Transport Workers Union of Australia (TWU)

Submission to the Rural Affairs and Transport Committee of the Australian Senate

QANTAS: NOT JUST ANOTHER AIRLINE

- ***Qantas Sale Amendment (Still Call Australia Home) Bill, 2011***
- ***Air Navigation and Civil Aviation Amendment (Aircraft Crew) Bill 2011***
- ***& related matters***

October 2011

Dear Committee Members,

The Transport Workers Union of Australia (TWU) commends the Australian Senate for inquiring into fundamental matters of public concern: aircraft crewing standards and the ongoing presence of Qantas as an Australian company.

These matters are of significant importance to TWU members and employees in allied aviation trade unions.

It is the TWU's submission that Qantas management is engaging in an ongoing effort to reduce employment security and conditions and therefore, service and safety standards across its operations. The imperative of this agenda is, we submit, to make the airline attractive to private equity interests.

This submission canvasses seven (7) areas:

1 Qantas restructuring
2 Qantas Sale Act
3 Private equity takeover?
4 Qantas' share and financial performance
5 Qantas Executive remuneration
6 Aircraft Crew Bill 2011
7 Safety and related matters

TWU officials and members would be pleased to attend any forthcoming public inquiry to provide statements and evidence in support of this submission.

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1 Section One

Qantas Restructuring

Senators would be aware that Qantas released its "New Spirit of Australia" restructuring package on August 16, 2011. At a glance, this package aims to:

- reduce the Qantas workforce by 1000+ employees
- abandon the airline's historical flagship business, Qantas International
- move significant aviation businesses to (as yet, undetermined) Asian destinations and conduct its business adhering to relatively low safety and security standards in those destinations

It is difficult to comprehend how the relocation of new aviation businesses, to be owned and effectively operated by Qantas, especially those to be based in Asia, could not offend the provisions of the *Qantas Sale Act*.

As these intended new businesses capture market share, they will come to represent a greater share of the Qantas Group's revenue. Moreover, as the Jetstar experience has confirmed, Qantas is more than contented to allow Jetstar to capture or replace traditional Qantas products and market share.

The TWU submits that a thin corporate veil suggesting these new enterprises are not controlled by Qantas should be seen for what it is and rejected. It is simply inconceivable that Qantas would be a benign investor in these companies.

The TWU therefore urges the Senate to conduct a further inquiry into the compatibility of the airline's expansion plans with the provisions of the *Qantas Sale Act*.

2 Section Two

Qantas Sale Act

The privatisation of Qantas and the conditions attached to its shift from full public ownership to private company has been in train since September 1990, when the then Government announced it would move to sell 49% of Qantas and limit foreign ownership of the airline to 35%.

In mid-1992 and in conjunction with significant aviation market reforms, Qantas was permitted to acquire Australian Airlines. The Government then determined that 100 per cent of the merged company would be sold and made some adjustments to foreign ownership provisions. The full sale of Qantas took place in 1995.

At the heart of the *Qantas Sale Act* are national interest safeguards. In his second reading speech on 4 November 1992, the then Minister for Finance, stated:

> *"The fundamentals of the national interest safeguards … need to be enshrined in legislation.*
>
> *"These safeguards are important to maintain the basic Australian character of Qantas, as well as to ensure that Qantas' operating rights under Australia's various bilateral air service agreements … are not put under threat. Once in legislation, these safeguards will not be subject to the whim of the Government of the day.*
>
> *"Thus, the Bill requires that Qantas' Articles of Association must contain provisions which will ensure that: Qantas' main operational base and headquarters remain in Australia; that the name of Qantas is preserved for the company's scheduled international passenger services; that the company be incorporated in Australia; that at least two-thirds of the board of Qantas be Australian citizens; that the chairman of the Board also be an Australian citizen; and in particular, that total foreign ownership is not to exceed 35 per cent."*
>
> *HoR Hansard, 4 November 1992*

The Qantas Sale Act has succeeded in preserving Qantas and Qantas-owned and operated companies as Australian entities. This has largely led to the maintenance of sound employment standards throughout the Qantas group, although there is compelling evidence that Qantas is now moving decisively to embrace other, lower standards of employment, thereby compromising the effect of the Qantas sale Act's national interest safeguards.

The TWU believes there is considerable legal uncertainty associated with the question of whether Qantas' August 2011 restructuring proposal is compatible with the provisions of the *Qantas Sale Act*.

Taken together, it is difficult to see how Qantas – as a company – can effectively control JetConnect, Jetstar, plus the two foreshadowed Asian-domiciled airlines and still comply with the Qantas Sale Act, in spirit or otherwise. These entities may not use the 'Qantas' name, but Qantas will set the strategic direction and make operational decisions on a day-to-day basis.

The *Qantas Sale Act* represents the special place that Qantas occupies in the Australian community. The Australian Parliament has consistently ensured that restrictions on the operation of Qantas are observed, especially those regarding majority Australian ownership of the airline (as opposed to foreign ownership)

The transfer of ownership to private equity interests would centralise control of the airline and remove it from current shareholder direction and control. It would also undermine, if not directly conflict, with the principle that majority Australian interests would control this iconic Australian business.

The TWU submits that sound industrial standards are in no way incompatible with Qantas' commercial operations. It is unfortunate that the Qantas Executive has consistently portrayed its workforce as an impediment to the airline realising commercial opportunities, notwithstanding consistent, substantial profits.

The purpose of the Qantas Sale Act was to relieve the airline of legislative constraints concerning its operations, not its employment responsibilities.

The TWU strongly supports the key elements of the *Qantas Sale Amendment (Still Call Australia Home) Bill*, 2011, including that:

- Qantas ensure that … its principal operational centre is located in Australia
- Qantas ensure that its subsidiaries associated entities – such as Jetstar – have its principal operational centre in Australia
- the majority of heavy maintenance and the majority of flight operations and training conducted by Qantas and its subsidiaries is conducted in Australia
- the Qantas Board include at least one director with a minimum five years professional flight operations experience and that a further director has a minimum of five years aircraft engineering experience

The TWU also supports allowing shareholders, as set out in the Bill, to restrain the airline in the event it moves to jeopardise foreign ownership restrictions and to empower a court of competent jurisdiction to enforce such shareholder moves.

It follows that Qantas should be requested to provide the Committee, and through it, the Australian public, with detailed information about the safety and training procedures in destinations outside Australia where it anticipates substituting its current Australian operations. Furthermore, Qantas should provide information concerning aviation incidents spanning the past five years from these destinations.

3 Section Three

Private Equity – Revisiting 2006-2007?

The TWU has no doubt that another private equity Qantas takeover bid will bear many of the characteristics of the dramatically halted private equity attempted takeover of 2006-07. The key threats of such a process include:

- the break up and sale of the airline
- consequent lowering of standards and "off-shoring" of regulation to non-Australian destinations
- devastating job losses across all airline business: international, domestic and freight
- incommensurate rewards for outgoing Qantas executives and board members, as was the case in 2006, where then CEO Geoff Dixon stood to secure $60 million from a successful sale

While the availability of funds to facilitate a private equity takeover of Qantas is plainly less than it was in 2006, it is notable, with the benefit of hindsight, what a takeover of Qantas would have resulted in as a consequence of the global economic crisis.

Qantas' debt would have increased to $10.7 billion, due to the 2006 arrangement relying upon a quadrupling of the company's debt. This was to be funded, in part, by the Royal Bank of Scotland, Citigroup and Goldman Sachs. The finance was coordinated by the now discredited Allco Finance Group.

It is highly likely that Qantas would have folded due to its inability to service the interest payments of $1 billion per annum that would have resulted from massively increased debt servicing. Taken together with the prospect that new owners of Qantas would have "auctioned off" many of the airline's more profitable businesses to either increase capital or service debt, a diminished Qantas could not have survived the Global Financial Crisis (GFC).

But for the last minute hesitation by a prospective partner in the Qantas takeover, Qantas would have folded and 35,000 jobs (in 2011 terms) would have been lost.

