

Australian Greens' Dissenting Report

Opening Statement

1.1 The Australian Greens believe that Qantas is at a tipping point. The Australian Parliament and Government now has before it the opportunity to save Qantas and put in place a national airline of which we can all be proud.

1.2 On one hand, the Government could be allowed to continue with the repeal of the Qantas Sale Act. If this continues, we believe that it will lead to the inevitable break-up of the airline and will also lead to large-scale job losses and the diminution of Australia's aviation industry. We also believe that part of Qantas is likely to be snapped up by another airline, which is wholly or partially government-backed. This irony is not lost on us.

1.3 On the other hand, the Government could act similarly to, for example, the New Zealand Government. It backed its national airline, Air New Zealand, by taking a large stake in it. Significantly, earlier this year, Air New Zealand posted a record first-half net profit of \$NZ140 million (\$130 million), up 40 per cent on the same period a year earlier.

1.4 The Australian Greens understand the significance of Government intervention but we believe that, as a national carrier, Qantas should be treated as exceptional. We believe this is clearly in the national interest.

1.5 We also believe that it is important to emphasise that the push by the Government and Qantas management to sacrifice Qantas to the markets is not inevitable. It should not be viewed as a *fait accompli*. We have before us the choice to streamline Qantas but with the Government stepping up and taking a more active role in it. This could be a genuine win-win outcome. If the Government took a more active role in Qantas, we believe that it would be the single most effective way of levelling the playing field – upwards – by making Qantas more equal with its predominantly government-backed competitors and would put our national carrier on the runway to a bright, viable and prosperous future.

Summary

1.6 The Australian Greens appreciate the opportunity to investigate broader issues associated with Qantas, the wider aviation sector, and some potential forms of Government assistance to the airline through this inquiry.

1.7 The Australian Greens believe that the inquiry did not hold an adequate number of hearings, with an adequate number of witnesses, to analyse in detail a number of the inquiry's Terms of Reference, in particular:

(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.

1.8 Further, we do not believe that the evidence provided by senior Qantas management was adequate. In particular, answers to Questions on Notice were simply brushed aside as “hypotheticals” despite their relevance to the inquiry. It is not good enough for the management of a company initially seeking direct financial assistance from the Government, and then support from the Parliament for regulatory change, to brush off questions as “hypotheticals” or “commercial in confidence”.

1.9 The Australian Greens believe there are still opportunities available to fully investigate methods of Government assistance to Qantas, including those listed above. We further believe that such investigations need to be carried out as a matter of priority in order to ensure Qantas’ future viability and to protect the jobs, wages and conditions of Qantas workers.

1.10 The Australian Greens oppose Recommendation 1 in the committee’s report that paragraphs 7(1)(aa) and 7(1)(b) of the *Qantas Sale Act 1992* be repealed.

1.11 The Australian Greens are supportive of the sentiment in Recommendation 2, calling on the Commonwealth Government to provide a debt guarantee, but believe other forms of Government assistance also need to be considered.

1.12 Many of the matters relating to Qantas, its financial situation and the potential repeal of Part 3 of the Qantas Sale Act have been canvassed in the Australian Greens Dissenting Report to the Economics Committee’s report into the proposed legislation to repeal Part 3 of the Qantas Sale Act. As such, this report will not focus as heavily on those matters.

The Importance of Qantas

1.13 The committee report clearly establishes the importance of Qantas as a national carrier.

1.14 We note the committee’s findings that Qantas employs over 27,000 workers.

1.15 We further note the evidence in the committee that the aviation sector contributes \$32 billion to Australian GDP, or 2.6 per cent, as well as supporting 312,000 jobs in Australia.

1.16 The Australia Greens strongly agree with the statement in the committee report that:

“it is neither in the interest of national security, the national economic interest nor in the national employment interest to have Qantas 'sliced and diced', and that Qantas was bequeathed by the Australian public under a contract with the Australian public through Parliament”.

1.17 We note the response from Qantas senior management to a Question on Notice in which they stated “many States... approach support for their national airlines as an extension of their State’s economic and tourism policies”, and comment that Qantas has played this role both as a publicly and privately-run airline.

Qantas management

1.18 A number of submissions and witnesses to the inquiry made the case that the strategy of Qantas management was severely lacking in terms of how to ensure the viability of the airline.

