

# Chapter 2

## Key matters raised in evidence

2.1 This chapter considers the key matters raised in evidence to the committee with focus on the potential impact on Australian jobs of the repeal of Part 3 of the *Qantas Sale Act 1992* (Sale Act). At its centre is the question of whether repeal of the Act, which requires most of the airline's heavy maintenance to be carried out in Australia, would trigger the loss of jobs in Australia by way of outsourcing and off-shoring positions and thereby potentially impact Qantas aircraft maintenance and safety. Underpinning these concerns is the sustainability of the Australian aviation sector and specifically Australia's aviation maintenance, repair and overhaul capability as well as Australia's national interest particularly during periods of national emergency.

### Australia's aviation sector

2.2 In a 2011 report commissioned by the International Air Transport Association (IATA) and based on 2009 data, Oxford Economics noted that the aviation sector contributes \$32 billion (2.6 per cent) to Australian Gross Domestic Product (GDP) of which:

- \$13.5 billion directly contributed through the output of the aviation sector (airlines, airports and ground services);
- \$11.0 billion indirectly contributed through the aviation sector's supply chain; and
- \$7.4 billion contributed through the spending by the employees of the aviation sector and its supply chain.
- Additionally, there are \$43.7 billion in 'catalytic' benefits through tourism which raise the overall contribution to \$75.6 billion or 6.1 per cent of GDP.<sup>1</sup>

2.3 Oxford Economics found that the aviation sector supports 312,000 jobs in Australia including:

- 149,000 jobs directly supported by the aviation sector;
- 97,000 jobs indirectly supported through the aviation sector's supply chain; and
- 65,000 jobs supported through the spending by the employees of the aviation sector and its supply chain.
- In addition there are a further 495,000 people employed through the catalytic (tourism) effects of aviation.<sup>2</sup>

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1 Oxford Economics, *Economic Benefits from Air Transport in Australia*, 2011, p. 4. <http://www.benefitsofaviation.aero/Documents/Benefits-of-Aviation-Australia-2011.pdf> (accessed 17 March 2014).

2.4 In terms of Qantas, over 27,000 people are currently employed by the airline.<sup>3</sup> The IATA calculates that for every dollar an airline earns there is a threefold impact on the economy. The Australian and International Pilots Association (AIPA) made the point that Qantas' effect on the national economy is therefore potentially \$45 billion.<sup>4</sup>

2.5 Citing the Oxford Economics report which found that the productivity of air transport services is estimate to be \$205,012 per annum in gross value added to their employer's enterprises which is 1.8 times the national average, Mr Anthony Sheldon, National Secretary of the Transport Workers Union (TWU) argued that aviation transport support workers are amongst the most productive in the country.<sup>5</sup>

### **Qantas ownership arrangements**

2.6 At the outset, the committee acknowledges the fact that amendments to the Sale Act are currently before the Senate Economics Legislation Committee, and it does not intend to replicate that committee's work. However, this committee considers some degree of overlap to unavoidable, given the strong correlation between the Sale Act and the committee's terms of reference.

2.7 Under the *Air Navigation Act 1920* (Navigation Act), Australian airlines including Qantas are required to be at least 51 per cent locally owned in order to gain access to air routes into and out of the country. The Sale Act also imposes additional restrictions on Qantas. Section 7 of Part 3 of the Act imposes restrictions on foreign ownership of Qantas by requiring that:

- total foreign ownership of Qantas is not to exceed 49 per cent;
- any single foreign investor is limited to a 25 per cent stake in Qantas; and that
- foreign airlines can hold no more than 35 per cent of Qantas shares in total.

2.8 Qantas has consistently made the point that the Australian domestic market has been distorted by current Australian aviation policy which allows its rival, Virgin Australia, to be bankrolled by three totally or majority foreign government-owned

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2 Oxford Economics, *Economic Benefits from Air Transport in Australia*, 2011, p. 4.  
<http://www.benefitsofaviation.aero/Documents/Benefits-of-Aviation-Australia-2011.pdf>  
(accessed 17 March 2014).

3 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 42.

4 Australian and International Pilots Association, *Submission 10*, Attachment 2, p. 1.

5 Oxford Economics, *Economic Benefits from Air Transport in Australia*, 2011, p. 19; Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, p. 10.

airlines which have a 70 per cent majority ownership of Virgin while retaining access to Australian bilateral flying rights.<sup>6</sup>

2.9 Virgin began operations in Australia in 2000 as a low-cost domestic airline and expanded into international travel in 2009. By late 2011, Virgin Australia was still majority Australian-owned with its largest shareholders Virgin Group's Vieco 2 Limited with 25.9 per cent and Air New Zealand Associated Companies Limited with 12 per cent.<sup>7</sup> In early 2012, Virgin Australia announced a restructure which created a new entity, Virgin Australia International Holdings Pty Ltd (VAIH) which remained Australian-owned in accordance with the Navigation Act. This enabled Virgin's domestic entity, Virgin Australia Holdings (VAH), to have a majority of foreign investors. As of November 2013, VAH's major shareholders were Air New Zealand which owns 22.9 per cent, Etihad Airways which owns 19.9 per cent and Singapore Airlines with 19.9 per cent of shares.<sup>8</sup>

### Capacity and competition growth

2.10 The Australian aviation sector has experienced a rapid growth in capacity in recent years, which has brought about a commensurate sharpening in competition between carriers. Specifically, according to Qantas, its competitors have increased capacity to Australia by 46 per cent since 2009, more than double the world average, at a time of record fuel costs and economic volatility:

We have met these challenges head on. Over the past four years, we have been carrying out the biggest transformation since Qantas was privatised – cutting comparable unit costs by 19 per cent over four years, introducing new aircraft and technology on a large scale, modernising work practices and revitalising service. But this is not enough for the circumstances we now face.<sup>9</sup>

