



Submission by the Transport Workers' Union of Australia to
the Senate Rural and Regional Affairs and Transport
References Committee Inquiry:

*Qantas' Future as a Strong National Carrier Supporting
Jobs in Australia*

March 2014

Introduction

1. The Transport Workers Union of Australia (TWU) welcomes the opportunity to make a submission to the Rural and Regional Affairs and Transport References Committee regarding initiatives that can be taken by Government to ensure Qantas remains a strong national carrier supporting jobs in Australia.
2. The TWU proudly represents tens of thousands of men and women working across Australia's aviation industry and its associated supply chains, including several thousand working directly for Qantas Airways Limited or wholly owned Qantas subsidiary companies within the Qantas Group.
3. The Australian aviation industry employs hundreds of thousands of Australians and the Australian domestic aviation market is effectively a duopoly with two major airline groups – Qantas Group and Virgin Group.
4. The Qantas Group alone accounts for approximately 63% of the market, and with that share, significant market power throughout the aviation supply chain. As such, what happens to Qantas has a significant impact on the rest of the market.
5. For many years the TWU has been vocal with regards to the future of Qantas, the airline's commercial decisions, its conduct towards its workers and the impact those decisions have on the flying public, the national interest, and aviation workers and their families.
6. TWU members are committed to ensuring the Australian aviation industry is sustainable and with it decent, secure aviation jobs.
7. The Qantas Sale Act was enacted in 1992 to ensure that Qantas remained an Australian airline, serving the national interest. While the industry has experienced change, there remains an important role for government to provide legislative and regulatory frameworks that ensure the safety, security, and sustainability of the aviation sector and with it Australia's national interest.
8. Australia now has two strong home-grown competitors in the Australian aviation market in the Qantas Group and the Virgin Australia Group. The continued existence, and indeed the continued success of Qantas and Virgin Australia, and the Australian aviation industry should be a matter of priority for Australian governments.

Aviation in the National Interest

9. The success and sustainability of Australia's aviation industry is a key element for Australia's economy and future success. It's an industry that for nearly one hundred years has made Australians proud, safeguarded our national interest, and provided secure, stable employment for hundreds of thousands of Australian families.

a. *"Qantas is an icon – they're ready to help out Australians in trouble – it's happened in Lebanon to Egypt to East Timor. People throughout the organisation from ramp to cleaning and customer service are proud to be able to help."* **Frank* Qantas Ramp Operations**

10. Its importance to our nation goes beyond just sentiment, because as Qantas' own application to the ACCC in 2012 for its alliance with Emirate deal stated:

a. *"Australia needs a strong locally based airline to provide critical international, domestic, and regional links between markets and with trading partners on a commercially sustainable basis. This is particularly important for a country of Australia's size and geographic location"*

11. The TWU agrees, and strongly believes the Qantas Sale Act is there to support the national interest, but wholesale outsourcing and offshoring, the flouting migration and tax laws, and reducing employment standards do not serve the national interest.

Australia's Aviation Industry

12. The Australian Aviation industry, and in particular its domestic market, is one of the most profitable aviation markets in the world. When global aviation markets have been depressed, and airlines around the world have struggled, Australian airlines such as Qantas have been very profitable¹.

13. The industry can be segmented into two parts, domestic and international, each has different market and industry dynamics at play, and present different challenges for policy makers and stakeholders.

14. A 2011 Oxford Economics report estimated that the aviation sector contributes \$32 billion to Australia's GDP, which is equivalent to 2.6% of GDP². In addition the report estimated that there are a further \$43.7 billion in 'catalytic' benefits through tourism,

¹ February 2010, IATA Economic Briefing: Airline profitability – airline size and business model.

² 2011, Oxford Economics, Economic Benefits from Air Transport in Australia, p.4.

which raises the overall contribution to \$75.6 billion, or 6.1% of GDP³.

15. In the financial year 2012-2013 total industry revenue is estimated at \$35.5 billion, of which profit available is estimated at \$2.3 billion, and wage costs estimated at \$5.3 billion.⁴
16. The aviation sector is also a major Australian employer. Oxford Economics estimates that the aviation sector supports 312,000 jobs in Australia⁵. 149,000 of those jobs are directly supported by the aviation sector, with the remainder through the aviation supply chain and spending by the sector's employees⁶.

High Productivity Amongst Australian Aviation Workers

17. A number of large enterprises such as Holden and Toyota, have recently been forced to make difficult decisions in relation to continued Australian operations.
18. Given the government's record on such matters it is important to put on record the facts about productivity in Australian aviation.
19. Aviation Transport Support Workers (baggage handlers, ramp workers, check in staff, refuellers and the like) are among the most productive in the country.
20. In 2011, Oxford economics found that this group, Aviation Transport Support workers contributed on average \$205,212 per annum in Gross Value Added to their employers enterprises. This is 1.8 times the national average.⁷ According to the same report the average annual salary for those workers is \$51,000.
 - a. *"It makes me sick when I hear all the lies on TV saying we're on \$100,000 or \$150,000 and unions are doing this or that to the company and people are coming up to me on the street saying we earn too much. We work hard to make a living and make the company profitable but we don't have a say when we see management pour millions of dollars into expanding Jetstar for nothing."*
Frank*, Qantas Ramp Operations
 - b. *There used to be 7 to 8 of us working to get a plane clean now it's down to 5 people and they want to cut that back to 3 and call it a 'smart clean'. At one stage there were 14 people on light duties because of the stress and injury rate. Most of us have to see an osteopath, physiotherapist or massage therapist*

³ 2011, Oxford Economics, Economic Benefits from Air Transport in Australia, p.4.

⁴ Lin, R., August 2013, IBIS World Industry Report 14902 'Domestic Airlines in Australia,' Lin, R., November 2013, IBIS World Industry Report 14901 'International Airlines in Australia,' Lin, R., September 2013, IBIS World Industry Report 'Airline Operations in Australia.'

⁵ 2011, Oxford Economics, Economic Benefits from Air Transport in Australia, p.4.

⁶ 2011, Oxford Economics, Economic Benefits from Air Transport in Australia, p.4.

