

Australian Cargo Terminal Operators Pty Ltd

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Ms. Michelle Groves,

This is to respond to the issues paper.

Given the depth of our prior submission I am not sure if further comment is required. However, the issues paper does raise new questions and in the interest of completeness I have decided to offer a brief answer to your list of questions.

The following comments on each question in the order it is raised in the issues paper.

Page 12/13 Downstream Markets

The "downstream markets" ACTO identified are the markets relevant to the services we provide and the services we seek declared. These are not the only downstream markets relevant to the access issues we raise. I can not see how they could be incorrect in so far as there is no question that Australian Customs Service requires that all freight be processed by a CTO and that a CTO must be able to take receipt of the freight by way of airport access.

Similarly ramp services require airport access and CTO services can only be provided in concert with ramp services. Fully independent CTO services, which will maximise the competitive impact on the CTO market, can only be provided in concert with an independent ramp service.

An issue that we have discussed but is difficult to include in your mandate is the matter of the market power that accrues to the current comprehensive Ground Handling Services suppliers. Because non resident airlines require a range of services and this range of services must be supplied by on airport operators the major resident airlines have established the required services and have a high degree of market power. The matter that your airport access deliberations need to consider is the matter that access in itself may not be sufficient to enable competition if the incumbents choose to exercise their market power. This matter was raised by the Air Freight Inquiry and I feel it should be recognised to some extent by your investigations.

Participants

The current participants in the CTO market are Qantas, Ansett, Australian Airlines Express and potentially DHL (we understand DHL is not permitted to handle client airlines). Participants in the ramp market for widebodied jet are only Qantas and Ansett. There are a number of contenders for the CTO market and the ramp market which have not declared their interest in a very public way. Certainly the James Transport initiative is one and London Air Cargo is another. These "new" contenders have not been declared by the FAC in Sydney and Melbourne and the FAC has not provided criteria for selection or criteria for appointment. To the best of our knowledge none has indicated an interest in providing off airport services.

The ramp market participants as operators include only Qantas and Ansett for wide bodied jets. DHL has a limited, self service only, ramp capability and South Pacific Air Motive has ramp capability in Melbourne where they serve Merpati. There has been little evidence of other significant ramp development proposals aside from our expression of interest. Nonetheless it appears that the development of an independent ramp is fundamental to enabling CTO competition and increasing ramp handling capacity.

There are other participants in a broader definition of the markets. Most importantly are the airlines which are clients of the existing CTOs and ramp suppliers but also the entire freight forwarding industry which depends on the services of the current CTO and ramp services suppliers. These participants have considerable interest in the efficient handling of freight and the efficient performance of ramp services. While none other than DHL has taken the initiative to establish CTO and Ramp services, airlines and freight forwarders are very active participants as clients and as suppliers to the Australian aviation industry. The non resident airlines supply over 55% of airfreight capacity and therefore make an enormous contribution to Australian trade. They and their agents, freight forwarders, and their customers (importers and exporters) represent thousands of companies which are directly dependent on the cost effectiveness of CTO and ramp services.

Competition

The market can not be seen as competitive in view of the high degree of existing concentration - Qantas dominates, Australian Airlines Express is dependent on the Qantas ramp, Ansett has a relatively low share. Even if this small number of competitors intend to compete aggressively the small number - effectively two, is not likely to give rise to a high degree of competition. Additionally the matter that CTO and ramp services are not core business for these large organisations limits the extent to which they exhibit highly competitive behaviour. The strongest evidence of the lack of competition between the major suppliers is the extent of price increases in the past six months - in the region of 100 % when both airline fees and 512B fees are taken into account.

A key issue in this regard is the question of how good or bad service is. I am not aware of any quantitative measures of service quality and therefore must rely on the high degree of anecdotal reports which suggest a serious lack of service reliability or depth of service. It is generally agreed that forwarders frequently have to wait days for freight to be available from the existing CTOs for some flights and at certain times of the year.

We have been asked by a number of airlines to supply services because the current operators are capacity constrained - they simply are not able to provide service to certain carriers at certain times. This is a matter which goes beyond or at least is an extreme case of lack of competition - the current suppliers are effectively saying to nonresident airlines, "schedule your flights when we are able to supply services or don't operate". We have not been able to provide services because we can not gain ramp access independently of the current ramp suppliers - Qantas and Ansett.

