QANTAS ENGINEERS' ALLIANCE
Australia's Largest Aviation Unions

AWU, AMWU, ETU Submission to the Senate Standing Committee on Economics

Inquiry into the Qantas Sale Amendment Bill

March 2014

QANTAS ENGINEERS' ALLIANCE
Australia's Largest Aviation Unions

BACKGROUND

The Aviation Engineers' Alliance is an alliance formed of the three major engineering unions in Australia. They are: the Australian Workers' Union; the Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union, known as the Australian Manufacturing Workers' Union (AMWU) and; the Electrical Division of the Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia, known as the Electrical Trades Union.

The three unions represent roughly 350 000 working men and women: across all major sectors of the Australian economy, in the manufacturing, oil, gas, engineering, rail, construction, contracting, electrical, gas and aviation industries. Our members are engaged in maintenance services work across all industry sectors. We cover many employees throughout the resources sector, mining, aviation, aerospace, electricity and gas, and building and construction industries. We also cover members in the technical and supervisory occupations in engineering and across these diverse industries. The three unions have members at all skill levels and classifications from entry level to degree.

The AMWU, AWU and ETU have represented Qantas workers for many decades and currently has approximately 1500 members who work at Qantas, most of whom perform aircraft maintenance.

QANTAS ENGINEERS' ALLIANCE
Australia's Largest Aviation Unions

OVERVIEW

The future of Qantas as a national carrier is of paramount importance to Australia.

This importance stems from the role of Qantas as a generator of skills, technology and investment, an employer and as a provider of transport and other infrastructure, especially in times of national emergency.

The Aviation Engineers' Alliance thanks the Senate Economics Committee in calling for this inquiry and providing stakeholders with this sole forum to express views on this important Bill.

To our disappointment, the Bill has been granted an exemption from a Regulatory Impact Statement, which is particularly disappointing considering the wide ranging and long term implications of the Bill.

The Alliance opposes the adoption of this bill and strongly urges the Committee to reject it.

A. Qantas performance

Qantas has been in significant financial difficulty for several years.

Qantas' latest financial report reported an after tax loss of $235 million.

Qantas has been experiencing the same sources of pressure, especially in the international arm of the business, as the broader Australian trade exposed sector; namely cost pressures, intense international competition and the impact of a persistently high Australian dollar. Due to these pressures, Qantas' credit rating has been recently downgraded to junk status by two of the three main credit ratings agencies.

In response to these pressures, Qantas sought financial support from the Government, in order to be able to raise additional capital finance, through either a debt guarantee or a removal of restrictions under the current *Qantas Sales Act 1992*.

It is worth noting that Qantas itself has stated that amendments to the Sale Act would not address the critical near term issues relating to domestic market irrationality.

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

B. Qantas Sales Act

Amending the Sales Act is the least palatable option available to meet the company's current difficulties.

Removing present regulation will effectively remove Qantas' status as the Australian national carrier.

Specifically, the Bill seeks removal of:

limits on the issue and ownership of Qantas shares (including limits on total foreign ownership and sub-limits on ownership by a single foreign investor and aggregate ownership by foreign airlines)

- other restrictions on the makeup of the board of directors,
- restrictions on the use of the name Qantas,
- restrictions on the location of the head office,
- restrictions on the place of incorporation and principal place of business.

The removal of these restrictions will allow Qantas to be split into two separate businesses – one domestic and one international.

In effect the international business will no longer be based in Australia, located in Australia, owned by Australians or primarily employ Australians.

The Government's chosen approach to address the challenges facing Qantas will see the demise of Qantas as a national carrier.

The Government is wilfully choosing the option that does the most damage to the nation, its economy and its security.

This option unfortunately is a misguided attempt to minimise the role of Government, in a sector and an industry that is globally dominated by national state backed carriers and is recognised to have a significant national security dimension.

The Alliance opposes the Bill for the following reasons which will be expanded upon in this submission.

1. Alternative – and more favourable – options available to the Government.

2. No 'level playing field' exists in aviation given the state of the irrationality present in domestic and global aviation markets.
3. Impact on Australian jobs.
4. Impact on safety.
5. Impact on skills.
6. National interest test.