⁷ 2011, Oxford Economics, Economic Benefits from Air Transport in Australia, p.19.

a few times a month because of the high workload or we wouldn't be able to keep working." John, Qantas Fleet Presentation*

21. Last month, Qantas CEO Alan Joyce conceded the Qantas workforce increased productivity by a further 22% since 2008.⁸

22. Qantas' on-time performance month-on-month throughout 2013 has the airline ranked 1st in Australia with 85.5% and 84.3% of its departures and arrivals respectively on-time. Qantas also had the fewest flight cancellations in the past year.⁹ These figures reflect the efficiency of workers involved in all aspects of preparing aircraft before and after flights.

International Competition

23. Of the ten largest airlines (by market share)¹⁰ in Australia's international air transport market, seven are partially or wholly government owned.¹¹

Airline	Government Shareholding	Market Share (%)
Qantas Group (including Jetstar and Jetstar Asia)	Privately owned (listed company)	25.7
Singapore Airlines	56.76% government owned (listed company)	9.1
Emirates Group	Wholly government owned	8.8
Virgin Australia	Privately owned (listed company)	8.1
Air New Zealand	72.85% government owned (listed company)	7.9
Cathay Pacific	29.99% held by Air China. Air China in turn is 53.10% government owned (listed company)	4.6
Malaysia Airlines	78.14% Government owned	3.8
Thai Airways	72% government owned	3.4
AirAsiaX	Privately owned	3.0
China Southern	50.30% Government owned	2.3

24. Other than Qantas and Virgin the only other airline in the top ten that doesn't have some significant sovereign wealth backing is low cost carrier, AirAsiaX.

25. Bilateral Air Services Agreements with other countries and pursuing an opens skies policy coupled with the attractiveness for foreign-based international airlines of

⁸ 27/02/2014, Qantas Group Financial Result Media Release, p. 15.

⁹ 27/02/2014, Qantas Airways Limited 1H14 Results, Supplementary Slides, p. 12.

¹⁰ BITRE, Table 3, Airline Passenger Capacity and Utilisation to and from Australia by Operator: Year ended June 2013, Available: http://www.bitre.gov.au/publications/ongoing/international_airline_activity-annual_publications.aspx

¹¹ ICAO, List of Government-owned and Privatised Airlines, Online, Available: <http://www.icao.int/sustainability/Documents/PrivatizedAirlines.pdf>; Cathay Pacific Airways Limited, About Us – Fact Sheet, Online, Available: http://www.cathaypacific.com/cx/en_HK/about-us/press-room/fact-sheet.html

earning revenue in the high Australian dollar, has seen significant capacity added to routes into and out of Australia by those airlines.

26. For a number of reasons, many of these foreign-based international airlines are able to offer fares (sometimes for a profit, sometimes not) far below those able to be offered by Qantas and Virgin Australia at a profit.
27. Some of this additional capacity constitutes what in other industries or markets might be referred to as "dumping" and in aviation terms is referred to as capacity dumping. This may have the effect that while the Australian domestic market is otherwise very profitable; the Australian international aviation market can face unfair competition from foreign-based airlines.
28. Separate from the question of foreign equity and ownership issues for Australian based carriers, the pursuing of open skies polices by successive governments and capacity dumping by foreign government backed airlines ought to be a matter considered by the committee and the parliament in their deliberations

Market Liberalisation

29. It should be noted that mostly government owned foreign airlines have increased capacity in Australia's international market by more than double that of Qantas Group between 2009 and 2013. Virgin Australia have grown capacity twice as much again in this period.¹²
30. The increase in capacity is enabled by the highly liberalised nature of Australia's aviation market. Australia's bilateral agreements, including those held with the home nations of airlines most competitive in the Australian market, are generally highly liberalised, in most cases allowing for unrestricted capacity determined by the designated airlines of each nation.
31. Qantas Group has not matched the capacity growth of foreign airlines. In fact, in the case of its alliance with Emirates, it has specifically sought to abandon routes to them. Emirates has seen an uptake in business class ticket sales as a result of their alliance with Qantas, offsetting revenue lost through competition on economy class seats. Emirates Chief Commercial Officer Thierry Antinori recently said of the alliance, "For Emirates, it's working. We are satisfied with this deal."¹³

¹² BITRE, International Airline Activity Annual Publications, Online, Available:

http://www.bitre.gov.au/publications/ongoing/international_airline_activity-annual_publications.aspx

¹³ Sandilands, B, "Emirates says Qantas has been good for its earnings", Crikey, 07/03/2014. Available at:

<http://blogs.crikey.com.au/planetalking/2014/03/07/emirates-says-qantas-has-been-very-good-for-its-earnings/>

32. The largely unrestricted capacity enabled through Australia's bilateral agreements has compounded this issue. However, Qantas have not called for changes to these levels of capacity.
33. Government owned or backed airlines like Emirates also have the advantage of not paying payroll or levies that other nations require of all businesses.¹⁴ Many jurisdictions also don't afford the same human right protections, labour standards including freedom of association and social infrastructure as Australia. The committee must consider the impact the pursuit of open skies has had at the expense of human rights, social infrastructure, and Australia's tax base.
34. The federal government will engage in negotiations with several nations in 2014 to expand their agenda to further liberalise Australia's bilateral ASAs, and in this there is a role for the Australian government to act to ensure the sustainability of the Australian aviation industry and decent secure Australian jobs. To create the even playing field, Qantas and the Liberal government claim they want, a more holistic framework needs to be adopted including an assessment of human and labour rights, tax incentives and subsidies or levies that impact on competition.

Other Forms of Government Support For Competing Foreign Airlines

35. Government owned airlines are able to achieve sovereign-risk ratings resulting in low interest rates and the ability to carry larger debt burdens than privately owned airlines. Governments may also own related infrastructure such as airports, roads and public transport facilities that support the overall function of their respective aviation industries.¹⁵
36. Government owned or backed airlines like Emirates also have the advantage of not paying payroll or levies that other nations require of all businesses.¹⁶ They also don't afford the same human right protections and labour standards including freedom of association as Australia.
37. Accelerated Depreciation is another method used by some governments to deliver a tax-based subsidiary for airlines. It allows airlines to write off the depreciation expense of an aircraft early in the life of an asset.

