The Senate

Rural and Regional Affairs and Transport References Committee

Qantas' future as a strong national carrier supporting jobs in Australia

March 2014

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Abbreviations

ACTU	Australian Council of Trade Unions
AIPA	Australian and International Pilots Association
ALAEA	Australian Licenced Aircraft Engineers Association
ASU	Australian Services Union
CASA	Civil Aviation Safety Authority
CEO	Chief Executive Officer
GDP	Gross Domestic Product
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
LAME	Licenced Aircraft Engineer
MRO	Maintenance, repair and overhaul
RAAA	Regional Aviation Association of Australia
TWU	Transport Workers Union

List of recommendations

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2.19 The committee recommends that paragraphs 7(1)(aa) and 7(1)(b) of the *Qantas Sale Act 1992* be repealed while leaving the remainder of Part 3 of the *Qantas Sale Act 1992* intact (subject to any consequential amendments).

Recommendation 2

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

Chapter 1

Referral of inquiry

1.1 On 6 March 2014, the Senate referred the following matters to the Rural and Regional Affairs and Transport References Committee (committee) for inquiry and report by 27 March 2014:

(1) The committee must consider what initiatives can be taken by Government to ensure Qantas remains a strong national carrier supporting aviation jobs in Australia, including:

(a) a debt guarantee;

(b) an equity stake; and

(c) other forms of support consistent with wider policy settings.

(2) That, in conducting the inquiry, the committee should consider:

(a) any national security, skills, marketing, tourism, emergency assistance and other benefits provided by a majority Australian-owned Qantas;

(b) the level and forms of government support received by other international airlines operating to and from Australia;

(c) the ownership structures of other international airlines operating to and from Australia;

(d) the potential impact on Australian jobs arising from the Government's plan to repeal Part 3 of the *Qantas Sale Act 1992*; and

(e) any related matter.

Conduct of inquiry

1.2 The committee advertised the inquiry on its webpage and in *The Australian*. The committee received twelve public submissions and one confidential submission. The public were published on the committee's webpage and are listed at Appendix 1.

1.3 The committee held a hearing in Sydney on 14 March 2014. Appendix 2 lists the names and organisations of those who appeared. Details of the inquiry and associated documents including the Hansard transcript of evidence may be accessed through the committee webpage at:

http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Qantas_Jobs

Background

1.4 On 27 February 2014, Qantas posted an underlying before tax loss of $252 million and a statutory loss after tax of $235 million for the six months ending 31 December 3013.[1] Qantas Chief Executive Officer (CEO), Mr Alan Joyce stated that the underlying loss of $252 million was in line with guidance and reflected fundamental changes in the Australian aviation market.[2]

1.5 Mr Joyce stated that the financial results were unacceptable and that comprehensive action would be taken in response. While announcing that the airline would accelerate its Qantas Transformation program to achieve a $2 billion in cost reductions over three years, Mr Joyce stated that:

> Australia has been hit by a giant wave of international airline capacity, with a 46 per cent increase in competitor capacity since 2009—more than double the global increase of 21 per cent over the same period.
>
> The Australian domestic market has been distorted by current Australian aviation policy, which allows Virgin Australia to be majority-owned by three foreign government-backed airlines and yet retain access to Australian bilateral flying rights.
>
> Late last year, these three foreign-airline shareholders invested more than $300 million in Virgin Australia at a time when, as Virgin Australia reported to the ASX on 6 February, it was losing money. That capital injection has supported continued domestic capacity growth by Virgin Australia despite its growing losses.
>
> Qantas has been undertaking its biggest ever transformation over the past four years, cutting comparable unit costs by 19 per cent over four years, but this is not enough for the circumstances we face now.[3]

1.6 As part of its program to achieve a $2 billion in cost reductions, Qantas announced that the airline would reduce employee numbers by the equivalent of 5000 full-time positions over the next three years.[4] The measures to reduce employee numbers will include a reduction of management and non-operational roles by 1500 and the closure of the Avalon maintenance base. As part of the workforce changes,

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1 Qantas Airways Limited, 'Qantas Group Financial Results' *Media Release*, 27 February 2014, http://www.qantasnewsroom.com.au/media-releases/qantas-group-financial-results?print=1 (accessed 6 March 2014).

