

AUSTRALIA'S WESTERN GATEWAYS:
EXPLORING TRADE AND TOURISM OPPORTUNITIES

F Gallagher
Executive Consultant:
Air and Sea
Department of Transport
Nedlands
Western Australia

ABSTRACT:

Australia's gateways to the Indian Ocean and South East Asia have unique characteristics. Operators of both air and sea transport services have come to recognise this over the past decade. Many now regard transport routes to and from Perth/Fremantle as profitable in their own right.

This paper shows that Western Australia is actively exploring the notion that Australia might have much to gain from the development of tourism and trade through the western gateway. It provides several illustrations of how research is assisting the realisation of these benefits. In the same context, it raises questions about the value to the nation of some of the regulatory constraints on this development, particularly in the field of air transport.

The paper has also been inspired by a desire to show that transport research, viewed in its widest context, is a lively and virile activity which responds readily to the demands of the real world. In its exploration of the western gateway theme the paper provides illustrations of how appropriate research and analysis not only responds to change but can help to guide the current and future directions of change.

AUSTRALIA'S WESTERN GATEWAYS

INTRODUCTION

Western Australia's Minister for Transport has said that developing the flow of trade and tourism, through the Port of Fremantle and through Perth Airport, is vital to the State's economic future. To quote the Minister on 29 July 1988:

"Our economic future depends on our ability to forge close links with emerging economies in South East Asia and these two gateways have a key role in this."

This paper looks at the unique features of Australia's gateway to the Indian Ocean and South East Asia. It shows that the decisions made, over the last decade, by operators of both air and sea transport services support the Minister's views. Many of these operators have come to realise that transport routes to and from Perth/Fremantle are profitable in their own right.

The paper explores the notion that Australia might have much to gain from the development of tourism and trade through the western gateway. It provides several concrete illustrations of the sorts of initiatives which might help realise these benefits. In the same context, it raises some questions about the value to the nation of some of the regulatory constraints on this development, particularly in the field of air transport.

The casual reader may have already formed the impression that this paper relates more to government policy or to marketing than to transport research. It may seem, therefore, that the paper is at odds with the theme of this forum, "Current Research". However, I would argue that this is not so and, at the same time, make a plea for transport research to be viewed in a much wider and more relaxed context. In relation to this plea, the paper has a subordinate objective: the desire to show that transport research, viewed in this wider context, is a lively and virile activity which responds readily to the demands of the real world.

EVOLUTION AND RECOGNITION

For more than a decade, there has been a realisation that growth in trade and tourism for Western Australia relates closely to the development of close ties with Indian Ocean and South East Asian neighbours. Hand in hand with this realisation has been a recognition of the vital roles which the facilities and the services provided at both the Port of Fremantle and at Perth Airport have in developing these links.

Both of the western gateways have been going through a period of evolution. Growth in traffic has been and continues to be strong. Each gateway has ceased to be a way port located on the international transport routes linking Sydney/Melbourne to UK/Europe.

GALLAGHER

The Sea Transport Gateway

In his Annual Report of 1980, Western Australia's Director General of Transport referred to development of initiatives to strengthen this relationship as the "West Coast Concept". In the report he said:

"There is no doubt that people living on Australia's West Coast are seeing their place in the world in a different light than they did a decade ago. Fremantle's location, always looked upon as a disadvantage in the past because of its isolation, is now being seen as having some advantages..... Fremantle and other West Coast ports are much closer to ASEAN and Indian Ocean ports than either Sydney or Melbourne....."

Similar sentiments were expressed in a paper presented by Knox and Gallagher (1980) to a BTE Outlook Series Workshop. That paper criticised some of the regulatory and institutional constraints which inhibited the movement of containerised commodities through the Port of Fremantle. In other words, the paper expressed concern about constraints on the development of liner shipping trades. The constraints targeted for criticism were those imposed by liner shipping Conferences, national freight rate equalisation schemes and cargo centralisation. For a variety of reasons, the influence of these constraints on competition in the shipping of containerised cargoes has declined over the last decade.

The decline in the influence of these constraints has coincided with the emergence of some significant new trends in the shipping of containerised liner cargoes through the west coast gateway. In the early seventies, the shipping of international container cargoes at the Port of Fremantle was dominated by the Australia-Europe Shipping Conference (AESC). For vessels of the AESC, Fremantle was a way port on round trip voyage schedules which included many Australian and UK/Europe ports. Some AESC vessels called on Fremantle, others bypassed it, just as vessels in the Australia New Zealand Europe Conference Service (ANZECS) do today. The difference between then and now is that, today, the ANZECS service does not dominate overseas container trades through the port.

Gallagher (1977) reveals that, in 1974-75, 74 per cent of laden overseas containers which passed through the Port of Fremantle were stuffed with cargoes to/from UK/Europe. By 1987-88, the proportion of laden containers to/from UK/Europe had dropped to 30 per cent of the laden overseas containers passing through Fremantle. The figures in Table 1 illustrate both the growth in container trade through the Port of Fremantle and how the direction of that trade has changed since 1974-75.

Container shipping to/from overseas ports, through the Port of Fremantle, is now dominated by shipping lines which operate services terminating in Fremantle. ANRO operates a two vessel service between Adelaide/Fremantle and South East Asia. EAC/PNSL operate a service between Fremantle and key South East Asian ports. K-line operates a service which links Fremantle with Japan. Stateships has recently introduced a service which focuses on links between Fremantle and lesser

AUSTRALIA'S WESTERN GATEWAYS

ports in South East Asia. These four services, alone, now account for more than half of the containerised trade through the Port of Fremantle to/from overseas ports.

TABLE 1
CONTAINER MOVEMENTS THROUGH THE PORT OF FREMANTLE:
1974-75 AND 1987-88.