¹⁴ 02/08/2010, Sandilands, B., 'The real Emirates 'unfair' advantage,' Crikey, <http://blogs.crikey.com.au/planetalking/2010/08/02/the-real-emirates-unfair-advantage/>; Is Dubai really tax free?, wiseGEEK, Available: <http://www.wisegeek.org/is-dubai-really-tax-free.htm>

¹⁵ Myer, R., 04/11/2005, Emirates has unfair advantage, says Qantas, The Age, Available: <http://www.theage.com.au/news/business/emirates-has-unfair-edge-says-qantas/2005/11/03/1130823342380.html>

¹⁶ 02/08/2010, Sandilands, B., 'The real Emirates 'unfair' advantage,' Crikey, <http://blogs.crikey.com.au/planetalking/2010/08/02/the-real-emirates-unfair-advantage/>; Is Dubai really tax free?, wiseGEEK, Available: <http://www.wisegeek.org/is-dubai-really-tax-free.htm>

38. Accelerated depreciation requires no financial input from government, however government would forgo future tax revenue. The policy is one widely supported by airlines and industry experts.¹⁷

39. Australia currently has substantially longer depreciation time frames for aircraft depreciation than some of Qantas competitors:

Australia	10 years
Hong Kong	5 years
New Zealand	5 years
Singapore	3 years

Qantas Group Performance

40. Following the merger of Qantas Airways and Australian Airlines in the early 1990s, the then federal government prepared the newly merged Qantas for sale by relieving it of billions of dollars in debt, and enacted the Qantas Sale Act in 1992 to ensure that the Qantas legacy was protected, and the national interest secured. This followed steps towards deregulation and the discontinuance of the “Two Airlines Policy” which had provided for only two domestic competitors – Qantas/Australian and Ansett.

41. In September 2001, Qantas competitor Ansett collapsed, stranding thousands of passengers and leaving more than 16,000 people unemployed. Prior to collapse, Ansett operated a fleet of nearly 140 aircraft and flew to 88 destinations. At the time of the Ansett collapse, Qantas had 55% domestic market share.

42. In September 2001, the terrorist attack on the United States that became known as 9/11 saw a decline in international aviation, allowing Qantas to redeploy much of their international fleet to fly stranded Ansett customers around Australia. The two events, 9/11 and the Ansett collapse coincided to give Qantas a strangle hold on the domestic market against Virgin, a competitor with just nine planes and a customer base just one year old.

43. These factors are important in the context of Qantas current domestic strategy and the claims of an uneven playing field in the domestic market.

¹⁷ 22/12/2007, 'Call for Quicker Plane Depreciation,' The Australian, Online, Available: <http://www.theaustralian.com.au/business/aviation/call-for-quicker-plane-depreciation/story-e6frg95x-1111115173593>; 15/08/2012, Accelerated depreciation rates needed to help level playing field for Australian aviation, Online, Available: <http://www.aipa.org.au/media-room/accelerated-depreciation-rates-needed-help-level-playing-field-australian-aviation>

44. On 27 February 2014 Qantas announced plans to axe 5000 full time equivalent positions from their workforce over the next two years. These will be accompanied by a wages freeze for remaining workers.

a. *"I've always loved working for Qantas and always felt very proud to be working here - my coworkers feel the same. They're a great bunch of people to work with and it used to be a very happy place. Everyone went above and beyond their duty and would stay back after their shift had finished if a plane was delayed. Now, it's starting to feel just like another job."* **Edward***, **Qantas Ramp Operations**

45. Qantas' claim they are in a dire position and need to restructure their business, yet they have not identified nearly half of the positions they claim will no longer be necessary. Nor have they explained how these cuts will make them more sustainable in the long-term.

a. *"They've cut us to the bone, there's nowhere else to cut. They should be looking at management where they keep creating new positions to lighten middle management's load while we're being asked to do more and more."* **John***, **Fleet Presentation**

46. Further, Qantas is asking the federal government for assistance in the form of both financial support and the changing of regulatory conditions that prevent them from receiving levels of foreign investment beyond the 49% foreign ownership cap, even though they have not yet attained it.

47. Qantas and Jetstar together command 65% of the domestic market and more than 25.7% of the international market.¹⁸ It is the dominant participant in Australian aviation and sets standards other carriers follow.

Recent Performance of the Qantas Group

48. On December 6 2013, one day after Qantas announced it would cut 1,000 jobs in response to a possible 2013-2014 first-half loss of \$300 million, Standard and Poor's downgraded Qantas to "junk status".¹⁹

- a. Qantas reported their 1st half financial position on the 27th of February:²⁰
- b. A \$252 million loss (profit before tax)

¹⁸ "Qantas ready for Virgin in domestic dog fight", Michael Smith, *Australian Financial Review*, 23 April 2012, http://afr.com/p/business/companies/qantas_ready_for_virgin_in_domestic_uZzfeXbfkDPy2YrR5So3IM and "International Airline Activity Report 2011", Bureau of Infrastructure, Transport and Regional Economics, http://www.bitre.gov.au/publications/ongoing/files/International_airline_activity_CY11.pdf

¹⁹ 06/12/2013, Qantas downgraded to Junk Status, Sydney Morning Herald.

²⁰ 27/02/2014, Qantas Group Financial Result Media Release; 27/02/2014, Qantas Airways Limited 1H14 Results, Supplementary Slides.

- c. Qantas' share price has fallen by more than 63% from its post GFC (January 2010) price.²¹
- d. Investors have not received a dividend for more than 5 years.²²

Qantas' Claims

49. Qantas CEO Alan Joyce has publicly stated that the results announced on 27 February 2014 are indicative of "some of the toughest conditions Qantas has ever seen". Mr Joyce supports this by citing:²³

- a. an alleged 46% increase in competing international airline capacity since 2009 compared with a global 21% increase
- b. distortion of the Australian market in the form of Virgin's ability to be backed by three foreign government airlines while operating on bilateral flying rights
- c. Virgin having received \$300 million from those backers while it posted losses
- d. "aggressive" expansion of foreign airlines in the Asia-Pacific region
- e. sustained high fuel costs
- f. economic volatility
- g. capacity growth outstripping growth in demand
- h. demand growth slowed by resource sector slowdown
- i. a cautious business environment
- j. low consumer confidence

50. Of the ten tough conditions for Qantas it is interesting to note that all its competitors share seven of those conditions. One other condition is simply not true.

