

A.F.I.F.

AUSTRALIAN FEDERATION OF INTERNATIONAL FORWARDERS

A.C.N 008 576 681

Incorporating the AUSTRALIAN FEDERATION OF AIR FREIGHT FORWARDERS (AFAFF)
and
INTERNATIONAL FORWARDERS ASSOCIATION OF AUSTRALIA (IFAA)



February 11 '97

Mr. Ed Willett
Executive Director
National Competition Council
GPO Box 250B
Melbourne
Vic 3001

Submission to the National Competition Council on access to Federal Airports Corporation - Air freight services

Purpose: This responds to the National Competition Council issues paper of December 1996.

Background:

The AFIF organisation:

The Australian Federation of International Forwarders is the peak freight forwarding industry body. It has represented both air and sea freight forwarders since July 1996 at which time the representative air and sea forwarding organisations (Australian Federation of Air Freight Forwarders and the International Forwarders Association of Australia) merged.

AFIF has over two hundred corporate members which are the leading forwarding organisations in Australia. Our members include the vast majority of organisations which manage Australian international trade in the logistics arena, spanning the major multinational freight forwarding companies, the leading express firms and the local air and sea freight forwarders who have agency relationships world wide. We estimate that our members have a total direct employment of over 5000 people. The clients of our members, over 100,000 importing and exporting companies, are estimated to conduct over 85% of Australia's importing and exporting trade when the major commodity groups of trade are excluded.

As such, AFIF is the most representative organisation on matters pertaining to international logistics. The performance of our members is fundamental to the efficiency of Australian trade and our members make a major contribution to Australian competitiveness as a trading nation.



The mission of AFIF is to “**serve the interests of the member organisations in matters affecting the Forwarding industry and, in search of excellence, to diligently pursue its stated primary objectives**”. Attached is a brief description of these objectives and some of our principal activities.

Executive Summary

- Air freight is vitally important to Australian trade. We understand that 20% of trade by value is air freight and that this is over \$25 billion in international trade per annum.
- The vast majority of Australian trade is handled by freight forwarders and the ability of our members to provide high quality service is being negatively affected by poor CTO performance reflecting the shortfall of CTO capacity in relation to demand and lack of competition among CTO's.
- Many of the international airlines that AFIF members use are being seriously disadvantaged by the lack of CTO competition. We understand that these airlines experience high CTO costs, low quality service, a lack of customer service enthusiasm, and a lack of service innovation. At the same time our members also pay high fees but receive low service from the on airport CTO's.
- The current CTO's have increased charges to freight forwarders dramatically in the past six months with no service improvement. These charges are the subject of a separate claim by AFIF, however there is no doubt that increased CTO competition would serve to improve service and possibly reduce CTO charges.
- The quality of service from the current CTO's is low and erratic/unreliable. Quantitative evidence is hard to provide, however, there is substantial anecdotal evidence including persistent slow retrieval rates - days rather than hours, and serious lack of ancillary services like cold storage and express handling, etc. Due to lack of CTO capacity, our members have trucks waiting far too long (up to twelve hours) to make deliveries and pick up freight from the existing CTO's. Freight frequently spends longer on the ground than in the air! The cost and waste of this situation is excessive and unnecessary.
- AFIF does want to see increased CTO competition serving Sydney and Melbourne international airports.
- AFIF sees considerable scope for CTO competition to yield price competition; improved CTO services; service innovations; increased CTO infrastructure.
- These outcomes offer considerable potential for increased trade efficiency.
- The situation in Sydney and Melbourne is similar in so far as quality and cost of service could be improved significantly at both airports through increased CTO competition.
- AFIF believes that an off airport operator could provide services comparable to an on airport operator and superior in certain important respects. The only existing off airport CTO has proven its ability to provide high quality service.

- It is important that this matter be dealt with promptly in view of the fact that the day in day out Australian international trade is being impeded by the lack of CTO capacity and the lack of CTO competition. We can see no reason for the introduction of competition to be delayed.

The views are reflected in the following commentary pertaining to the questions raised by the issues paper.

The CTO Market

The current CTO's include Qantas, Ansett and AAE (*Australian Air Express - a 50% joint ownership by Qantas and Australia Post*). Qantas and Ansett operate their own ramp services while AAE is dependent on Qantas for ramp services.

AFIF members observe a lack of competitiveness among these operators in so far as they have not increased capacity in recent years, they have increased prices to airlines and CTO users and there has been a noted lack of innovation from the CTO's. Our impression is that they are hard pressed to keep up with growing demand and are under severe budget constraints which limit the capital and operating expenditure available to provide CTO services.