2 Qantas Airways Limited, 'Qantas Group Financial Results' *Media Release*, 27 February 2014, http://www.qantasnewsroom.com.au/media-releases/qantas-group-financial-results?print=1 (accessed 6 March 2014).

3 Qantas Airways Limited, 'Qantas Group Financial Results' *Media Release*, 27 February 2014, http://www.qantasnewsroom.com.au/media-releases/qantas-group-financial-results?print=1 (accessed 6 March 2014).

4 Qantas Airways Limited, 'Qantas Group Strategy Update', *Media Release*, 27 February 2014, http://www.qantasnewsroom.com.au/media-releases/qantas-group-strategy-update-2?print=1 (accessed 6 March 2014).

Qantas announced that the wage freeze for executives implemented in December 2013 would continue and be extended to all Qantas Group employees.[5]

1.7 In addition, Qantas confirmed that 50 aircraft would be deferred or sold while Qantas Group's planned capital expenditure net of operating lease liability will be reduced to $800 million in both the 2015 and 2016 financial years with a total reduction of $1 billion.[6]

Acknowledgement

1.8 The committee thanks those organisations and individuals who made submissions and gave evidence at the public hearing.

Note on references

1.9 References to the Committee Hansard are to the proof Hansard. Page numbers may vary between the proof and the official Hansard.

5 Qantas Airways Limited, 'Qantas Group Strategy Update', *Media Release*, 27 February 2014, http://www.qantasnewsroom.com.au/media-releases/qantas-group-strategy-update-2?print=1 (accessed 6 March 2014).

6 Qantas Airways Limited, 'Qantas Group Strategy Update', *Media Release*, 27 February 2014, http://www.qantasnewsroom.com.au/media-releases/qantas-group-strategy-update-2?print=1 (accessed 6 March 2014).

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.[1]

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.[2]

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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.[3] 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.[4]

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.[5]

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.[6]

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.[7] 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.[8]

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.[9]

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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 (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.[10] 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.[11]

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.[12] 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.[13]

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 cost 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.[14]

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.[15]

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'.[16]

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.[17] 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?[18]

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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 serves by Qantas mainline around the world.[19]

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

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

Barbara Ward –Political Advisor, Economics.[20]

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.[21] 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.[22]

2.23 The committee was also made aware of a dramatic contraction in the number of routes serves 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.[23]

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.[24]

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.[25]

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'.[26]

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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'.[27]

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.[28] 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.[29] 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.[30] 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.[31]

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.[32] 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

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.[33]

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.[34]

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.[35]

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.[36]

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

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 complete on a level playing field it needs the freedom to have the same flexibility and options.[37] 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.[38]

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.[39] 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.[40] 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.[41]

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.[42]

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.[43]

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.[44]

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.[45] 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. [46]

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.[47] 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.[48]

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.[49] 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'.[50]

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.[51] He argued that in comparison, Virgin Australia was insourcing more work and providing guarantees regarding full-time employment.[52]

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.[53] 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.[54]

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.[55] 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.[56]

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.[57]

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'.[58]

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.[59] 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.[60]

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.[61] 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

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; The Economist, 'Airline safety–Safe havens', 31 August 2011, http://www.atra.aero/pdf/2011-2012_pressreview.pdf (accessed 17 March 2014).

engine explosions, tyre blowouts and landing gear malfunctions.[62] 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.[63]

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.[64] 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 conduced offshore at these facilities for these reasons.[65]

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.[66]

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.[67]

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''.[68] 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.[69] 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.[70]

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.[71]

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 Bail 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.[72]

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.[73]

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.[74]

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.[75]

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.[76]

2.67 The Australian Council of Trade Unions has voiced support for a debt guarantee subject to a commitment from Qantas to project 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'.[77]

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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/acturelease-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.[78]

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.[79] 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.[80]

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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.[81]

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.[82]

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.