Origin/Destination	'000s TEU					
	1974-75			1987-88		
	Laden	Empty	Total	Laden	Empty	Total
- UK/Europe direct	17.0	6.6	23.6	24.0	2.3	26.3
- South East Asia/ Japan direct	2.4	1.2	3.6	32.4	9.9	42.3
- Other overseas	1.4	0.0	1.4	23.1	3.5	26.6
Total overseas	20.8	7.8	28.6	79.5	15.7	95.2
- Coastal ⁽¹⁾	24.9	6.2	31.1	15.2	3.1	18.3
Total movements	45.7	14.0	59.7	94.7	18.8	113.5

- (1) East/west coastal container movements were dominated by the Associated Steamships (ASP) service until November 1975. ASP was part of the INT Group of companies. Since withdrawal of the ASP service, interstate container movements have been shared between rail and the Stateships east/west service.
Source: Port of Fremantle.

The Air Transport Gateway

The growth in containerised traffic through the Port of Fremantle and the change in direction of that trade, has been matched by the emergence of similar trends at the other western gateway, Perth Airport.

The figures in Table 2 show that international passenger numbers and international air freight traffic have maintained a very high growth rate over the past decade. The significance of the growth in air freight is given added emphasis by the observation that the quantity of air freight passing through Perth Airport actually declined from a peak of 21,900 tonnes in 1986-87 to 18,200 tonnes in 1987-88.

Fifteen to twenty years ago, when long haul intercontinental airline services were provided by Boeing 707 aircraft, Perth was port of call on the so-called "kangaroo route" to London. That route connected Sydney/Melbourne through Perth to London via Bombay and Bahrain and, sometimes, Rome and Paris. Services on it were provided by Qantas and

GALLAGHER

BOAC (later British Airways). A great deal of the international air travel to and from Perth was on aircraft travelling in, essentially, an east-west direction on the 'kangaroo route'.

TABLE 2
COMPARISON OF INTERNATIONAL TRAFFIC THROUGH PERTH AIRPORT:
1977-78 AND 1987-88

Year	Passengers	Freight
	'000s	'000 tonnes
1977-78	213.6	3.3
1987-88	661.8	18.2
Average annual growth rate	12.0%	18.6%

Source: Department of Transport and Communications

Then, it was argued that the density of passenger airline traffic between UK/Europe and Sydney/Melbourne permitted Perth to enjoy a much greater frequency of service than otherwise might have been the case. Those days are long gone. Most international airline services to/from Perth now operate in a north-south direction and connect the western gateway with the strategic South East Asian airline hubs at Singapore, Bangkok and, to a lesser extent, Kuala Lumpur.

The degree of dependence between the international airline networks which serve Sydney/Melbourne and Perth is, now, very limited. The majority of services by foreign airlines to Perth do not serve other Australian ports. This is true of Thai International Airlines, Singapore Airlines, Malaysia Airlines, Garuda, Cathay Pacific and Japan Airlines. Only British Airways combines calls at Perth with calls at another Australian port.

Except for the service which links Harare (Zimbabwe) with Perth and Sydney, all of Qantas' international airline services to Perth are also clearly independent of its operations to other Australian gateways. The aircraft flying these services are based in Perth. They do not call at any other Australian port in the course of their normal flights, nor do they alternate flights to Perth with flights to other Australian destinations.

These facts are illustrated graphically in Figure 1 and in the figures in Table 3. Both relate to the frequency and direction of international airline services to/from Perth on a weekly basis.

In summary, the figures in Table 3 show that 42% of all seats on aircraft on scheduled international flights into Perth are on terminating services operating out of South East Asian hubs; and around 70% of all seats on aircraft on scheduled international flights into Perth are on terminating services which do not operate into any other Australian city. Out of the remaining 3435 seats, or 30% of the capacity

