology as serving a customer in Hong Kong. There should be very little difference: maybe the product specification, that is about it. Certainly that is the way we are approaching customers overseas, as I stated earlier.

Regarding the time frame it will take to get a return on all that effort and energy, I could not put a time because it is going to vary by product. It is going to vary by performance. In some markets we have a less than desirable reputation. How long does it take to turn that around? We have been marketing ourselves to the consumers of Australia as the fresh food people now for 10 years. We are not satisfied that we have cemented that position in the psyche of the customers in this country. How much longer do we keep doing it? Till we are satisfied that we have become first choice with them on fresh foods. So I could not answer your question in terms of a definite time frame or period.

**Mr McDOUGALL**—Have we got enough growers out there that you can stimulate?

**Mr Pokorny**—We have some very good growers, given the right commitment, the confidence and the support, yes.

**Mr PETER MORRIS**—Where are you less than desirable—

**Mr Pokorny**—Where are we less than desirable in terms of our reputation?

**CHAIR**—Region.

**Mr Pokorny**—Hong Kong is the most recent experience.

**Mr RANDALL**—The fact that you go out and seek your own markets is commercially driven, obviously. But how does it work for the little market gardener? Maybe we should not even be talking about little market gardeners, because someone like Sumich is a big market gardener and very successful, but you are not always going to have the big producer wanting to sell for export. We have mentioned here the Australian Horticultural Corporation and Austrade. They are the bodies, especially Austrade, that should be seeking out these sorts of markets for the producers back here if they do not have an intermediary like you looking for a commercial market.

**Mr Pokorny**—I think Austrade does provide that service. There are some examples where Austrade has brought various smaller growers and marketers of product together. There was a group in Queensland, if I remember correctly, called Q-Veg, and some of that facilitation was put together through Austrade. There were some other activities in south-east Victoria where Austrade was involved. If I understand your point, you are asking how the smaller producer has an opportunity to impact on those markets and be involved?

**Mr RANDALL**—That is right. If it is market driven, which it obviously is—you were saying the infrastructure follows the eventual market—how does the person wanting to get into the market as a producer get somebody to find his market for him? They are not going to hop on a plane and go to Hong Kong. I am also asking if Austrade is doing its job.

**Mr Pokorny**—Let me come back to the small producer. Certainly in the situation there, whether they work with a group such as Woolworths Export, whether they work with a Sumich and become associated there, whether they work with an exporter who has no particular growing base but has established customer contacts, from our perspective size is irrelevant. It comes back to the attitude and it comes back to the customer focus. In fact, in several instances we have been able to provide an export facilitation for some of the smaller producers that are coming into our domestic operation. Their product is excellent quality; they have a very good understanding and view of where the business has to go; and we work with them in a very successful relationship. We are quite pleased to be able to do that.

We have worked in a partnership where they provide the production expertise, if I can call it that, and we provide the market access. It is very much an open-book relationship. I think there are other people who operate in a similar way or are certainly looking at rejigging their business in a similar way.

**Mr RANDALL**—Am I compromising you by asking about Austrade?

**Mr Pokorny**—As I said, I am aware of several examples where Austrade has brought together groups of producers to meet market demand and opportunities. Certainly from our point of view, we have a very constructive dialogue with Austrade and we have found them in instances to be very good and very supportive. I understand that service is available to all that request it.

**CHAIR**—We have to leave it there, Mr Pokorny. Thank you very much for making your time available this morning. We will provide you with a copy of the *Hansard* when that is available for your proofreading. Thank you very much.



[11.22 a.m.]

**FRENCH, Mr Bryce, Director, Cargo and Mail, Aviation Security, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2600**

**MRDAK, Mr Michael, Director, International Policy, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2600**

**TURNER, Mr Raymond, Assistant Secretary, Aviation Security, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2600**

**WHEELENS, Mr Tony, Assistant Secretary, International Relations, Department of Transport and Regional Development, GPO Box 594, Canberra, Australian Capital Territory 2600**

**CHAIR**—I welcome the witnesses from the Department of Transport and Regional Development. Thank you very much for your patience. I understand you have handed us a printed copy of a statement which we will incorporate in evidence. Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

*The statement read as follows—*

**CHAIR**—I understand you want to make a very brief comment before we move into questions.

**Mr Wheelens**—I would just put the air freight into perspective as we see it. In 1994-95, Australian producers grew, harvested and yielded produce valued at about \$21.3 billion. In 1995-96, \$1.1 billion worth of perishable produce was exported by air. That is, of Australia's total food production, about five per cent is exported by air. Of our total air exports, 52 per cent of the volume is accounted for by perishable produce. This volume, however, only accounts for six per cent of the value exported; 94 per cent of the value of goods exported by air is put down to non-perishable exports.