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

Coalition Senators' Dissenting Report

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

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

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

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

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

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

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

Matters for consideration

Jobs

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

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

1.10 Additionally, in the public hearings Alan Joyce, Chief Executive Officer of Qantas, confirmed that Qantas has made no decisions on further staffing reductions should amendments to the Qantas Sale Act 1992 be implemented. Alan Joyce noted in the public hearings that it is an inability to compete on a level playing field which may lead to a further reduction in staffing levels within the Qantas Group.

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

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

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

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

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

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

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

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

Safety

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

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

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

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

Options for consideration

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

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

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

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

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

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

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

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

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

Recommendation 1

That the Qantas Sale Amendment Bill 2014 be passed.

Senator Bill Heffernan **Senator Sean Edwards**

Deputy Chair

Australian Greens' Dissenting Report

Opening Statement

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

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

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

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

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

Summary

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

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

(1) The committee must consider what initiatives can be taken by Government to ensure Qantas remains a strong national carrier supporting aviation jobs in Australia, including:

(a) a debt guarantee;

(b) an equity stake; and

(c) other forms of support consistent with wider policy settings.

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

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

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

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

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

The Importance of Qantas

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

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

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

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

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

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

Qantas management

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

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

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

1.21 The submission from Professor Frank Stilwell claimed:

> "The current Qantas crisis is clearly attributable to the senior management and board who have caused the present crisis by a range of inappropriate policies. These policy failures have included
>
> • narrowing the customer base by abandoning key overseas destinations and diverting international passengers flying to European destinations other than London to other airlines in Dubai;
>
> • unwisely establishing loss-making Asian Jetstar airlines;
>
> • reducing confidence in service standards by outsourcing much of the aircraft maintenance; and
>
> • causing substantial excess capacity on competing Australian routes by entering into cut-throat competition with Virgin.
>
> "Shutting down the airline's services in 2011 in the attempt to get tough with the unions was a terrible public relations blunder, causing an irreparable loss of goodwill among its customers and the general public as well as continually fractious relations with the workforce. The cumulative result of these abortive policies has been a dramatic decline in the value of the company."

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

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

h. Low consumer confidence applies to all airlines, not just Qantas.

i. Aggressive expansion of foreign airlines in the Asia-Pacific region impacts all

j. airlines in the market, not just Qantas”.

The international aviation sector

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

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

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

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

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

The options for Government assistance

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

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

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

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

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

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

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

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

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

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

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

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

1.35 Further he says:

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

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

Conclusion

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

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

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

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

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

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

Recommendation 1

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

Recommendation 2

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

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

Recommendation 3

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

Senator Lee Rhiannon **Senator Peter Whish-Wilson**

Senator Nick Xenophon - Dissenting Report

1.1 The aim of the inquiry was to consider what steps the Parliament could take to ensure Qantas remains a strong national carrier that supports aviation jobs in Australia. Unfortunately, at this stage I believe there are too many 'known unknowns' to be able to come to a firm conclusion, particularly given the current management and erratic direction of Qantas. However, I also believe there are some points that can be accepted as a foundation when considering this issue:

i. Qantas is in a financial crisis largely of its own making, in large part due to its failed foray into Asia with its Jetstar operations;
ii. Current Australian accounting rules do not prevent cost-shifting from one part or entity of a group to another;
iii. Rather than amending the *Qantas Sale Act*, which as proposed could lead to a massive offshoring of jobs, changes to the *Air Navigation Act* should be considered to address the ambiguities that are best demonstrated in the current Virgin Australia structure and its international operations; and
iv. The Open Skies policy needs to be critically examined, as there appears to be no other nation that has such an open slather approach to aviation.

1.2 At the outset, it is important to make it clear that the short time available for this inquiry barely allowed the committee to scratch the surface of the issues surrounding Qantas and the Australian aviation sector. Without further examination, it is impossible to make appropriate policy decisions in this area, and as such the recommendations in the committee report should not be supported at this stage.