We have demonstrated that we can provide service improvement. In a very real sense our services to Martinair and Federal Express have provided clear proof that we can provide better service. Over the Christmas period we were asked by Federal Express to provide outbound build up services because Ansett was not able to do so. Again this is clear evidence of the need for greater CTO capacity which strongly implies the need for competition. We have now handled a number of inbound flights for Martinair where in we made Bypass freight available in three hours of flight arrival and loose freight available within eight hours of flight arrival.

The market for ramp handling of widebodied jets is made up of Qantas and Ansett. It is hard to imagine that the 45 non resident international carriers consider this a competitive source of supply particularly in view of the fact they all compete directly or indirectly with Qantas and Ansett. It is important that the NCC gain an understanding of how the non resident airlines feel about the lack of competition and in doing so it is important that the NCC be sensitive to the matter that non resident airlines feel very nervous about criticising their current ramp and CTO suppliers because of the risk of retribution.

Will access promote competition - yes, virtually by definition. Without access increased competition will not exist in the next eighteen months and will never be available from off airport operators. While new on airport operators are possible the number will be limited while off airport competition could bring forward a number of new suppliers and therefore real competition.

Will access promote competition in any other market.

The list of markets that will be improved is long:

- other ground handling services markets like cabin cleaning, catering, baggage handling etc will be made more competitive because new suppliers will be able to offer their services.
- the freight forwarding market will be more competitive because improved CTO services will cause high service freight forwarders to be more evident. So long as there is limited competition among CTOs, freight forwarders are able to use poor CTO performance as an excuse for their own weak performance and high quality freight forwarder services are harder to recognise.
- importers and exporters will be able to compete more effectively by way of improved logistics. The potential for Australia to exhibit improved trade performance is significant (billions of dollars per annum) particularly in regards to perishable exports. For this potential to be realised Australian importers and exporters need a competitive CTO market.

This list of companies numbers is very long. There are for instance more than 100,000 companies that trade by air freight. This figure is the Australian Customs Service measure of importers. Presumably thousands more companies are involved in exporting but not importing.

Page 14 - Passenger carrier importance , Sydney / Melbourne importance

This information is available from the Department of Transport and the FAC. There is little evidence around the world that a freight only airport is a viable concept. The number of significant of freighter only airports, world wide, is less than 5 and those that exist are located in much larger economic communities than are present in Australia. Sydney airport currently handles fewer than twenty international B747 freighter equivalent flights per week and this number will not increase dramatically in the foreseeable future. These freighters represent revenues to the airport of less \$10,000,000 per annum which is far less than required to afford a stand alone airport.

The fact that Avalon airport could not be established as a commercially viable airport is indicative of the issue.

Competition among airports.

The routing of aircraft is determined by commercial demand. The determining demand is the demand for passenger service and then inbound freight. Both of these show strong preference for Sydney and Melbourne. Very few carriers, if any, would choose to fly to another airport in order to realise better CTO services at that airport despite the fact that their target customers want to fly to Sydney or Melbourne.

CTO and Ramp services represent a small proportion of a carriers total operating costs and while service improvement is desirable and theoretically possible from an alternative airport it is seldom important enough to overcome the service disadvantage of routing to less a preferred destination particularly from the passengers' point of view. The fact that none of the existing major international airports offers a competitive CTO market suggests that none of the existing airports would offer this alternative. A new airport is not commercially feasible.

Alternative facilities

In the long term is it likely that both Sydney and Melbourne will have secondary international airports. However this will not occur until there is regulatory requirement or commercial advantage to airlines to use such an airport. These airports are not likely within the next decade.

Alternative facility on existing airports.

It is conceivable that common user access to the existing Qantas and Ansett facilities or a common user approach to a new facility could make a significant contribution.