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

1. ALTERNATIVE OPTIONS

The Government has at least two alternative mechanisms to support Qantas rather than a blind pursuit of a legislative amendments;

- A debt guarantee.
- An equity injection.

Either of these options would have been preferable to the current Bill.

A debt guarantee would have allowed Qantas to regain access to low cost finance overnight, while not impacting the Governments fiscal position. It would provide the airline with the support necessary to transition to a viable Australian based business model, while retaining its private ownership status. And it could have been done speedily, with no need for legislation.

Such a guarantee was rejected by the Government despite Qantas seemingly passing the so-called 'four pronged' test set down by the Treasurer, Joe Hockey for assistance, namely:

- "Firstly, has the parliament and the government imposed restrictions on that single business that are not imposed on other businesses in the same industry? And the answer in relation to Qantas is yes.
- "Secondly, is that business fundamental to the economy? Is it providing an essential service to the economy, such as that if it were to have significant issues that would inhibit its day-to-day operations it would have a detrimental impact on the economy? And in the case of Qantas, the answer is yes.
- "The third factor to consider is whether other governments are actively supporting other players in that industry. And the answer in relation to Qantas is yes.
- "The fourth hugely important test is (whether) the enterprise (is) trying to fix up its own balance sheet. Quite obviously, Qantas is."

  - *Joe Hockey, February 2014.*

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

Despite meeting these preconditions, Qantas' request was rejected by the Abbott Government.

The reason provided for rejecting Qantas' request was the apparent precedent it would set for other businesses.

This is an extremely poor argument. A debt guarantee would have been seen by financial markets, the business community and Australian society more broadly as being a justified temporary measure that was necessary to support the unique status of Qantas as the national carrier through a period of ongoing market irrationality.

The debt guarantee would have also acknowledged the true operations of the Australian aviation market that is currently being subject to predatory pricing activities of state owned enterprises.

It should be stated that Qantas has publicly agreed to pay for the provision of any debt facility by the federal government.

It is worth noting that such guarantees have been provided in the past during periods of market irrationality, such as to banks during the Global Financial Crisis.

It would not have lead to expectations that the Government was now in the business of providing ad-hoc debt guarantees to the business sector more broadly, and any such expectation could simply have been ended with a clear statement form Government.

An alternative option which has received little or no public attention was for the Government to directly provide equity to Qantas, rather than allow that equity to come from non Australian sources (as well as freeing Qantas from being based and operated in Australia) as this Bill does.

2. CURRENT AVIATION MARKET

A. A globally distorted market

The global aviation market is one that is categorised by massive government intervention and ownership. Despite recent moves to deregulation, aviation remains highly regulated and subsidised and subject to capricious government activity.

The reality of the aviation industry is that many international and domestic carriers around the world are partially or wholly owned by Governments.

- Of the top 20 ranked airlines in the world, 13 were part or wholly state-owned.
- 6 out of the 10 are majority or wholly owned by their national Governments.
- Emirates, which was voted the worlds best airline in 2013[1], is entirely owned by the Government of the United Arab Emirates.[2]
- Qatar Airways, ranked second in 2013, is also wholly owned by the Qatari Government.
- Singapore Airlines, number three on the list, is majority (54.5%) owned by the Singaporean Government.
- Of the top ten international airlines in this list, only 3 do not have substantial, majority or entire state ownership, one of which is Qantas which features at number 10.

Given this, there is not reason to believe that government ownership of an airline conflicts with that airline being successful.

Indeed, there is a strong argument to be made that the reverse is true.

However, it is not submitted that the Australian Government should re-nationalise Qantas.

The statistics however do help strengthen the case for alternative action in the areas of debt guarantee and small equity injections.

An equity injection, even a temporary one, would acknowledge the true state of market forces and would help support Qantas through the current difficulties.

Furthermore this would not be contrary to standard practices evident in the global aviation market.

---

[1] See: http://www.worldairlineawards.com/awards_2013/airline2013_top20.htm
[2] It is interesting to note that Emirates is Qantas' closest international partner airline.