It is not clear to AFIF why the current CTO's limit their investment and operating expenditure. There have been persistent claims by CTO's that they find it difficult to make profits from their CTO facilities and therefore are resistant to increased spending. In any case the result is that the quality of service available to our members is low and particularly as compared to the quality of service available at airports around the world.

We see a key feature of the lack of effectiveness of Australian CTO's in the fact that the two largest CTO's are owned by airlines which may have other priorities. They appear to place low importance on their CTO services. By contrast we see organisations around the world which are focused on the provision of CTO services and which provide higher quality service at least in part because they view CTO services as their core business.

It also appears to AFIF that the absence of organisations dedicated to the provision of CTO services in Australia is a central issue. Regardless of whether the Australian CTO's intend to compete or not the fact that there is little evidence of truly competitive behavior, little price competition, lack of capacity, lack of expansion, lack of service innovation.

There is clearly a strong linkage among the matters of airport access and independent CTO services and independent ramp services. If an independent operator is not able to gain access to airport space and must depend on the existing ramp operators to provide services to international airlines it stands to reason that such an operator would not be able to enter the CTO market in the manner required.

Equally should ACTO gain access to the airports and in such a way that it or another company is able to provide ramp services it seems likely this would cause increased competition in the CTO and ramp markets. In the absence of this development, AFIF sees little reason for Qantas or Ansett to compete or improve their services.

Our understanding from their client airlines is that they show little evidence of wanting to compete with each other. The "take it or leave it attitude" is prevalent due to the lack of competition. The Airline has little choice.

Some of the practical examples of this “policy” are particularly damaging to trade and to our members. Qantas recently introduced storage charges for freight that is not retrieved from their CTO within twenty four hours. The fact that it is often physically impossible to retrieve freight in this time frame and the fact that these charges often must be borne by the forwarder with little opportunity to on charge our clients represents a direct redistribution of profit from our members to Qantas - at least in part because our members and the client airlines have no choice but to use Qantas. Another example is that freight our members are responsible for is frequently exposed to damage from rain and heat because it is left on the tarmac by the CTO's - we understand because they lack the capacity to handle the freight promptly. While our members are held responsible for the damage, they can do little to change the situation for lack of alternatives.

By contrast, our members have observed superior performance on the part of ACTO. The fact that ACTO has been able to overcome the many barriers to competition and has provided services indicates that there is a need for increased CTO capacity and competition. Our discussions with ACTO lead us to believe that they are dedicated to providing the services our members require.

We expect that there would be important flow on effects from other Operators being awarded airport access. These include the probability that improved CTO services would enable our members to compete more vigorously. So long as poor service from the existing CTO's persists it will remain difficult for high quality freight forwarders to distinguish themselves. At the broadest level it is also true that improved CTO services will enable all freight forwarders to provide better service on behalf of Australian importers and exporters.

Economics of Another Facility

AFIF sees no short term opportunity for the services of the FAC to be provided by another facility. In the long term it is possible that new international airports will be established in Sydney and Melbourne, however these developments could well be ten years away and in the meantime the issues raised will remain impediments to Australian trade.

Even in the context of new airports, the existing airports will continue to command the lion's share of air freight and therefore will remain the primary source of CTO services.

Airport Operations (S1, M1, S2, M2)

Our understanding is that approximately 90% of air freight is carried by passenger aircraft. In terms of ‘general cargo’ (ie non perishable, seasonal produce) and ‘scheduled’ services, the figure is even higher. This should not be interpreted that freighters are unimportant. All freight aircraft play a vital role in supplementing passenger services and carrying freight that passenger flights cannot carry such as certain dangerous goods and very large items. Freighters are also able to provide ad hoc services which is critical for seasonal and off schedule requirements.

Sydney and Melbourne are the most important freight airports and there is little competition between them because freight, like passengers, is directed to the desired destination as opposed to the airport providing a particular service standard. While there is some competition at the margin, it is so small as to be unimportant.

We believe the airports should offer a common user freight facility that would enable multiple users to access the airport and access the freight carried by the large number of airlines which do not have self service facilities.

Such a facility would still require a ramp service but through an independent ramp operator, access could be provided to a number of on or off airport CTO's.

Airport Operations (S3, M3)

It is clearly possible for a CTO to operate off airport so long as it has airport access and a degree of on airport facilities. A large proportion of the function of a CTO is space and labour intensive - these functions need not be on airport. Some CTO functions must be on airport for the purpose of receiving and delivering freight to the ramp operator.