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- 6 Mr Gareth Evans, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 42; Fiona Buffini, 'Abbott on Qantas: 'Not government's job to play favourites'', *Australian Financial Review*, 3 March 2014, [http://www.afr.com/p/business/sunday/government\\_will\\_not\\_play\\_favourites\\_hs0ruzSYyiRcehDO8Jyp2L](http://www.afr.com/p/business/sunday/government_will_not_play_favourites_hs0ruzSYyiRcehDO8Jyp2L) (accessed 6 March 2014); Qantas Group, Qantas Group Strategic Update, *Media Release*, 27 February 2014, p. 2, <http://www.qantas.com.au/infodetail/about/investors/2013HYMediaReleaseStrategyUpdate.pdf> (accessed 6 March 2014).
- 7 ABC News, Fact file: Is Qantas on an 'unlevel playing field'?, 5 March 2014, <http://www.abc.net.au/news/2014-03-05/fact-file-is-qantas-on-an-unlevel-playing-field/5290776> (20 March 2014).
- 8 David Flynn, 'Air New Zealand looks to boost Virgin Australia stake to 25%', *Australian Business Traveller*, 14 November 2013, <http://www.ausbt.com.au/air-new-zealand-looks-to-boost-virgin-australia-stake-to-25> (accessed 20 March 2014).
- 9 Qantas Group, Qantas Group Strategic Update, *Media Release*, 27 February 2014, p.1, <http://www.qantas.com.au/infodetail/about/investors/2013HYMediaReleaseStrategyUpdate.pdf> (accessed 6 March 2014).

2.11 Mr Gareth Evans, Chief Financial Officer with Qantas Airways listed the additional contemporary challenges faced by Qantas including an oversupply of capacity in Australia, with capacity at more than double the rate of the rest of the world.<sup>10</sup> Qantas has repeatedly argued that the injection of more than \$300 million in capital into Virgin Australia facilitated a continuation of capacity growth by Virgin into the domestic market despite its growing losses.<sup>11</sup>

2.12 Additional factors noted by Mr Evans include the high Australian dollar, a record fuel bill of \$4.6 billion, \$106 million spent in 2013 on the carbon tax and the loss of its investment-grade credit rating.<sup>12</sup> Mr Evans continued:

Remember: unlike many of our international competitors, Qantas receives no preferential treatment from government—no tax concessions, no discounts on fuel, no preferred access to airports, no government mandated travel and no assistance in raising capital or in the cost of our capital, and less-favourable aircraft depreciation rates than those of our foreign competitors. Even airlines without official government backing—in markets like Japan, Canada and the United States—have been able to undertake significant restructuring with the benefit of government sponsorship. Qantas is simply asking for a level playing field, and we are confident that in any fair competition Qantas will win.<sup>13</sup>

2.13 Qantas management has repeatedly stated that Qantas competes on an uneven playing field and that there are measures that should be taken to redress the situation. However, when asked by the committee at its hearing what action was sought by Qantas, Mr Joyce repeatedly stated that Qantas should have the ability to replicate Virgin's foreign ownership structure:

Virgin has the ability of having 80 per cent foreign ownership, and they have still maintained the bilateral rights to operate to the west coast of the United States, to Bali and to New Zealand. What Qantas is asking for is that if the law allows Virgin to do that it has to be replicated for Qantas in order to give it a level playing field. If Virgin has a structure that is acceptable and now allows it to access 100 per cent foreign ownership, then the same conditions have to apply to Qantas, otherwise we have a distortion in the marketplace.<sup>14</sup>

2.14 And:

It comes back to the fact that we have allowed Virgin to have 80 per cent foreign ownership now, with three state owned airlines, and have the ability

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10 Mr Gareth Evans, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 42.

11 Qantas Group, Qantas Group Strategic Update, *Media Release*, 27 February 2014, p. 2, <http://www.qantas.com.au/infodetail/about/investors/2013HYMediaReleaseStrategyUpdate.pdf> (accessed 6 March 2014).

12 Mr Gareth Evans, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 42.

13 Mr Gareth Evans, Qantas Airways, *Committee Hansard*, 14 March 2014, pp 42–43.

14 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 44.

to have all of its operations conducted offshore, as much as it wants. If we really want a fair and level playing field we need to have the same ability for Qantas to have that flexibility into the future. Otherwise, that distortion will cause even more job losses in Qantas, because it will not be able to compete.<sup>15</sup>

2.15 However, in relation to the legislative reforms that would enable Qantas to replicate Virgin's foreign ownership structure the AIPA noted that the 49 per cent foreign ownership limit on Qantas in the Sale Act is tied to the 49 per cent foreign ownership limit on all other Australian-designated international airlines under the Navigation Act. They note that in both cases, the limit reflects partial satisfaction of the predominant 'substantial ownership and effective control' clause of the Air Service Agreements. The 'substantial ownership' clause relates to any Australian-designated international airline and is the default trigger clause if the 49 per cent ownership limit is abrogated.

2.16 The AIPA further highlighted that the Navigation Act includes an exemption provision (Qantas exemption) that ensures that the foreign ownership limits in the Navigation Act do not apply to Qantas because of the separate but matching restrictions in the Sale Act. In addition, the Navigation Act does not include any 'national interest' provisions such as those that apply in the Sale Act. Therefore, AIPA hold the view that repeal of the Qantas exemption in the Navigation Act would be an 'essential precondition' to any repeal of the 49 per cent foreign ownership limit placed on Qantas by the Sale Act in order for the 'playing field to remain level by ensuring all Australian-designated international airlines are subject to foreign ownership limits in the Navigation Act'.<sup>16</sup>

2.17 The AIPA also made the observation that the foreign ownership restrictions set out in the Sale Act which go specifically impose sub-limits on foreign airlines (restricted to 35 per cent of shares in the airline) and any foreign person (restricted to 25 per cent) should be repealed.<sup>17</sup> The AIPA argued that the original rationale for limiting foreign airline holdings was solely related to bilateral air service agreement requirements which no longer exist. They make the point that:

The rationale for limiting foreign ownership limits for individual shareholders, which was always amenable to be controlled through the *Foreign Acquisitions and Takeovers Act 1975*, also disappeared almost 14 years ago.

What possible justification could there be to retain those completely obsolete and irrelevant foreign airline and foreign individual limits for Qantas, but not for any other Australian international airline?<sup>18</sup>

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15 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 44.

