DEFENCE AND DEREGULATION : A STUDY IN INCOMPATIBILITY?

Brigadier G.J. Christopherson
Director General Movements and Transport
Department of Defence
Canberra
AUSTRALIA

ABSTRACT: *The support of the Australian civilian transport infrastructure is essential for the strategic movement of the Australian Defence Force and is an important factor in operational movement planning. This paper discusses some aspects of present operational movement planning and summarises progress in establishing relationships between Defence and the Australian civilian transport sector. It discusses likely effects of transport deregulation on such relationships drawing, in part, on overseas experience in this area and concludes with recommendations for future contact between Defence and a deregulated industry.*

DEFENCE AND DEREGULATION

INTRODUCTION

In an interview in 1986 Alfred Kahn, the 'father' of US airline deregulation said: "Deregulation meant we were going to try and substitute competition for Government determination about who might fly where, when and what the prices should be, subject to the anti-trust laws".[1] That is a very succinct definition of deregulation, but it does little to address the implications of such a step for military transportation, "the very heart of logistical efforts"[2] of any Defence requirement.

The Australian Defence Force (ADF) relies heavily for strategic movement on the civilian transport infrastructure and must have "the ability to draw on appropriate resources[3] in the civil community should the need arise".

Given the importance of transportation in military logistics and the reliance of Defence on support from the civilian sector, it is obvious that any initiative which impacts on the organization and functioning of the civilian transport area is of critical interest to the ADF. However non-Defence writings on the subject rarely take this into account.

AIM

The aim of this paper is to discuss the potential effects of deregulation on the capability of the Australian civilian transport industry to support the ADF.

APPROACH

The paper will first outline the present strategic guidance for ADF operations. It will then discuss current initiatives to set up arrangements between Defence and the transport industry and will cover, in passing, a significant Defence Industry Committee Study on this issue. The US Defence experience with deregulation will be discussed and will be used as an indicator of possible effects in Australia. Finally, some proposals will be put forward for continuing ADF/industry contact in a deregulated environment.

STRATEGIC GUIDANCE

In the 1987 Roy Milne Memorial lecture, Mr Beazley, the Australian Minister for Defence, set out the priorities for Defence planning. He said: "Highest priority is given to developing the capability to meet the demanding needs of credible military threats that could arise with short warning. Secondary priority is given to ensuring that we retain those skills and capabilities in our expansion base that would be relevant to higher levels of threat that are, nevertheless, more remote".[4]

The 'credible military threats', or contingencies, to which Defence planning priority is directed are those involving low level or escalated low level conflict. A number of strategic reviews have pointed out the advantages that might accrue from a campaign of low level military pressure against Australia to achieve an adversary's political aims. Low level conflict as such involves the use of force to harass remote settlements and other targets in Northern Australia. Such attacks could be widely dispersed, unpredictable and sustained over a long period. Escalated low level contingencies would occur if the adversary is prepared to take the risk of supplementing or substituting unconventional tactics and forces with military units prepared to confront our forces direct.[5]

Problems associated with the conduct of operations in the harsh environment of Northern Australia are substantial. They include not only the physical problems of climate and terrain but also the distance involved in moving personnel and materiel from the support areas in the south and east of the continent. It is in this long distance, or strategic, movement area that Defence looks to the civilian transport industry for support - "the partnership between the commercial transportation industry and the military transporter"[6] that the Americans call Defense Transportation.

The need for this partnership can be clearly demonstrated by a very cursory analysis of the strategic transport assets available within the Defence inventory. These are shown in Table 1 below.