Freight capacity out of Australia is essentially a back load on scheduled passenger services and generally exporters pay marginal rates for access to that capacity. In June this year, the Minister for Transport and Regional Development announced a new freight policy which essentially committed the departmental negotiators to putting more dedicated freight capacity into the bilateral air services agreements.

Since the new government came into office, we have been able to add an additional 21 747 pure freighters per week in each direction into our bilateral agreements, bringing a total of 38 dedicated 747-equivalent freighters there are in the bilateral agreements. This is against a background of 22 of those freighters currently operating scheduled services into and out of Australia.

We have a very heavy commitment in our negotiating program for the rest of the year, and probably will do as much as another 10 formal rounds of negotiations. We have a negotiating team in the Philippines at the moment. One of the issues that they are specifically addressing is freight and the provision of freight into the Manila hub to make that available to Australian operators. We expect that in our remaining negotiations this year, we will be able to add significantly to the amount of dedicated freight capacity already negotiated.

In addition to that, the government has also introduced more liberal freight charter guidelines. So far this year, we have approved over 640 dedicated charter freight flights on a non-scheduled basis. The Prime Minister on 12 September launched the Supermarket to Asia strategy. Our minister is a member of that group. It is expected that work being done in the department on transport and logistics will form a central part of the work of that, as will the recommendations coming out of this committee.

There have been submissions to you on the role that US carriers might play in the Australia-North Asia market. It might be useful to spend a moment on that to examine where we are going or what opportunities might be available to us. At the moment the Australia-US bilateral agreements permit US carriers to operate any number of flights into Australia via the South Pacific and beyond Australia to a number of destinations in the region, including South-East Asia and South Asia.

At the moment in the treaty the rights are not yet available for US carriers to participate in the Australia-North Asia market. No doubt it is an issue that we will address when we come back to the table with the Americans, although we are not scheduled to do that at the moment. It will certainly be an issue that we will take up at that time.

It is important to note that currently there are 11 services a week operated by US carriers beyond Australia into Asia. Only three of those pick up the rights that are available to them to travel to South-East Asia. The remaining eight of those 11 services operate as non-scheduled services into the North Asian market, which is permitted.

I guess that takes us to the conclusion that the phrase ‘dead-legging into Asia’ is perhaps not an accurate one. What we are seeing with the liberal freight policy is US carriers picking up the commercial opportunities that they believe are there. But we also see them taking commercial decisions not to enter particular markets. I guess that is a reflection of the yield that they believe they can get out of some of them. I would like to leave it at that point.

**CHAIR**—You mentioned in that pre-summation of your opening statement that in recent times you have been building a dedicated freight component into bilaterals and air transport agreements. The agreement that has been negotiated with Kuwait, does that include freight capacity?

**Mr Wheelens**—Yes, it does.

**CHAIR**—What is the status with the agreement with Kuwait at this stage? Has that been finalised?

**Mr Wheelens**—Yes, I believe it has.

**Mr Mrdak**—It is still going through the formal constitutional processes of Exco, the Executive Council, and then through the process of treaty ratification and the like through the parliamentary scrutiny process.

**Mr Wheelens**—That would not prevent services commencing while that process is in train.

**Mr McDOUGALL**—In relation to your comments that we have in our notes, is there to be any formal consultation with the Supermarket to Asia council before any further bilateral negotiations?

**Mr Wheelens**—Not that we have in mind. Our minister, as I said, sits on that group. He approves the government’s negotiating position in all of our treaty negotiations. So I guess he has that input. Before we go to the table and negotiate, we consult widely with interested parties in government and at the state and territory level. So there is an input formally already. The Department of Primary Industries and Energy is formally consulted, for example, before we go to negotiations. So we use that as a vehicle to bring expert advice to the negotiating team before they sit down.

**Mr McDOUGALL**—You mentioned in your opening statement the reference to the Manila hub as a potential. TNT, in their evidence this morning, gave us some information in which they talk about a proposed expansion into the Manila hub as a freight operation. Who is driving the Manila hub? Is that a reality? Is it something that Manilla is driving or is it something that the rest of Asia is prepared to accept as a suitable freight system within South-East Asia?

**Mr Wheelens**—Time will tell as to whether or not it will be accepted. It has all of the impressions of

being probably the right place. Given some of the complexities that exist, for example, in the US-Japan bilateral relationship, it may well be in the interests of some of the major US and Asian carriers to find a hub where there is not as much pressure. So I guess it has significant potential.

**Mr McDOUGALL**—So it depends on the potential and the commitment of the Philippines government in relation to the development of the necessary infrastructure. I raised that question based on some evidence we had in another hearing where people talked about the development of Denpasar as a hub. When we questioned further in relation to what was in Denpasar, we found out there was no infrastructure. Denpasar was really a hope. How much is Manila a hope, and what sort of time frame are we looking at if it is going to be a reality?