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

For example the following government interventions in national carriers have occurred over the last decade:

- 2001 Air New Zealand received NZ $885million in capital.
- 2010 JAL received YEN350billion capital and a loan of YEN600 billion.
- 2010 Thai Airways received government funding to reduce its debt to equity ratio.
- 2010 Malaysia Airlines received US$600 share purchase from their government.

This occurred in a climate of significant investment in new airline capacity in the Middle East.

An equity injection would signal to financial markets and competitors that Qantas has the backing of the Australian Government.

This would have the effect of improving Qantas' access to private capital while allowing Qantas to undergo its current transition in a calm and ordered way, ensuring that it could maximise its contribution to the Australian economy while remaining our national carrier.

B. Domestic market irrationality

Since 2000 Qantas has faced increasing competition by other airlines on both its international and domestic routes.

Qantas' main international market share on routes in and out of Australia has fallen from 32.7% to 17.2% over the last decade, while at home it remains locked in a discounting war with Virgin Australia to protect its 65% market share of the lucrative domestic market.

What the above aviation ownership statistics indicate is that global aviation industry is being distorted by large, state owned corporations that are aggressively competing for market share and jobs.

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

The continued increase in domestic seat supply has destroyed the profit pool available to all carriers.

In the event that all competitors were privately owned competitors it could be argued that this is a good thing which provides lower prices to Australian consumers – however even such an instance may lead to investigations for predatory pricing by the ACCC.

However this is a moot point as such a market condition does not exist.

When considering the Australian aviation sector is vital to understand that Qantas is not being subjected to competition from efficient, market based, private operators but is being preyed upon by foreign and government owned corporations that are prepared to underwrite losses in a price war.

C. Virgin Australia's ownership structure

When considering the ongoing performance issues of Qantas, the ownership structures of its primary domestic competitor Virgin – a company that has been a key protagonist in the domestic pricing wars – must be reviewed.

The government has spoken of creating a so-called 'level playing field' in aviation.

It is worth noting that based on market structures and government ownership globally there is no such thing as a level playing field in aviation. The government's approach is therefore at best ideological and at worst recklessly naïve to the market forces and structure at work.

Such a level playing field plainly does not exist in Australia.

The market is clearly subject to strong foreign intervention which is having major impacts on the value of the domestic market and Qantas' ongoing viability.

Virgin's recent losses and injection of foreign capital ($300m) indicate the unsustainability of the domestic Australian aviation market.

Virgin's domestic arm is around 85% foreign owned with Etihad (19.9%), Air New Zealand (23%) and Singapore Airlines (19.9%) the major stakeholders. Etihad is

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

100% government owned, Air New Zealand and Singapore Airlines are both majority government owned.

D. Air Navigation Act

The *Air Navigation Act 1920* (ANA) requires Australian international airlines be 51% Australian owned in order to be categorised as a 'national carrier'.

The present law allows Virgin's domestic airline to be 100% foreign owned without placing it in breach of the ANA.

This kind of company structure, when used in a predatory pricing war is contrary to the spirit of the Act and clearly against the national interst.

The structure being utilised by Virgin to in effect cannibalised Qantas' business is anti-competitive, unsustainable and occurring with the aid of foreign governments prepared to sustain ongoing losses in the pursuit of market share with the end aim being the removal of a strong, well-respected competitor in Qantas.

Any future increases in the ownership of Virgin's domestic arm would merely amount to cash injections that cover the cost of Virgin's predatory price war.

Therefore any proposed increases in ownership would be subject to Foreign Investment Review Board deliberations and should be strongly viewed in such terms with the national interest test given primary importance.

In effect, if the Committee were to accept Virgin as the industry benchmark, Qantas is left in a position where the company needs to acquire a new (non Australian) state backer because of the Australian Government's refusal to support its own national carrier.

E. Excess capacity as a form of dumping

While not strictly dumping in the legalistic sense, the market behaviour of Virgin represents many of the characteristics of the illegal trade practice of dumping.