16 Australian and International Pilots Association, *Submission 10*, Attachment 1, pp 1–2.

17 Australian and International Pilots Association, *Submission 10*, p. 3.

18 Australian and International Pilots Association, *Submission 10*, Attachment 2, p. 5.

2.18 The committee notes that the Sale Act not only limits foreign ownership of Qantas but also places requirements on Qantas to ensure that its maintenance and other facilities are located in Australia. For these reasons, the committee does not support the repeal of Part 3 of the Sale Act under the Qantas Sale Amendment Bill 2014. The committee does, however, see merit in the abolition of the 35 per cent and 25 per cent sub-limits under paragraphs 7(1)(aa) and (b) of the Sale Act as they serve no useful purpose. For these reasons, the committee supports the repeal of the sub-limit provisions.

### **Recommendation 1**

**2.19 The committee recommends that paragraphs 7(1)(aa) and 7(1)(b) of the *Qantas Sale Act 1992* be repealed while leaving the remainder of Part 3 of the *Qantas Sale Act 1992* intact (subject to any consequential amendments).**

### **Qantas' management strategy**

2.20 The committee took evidence from a number of submitters arguing that Qantas management seemed not to have a clear and sensible strategy for taking the airline forward into profitability and growth. Some of the matters addressed by the evidence included questioning the Qantas Board's experience in running an airline, the airline's poor fleet planning decisions, its determination to preserve a 65 per cent share of the domestic market, and the significant contraction in the number of routes served by Qantas mainline around the world.<sup>19</sup>

2.21 The committee heard from the Australian Licenced Aircraft Engineers Association (ALAEA) that:

...the management team and Board over a period of the last six years has made mistakes and have not deliberately placed Qantas in the position they are in today. This notion is possible as 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). The Board consists of the following individuals with the following qualifications or background:

Leigh Clifford (Chairman) - Miner

Alan Joyce (CEO) – Mathematician

Maxine Brenner – Lawyer

Richard Goodmanson – Civil Engineering

Jaqueline Hey – Marketing, Banking

Garry Hounsell - Accountant

William Meaney - Pharmaceuticals, Records management

Paul Rayner – Tobacco

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19 Colonial Airways, *Submission 1*, p. 5; Mr Steve Ashby, *Submission 7*, p. 3.

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Barbara Ward –Political Advisor, Economics.<sup>20</sup>

2.22 The committee also notes queries about Mr Joyce's determination to maintain the Qantas share of the domestic market at 65 per cent and the associated decision to respond to added route capacity on Virgin's part by adding twice the Qantas capacity.<sup>21</sup> Overcapacity, leading to planes flying with empty seats, with those seats that are occupied being sold for relatively low yields, is a very expensive and ultimately unsustainable approach to running an airline. While Qantas argues that the approach is necessary to preserve its 65 per cent 'line in the sand', and that a route frequency advantage is a critical component of that, the committee questions whether a more restrained approach might yield a similar (and far cheaper) result.<sup>22</sup>

2.23 The committee was also made aware of a dramatic contraction in the number of routes served by Qantas mainline aircraft over recent years, including for example the suspension of flights to:

- London via Hong Kong, Singapore and Bangkok, all of which now depend on codeshares;
- Frankfurt, when the committee was told the load factors over the previous 12 months has averaged 85 per cent;
- Perth, Adelaide and Brisbane to Europe (with only one stop), with Emirates immediately increasing services;
- Singapore from Perth;
- San Francisco;
- Any international destination from Adelaide;
- Mumbai (first the Sydney to Mumbai direct service and then the Mumbai via Singapore replacement service);
- Los Angeles via New Zealand;
- Buenos Aires, which was replaced with Santiago as a destination, despite the fact that Santiago is a hub served by codeshare partners LAN Chile and TAM Brazil.<sup>23</sup>

2.24 The committee heard from Colonial Airways that:

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20 Australian Licenced Aircraft Engineers Association, *Submission 2*, p.13.

21 Adele Ferguson, 'At capacity: Too many seats grounding Qantas and Virgin profits', *Sydney Morning Herald*, 28 February 2014, <http://www.smh.com.au/business/comment-and-analysis/at-capacity-too-many-seats-grounding--qantas-and-virgin-profits-20140228-33phq.html> (accessed 21 March 2014).

22 Mr Steve Ashby, *Submission 7*, p. 3.

23 Australian Licenced Aircraft Engineers Association, *Submission 2*, p. 14; Mr Steve Ashby, *Submission 7*, p. 3.

Qantas losses also rose and compounded dramatically here due to the inconceivable and poorly timed withdrawal and handoff of lucrative international routes and national markets. This is made crystal clear by Mr. Oliver Lamb from Pacific Aviation Consulting. Lamb stated in a national Qantas' future as a strong national carrier supporting jobs in Australia article in December 2013 "that the struggling airline needed to reconnect with its Australian customers outside Sydney (read internationally) if it was to return to profitability". He said further "Qantas had made an error by slashing international services from Brisbane, Melbourne, Perth and Adelaide in the past two years, allowing foreign airlines to capture its market share". "Qantas has spent a lot of money on ventures in Asia, and Jetstar, at the expense of its international network," Mr Lamb said. This is the crux of the very reason Qantas has moved backwards. The International arm of Qantas could not capture the outbound market when the Australian dollar rose against all currencies. Extraordinarily the Qantas board and Alan Joyce followed the international reduction philosophy in order to attempt to reduce costs dropping the international traditional and rite of passage routes such as Melbourne, Sydney and Brisbane to Singapore and onto Europe (London, Frankfurt and Paris) as well as the Melbourne and Sydney to Bangkok and London and Melbourne and Sydney to Hong Kong and London routes.<sup>24</sup>

2.25 These concerns were matched by concerns regarding cuts to, and delays with the renewal of, Qantas' fleet. Colonial Airways noted in this regard that:

While the Virgin market share battle has contributed significantly to Qantas's weakness, Qantas Corporate Management and the Qantas Board must take sole responsibility and liability for the recent fiscal outcomes. The reduction in capacity of Qantas International carriage and the release of extensive routes and reduction of international aircraft hulls, failed to supply Qantas Domestic Mainline with the inbound carriage so desperately needed in its capacity war against Virgin.

Significantly Qantas had not upgraded its international fleet to fuel-efficient B-777 and had released Boeing from the firm orders of the fuel efficient and technically advanced B-787-900 and was attempting to compete with 1963 technology and fuel guzzling B-747's and high cost four-engine A380 aircraft over routes that are suited to wide-bodied twin jets.<sup>25</sup>

2.26 Similarly, Mr Anthony Sheldon, National Secretary of the TWU also noted that in, contrast to the capital outlays for Jetstar, the Qantas Group failed to upgrade the premium Qantas fleet to more fuel-efficient aircraft. He noted that it has cancelled orders for more than 35 Boeing 787-9 Dreamliners, 'even though Qantas themselves tout the Dreamliners as being able to fly further, faster and with greater fuel efficiency than any other plane in its class'.<sup>26</sup>

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24 Colonial Airways, *Submission 1*, p. 5.