The nation and the travelling public deserve better than to sustain a situation where Qantas' very survival can depend on only a small private equity miscalculation as to the time of wiring their money across the ocean.

Qantas has, to date, stated only that "no formal or informal takeover bid has been made to company". The TWU seeks an assurance on behalf of its members that Qantas is not seeking such a bid.

There is of course also the risk that the airline will turn from recording a $530 million pre-tax profit in 2011 to a broken airline relying on the unreliable flow of international equity funds and debt financing to sustain any future operations.

It is plainly the case that a Qantas' failure would have a significant multiplier effect in the wider community. Contracted service providers, their staff and those who depend on them would suffer a serious material detriment. The impact would be economy-wide.

The TWU submits that it is in the public interest for Qantas to be questioned on whether it would entertain **or** seek the interest of private equity representatives (or other like business formations) to takeover the airline and what the likely impact of this would be. The airline's executive should also be asked to clarify if it would entertain and give consideration to a future takeover offer.

Undertakings should also be sought that, notwithstanding a current or future private equity bid, senior management and Board members would not seek or otherwise receive direct cash or in-kind benefits from allowing such a process to be concluded, as their predecessors willingly did several years ago.

4 Section Four

Qantas Financial Performance & Share Price

Qantas Share Value over 5 Years[i]

Over a 5-year period, the Qantas share price has dropped from $5.28 to $1.52 (at 11 October 2011) - a dramatic decrease of 71%.

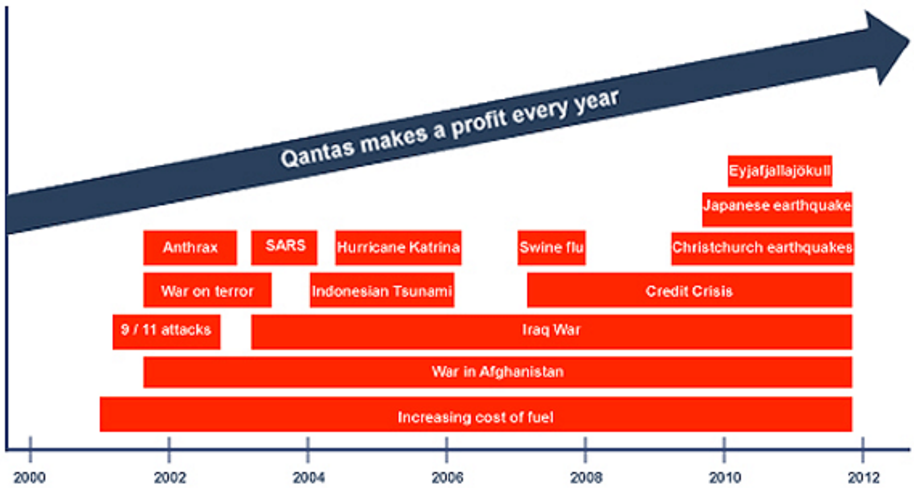
It is a remarkable coincidence that Mr Joyce's salary increased by 71% in 2011, while the airline marked a 71% fall in share values.

Despite maintaining profitability during a period of significant international economic instability and recording a 120 per cent profit increase in the financial year just passed, the Qantas group has not offered its shareholders a dividend for several years and appears disinterested in the sustained downward shift in share price.

Qantas is best placed to explain why it has not provided a dividend to shareholders despite the airline's profitability; however, it is the case that market analysts do equate the current low share price with Qantas' attractiveness to private equity interests.

As Senators would be aware, it is commonplace in the history of private equity takeovers to seek controlling interests in companies that are seen as 'undervalued'. While in one respect this question is speculative, Qantas' 35,000 Australian employees would welcome a comprehensive and categorical answer.

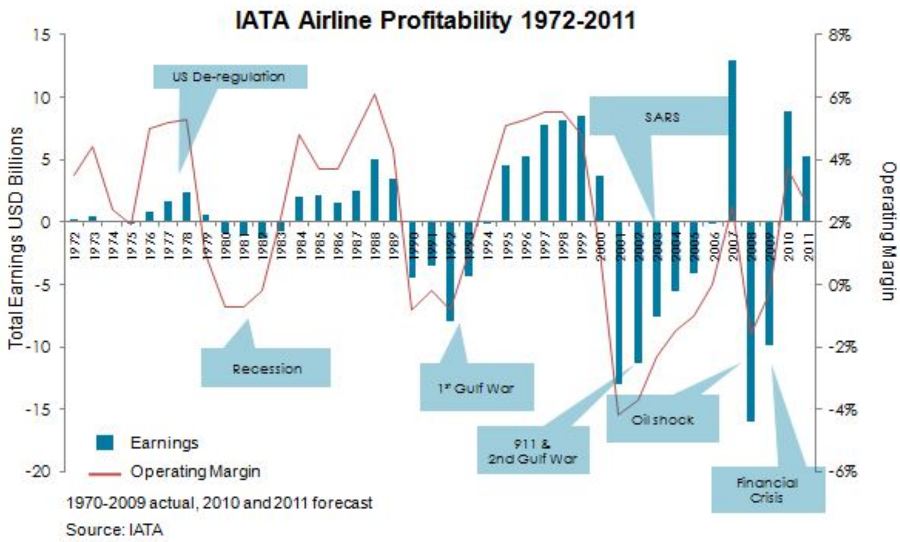
Qantas financial performance: Profitable ten years



Qantas Group's performance has been superior in spite of economic and environmental turbulence in the past ten years, in both revenue and profitability. The Group has been cutting the number of full-time employees and overall staffing expenses in recent years, while the airline's management has busily rewarded itself.

Qantas has publicly rejected employees' demand for secure Australian Jobs. Alan Joyce recently said:

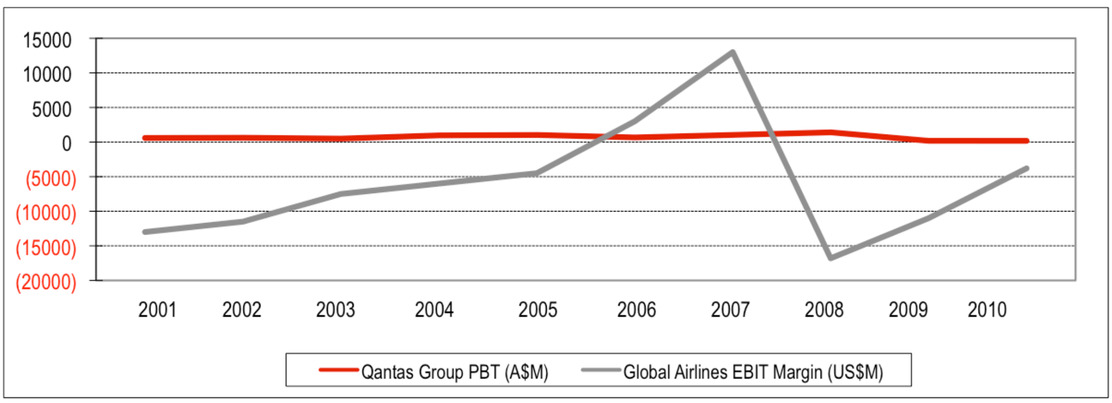
> *"They (employees) are demanding a guarantee of job security, and in effect, a veto on change… Jobs at Qantas have been historically secure. I understood people wanted job security, but it is no more in my power to guarantee jobs in writing than to promise that Santa will swing by December 24."*[ii]



Qantas' financial performance should be considered in the context of global airline profitability – see above graph - from 2001 to 2010. Across the board, positive earnings were only recorded in two years (2007 & 2010) out of ten. Qantas Group, however, remained generally profitable when most of international carriers were struggling to keep the balance sheet in the black.