TABLE 1

SUMMARY OF STRATEGIC MOVEMENT ASSETS

MODE	EQUIPMENTS	CAPACITY/EXAMPLE LOADINGS
Sea	(Landing Ship Heavy)	
	HMAS TOBRUK	530 Passengers and 61x5 tonne vehicles or 530 Passengers and 25 Main Battle Tanks or 530 Passengers and 1200 tonnes cargo
	(Auxiliary General Transport)	
	HMAS JERVIS BAY	850 Passengers (4 days maximum) or 300 Passengers and 75x5 tonne vehicles or 300 Passengers and 3400 tonnes cargo
	(Landing Craft Heavy)	
	HMAS BRUNEI HMAS LABUAN HMAS BALIKPAPAN HMAS BETANO HMAS TARAKAN HMAS WEWAK	120 tonnes cargo
Source:	Australian Joint Service Publication JSP(AS)21 (SUPP1)	
Road	Army	
	77 Prime Movers 13 Trailers	20 tonne
	Navy	
	15 Prime Movers 18 Trailers	"
	Air Force	
	2 Prime Movers 3 Trailers	"
Source:	Logistic Branch-Army	
Air	24 x C130 Hercules	91 Passengers or 78 troops or 20 tonnes cargo
	6 x B707	88 Passengers & 20 tonnes cargo or Nil Passengers & 35 tonnes cargo or 155 Passsengers
Source:	Australian Joint Service Publication JSP(AS)14A	

ON

T ASSETS

ITY/EXAMPLE LOADINGS

assengers and
tonne vehicles or
assengers and
in Battle Tanks or
assengers and
:onnes cargo

assengers
's maximum) or
assengers and
:onne vehicles or
ssengers and
onnes cargo

nnes cargo

lication

ne

engers or 78 troops
:onnes cargo
engers & 20 tonnes
r
sengers & 35 tonnes
r
ssengers

ication

Apart from these limited assets the bulk of the ADF transport resources are designed for a war fighting role and are there to provide operational movement capability. Sir Peter Abeles alluded to this in a lecture in 1983 when he drew a distinction between the conventional road capability of the civilian transport infrastructure and the "off the beaten track and beyond conventional road systems"[8] vehicles of the ADF.

Turning to the use of the various modes, the geography of Australia dictates that any short notice deployment of ADF personnel and their essential equipment must be by air. This is the reason the Operational Deployment Force is equipped as an air portable brigade. Heavier items of equipment would move by surface modes, predominantly road and rail. Maritime resources, if available, would supplement the road/rail support. To deal with those modes in the present Australian environment Defence must be able to work equally with highly regulated (airlines) and completely deregulated (road transport) organizations. This has not always been an easy requirement.

The next section of the paper examines the characteristics of the transport modes from an ADF operational viewpoint.

MODE CHARACTERISTICS FROM A DEFENCE VIEWPOINT

Because of Australia's island configuration it is fitting to consider the maritime mode first. This area of the transport infrastructure presents considerable resource problems for Defence - a situation common to other countries notably the UK and the USA. Although almost all of Australia's imports and exports move by sea only 4.2% by tonnage and 7.1% by value move in Australian flag vessels. Current indications are that the number of Australian ships may shrink even further. For example, ANL has more than halved its fleet since 1983 and is preparing to rationalize more of its services to include the sale of at least three vessels[9]. However existing Government policy is that the coastal trade be carried in Australian controlled and crewed vessels, except when these are unavailable or the services provided by them are inadequate. The majority of the Australian vessels are specialized, as shown in Table 2, and this presents a further constraint for Defence.

TABLE 2

AUSTRALIAN TRADING FLEET AS AT 31 MARCH 1988
(Ships of 150 gross tonnes and over)

SHIP TYPE	NO
Container	11
RO/RO (Roll on/Roll off)	8
Oil Tanker	15
Dry Bulk	35
Other	20
Total	89

Source: Department of Transport and Communications(figures supplied by Sea Transport Division, April 1988)

The shore based aspect of shipping is very important. Although the Australian coast is well supplied with ports, some would say too well supplied[10], the problem with the facilities in the north western parts of the continent is the lack of general purpose, particularly RO/RO, berths and the difficulty of access at low tides in some ports. There have been a number of studies conducted since Sir John Crawford's report in 1982[11]. Two studies presently in progress, the Industries Assistance Commission study into coastal shipping and the Inter-State Commission study into waterfront strategy, will have great importance for Defence and its future relationship with the industry.