1.3 Of particular concern is the significant distrust felt by Qantas staff towards the current management and Board. Mr Stephen Purvinas of the Australian Licenced Aircraft Maintenance Engineers Association provided evidence from a survey taken by his union of Qantas and Virgin Australia employees, stating:

The first one is, of Qantas engineers, how many of them think the company will improve in the next 12 months. It was three per cent. The Virgin engineers were at 84 per cent. Of Qantas pilots, only three per cent think the company will improve over the next 12 months. It was 91 per cent of Virgin pilots.[1]

Mr Purvinas went on to state that, according to the survey, only one per cent of both Qantas engineers and Qantas pilots said they trusted the Qantas management[2].

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

[2] Ibid

1.4 This is a significant burden for a company to overcome. It also supports the view that CEO Alan Joyce and Chairman Leigh Clifford are not the people to manage Qantas through this stage. I note that others, including the Government, have said these are matters for shareholders; however, if the Government is considering taking action to assist Qantas, then clearly this becomes a matter for the Government and for the people of Australia, on whose behalf the Government is acting.

1.5 The issues relating to Qantas management strategy are many and complex. Australian accounting standards and the structure of the Qantas Group mean it is often difficult to get a full understanding of its financial operations. In particular, my concerns centre around the apparent focus on the Jetstar brand at the expense of Qantas. This includes the rapid growth of the Jetstar fleet (now estimated to be nearly 60 per cent the size of Qantas' fleet) and suggestions of cost-shifting between the arms of the business to make Jetstar appear a success, and Qantas International a financial failure. I note that under current Australian accounting and corporate governance rules, this level of cost-shifting within group accounts is permissible.

1.6 Tied in with this is the establishment of the Jetstar brands in Asia and in particular Jetstar Hong Kong, which has not yet received regulatory approval to operate. This has resulted in the airline's nine Airbus planes being stranded in France and unable to fly, at an estimated cost of $3 million a month.[3] There are also questions regarding leasing arrangements between Jetstar in Asia and the Qantas Group, and whether they are structured so as to deliver a profit to the Asian carriers. In the March 14 hearing, Mr Joyce justified criticism of Jetstar Hong Kong by comparing it to that levelled at Jetstar Australia when it was being established:

> *But the same comments were made in relation to Jetstar, the same comments that it was not going to work. It did lose money in the first year when we set it up, but in 10 years Jetstar Australia has contributed over $1 billion in profits to the group. It has been an amazing success story because of the entrepreneurial nature of the group. In the Asian ventures that we have, I have absolutely no doubt that the Japanese venture in particular is going to be similarly successful for the Qantas group.*[4]

1.7 It is impossible to deny, however, that Jetstar Australia was established in a very different financial climate, both globally and within the Qantas Group. I would hope that Mr Joyce has acknowledged this and has not based his strategy on the assumption that what worked in 2003 will work now.

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[3] O'Sullivan, Matt and Ferguson, Adele 'Mayday', *Sydney Morning Herald*, 1 March 2014

[4] Mr Alan Joyce, Chief Executive Officer and Managing Director, Qantas, *Senate Rural and Regional Affairs and Transport Committee Proof Committee Hansard*, 14 March 2014, p. 49

1.8 I also feel it is important to note Mr Joyce's inconsistencies in recent months. His appeals for Government support have included an amendment to the *Air Navigation Act* to bring Virgin Australia under the same foreign investment requirements as Qantas, a repeal of the *Qantas Sale Act*, and a debt guarantee. His comments regarding the impact of the carbon tax on Qantas have also varied, firstly saying that it was not to blame for the company's problems and then reversing his position just two days later.[5] I am concerned that these inconsistent messages may demonstrate serious confusion and a lack of strategic direction within Qantas.