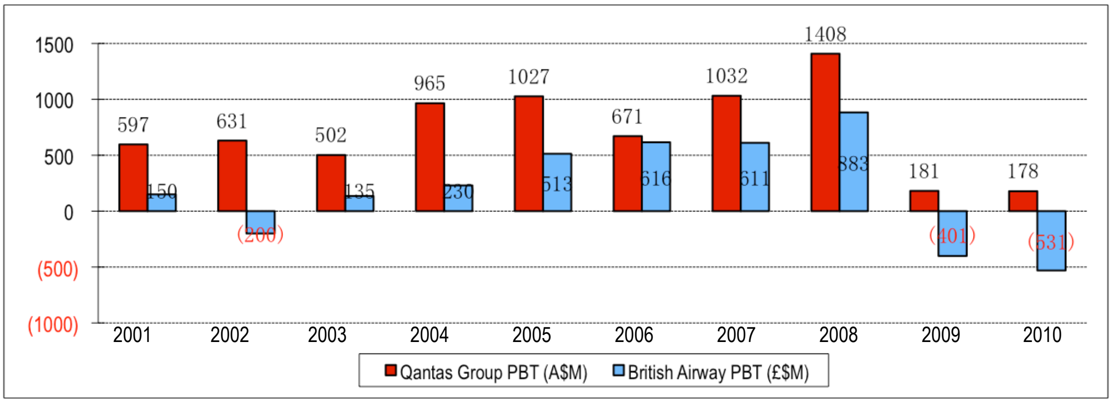
Figure 1.1 below compares Qantas Group's performance in the last ten years with the global figures. Despite the difference in benchmark used for the two groups of figures (Profit Before Tax & Earnings Before Interest and Tax), and the difference in currencies used, it is clear that Qantas's were making stable profits since 2001 compared to its competitors.

Figure 1.1: Qantas Group Statutory Profit Before Tax v Global Airline Industry EBIT 2001-2010[iii]



Another comparison was made between British Airways and Qantas Group. Figure 1.2 shows the changes in Profit Before Tax of both airlines over ten years, in which Qantas outperformed the British flag carrier.

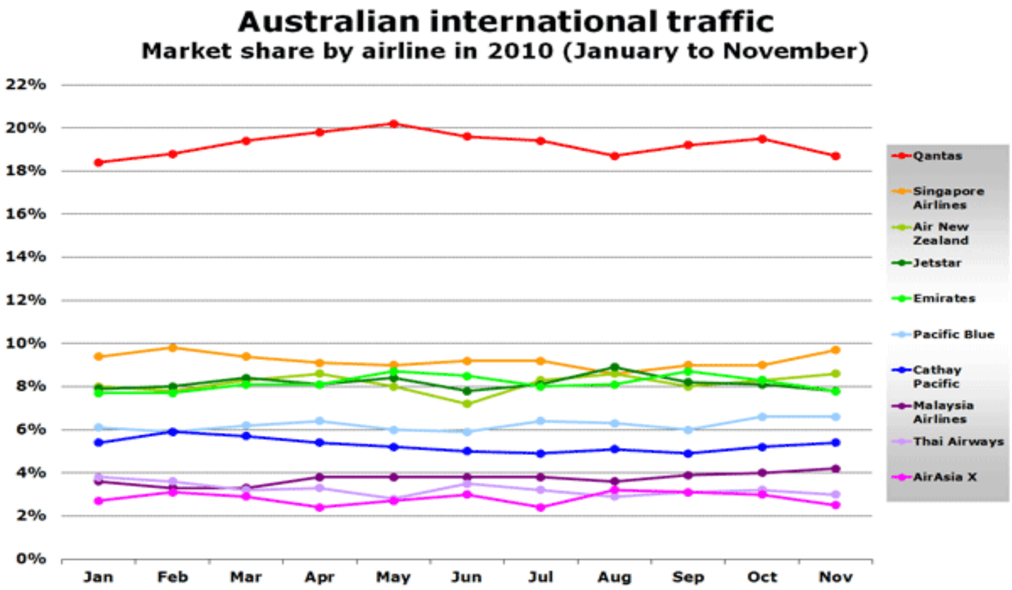
Figure 1.2: Statutory Profit Before Tax: Qantas Group v British Airways 2001-2010[iv]



Stable market share in domestic & international markets

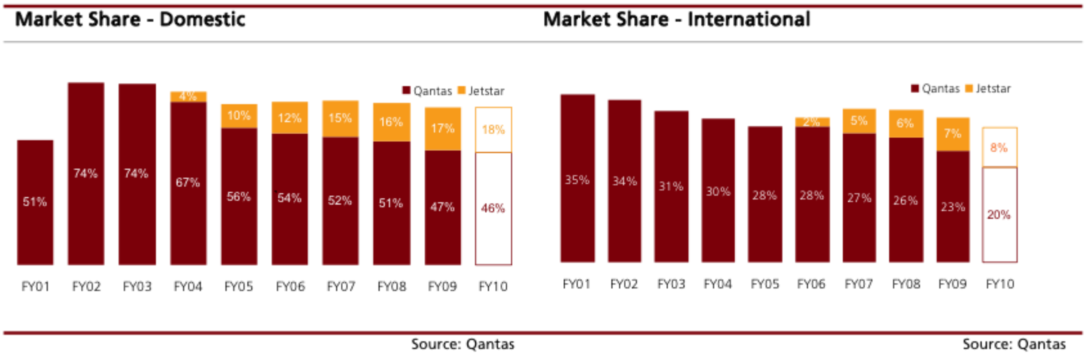
Qantas has dominated the domestic & international markets in the last ten years. Figure 1.3 demonstrates Qantas International is well ahead of other carriers throughout 2010.

Figure 1.3 Qantas International is still dominating the long-haul market[v]



Another group of figures (as shown in Figure 1.4) has drawn a broader picture of Qantas Group's changes in both domestic and international market share:

Figure 1.4 Changes in Qantas Group's market share – F2001-2010[vi]



Qantas Group's (Qantas and Jetstar) domestic market share was 64%, with a 28% market share in the international market in 2010.

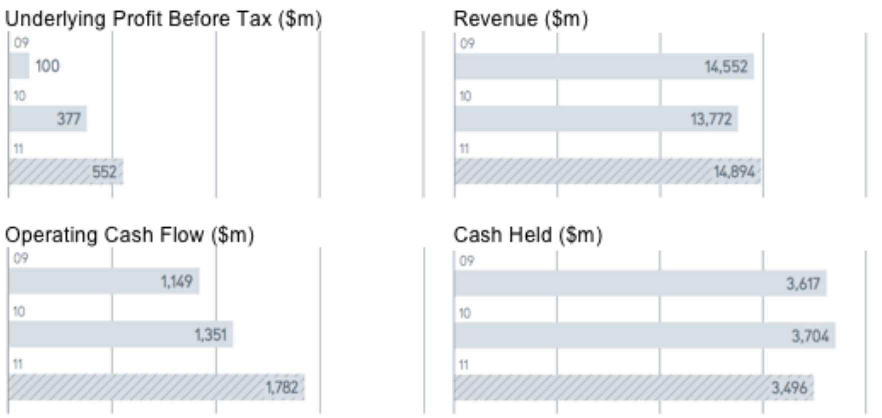
The group's domestic market share rose rapidly in 2001 from 51% to over 74% in 2002, and it remained over 70% in the next three years, followed by a stable period of 66%-67% between 2005 and 2008. It remains strong in the post-GFC economy, with a 64% market share by 2010.

The Group's international market share declined from 35% to 28% for the first 5 years since 2001, and it rose again due to the emergence of Jetstar international routes. In 2008 the combined international market share reached 32%, and it kept its dominance with a 28% market share by 2010.

Turbulence in the Group's market share is minor compared to the turbulence in global airline performance in the past ten years.

Falling market share of Qantas Domestic and Qantas International were greatly caused by the emergence of Jetstar, which is part of the Group's growth strategy.

Qantas Financial Information over 3 Years



Source: Qantas Annual Report 2011

From 2009 to 2011, Qantas' revenue was approximately $14 billion, with a substantial cash reserve of around $3.5 billion.