Under international law, Australia has the right to refuse or penalise the import of products into the domestic market which are sold below cost or at a loss with the sole

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

purpose of destroying the domestic market or the competitiveness of Australian industry.

The new and clearly excessive capacity being placed into the domestic aviation market at a loss is clearly not market driven. It is being done to undermine the competitiveness and viability of the Qantas group.

Due consideration should be given by the government to the clear parallels between the dumping of manufactured goods and the oversupply of seats into the domestic aviation market.

The government should not allow the destructive and calculated behaviour of sovereign owned competitors destroy Australian jobs and industries which, in a rational market, would be highly competitive and profitable.

3. AUSTRALIAN JOBS

Qantas is a major employer of Australians.

Qantas employs 33,265 people directly, including engineering and maintenance, customer services, catering, information technology services, baggage handling, emergency services and administration.

Qantas also indirectly employs 165,000 people – making it a major player in the Australian employment market.[3]

A. Job losses

While there have been significant job losses throughout Qantas generally, this submission will focus on job losses sustained in areas of Alliance union membership.

At its peak Qantas Engineering employed 6500 people.

This number has been reduced significantly to some 4000 people, with the majority of losses sustained in the group since 2005.

The rationale for these losses has been the consolidation of operations to a 'super centre' facility in Brisbane that has advantages of scale, modernity and technology.

[3] [3] Australian Government, National Aviation Policy, White Paper, December 2009, p.31

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

As a result significant job losses have been sustained at Victoria's Avalon and Tullamarine sites as well as in Sydney.

These job losses have been undertaken on the premise that relocation of heavy maintenance activity to Brisbane would ensure that such operations would be maintained in Australia, while providing substantial cost and efficiency relief to Qantas group generally.

It is clear that any removal of Section 3 of The Act would substantially reduce Qantas' commitment to maintaining heavy maintenance activity in Australia.

If Qantas were to adopt a similar hybrid domestic-international structure to that of Virgin it could be reasonably expected that any major foreign airline involved in the Qantas takeover would seek to absorb Qantas' maintenance activities into that of its own global supply chain.

It is worth noting that Virgin's heavy maintenance is performed in New Zealand, where a major shareholder has significant facilities.

Such a replication of activity in Qantas would see the loss of 4000 direct jobs.

In effect this approach is asking Australian workers to sacrifice their own jobs under the auspices of market and ideological purity that simply is not replicated around the world.

B. Wages and conditions

Importantly Qantas not only provides employment, but highly skilled jobs that enjoy decent wages and conditions.

It is worth noting that half of all Qantas employees earn less than $50,000 p.a.

Furthermore Qantas and Virgin enjoy roughly similar cost structures in respect to employee costs. Employment costs between the two Australian airlines are virtually the same, with Virgin staff costs 23.7% and Qantas staff costs 24.3% of the airlines' total operating costs.

This like for like comparison is the vital consideration when assessing the relative impacts of wages on competitiveness.

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

It is an inequitable and irrational comparison for wage costs to be assessed against lower cost, lower standard of living nations.

As a result it is clear that Qantas' wages structure is not the determinative factor in its competitiveness struggles.

4. AUSTRALIAN SKILLS

A. Skills incubator

There is no doubt that Qantas has always played a central role in supporting the development, generation and acquisition of crucial aircraft maintenance skills in Australia. The global aircraft Maintenance, Repair and Overhaul (MRO) industry (excluding defence) is estimated to be worth $66 billion (US)[4] and it is anticipated to grow strongly over the next two decades as passenger numbers increase (largely due to the growing middle class in Asia). The table below provides estimates of the regional skills shortage in the sector to 2030.[5]

Table A

Region	Total required by 2030	Annual training need	Annual surplus/ shortfall
Africa	58635	3769	-3169
Asia-Pacific	289510	19010	-14745
Europe	330522	22977	-8352
Latin America	101226	6881	-5566
Middle East	59905	4107	-2062
North America	325171	13586	15824
World	1164969	70331	-18071

Estimated average annual training requirement and shortfall by region, 2011-2030
(Source: ICAO, 2009)

4 Aircraft Repair Stations Association, 2013.
5 Submission to the Aviation Safety Regulation Review, by Ian Hampson, Doug Fraser, Anne Junor, Michael Quinlan, Sarah Gregson. Industrial Relations Research Center, School of Management, Australian School of Business, University of New South Wales. 2014.