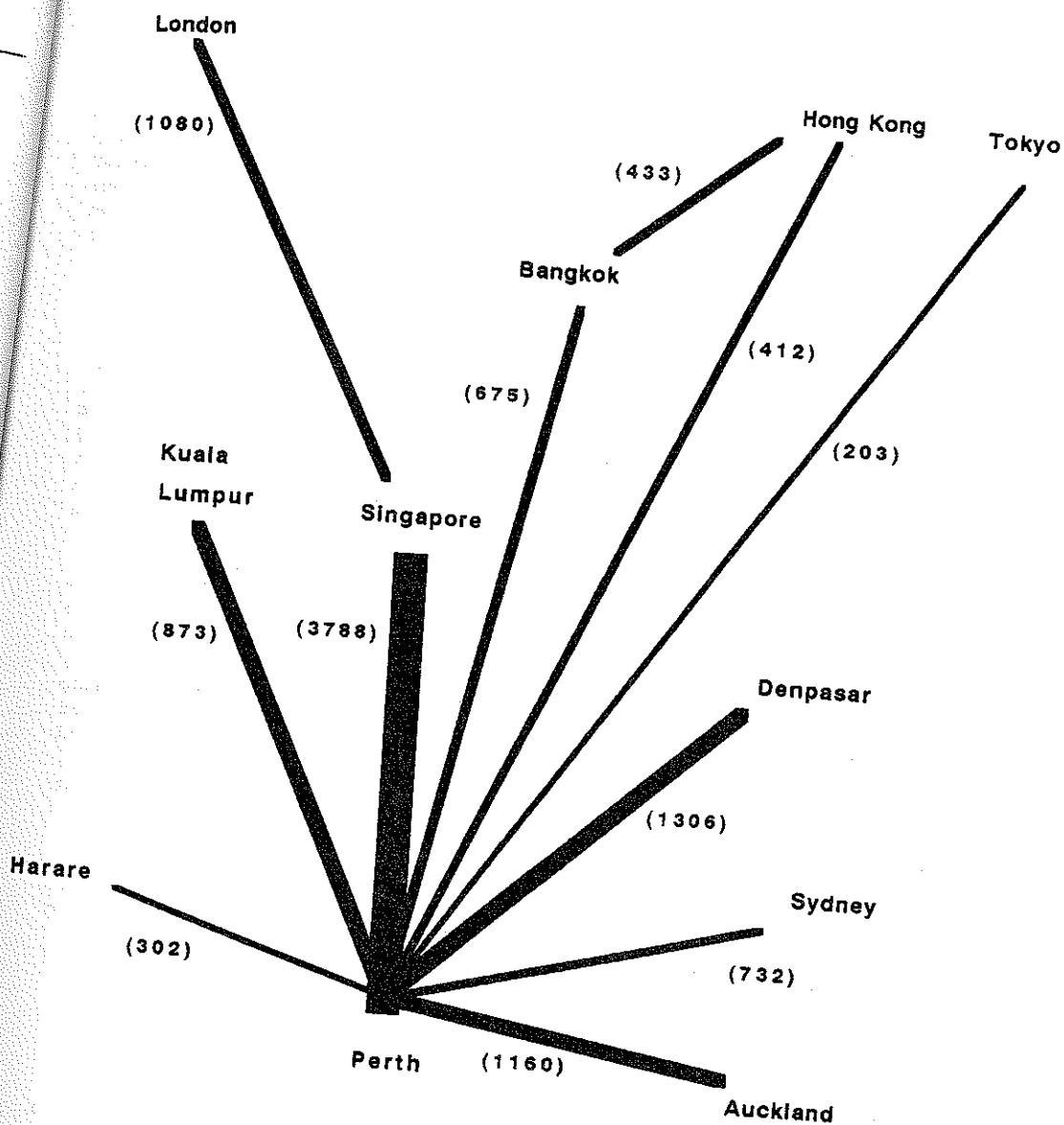
AUSTRALIA'S WESTERN GATEWAYS

TABLE 3
WEEKLY INTERNATIONAL AIRLINE SERVICES TO PERIH:
JANUARY 1988

Airline	Capacity Provided	
	Flights	Seats
	No.	No.
1. <u>Services Direct from Singapore/ Bangkok/Kuala Lumpur</u>		
Qantas	8	2344
Singapore Airlines	3	1200
Malaysia Airlines	3	873
Thai International	2	484
Total	16	4901
2. <u>Direct Terminating Services from Other Foreign Cities</u>		
Qantas	2	866
Qantas/Japan Air Lines (1)	2	406
Cathay Pacific	1	412
Garuda	3	873
Air New Zealand	3	660
Total	11	3217
3. <u>Other Services with International Aircraft</u>		
Qantas (2)	5	1635
British Airways (3)	5	1800
Total	10	3435
Total all services	37	11553

- (1) Joint service
(2) Includes four flights from Sydney
(3) Three flights from London and Singapore
Two flights from Auckland and Adelaide
Source: Department of Transport, Western Australia

**FIG 1: INTERNATIONAL AIR SERVICES
TO PERTH (September 1988)**



(WEEKLY SEAT NOS. SHOWN IN BRACKETS)

into Perth, 1243 seats, or 11% of the capacity, are on flights Qantas operates in repositioning aircraft between Sydney and Perth. This means that less than 20% of the seats on international flights to Perth are on aircraft operating on schedules which take them, from a foreign city, through Perth on the way to Sydney/Melbourne.

GATEWAY PROJECTS

The Government of Western Australia has been actively involved in supporting the growth of trade and traffic through the Port of Fremantle and Perth Airport and in both guiding and responding to their evolution as gateways to the Indian Ocean. Set out below are brief descriptions of a dozen projects which relate directly to the development of the two western gateways. Some of the projects have been completed. Some of them are ongoing.

A Transport Strategy Committee investigated into the benefits of subsidising Stateships' north west service. In its report, the Transport Strategy Committee (1986) found that there were strong economic and social grounds for continuing to subsidise a regular Stateships service to remote north west ports. However, and perhaps more importantly in the long run, the project led the Government and Stateships' management to view the shipping line's future in a much wider context. As the shipping line with its home port in Fremantle, it could play a part in developing trade through the western gateway.

Stateships is now restructuring its fleet and has developed new liner services. These ventures were carefully evaluated prior to being undertaken. A considerable amount of market research has been carried out, jointly by Stateships and the Department of Transport, Western Australia (1984 and 1987) on how Stateships might develop offshore liner services. This work led to the introduction of regular liner services to a range of ports in Papua New Guinea and South East Asia. Further development of these shipping services, supported by appropriate market research, is expected over the next few years.

A proposal to deepen the inner harbour at the Port of Fremantle has now been put into action. Detailed research led to the careful definition of the project, and its subsequent evaluation led to Government approval of a self-financing project which will provide:

- a greater depth of water at container berths;
- an additional 30 hectares of valuable waterfront real estate; and
- a new harbour for small commercial craft.

The project was commenced in 1988 and is scheduled for completion before the end of 1989.

AUSTRALIA'S WESTERN GATEWAYS

Devising an overall Port Strategy for Fremantle is a current project. It relates to the development and promotion of Fremantle as "the Western freightway to Australia", as it has been described, for example, in the Daily Commercial News of 29 July 1988. The State Government is seeking a detailed strategy which focuses on trade promotion and complementary port and trade developments. Research and analysis supporting the strategy should allow the Port to define trade potential and to target and evaluate proposals for investment in port facilities. It will also focus on cargo handling efficiency and the need to rationalise container handling facilities.

During the 1980's several pieces of research have been focused on development of a mini-landbridge to facilitate the west-east movement of containerised freight which might enter or leave Australia through Fremantle. Of particular note was a feasibility assessment carried out by Australian Shipping Consultants (1983). Their analysis reveals there is some potential for the development of a mini-landbridge. However, it has not yet prompted the systematic exploitation of that potential by either shipping lines or rail authorities. Further research into the potential for an intermodal approach to the development of a western gateway for containerised cargoes which might use a mini-landbridge will continue throughout 1989 and into 1990.

The Western Australian Port Operations Task Force represents shippers, ship owners, employers, unions, the ports and the State Government. The Task Force was set up in 1988, and part of its role is to investigate strategies to improve efficiency on the waterfront. Its particular focus is on stevedoring practices at the Port of Fremantle.