The notion of using the Qantas or Ansett facilities depends on having cost and service effective access to their facilities. If Qantas or Ansett is prepared to provide inbound and outbound access it is logistically conceivable that ACTO could treat the Qantas and Ansett facilities as Bypass facilities. This could have the effect of increasing the capacity of the Qantas and Ansett terminals by 100 to 200% which in the short term would be a major contribution to Australian trade efficiency. Client airlines would be able to buy high value services from ACTO if Qantas or Ansett were to offer a timely, cost effective, reliable Bypass service.

In view of the fact that the task required of the existing CTOs would only be to enable the physical transfer of unitised freight it is conceivable that this service could be offered at a low charge to ACTO. The existing CTOs would not have to do the labour and space intensive work and therefore would not have to charge for such services. This approach would significantly reduce the capacity pressure on their facilities which would tend to enable them to provide better services for their own flights and selected clients. In operating this way they would have to reduce or sacrifice the revenue they receive from certain clients to allow those clients to afford to pay ACTO for services it would provide - the labour and space intensive services that Qantas and Ansett would not perform. It is important to appreciate in evaluating this alternative that the only function Qantas or Ansett would provide would be the physical transfer of unitised freight from airside to land side and the reverse. This service is worth in the region of \$30.00 to \$50.00 per unit.

ACTO has asked both Qantas and Ansett to operate in this way. Qantas has offered a Bypass rate which is prohibitively high and a service standard which is highly restrictive. It appears that Qantas does not want to enable ACTO to function in this way and prefers to maintain control of the market.

Ansett is considering this option and has yet to confirm its position. Alternatively a new independent common user freight handling facility located at the airport, with freight apron access, that is dedicated to the function of enabling BYPASS services would make a major contribution. Such a facility would enable any qualified off airport CTO to deliver freight to and from the airport in unitised form. The on airport common user operator would provide a streamlined service of loading and unloading aircraft and trucks. This structure would enable a significantly increased degree of CTO services and the matter of being off airport would not introduce negative service issues and would introduce the range of benefits one would expect from competition - price competition, service quality competition, service innovation and increased investment in service provision.

We have demonstrated that an off airport terminal can provide superior service and we have identified a numbers of ways that the services of independent CTO suppliers, such as ACTO, can be enhanced to add value to the logistics of the importing and exporting industry. Some of these will have the effect of enabling increased trade such as increased perishable exports.

CTO Location

The question of off airport CTOs is primarily driven by Customs and AQIS considerations in relation to import control and to some extent export controls. Both organisations have approved the principles and specifics of ACTO's off airport facility. Our understanding is that Customs sees considerable advantage in decentralising the CTO function in the same way as has been achieved at sea ports. Customs and AQIS have provided ACTO with a set of criteria that we are required to meet. Having made the investments to meet these requirements our understanding is that they endorse the concept of off airport CTOs.

We are not aware of any other consideration, or organisation that has the mandate or a reason to require CTOs to be located on airport or to prohibit off airport CTO operations other than ACS and AQIS who have endorsed the concept. While it is hypothesised that the FAC may be commercially disadvantaged by the development of off airport CTOs we believe this is not the case because the FAC can levy fees for airport access which could exceed land rents substantially. The fact that the FAC allows off airport catering operations indicates that this matter is not fundamental.

We imagine that the FAC would see the service improvement of off airport CTOs as an airport enhancement that may well attract increased flights or at least ensure that new flights are not frustrated by the lack of CTO services. A single incremental B747F is worth in excess of \$250,000 per annum in landing fees to an airport with virtually no incremental cost. This is much more than the cost of land rent for an entire CTO able to handle many flights.

ACTO has taken the position that it prefers to establish an on airport facility when the opportunity arises. This stance is subject to commercial considerations, primarily the cost of on airport land, however the reasons we may choose to develop an on airport facility include the fact that some CTO functions are better performed on airport while others are better performed off airport. In general express handling and export staging is better done at an on airport location because these functions are very time sensitive. At the same time export pallet build up and import pallet breakdown and the storage and labour requirements of both are better performed off airport.

To optimise CTO services ACTO expects to want to have both on and off airport facilities. **We believe there are no reasons why any of the many CTO functions must be on airport, however, we also believe that it is desirable for some CTO functions to be performed on airport while others are performed off airport.** In view of the fundamental need for the CTO function to work closely with the ramp function it is likely that an off airport CTO would use the on airport facilities of its ramp function or an independent ramp function to perform the tasks that are better done on airport.