25 Colonial Airways, *Submission 1*, p. 7.

26 Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, p. 11.



## **Qantas' \$2 billion cost reductions**

2.27 In evidence to the committee, Qantas emphasised that while the legislative process is underway to repeal Part 3 of the Sale Act, its management was focused on the lowering of the company's cost base. Mr Evans noted that this would involve significant job losses, cutting capital commitments, suspending growth in non-essential areas and protecting Qantas' core business which 'means our domestic market position and the experience of our customers'.<sup>27</sup>

2.28 Mr Joyce informed the committee that 250 projects had been identified across the company to achieve a projected \$2 billion in savings. The 5000 job losses comprise 25 per cent of the total cost savings and include 1500 support and back-office jobs as well as 300 jobs in line maintenance and jobs relating to the Avalon closure as well as changes to Adelaide catering.<sup>28</sup> The committee heard that there will be a reduction in employees consequent to the retirement of 767 aircraft in early 2015 primarily impacting cabin crew, flight attendants and engineers.<sup>29</sup> However, Qantas were unable to provide details as to the number of jobs that will be cut with the retirement of the 767s and was unable to explain to the committee exactly where the remaining 3200 jobs will be cut from.

2.29 Further to job losses, the other 75 per cent of savings are expected to come from fuel, fleet simplification and unspecified efficiencies.<sup>30</sup> Mr Joyce explained to the committee that 40 per cent of Qantas' controllable costs were labour and that proportionately the airline was trying to avoid impacts on labour compared to other aspects of the organisation.<sup>31</sup>

2.30 Mr Ian Thomas, former aviation journalist and currently a consultant specialising in aviation, noted that the announcement of the loss of such a large number of jobs suggested that there was something wrong in the way management was handling the situation. He suggested that as an alternative, Qantas management could have phased out the jobs over a period of time or adjusted the workforce along the way.<sup>32</sup> Mr Thomas continued:

To get to a stage where you have to announce 5,000 losses implies a dramatic event within that company. In Qantas's case it was something that they would have been well aware of some years ago. What I am suggesting is that if they required job losses—in other words, if the market was getting softer and demand was heading in the wrong direction as far as they were

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27 Mr Gareth Evans, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 43.

28 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, pp 43 & 51.

29 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 43.

30 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 44.

31 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 51.

32 Mr Ian Thomas, CAPA Consulting, *Committee Hansard*, 14 March 2014, p. 2.

concerned—then they would have made adjustments to the workforce over time. It would not have been some sort of cataclysmic adjustment.<sup>33</sup>

2.31 However, Mr Joyce of Qantas informed the committee that its announced job cuts and savings plan were not unusual as:

Similar transformation programs in airlines have taken place around the globe. Recently JAL Airlines in Japan made the announcement that they were going to make a reduction in their employees of 21,000, 30 per cent of their employees. They went through a program that lasted well over two years in order to get themselves back on track. They were losing a lot of money and they have become the most profitable airline in the world. Air France made an announcement about a reduction of over 5,000 employees. They have since come back and said that has increased by 2,800. We have had Lufthansa similarly make an announcement on job losses. And American Airlines have gone through a chapter 11 process where they have made 9,600 employees redundant in a transformation that also took a year and a half or two years to do. It is not an unusual process in the aviation industry; it is the way these processes have to work. There are plenty of airlines around the globe that have done it in a very similar way.<sup>34</sup>

2.32 Nonetheless, the committee considers that Mr Joyce's argument is somewhat diminished by his own statement that the magnitude of the cuts to Qantas would be proportionately greater than those undertaken by American carriers who at the time were fighting off bankruptcy, which suggests to the committee that the cuts proposed for Qantas are of an unusually large scale.<sup>35</sup>

2.33 The committee raised the question of management responsibility directly with Qantas management. Mr Joyce was asked whether the board and he, as CEO, were responsible for the current financial state of the airline. Rather than declare responsibility for a situation in which the airline is running at a loss, the share price has fallen dramatically, and the workforce is suffering dramatic cutbacks, Mr Joyce was evasive, preferring to blame an oversupply of capacity internationally for the financial state of the airline rather than management decisions.<sup>36</sup>

### **Potential impact on Australian jobs arising from repeal of Part 3 of the Sale Act**

2.34 Adding to the committee's alarm at the lack of specificity from Qantas on the jobs that will be cut, the committee also heard of the significant potential for *further* job cuts as a result of prospective changes to the Sale Act. It was specifically

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33 Mr Ian Thomas, CAPA Consulting, *Committee Hansard*, 14 March 2014, p. 4.

34 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, pp 43–44.

35 Qantas Airways, 'Alan Joyce Speech to Tourism and Transport Forum Friends of Tourism Event', *Media Release*, 13 February 2014; <http://www.qantasnewsroom.com.au/media-releases/alan-joyce-speech-to-tourism-and-transport-forum-friends-of-tourism-event?print=1> (accessed 21 March 2014).

36 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 46.

concerned by the potential effect of the removal of paragraph 7(1)(h) as a consequence of the possible repeal of Part 3 which would abandon the national interest 'facilities' provisions which:

...require that of the facilities, taken in aggregate, which are used by Qantas in the provision of scheduled international air transport services (for example, facilities for the maintenance and housing of aircraft, catering, flight operations, training and administration), the facilities located in Australia, when compared with those located in any other country, must represent the principal operational centre for Qantas.