In 1985, the State defined its approach to domestic airline regulation in Australia, in a major submission to the Independent Review of Economic Regulation of Domestic Aviation conducted by May et alia (1986). The Government of Western Australia's submission (1985), is a benchmark document based on an accumulation of many years policy research. Action to bring about many of the changes sought in the submission was put into effect when Senator Evans announced the end of the two airline policy in a major policy statement in October 1987. However, the Evans' announcement did not sanction changes to a number of policies which inhibit the development of Perth Airport as the nation's western air transport gateway. In brief, the Evans' statement rejected pleas to ensure that:

- ultimately, there is an end to segregation of domestic and international airline services; and
- the design and control of infrastructure at airports does not inhibit contestability in the jet airline market.

Consultants were commissioned by the Western Australian Government to identify workable alternatives to the present Federal Government policy on the negotiation of international air transport rights. The Centre for Transport Policy Analysis (CTPA) report (1988) identified a number of policy options which would benefit the western gateway without disadvantaging the rest of the nation.

Case studies have been carried out by Gallagher (1987) and Brownell (1987) on why the Dutch airline, KLM, and Air Mauritius should be allowed to operate services to Perth. In both cases, it was shown that there would be net gains to the nation. The Federal Government has yet to approve of an application by either airline to put regular and scheduled capacity into Perth in accordance with the scenarios outlined in the case studies.

Currently, research is being undertaken to explore how both Qantas and Perth might gain from having carriers like Air Mauritius and Gulf Air involved in the operation of airline services which cross the Indian Ocean and terminate at Perth. Qantas could gain from operating joint services with carriers like these, and/or through the on-carriage of passengers and/or freight between Perth and Sydney/Melbourne.

During the early 1980's, Western Australia mounted a strong case for deregulation of the international air freight charter market. Most notable was the submission of the Government of Western Australia (1985) to the International Air Freight Policy Review. The Scully/Butcher (1985) report on this issue led, ultimately, to the Federal Government abandoning the policy of exercising economic restrictions over the activities of genuine air freight charter operators operating on international routes.

When the 14th ATRF meets, in September 1988, a Transport Strategy Committee looking at the need and location options for international gateway airports, in the north of the State, will have completed its investigations and research and presented its report to the State Government. The Strategy Committee is seeking to identify what international airport infrastructure may be required to allow the north of the State to realise the potential it has to attract foreign tourists and to export perishable horticultural produce. It is seeking, also, to gain an insight into when investment in this infrastructure might be justified.

In this paper, a plea has already been made for a wider, more relaxed vision of transport research. The plea is concerned with investigation and analysis which is action oriented yet, at the same time, careful, critical, rational and objective. Investigation and analysis associated with any one of the twelve projects described, above, would be embraced by this interpretation of transport research. In some projects, the investigation and analysis has been rigorous enough to satisfy the most rigid academic test. At the other end of the spectrum is investigation and analysis which has been pragmatically tailored to meet the demands of project decision makers and coloured by educated yet subjective judgements.

AUSTRALIA'S WESTERN GATEWAYS

Each of the twelve projects has either contributed to the development of Australia's two western gateways or provides signposts which can be used to guide future development. The central theme of this paper is further developed by exploring, in more depth, the contribution made in two of these projects. The two case study projects are:

- ... evaluation of Stateships' entry into the South East Asian service; and

- ... The CIPA Study on air traffic rights.

STATESHIPS' SOUTH EAST ASIA SERVICE

The report of the Transport Strategy Committee investigating the benefits of subsidising Stateships north west service brought home to Stateships management and the Governments two things.

- ... While continuation of a subsidised Stateships service to north west ports could be justified in 1986, a Government commitment to the provision of shipping services for the welfare and development of the north west could not be relied on indefinitely as the *raison d'être* for Stateships.

- ... The options and opportunities available to a State owned shipping line which had Fremantle as its home port were not restricted to the operation of strictly scheduled liner services in the coastal trades.

Over the past three years, there has been an increasing emphasis on the development of a truly commercial role for Stateships. Also, the Government of Western Australia has encouraged Stateships to become an active force in developing economic activity in Fremantle and in promoting the Port of Fremantle as the nation's west coast trade gateway.

The State Cabinet has directed Stateships to investigate a number of proposals relating to the operation of offshore liner shipping services and, subsequently, to participate in entrepreneurial initiatives. Stateships co-operates closely with the State Department of Transport in, first of all, identifying suitable offshore proposals and then in investigating their feasibility and, then, in carefully evaluating their potential profitability. Among the proposals subjected to research and analysis have been several related to South East Asia.

The Present Service

The entry of Stateships into a liner shipping service to connect Fremantle and Pilbara ports to Cocos Island, Christmas Island and ports in South East Asia was approved by the State Cabinet in July 1987. It commenced in January 1988 with a small self-sustaining vessel which could carry containerised cargoes, break bulk cargoes and small parcels of bulk cargoes. The vessel introduced into service was the 3,000 dwt

'Jon Sanders'. By February 1989, the "Jon Sanders" had been replaced by a similar vessel, the "Mary Durack" and a second vessel, the "C.Y. O'Connor" was introduced to the service.

Now, there are two vessels operating a fortnightly service out of Fremantle. The vessels make scheduled calls at Cocos Island, Christmas Island, Singapore, Kuching (East Malaysia), Muara (Brunei), Jakarta and Surabaya (Indonesia). On inducement, calls can be made at other Malaysian and Indonesian ports such as Kuantan, Sibul (both in Malaysia), Pontianak and Ketepang (both in Indonesia).

Entry of Stateships into a new trade is strictly dependent on the fulfilment of two simple criteria:

- (1) that the new service will provide trading opportunities for exporters and create economic activity and employment opportunities; and
- (2) that after an initial development phase, the new service will be financially profitable.

These criteria would not have been satisfied if it had been decided that Stateships would, for example, operate a shuttle container service between Fremantle and Singapore. In that situation, Stateships would have been entering an already competitive trade. It would have been providing one more option for existing shippers of export cargoes without, necessarily, exerting downward pressure on freight rates. No new trading opportunities would have been exposed.

Finding the Right Market Niche

Consequently, what Stateships has been required to do, prior to putting vessels into the South East Asian trade, was to find new market niches. In other words, it has had to show that the proposed new service would substantially contribute to the development of the Port of Fremantle as the nation's western sea trade gateway. This meant developing a practicable yet realistic set of proposals, investigating the physical and institutional parameters of those proposals and carrying out in depth market research.