Rail transport in Australia is highly regulated. Apart from some private mining railroads the main railway systems are either Commonwealth (Australian National) or State controlled. To complicate the matter further there are three different rail gauges in operation. The problems highlighted in World War 2 and described as 'immense and complex'[12] are now even more complex in an environment which is becoming increasingly critical of the high cost of rail services.

Road transport is the most flexible of the Australian transport modes. Although there is sufficient capacity in the road transport industry to meet Defence needs in credible contingencies, and to continue day-to-day commercial operations, the deregulated nature of the industry makes access to those resources very difficult. In 1984 there were 32,943 road freight business

establishments in Australia employing about 99,000 people[13] and, of these, only about 30% had more than one vehicle[14]. For long term planning Defence must look to that sector of the road transport industry that can guarantee some long-term stability, a characteristic that is not evident in the single owner-driver segment. So, despite the deregulated nature of this part of the industry the Defence contact is with the major operators, say organisations with 10 or more vehicles, and this represents only 1-2% of road transport operators. Even when the 5-9 vehicle operator is included this sector of the road transport industry represents about 5% (by vehicle numbers).

The airline industry in Australia is, at present, heavily regulated and governed by the Two Airlines Agreement[16] and the Independant Air Fares Committee Act 1981[17]. Although this regulation has had some adverse results in relation to the discounts Defence can obtain from domestic carriers compared with, say, the Ministry of Defence in the United Kingdom; it has had one positive advantage. Any negotiation with the major Australian airlines, domestic or international, is restricted to a very small number of participants. The industry is stable and the major operators are well known to Defence. In its submission to the May Committee[18] on the Australian airline industry the Defence position was summarized as follows: "In concluding this submission it can be said that Defence requires access, at times at short notice, to the entire air transport industry to be able to retain its feasibility to achieve a military solution in the most cost-effective fashion." This point of view was picked up in the final report of the enquiry which stressed the importance to Defence of a stable aviation industry[19].

DEFENCE NEGOTIATIONS WITH THE TRANSPORT INDUSTRY

Defence negotiations with the Australian civilian transport industry centre around two main initiatives. The first is the putting in place of Memoranda of Arrangement (MOAs) with each of the transport modes and the second is Defence participation in a major study, commissioned by the Defence Industry Committee (DIC), examining the Defence/civilian transport industry interface.

The MOAs set out arrangements by which Defence can gain access to civilian transport resources in a contingency situation in the absence of legislation under the Defence Act 1903. They apply only to credible (low and

escalated low level conflict) contingencies and to some medium level conflict situations. However it is anticipated that above escalated low level conflict more comprehensive national control and coordination of transport resources will require legislation to be put in place. The development of the MOAs is designed to find a way around the hiatus that occurred in the beginning of World War 2. Mr Marks, Chairman of the Transport Industries Advisory Council, highlighted the problem in a lecture in 1987 when he said: "Recalling the action that was taken in the Second World War to co-ordinate and control land transport, it would seem to me that if we are called on to do it again and we assumed the same pace, the conflict could well be over before we have our act together."[20]

Progress in negotiating the MOAs has been a slow and, in some cases, a rather frustrating experience. The main problems have been the fragmented nature of almost all the transport modes and the difficulty in resolving insurance and indemnity problems to the satisfaction of both the Commonwealth and the civilian operators. Insurance and indemnity issues will remain regardless of the regulation, or lack of it, in any given mode. On the other hand present difficulties caused by the fragmentation of the industry may be accentuated by deregulation.

Negotiation with the aviation industry has been relatively straightforward although the insurance/indemnity problem remains a contentious issue. In simple terms this relates to the extent to which the Commonwealth would be liable to compensate airline companies for any damage to their assets or injury to their personnel which is sustained in the course of moving military forces and their materiel. Once this issue is resolved the MOA can be very quickly finalized.