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

Australia is well placed to take advantage of this growth as long as our high skill levels and focus on quality can be maintained. In addition, as the skills shortage increased, wages in the sector are expected to increase globally, lowering the relative cost of Australian wages and improving the Australian sector's competitiveness.

In an article for the School of Management at the University of New South Wales,[6] research associate Dr Dough Fraser notes:

"(the MRO industry) utilises the kind of highly skilled blue-collar labour that Australia has traditionally been good at developing. It offers many specialist areas of work where Australia's comparative wage costs don't seriously limit our competitiveness,

Above all, international authorities expect most regions of the world to fall well short of the training output needed to meet their own MRO requirements over the next decade."

However, the prospect of this entire industry, which itself is much larger than the operations of Qantas, is largely held hostage to the fate of Qantas as a national carrier.

Dr Fraser goes on to state:

"In effect, Australia's MRO training effort has been allowed to become hostage to the strategies and fortunes of a single company. If that company now can't look after itself, how is it going to look after the future needs of the Australian industry?"

The relationship between Qantas and the General Aviation MRO sector is similar to the relationship between the major automotive producers and the automotive supply chain sector, with a heavier emphasis on skills. The prospect of loosing Qantas as a national carrier not only places in jeopardy the future of the broader existing MRO sector, but it ensures that future opportunities for growth in the sector will not be realised in Australia. Professor Ann Junor of the Australian Business School at the University of New South Wales puts it as:

---

[6] Available at: http://knowledge.asb.unsw.edu.au/article.cfm?articleid=1854

"At the moment, Australia is the biggest components supplier to Boeing outside the US. Running down the capacity of our automotive and aero-skills training facilities is hardly the way to ensure our continued integration into this large global market."[7]

In addition, the article goes on to state:

"Junor predicts a dissipation of Australia's aircraft maintenance capability will have particular impact on the general aviation sector – regional airlines, commuter operators servicing fly-in fly-out, tourism ventures and the transport, freight and emergency services that support rural and remote communities. The major airlines may be able to rely on offshore maintenance but the general aviation sector cannot."

It is clear that the importance of Qantas as a key generator of skills and the key participant in Australia's broader aviation sector requires the Government to recognise issues of national importance with respect to the future of Qantas. It is not simply a matter of implementing policies that best serve the interests of Qantas as a business; the Government needs to implement policies that serve the national interest given the unique role that Qantas plays in Australian aviation.

In the case of Qantas' role in skills provision and support for the broader aviation sector, it is clear that in order for Australia to maintain a broader sector, develop the skills needed to take advantage of the sectors future growth and attract the MRO jobs of the future, Qantas needs to play a central role.

Any recognition of the broader national economic role that Qantas plays demands that Qantas' status as the national carrier be maintained. This is in direct conflict with the Bill currently under consideration.

B. Apprentices

Qantas has always been a strong employer of young people through its apprentice program.

Since 1927 Qantas has provided 7000 apprenticeships to young Australians.

The apprentice program has significantly diminished in recent years, with intake numbers dropping to 30 annually 2012 onwards.

[7] As above.