One of these exercises was carried out in 1986-87 and is described in detail in a joint Stateships/Department of Transport, Western Australia (1987) report.

It involved on the spot investigation into whether institutional factors and work practices on the waterfront in countries like Indonesia, Thailand and Malaysia would make it difficult for Stateships to operate freely there. The possibility that government regulations or the behaviour of a local bureaucracy might impede either trade or the smooth operation of a shipping line had to be investigated. So did the availability of reliable, honest and hard working shipping agents to ensure the smooth passage of cargoes and vessels through ports. As we have already found out, it is not always easy to find agents who are adept at, on the one hand stevedoring and serving the physical

AUSTRALIA'S WESTERN GATEWAYS

requirements of a vessel and crew in port and, on the other hand, marketing a relatively new service and generating new cargoes for it.

There were also some areas of strategic sensitivity to be investigated. For example, would the Indonesian Government be pleased to have a shipping line owned and operated by the State Government plying for trade in its ports? Would the activities of Stateships add to the development of friendly and profitable economic ties between the two countries? Happily, in both cases the answer has been unambiguously affirmative.

Finally, there was market research. Could trading opportunities for Western Australia be identified? At what ports might a service operated by Stateships trade profitably, and what size and type of vessels would best suit the cargoes available? This market research had to be thorough and detailed. It revealed, for example in relation to the Indonesian city of Surabaya, that there were limited export opportunities for meat, fruit and vegetables, dairy products and specialised building materials, but that these opportunities had strong growth potential. It also revealed that exporters would have to work hard in the market place to realise this potential. The market research revealed, in relation to the same city, good immediate prospects for less high value exports such as specialised feed grains and lupins, meat and bone meal and waste paper. The market research also showed that Stateships could profit from carrying a range of cargoes out of Surabaya: cargoes such as paper, glass, carpets, cane furniture, some iron and steel products and building materials.

Turning Research into Reality

Following the investigations described above, Stateships advised the State Government that there was an opportunity to develop a profitable liner shipping service in neighbouring South East Asian waters and that such a service would complement rather than compete with existing services from the gateway of Fremantle. The Government accepted that the service proposed would:

- . open up a wider range of ports in South East Asia, thus exposing more of that region to direct access by Western Australian producers;
- . increase the frequency of shipping services and the capacity available for both dry and reefer cargoes shipped in containers to South East Asia;
- . provide greater opportunities for north west producers; and
- . improve access to fast growing markets in Indonesia.

To ensure that the service had the best chance of operating profitably, it was necessary for Stateships to undertake three more important tasks.

- . It had to, through a tendering process, secure the contracts for shipping supplies from Australia to the offshore territories at Christmas Island and Cocos Island.

It had to select and charter appropriate vessels at the right price. These had to be shallow draft vessels (to serve Cocos Island in particular). They needed to be relatively small, yet versatile and self-sustaining with on-board cranes capable of loading and unloading containerised cargoes.

It had to negotiate with the maritime unions to operate the vessels with a crew small enough to make both acquisition and operation of the required vessels economical. The vessels which were acquired are Australian flag vessels operated with a hard-working and enthusiastic crew of eleven.

Since its introduction, Stateships South East Asian service has operated profitably. It has added another dimension to the role of the Port of Fremantle as Australia's western gateway to the Indian Ocean and South East Asia. Further market research is being undertaken to determine: whether another vessel should be added to the service; how to expand the range of ports served; and how the existing North West service might be linked into a service to Indonesian ports.

THE CTPA STUDY

The CTPA study was carried out in response to the often expressed opinion that airline capacity operating into the Perth gateway does not match demand for international and interstate services to Western Australia, and that regulatory controls exercised by Federal Governments constrain this capacity. The Federal Government exercises control over international airline capacity through its ability to dictate terms in negotiations on bilateral Air Service Agreements.

The CTPA Study was directed at seeking workable alternatives for trading aviation rights which would benefit Western Australia without disadvantaging the rest of the nation. In summary, the relevant findings of the CTPA were as follows:

- (1) In discussing the trading of aviation rights, the important policy question is how to strike an appropriate balance between, on the one hand, securing Australian access to potentially profitable markets and, on the other, promoting the welfare of consumers of airline services by encouraging innovation and competition.

In the past, Australian practice in the regulation of international aviation has leaned too far towards the first of these objectives.

- (2) General economic arguments in favour of free trade apply to the international aviation industry. Therefore, Australia should use all opportunities available to it to argue for and work towards the multilateral deregulation of international air transport.

AUSTRALIA'S WESTERN GATEWAYS

It was acknowledged that Australia's influence in this area is extremely limited and that free trade in aviation services would not be achievable in the foreseeable future. This blue skies objective is not pertinent to bilateral negotiations on the provision of air services to/from Australia. Nevertheless, it should remain a guiding star for policy makers.

- (3) While working towards this long term objective, Australia should liberalise its own approach to the regulation of international aviation by:
- (a) modifying its approach to capacity regulation;
 - (b) abandoning the practice of specifying the Australian gateways to which foreign airlines can fly;
 - (c) designating additional Australian airlines to fly international routes;
 - (d) allowing Qantas and any other Australian airline unfettered access to domestic routes; and
 - (e) pursuing the creation of a unified Australia-New Zealand aviation market.

It was recognised that introduction of all of these changes would amount to a radical transformation of Australian policy on international aviation. Influencing the introduction of the whole package of changes might absorb a great deal of time and persuasive effort. Nevertheless, each one of them, or any combination of them, was recommended as being highly desirable and beneficial to both Western Australia and the nation.

- (4) In relation to the important objective of liberalising constraints on capacity,

"There are many practical ways of liberalising capacity Our preference is for each party to be free to add capacity at will. However, in order to guard against the "dumping" of capacity, it may be desirable to add the 'safety net' proviso that the automatic right to add capacity will be suspended if seat factors remain below a predetermined threshold for a sustained period.