This is not so in the case of the rail systems. Once insurance issues are resolved the MOAs will finally have to be agreed on a Federal and State basis. This, of course, is not a situation resulting from regulation or deregulation but rather a reflection of the division of responsibilities for railway operations between the Commonwealth and the States under the Constitution.

In the maritime area no attempt has been made to finalize an MOA at this stage. The industry is in a considerable state of flux and there have been a number of studies done recently in the commercial area, two of the most important being the Liner Shipping Report[21] and the Shore Based Shipping Costs Study[22]. An Interdepartmental Working Party was established in 1985 to report on the coordination of civil shipping resources in emergencies and hostilities and the recommendations of that Working Party are still under consideration by the Departments of Defence and Transport and Communications. So even in a highly regulated coastal shipping environment the way ahead for Defence is by no means clear.

The road MOA has proved to be the most difficult to negotiate because of the diverse nature of this deregulated industry. After some rather nugatory earlier efforts Defence is now concentrating on finalizing an MOA with the National Freight Forwarders' Association, which represents the major road transport organizations in Australia. These negotiations have been given impetus by the DIC study into the relationship between Defence and the civilian transport industry. This study, chaired by Sir Peter Abeles, Managing Director and Chief Executive of TNT, had its genesis in discussions that took place in the Transport Industries Advisory Council (TIAC) in 1984-85. In 1986 a recommendation was made that a Defence Transport Advisory Council (DTAC) be formed to provide a link between Defence planners and transport industry management and to advise the Minister for Defence on transport matters generally. Although this suggestion had some attraction it was not taken up enthusiastically by either Headquarters ADF or the Public Service area of Defence responsible for industry coordination. The main reasons for this were the resource implications of setting up another high level committee and the feeling that DTAC would cut across broader coordination responsibilities with Government.

When Sir Peter Abeles was appointed to the DIC the time seemed appropriate to 'suggest to Sir Peter that he chair a panel to review the civilian transportation infrastructure. We could then examine in the light of that study whether the panel remain as a standing sub-committee or if a separate body was necessary.'[23]

The study panel was set up and is required to report to the Minister for Defence this year. Essentially it is concerned with two questions:

a. Does the Australian civilian transport industry have the capacity to support the ADF in credible contingencies and still provide the transport support required for economic and commercial growth? and

b. What sort of links exist now between Defence and the transport industry and what sort of links should exist in the future?

Terms of Reference for the study are at Annex A to this paper.

What Defence would hope to achieve is the sort of relationship that exists in the Contingency Response Programme (CORE) in the United States. This programme provides the forum for very close contact between the US Military Traffic Management Command (MTMC) and the civilian transport industry. Its value has been accepted and the MTMC comment on the programme is very relevant: "However, until the CORE Program was established, a system was not in being to ensure rapid priority support and a rapid response infrastructure during those critical periods prior to mobilization".[24]

US DEPARTMENT OF DEFENCE EXPERIENCE WITH DEREGULATION

US experience provides not only an indicator of possible areas of development in the strategic mobility field but also some measure of the problems that await the military in the deregulation area. Two quotations set the scene, the first by Professor J. Nelson of Washington State University:

"My conclusion is that deregulated conditions in freight transport have been a real success economically and for the public interest, as it has been in Britain and other foreign countries that have deregulated".[25]

and the second by Brigadier General Bahnsen:

"In the CRAF (Civil Reserve Air Fleet) arena, as cited earlier, business trends clearly militate against military utility..... The airlines cite the additional purchase and operating costs associated with military modifications along with the competitive pressures of deregulation as their reasons for declining CRAF participation".[26]

DEFENCE AND DEREGULATION

The US reliance on civilian transportation is critical to their ability to deploy forces overseas and to get forces to the ports of embarkation to proceed overseas. The quotations above indicate very different views of the advantages or disadvantages of deregulation as seen from the commercial or military viewpoint. Deregulation is the norm for the US Transport Industry having started in the aviation sector in 1978.

