

# Chapter 1

## Referral of inquiry

1.1 On 6 March 2014, the Senate referred the following matters to the Rural and Regional Affairs and Transport References Committee (committee) for inquiry and report by 27 March 2014:

- (1) The committee must consider what initiatives can be taken by Government to ensure Qantas remains a strong national carrier supporting aviation jobs in Australia, including:
  - (a) a debt guarantee;
  - (b) an equity stake; and
  - (c) other forms of support consistent with wider policy settings.
- (2) That, in conducting the inquiry, the committee should consider:
  - (a) any national security, skills, marketing, tourism, emergency assistance and other benefits provided by a majority Australian-owned Qantas;
  - (b) the level and forms of government support received by other international airlines operating to and from Australia;
  - (c) the ownership structures of other international airlines operating to and from Australia;
  - (d) the potential impact on Australian jobs arising from the Government's plan to repeal Part 3 of the *Qantas Sale Act 1992*; and
  - (e) any related matter.

## Conduct of inquiry

1.2 The committee advertised the inquiry on its webpage and in *The Australian*. The committee received twelve public submissions and one confidential submission. The public were published on the committee's webpage and are listed at Appendix 1.

1.3 The committee held a hearing in Sydney on 14 March 2014. Appendix 2 lists the names and organisations of those who appeared. Details of the inquiry and associated documents including the Hansard transcript of evidence may be accessed through the committee webpage at:

[http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Rural\\_and\\_Regional\\_Affairs\\_and\\_Transport/Qantas\\_Jobs](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Qantas_Jobs)

## Background

1.4 On 27 February 2014, Qantas posted an underlying before tax loss of \$252 million and a statutory loss after tax of \$235 million for the six months ending 31 December 2013.<sup>1</sup> Qantas Chief Executive Officer (CEO), Mr Alan Joyce stated that the underlying loss of \$252 million was in line with guidance and reflected fundamental changes in the Australian aviation market.<sup>2</sup>

1.5 Mr Joyce stated that the financial results were unacceptable and that comprehensive action would be taken in response. While announcing that the airline would accelerate its Qantas Transformation program to achieve a \$2 billion in cost reductions over three years, Mr Joyce stated that:

Australia has been hit by a giant wave of international airline capacity, with a 46 per cent increase in competitor capacity since 2009—more than double the global increase of 21 per cent over the same period.

The Australian domestic market has been distorted by current Australian aviation policy, which allows Virgin Australia to be majority-owned by three foreign government-backed airlines and yet retain access to Australian bilateral flying rights.

Late last year, these three foreign-airline shareholders invested more than \$300 million in Virgin Australia at a time when, as Virgin Australia reported to the ASX on 6 February, it was losing money. That capital injection has supported continued domestic capacity growth by Virgin Australia despite its growing losses.

Qantas has been undertaking its biggest ever transformation over the past four years, cutting comparable unit costs by 19 per cent over four years, but this is not enough for the circumstances we face now.<sup>3</sup>

1.6 As part of its program to achieve a \$2 billion in cost reductions, Qantas announced that the airline would reduce employee numbers by the equivalent of 5000 full-time positions over the next three years.<sup>4</sup> The measures to reduce employee numbers will include a reduction of management and non-operational roles by 1500 and the closure of the Avalon maintenance base. As part of the workforce changes,

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1 Qantas Airways Limited, 'Qantas Group Financial Results' *Media Release*, 27 February 2014, <http://www.qantasnewsroom.com.au/media-releases/qantas-group-financial-results?print=1> (accessed 6 March 2014).

2 Qantas Airways Limited, 'Qantas Group Financial Results' *Media Release*, 27 February 2014, <http://www.qantasnewsroom.com.au/media-releases/qantas-group-financial-results?print=1> (accessed 6 March 2014).

3 Qantas Airways Limited, 'Qantas Group Financial Results' *Media Release*, 27 February 2014, <http://www.qantasnewsroom.com.au/media-releases/qantas-group-financial-results?print=1> (accessed 6 March 2014).

4 Qantas Airways Limited, 'Qantas Group Strategy Update', *Media Release*, 27 February 2014, <http://www.qantasnewsroom.com.au/media-releases/qantas-group-strategy-update-2?print=1> (accessed 6 March 2014).

Qantas announced that the wage freeze for executives implemented in December 2013 would continue and be extended to all Qantas Group employees.<sup>5</sup>

1.7 In addition, Qantas confirmed that 50 aircraft would be deferred or sold while Qantas Group's planned capital expenditure net of operating lease liability will be reduced to \$800 million in both the 2015 and 2016 financial years with a total reduction of \$1 billion.<sup>6</sup>

### **Acknowledgement**

1.8 The committee thanks those organisations and individuals who made submissions and gave evidence at the public hearing.

### **Note on references**

1.9 References to the Committee Hansard are to the proof Hansard. Page numbers may vary between the proof and the official Hansard.

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5 Qantas Airways Limited, 'Qantas Group Strategy Update', *Media Release*, 27 February 2014, <http://www.qantasnewsroom.com.au/media-releases/qantas-group-strategy-update-2?print=1> (accessed 6 March 2014).

6 Qantas Airways Limited, 'Qantas Group Strategy Update', *Media Release*, 27 February 2014, <http://www.qantasnewsroom.com.au/media-releases/qantas-group-strategy-update-2?print=1> (accessed 6 March 2014).