- a. Sustained high fuel prices and ability to implement a good fuel hedging strategy apply to all airlines, not just Qantas.
- b. Economic volatility applies to all airlines, not just Qantas.
- c. Capacity growth outstripping demand applies to all airlines, not just Qantas.
- d. Slow demand growth associated with the resources slowdown applies to all airlines, not just Qantas.
- e. A cautious business environment applies to all airlines, not just Qantas.
- f. Low consumer confidence applies to all airlines, not just Qantas.
- g. Aggressive expansion of foreign airlines in the Asia-Pacific region impacts all airlines in the market, not just Qantas.

²¹ 13/03/2014, Yahoo7 Finance, Qantas Airways Ltd, Adjusted Close 21/01/2010 – 12/13/2014, Available:

<http://au.finance.yahoo.com/q/hp?s=QAN.AX&d=2&e=12&f=2014&g=d&a=6&b=31&c=1995&z=66&y=66>

²² Qantas Dividend History, Available: <http://www.qantas.com.au/travel/airlines/investors-dividend-history/global/en>

²³ 27/02/2014, Qantas Group Financial Result Media Release; 27/02/2014, Qantas Airways Limited 1H14 Results, Supplementary Slides.

h. Finally, the claim of a 46% increase in competing international airline capacity in the Asia-Pacific market is simply not true.

51. According to the Bureau of Infrastructure, Transport and Regional Economics the number of seats on international flights to and from Australia (excluding Qantas and Jetstar) was 23,914,610 in 2009.²⁴ That figure rose to 31,559,703 in 2013. The claimed 46% increase is actually 31.9%. For reasons unknown Qantas have chosen to quote a figure in the public debate that is 1.3 times the actual amount.

52. Qantas' remaining two arguments deal with the alleged distortion of the market through its competitors' ability to go to market for capital raisings, and the investment of foreign airlines in Virgin Australia.

53. It should be noted that Qantas has raised \$1.2billion from capital raisings on nine occasions over the past ten years, and at various times foreign owned airlines have invested heavily in Qantas.

54. To consider the validity of these claims they need to be put in context. Firstly it should be remembered that Australia's domestic aviation market has been a duopoly for many decades.

55. On many occasions, in various forums, over the past few years TWU representatives have relayed to senior Qantas management the concerns expressed by many thousands of Qantas workers about the direction of the company, and their concerns for their future.

a. *"Qantas management have deliberately gone out and lost work one by one. We get blamed but we're not the one's out there working on the tenders or managing the contract. I think they've been purposely losing contracts because as of a few years ago there was a shift in thinking and management don't consider ground handling as part of their operations. They're just an airline. The attitude from management is they don't want any permanent full-time staff on their books.*

This was management's business plan not ours, we're just taking orders. With all the job cuts the attitude is it's not their (management's) fault, it's the guy who is earning \$18 bucks an hour's fault. Regardless of what happens management has to go, they've had 5 years to sort things out and they've made a hash of it. It used to be profitable business and a good place to work." Edward,
Qantas Ramp Operations*

²⁴ BITRE, Annual totals – flights, passengers, freight and mail, 'International Scheduled Air Transport - Airline supplied data,' Available: https://www.bitre.gov.au/publications/ongoing/international_airline_activity-time_series.aspx

56. On December 18 2013, TWU officials, along with other Qantas unions met with Qantas management. In that meeting Qantas made much of the fact that Virgin had transformed from being a low cost carrier and was now competing in the premium market, including the corporate market of which Qantas claimed to have an 80% market share.
57. Qantas key complaint to unions in that meeting was that Virgin Australia was running a loss leading strategy to increase market share. Qantas explained it had responded by reducing fares and adopting the 65% market share approach or the infamous “2 Qantas planes for every 1 Virgin plane” strategy.
58. In that meeting, Qantas senior executives conceded that fares are now unsustainable because of the battle, and were unlikely to correct to their true value, as the travelling public was conditioned to unsustainably low airfares.
59. Those same senior executives, including Qantas Group CEO Alan Joyce, also informed the meeting that Virgin’s investor support provided Virgin at least 18 months more of “battle”. This was after Qantas had asserted that the battle was going to get bloodier but they expected the market to rationalise.
60. This information is important in assessing the capacity growth argument and the discussion of what would constitute a level playing field in the Australian aviation industry.
61. The present capacity battle between these two competitors itself places downward pressure on fares, and hence revenue and profit margins. The Qantas two for one, or 65% strategy compounds this. It triples capacity growth and intensifies the downward pressure on fares and at the same time increases capital costs.²⁵
62. The question this raises is whether Qantas want the level playing field that they claim is denied them, or if they failed in a high-risk, high-cost strategy to induce industry wide losses in the hope of destroying its only domestic competitor and achieving a monopoly on domestic air services.
63. Independent economic analysis, Qantas’ financial performance reports, and Mr Joyce’s own admissions on February 27th make it quite clear that the trials of Qantas are not related to poor workforce productivity or high wage rates.

²⁵ 03/03/2014, 'Qantas tactics led to current tail spin,' The Drum, Available: <http://www.abc.net.au/news/2014-03-03/verrender-qantas-in-a-tailspin-over-aviation-battle/5293892>

Poor Decisions by Qantas Management

64. There have been a number of decisions made by Qantas management that are at best questionable.
65. The 2011 fleet grounding without notification cost Qantas \$194 million dollars²⁶ and amounted to 1.2 million hours of industrial action against employees.
- a. *“Ever since the industrial dispute morale's been very low. Not just where I work but I see it in other parts of the company too. It makes us feel sick that a company we love is being run this way. We're past just being angry and frustrated.” Frank*, Qantas Ramp Operations*
66. It was employer industrial action in response to a mere 7 hours of legal industrial action by employees during a bargaining period, along with pilots wearing red ties and making cabin announcements about how much they care about Qantas. This tarnished the Qantas brand and ceded market positioning to its competitor, with thousands of people left stranded across the globe refusing to return to Qantas.
67. The domestic capacity war with Virgin was a conscious decision, the effect of which is to reduce revenues below cost recovery and at the same time require additional capital investment.
68. Such a strategy is unlikely to be sustainable over the medium to long term. The capacity of the Board and Management to plan for sustained growth of Qantas needs to be considered in the event that assistance of any form is likely to be given.