2.35 In his evidence to the committee, Mr Joyce argued that if Qantas' competitor has the ability to conduct all of its heavy maintenance and call centres offshore as well as to access foreign capital, then for Qantas to compete on a level playing field it needs the freedom to have the same flexibility and options.<sup>37</sup> Furthermore, Mr Joyce said that while the loss of 5000 positions had been announced, he could not rule the prospect of further job losses either in or out because:

It comes back to the fact that we have allowed Virgin to have 80 per cent foreign ownership now, with three state owned airlines, and have the ability to have all of its operations conducted offshore, as much as it wants. If we really want a fair and level playing field we need to have the same ability for Qantas to have that flexibility into the future. Otherwise, that distortion will cause even more job losses in Qantas, because it will not be able to compete.<sup>38</sup>

2.36 Mr Sheldon from the TWU argued that repeal of Part 3 of the Act is likely to accelerate the process of facilities and jobs in maintenance, administration, catering as well as pilot positions going offshore.<sup>39</sup> While unsure of how many positions might end up overseas which could 'run into the hundreds', Mr Sheldon noted that the ability to hire overseas based pilots and cabin crew would provide a new opportunity to reduce labour costs and remove Australia jobs.<sup>40</sup> Mr Sheldon argued that repeal of Part 3 of the Act would cause:

...significant employment opportunities to move offshore, including maintenance, catering, flight attendants, corporate staff and, of course, even pilots. Earning an income that is sustainable in Australia will become more difficult as competition against labour costs of foreign workers takes further hold. No longer requiring headquarters and major service centres to operate

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37 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 44.

38 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 44. Etihad is owned by the Abu Dhabi government, Singapore Airlines is majority owned by the Singapore government and Air New Zealand is majority owned by the New Zealand government.

39 Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, pp 11 & 17.

40 Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, pp 11 & 17.

from Australia will encourage Qantas to seek lower wage costs overseas regardless of productivity levels within Australia.<sup>41</sup>

2.37 To support his claim, Mr Sheldon informed the committee that Qantas Group's subsidiary Jetstar was being prosecuted in the Fair Work Commission for engaging Thai flight attendants on domestic routes at Thai wages of as little as \$257 per month in breach of Australia law.<sup>42</sup>

2.38 The committee heard similar fears from other employee representatives. In relation to the national employment interest, Ms Linda White, Assistant National Secretary, Australian Services Union (ASU) argued that the proposed repeal of Part 3 of the Act would create a superhighway to exit Australian jobs from Qantas and Australia.<sup>43</sup>

2.39 The committee notes newspaper reports have suggested that a repeal of the Act which requires most of the airline's heavy maintenance to be carried out in Australia could trigger an additional loss of 800 jobs as the work is likely to move to Dubai.<sup>44</sup>

2.40 Mr Sheldon also argued that as part of this shift towards moving jobs offshore, jobs which were previously full-time in ground handling have most recently been job shifted to part-time whereby employees are guaranteed a minimum of just over 20 hours of work, equating to an income \$200 below the weekly minimum wage.<sup>45</sup> He informed the committee that at the last round of negotiations between the union and Qantas which concerned 1400 Qantas employees, it was made clear by Qantas that there are no full-time jobs available. According to Mr Sheldon, Qantas would not provide forecasted future rosters which would otherwise facilitate

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41 Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, p. 11.

42 In May 2012, the Fair Work Ombudsman issued a media release which stated that airline cabin crew recruited in Thailand were allegedly staffing domestic routes in Australia for Jetstar Airways for up to half the cost required to meet their minimum entitlements. Fair Work Ombudsman, 'Thai cabin crew allegedly underpaid on Jetstar domestic routes', *Media Release*, 28 May 2012, <http://www.fairwork.gov.au/media-centre/media-releases/2012/05/pages/20120528-ja-litigation> (accessed 17 March 2014).

43 Ms Linda White, Australian Services Union, *Committee Hansard*, 14 March 2014, p. 24.

44 Ellen Whittnett, Jessica Marzsalek and Stephen McMahon, 'Qantas begins purge', *Herald Sun*, 5 March 2014. According to evidence from the Australian Licenced Aircraft Engineers Association, heavy maintenance checks are generally major events consisting of extensive structural inspections with aircraft stripped of seats and floorboards internally to inspect and replace not normally visible or accessible during short routine maintenance. In comparison, line maintenance occurs on a daily basis as aircraft come in and out, and comprises lighter checks carried out during overnight servicing. Australian Licenced Aircraft Engineers Association, *Submission 2*, p. 2.

45 Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, pp 11 & 15.

employees seeking a second job and refused to consider moving half of its part-timers into full-time work over a period of time in accordance with operational need.<sup>46</sup>

2.41 Ms White of the ASU noted that 60 per cent of her union members were operating under a Qantas agreement in which their base rate is between \$37,000 and \$57,000.<sup>47</sup> Of those members, 35 per cent are part-time workers. At Jetstar, 500 ASU members are on a base rate of \$42,330 of whom 80 per cent work part time. She noted that the prospect of an indefinite pay freeze for her members was a hard thing to ask of them given the fact that they are already low-paid workers.<sup>48</sup>

2.42 Mr Joyce responded to concerns raised regarding the pay freeze across the Qantas Group by noting that the freeze was imposed to protect as many jobs as possible. He noted that a freeze was introduced in 2001 after the events of September 11 and collapse of Ansett. He further argued that, in comparison, the situation today is far more serious.<sup>49</sup> He also informed the committee that Qantas management had not asked full-time employees to convert to part-time but that it may recruit more part-time employees going forward. However, he also noted that Qantas was recruiting more part-time employees in an effort to provide flexibility to manage the schedule because of its 'peakish' nature: 'the schedule can need part-time employees rather than full-time employees in order for us to meet that'.<sup>50</sup>

2.43 Mr Sheldon argued that voluntary redundancies were offered for current full-time employees with an intention to undertake forced redundancies to make up the 5000 full-time equivalent positions to be cut.<sup>51</sup> He argued that in comparison, Virgin Australia was insourcing more work and providing guarantees regarding full-time employment.<sup>52</sup>

2.44 It was put to the committee that aircraft maintenance, repair and overhaul (MRO) capacity arising from the acquisition by Qantas of new aircraft should be seen as an opportunity to market high quality and highly skilled MRO services to other airlines. The committee heard that, whereas the last eight years has seen a growing determination on the part of Qantas to offshore MRO activity, the critical objective should be to keep as many of the current and possibly even the recently closed Qantas

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46 Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, pp 15–16.

47 Members of the ASU are employed in customer service, call centres, reservations, airports, airline freight, maintenance, engineering, stores, catering, operations, load control, finance, administration and information technology. Ms Linda White, Australian Services Union, *Committee Hansard*, 14 March 2014, p. 23.