**Mr Wheelens**—That is a difficult question to answer. It is early days. The facilities at Clark Field in practical terms have just become available to the Philippines government. The negotiation of rights like these are a complex matter, and they often take a lot of time. It will take time for producers, exporters and airlines to gain confidence about the facility and the efficiency of infrastructure. So at one level it is probably a bit early to make a judgment. But a number of things tell us that it is likely to be quite successful.

**Mr McDOUGALL**—In a previous hearing I asked a question about the agreement between Japan Airlines and Qantas in relation to their operations between Australia and Japan in share arrangements and how that affected the potential freight. Bear in mind that we are talking about Manila being a hub, and I know it does not show any connection to Tokyo. However, I noticed this response on page 1143: Qantas and Ansett are currently utilising almost all of the capacity available to the Australian carriers. The department is keen to negotiate additional capacity with Japan to allow additional flights and has requested Air Services talk to Japan but Japan has not agreed to the talks.

**Mr Wheelens**—That is still the situation.

**Mr McDOUGALL**—So that means outside the Japan Airlines-Qantas co-share, which seems to me to be one of the factors that is holding up these negotiations. Would I be correct?

**Mr Wheelens**—I would hesitate to take it that far. I think that it is a bilateral arrangement and, in defence of the Japanese negotiators, I would say they are totally occupied with their dispute with the US at the moment. We, like a lot of other people, are in a long queue waiting for our turn at the table. The relations that we have with Japan are excellent, but we cannot assume that every time we come to the table or seek to get to the table that Japan is going to be able to accommodate us at that point in time. But I am confident that we will be able to negotiate new capacity. We have had a number of private discussions already with the Japanese negotiators aimed at getting our place in the queue recognised.

**Mr McDOUGALL**—How far tied together are our negotiations between bums on seats verses freight, and should they be tied together? Is there a way of separating the negotiations?

**Mr Wheelens**—We can and have been producing separate freight components into a number of our bilateral agreements. Each time that we come to the table under the government's new policy we are asking for dedicated freight to be put in a box inside the agreement that is not related to passengers. It is important

to recall that 90 per cent of air freight continues to carry on passenger aircraft and does so very efficiently. So the correlation between the growth in passengers and freight is there to be seen.

**CHAIR**—Mr Randall, Mr Morris, any more questions?

**Mr PETER MORRIS**—No. I am just quietly analysing what you have written here and listening as well. I do not have any additional questions at this stage.

**CHAIR**—At a hearing in Canberra on 28 August, two witnesses from the Australian Seafood Industry Council and the Australian Federation of International Forwarders discussed the security aspects. Could you brief the committee on the security provisions affecting the ability of forwarders releasing flight information to producers?

**Mr Wheelens**—I will defer to Mr Turner on that.

**Mr Turner**—I might just outline very briefly the cargo security arrangements we have in place. To a certain extent, I guess, cargo has been a bit of an orphan with respect to security requirements for international air operations. It has been incumbent on airlines to implement their own security measures on cargo. What we have done recently, and it is in response to an international standard, is implement new cargo security arrangements that in effect extend the cargo requirements beyond the airport to the freight industry, particularly to freight forwarders.

We have done this by introducing requirements that came into effect in February which permit airfreight forwarders to ask to be designated as regulated agents. A condition of their identification as regulated agents and their listing is that they produce a security program which outlines the security controls they put in place. Once they have done so, they are nominated as regulated agents. Airlines can then accept cargo from those agents without further security controls.

A concern in relation to security of air travel generally is the desire to avoid people being able to designate a particular aircraft that their cargo is to travel on. The cargo industry and the security of cargo in the past have relied very much on the fact that people are not able to designate a particular aircraft. So we are concerned to try to avoid as far as possible people being able to front up and say that a particular parcel is to go on a particular aircraft.

We recognise, however, that there are difficulties with time sensitive cargo. In relation to that, we have special provisions in place to try to accommodate the needs of the cargo forwarders. Under these arrangements, certain information can be given to people, but there are fairly severe constraints on how that information is handed out.

**ACTING CHAIR**—Any other questions, colleagues?

**Mr RANDALL**—No.

**ACTING CHAIR**—Well, our colleagues from the Department of Transport and Regional Develop-

ment shall not get away so rapidly. I am looking back at the briefs that were prepared. I just had a chance to go through the statement you have given at this time. I am looking at the last paragraph on the second last page where you reflect on the 'inefficient utilisation of freight space through poor planning and coordination between exporters, freight forwarders and airlines'. You go on to say:

The Department considers that the large scale provision of dedicated freighters for the carriage of Australian perishable exports is unlikely in the near future.