1.9 Further, Mr Joyce's evidence to the committee seems to indicate a lack of understanding of Qantas' downward spiral. In particular, in response to a line of questioning about subsequent financial result announcements in 2011, Mr Joyce said, surprisingly, he did not recall making statements that indicated a financial loss for Qantas International:

> ***Senator XENOPHON:*** *Mr Joyce, on 17 February 2011, in announcing half-yearly results, you said that Qantas improved yield by nine per cent, that it demonstrated a strong revenue recovery across both international and domestic businesses. Yet, on 22 June 2011, you said that Qantas international was forecast to generate a loss, before interest and tax, of approximately $200 million. Could you please explain what happened to the trading environment in 3½ months? What happened to Qantas international?*
> ***Mr Joyce:*** *Sorry, Senator, could you give the dates again?*
> ***Senator XENOPHON:*** *Sure. You made a statement on 17 February 2011 that Qantas improved yield by nine per cent. You also stated that it demonstrated a strong revenue recovery across both international and domestic businesses. Then, on 22 June 2011, you singled out the international component of Qantas for special attention, saying that Qantas international, in financial year 2011, was forecast to generate a loss, before interest and tax, of approximately $200 million. I am just trying to establish what occurred in that period from 17 February to 22 June 2011.*
> ***Mr Joyce:*** *I think we will have to take that on notice because I do not remember the statements.*
> ***Senator XENOPHON:*** *They were very well reported at the time.*
> ***Mr Joyce:*** *They probably were. But, as you know, it was three years ago and I would say may we take that statement on notice and come back.*[6]

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5 Whinnett, Ellen 'Qantas switch on carbon tax blame', *Herald Sun*, 6 March 2014

6 Mr Alan Joyce, Chief Executive Officer and Managing Director, Qantas, *Proof Committee Hansard*, 14 March 2014, p. 47

1.10 Mr Gareth Evans, Chief Financial Officer of Qantas, later sought to clarify these comments by stating that this period was the first in which Qantas International was reported as a separate business segment[7]. However, Mr Evans did not adequately justify or explain why the losses occurred in such a short period.

1.11 Qantas' assertion that Qantas International is in 'terminal decline' and unable to compete has also been rejected by the Australian Competition and Consumer Commission in its assessment of the alliance deal with Emirates. The ACCC's determination states:

> *In particular, the ACCC does not accept or rely on the applicants' claim that Qantas International is in 'terminal decline' and unable to compete effectively or operate profitably absent the alliance.*[8]

1.12 The ACCC continues:

> *The ACCC does not accept or rely on Qantas' claim that Qantas International is in 'terminal decline' and unable to compete effectively or operate profitably. The ACCC considers that the scope of Qantas' international operations in the likely future without the proposed conduct would not be materially different to the likely future with the proposed conduct.*[9]

1.13 In my view, the ACCC's finding was a major rebuff to Qantas management. If anything is in 'terminal decline', it is the credibility of Mr Joyce, Mr Clifford and the Board.

1.14 Ultimately, there are serious concerns regarding a number of decisions made by the management and the Board. On 17 February this year, I wrote to the Treasurer, Prime Minister and Deputy Prime Minister outlining these matters, and to date I have not received a response. The letter is attached for the committee's information.

1.15 Evidence provided to the Senate Economics Legislation Committee inquiry into the *Qantas Sale Amendment Bill* by the Australian and International Pilots Association (AIPA) also outlined the possible failures in the bill, which aims to remove Part 3 of the *Qantas Sale Act.* Part 3 relates to foreign ownership provisions and also requires that the majority of Qantas' operations remain in Australia. By removing Part 3 and instead bringing Qantas under the remit of the *Air Navigation Act 1920*, from which it is currently exempt, the Government's position is that the playing

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[7] Mr Gareth Evans, Chief Financial Officer, Qantas, *Senate Economics Legislation Committee Hansard*, 18 March 2014, p. 11

[8] ACCC Final Determination on Qantas Airways Limited & Emirates - Authorisations - A91332 & A91333, 27 March 2013, p. i

[9] ACCC Final Determination on Qantas Airways Limited & Emirates - Authorisations - A91332 & A91333, 27 March 2013, p. 38

field will be levelled and Qantas will be able to access greater levels of foreign investment.