48 Ms Linda White, Australian Services Union, *Committee Hansard*, 14 March 2014, p. 29.

49 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 50.

50 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 61.

51 Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, p. 15.

52 Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, p. 14.

maintenance facilities in operation and its workforce employed.<sup>53</sup> Rather than Qantas management being locked into a mindset of treating MRO as a cost, it would do better to think like its principal competitors in the international market such as Singapore Airlines, Malaysian Airlines, Lufthansa and Emirates which have found very 'profitable synergies in operating an airline conjointly with an MRO' as a set of world-standard maintenance facilities and highly experienced workforce could be regarded as an asset in a rapidly growing world market for contract MRO.<sup>54</sup>

### **Australian aviation maintenance jobs, aircraft safety and the future of Australia's maintenance capability**

2.45 In a submission to the committee, Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan (herein Dr Fraser et al.) argued that a lack of proper policy oversight has resulted in the great preponderance of Australia's civilian facilities and employment in aircraft maintenance being concentrated within one company, which has shown growing determination over the last eight years to shed as much of that activity as it can, mainly to overseas providers.<sup>55</sup> Of aircraft MRO, they noted that:

Even within the alleged constraints of the current legislation, Qantas has already closed a number of facilities of critical strategic importance, not only to Australia's current aircraft maintenance requirements, but to its future prospects of building a competitive presence in an increasingly globalised market worth an estimated \$70 billion a year at present, and likely at least to double within the next 20 years. Looking purely at the civilian sector, there has been little evidence of any new stand-alone MRO enterprises with the potential to grow anywhere near the size which would be required to handle the predicted future maintenance load even for the major airlines, let alone for other sectors of Australian aviation.<sup>56</sup>

2.46 Within this context, Dr Fraser et al. raised specific concerns about the future supply of fully qualified aircraft maintenance engineers, with training for this occupation declining in parallel with the decline in Qantas' apprentice program. Civilian recruitment, net of wastage, in the March quarter of 2013 was the lowest it has been since records were kept. However, of even greater concern to Dr Fraser et al. was the loss of capacity in the training system which has accompanied the drop-off in apprentice demand. In terms of skills supply in the aviation industry, they argued that Qantas was working on the assumption that there will always be capacity in low-wage

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53 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, p. 2.

54 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, p. 6.

55 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, p. 2.

56 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, p. 2.

countries to take on maintenance work which it is no longer prepared to carry on in Australian shops while the rest of the industry is working on the expectation that it will be able to meet the ongoing skill needs either from displaced or disaffected Qantas workers or from skilled defence personnel moving into civilian work.<sup>57</sup>

2.47 At the same time, however, they note that the International Civil Aviation Organization (ICAO), IATA and a number of authoritative international sources have expressed concern that most regions of the world will face a growing shortfall of skilled aircraft maintenance engineer (AME) labour over the next 20 years. Dr Fraser *et al.* note that in Australia's case, the capacity of the training system to respond has been 'so badly degraded' that it is arguably time to describe the situation as a crisis'.<sup>58</sup>

2.48 Dr Fraser *et al.* raised serious concern that many countries might respond to a chronic inability to meet demand for properly skilled labour by resorting to the use of unqualified personnel, intensifying the work of those skilled engineers who are available and skimping on internal quality control.<sup>59</sup> They highlighted the:

Current crisis of Australia's civilian training in aircraft maintenance skills, the inadequacy of the current supply to meet future Australian needs even in circumstances of maximum offshoring, and the predicted shortfall of skilled labour supply in most regions of the world which is likely not only to negate much of the cost advantage of offshore maintenance, but to affect the viability of relying on it as a primary means of meeting Australia's airworthiness requirements beyond the short term.<sup>60</sup>

2.49 The committee heard concerns that this might already be occurring, though not so much for lack of skilled labour as for a desire to save money. Mr Sheldon argued that in terms of the safety and security of aviation, standards have slipped at Qantas. Qantas was not named amongst the top ten safest airlines in the world by the Air Transport Ratings Agency in 2011.<sup>61</sup> An article in the *Daily Mail* dated 30 August 2011 noted that Qantas had dropped out of the top airlines when it comes to safety following a string of high-profile incidents over the past three years, including A380

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57 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, p. 3.

58 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, p. 3 and Attachment 1, p. 25.

59 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, p. 5.

60 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, Attachment 1, p. 3.

61 Air Transport Ratings Agency, Holistic Safety Ratings 2013 (2011 data), [http://www.atra.aero/ATRA\\_HOLISTIC\\_SAFETY\\_RATING-cms4.htm](http://www.atra.aero/ATRA_HOLISTIC_SAFETY_RATING-cms4.htm); The Economist, 'Airline safety—Safe havens', 31 August 2011, [http://www.atra.aero/pdf/2011-2012\\_pressreview.pdf](http://www.atra.aero/pdf/2011-2012_pressreview.pdf) (accessed 17 March 2014).

engine explosions, tyre blowouts and landing gear malfunctions.<sup>62</sup> Mr Sheldon further noted that:

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 the present board, and also the outsourcing of work within its own supply chain and disengagement of its own workforce.<sup>63</sup>

2.50 This evidence was supported by Mr Stephen Purvinas, Federal Secretary of the ALAMEA. According to Mr Purvinas, the key difference between maintenance at Australian facilities compared overseas is the number of licenced aircraft engineers (LAMEs) deployed to maintain aircraft, and oversee maintenance work carried out by unlicensed engineers. Whereas traditionally in Australia, one LAME would lead a team of three, checking and verifying the work of the two unlicensed aircraft engineers who made up the team, the ratio is 1:8 in Hong Kong, 1:11 in Singapore and 1:22 in the Philippines.<sup>64</sup> According to Mr Purvinas, a LAME who has to supervise more people will not necessarily be able to certify and supervise their work as comprehensively as a LAME who has to oversight and check the work of only two others. He questioned the quality of maintenance conducted offshore at these facilities for these reasons.<sup>65</sup>

2.51 However, the committee notes Mr Joyce's rejection of the suggestion that the rate of mistakes in maintenance conducted overseas was any higher than that which has occurred at onshore facilities. In this regard, he noted that:

The processes and procedures we put in place are there to make sure that we track those errors and fix those errors when they occur. And there is no difference between the facilities.<sup>66</sup>

2.52 Mr Joyce informed the committee that every maintenance operation carried out on Qantas aircraft is certified by the local regulator as well as the Civil Aviation Safety Authority (CASA). He explained that Qantas has a team that accompanies every aircraft for maintenance and supervises that work while quality assurance staff members are responsible to assess each maintenance facility. In this way, all

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62 Valentina Jovanovski, 'Qantas, once the 'world's safest airline' is out of top ten listing', *Daily Mail Online*, 30 August 2011, <http://www.dailymail.co.uk/travel/article-2031856/Qantas-missed-worlds-safest-airlines-listing-high-profile-safety-failures.html> (accessed 17 March 2014).