Idle Jetstar Aircraft

69. It is reported that as many as eleven new Jetstar aircraft are currently parked in Toulouse costing millions of dollars.²⁷ The Qantas Group has purchased and leased billions of dollars worth of aircraft for their Jetstar Asian activities without being able to demonstrate any return on investment due to an delay in obtaining approvals for routes particularly with respect to the Jetstar Hong Kong operations.
70. Such decisions to invest large amounts in capital without being able to achieve a return make little or no sense and indicate a deficiency in planning for growth and capital investment to support such growth.

Failure to Invest in Qantas Mainline Fleet

71. In contrast to the capital outlays for Jetstar, the group has failed to upgrade its Premium Qantas fleet to more fuel-efficient aircraft. The cancellation of 35 Boeing 787-

²⁶ 28/11/2011, Qantas Profit Update, Available: <http://www.qantas.com.au/travel/airlines/media-releases/nov-2011/5343/global/en>

²⁷ 07/01/2014, 'Are idle Jetstar A320s bleeding Qantas' cash?' Crikey, Available: <http://blogs.crikey.com.au/planetalking/2014/01/07/are-idle-jetstar-a320s-bleeding-qantas-cash/>

9 Dreamliners is difficult to fathom.²⁸ Qantas have themselves touted the Dreamliners as being able to fly further, faster and with greater fuel efficiency than any other plane in its class.²⁹

- a. *"They're doing everything they can to destroy the international arm of Qantas. The Asian expansion hasn't worked. Qantas was profitable before, now we just can't understand why this is going on."* **Frank*, Qantas Ramp Operations**

72. Qantas highlight the high cost of fuel as one of the ten big challenges facing the airline. With fuel costs comprising approximately one third of airline costs Qantas have decided not to address the issue of fleet fuel efficiency in allocating new capital, instead relying on an ever-aging fleet of aircraft that cannot compete effectively in a diverse and modernised market.

Failed Asian Expansion of Jetstar

73. *"They're doing everything they can to run the airline into the ground. It's Jetstar versus Qantas, only its one way - take everything from Qantas and give it to Jetstar, including routes."* **Qantas Worker, Ramp Operations**

74. Jetsar's ventures into Asian markets have been plagued with issues preventing the airline from achieving a secure foothold and in the process costing Qantas hundreds of millions of dollars:

- a. Jetstar Hong Kong

Qantas entered into a partnership with the government owned China Eastern Airlines to establish a low-cost carrier in Hong Kong. An oversight by Jetstar management on stipulations for a minimum requirement for local ownership and for the airline's headquarters to be based in Hong Kong meant Jetstar needed to find Hong Kong based investors and board members only days before its initial scheduled launch.

Hong Kong based Qantas competitor Cathay Pacific formally objected to Jetstar's application for a licence to operate in HK citing the fact that Qantas' would control Jetstar Hong Kong from Australia as their main objection.

Cathay Pacific argued the Jetstar Hong Kong would be able to access traffic rights "without fair exchange for value to Hong Kong," and that "Hong Kong air traffic rights should be used to support the development of truly Hong Kong-

²⁸ 23/08/2012, 'Qantas cancels order for 35 Dreamliners,' Flightglobal, Available: <http://www.flightglobal.com/news/articles/qantas-cancels-order-for-35-dreamliners-375734/>

²⁹ Qantas, Boeing 787 Dreamliner: Flying into the future, Available: <http://www.qantas.com.au/travel/airlines/aircraft-boeing-787/global/en>

based aviation and the Hong Kong economy, not foreign airlines and their franchises."³⁰ To date, it's still not operating

b. Jetstar Japan

Qantas' position in the ownership structure of Jetstar Japan, which includes Mitsubishi Corporation, Japan Airlines, and Central Tokyo Leasing, has been denounced as its significant financial investments are decoupled from its ability to influence the direction of the airline in the form of non-voting shares.³¹

Jetstar Japan currently has unused A320s parked alongside Jetstar Hong Kong A3200s in Toulouse, France.³² The aircraft are grounded as Japanese regulators have delayed a decision whether or not to allow Jetstar to open a second base in Japan.³³

c. Jetstar Pacific

In 2010 the Civil Aviation Administration of Vietnam found that Jetstar Pacific had made numerous mistakes violating safety regulations, which supervisors attempted to cover up.³⁴ Further, it had illegally dismissed Australian and New Zealand engineers who notified senior manager in Australia of the safety concerns.³⁵

d. Jetstar Asia

Jetstar Asia has experienced significant setbacks in its attempt to establish a strong foothold in Asian markets. In 2005 the airline had to scale back the number of aircraft it would dedicate to the region as it failed to secure routes to crucial destinations in China and Indonesia.³⁶

Jetstar Asia profits fell by 80% in 2012 in the face of high levels of competition in the regional market, and plans for continued expansion in Asian markets through Jetstar Asia have been shelved, a decision that has been criticised for failing to return expected profits following capital intensive investment while Asian markets continue to grow.³⁷

³⁰ 05/09/2013, Approval of Jetstar Hong Kong application would violate Basic Law and undermine Hong Kong's economy, Available: http://www.cathaypacific.com/cx/en_AU/about-us/press-room/press-release/2013/approval-of-jetstar-hong-kong-application-would-violate-basic-law-and-undermine-hong-kongs-economy.html

³¹ Sandilands, B., 31/10/2013, 'Jetstar problems emerge in Japan and China,' Crikey, Available: <http://blogs.crikey.com.au/planetalking/2013/10/31/jetstar-problems-emerge-in-japan-and-china/>; 31/10/2013, Qantas Media Release, Qantas increases share in Jetstar Japan, Available: <http://www.qantasnewsroom.com.au/media-releases/qantas-increases-share-in-jetstar-japan?print=1>

³² Sandilands, B., 07/01/2014, Are idle A320s bleeding Qantas cash? Crikey, Available:

<http://blogs.crikey.com.au/planetalking/2014/01/07/are-idle-jetstar-a320s-bleeding-qantas-cash/>

³³ 08/01/2014, O'Sullivan, M., Jetstar's Japan offshoot forced to park planes, Sydney Morning Herald, Available:

<http://www.smh.com.au/business/jetstars-japan-offshoot-forced-to-park-planes-20140107-30ffv.html>

³⁴ 14/01/2010, Report finds Jetstar pacific safety violations, Australian Aviation, Available:

<http://australianaviation.com.au/2010/01/report-finds-jetstar-pacific-safety-violations/>

³⁵ O'Sullivan, M., 27/05/2010, Sacked engineers to sue Jetstar Pacific, the Sydney Morning Herald, Available:

<http://www.smh.com.au/business/sacked-engineers-to-sue-jetstar-pacific-20100526-we8x.html>

³⁶ Rochfort, S., 30/05/2005, Jetstar Asia experiment fails, the Sydney morning Herald, Available:

<http://www.smh.com.au/news/business/jetstar-asia-experiment-fails/2005/06/29/1119724696878.html>

³⁷ O'Sullivan, M., Jetstar Asia profit hit by fuel bills, competition, the Sydney Morning Herald, Available:

<http://www.smh.com.au/business/jetstar-asia-profit-hit-by-fuel-bills-competition-20130115->

Proposals to Repeal of Part 3 of the Qantas Sale Act

75. Qantas claims its desire to repeal Part 3 of the *Qantas Sale Act* 1992 is motivated by a need to attract foreign investment.
76. Qantas has been unable to maximise its foreign investment capacity as it stands. Whether it could attract foreign capital after a repeal remains to be seen and will be dependent upon the markets' confidence or otherwise in Qantas management and their strategies.
77. The repeal seems counter intuitive when considered in the context of Qantas' identified "challenges" and their approach to competition in the Australian domestic market. Success in attracting foreign investment is likely to result in Qantas replicating its domestic capacity wars in the international market. Revenues would likely be driven down capital investment requirements would escalate dramatically and Australian employment opportunities at Qantas will significantly reduce.
78. As previously stated, the provisions contained within the Qantas Sale Act have not stopped Qantas from acquiring \$1.2 billion from capital raisings on nine occasions over the past ten years or foreign airlines investing in Qantas.

Impact on Jobs if Part 3 is Repealed

79. In the event of a repeal of Part 3 of the Qantas Sale Act, Australian jobs would disappear and those workers remaining employed by Qantas are likely to suffer significant detriment in their employment.
80. Repealing Part 3 would allow significant employment opportunities to move off shore including maintenance, catering, flight attendants, corporate staff and even pilots. Earning an income that is sustainable in Australia will become more difficult as competition in labour costs against foreign workers takes hold.
81. No longer requiring headquarters and major service centres to operate from Australia will encourage Qantas to seek lower wage costs overseas regardless of productivity levels within Australia.
82. Qantas have consistently outsourced and where permissible offshored Australian jobs in the past demonstrating that there is already considerable flexibility in the Act.³⁸

2crhv.html#ixzz2I3QoIFLi; 28/02/2014, Qantas CEO star dims as Emirates tie-up fails to stem losses, Bloomberg, Available: <http://www.theedgemaalaysia.com/business-news/277914-qantas-ceo-star-dims-as-emirates-tie-up-fails-to-stem-losses.html>
³⁸ 24/10/2011, 'Qantas looked at farming out jobs,' Available: <http://www.smh.com.au/travel/travel-news/qantas-looked-at-farming-out-jobs-20111023-1mel2.html>; 08/11/2012, 'More maintenance jobs go as Qantas continues engineering restructure,' Australian Aviation,

Repealing Part 3 of the Qantas Sale Act is likely to accelerate that process and facilitate its expansion into areas of employment that have not yet been affected. If Qantas is to have the status of a national carrier and/or enjoy the benefits of government assistance and support, there must be obligations on Qantas to ensure decent, secure Australian jobs and that human rights, labour and safety standards are maintained throughout their supply chain.

83. The ability to hire overseas based pilots and cabin crew would be a new opportunity to reduce labour costs and remove Australian jobs. More concerning is the exploitation of workers who are working in Australia but being on substandard wages and conditions. Qantas Group subsidiary, Jetstar, is being prosecuted in the Fair Work Commission for the engagement of Thai flight attendants on domestic routes for as little as \$257 per month, in breach of Australian law.³⁹
84. In February 2014, Jetstar was fined \$90,000 in the Federal court for making 6 cadet pilots employed on individual contracts through a New Zealand-based subsidiary pay for their own training. Justice Buchanan noted that: "The respondents used their vastly superior bargaining power to effectively brush aside any personal resistance by cadet pilots, not desisting until the AFAP stepped in... The conduct of Jetstar Group and Jetstar Airways was calculated solely by reference to their assessment of their own commercial interests."
85. Recently the Liberal government changed the requirements for the 457-visa scheme, including the removal on the number 457 workers a company can bring in without market testing or adequate protection. This will only exacerbate the vulnerability of this group of workers. As mentioned above, there have been clear cases where the Qantas group has demonstrated that it has no qualms in exploiting workers if they believe they can get away with it.
86. Further, Qantas Airways Limited does not take on new employees to perform ground-handling work. Jobs that were full time and allowed workers to provide for their families have been reinvented. The emerging companies, including wholly owned Qantas subsidiaries, now engage workers predominantly on a part time basis, and the action of Qantas in its supply chain have put downward pressure on wages, conditions, and employment security across the industry. With the exception of Virgin none of these companies has an obligation to hire one single full time employee.
- a. *"It's challenging physical labour and there's a good group of employees but retention of staff is a real costly issue because they only offer part-time work with a constantly changing roster. It's difficult to have a family or social life due*

Available: <http://australianaviation.com.au/2012/11/more-maintenance-jobs-go-as-qantas-continues-engineering-restructure/>; '21/01/2014, 'Qantas to send Boeing 747 maintenance work offshore after Avalon base closes,' ABC News, Available: <http://www.abc.net.au/news/2014-01-21/qantas-to-send-747-maintenance-work-offshore/5211738>
³⁹ Cannane, S., 27/07/2011, 'Jetstar crew members claim exploitation,' ABC News, Available: <http://www.abc.net.au/lateline/content/2011/s3279602.htm>

to the staggered start and finish times or not knowing how much money will be coming in each fortnight. So many fantastic people have left because they can't afford to stay on. You can't rely on your hours and you can't even get another job because the rosters keep changing." Tim, QGS Ramp Operations

87. Worker income guarantees are now based on a 20-hour working week. In the case of QGS – a wholly owned Qantas subsidiary, explicitly established with the purpose of driving down wages and conditions – the majority of workers are guaranteed \$200 below the national minimum wage. Anything above that is a bonus. Of more concern is the recent failure of QGS to successfully tender supply services for another Qantas Group Company.