1.16 However, as AIPA pointed out, provisions relating to Australian operations for Australian international airlines under the *Air Navigation Act* are contained in a Departmental Guidance Note rather than appropriate regulations or legislation. This means that, while the foreign ownership restrictions are enshrined in the Act (at least relating to international airlines), there is nothing equivalent in the legislation to require the majority of an Australian international airline's operations to remain in Australia.

1.17 The most obvious example of the gaps in the legislation is the Virgin Australia restructure that occurred in 2012, where Virgin Australia created a separate, non-listed private company to act almost as a 'placeholder' for its international business. Virgin Australia International Holdings (VAIH) has been designated an Australian international airline by the Department for the purpose of the *Air Navigation Act* as it meets the 49 per cent foreign ownership cap and the other requirements set out in the Guidance Note.

1.18 An article by Michael Janda and published on ABC's *The Drum* earlier this month echoes the concerns laid out in AIPA's submission[10]. As Janda points out, VAIH may meet the requirements of the Act, but while it does have its own Board of Directors, it does not have its own management, its own aircraft or any of the crew, maintenance, HR or customer support resources that an international airline could reasonably be expected to have. Instead, it is wholly reliant on the resources owned and operated by Virgin Australia Holdings, the domestic arm of the business which, under the *Air Navigation Act*, can be wholly foreign-owned.

1.19 Some may say this is merely good business practice: that is, seeking out any available opportunity for a 'better deal', but it has created a serious precedent in the industry. I see it as a questionable practice that highlights the flaws in the *Air Navigation Act* that fail to protect the national interest. To date, Virgin Australia has maintained its principal place of business and the majority of its employees in Australia, but there is opportunity under the Act for it to offshore a significant portion of its domestic business, which is in turn supporting the international arm, without breaching the Act. While the extent to which this is practical for a domestic airline is debateable, there is no denying the opportunity to do so, or rather the loophole, exists.

1.20 This has worrying implications for Qantas if the Government's bill should pass. If Qantas were free to replicate Virgin Australia's structure under the Act, we could potentially see a one hundred per cent foreign-owned Qantas Domestic with full operating control over a Qantas International that is little more than a sham company

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[10] Janda, Michael, 'An Act of foreign ownership tickery', 6 March 2014, online: http://www.abc.net.au/news/2014-03-05/janda-an-act-of-foreign-ownership-trickery/5299048

allowing foreign interests access to Australia's bilateral air services agreements. It is also worth noting that Jetstar as it stands could potentially access this loophole, as it has never been confirmed whether it is fully covered by the *Qantas Sale Act*.

1.21 It could be argued that this is the real endgame for the management and Board and the discussion around foreign ownership is largely a furphy, as the repeal of this provision would allow a wholesale shift of as much of their operations offshore as they can get away with.

1.22 It is also important to note that Qantas has not formally announced its intention to replicate the Virgin Australia structure if the Government's bill were to pass, although it is fair to say that the general assumption is that will be the case. However, Mr Joyce's own disconcertingly vague answer to the Senate Economics Committee inquiry into the bill adds further confusion:

> ***Mr Joyce:*** *I think we are going into hypotheticals. At the moment, I do not know what will happen into the future with relation to Qantas. I am saying that there is a domestic and an international arm today. This is all about giving Qantas the same flexibility that Virgin has both in ownership and in the structure. That is what we are talking about here, that it is a level playing field and the repeal of part 3 of the act provides a way of giving that level playing field.*[11]

1.23 With respect, I believe the CEO of a company requesting a specific legislative change from the Government should be able to say very clearly what will happen in the future with the company if that legislative change were to go ahead. Mr Joyce's comments are not constructive and only add to the uncertainty, confusion and doubt surrounding his governance of Qantas.

1.24 All of these signs point towards an organisation with no clear and consistent policy in terms of its future direction, or at least not one that they are willing to discuss in the public sphere. I am concerned that legislative changes made by the Government or other measures, including a debt guarantee, may not have the intended impact if there is not the ability or the will within Qantas to take advantage of them, or an understanding on the part of the Government how they are to be used. Indeed, the legislative changes proposed by the Government may have a significant negative impact, particularly on Australian jobs, by allowing further offshoring of Qantas operations.