1.19 In its submission, ALAEA suggests that Qantas' management has made a number of strategic errors. They argue that this is because "the Qantas Board does not contain any person who has worked or been promoted from an operational aviation profession (Pilot, Engineer, Flight Attendant, Baggage handler, customer services, etc)".

1.20 The submission from Colonial Airways strongly built on the case that Qantas management had more a series of poor decisions in relation to their domestic and international strategy that had compounded their current financial situation.

1.21 The submission from Professor Frank Stilwell claimed:

"The current Qantas crisis is clearly attributable to the senior management and board who have caused the present crisis by a range of inappropriate policies. These policy failures have included

- narrowing the customer base by abandoning key overseas destinations and diverting international passengers flying to European destinations other than London to other airlines in Dubai;
- unwisely establishing loss-making Asian Jetstar airlines;
- reducing confidence in service standards by outsourcing much of the aircraft maintenance; and
- causing substantial excess capacity on competing Australian routes by entering into cut-throat competition with Virgin.

"Shutting down the airline's services in 2011 in the attempt to get tough with the unions was a terrible public relations blunder, causing an irreparable loss of goodwill among its customers and the general public as well as continually fractious relations with the workforce. The cumulative result of these abortive policies has been a dramatic decline in the value of the company."

1.22 The submission from the Transport Workers' Union (TWU) points out that, "of the ten tough conditions for Qantas, it is interesting to note that all its competitors share seven of those conditions

- a. Sustained high fuel prices and ability to implement a good fuel hedging
- b. strategy apply to all airlines, not just Qantas.
- c. Economic volatility applies to all airlines, not just Qantas.
- d. Capacity growth outstripping demand applies to all airlines, not just Qantas.
- e. Slow demand growth associated with the resources slowdown applies to all
- f. airlines, not just Qantas.
- g. A cautious business environment applies to all airlines, not just Qantas.

- h. Low consumer confidence applies to all airlines, not just Qantas.
- i. Aggressive expansion of foreign airlines in the Asia-Pacific region impacts all
- j. airlines in the market, not just Qantas”.

The international aviation sector

1.23 It is important to acknowledge that the international aviation market, particularly in our region, is dominated by foreign government-owned and backed carriers.

1.24 There are multiple possible reasons for this – including Qantas’ own proposition that foreign governments own and support airlines as an extension of their economic and tourism policies.

1.25 Evidence presented by the TWU in its submission highlighted that seven of the ten largest airlines, by market share, in Australia’s aviation market are partially or wholly government owned.

1.26 Professor Frank Stilwell in his submission pointed to the nationalisation of Air New Zealand, further evidence regarding how the role of government in the aviation sector can be positive and constructive.

1.27 A commonly occurring theme throughout this inquiry, reiterated by Qantas itself, was the need for a “level playing field”. In Qantas’ view, a level playing field means the right to be fully owned by a foreign government-owned airline. The single most effective measure for levelling the playing field upwards would be for the Government to assist Qantas. This would make Qantas more equal with the majority of its competitors, which are also backed by their governments. The Australian Government backing Qantas would, in our view, stop the inevitable break-up of the airline, as well as underpinning its viability, protecting jobs and supporting tourism.

The options for Government assistance

1.28 Several submissions to the inquiry outlined possible options for Government assistance for Qantas.

1.29 Arguably the most comprehensive of these was the submission from Dr Fraser et al, which supported a Government debt guarantee as a tool to ensure greater behavioural regulation.

1.30 The Fraser submission included a number of potential conditions that could be imposed on Qantas if it was to receive such a guarantee, including it being:

- applied for a defined term, subject to periodic review by Parliament;
- limited to a set maximum amount of debt, again subject to periodic review;
- applicable only to investments made by the original entity Qantas Airways Limited in pursuance of operating domestic and international air services under its current business name, consistent with the existing legislation;

- hypothecated to the extent that it cannot cover funds borrowed to cover recurrent business costs or for the operation or development of businesses located or incorporated outside Australia;
- subject to monitoring by the Auditor-General; and
- subject to specific requirements in the case of default or bankruptcy, including a provision that the Commonwealth be the first secured creditor after staff entitlements have been paid.