63 Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, p. 11.

64 Mr Stephen Purvinas, Australian Licenced Aircraft Maintenance Engineers Association, *Committee Hansard*, 14 March 2014, p. 36.

65 Mr Stephen Purvinas, Australian Licenced Aircraft Maintenance Engineers Association, *Committee Hansard*, 14 March 2014, p. 36.

66 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 58.



maintenance that takes place regardless of whether it is undertaken offshore or onshore is monitored.<sup>67</sup>

2.53 However, Fraser et al. argued that there are grounds to suspect that, due to resource constraints, CASA is unable to inspect overseas MROs with sufficient frequency and that they 'suspect that the supervision regime of offshore MROs (and the organisations to which they may outsource) cannot guarantee safety or even 'compliance'.<sup>68</sup> Fraser et al. commended to the committee the need for ongoing inspection of offshore maintenance facilities to ensure good practice.

### ***Staff morale***

2.54 It should come as no surprise that changes such as those outlined in this report have apparently had a sharp negative impact on staff morale, and the reputation of management among the airline's workers. Mr Purvinas informed the committee that an industry survey conducted by the association revealed that 3 per cent of Qantas engineers and 3 per cent of Qantas pilots believed that the company would improve in the next 12 months compared to 84 per cent of Virgin engineers and 91 per cent of Virgin pilots in relation to the Virgin airways.<sup>69</sup> When asked if they trusted the people running their respective companies, 1 per cent of Qantas engineers and pilots responded that they did compared to 38 per cent of Virgin engineers and 54 per cent of Virgin pilots.<sup>70</sup>

### **A national carrier in the national interest**

2.55 Attention was drawn to Qantas' long and exemplary history of service during periods of national emergency.

2.56 During the Second World War, when Singapore fell to the Japanese, Qantas crew operated unarmed aircraft on dangerous missions as the Japanese forces advanced southwards through the islands. Qantas crew later served in the battle zones of New Guinea. Combined Qantas and RAAF personnel flew Empire flying boats and Lockheed Lodestars, dropping supplies to Australian troops flying along the Kokoda Trail. In 1942, Qantas, the British Air Ministry and BOAC (formerly Imperial Airways) launched an operation to re-establish the Australia-England air link that had been cut off by advancing Japanese forces.

2.57 By the time the operation ended in July 1945, 271 crossings of the Indian Ocean had been completed covering more than 1.5 million kilometres and carrying 648 passengers. During the Vietnam War, Qantas carried out between 203 and 250

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67 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 58.

68 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, Attachment 1, p. 22.

69 Mr Stephen Purvinas, Australian Licenced Aircraft Maintenance Engineers Association, *Committee Hansard*, 14 March 2014, p. 32.

70 Mr Stephen Purvinas, Australian Licenced Aircraft Maintenance Engineers Association, *Committee Hansard*, 14 March 2014, pp 32–33.

charter flights between Australia and Vietnam with approximately half of all Australian troops who served in Vietnam transported by Qantas aircraft. The *Australian National Airlines Act 1945* gave the government the power to co-opt Australian airlines into the military effort and RAAF planning was based on the availability of Qantas aircraft.<sup>71</sup>

2.58 Thereafter Qantas established a world record of carrying the most passengers when it evacuated 673 people on a 747 flight from Darwin after the city was devastated by Cyclone Tracy. A total of 4925 people were flown out by the airline.

2.59 During the days following the Chinese Government's response to the Tiananmen Square protests of June 1989, Qantas airlifted hundreds of Australians stranded in Beijing. After the Bali bombing in October 2002, Qantas evacuated wounded Australians to Darwin and to burns units around the country, transported more than 4500 from Bali to Australia and deployed its own and other medical personnel to Denpasar to provide medical assistance.

2.60 Firefighters were transported by Qantas during the bushfires in Sydney and Canberra over the 2003 summer while in 2006 Qantas supported the evacuation of Australians caught up in Lebanon's war zones. Qantas has subsequently provided assistance to the 2009 Victorian bushfire emergency, evacuation of Australians from Egypt during the political unrest of 2011 and transported Australians stranded by the Fiji cyclone in April 2012.

2.61 The committee heard, and agrees wholeheartedly, 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.<sup>72</sup>

2.62 The committee is pleased to note that Mr Joyce recognised Qantas as a national strategic asset with the capacity to provide aircraft, personnel and expertise to Australia in a crisis, and that he predicted Qantas would continue to play that role in the future.<sup>73</sup>

2.63 Nonetheless, the committee expresses its concern at the potential implications majority foreign ownership when the strategic objectives of foreign owners may not accord with those of the Australian Government and Australian citizens who may require assistance in dire situations, remote locations, and at short notice. The need to ensure Australia has a resource it can call on in such situations should be a serious strategic priority.

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71 C Couthard-Clark, *The RAAF in Vietnam: Australian air involvement in the Vietnam War 1962–1975*, Allen and Unwin, 1995, pp 249–252.

72 Mr Anthony Sheldon, Transport Workers Union, *Committee Hansard*, 14 March 2014, p. 18.

73 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 42.