Importantly, some form of capacity liberalisation may have attractions for Qantas. The airline has become increasingly competitive in recent years and has obviously been positioning itself for major expansion in Asia. The knowledge that it will be free to increase capacity as its business demands may have some attraction to an airline that regards itself as a winner rather than a loser."

- (5) In recognition of the resistance there may be to the introduction of the package of reforms recommended, in (3) above, a first step could be taken by permitting Qantas and foreign airlines to introduce scheduled services at will to:

(a) all secondary gateways ⁽¹⁾; or,

(b) West Coast airports only.

The relatively modest reform alternatives in (5) above are two out of a large number of policy options identified by the CTPA. They are pertinent to the themes of this paper. Consequently, they warrant further exploration.

Secondary Gateways

The Federal Department of Transport and Communication has expressed a policy of encouraging carriers to serve smaller gateways. In a communication from the Department to the CTPA it was stated that

"Federal Government representatives (in bilateral negotiations) take every opportunity to encourage foreign carriers to serve smaller gateways. This approach has regard to the increasing congestion at Sydney, to Australian consumer interests, and the scope for developing a range of inbound tourism markets offering differing characteristics."

However, this view was heavily qualified by the statement that "particular interests need to be considered in the context of the broader national interest and to have regard to the reciprocal nature of the aviation rights being traded."

The upshot of current attempts to balance these considerations is a regime that has structural features that tend to disadvantage smaller gateways, but within which a number of ad hoc adjustments have been made that tend to ameliorate its effects. The general practice of maintaining capacity controls tends to squeeze out the smaller gateways, since airlines, which are permitted to deploy less capacity than they would like, will tend to concentrate that capacity on Sydney.

The impact of this factor on Western Australia has not been reduced because, in a number of cases, separate and specific capacity provisions have been made for the services to Perth. Indeed, foreign airlines have, as has been shown already in this paper, sought to operate services to Perth. Furthermore, for South East Asian airlines, such as Malaysian Airlines, the specific capacity provisions for Perth seek to limit the capacity they can provide on routes to/from Perth.

Thus, it can be argued that Perth has the worst of both worlds. Some airlines choose to concentrate what capacity they are permitted to operate on Sydney. Others which seek Perth as a first choice have the capacity they are permitted to operate into that city limited.

(1) In the Australian context, CTPA defined a secondary gateway as any airport other than Sydney and, perhaps, Melbourne.

AUSTRALIA'S WESTERN GATEWAYS

CTPA argues that this squeeze on secondary gateways, like Perth, can be ameliorated by freeing up restrictions on flights to and from them. There are precedents for this practice. McGowan and Trengove (1986) point out that a precedent exists in the EEC, where it is permitted with aircraft having far less capacity than 70 passengers. The Thai newspaper "The Nation" (1988) reported that Thailand has declared a policy of free access to provincial airports in a bid to promote tourism.

To make the secondary airports policy work it would be necessary only to:

- clearly specify two categories of international airport, primary and secondary. (It may be that only Sydney would fall into the primary category);
- retain the existing policy -- negotiated bilateral agreements focused on securing equivalent rights for Qantas -- with respect to primary airports;
- automatically approve applications to fly to secondary airports if:
 - the proposed route includes only secondary gateways;
 - the government of the carrier making the proposal agrees to allow Qantas to fly equal capacity on the route in question; and
 - there is a 'safety net' agreement which prevents dumping of capacity when two or more airlines operate on a route.

The CTPA concluded that implementation of this reform would have only minimal impact on the aggregate number of international airline services to and from Australia.

West Coast Airports

The CTPA advanced several legitimate arguments for the development of a separate negotiating policy for international airports on Australia's west coast: in reality this means Perth and, perhaps, Darwin and Port Hedland. Among the arguments were the following.

- Perth, like other small markets, is in the position of having to make an extra effort to attract international air services. The chances of succeeding in this endeavour are inhibited by the usual procedures, designed to protect Australian participation and preserve the value of access rights. The procedures place obstacles in the way of the development of new services and the expansion of established ones. Large and lucrative markets may be able to encourage airlines to persist in seeking access in the face of such obstacles. Smaller markets cannot carry this extra burden.

As has already been illustrated in this paper, international airline services to the west coast of Australia are operationally and economically separable from services to the east coast. An important corollary is that the withdrawal of services from Perth, or any other deterioration in prices or the level of service to Perth would have little impact on the services provided to other Australian destinations.

Western Australia's aviation links are very much different from those on the east coast. Whereas the major traffic orientation on the east coast spans an arc eastwards from Japan, embracing the US and New Zealand and Pacific destinations, the major traffic orientation in Perth is towards an arc westwards from Japan, focusing on South-East Asia (see Figure 1).

As a market with a predominantly South East Asian orientation, Western Australia has been disproportionately affected by Australia's attempts to contain sixth freedom operations through capacity restrictions. These constraints have most seriously affected the South East Asian carriers which are of far greater relative importance to Perth than to the rest of Australia.

The CTPA concluded that because airline services to Perth are separable from those to the rest of the country, and of comparatively minor importance to Qantas, there are no valid reasons why the west coast gateway should not be subject to different policies in respect of the granting of aviation privileges. To make a west coast gateway policy workable, it would be necessary only to:

- .. remove constraints on the provision of capacity on major routes into Perth; and
- .. introduce a policy which is receptive to the approaches from new carriers wishing to establish links to west coast gateways.

A starting point for a west coast gateway policy could be a series of bilateral agreements with Singapore, Malaysia and Thailand that provide for free determination of capacity on west coast routes -- if necessary with a 'safety net' provision that prohibited the addition of more capacity if load factors fell consistently below, say, 50 per cent over, say, a six-month period.

A policy of actually encouraging new carriers could also be introduced. This policy might also embrace the possibility of designating other Australian airlines to fly on any international routes into a west coast gateway, which fail to attract the interest of Qantas.

AUSTRALIA'S WESTERN GATEWAYS

CASE STUDIES RESEARCH: A COMMENT

A consistent undercurrent to the main theme of this paper has been a plea for a wider and more relaxed vision of transport research. This has been made because research seems to have become an unfashionable discipline. A good deal of useful research work now acquire euphemistic, user friendly labels such as "management services information".