1.31 The Fraser submission also raised the idea of a “golden share”, such as that held by the Government of Singapore in a number of state enterprises. According to the submission, such a share would:

“Convey specific rights not available to an ordinary shareholder, such as the requirement for ministerial approval or veto of any appointments to the board or specified senior management positions or in the case of specified types of strategic business decision (e.g. decisions to undertake major investments or divestments, set up subsidiaries, engage in areas of activity which represent significant departures from its traditional core business, or accept significant levels of equity from competitors or alliance partners), but would be made in the expectation that neither the Minister nor the Department would be involved in the day-to-day detail of managing the company.

1.32 It is worth noting that this proposed structure is similar to how Government Business Enterprises (GBEs) in Australia are run, such as the Australian Postal Corporation.

1.33 In his submission, Professor Stilwell argues against a debt guarantee, stating:

“First, giving a debt-guarantee would not address any of the fundamental problems cause by the company’s current management. Indeed, it would be an encouragement to the current management to pursue yet riskier strategies, knowing that ultimately the Australian public will underwrite the cost of failure. It would give the company a short-term advantage of being able to borrow at slightly lower interest rates, but that is a temporary expedient rather than contributing a long-term solution to the business malaise.”

1.34 Professor Stilwell argues for re-nationalisation of Qantas on the grounds that:

“There are precedents for re-nationalisation, e.g. New Zealand’s national carrier. To return QANTAS to public ownership would incur the cost of buying out shareholders, but the current low price of those shares makes this affordable. Indeed, the cost could be less than the taxpayer cost of the unemployment benefits and other social service payments that would result from the company’s currently proposed downsizing and its possible demise. Government borrowing, at the currently low interest rates, could finance the purchase of the approximately \$2 billion share capital, which is a relatively small one-off cost compared with other Government outlays (e.g. proposed the paid parental leave scheme that is estimated to cost more than double that amount every year).”

1.35 Further he says:

“Under public ownership, major challenges would still remain, of course. This is a difficult industry in which to make sustained profits. Competition is intense, both intranationally and inter-nationally. International competition is often from airlines that benefit from home Government subsidy or favoured treatment. Rising costs present continuing stresses. But a new CEO, a new Board and a new ownership structure should provide an opportunity for ALL stakeholders to work out a plan for a sustainable future.”

1.36 What these submissions agree on is that there are a number of options available to the Government with which it can provide assistance to Qantas, while applying stringent conditions to protect the jobs, wages and conditions of its workers and services to the public.

Conclusion

1.37 It is clear that Qantas, as a private airline, is exceptional compared to the rest of the regional and wider international aviation market.

1.38 Strong evidence has been presented regarding a failure in strategy on the behalf of Qantas senior management. This lack of strategy has impacted on Qantas’ financial position and placed thousands of jobs in jeopardy.

1.39 There are a number of options available to the Government, with which it can provide direct or indirect support to Qantas, such as a debt guarantee, a debt-equity swap, a capital injection or taking a controlling stake.

1.40 These options provide the Government with an opportunity to positively influence the direction and strategy of Qantas by imposing behavioural regulation or using other methods.

1.41 “Levelling the playing field” in relation to the aviation sector does not, in fact, mean greater deregulation but is rather a call for Government support and intervention. This would make Qantas more equal with its competitors.

1.42 The Australian Greens oppose the recommendation to remove paragraphs 7(1)(aa) and 7(1)(b) of the *Qantas Sale Act 1992*, as this would see Qantas 'sliced and diced', something the committee itself is wary of.

Recommendation 1

The Australian Greens recommend, that in the interests of “levelling the playing field”, the Commonwealth Government seriously consider an ownership stake in Qantas as a way of financially supporting the airline.

Recommendation 2

The Australian Greens recommend the Commonwealth Government and Australian Parliament seriously investigate a package of measures to protect Qantas jobs and ensure its viability, in addition to Recommendation 1. These

measures could include a debt guarantee, a debt-equity swap, a capital injection in return for an equity stake, or the Government taking a controlling stake in Qantas and operating the airline as a Government Business Enterprise. These measures should only be considered and implemented if guarantees can be made to protect Qantas jobs, ensure maintenance and other work is carried out onshore and protect service routes and quality.

Recommendation 3

The Australian Greens recommend the Senate continue its inquiries into Government assistance into Qantas to investigate the above in greater detail.

Senator Lee Rhiannon

Senator Peter Whish-Wilson

