

Coalition Senators' Dissenting Report

1.1 As a nation we are increasingly reliant on efficient, inexpensive and convenient aviation services. This is hardly surprising when you consider that our population is spread over such a vast land mass.

1.2 Aviation is a dynamic industry that has faced many challenges over the past decades since the introduction of the QSA in 1992. In Australia the market is highly competitive and presently capacity is saturated which has resulted in lower yields and affected the profitability of our carriers.

1.3 From a passenger's perspective, the competitive tension between Qantas and Virgin Australia has resulted in a high quality product being delivered at a lower price with increased destinations and often with more convenient schedules.

1.4 Both Virgin Australia and Qantas are clearly excellent Australian airlines which contribute significantly to the economy, regional communities and tourism and have both shown a willingness to assist Australians in times of crisis.

1.5 Airlines also operate in an environment of increasing higher fuel costs, a relatively high Australian dollar compared to previous decades and significant capital expenditure requirements in an effort to operate the most modern and fuel efficient aircraft fleets.

1.6 Additionally, the carbon tax has added significantly to the costs of operating Australian domestic airlines. In the 2013-14 financial year the carbon tax drove up operating expenses at Qantas by \$106 million and \$48 million at Virgin Australia. It also cost Regional Express (Rex) \$2.4 million.

1.7 The cumulative effect of all of these factors has led to an environment where both Australia's major domestic carriers have announced first half losses; Qantas of \$252 million and Virgin Australia of \$84 million.

Matters for consideration

Jobs

1.8 Submissions from the various unions which represent Qantas' workers were concerned about the number of job losses announced by Qantas and the potential for further job losses in the future.

1.9 It should be noted that Qantas has confirmed that the 5,000 job losses announced earlier this year were, in the company's view, required irrespective of any decision taken by the Government to assist the airline.

1.10 Additionally, in the public hearings Alan Joyce, Chief Executive Officer of Qantas, confirmed that Qantas has made no decisions on further staffing reductions should amendments to the Qantas Sale Act 1992 be implemented. Alan Joyce noted

in the public hearings that it is an inability to compete on a level playing field which may lead to a further reduction in staffing levels within the Qantas Group.

1.11 It has been argued that changes to the Qantas Sale Act 1992 would lead to a massive offshoring of Qantas' workforce. It is the case that should Part 3 of the Qantas Sale Act 1992 be repealed as is proposed, Qantas will be given greater flexibility in its business structure. It will be governed by the same regulatory framework that applies to Virgin Australia, Rex and other Australian carriers. However, this does not inevitably mean that Qantas' workforce will significantly shift offshore.

1.12 Aviation in Australia is highly regulated with various pieces of legislation affecting the operations of Australian airlines. The Air Navigation Act 1920, Australia's bilateral air services agreements with other countries, immigration laws, the Corporations Act 2001, the Foreign Acquisitions and Takeovers Act 1975 and aviation safety regulations place certain restrictions on the operation of airlines. For example, the Air Navigation Act 1920 requires that international Australian airlines are majority Australian owned and the designation criteria determined by the Government and connected to our international air services agreements require that:

1.13 At least two-thirds of Board members are Australian citizens;

- The Chairperson is an Australian citizen;
- The airline's operational base must be in Australia;
- The airlines head office must be in Australia; and;
- The airline is substantially owned and effectively controlled by Australians.

1.14 The Government has confirmed that it has no intention to change the current designation criteria.

1.15 Additionally, it should be noted that the practical realities of operating an airline in Australia will mean that a significant proportion of Qantas' workforce will always have to be based in Australia. When asked whether majority foreign ownership would result in significant offshoring of jobs, Mr Ian Thomas, Managing Consultant, CAPA Consulting, stated:

I do not think so, to be honest. At the moment, some 90 per cent of Qantas's jobs are in Australia. That is out of necessity because this is where a large part of their operations are.

1.16 Perhaps the best proof of the proportion of employees which would be required to be in Australia is to assess Virgin Australia's workforce of which 95 per cent is based in Australia. Similarly, Rex employs a large number of Australians, particularly in regional areas, despite the fact that it is majority foreign owned.

Safety

1.17 It was repeatedly alleged in submissions and during the public hearings that should amendments to the Qantas Sale Act 1992 be considered, the safety of Australian airlines may be compromised. Coalition Senators reject this contention.

1.18 Qantas has also resoundingly rejected this contention and provided evidence to the Committee in response to specific incidents that were raised in submissions.

1.19 Safety is undoubtedly a core responsibility for all airlines and Australian airlines have a proud reputation for safety, irrespective of the location at which maintenance work is undertaken.

1.20 Additionally, the Civil Aviation Safety Authority, Australia's aviation safety regulator, has responsibility for ensuring that maintenance work is undertaken to the high standard required in our safety regulations.

Options for consideration

1.21 At the outset, it is important to acknowledge that both Qantas and Virgin Australia are private companies. Their Chief Executive Officers and their management are directly responsible to their Board who are ultimately responsible to their shareholders. The strategic decisions and direction of private companies are a matter for those companies and not for the Parliament, the Government or this Committee to determine.

1.22 Additionally, when considering any form of assistance for one Australian airline which is operating in a highly competitive market with other Australian carriers, the potential consequences of any action need to be carefully considered to avoid further market distortion.

1.23 As noted by Mr Ian Thomas, Managing Consultant, CAPA Consulting, in the public hearings:

In considering the future of Qantas, there are legitimate questions as to whether commercial forces should be allowed to prevail – in other words, whether it should be left to management to resolve internal issues or indeed whether there is a role for government in the process. The issues of balancing government support and potential market distortions in a pro-competitive environment are extremely difficult and fraught with risk.

1.24 Coalition Senators can appreciate the challenging circumstances facing Qantas and acknowledge the difficult decisions that the Board and management have taken to reduce staff levels and cut costs.

1.25 After considering the above factors, Coalition Senators believe that the most appropriate form of assistance for Qantas is to repeal Part 3 of the Qantas Sale Act 1992 as is proposed in the Qantas Sale Amendment Bill 2014. This will harmonise the regulatory framework that all Australian airlines operate in and allow Qantas to compete on an even footing.

1.26 As noted by Alan Joyce in his testimony to the Committee:

If we really want a fair and level playing field we need to have the same ability for Qantas [when compared to Virgin Australia] to have flexibility into the future. Otherwise, that distortion will cause even more job losses in Qantas, because it will not be able to compete.

1.27 To provide a debt guarantee or other form of assistance to Qantas would provide Qantas with a competitive advantage when compared to other Australian airlines. Indeed, both Virgin Australia and Rex have already stated that should this form of assistance be offered to Qantas, they would expect the same offer to ensure that the market is not distorted in Qantas' favour.

Recommendation 1

That the Qantas Sale Amendment Bill 2014 be passed.

Senator Bill Heffernan
Deputy Chair

Senator Sean Edwards