A commentary on the transport research supporting the two case studies described in this paper may provide a support for the argument that, regardless of how it is labelled, a wide variety of investigative and analytical work is the type of objective research which has a place in a forum such as the ATRF. A parallel argument is that genuine research work is not only essential but has a wide variety of applications, and that people who undertake this work should be less coy about having it described as research.

Stateships and South East Asia

The first case study relates to the way research and analysis has been used by the Government of Western Australia to guide one of its own agencies. The entry of Stateships into the South East Asia liner trade has been supported by research appropriately tailored to a variety of tasks. The research has been essential to:

- identifying the agency's role and objectives;
- finding the right market niches for Stateships;
- evaluating the financial impacts of service and fleet deployment options;
- rationalising the line's fleet and sailing patterns;
- assisting the line's management in presenting its argument for change to Government.

The research and analysis has been successful, partly because it has been appropriately tailored to the tasks at hand, and partly because it has been in tune with the demands of Stateships' executive. It has been carried out in close co-operation with management and it has been used as a critical tool in the decision making process. It is necessarily ongoing because of the inherent flexibility in Stateships fleet of vessels and because of a perceived need to seek out new market niches for exporters in the burgeoning South East Asian market.

Nevertheless, the investigation and analysis which has supported Stateships' entry into South East Asia does lack some of the rigour demanded of academic researchers. Some of it relies on the educated but partly subjective judgements of those undertaking it, rather than on the precise application of accepted research techniques. Furthermore, it is essentially pragmatic and its form of presentation varies to suit a range of audiences.

The CTPA Study

By design, the research and analysis which characterises the CTPA study was significantly different to that which has been used to support the development of Stateships' South East Asian service. There are two reasons for these differences.

Firstly, in the CTPA study, there was no real opportunity for an ongoing dialogue or even meaningful interaction between the researcher/analyst and the policy making body (the Federal Department of Transport and Communications) or the government agency (Qantas).

Secondly, the CTPA study is a finite piece of tightly argued analysis produced by consultants answering to set terms of reference and a steering committee. It is rigorous in an academic sense. Its arguments are well developed and their logic is persuasive. It is creative in the way the arguments are grouped and presented.

However, the arguments themselves are not new and the CTPA study is vulnerable to many of the familiar criticisms of the research process. It can be dismissed as an interesting but esoteric study. Its subject matter is complex, and critical to its usefulness is the fact that it must be accepted and believed by a team of decision makers (the State Cabinet) who will not, for the most part, understand its nuances.

These decision makers cannot make the changes the arguments seek. They are, at best, powerful advocates for policy changes. The same decision makers are probably canny enough to realise that, even if the Federal Government were to implement the changes they seek, and the benefits were to flow on to the State as a consequence:

- .. it may not be widely recognised that the benefits have been achieved; and
- .. even if it is, the role of the State as a catalyst in bringing about these changes may not be recognised.

In other words, the State Government may have good reasons for being seen to be active in response to public pressure on it to lobby for an end to regulatory constraints on the flow of tourists through Perth Airport and, at the same time, deciding not to pour resources into a tenacious pursuit of the strong arguments for change provided for it by sound research and analysis.

Those responsible for the CTPA study were always aware that the kind of arguments they painstakingly provided could stumble over this kind of hurdle.

Concluding Comments

The research techniques which characterise the two case studies are poles apart. Both have their inherent weaknesses. Nevertheless, in each case the research techniques have been appropriately applied in a positive search for ways to improve the economics of transport through Australia's western gateways.

AUSTRALIA'S WESTERN GATEWAYS

SUMMARY

Sustained Growth

There has been strong and sustained growth in trade and travel through the sea and air transport gateways on Australia's west coast. Over the last decade:

- the movement of laden overseas containers through the Port of Fremantle has tripled;
- the number of overseas passengers moving through Perth Airport has tripled; and
- the quantity of international air freight moving through Perth Airport has sustained a growth rate of almost 20 per cent per annum (a more than five fold increase).

A remarkable similarity in the trend for both gateways is the movement away from the direct link with UK/Europe. Direct trade and tourism links with South East Asia have grown significantly. In addition, much of the personal travel and commodity flows to other parts of the world now operate smoothly through sophisticated South East Asian hubs.

The State Government has closely monitored these developments and continues to devise ways to complement and direct demand led growth. In relation to the western gateways to the Indian Ocean and South East Asia, it is involved in a number of infrastructure and maritime service development projects. The consistent objective is to ensure that potential welfare gains to both the State and the nation are realised. A good example is the Inner Harbour deepening at the Port of Fremantle. Research and planning is being undertaken to devise strategies aimed at sweeping away institutional and regulatory impediments to the free flow of trade and tourism through these gateways. The Waterfront Task Force and the CTPA Study are just two examples of this kind of work.

The two case studies looked at in this paper provide quite different insights into the kind of work which is being undertaken to guide the development of the two western gateways.

Stateships South East Asian Service

A Transport Strategy Committee helped make it clear to both Stateships' management and the Government that the line was not restricted to the operation of coastal services. Further research and analysis showed that interesting international opportunities were available to a State owned shipping line which had Fremantle as its home port.

Prior to establishing a service to South East Asia it was necessary to concentrate on finding the right market niches for Stateships. Trade routes to Indonesian and Malaysian ports, which offer unique opportunities to exporters on Australia's west coast, were identified. It was established that with the right vessels, appropriately crewed,

Stateships could profitably ply the routes between the Fremantle gateway and these ports.

Research has shown that such services could add an extra dimension to the role of the Port of Fremantle as Australia's western sea transport gateway. It, alone among Australian ports, has the combination of location and size which allows the development of complex commodity trading networks with a wide range of ports in South East Asia. Direct services can be offered out of Fremantle to ports such as Muara (Brunei) or Surabaya (Indonesia). From eastern Australian ports ship scheduling economics dictate that services to ports like these must be through a transshipment hub like Singapore.