The key difference between on an airport CTO and an off airport CTO is the mode of transport to and from aircraft. The on airport CTO uses 'dollies' for this purpose while the off airport CTO uses roller - bed trucks. Given the economic advantages of an off airport operator, we see little importance in this distinction. We also see a wide range of alternatives in the manner in which an off airport operator might function in splitting its on and off airport services. We feel these alternatives should be left to the operator to sort out on a commercial basis and see no need for the FAC to play a role in deciding which should be conducted on airport.

There is a role for Australian Customs Service and Australian Quarantine Service in this regard. However, we understand that ACS and AQIS are satisfied with the security of the existing off airport operator. From a freight forwarder's point of view there are important logistical advantages is not having to use an on airport CTO and enabling the off airport CTO to perform the function of airport access. There must be economic advantages in having a single organisation perform the function of airport access, including the matter of reducing airport traffic and accelerating movements on and off airport.

Material issues

Sydney and Melbourne airports are Australia's most important airports. Our understanding of their importance to the air freight industry is in line with the figures quoted in the application.

The primary importance of the proposed facilities and services is the extent to which they will stimulate competition within the market for CTO services. As indicated above it is vitally important that such competition be created.

The air freight market has considerable national significance. As a result, the distinction proposed in the issues paper seems academic. Whether the matter is dealt with on an airport wide basis or is restricted to the air freight matters, it is certainly material to national interest that CTO competition be increased.

We see little reason to attempt to isolate the facilities in so far as the operations of an airport involve the integrated operation of freight and passenger handling and using the apron space required for these integrated operations. It does not appear feasible to separate the freight operations space from the passenger operations space, although it is conceivable that freighter handling services could be separated from passenger aircraft handling services.

The space required for an on airport CTO depends on the services the facility will perform and the number of clients the facility is intended to serve. A comprehensive CTO providing storage and warehousing functions to a large number of aircraft would have to be over 5000 square metres. However, a CTO that provides only a bypass service (delivery of unitised/palletised cargo not requiring further breakdown) to a small number of carriers could be much smaller. It is conceivable such a facility could occupy a space of 2000 square metres while the space intensive functions could be provided off airport.

Health and Safety

AFIF sees no undue risks to health and safety associated with the application. The fact is that the proposal would not seem to indicate any change that would affect health or safety issues, which must in any event be considered by any developer.

Access Regime

AFIF is not aware of an FAC access regime although AFIF members have expressed interest in access to airport land for many years to no avail.

AFIF notes that there is substantial land available at both Melbourne and Sydney airports. The fact that this land has not been made available to the freight handling community has been an impediment to Australian trade.

Public Interest

AFIF cannot identify ways that the proposed access could reasonably be expected to be contrary to the public interest. We see a long list of ways that access to FAC services could serve the public interest and emphasise the magnitude of these benefits. The importance of air freight to Australian trade cannot be overstated. Equally, the importance of improved CTO services is vital to the quality of air freight services available to the nation.

Privatisation of Melbourne Airport

Privatisation of Melbourne Airport will not have an important impact on the application. While AFIF is hopeful that privatisation of Melbourne airport will give rise to greater access to the airport, we feel such access should be required as an outcome of the privatisation. By declaring the relevant services of Melbourne airport, the NCC will be requiring the privatised airport to perform as it should in any case. In drawing this conclusion, it is important to note that freight handling is not a key element of the commercial performance of an airport. As a result, the declaration of the FAC's services, privatised or otherwise, will not be significantly changed by the declaration. On the other hand, declaration of privatised airports will ensure that airport access is available as it should be. It is important for the Council to recognise that a new CTO will require access to both Sydney and Melbourne airports. It will not be sufficient for a new entrant to have access only to Sydney airport.

Airports Act 1996

AFIF is not sufficiently familiar with these matters to comment. We would reiterate that it is important that this matter be dealt with - in the national interest, and we do not see how this matter will significantly affect a new airport operator. A new airport operator should be required to provide access to new CTO operators.

Air Freight Export Inquiry

The AFIF submission to the inquiry included the view that CTO competition should be increased. Following an extensive survey of public views the inquiry concluded that CTO competition should be increased and that off airport CTO's should be encouraged. AFIF supports these conclusions and is eager to see them implemented.

Sydney Airport Freight Study

AFIF is not aware of the scope nor outcomes of the freight study. We note that such a study (in principle) is long overdue. If the contents of the study are not available to the Council - as they are not available to industry at large, perhaps the Council should assume that the findings of the study will be in line with the submissions received by the Council and act accordingly.