## A debt guarantee

2.64 Prior to the announcement of the repeal of the Sale Act, Qantas had been seeking a guarantee from the Australian Government for the company's bank and corporate bond debt which would have enabled it to access debt from global markets at cheaper rates. A government debt guarantee would enable Qantas to secure its investment-grade credit rating which is vital to the airline securing debt at cheaper rates than its rivals. The move would have reportedly saved Qantas tens of millions of dollars.<sup>74</sup>

2.65 On 3 March 2014, the Prime Minister the Hon Tony Abbott MP and the Treasurer, the Hon Joe Hockey MP announced that the government would not provide the guarantee. During the announcement, Prime Minister stated that the government's decision to deny a debt guarantee and repeal the Sale Act would open Qantas up for foreign investment while also acknowledging that it could send maintenance jobs overseas:

If some jobs have to go offshore in order to ensure that Qantas has a strong and viable long-term future, it may be regrettable, but nevertheless it is the best way to guarantee Australian jobs for the long term.<sup>75</sup>

2.66 When repeatedly asked by the committee if Qantas management wanted a debt guarantee, however, Mr Joyce was evasive, stating that the matter was now academic as:

We have gone through the process with the government. The government has made this decision, and the government has decided that the repeal of section 3 of the act is the way to go, and we support that decision.<sup>76</sup>

2.67 The Australian Council of Trade Unions has voiced support for a debt guarantee subject to a commitment from Qantas to protect workers against job losses and 'on the airline demonstrating they have a sustainable long term business plan which is not reliant on a spiral of job cuts'.<sup>77</sup>

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74 Matt O'Sullivan, 'Qantas wants federal debt guarantee', *Sydney Morning Herald*, 28 November 2013, <http://www.smh.com.au/business/qantas-wants-federal-debt-guarantee-20131128-2ye6a.html> (accessed 21 March 2014); David Crowe, 'Alan Joyce's 'healthy' Qantas needs no debt guarantee', *The Australian*, 6 March 2014, <http://www.theaustralian.com.au/business/aviation/alan-joyces-healthy-qantas-needs-no-debt-guarantee/story-e6frg95x-1226846488624#> (accessed 21 March 2014).

75 Mark Kenny and James Massola, 'Qantas: Government will not offer debt guarantee, but will aim to repeal part three of Qantas Sale Act', *Sydney Morning Herald*, 3 March 2014, <http://www.smh.com.au/federal-politics/political-news/qantas-government-will-not-offer-debt-guarantee-but-will-aim-to-repeal-part-three-of-qantas-sale-act-20140303-340k4.html> (accessed 21 March 2014).

76 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 59.

77 Australian Council of Trade Unions, 'Abbott has a choice: save or sack Qantas workers', *Media Release*, 3 March 2014, <http://www.nswnma.asn.au/wp-content/uploads/2014/03/actrelease-140303-Qantas-.pdf> (accessed 20 March 2014).

2.68 Dr Fraser *et al.* argued in favour of a debt guarantee on the basis that it would provide the Commonwealth with a legitimate case to impose behavioural regulation on Qantas to separate off its MRO capacity for the purposes of developing a viable and competitive stand-alone MRO organisation. They argued that while there are a range of models for a more circumscribed and conditional type of guarantee, Qantas had derailed discussions to the extent that it posed the issue as a simple choice between an unconditional, unlimited guarantee, and no action. Dr Fraser *et al.* suggested that, independent of any other conditions imposed on such an investment, a debt guarantee might be:

- 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.<sup>78</sup>

2.69 One such option would be to impose specific obligations such as the use of Australian maintenance facilities for a specific minimum percentage of the airline's maintenance budget as a condition of the guarantee. Other suggestions raised by Dr Fraser *et al.* include the 'golden share' which the Singapore Government holds in many of its quasi-state enterprises. Such a share would convey specific rights not available to any ordinary shareholder such as the requirement for ministerial approval in relation to board or senior management appointments.<sup>79</sup> In regard to a debt guarantee, Dr Fraser *et al.* made the point that:

Put differently, imposing public interest conditions on the guarantee would be an effective way, both of testing the sincerity of Qantas' claims to be put at a competitive disadvantage by the constraints of its equity, and of reassuring the public that favours were not being done to an individual business to compensate for its own lack of commercial acumen.<sup>80</sup>

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78 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, p. 7.

79 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, p. 8.

80 Dr Doug Fraser, Associate Professor Ian Hampson, Associate Professor Anne Junor and Professor Michael Quinlan, *Submission 6*, p. 8.

2.70 However, Mr Thomas of CAPA Consulting held the view that a debt guarantee would provide access to cheaper capital but which would not be adequate as any assistance would have to address Qantas' cost base.<sup>81</sup>

2.71 Mr Joyce clarified that the issue of a debt guarantee and repeal of the Act were separate issues. He noted that the removal of \$2 billion in costs was directed at getting the business back to profitability. Separately, repeal of the Sale Act goes to the issue of balancing the playing field of the domestic market.<sup>82</sup>

### **Committee view**

2.72 The committee recognises the fundamental importance of an economically viable and competitive Qantas to Australia's economy, security and infrastructure. Qantas is Australia's national carrier and unlike any other airline, holds a unique position within Australia and abroad as a distinctively Australian icon. The Australian character of the airline must be preserved. The committee notes that even if the foreign-ownership restrictions were removed, the question remains as to whether Qantas would be able to attract major foreign airlines as investors. A debt guarantee, however, provides the necessary certainty Qantas needs to remain competitive.

2.73 The committee holds the view that it is fundamentally important that the Commonwealth Government act on behalf of Australia's interests and accordingly it recommends a debt guarantee be offered to Qantas. In light of the evidence to the committee regarding future worldwide aviation skills shortages, any further loss of Qantas' skilled workforce and MRO facilities is very clearly not in the national interest. The committee believes that a debt guarantee would provide the necessary financial certainty that Qantas requires to remain competitive both domestically and globally while maintaining a modern fleet serviced by a skilled Australian workforce.

2.74 In light of its financial state, Qantas has not upgraded its international fleet to the fuel-efficient Boeing 777 and technically advanced 787 Dreamliners. However, the provision of a debt guarantee would provide the opportunity for Qantas to upgrade its international fleet, a process widely agreed to be critical if Qantas is to remain internationally competitive. An efficient and modern fleet is also important to the national interest if Qantas is to maintain the capacity to serve Australia, particularly during periods of national emergency.

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81 Mr Ian Thomas, CAPA Consulting, *Committee Hansard*, 14 March 2014, p. 4.

82 Mr Alan Joyce, Qantas Airways, *Committee Hansard*, 14 March 2014, p. 44.

**Recommendation 2**

**2.75 The committee recommends that the Commonwealth Government provide a debt guarantee to Qantas Airways.**

**Senator Glenn Sterle  
Chair**