It is difficult to draw any conclusions with regard to the US maritime industry. Problems of diminishing US flag shipping, lack of general purpose, dry cargo vessels and aging merchant marine personnel are of much greater consequence than deregulation. To quote Brigadier General Bahnsen again: "Resupply shipping is gained from commercial shipping assets, creating a linkage between strategic mobility and the health of the US merchant marine fleet. As will be seen, the current health of that fleet is lousy".[27]

Because of the initiatives mentioned earlier, specifically the CORE programme, the capability of surface transportation modes in continental United States to support defence needs does not seem to be as constrained as would appear to be the case for shipping. In a recent interview the Director of MTMC'S passenger traffic directorate was asked what effect deregulation had had on the operations of his organization. He indicated that the increased competitiveness in the marketplace had decreased costs slightly but that the increased number of carriers had increased MTMC's workload in ensuring that the expended carrier panels met the Defence standards of service and safety.[28] As a general measure of the US Defense establishment's reliance on commercial transportation, the American Department of Transportation forecast that, in a 1990 time frame, a mobilization requirement similar to World War 2 would require mode increases in the order of 3.8 percent for rail, 9.3 percent for hire truck and 2.6 percent for private truck.[29]

Problems in the aviation industry in America were alluded to in the quotation at the beginning of this section. The two areas that overseas experience indicates are most affected by deregulation are stability and service standards.[30] Important as both are to Defence, industry stability is critical to long range planning.

In this respect in the USA there were 31 airlines operating as scheduled air carriers under federal aviation regulations in 1978. Since deregulation 10 of these had merged, gone bankrupt or reduced operations to regional carrier status. By January 1986 there were 61 scheduled passenger carriers among 92 certificated air carriers.[31] Despite this movement into and out of the industry the trend towards domination by a few mega-carriers continues and five or six big airline groupings carry 80% of the passengers.[32] The combination of corporate instability and intense competition among the large aviation groups has clearly caused some major concerns for the US Defence Department. Mr Taft, Deputy Secretary for Defence in 1986 commented: "...America's airlines currently provide a dwindling base to support defense requirements."[33]

DEFENCE IMPLICATIONS OF TRANSPORT DEREGULATION IN AUSTRALIA

It will be evident from the foregoing discussion that deregulation of the US transport industry has been a mixed blessing for that country's defence planners. What then would be the result of total transport deregulation in Australia? To answer this question, two very important points must be taken into account. First the US experience cannot be used as an infallible indicator because of the many differences between US and Australian strategic planning requirements. For example, the US need to deploy large forces quickly overseas is not a determinant of Australian defence requirements. The second major factor is that Defence deals with the Australian transport industry on two levels - a straightforward commercial relationship for day-to-day administrative functions and a longer range movement planning basis for operational movement.

It is convenient to deal with the administrative movement first. Like any Government department, Defence has administrative movement requirements which affect both the Public Service and the ADF elements of the department. Three major financial allocations are involved and, including exercise costs for the ADF, they total approximately $200M (Travelling and Subsistence $100M, Freight and Cartage $50M, Removals $50M). The transport resources used in Australia are confined mainly to airlines, road and rail operations. Little shipping is used except for overseas freight movement. Given the

substantial nature of these allocations any drop in transport charges brought about by deregulation (and, hence, increased competition) must benefit Defence financially. However the benefits may have some accompanying problems. Mention has already been made of the difficulties MTMC's Passenger Traffic Directorate had in keeping track of contractors' rates, and a similar situation exists in the US aviation industry - 'So numerous and so complicated have the fares become that fares are no longer published in the Official Airline Guide. Only by checking with an airline can a passenger determine the available fares.'[34]

Under Australian Government travel reform procedures introduced on 1 January 1988, all Commonwealth departments were allocated a travel agent to take care of their administrative movement arrangements. Assuming that the agents are competent enough to keep abreast of changing rates and tariffs in their industry the US situation should not present such an acute problem in Australia.