The CTPA Study

The strong arguments developed by the CTPA reveal that:

- .. in trading international aviation rights, the important policy question is how to strike a balance between securing Australian access to potentially profitable markets and promoting the welfare of consumers (travellers);
- .. general economic arguments in favour of free trade apply to the international airline industry;
- .. Australia should institute a range of quite radical policy changes in liberalising its own approach to the regulation of international air services; and
- .. as it works towards the achievement of these changes, Federal Government could alleviate some of the problems being experienced at the isolated, but much demanded western gateway, Perth, by introducing a policy which favours the loosening of capacity restrictions at either:
 - all secondary gateways; or
 - the western gateway itself.

The CTPA concluded that the immediate introduction of either of these two reforms could contribute to a significant increase in the flow of tourists to Western Australia, yet have only a minimal impact on the aggregate number of international airline services operated to and from Australia by Qantas.

Final Comments

For the Government of Western Australia it has been more easy to take actions which complement the development of the nation's western sea transport gateway. At the Port of Fremantle the State can act directly through policy actions and discretions to own agencies. A considerable body of investigation and analysis work is ongoing and aimed at both sustaining the growth of trade through Fremantle and adding extra dimensions and depth to its links with neighbours in the Indian Ocean.

AUSTRALIA'S WESTERN GATEWAYS

For the State, the road to successfully developing the gateway role of Perth Airport has been less easy, despite considerable recent Federal investments in both international and domestic terminal facilities.

While current research shows that a high level of demand led growth of tourism through Perth Airport can be sustained, convincing the Federal Government to ease some of the controls which inhibit growth requires long and sustained pressure from the State. Despite these constraints, it must be admitted that growth in traffic through Perth Airport has been encouraging. The State is also encouraged by the fact that the airport is now controlled by very accessible executives of the semi-autonomous Federal Airports Corporation. Hopefully, the State will be able to co-operate closely with this body in taking actions to improve visitor access and promote further development of the potential of the nation's western air transport gateway.

REFERENCES

- Australian Shipping Consultants (1984), Western Australia -- ASEAN liner shipping options, viability assessment, Unpublished report for Government of Western Australia, Melbourne.
- Brownell, M. (1987), A Proposal to Support the establishment of regular air services between Australia and Mauritius, DoT Report 321, (Department of Transport Western Australia).
- Centre for Transport Policy Analysis, the University of Wollongong (1988), Trading of international aviation rights, options for Australia, Report for the Government of Western Australia.
- Daily Commercial News (29.7.1988), Article entitled "Fortunes tied to emerging might of SE Asia", Australia.
- Department of Transport of Western Australia (1986), Report of the Transport Strategy Committee into the benefits from subsidising Stateships' north west service.
- Director General of Transport, Western Australia (1980), Annual Report.
- Evans, Senator Gareth, QC (1987), Domestic aviation: a new direction for the 1990s, Ministerial statement, Canberra.
- Findlay, C.C. (1981), International civil aviation policy options, Australian Journal of Management, Vol. 6, No. 2.
- Findlay, C.C. (1983), Australian international civil aviation policy and the ASEAN-Australia dispute, ASEAN-Australia Economic Papers No. 1, Kuala Lumpur and Canberra: ASEAN-Australia Joint Research Project.
- Findlay, C.C. (1985), The flying kangaroo -- an endangered species?, Allen and Unwin, Sydney.
- Findlay, C.C. and Forsyth, P.J. (1985), International trade in airline services, Pacific Economic Papers No. 123, Canberra: Australia-Japan Research Centre.
- Fremantle Port Authority (1987-88), Annual Report.
- Gallagher, F.D. (1977), Options for Western Australia-Europe container traffic, Director General of Transport, Western Australia, Policy Research Paper No. 3.
- Gallagher, F.D. (1984), Integrating domestic and international aviation, in Changes in the air? Issues in domestic aviation policy, CIS Policy Forum No. 3, Sydney.
- Gallagher, F.D. (1985), Submission to International Air Freight Policy Review, DoT Report 283 (Department of Transport, Western Australia).

- Gallagher, F.D. (1987), Proposed KLM service to Perth: how it would benefit the State and the Nation. DoT Policy Note 87/7 (Department of Transport, Western Australia).
- Government of Western Australia (1985), Submission to the Independent Review of Domestic Aviation, DoT Report No. 284 (Department of Transport, Western Australia).
- Government of Western Australia (1988), Submissions to IAC (Canberra) Inquiry on Travel and Tourism, DoT Reports No. 332 and 333 (Department of Transport, Western Australia).
- Knox, J.E. and Gallagher, F.D. (1980), Liner shipping and Australia's west coast: options and opportunities, paper to BTE Outlook Series Workshop, DoT Report 242 (Department of Transport, Western Australia).
- McGowan, F. and Trengove, C. (1986), European aviation: a common market? Institute of Fiscal Studies, London, and Centre for Policy Studies, Monash University, Melbourne.
- May, T.E. Mills, G. and Butcher, E.W.A. (1986), Report of Independent Review of Economic Regulation of Domestic Aviation, Canberra.
- Price Waterhouse and Urwick (Management Consultants) (1988), Negotiating international aviation rights, report prepared for Department of Transport and Communications, Canberra, unpublished.
- Qantas Airways Limited (undated), The Spirit, Sydney.
- Scully, J. and Butcher, E.W.A. (1985), Report of International Air Freight Policy Review, Canberra.
- Singapore International Airlines (1984), The sky's the limit, Speech by Deputy Chairman to National Aviation Press Club, Melbourne.
- Singapore International Airlines (1988), Submission to IAC (Canberra) Inquiry on Travel and Tourism.
- Stateships and Co-ordinator General of Transport (1984), Report on Stateships' Kimberley extension proposal, DoT Policy Note 84/2 (Department of Transport, Western Australia).
- Stateships and Department of Transport (1987), Stateships: identification and evaluation of South East Asia liner service, DoT Policy Note 84/17 (Department of Transport, Western Australia).
- Trace, K. (1986), Towards efficient transport, Paper for Australian Institute of Public Policy, Perth.