That is pretty much a big no-no to many of the submissions that have come forward seeking greater availability and utilisation of dedicated freighters. I take it that is a considered decision in light of all the information and expertise available to the department?

**Mr Wheelens**—Yes, it is. We, of course, like to see the other side of that, but we have watched fairly carefully the growth in dedicated freighter aircraft to Australia over a long period. It has not been tearing away from us. We believe that, until such time as we see a significant shift in the yield that is available to airlines for those aircraft, we will not see an acceleration in the growth. That is not preventing us from seeking to put the opportunity in front of producers and exporters by negotiating the capacity, but we have some reservations about how quickly the demand for pure dedicated freighters and the costs that come with them will actually accelerate in the marketplace.

**ACTING CHAIR**—You say that there are opportunities to expand airfreight routes on certain routes where capacity is under-utilised year round. What routes are they?

**Mr Wheelens**—Within ASEAN I think at the moment there are something like 52, 747 units of capacity that have been negotiated that have not been taken up. That is the sort of potential we are talking about is available if the demand is there and the carriers make the commercial decision to dedicate capacity to it.

**ACTING CHAIR**—So it is simply a matter of the market taking up the rights that are already there and operated differently if they needed to?

**Mr Wheelens**—That is right. We have about 50 international treaties that govern this and at any point in time any number of those treaties are active. I would probably characterise only three of those at this point in representing difficulties for us in either getting to the negotiating table or negotiating extra capacity. I guess the fourth one is Singapore, where in the last week of November, I think, we will schedule talks with Singapore and, as we have in the past, put in capacity that will cover the next three or four years. So we are at the end of the capacity cycle with Singapore at the moment. For Singapore Airlines it is a little bit tight, but we will resolve that positively towards the end of November.

**ACTING CHAIR**—The last statement you make there is fairly definitive. You are saying that it seems inappropriate to contemplate issues such as whether new airports would generate additional freight capacity when part of the solution of increasing exports is simply by better using what is already there. That is a pretty definitive statement, as I read it.

**Mr Wheelens**—I think that is probably what we would like to have on the record—that getting better use out of what is there is a very important issue.

**ACTING CHAIR**—My colleagues have not had a chance to look through this quite as much as I have done. A number of the issues you have responded to in this statement have been raised at previous hearings. Certainly some of the information on statistics will be quite helpful to the committee.

**Mr McDOUGALL**—Based on that last answer you gave in relation to the better utilisation of existing airports, if you were to go for a greenfield site—and I talked with TNT this morning on the basis that they, in their initial submission in 1995, had made reference to creating an Australian hub on a greenfield site—what sort of frequency or how many planes per day do you think would be required to operate a greenfield site to make it viable?

**Mr Wheelens**—I cannot answer that question.

**Mr McDOUGALL**—You have not done that work?

**Mr Wheelens**—It is a very difficult question to answer. Where would the greenfield site be? For example, would it be close to a major urban centre? Would it be remote from a major urban centre? What produce would be carried out of it? If it were gold bars, it would have a completely different profile from—

**ACTING CHAIR**—This is Sir Humphrey's answer that he is giving you, Mr McDougall!

**Mr Wheelens**—It would be a completely different proposition from a bag of potatoes. I do not know the answer to the question.

**Mr McDOUGALL**—It was just on the basis that TNT did put it in their submission in October 1995. I just thought that the department might have looked at the issue of what would be the practicalities of creating a greenfield hub for freight for Australia. From that submission they made, you did not do any work on that?

**Mr Mrdak**—In respect of the viability of such operations, as Mr Morris has highlighted this morning, airfreight capacity in Australia is very much dictated by inbound requirements. Any greenfield site would have to be serving the demands of importers very much as a primary because that is the structure of our airfreight market. For that reason, viability would be very much geared to your ability to serve that inbound market, and that is clearly something that has to be factored into any development.

**Mr McDOUGALL**—How easy would it be for a new Australian carrier other than Qantas and Ansett to enter the dedicated freight market?

**Mr Wheelens**—Pretty easy. An Australian carrier seeking to operate international scheduled air services would have to present it to the International Air Services Commission for an allocation capacity available to it under the individual bilateral treaty. As we are putting dedicated freight into those treaties and that capacity would be available to someone who operated dedicated freight services, if they could qualify

before the commission, it should be relatively easy.

Resolved (on motion by **Mr Randall**):

That this committee authorises publication of the proof transcript of the evidence given before it at public hearing this day.

**ACTING CHAIR**—On behalf of the committee, we thank you gentlemen very much for your submission and the further evidence you have provided today. We will provide you with transcripts as soon as they are available.

**Committee adjourned at 11.48 a.m.**