In terms of its profitability over the 3-year period, Qantas' underlying profit before tax grew from $100 million to $552 million, a five-fold increase. Its operating cash flow also experienced a 55% increase to about $1.8 billion.

In the face of increased competition, the carrier has maintained its positive outlook every year after the GFC. Far from experiencing a crisis, the airline has borne the impact of various natural and economic disasters very well.

This year the Qantas Group more than doubled its net profit, notwithstanding an estimated AUD$224 million in lost revenues and customer care costs as a result of the earthquake in Christchurch, Queensland floods and cyclones, the earthquake and tsunami in Japan, and volcanic ash episodes.

Key figures and results include:

- **Revenue $14.9 billion, up 8 %**
- **Underlying Profit Before Tax: $ 552 million, up 46 %**
- **Statutory profit after tax: $249 million, up 115 %**
- **Operating cash flow: $1.8 billion, up 32 %**

- **Capacity up 7 %**
- **Net passenger revenue up 10 %**
- **Net freight revenue up 3 %**
- **Ancillary passenger revenue up 50 %**

The Qantas *Frequent Flyer Program* is now the largest and most popular airline loyalty program in the Southern Hemisphere. Revenue posted by the program was $1,054 billion for 2010, with 7.9 million members as at June 2011. The program yielded a stunning $133 annual profit. (This made Qantas No.4 among global airlines in ancillary revenues, as at May 2011[vii].)

In the airline's own words:

> *"In 2010/2011 the Qantas Group reported a strong result despite a number of significant challenges, with all segments of the Group profitable." (Qantas Annual Report 2011)*

Nonetheless, the airline contends that Qantas International is a significant loss-making business. Qantas has to date not agreed to a transparent and confidential audit process to be conducted by an independent major accounting firm. Until such an audit takes place, the TWU cannot accept that funds from Qantas International are not being used to make the financial performance of Jetstar more impressive.

5 Section Five

Executive Remuneration

Senior Qantas executives are the most obvious beneficiaries of the Qantas Group's performance.

Qantas Chairman Leigh Clifford received a greater than 50 per cent board fee increase since 2008. Richard Goodmanson received a 38% board fee rise since 2009.

Apart from contracted annual remunerations, Qantas executives also enjoy payment packages with other short / long-term and benefits, including performance & share-based payments. Four Qantas executives carried away almost $53 million in four years.[viii]

4 executives, 4 years...

Total Remuneration	2008	2009	2010	2011	Sub-total
Leigh Clifford - Chairman	411947	612507	611000	635000	**2270454**
Alan Joyce - CEO	5099201	3664363	2924000	5008000	**16695564**
Geoff Dixon - Former CEO	12171606	10704326			**22875932**
Peter Gregg- Former CFO	6180374	4882915			**11063289**

these 4 executives were paid $52,905,239 in 4 years

Current CEO Allan Joyce

Mr Joyce's fixed annual salary in 2011 is 384% higher than when he joined the Group in 2005, from $532,273 to over $2 million. Mr Joyce's current total remuneration is $5 million (pre-vested) - 71% more than last year.

Former CEO Geoff Dixon

Mr Dixon was controversially rewarded $12.2 million when he left the Group. In the same financial year in which the airline's profit was slashed by 88 per cent and 1750 jobs were axed. [ix]

Squeezed Employees

Qantas paid $14.4 million to eight executives in FY2011, a combined 62% pay rise. Instead of 40:1 ratio of CEO to worker salaries in Germany[x], at Qantas the ratio is as high as 140:1.[xi]

QANTAS TOP EXECUTIVES' REMUNERATION

Name	Position	2010	2011	Increases
Alan Joyce	Chief Executive Officer	$2,924,000.00	$5,008,000.00	71%
Bruce Buchanan	CEO Jetstar	$1,111,000.00	$1,413,000.00	27%
Gareth Evans	Chief Financial Officer	$109,000.00	$1,357,000.00	1145%
Rob Gurney	Group Executive Qantas Commercial	$1,015,000.00	$1,405,000.00	38%
Simon Hickey	CEO Qantas Frequent Flyer	$1,261,000.00	$1,406,000.00	11%
Jay Hrdlicka	Group Executive Strategy & Technology	N/A	$361,000.00	N/A
Lyell Strambi	Group Executive Qantas Operations	$1,234,000.00	$1,695,000.00	37%
Rob Kella	Qantas Chief Risk Officer	$1,258,000.00	$1,791,000.00	42%
	Total Executives Remuneration:	8,912	14,436	62%

**Source: Qantas Annual Report 2011*

QANTAS GROUND STAFF'S PAY

Qantas Ground Crew employed by Qantas fully owned company QGS	Annual Wage** as 1 June 2010	Annual Wage as 1 June 2011	Increases
Ground Crew 4	$46,119	$47,042	2%
Ground Crew 3	$38,961	$39,740	2%
Ground Crew 2	$37,441	$38,189	2%
Ground Crew 1	$36,300	$37,026	2%
Trainee	$35,097	$35,799	2%
Annual Wage Increase for Qantas Ground Staff:			2%

**Source: Qantas Ground Services Pty Limited Ground Handling Agreement 2009*
***Annual wages are baded on weekly wages x 52*

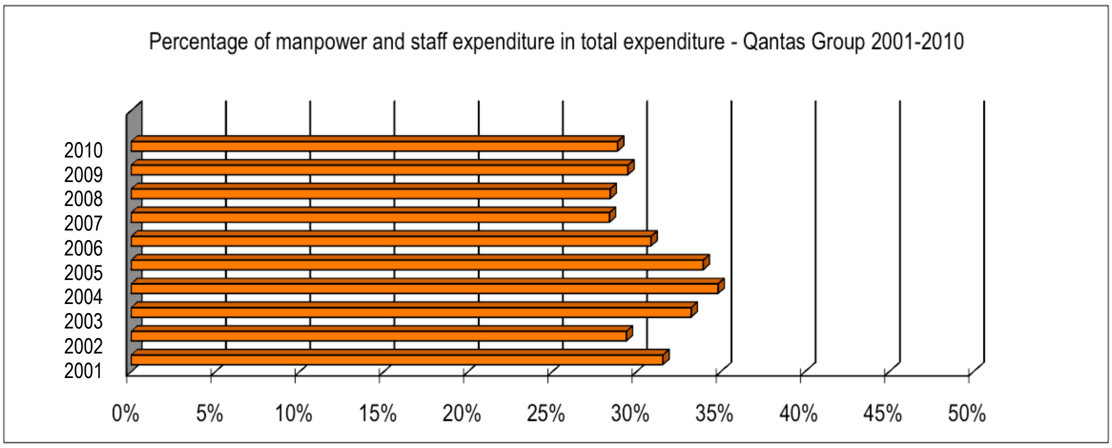
Shrinking Employee Expenditure and Full-Time Job Cuts

In the face of burgeoning executive payments, the graph below[xii] shows the percentage of Qantas Group's manpower and staff expenditure in its total expenditure. It revealed that:

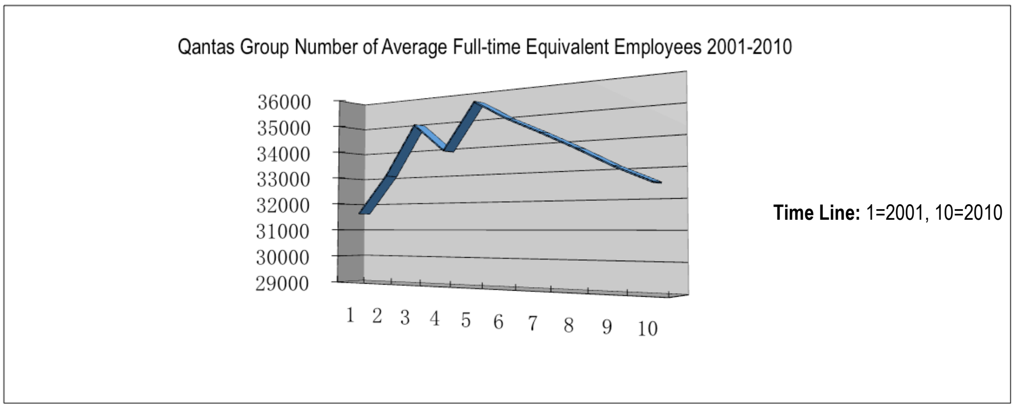
- A modest increase in ordinary staff expenditure (approximately 6%) was recorded for the four years following 2001, reaching a total of 34.84% in 2004.