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Market Size:

This data is available from the FAC, the Australian Bureau of Statistics and the Federal Department of Transport. It is not as accurate as is desirable but the lack of accuracy will not change the conclusions we have drawn.

There is no measure of the importance of air freight to the economy that reflects its leading edge contribution or a measure of the importance of air freight handling efficiency to the national economy that I am aware of. It is generally held that air freight is a fundamental lead industry. However I am not aware of ways this matter can be quantified aside from the common sense that having excellent air freight services is at least as important as having good sea freight services. As a distant island nation the matter seems self evident for Australia.

Significance Test (S1 & 2, M1 & 2)

I can not see how one could separate the freight apron and storage space requirements from the airport as a whole. The airport operates as an integrated unit in relation to passenger and freight services and the various users and operators and functions performed in these areas. The basic notion of on airport and off airport reflects the security distinction and the integrated nature of on airport activities. In view of the fact that the vast majority of freight is carried by passenger aircraft and that passenger carriers therefore require that their ramp supplier load and unload both freight and passenger baggage it is inevitable that freight handling facilities and passenger handling facilities are closely tied. It is not possible in our view to separate access to freight handling facilities from access to passenger handling facilities at the tarmac level. It is, of course, possible to separate passenger terminal facilities from freight

terminal facilities. ACTO is not seeking access to passenger terminals but is seeking access to the tarmac where passenger aircraft are loaded and unloaded.

Nonetheless our view is that international air freight via Melbourne and Sydney has substantial national significance and that the "narrowing" of the significance test in the manner suggested should still lead to the conclusion that it is of considerable importance to Australia that competition must be increased in relation to these facilities.

Both Sydney and Melbourne airports have completed studies which estimate the importance of the airport to the local and national economy. These should be reviewed by the NCC in completing its review.

Significance Test - S3 & M3

The proposal to build a cargo terminal on airport has national significance for the reasons stated in the application. All of the benefits that will flow from increased competition are benefits of national significance. In the absence of CTO competition Australian trade will continue to suffer the high costs and low service standards offered by the current suppliers.

Competition is the only reliable ways to encourage the current CTOs to improve their performance and because all international air freight must transit a cargo terminal any improvements will tend to affect all air freight trade.

As described above and in the application the amount of trade that will be affected by improved services and the degree of improvement available is significant.

A related consideration is that there is considerable land at both Sydney and Melbourne airports that could be made available. While there maybe competing uses at Sydney airport, the opportunity to optimise the use of on airport and off airport CTO facilities would ensure that ACTO used on airport land efficiently - more efficiently than the current CTOs which conduct space intensive activities on airport.

Page 17 - Health and Safety Risks

ACTO has operated 9 B747F flights without incident. Off airport operators world wide have provided similar services. We are not aware of any health or safety issues associated with these operations.

Access Regime

The question here is whether an access regime exists at all rather than whether there is an effective regime. ACTO is not aware of an access regime in the sense of a set of criteria that determine the kinds of organisations which might gain airport access.

The access regime that does exist is one where Airport management makes decisions based on its best judgement but not based on particular goals for airport development that ACTO is aware of. Melbourne Airport appears to have decided that off airport CTOs will not be permitted but it has not offered an explanation for this decision and we believe this decision is beyond the mandate of the airport. Sydney airport has been resistant albeit Sydney Airport has provided temporary access but with no explanation of why the access was temporary or what is required to gain unlimited access.

Page 20 - Duration of the Declaration

I do not recall the matter of duration being raised. It is our intention to have airport access in perpetuity and we can see no reason why access should be limited in time.

I do not see how the Airports Act should impact our airport access. We expect access to be grandfathered through to the new owners.

If a period must be set we require at least five years to realise a return on our investment and we prefer a longer period given that the value of our business and our ability to attract clients will be increased if our tenure is assured. If our tenure is not assured we are a less attractive supplier than the existing operators and potentially temporary access would be a fatal flaw because any potential client would be left with the risk of not having a CTO supplier if they are disloyal to the existing CTOs