

## **The Qantas Dispute**

This week has been unquestionably one of the roughest in the life of Qantas. There have been many views offered on both sides of the dispute, but as usual – there is often more than meets the eye of the public, and what we see in the press does not always reflect the complete picture.

Qantas is an Australian icon, and close to the hearts of many of us.

I thought you may be interested in a recent speech made in Parliament by South Australian senator Nick Xenophon on 23 August 2011. For me, the speech clarified some interesting issues not dwelt on by the media.

Kindest regards,

Brad Huckel

### ***Subject: Senator Xenophon Speech in Parliament - Hansard 23Aug11***

Senator XENOPHON (South Australia) (19:37):

I rise to speak tonight on an issue that is close to the hearts of many Australians, and that is the future of our national carrier, Qantas. At 90, Qantas is the world's oldest continuously running airline. It is an iconic Australian company. Its story is woven into the story of Australia and Australians have long taken pride in the service and safety standards provided by our national carrier. Who didn't feel a little proud when Dustin Hoffman uttered the immortal line in *Rain Man*, 'Qantas never crashed'?

While it is true that Qantas never crashes, the sad reality is that Qantas is being deliberately trashed by management in the pursuit of short-term profits and at the expense of its workers and passengers. For a long time, Qantas management has been pushing the line that Qantas international is losing money and that Jetstar is profitable. Tonight, it is imperative to expose those claims for the misinformation they are. The reality is that Qantas has long been used to subsidise Jetstar in order to make Jetstar look profitable and Qantas look like a burden. In a moment, I will provide detailed allegations of cost-shifting that I have sourced from within the Qantas Group, and when you know the facts you quickly see a pattern. When there is a cost to be paid, Qantas pays it, and when there is a profit to be made, Jetstar makes it.

But first we need to ask ourselves: why? Why would management want Qantas to look unprofitable? Why would they want to hide the cost of a competing brand within their group, namely Jetstar, in amongst the costs faced by Qantas?

To understand that, you need to go back to the days when Qantas was being privatised. When Qantas was privatised the Qantas Sale Act 1992 imposed a number of conditions, which in turn created a number of problems for any management group that wanted to flog off parts of the business. Basically, Qantas has to maintain its principal place of operations here in Australia, but that does not stop management selling any subsidiaries, which brings us to Jetstar.

Qantas has systematically built up the low-cost carrier at the expense of the parent company. I have been provided with a significant number of examples where costs which should have been billed back to Jetstar have in fact been paid for by Qantas. These are practices that I believe Qantas and Jetstar management need to explain. For example, when Jetstar took over the Cairns-Darwin-Singapore route, replacing Qantas flights, a deal was struck that required Qantas to provide Jetstar with \$6 million a year in revenue. Why? Why would one part of the business give up a profitable route like that and then be asked to pay for the privilege? Then there are other subsidies when it comes to freight. On every sector Jetstar operates an A330, Qantas pays \$6,200 to \$6,400 for freight space regardless of actual uplift. When you do the calculations, this turns out to be a small fortune. Based on 82 departures a week, that is nearly half-a-million dollars a week or \$25½ million a year.

Then there are the arrangements within the airport gates. In Melbourne, for example, my information from inside the Qantas group is that Jetstar does not pay for any gates, but instead Qantas domestic is charged for the gates. My question for Qantas management is simple: are these arrangements replicated right around Australia and why is Qantas paying Jetstar's bills? Why does Qantas lease five check-in counters at Sydney Terminal 2, only to let Jetstar use one for free? It has been reported to me that there are other areas where Jetstar's costs magically become Qantas's costs. For example, Jetstar does not have a treasury department and has only one person in government affairs. I am told Qantas's legal department also does free work for Jetstar.

Then there is the area of disruption handling where flights are cancelled and people need to be rebooked. Here, insiders tell me, Qantas handles all rebookings and the traffic is all one way. It is extremely rare for a Qantas passenger to be rebooked on a Jetstar flight, but Jetstar passengers are regularly rebooked onto Qantas flights. I am informed that Jetstar never pays Qantas for the cost of those rebooked passengers and yet Jetstar gets to keep the revenue from the original bookings. This, I am told, is worth millions of dollars every year. So Jetstar gets the profit while Qantas bears the costs of carriage. It has also been reported to me that when Qantas provides an aircraft to Jetstar to cover an unserviceable plane, Jetstar does not pay for the use of this plane.

Yet another example relates to the Qantas Club. Jetstar passengers can and do use the Qantas Club but Jetstar does not pay for the cost of any of this. So is Qantas really losing money? Or is it profitable but simply losing money on paper because it is carrying so many costs incurred by Jetstar? We have been told by Qantas management that the changes that will effectively gut Qantas are necessary because Qantas international is losing money but, given the inside information I have just detailed, I would argue those claims need to be reassessed.

Indeed, given these extensive allegations of hidden costs, it would be foolish to take management's word that Qantas international is losing money. So why would Qantas want to make it look like Qantas international is losing money? Remember the failed 2007 private equity bid by the Allco Finance Group. It was rejected by shareholders, and thank goodness it was, for I am told that what we are seeing now is effectively a strategy of private equity sell-off by stealth.

Here is how it works. You have to keep Qantas flying to avoid breaching the Qantas Sale Act but that does not stop you from moving assets out of Qantas and putting them into an airline that you own but that is not controlled by the Qantas Sale Act. Then you work the figures to make it appear as though the international arm of Qantas is losing money. You use this to justify the slashing of jobs, maintenance standards and employment of foreign crews and, ultimately, the creation of an entirely new airlines to be based in Asia and which will not be called Qantas. The end result? Technically Qantas would still exist but it would end up a shell of its former self and the Qantas Group would end up with all these subsidiaries it can base overseas using poorly paid foreign crews with engineering and safety standards that do not match Australian standards. In time, if the Qantas Group wants to make a buck, they can flog these subsidiaries off for a tidy profit. Qantas management could pay the National Boys Choir and the Australian Girls Choir to run to the desert and sing about still calling Australia home, but people would not buy it. It is not just about feeling good about our national carrier—in times of trouble our national carrier plays a key strategic role. In an international emergency, in a time of war, a national carrier is required to freight resources and people around the country and around the world. Qantas also operates Qantas Defence Services, which conducts work for the RAAF. If Qantas is allowed to wither, who will meet these strategic needs?

I pay tribute to the 35,000 employees of the Qantas Group. At the forefront of the fight against the strategy of Qantas management have been the Qantas pilots, to whom millions of Australians have literally entrusted their lives. The Australian and International Pilots Association sees Qantas management strategy as a race to the bottom when it comes to service and safety. On 8 November last year, QF32 experienced a serious malfunction with the explosion of an engine on an A380 aircraft. In the wrong hands, that plane could have crashed. But it did not, in large part because the Qantas flight crew had been trained to exemplary world-class standards and knew how to cope with such a terrifying reality. I am deeply concerned that what is being pursued may well cause training levels to fall and that as a result safety standards in the Qantas Group may fall as well. AIPA pilots and the licensed aircraft engineers are not fighting for themselves; they are fighting for the Australian public. That is why I am deeply concerned about any action Qantas management may be considering taking against pilots who speak out in the public interest.

A lot of claims have been made about the financial state of Qantas international but given the information I have presented tonight, which has come from within the Qantas Group, I believe these claims by management are crying out for further serious forensic investigation. Qantas should not be allowed to face death by a thousand cuts—job cuts, route cuts, quality cuts, engineering cuts, wage cuts. None of this is acceptable and it must all be resisted for the sake of the pilots, the crews, the passengers and ultimately the future of our national carrier.