- In spite of the introduction of Jetstar operations in the following years (Jetstar, Jetstar Asia, Value Air, Jetstar Pacific), the percentage of staff expenditure had shown a downward trend since 2004.

- By 2010, the percentage was 28.8%.



The Qantas Group has been cutting its full-time workforce since 2005 (as shown in figure below[xiii]). The number of full-time equivalent employees dropped year after year, down from 35,520 (2005) to 32,490 (2010). Approximately 3030 full time jobs were cut in the past five years.



6 Section Six

Air Navigation and Civil Aviation Amendment (Aircraft Crew) Bill 2011

The TWU supports the provisions of the *Aircraft Crew Bill* 2011, which seeks to establish a new condition on international aviation licences held by Australian airlines. The new provision, as understood by the TWU, would ensure that flight and cabin crew working on international flights operated by licence-holding airline must receive wages no less favourable than they would have received if they were directly employed by the airline in control of the subsidiary or associated entity.

The TWU and allied aviation unions are aware of the disturbing case involving Thai cabin crew working in Australia for base salaries of just 14,000 baht ($400 a month), rising to up to $30,000 a year with overtime and allowances. [xiv]

Jetstar's cabin crew from Thailand were employed on Tour East contracts that effectively set no limit on hours of duty, and offered base wages of just $258 a month, an extra $7 an hour when flying and no sick leave.[xv]

Tour East is a 37 per cent Qantas-owned labour hire company based in Bangkok, with over 300 staff. Staff members recruited by Tour East serving Jetstar routes have said they would "not be alert enough to respond" in an emergency because of fatigue, as they are often asked to work shifts up to 20 hours long. "I've had a couple of times where I've had a delay on the Bali flight and that 14-hour, 15-hour shift would turn into a 19-hour, 20-hour shift," one member said. [xvi]

A former flight attendant revealed that he quit his job at Jetstar because of safety concerns. The budget airline maintains it has rigorous safety standards but a clause in the contract for Singapore-based Jetstar crew states that cabin crew could be forced to work shifts longer than 20 hours… In July, The ABC's *Lateline* program revealed Jetstar's Thai-based crew signed bonded contracts. If they quit or were sacked, they had to pay up to four-and-half-months of their base wage.[xvii]

Outsourcing and Off-shoring

As the International Transport Workers' Federation stated in a study two years ago:

> *"Regions with expanding civil aviation markets, such as Asia, have experienced an increase in precarious forms of work and a decrease in stable employment in the region between 2000 and 2007, evidenced by increased job outsourcing in all regions, and a substantial increase in the percentage of short-term contracts (contract of less than one year), in most regions."*[xviii]

In this scenario, the ITF stated, low-cost carriers continually stretch the boundaries of what their employees and passengers will put up with. Local airports and service providers are also forced to lower their charges and to provide 'flexible' and cheap labour or face the threat of abandonment by such carriers.

These companies use their workers to the limit in their quest to lower running costs and to advertise the lowest fare. Sadly, many passengers are still taken in by the creative fare structures that obscure the true cost of many flights. And the drive to infinitely lower fares continues, despite concerns about its implications for both passenger and crew safety raised by trade unions.

ITF Stressed and Fatigued on the Ground and in the Sky, 2009, p. 5

The Transport Workers' Union has witnessed increasing use of contractors and labour hire workers in the Australian aviation industry. The tendency of outsourcing and off-shoring Australian jobs that the Union has seen, particularly at Qantas, has been at the expense of the Australian community and excellent safety standards.

The future may, in fact, already be known, in terms of the impact that increasing rationalisation and outsourcing has on aviation staff. A recent ITF survey canvassing aviation staff in 116 countries since 2001 discovered:

- Overtime work among cabin crew was strongly associated with mental fatigue. The conditions that were found to provoke severe fatigue in cabin crew caused them to have concerns about their ability to provide service to passengers and react to potential safety and security threats.

- Regions with expanding civil aviation markets, such as Asia, have experienced an increase in precarious forms of work and a decrease in stable employment in the region between 2000 and 2007, evidenced by:

  - Increased job outsourcing in all regions, and

  - A substantial increase in the percentage of short-term contracts (contract of less than one year), in most regions.

- Flexible work arrangements may be favoured under expanding industry conditions, as these provide new jobs. However, where there is growth in the industry it takes place in precarious forms of work.

- 80% of cabin crew reported an increase in flight hours between 2000 and 2007.

- Cabin crew and ground staff were the victims of significant increases in all types of abusive behavior between 2000 and 2007. Air traffic service workers suffered increased verbal abuse by other workers.

- Salaries, promotion prospects, and job security were lower in countries where there was no perceived option of an established collective bargaining process.

- Health and safety conditions got worse for all three groups in all regions between 2000 and 2007:

  - The general decline in health and safety conditions for cabin crew was accompanied by a worsening of conditions related to overwork, maternity protection and harassment, among other factors.

  - Among cabin crew, air traffic service workers and ground staff in all regions, half of all representatives reported that between 2000 and 2007 there were significant increases in the number of cases of work-related stress between 2000 and 2007.

  - cabin crew, ground staff and air traffic service workers all reported significant increases in work-related injuries and illnesses, pain, sleep disorders, and absenteeism from 2000 to 2007.

- Between 2000 and 2007, cabin crew had an average of only 6.5 hours of sleep per night during layovers. Chronic sleep deprivation presents implicit negative implications for worker, public and passenger safety, and would imply the potential for increased risks of accidents.

- Between 2000 and 2007, cabin crew spent up to 4 hours traveling one way from airport to hotel, or hotel to airport - time that was meant to be their relaxation and rest time between flights. Travel time to and from airports greatly reduced the number of hours cabin crew had for rest and sleep between flights.

- Salaries, promotion prospects, and job security were lower in countries where there was no established collective bargaining process.

ITF Stressed and Fatigued on the Ground and in the Sky, 2009, p.p. 8-9

The TWU is mindful and supportive of the Senate's recommendations in its recently completed inquiry into the *Transport Safety Investigation Amendment (Incident Reports) Bill* 2010, especially the following:

- *The committee recommends that, following the release of the International Civil Aviation Organization (ICAO) fatigue guidelines, the Civil Aviation Safety Authority (CASA) should expedite necessary changes and/or additions to the regulations governing flight and cabin crew fatigue risk management as a priority*
- *The committee recommends that, in the event that the International Civil Aviation Organization (ICAO) fatigue guidelines do not extend to cabin crew duty limits and fatigue risk management more broadly, the Government should amend the Civil Aviation Act 1998 to include cabin crew fatigue risk management under the Civil Aviation Safety Authority's (CASA) regulatory oversight.*
- *The committee recommends that the Civil Aviation Safety Authority (CASA) specify the type of training and amount of training required for cabin crew, including mandatory English language standards.*

Tasman routes operated by a wholly-owned Qantas subsidiary, JetConnect, allow Qantas to pay 600 staff, including about 100 pilots, in cheaper New Zealand dollars. This means the pilots receive about 30 per cent less than their Australian counterparts, with the remainder of the workforce paid about 40 per cent less.

In the context of current disputation at Qantas, it is submitted that substantial change is required to the attitudes of Qantas senior management for there to be any realistic means of avoiding protracted disputes, with flow-on effects for Qantas' corporate reputation.

