

Submission to the QANTAS Inquiry established by the Federal Government, Rural and Regional Affairs and Transport References Committee.

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1. The future of QANTAS is **important for the Australian economy and society** as a whole, as well as for its customers and employees. The company has been an Australian icon for many decades, traditionally symbolizing safety, reliability and quality of service throughout the world.
2. 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.
3. Because the CEO and the Board bear primary responsibility for these failed policies, they should be **removed from office**. Alan Joyce in particular has come to symbolize the unsustainable situation. His contract should be terminated and shareholders should do all they can to prevent or minimize any severance payment, so that he does not profit further from his abject failure.
4. The company needs to be put on a sounder footing, serving the broader needs of the Australian people. In my judgment there is a **strong case for returning the airline to public ownership**, as was the case before its privatization by the Keating government in 1993. 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*).
5. Dealing with the QANTAS situation needs to be seen not only as a 'rescue mission' but as part of a long term-commitment by the Australian government to **systematic industry policy**. The current government has a declared ideological aversion to interventionist industry policy, but this bias needs to be overcome by recognising with the real situation. All governments support industries for a variety of economic, social and ideological reasons. Consider, for example, the Australian superannuation industry, the majority of which is based on private retail funds. It benefits hugely from the compulsory nature of contributions and the annual \$33bn in tax concessions on

fund earnings and contributions. The private health industry benefits from the \$1.6bn received each year by health fund members. And the Australian banking sector is effectively government guaranteed – ‘too big to fail’ - making it one of the most concentrated and profitable oligopolies in the developed world. If sectors like superannuation, health insurance and banking warrant continuing support from government, why shouldn't a more general case for industry policy, including aviation and other transport services, also be considered legitimate? The choice should not be between *ad hoc* temporary bailouts or letting the market decide the outcome. Indeed, industry policy of some form is ever-present: it can either be intermittent and crisis-driven or it can be ongoing and systematic. The latter is clearly preferable from a public interest perspective.

6. Industry policy applied to aviation, and to the transport sector more generally, can be particularly important for fostering **workforce skills** upon which every modern economy depends. The sector employs engineers, technicians, maintenance fitters, and other operatives with the skills necessary to install and maintain transport equipment and infrastructure. These skills are essential in other sectors too: in manufacturing industries, telecommunications, and so on. Providing employment in these areas, especially where it involves workforce training and skills development, therefore creates important inter-industry benefits. Public ownership of QANTAS would enhance the opportunity for giving due attention to these national concerns.
7. **The other two policy responses to the QANTAS crisis that are currently being considered are, in my judgment, inappropriate.** 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.
8. **Nor would it be appropriate to repeal Part 3 of the QANTAS Sale Act.** That proposal now seems to be the government's preference, but it looks like primarily a political strategy (to 'wedge' the Labor and Greens opposition in the national parliament) rather than a sound economic strategy. No case has been made that the root problem of the airline is insufficient access to funds from overseas investors or, more generally, that capital shortage is the problem. But were foreign control to be permitted, other problems arise, specifically;
 - [a] the **loss of many more jobs** as the company outsources them to overseas contractors overseas. That, rather than access to more capital, would be the more certain consequence of repealing Part 3 of the Act;
 - [b] the eventual outflow of capital because **future profits may be repatriated** overseas;
 - [c] the problems that could arise in the event of **wars or other emergency situations** that require government to direct or negotiate an immediate 'national interest' response from a national carrier;
 - [d] other **public interest obligations**, such as providing airline services to regional and remote Australia, could also be put at risk.
9. 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 intra-

nationally 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.** There needs to be a sharp break with the past to create a new culture of working together in the business for the national interest.

10. Finally, it is important to note that there is an **environmental dimension** to the QANTAS situation that deserves attention. We should be anticipating and planning for a future when environmental conditions may require radical changes in aviation. For example, resource shortages associated with aviation fuel and the consequences for atmospheric pollution may eventually require general limits on the amount of air travel undertaken. The escalation of air traffic volume cannot continue indefinitely. **Having our national carrier in public hands should make it easier to apply national (and global) interest criteria into planning for these future contingencies and transitions.**