Of more concern is the possibility of the emergence of the mega-carriers, especially those controlling the transport data networks. Defence would not wish to have to deal with a monopoly situation, particularly in the aviation sector. This must be of concern to the community as a whole. As Dr Ruppenthal points out: "For I cannot believe that the average citizen would stand idly by and watch a handful of carriers take over the market because they had unique control over information. The age of transport deregulation could well be followed by re-regulation anew."[35]

In summary, deregulation should benefit the Defence administrative movement requirement providing adequate industry control eg Trade Practice Legislation, exists to prevent the emergence of a monopoly situation in a particular mode.

It is in the operational movement planning area that the implications for Defence are likely to be more serious. These will vary from mode-to-mode.

The Australian road transport industry is deregulated and, as was pointed out earlier in the paper, is characterized by a large number of constantly changing single vehicle owner-drivers at one end of the scale and a relatively small number of large transport companies at the other.

Defence policy, in the operational movement planning area at least, is to deal with the major contractors and it is expected that this policy will continue.

In the rail industry the danger lies in the increased competition to rail resulting from the removal of all existing regulations. The economic viability of the Australian railway systems, and their cost recovery shortfalls, was discussed at length at the 12th Australian Transport Research Forum[36] and the outcome of the discussion was not encouraging. However rail remains a very important transport asset for moving large Defence loads over long distances and further deterioration in this mode's ability to support the ADF remains a matter for concern. Unfortunately the peacetime movement of Defence materiel, and the degree of economic leverage generated, is not great. The recommendations of such bodies as the Royal Commission into Grain Storage, Handling and Transport[37] must be based on economic judgements and these may not necessarily coincide with Defence needs. Deregulation is likely to accelerate such conflicts in this area.

The fundamental importance of the Australian aviation industry to the ADF has already been discussed. In June 1987 the Commonwealth Government announced its intention to give notice to terminate the two airline agreement. Five options presented by the May report[38] are under consideration ranging from present detailed economic regulation to total deregulation of the industry.[39] Clearly instability on the trunk interstate routes would impact heavily on the domestic carriers' support for the ADF and should be avoided. The encouraging aspect in this mode is that deregulation, while it may bring a number of entrants to intra-State operations, is not likely to cause a significant increase in the number of major domestic carriers. Even if a prospective entrant could find the capital Australian Airlines and Ansett have well-established positions with East West positioned to be a major third operator. Deregulation in Australia could be expected to have minimal impact in this area.[40] Again Defence policy in this area is to deal with the major operators and not with regional airlines.

Finally, the maritime area will present very definite problems under a deregulated environment. At present the coastal trade is almost entirely carried in Australian controlled and crewed vessels. Any great influx of foreign ships into this trade

would further erode an already diminishing asset. As in the case of rail, Defence use of the coastal shipping trade in day-to-day movement is minimal and certainly not economically significant. In a contingency situation the requirement may well increase, and the availability of suitable vessels and merchant seamen become very important. A deregulatory environment which rendered this resource unavailable would remove a transport asset that could not be readily replaced.

CONCLUSION

The effect of deregulation on the capability of the Australian transport industry to support Defence varies by mode and purpose of support. For administrative support, deregulation will bring the sort of benefits that will result for the rest of the community - and the associated penalties which need to be guarded against. For operational movement planning, deregulation brings new problems. In the road and aviation industries, little impact is likely but in the rail and maritime sectors a real danger exists of the erosion of assets which are needed by Defence and which cannot be speedily reacquired.

Contact with the transport industry is essential if Defence is to develop the working relationships essential to effective contingency support. The present policy is for Defence to deal with the well-established and major operators in each mode. In a deregulated situation, this policy of dealing with the stable, larger organizations may result in the lack of access to short term financial savings but will provide the long term planning and working relationships essential to effective transport support, transport support which is essential to ADF operations.

"But the fact remains that the side which gets its troops moved, fed, fuelled and stocked with ammunition more quickly than the other despite the chaos and intense pressure of the conflict is the one which will prevail."[41]