In an analysis of the establishment of Virgin Blue (VB) and Jetstar (JS), Professor Greg Bamber stated the following:

> *Although VB primarily used (South West Airlines) SWA as a model, for JS Qantas sought to select the best features from leading (low cost carriers) LCCs around the world and apply them to the Australian market. It aimed to adopt the efficiency of Ryanair, the branding of easyJet, the innovation of JetBlue, and the customer service of SWA (Joyce 2004).*
>
> *Both carriers introduced features used by LCCs in the United States and Europe, including no interlining of passengers' baggage. JS introduced a twenty-five-minute flight turnaround. It also adopted "freestyle" seating (although subsequently introduced staggered boarding). In contrast, VB allocates seats in advance, which is more popular with passengers. Both LCCs try to implement a thirty-minute flight "close out" notion, though VB is more flexible about its application. During the early phase of its operations, JS's stricter policy caused irritation among passengers, which led to some negative publicity and prompted JS to soften its stance in this context.*

In terms of the to industrial relations by Virgin and Qantas/Jetstar, Professor Bamber asserted:

> *From its inception, VB invited union involvement. In doing so it attempted to legitimize the employment contracts it was offering to employees; foster trust between the airline, employees, and their unions; and avoid union recognition conflicts that may have arisen if union representation had been denied. Unlike Qantas, VB limits its industrial relationships to three unions. It wanted to deal with unions that would support flexible work practices and broader job classifications and would not seek to enforce the occupational demarcations that prevail in legacy carriers. Consequently, the Flight Attendants' Association of AustraliaDomestic/Regional Division (FAAA) represents cabin crew, while the Australian Federation of Air Pilots (AFAP) represents pilots. The Transport Workers Union (TWU) covers the largest proportion of eligible VB employees, including pit crew, engineering, and "guest services." ...*
>
> *JS established different labour relations foundations to its parent by using former Impulse arrangements, several of which were non-union agreements. JS has since negotiated new agreements with most occupational groups, but they are broadly similar to the former Impulse contracts. Qantas hoped that the lower-cost culture of Impulse would make it easier to negotiate low-cost agreements with employees and unions than at Qantas, where they are accustomed to more generous benefits in terms of working hours, wages, and conditions.*
>
> *Since JS was developed from Impulse, it has unionized and non-unionised occupational groups. The only unionized employees are cabin crew, 85 percent of whom are members of the FAAA, and ground staff, who are represented by the ASU. Ramp and baggage handling workers are represented by the TWU, but JS outsources these processes to a Qantas subsidiary. For non-unionized employees JS maintains "works councils" inherited from Impulse to facilitate consultation.*
>
> *Gregory J. Bamber et al, "Low-Cost Airlines' Product and Labor Market Strategic Choices: Australian Perspectives", Labor and Employment Relations Association Series: Proceedings of the 58th Annual Meeting, 2006*

An Alternative Path – Southwest Airlines

It is of course open to Qantas to learn from the experience of Virgin and of US-based Southwest Airlines. The following comments have been drawn from a separate analysis by Professor Bamber.

> *At 90 years old, Qantas is considered one of the most successful "legacy" airlines in the world. Legacy airlines generally reflect militaristic traditions of command-and-control. But partly because of this adversarial approach, legacy airlines like Qantas do not find it easy to achieve trust and high productivity from their workers.*
>
> *Adding to this tension is the tendency to outsource, restructure and cut employment costs – highlighted in Qantas's move to base staff overseas and outsource some maintenance work. This reflects Qantas's aim to cut costs in the face of rising fuel prices and tougher competition, but has left groups of Qantas staff increasingly concerned about their pay and job security.*

In contrast, Southwest – a much younger airline at only 40 years old – has developed a constructive culture of management and industrial relations that strongly values the views and interests of its employees.

Southwest was founded in Texas. Like Qantas, Southwest is also heavily unionised, with 88 percent of employees paying union dues. Nevertheless, Southwest adopts management strategies based on fostering partnerships, mutuality and staff engagement.

By 2007, Southwest had become the largest airline in the world by total number of passengers carried per year and it has been continually profitable. This is unusual in the airline industry, which often faces much turbulence, currently from rising fuel costs.

Southwest attributes much of this success to its constructive relationship with its workforce and their unions. The airline holds quarterly briefings with unions when its profits are reported and according to management, aims to treat its staff like "family".

The airline allows employees to choose their own representatives at company meetings and respects the legitimacy of the union.

In "Up in the Air", a Southwest executive explained the business logic behind the company's management style. "Our people know what the airline industry environment is like," the executive said. "I am confident they will do what it takes to keep Southwest on top. I would consider it a failure if we have to go to our employees and tell them to take a pay cut."

Southwest generally works through difficult issues in a form of joint problem-solving, in partnership with the workforce rather than via public slanging matches and threatening industrial disputes.

While many airlines have tried to copy aspects of productivity-enhancing innovations pioneered by Southwest – such as the fast turn-around of planes – its industrial-relations strategies have not become commonplace.

But this does not mean that Qantas cannot transform its management and industrial-relations strategy. After a period of much turbulence in the US, another large old legacy airline, Continental, succeeded in transforming its previously troubled management and industrial relations in the 1990s.

Sections of the Australian airline industry could learn much from the constructive dialogue, cooperative approach and mutual-gains-style practices that Southwest managers and unions adopt – and from Continental's transformation.

Prof Greg Bamber, "How Qantas can take the heat out of its union disputes", Monash University Opinion, 2011

7 Section Seven

Deteriorating Safety and Training

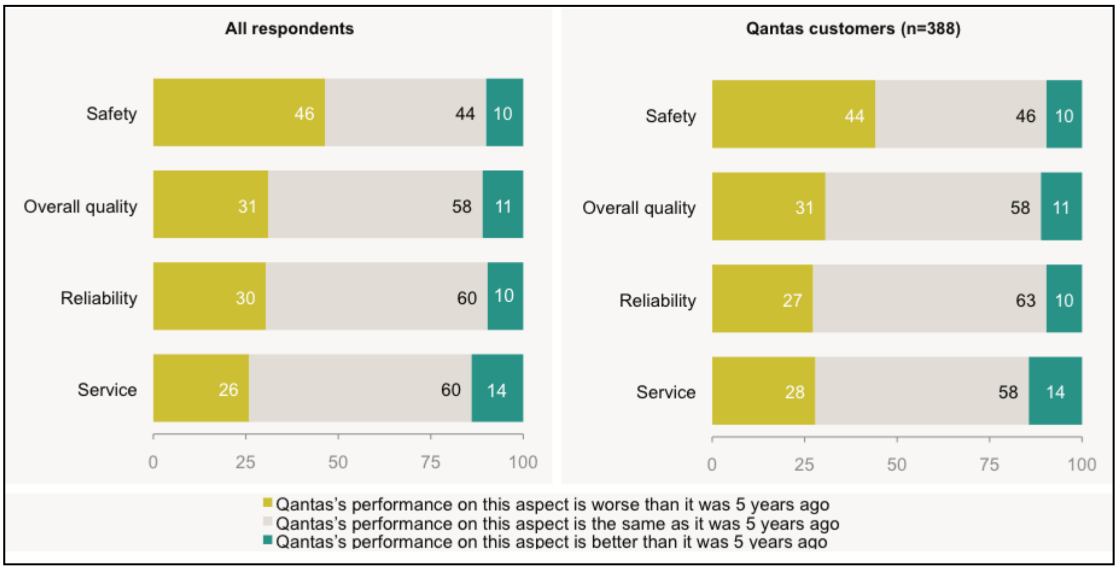
A major report prepared for the TWU by *Auspoll* in June 2011 focused on the traveling public's attitude to Qantas and its workplace relations. The survey results gave voice to increasing frustration towards declining safety standards and quality service provision at Qantas.

The report found that cost cutting and lax training and security standards have led to a loss of confidence in our national carrier, with nearly half of all respondents believing the company's safety performance was worse than it was five years ago.

Most Australians are proud to have Qantas as a national airline, but it's not enough to rely on past good faith when the brand is being damaged by falling standards of excellence.

Qantas was once the pride of our nation. It can restore that reputation by meeting the public's expectations that its staff are trained to the highest standards and work under the same conditions as all other Australians.