AFIF notes that 45% of Australian air freight trade transits Sydney Airport. Surely the airport should offer guidance to the Council and the industry in order that all concerned parties might better plan in view of the FAC's plans.

Other Issues

AFIF sees substantial opportunity for the public and national interest to be served by declaration of the FAC's services. The fact that the FAC has over the past ten years failed to make a significant contribution to the air freight industry, despite the vital role that airports play in air freight trade underlines the need for private industry to be given the opportunity to make up for the shortfall.

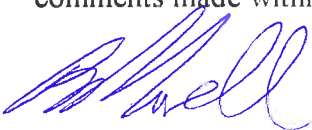
AFIF encourages the NCC not to underestimate the degree of improvement that will be made possible by declaration of the FAC's services. Fundamentally, this traces to the fact that there are many different kinds of freight which require many different kinds of CTO services. As long as the CTO market is allowed to remain the highly concentrated and uncompetitive market it is today, these services will not be forthcoming. The introduction of competition will enable a wide range of services to be offered by new entrants and to be offered on a commercial basis.

AFIF would also encourage the NCC to ensure that the potential for competition be realised as soon as possible. Every day that passes in the absence of competition is a day lost to Australian traders in becoming competitive with the global competition.

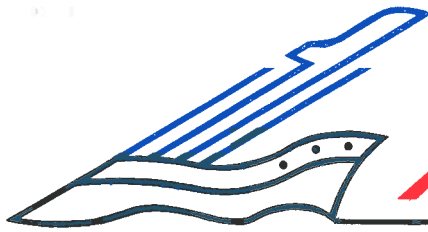
Duration

AFIF notes that the duration of the declaration must be sufficient to enable new entrants to be unencumbered by the limitation. New entrants will face significant barriers. They must not also face the restriction of having a limited time frame within which to demonstrate their value.

Please respond to the undersigned should any clarification be required on the points raised and the comments made within this submission.



Brian Lovell
Chief Executive Officer



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**AN OVERVIEW
OF
OBJECTIVES; ACTIVITIES; SERVICES
and
MEMBERSHIP CRITERIA**

MISSION STATEMENT

To serve the interests of the member organisations in matters affecting the Forwarding industry and, in search of excellence, to diligently pursue its stated primary objectives.

A BRIEF HISTORY

The Australian Federation of International Forwarders was created in July 1996 following the merger of two distinct organisations, namely: *The Australian Federation of Airfreight Forwarders - 'FAFF'- formed (as a Federal body) in 1977 and The International Forwarders Association of Australia - 'FAA'- representing the Seafreight Forwarders which was formed in 1976.*

Following the merger, two divisions were created, one concentrating on Air and one on Sea matters. Members may elect to be represented in one or both divisions. The decision to merge the two was ratified by the combined membership with the desire of strengthening its representation in dealings with various National and International entities.

PRIMARY OBJECTIVES:

- To assist the membership wherever possible in any facet of our Industry.
- To attain uniform, high standards of professional conduct within the Forwarding Industry.
- To develop and facilitate appropriate Training and Education programs.
- To disseminate various relevant information to the membership.
- To maintain & expand relationships with various relevant Government authorities.
- To maintain & expand relationships with Industry service providers.
- To maintain & develop healthy relationships with like Associations both locally and Internationally.
- To source and provide an increasing range of relevant services and benefits to our membership.
- To maintain & develop effective public relations through appropriate media outlets.



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MEMBERSHIP OF OTHER ASSOCIATIONS:

AFIF is very conscious of the need to keep in touch with activities in other parts of the World and as such is active in regional and global Freight Forwarding bodies:

- *FIATA:- International Federation of Freight Forwarders Associations. (The World body of Associations. Freight Forwarders may apply for Associate membership)*
- *FAPAA:- Federation of Asia - Pacific Aircargo Associations. (We also act as the Secretariat to handle the administration for this organisation)*

PRINCIPAL ACTIVITIES

Boards and Management Committees on which AFIF is represented:

- **TRADEGATE AUSTRALIA LTD:-** EDI & Electronic Commerce Initiatives: Represented on Board and Air & Sea strategy Sub-Committees.
- **ACS CARGO MANAGEMENT STRATEGY INDUSTRY CONSULTATION GROUP:** ACS / Industry: Helping to structure a plan the future of Australian Trade facilitation.
- **CUSTOMS NATIONAL CONSULTATIVE COMMITTEE (CNCC) :-** Customs / Industry facilitation issues.
- **AQIS & INDUSTRY CARGO CONSULTATIVE COMMITTEE (AICCC):-** Quarantine issues.
- **CARGO AUTOMATION DEVELOPMENT FUND COMMITTEE (CADF):-** Allocation of funds collected via Customs Clearance Automated systems.
- **ACS / INDUSTRY SEACARGO AUTOMATION COMMITTEE.**
- **CARGO EXECUTIVE COUNCIL (FORMERLY AUSCAP):-** Air Division meets with IATA Australia, Qantas, Ansett and nine foreign carriers to discuss IATA Resolutions and Agency Accreditation matters.
- **DEPARTMENT OF TRANSPORT 'REGULATED AGENT' SECURITY PROGRAM, WORKING GROUP:-** formed to develop the 'Model Program' for Freight Forwarders to become 'Regulated Agents'.
- **EXPORT INDUSTRY CONSULTATIVE GROUP:-** To examine and review the ACS/ Industry 'EXIT' system.

^nd many more!

We have regular dialogue with other Trade/Transport Industry Associations:

- **CBCA** (Customs Brokers Council of Australia)
- **IACAA** (International Air Courier Association of Australia)
- **ACOS** (The Australian Chamber of Shipping)

We frequently join forces with these bodies to promote and protect the mutual interests of our membership.

MEMBERSHIP

- *Relevant application forms are available to organisations wishing to join and who meet the criteria of one of the following membership categories:*

1. 'ORDINARY' membership:

Membership is available to those Persons; Corporations or Associations conducting business (in Australia) as International Forwarders and whose application is approved by the Executive of the Federation. This covers those persons or corporations who act on behalf of principals exclusively in regard to cargo moving from Australia to places abroad or in the reverse direction by any mode of transport.

The following are NOT eligible for Corporate membership:

- Subsidiary to or beneficially owned in whole or part by a Shipper; Consignee; Exporter of goods.
- One who buys or sells as a buying or selling Agent.

2. 'ASSOCIATE' membership - INDIVIDUAL:

Available to Individuals currently employed by a person; Corporation or Association in the International Forwarding Industry, whether or not that entity is an 'Ordinary' member of the Federation or not and provided that the individual meets the membership criteria as detailed in the relevant application form.

3. 'ASSOCIATE' membership - CORPORATE:

The executive Committee may admit to associate membership such Persons; Corporations or Associations as the Committee shall determine from time - to - time. Such entities would by necessity have relevance to our Industry and may provide services to or be in need of information which by the use thereof may assist our Industry and its membership.

MEMBER SERVICES:

Training & Education Program:

AFIF offers a Comprehensive regulatory and non - regulatory program in both Air & Seafreight. Our Airfreight courses have achieved the highest accreditation standards possible. The complete program is constantly under review and full Courses of instruction together with Seminars are regularly added to meet member needs and requests. Please refer to our training brochure which details all current courses.

Member Communication:

By regular Newsletters; direct Fax; Internet Email and regular mail to each member CEO and/or nominated Branch office contact. 'Internet able' members will also be able to access an increasing range of information and services through the "AFIF Home Page" on the 'Worldwide Web'. Beginning with training and general services info, we will expand this to Course Bookings; relevant Industry information and updates and a facility for members to list their specialist services (for access by Web-Browsers from the commercial world; overseas agents etc etc etc).

'AFIF' EMAIL ADDRESS: afaff@seaconlink.com.au

'AFIF' WEB PAGE ADDRESS: <http://www.seaconlink.com.au>

Bills Of Lading:

Authorised by FIATA to print and issue FIATA Bills of Lading (FBL) to approved members.

Telephone / Fax / Data - Discount Scheme:

AFIF has negotiated a very good deal for members offering substantial savings on communication costs.

Travel Discounts:

AFIF has negotiated some excellent deals with two prominent travel organisations offering members some very attractive holidays discount fares.

Business Advisory and Management Services.

We have negotiated a special deal on behalf of the members with face-to-face and *'hotline'* assistance. This initiative brings to you a wide range of services to enhance the efficiency and profitability of your business.

Human Resources/ Industrial Relations advisory services:

We will refer you to specialists in the field who have offered their services to our membership at affordable rates. A *'hotline'* service is also available.

AFIF MANAGEMENT / STRUCTURE:

The Association is managed by a full-time CEO with support staff and an Honorary Board of Directors dealing with general policy and matters common to both modes of transport. The Board comprises ten delegates: five from each of the Air & Sea Divisional Committees. State committees are responsible for local matters and will report to the main Board of 'AFIF'.