- a. *We're always wondering when management will say we will longer need QGS either and outsource the whole lot. There's no job security or even reliable hours. Yet there are 2 or 3 people at management level doing the same role. Tim, QGS Ramp Operations*

88. In contrast to Qantas' race to the bottom on wages and conditions, Virgin Australia has been closing the gap on Qantas and has made a commitment to improving standards for their workforce and the insourcing of more of their operations. For example: in the *Virgin Australia Ground Crew Agreement 2013*, there is a commitment to ensure at least 35% of their team members are employed on a full-time basis, part-timers are also guaranteed at least 22 hours of work a week or 44 hours a fortnight, shift loadings per hour worked and penalty rates for weekend and holidays (Qantas call centre staff only receive around \$14 *per* shift). Further, Virgin has committed to developing a charter with unions outlining their supply chain responsibilities in line with industry best practice within 12 months of the agreement commencing.

Proposals for a Debt Guarantee

89. Mr Joyce has floated the concept of a debt guarantee for Qantas from the Government. A debt guarantee would transfer the operating risk from the private sector to the public sector (tax payers) without giving government the ability to direct strategy.⁴⁰ It amounts to giving the Qantas board a climate of "all care but no responsibility."

90. A debt guarantee does nothing to address any underlying difficulties that Qantas may experience, whether a consequence of legislative and regulatory framework or poor decision-making and strategy by the board and management. A debt guarantee

⁴⁰ Crowe, David, 2014, Alan Joyce's 'healthy' Qantas needs no debt guarantee, <http://www.theaustralian.com.au/business/aviation/alan-joyces-healthy-qantas-needs-no-debt-guarantee/story-e6frg95x-1226846488624#>, Viewed 12 March 2014

would only serve to ensure the Australian taxpayers would underwrite any poor political, policy or operational decisions.

An Equity Stake

91. An equity stake from government would be consistent with structures typical of other national carriers, many of who are in direct competition with Qantas.
92. It is expected that an equity stake would also deliver government a level of direct input into the operational decisions of the airline. National interest issues such as security, skills development, tourism promotion, employment opportunities and labour standards must be factored into operational decisions by the airline.⁴¹

Safety and Security of Australian Aviation

93. Qantas is renowned for its past history of safety excellence. Unfortunately that legacy, which had been established over generations, has been taken for granted by the current management and CEO, and allowed to fall behind competitors, both international and domestic.
94. Qantas' 2011 annual report speaks of their "global reputation for safety" which had been built by "staying at the leading edge of aviation technology".⁴² It goes on to boast that "Qantas is one of the world's most experienced and respected airlines, with a proud record of safety, innovation and excellence".⁴³ However, in recent years there have been a number of notable safety incidents, which coincide with management's offshoring agenda.
95. In fact, standards have slipped sufficiently for Qantas to drop out of the top 10 of the world's safest airlines in a recent report compiled by the Air Transport Rating Agency, after a string of high-profile incidents over the past three years, including A380 engine explosions, tyre blowouts and landing gear malfunctions.⁴⁴
96. For an airline that prides itself on a strong record of safety, concerns must be raised as to why there has been such a rapid increase in the number of dangerous incidents that have occurred mid-air in recent years.

⁴¹ Massola, James, 2014, Joe Hockey, Tony Abbott deny pressuring Qantas to change position on carbon tax, <http://www.smh.com.au/federal-politics/political-news/joe-hockey-tony-abbott-deny-pressuring-qantas-to-change-position-on-carbon-tax-20140305-347d7.html#ixzz2vhsyhSPP>, Viewed 12 March 2014.

⁴² Qantas 2011 Annual Report, p. 7, <http://www.qantas.com.au/infodetail/about/investors/2011AnnualReport.pdf>

⁴³ Ibid, p. 14

⁴⁴ "Qantas, once the 'world's safest airline' is out of top ten listing", Valentina Jovanovski, The Daily Mail, 30 August 2011, <http://www.dailymail.co.uk/travel/article-2031856/Qantas-missed-worlds-safest-airlines-listing-high-profile-safety-failures.html>

97. It is the position of the TWU that these engineering and mechanical shortcomings can be directly linked to the process of offshoring jobs – which has become increasingly apparent in Qantas under the direction of Alan Joyce.
98. In 2011, at a Senate inquiry held in light of concerns about more offshoring of jobs by Qantas, the National Secretary of the ALAEA, Stephen Purvinas, told the inquiry that the increasing number of engine failures was due to Qantas' reduced capacity for engineering and mechanical investigation and repair work.
99. Mr Purvinas told the inquiry that issues being experienced with the engines on the Boeing 747 were directly attributable to the closure of the LTQ engine repair shop, as an essential modification to these engines could no longer be conducted in Australia because the capacity for this work no longer existed. Qantas now has to wait for space to open up at shops in Hong Kong and Singapore rather than being able to perform the tasks more promptly in Australia.⁴⁵ He said that these engine failures were occurring at four times the rate of similar engines in other fleets.⁴⁶
100. Qantas has made assurances that the work performed at the LTQ site at Tullamarine would not be sent to the shops in Asia, but the Australian Workers Union (AWU) has placed on the record its concerns that once the dust has settled, these engines will be sent to China or the Philippines – rather than the initial site of Hamburg.⁴⁷
101. The implication is that the once world-leading Melbourne site – which attracted 60 expert aircraft engineers from around the world in the last three years – will now see these jobs performed in shops whose workmanship is outside of Australian legislative and industry standards, and indeed leaves much to be desired when one considers Qantas' recent record.
102. If this approach to Qantas is to continue – removing parts of the business one piece at a time and leaving it as a withered husk incapable of performing basic maintenance and repair tasks, just what about Qantas will actually be “a strong locally based airline”?⁴⁸
103. Scrapping the Qantas Sale Act or allowing Qantas to race to the bottom on maintenance and security standards will not only directly and significantly impact upon crew and safety, frontline jobs and the longevity of the airline itself, there will be significant impacts upon competition in the Australian aviation industry, with a likely impact upon financial and business interests both locally and abroad.