***Auspoll* Survey - Attitudes to Qantas and its workplace relations**
The *Auspoll* report, based on the survey results, presented public perceptions towards Qantas' operations ranging from in-flight services and safety performance to attitudes towards the airline's management. Key findings are represented in the following charts:



- 46 percent of all respondents agree that Qantas' performance on safety is worse than it was five years ago and 30 percent hold the same opinion on the airline's reliability.

- 31 percent of Qantas customers believe that overall quality has declined in the last five years and 28 percent see a decline in service.

- Very few people felt that the airline has improved. Almost everyone agrees that Qantas should adhere to the highest employment standards with employees working under acceptable Australian conditions and that it should be investing in quality training.

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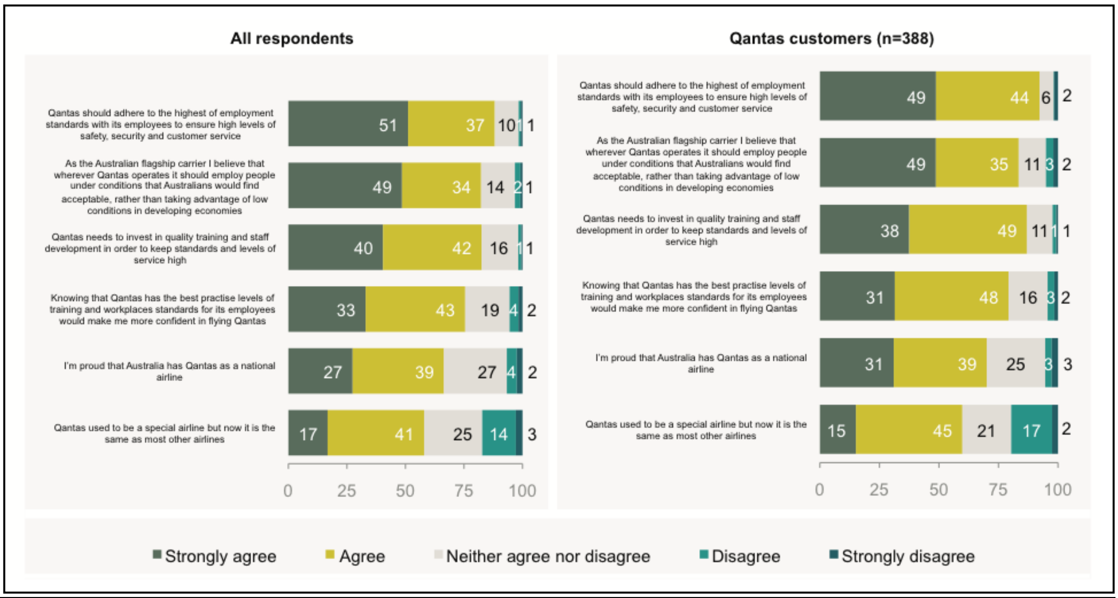


- Most people believe that knowing Qantas employs the best practice levels of training and workplace standards for its employees would make them more confident to fly with the airline.

- 88 percent of all respondents and 93 percent of Qantas customers believe the airline should adhere to the highest level of standards with employees to ensure high levels of safety, security and customer service.

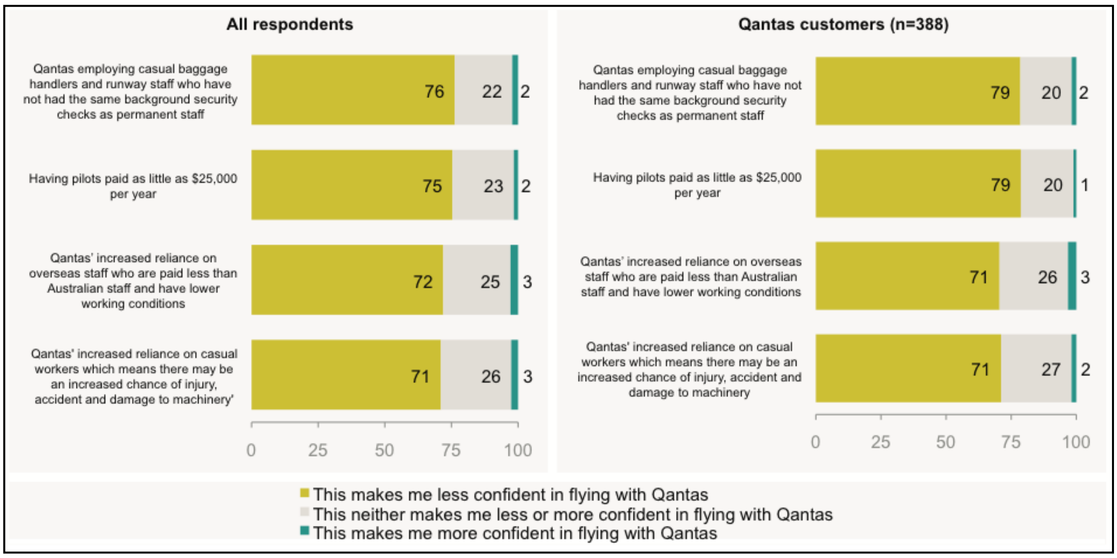
- 83 percent of all respondents either agree or strongly agree that as the Australian flagship carrier, Qantas should employ people under conditions that Australians would find acceptable wherever the airline operates.

- 82 percent of all respondents and 87 percent of Qantas customers think the airline needs to invest in quality training and staff development in order to keep standards and levels of service high.

- Two-thirds of respondents are proud to have Qantas as Australia's national airline

- the majority of respondents believed Qantas used to be a special airline but is now the same as most of other airlines

Over three quarters of all respondents as well as Qantas customers agree that cutting corners on security and poor pay and conditions for some workers means that people are less confident about flying Qantas.



71 to 79 per cent say the following issues are making them less confident about flying with Qantas:

- Qantas employing casual baggage handlers and runway staff who have not had the same background security checks as permanent staff.
- Pilots being paid as little as $25,000 per year.
- Increased reliance on overseas staff who are paid less than Australian staff under lower working conditions.
- Increased reliance on casual workers, resulting in increased chance of injury, accident and damage to machinery.

The *Auspoll* results illustrate increasing public concern over aviation safety standards. The public believes the national carrier's performance on safety has deteriorated in the past five years, with cost cutting and poor workplace conditions for employees diminishing the confidence they used to have in the airline.

The outsourcing of aircraft maintenance to non-Australian destinations is growing. The TWU understands that of the aircraft maintenance that takes place in Singapore, the ratio of licensed aircraft engineers to non-licensed engineers is 1:12. In Manila, the ratio is 1:22. The ratio in Australia is approximately 50:50.[xix]

In 2008 a Qantas aircraft returned from a C-check in Malaysia with over 90 active defects. Australian engineers who were sent to that facility as inspectors recorded over 500 maintenance errors. The list of errors was sent to airline management, but was discarded without action being taken.[xx]

Qantas: The world's safest airline?
Qantas, once the 'world's safest airline' is out of top ten listing. A report by the Air Transport Rating Agency (ATRA), released on August 29, 2011, found that the safest carriers in the world were mainly those based in Europe and the US. No Australian airlines featured in the top 10.[xxi]

List of Qantas incidents in recent years[xxii]:

2007

- **Feb 3**- A Los Angeles-bound Qantas airliner with flames shooting from of one engine is forced to return to Sydney airport after dumping fuel.
- **March 21** - Qantas internal safety review leaked, questions whether overseas maintenance meets company standards.
- **May 3** - QF26 en route to Auckland turned back to Los Angeles after a mid-air engine problem.
- **July 8** - Engine panel falls from QF415 upon landing at Melbourne.
- **July 11** - Tyre bursts on plane landing at Sydney domestic airport.
- **July 24** - More than 300 passengers are left stranded in Bali when a Bangkok to Melbourne Jetstar flight is forced to divert to Denpasar Airport after an engine failure.