1.25 Qantas has also not stated a strong position on what specific changes it needs to recover, other than insisting it is operating on an 'un-level playing field' compared to Virgin Australia. It would perhaps be more useful and inspire greater confidence on the part of employees and consumers if Qantas were to have a clear strategic plan and a 'wish list' of actions for the Government. This would demonstrate an engagement on

[11] Mr Alan Joyce, Chief Executive Officer, Qantas, *Senate Economics Legislation Committee Hansard*, 18 March 2014, p. 5

the part of Qantas and assist the Parliament in ensuring any action taken has the desired outcome.

1.26 In conclusion, the 'Qantas problem' cannot be fixed with a band-aid solution such as the *Qantas Sale Amendment Bill 2014* proposed by the Government or the debt guarantee proposed by the Opposition. The appropriate response should have two parts: firstly, to determine exactly what the current financial situation is within Qantas and how Parliamentary action can support Qantas' recovery; and the broader aviation sector in Australia and the challenges faced by Australian airlines on a geographical and regulatory basis.

Recommendation 1

That the Government, as a matter of urgency, consult with industry and relevant bodies to formulate terms of reference for a comprehensive review of Australia's aviation sector, including the Open Skies policy, and its impact on operators and consumers, to be undertaken by the Productivity Commission.

Recommendation 2

That the Government take no further action on legislative or other reform and provide no assistance or guarantee to Qantas until an independent audit of the company has been completed, which should also seek to establish the level of any cost-shifting between Jetstar and Qantas.

Recommendation 3

Subject to Recommendation 1, that the *Air Navigation Act 1920* be amended to address the apparent loophole that allows the foreign investment cap to be obviated, as demonstrated in the restructure of Virgin Australia.

Senator Nick Xenophon

Independent Senator for South Australia

Appendix 1

Submissions received

Submission Number	Submitter
1	Colonial Airways
2	Australian Licenced Aircraft Engineers Association
3	Aviation Economics
4	Mr Matt Mushalik
5	Mr Harold Levien
6	Dr Doug Fraser, A/Profs Ian Hampson and Anne Junor and Prof Michael Quinlan
7	Mr Steve Ashby
8	Professor Peter Wells
9	Professor Frank Stilwell
10	Australian and International Pilots Association
11	Dr John Weldon
12	Transport Workers' Union of Australia

Additional information received

- Received on 18 March 2014, from Qantas Airways. Additional Information.
- Received on 18 March 2014, from the Australian Licenced Aircraft Engineers Association. Answers to Questions taken on Notice on 14 March 2014.
- Received on 20 March 2014, from Qantas Airways. Answers to Questions taken on Notice on 14 March 2014.
- Received on 20 March 2014, from the Australian Licenced Aircraft Engineers Association. Additional Information.
- Received on 25 March 2014, from Qantas Airways. Answers to Written Questions taken on Notice.
- Received on 25 March 2014, from Qantas Airways. Answers to Supplementary Written Questions taken on Notice.

Appendix 2

Public hearings and witnesses

14 March 2014, Sydney, NSW

- THOMAS, Mr Ian, Managing Consultant,
  CAPA Consulting
- O'BRIEN, Mr Shane Timothy, Director of Aviation,
  Transport Workers Union
- ROCKS, Mr Matthew, National Aviation Coordinator,
  Transport Workers Union
- SHELDON, Mr Anthony Vincent, National Secretary,
  Transport Workers Union
- WHITE, Ms Linda, Assistant National Secretary,
  Australian Services Union
- PURVINAS, Mr Stephen, Federal Secretary,
  Licenced Aircraft Maintenance Engineers Association
- EVANS, Mr Gareth, Chief Financial Officer,
  Qantas Airways
- FINCH, Mr Andrew, General Counsel,
  Qantas Airways
- HRDLICKA, Ms Jayne, Chief Executive Officer,
  Jetstar
- JOYCE, Mr Alan, Chief Executive Officer,
  Qantas Airways