⁴⁵ “Qantas offshoring blamed for A380 blast”, news.com.au, 4 November 2011, <http://www.news.com.au/breaking-news/qantas-offshoring-blamed-for-a380-blast/story-e6frku0-1226186143440>

⁴⁶ Ibid

⁴⁷ “Qantas lies and sends engine maintenance offshore”, Australian Workers Union, 26 July 2012, http://vic.awu.net.au/729200_5.html

⁴⁸ “Applications for Authorisation – Qantas Airways Limited and Emirates Coordination Agreement. Submission to the Australian Competition and Consumer Commission”, p. 57

104. Relaxing the Qantas Sale Act, and allowing Qantas to further offshore and outsource its maintenance and other operations may have grave consequences for Australia's national security. The committee must consider the responsibility our national carrier has as an employer that provides secure and decent Australian jobs.

TWU Submissions

105. The TWU supports the proposition that Australia needs a strong national airline in Qantas but there must be a forensic examination of the factors that have contributed to Qantas current state.
106. Consideration should be given to the influence of Australian Air Treaties on Qantas ability to compete internationally.
107. The TWU submits that a repeal of part 3 of the Qantas Sale Act will not address poor strategic and planning decisions that have contributed to the situation that Qantas now finds itself in. In fact it is more likely to see a replication by Qantas of their domestic capacity war in the international arena. Further the net impact will be to accelerate redundancy programmes within Qantas, reduce family incomes for those who maintain Australian based work and send aviation employment opportunities offshore.
108. A debt guarantee will not serve to improve decision-making by Qantas management. The Australian public could find itself funding outcomes that are costly, and inefficient without having had the opportunity to contribute to better planning, strategy and decision-making. All risk will be transferred to the public sector whilst rewards, if any, will be the exclusive domain of the private sector.
109. Any consideration of a government equity stake should be conditional on the provision of quality Australian jobs, a commitment to skills development and innovation, the ability to scrutinise and contribute to the strategic direction and growth plans for the airline, the prioritisation of national aviation security and the service of the national interest.
110. Forward planning by management has been non-existent as evidenced by the idle Jetstar capital and the failure to regenerate an aging Qantas fleet unable to meet modern aviation market performance standards.
111. As such the behaviour and actions of Qantas have an enormous impact on Australia's aviation industry supply chain, and deserve greater scrutiny that may not be appropriate to other carriers operating in the Australian market.
112. The Qantas Sale Act was enacted in 1992 to ensure that Qantas remained an Australian airline, serving the national interest.

113. Qantas and Jetstar together command 65% of the domestic market and more than 25.7% of the international market.⁴⁹ It is the dominant participant in Australian aviation and sets standards other carriers follow.
114. The Qantas Sale Act is there to support the national interest, but the wholesale outsourcing and offshoring, the flouting migration and tax laws, and reducing employment standards do not serve the national interest.
115. In recent years Qantas has embarked on a deliberate and calculated plan to offshore and outsource pilots, cabin crew, engineers and mechanics, and ground crew.
116. The implications for losing such an important part of Australian life and history are deeply significant – and go beyond the commercial implications. Rather than this race to the bottom the government should be supporting and ensuring that all workers in our airspace regardless of their nationality share the same rights and conditions.
117. For decades Qantas has been part of Australia's strategic defence interests, because as Qantas notes on its website, Qantas (is) "...a vital link enabling the raise, train and sustain functions of Australia's military capability".⁵⁰
118. It is the TWU's position that relaxing certain provisions of the sale Act and the regulatory regime as it applies will be just the beginning of a slippery slope that will lead to the break-up and sale of Qantas, piece by piece. An outcome not in Australia's national interest.
119. Qantas' alliance with Emirates has seen it abandon international routes out of Brisbane, Adelaide, and Perth means that (combined with lack of fleet renewal and expansion) Qantas is in effect reducing itself to a carrier conducting major international operations out of only two Australian cities.
120. Such moves destroy Qantas' brand integrity, one its key marketing propositions, and leave it at the whim of a business partner (Emirates) which is ever expanding and the dominant partner in the proposed conduct.
121. As Qantas has demonstrated in the domestic aviation market, where it aggressively defends its market share, abandoning market share in the short-term is not a recipe for expansion in the future.
122. Removing requirements on Qantas to ensure its loyalty to the Australian national interest and the current Qantas board's strategies will have a range of negative long-term consequences for Australia as a whole, and for workers in the

⁴⁹ "Qantas ready for Virgin in domestic dog fight", Michael Smith, AFR, 23 April 2012, http://afr.com/p/business/companies/qantas_ready_for_virgin_in_domestic_uZzfeXbfkDPy2YrR5So3IM and "International Airline Activity Report 2011", Bureau of Infrastructure, Transport and Regional Economics, http://www.bitre.gov.au/publications/ongoing/files/International_airline_activity_CY11.pdf

⁵⁰ "Qantas Defence Services", Qantas Airways Limited, <http://www.qantas.com.au/gds.qantas.com.au/>

aviation industry in particular. It is a move that is not in the national interest and thus cannot be seen to be in the public interest.

123. For too long Qantas has put forward spurious rationale for their seemingly endless crises. The lack of substance in the ten conditions attributed to the “toughest operating climate” being experienced by Qantas is evidence of this. In excess of 33,000 of Australia’s most productive workers will potentially pay the price for decisions they have no control over.

124. In considering assistance options for Qantas and the industry, it is incumbent upon parliament and the Australian government to demand full disclosure of the full reasons for evident financial difficulties before any commitment can be given on behalf of the Australian public.

**Names have been changed to protect workers identities.*

ENDS