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

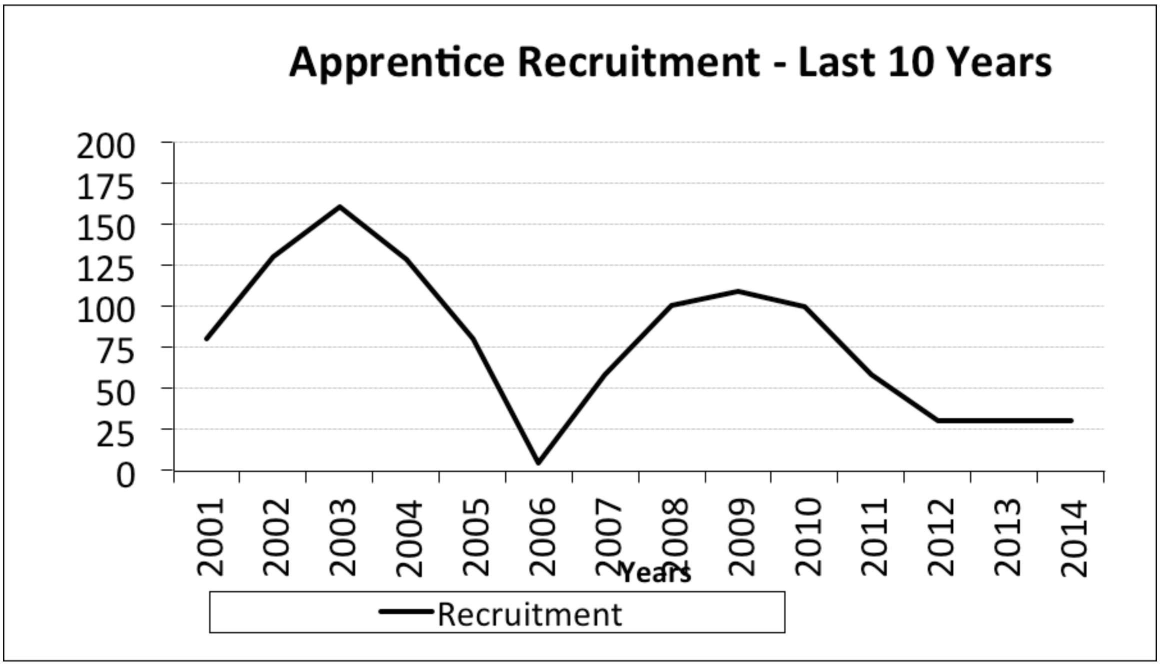
Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

QANTAS ENGINEERS' ALLIANCE
Australia's Largest Aviation Unions

It can be assumed that as cost pressures have mounted in Qantas due to ongoing market irrationality and competitor behaviour, the capacity for Qantas to hire young people has diminished substantially.

TABLE B



5. SAFETY

Qantas is recognised around the world for its excellent safety record. This record is in no small part the result of the hard work of maintenance engineers responsible for the upkeep of the Qantas fleet.

There are good reasons to believe that the added use of off shore maintenance services increases safety risks for passengers. In their submission to the Aviation Safety Regulation Review, the Industrial Relations Research Center at the University of New South Wales[8] analyses the safety impacts of offshoring maintenance work by major airlines. This submission outlines several areas that cause concern.

[8] Submission to the Aviation Safety Regulation Review, by Ian Hampson, Doug Fraser, Anne Junor, Michael Quinlan, Sarah Gregson. Industrial Relations Research Center,

The authors note:

"most aircraft operators (specifically including Qantas) acknowledge that their primary reason for sending maintenance offshore is the lower price, primarily due to much lower labour costs."

While not necessarily implying that safely will suffer as lower costs are sought, the submission goes on to explain why this may be the case. The authors go on to state:

"We have interviewed a number of people involved, in one way or another, with offshored maintenance. Interviewees have described how contract maintenance tends to be done to a price, and while such a contract may include specified repairs, the 'unscheduled' issues (discovery of unexpected cracks and corrosion) that always come up can cause problems, since they may be outside the scope of the contract. Engineering supervisors from the offshoring airline may uncover evidence of unsafe work necessitating rework. The result can be pressure to renegotiate the contract, but equally there can be pressure to conceal the faulty work, since it can cause the time the plane is out of service (a crucial cost item) to be extended. This can cause strained relations between the supervising engineers from the offshoring airline, and the contractor – but sometimes also between the engineers and their own employer.

Interviewees have also described the use of non-approved tools in foreign MROs, for example screwdrivers, angle grinders and pocket knives for paint removal – all practices which can scratch the aircraft skin, leading to fatigue fractures."