2008

- **Jan 7** - Boeing 747 carrying more than 300 people loses power while approaching Bangkok, iced up drain fails three of four generators
- **Feb 20** - Landing gear fails on flight from Gladstone to Rockhampton.
- **March 25** - QF12 carrying 232 passengers aborts a takeoff at Los Angeles.
- **July 25** - QF30 carrying forced to make an emergency landing at Manila airport after a mid-air explosion tore a car-sized hole in the fuselage. An oxygen cylinder is the suspected source.
- **Oct 8** - Almost 50 people are injured, some seriously, when a Qantas jet, with 303 passengers and a crew of 10 bound from Singapore to Perth, plunges up to 2,000 metres over Western Australia.
- **Nov 14** - A Qantas jet carrying 278 passengers from Sydney to Shanghai turns back after a weather radar malfunction on board.
- **Nov 29**- A Qantas jet flying from Perth to Singapore has to turn back after the crew is forced to turn off one of its two engines when an engine oil warning light flashes. Qantas says inspections indicated a fault with the engine starter motor.
- **Dec 5** - A Qantas jet becomes bogged at Sydney airport as a towbar holding the aircraft fails and two of the jet's wheels become stuck in the grass beside the taxiway.
- **Dec 29** - A Qantas jet flying from Perth to Singapore is forced to return to Perth after the autopilot disconnects at 36,000 feet about 500km northwest of Perth. Air safety authorities say the circumstances were similar to the October incident over WA.

2009

- **Jan 28** - An A330 defence aircraft carrying about 80 Australian personnel and supplies to the Middle East is forced to make an emergency landing in Darwin after fumes filled the cabin. Three people were hospitalised and later recovered.
- **June 9** - Qantas announces it has received no safety directives for its A330 fleet following the May 31 crash of an Air France A330-200 that killed all 228 people aboard in the Atlantic Ocean.
- **June 10** - A fire in the cockpit of a Jetstar A330-300 carrying 186 passengers from Japan to Australia forces the pilot to make an emergency safe landing in Guam.
- **June 22**- Thirteen people are injured when a Qantas A330-300 carrying 206 passengers strikes severe turbulence over Borneo on a flight from Hong Kong to Perth.
- **Dec 2** - A Qantas jumbo, forced to make an unscheduled landing in Perth,

was the same plane involved in a midair explosion in 2008 that ripped a hole in its fuselage.

2010

- **Mar 4**- Cobham Aviation B712 at Ayers Rock, flight attendant fell out of door, received a fractured left arm, a sprained right wrist and a number of additional minor injuries.
- **April 6** – The return leg of a Qantas flight from Los Angeles to Melbourne was delayed by 15 hours because of a cracked cockpit window
- **Jul 11** - Qantas A388 near Katowice, unusual noise from cargo hold
- **Jul 25** - Qantas B738 near Sydney, anti-ice failure
- **Jul 28** - Qantas B744 near Hong Kong, engine surge
- **Aug 12** – Qantas B738 Port Hedland, mechanical malfunction
- **Aug 31** – Qantas B744 near San Francisco, uncontained engine failure
- **Oct 16** - Qantas A333 at Sydney, blue smoke from left hand wing
- **Nov 4** – Qantas A288 with 440 passengers and 26 crew near Singapore, alert was received by Singapore Changi Airport before the return of the plane, and passengers spent nearly twp hours circling thousands of feet in the sky after a mid-air ripped through an engine.
- **Nov 13** – An engine problem on a Qantas flight that was forced to turn back to Perth, which was carrying 234 passengers to Melbourne
- **Nov 15** – A Qantas B744 bound for Argentina has been forced to turn back after smoke was detected in the cockpit

2011

- **Jan 16 –** A Qantas aircraft carrying 244 passengers failed to take off to Los Angeles from Sydney airport after one of its engines suffered a “complete failure”
- **Jan 26** – A Qantas plane suffering engine troubles has been forced to land in Bangkok, hours after another plane plummeted 8000m during an emergency descent.
- **Feb 15** – A Qantas Airbus was flying from Singapore to London when oil supplies dropped on one of its four engines
- **24 Mar –** A Sydney based Qantas Airways' flight with 147 passengers and 11 crews from the Philippines has made a forced landing in Cairns after a fire broke out in the plane's cockpit
- **April 7** – A man walked through the exit doors in the Qantas domestic terminal and into a screened passengers-only area caused the evacuation at the Melbourne Airport terminal
- **May 20** – A Qantas jet heading out of Bangkok was forced to turn around following take-off last night after the pilot discovered problems with the engine.
- **June 3 –**A Qantas aircraft from Singapore to Brisbane with 344 passengers, could not fully retract the landing gear after departure from Singapore and returned to Singapore for a safe landing about 50 minutes after departure.
- **June 22**- A Qantas plane from Los Angeles to Brisbane with 367 people on board, was en route nearing Brisbane when a smell of smoke was detected in the cabin. The flight crew declared emergency and continued to Brisbane.
- **July 15 2011** - A Qantas jet from Johannesburg to Sydney with 355 passengers, was en route about one hour into the flight when the crew needed to shut the #3 engine down. South Africa's Springbok rugby team captain who was on the flight, said that there was a loud bang, the captain

announced engine failed and they needed to return to Johannesburg. The aircraft dumped fuel on the way back.

- **August 14** – A Qantas flight from Singapore to Brisbane burst the #7 tyre on takeoff from Singapore resulting in substantial damage to the aircraft.
- **August 15** - Qantas Airbus A380-800 from Sydney to Los Angeles was en route over the Pacific Ocean when the crew noticed the #2 engine was leaking oil.
- **September 3** – Qantas flight from Sydney to Buenos Aires with 264 people on board, crew on board reported engine problems, dumped fuel and diverted to Auckland.
- **September 23** - A Qantas Airbus A330-200 from Perth to Melbourne with 273 passengers, was departing Perth's runway 21 when the aircraft flew through a flock of birds in the initial climb ingesting a number of birds into the left hand engine, that emitted a loud bang and streak of flames as result. The crew leveled off at 4000 feet and returned to Perth's runway 21 for a landing about 25 minutes after departure.

NB: The above list of incidents is not exhaustive.

Airport and Airside Security

Any person who works in a secure area of an airport (such as baggage handlers) must display an Airport Security Identification Card ("ASIC")

Baggage handlers are usually issued with either a red permanent ASIC (Red ASIC) or a yellow visitor (Temporary ASIC). Red ASICs are only issued after background and security checks by the AFP and ASIO (AusCheck) have cleared the person.

It can take up to 3 months for full background checks for permanent ASIC cardholders. As at 30 June 2010, there were almost 130,000 validly issued ASICs recorded on the AusCheck database.

Visitors entering securing areas at airports with Visitor Identification Card (VIC) do not need to undergo background check required for ASIC.

In May 2011, the Commonwealth Auditor General recently reported that tens of thousands of airport security cards were not properly checked before being issued, including 40,000 visitor passes issued from one airport gate alone in 2009-10.

The Auditor General found there were "inherent vulnerabilities associated with having a large number of issuing bodies as well as the return of expired or cancelled cards and visitor management".

The TWU is concerned that temporary nature of these workers and the lack of background checks expose airports to potentially devastating criminal acts.

The Auditor General also found that mandatory standards are prescribed for ASIC issuing bodies, these standards are not being consistently met.

Due to system flaws and high levels of staff turnover, the TWU estimates that approximately one-quarter of security staff at Qantas-managed terminals have not been security checked.

In February 2010 Qantas operations were found to have major safety flaws across the Domestic Terminal at Sydney airport. A WorkCover report published in early

2010 identified poor communication and inadequate training of staff as exposing the airport to the threat of terrorism and other emergencies. It found “reported hazards are not being looked into/ investigated in a timely manner.” [xxiii]

The outsourcing that is damaging the safety and quality of the Australian aviation system is also evident in airport security. That security should itself be seen as an avenue for rampant cost-cutting in the post September 11, 2001 environment speaks volumes for the current, inadequate to aviation security.

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