This evidence creates a very basic concern about the quality of safety and the degree of priority put on it by contractors. However, there are more reasons to be concerned. The submission notes that maintenance work performed offshore needs to be certified by engineers who hold a certification in the country where the maintenance is performed, not an Australian certification, as long as the engineer is an employee of the Aircraft Maintenance Organisation. The submission notes:

"This leaves the certification of maintenance and the release to service of an Australian registered aircraft hostage to the training and licensing procedures of

---

School of Management, Australian School of Business, University of New South Wales. 2014.

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

another country. We wonder how consistent this is with the Australian safety program, as well as ICAO requirements that the State of Registry be responsible for the safety of maintenance performed on aircraft even in another country (detailed below)."

Given that the primary reason Qantas seeks to off shore maintenance is to cut costs by employing cheap labour, and cheap labour is to be found in developing countries, it is of grave concern that safety performance will increasingly be determined by regulatory structures and institutions in countries where these structures are understandably not as well developed or monitored as in Australia. If we cannot trust tap water is safe to drink in developing countries, it is reasonable to hold concerns regarding the quality of safety when it comes to aircraft maintenance performed in these same countries.

The submission concludes:

"We therefore suspect that the supervision regime of offshored MROs (and the organisations to which they may outsource) cannot guarantee safety – or even 'compliance'.

Our interviewees have expressed to us the view that overseas inspections tend increasingly to focus on documented process rather than actual practice, rarely extend to the shop floor, and are content with 'paper' 'desktop' audits which may fail to uncover deleterious shopfloor practice."

In short, the increased use of offshore maintenance that will inevitably result from the passing of this Bill will put safety of Qantas passengers increasingly at risk. It is part of a long established trend that has seen the national interest aspects of the role of Qantas diminish over time. There was a time when safety, just like a skilled workforce, was seen as a goal in and of itself, rather than a factor to be considered in a cost/risk calculation aimed at maximising profits. The only mechanism which maintains some of those broader national interest goals regarding the role of Qantas is the very Act this Bill seeks to amend.

6. NATIONAL INTEREST

While difficult to quantify in hard terms, the national interest relevant to the future of Australia's national carrier is no less important in policy terms.

The decisions taken by other governments in the aviation market in terms of ownership structures and direct financial support clearly underlines the significance of aviation in the strategic considerations of all sovereign nations.

The future of national carriers is clearly at the centre of key strategic economic and security considerations.

During periods of national emergency it is vital that Australia can call upon a national carrier that is dependable and ubiquitous in the domestic and foreign aviation. markets.

Furthermore the above economic arguments detailed in this report related to skill and employment incubation should not be underestimated when assessing 'national interest'.

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au

CONCLUSION

Qantas has effectively said that the Government has a choice;

1. they can either chose to retain a national carrier by providing direct financial backing (equity or debt), just as other airlines enjoy, or:
2. Qantas needs to be freed of the Sales Act (and cease being a national carrier) to seek backing internationally.

On our view the former option is far superior to the latter because it retains Qantas' role as a central provider of skills in the industry (specifically aircraft maintenance), it ensures Qantas' continued exceptional safety performance, it ensures Qantas' role as an emergency civil carrier and it ensures over 30,000 jobs for Australians.

Paul Bastian – National Secretary
Australian Manufacturing Workers Union
Level 4, 133 Parramatta Road,
Granville NSW 2142
Phone: 02 8868 1500 | **Fax**: 02 9897 9274
Website: www.amwu.asn.au
Email: info@amwu.asn.au

Scott McDine - Assistant National Secretary
The Australian Workers' Union
Level 10, 377-383 Sussex Street,
Sydney NSW 2000
Phone: 02 8005 3333 | **Fax**: 02 8005 3300
Website: www.awu.net.au
Email: members@nat.awu.net.au

Allen Hicks – National Secretary
Electrical Trades Union
Suite 701, Level 7, 5-13
Rosebery Ave, NSW 2018
Phone: 02 9663 3699 | **Fax**: 02 9663 5599
Website: www.etunational.asn.au
Email: edno@etuaustralia.org.au