

DOES QANTAS REALLY WANT TO CALL AUSTRALIA HOME?

By Senator Nick Xenophon*

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. 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.

I will provide detailed allegations of cost-shifting that I have sourced from within the Qantas Group.

When there is a cost to be paid, Qantas pays it, and when there is a profit to be made, Jetstar makes it.

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.

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 \$6200 to \$6400 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 \$500,000 a week or \$25.5 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

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,

‘Remember the failed 2007 private equity bid by the Allco Finance Group... I am told that what we are seeing now is effectively a strategy of private equity sell-off by stealth’ – Senator Nick Xenophon

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 regu-

larly rebooked onto Qantas flights.

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... 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 airline 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.

**This is an abridged version of a parliamentary speech given by independent Senator Nick Xenophon on August 23.*

What the 'Still Call Australia Home Bill' seeks to impose on Qantas



Nick Xenophon

INDEPENDENT South Australian Senator Nick Xenophon has introduced a private member's Bill to block what he claims are attempts by Qantas management to carry out "private equity sell-off by stealth". (See main story.)

Known as The Qantas Sale Amendment (Still Call Australia Home) Bill 2011 it inserts a definition for "associated entity" into the Act, in line with the Corporations Act 2001. The bill requires that:

■ Qantas ensures that, of its facilities broadly, its principal operational centre is located in Australia;

■ Qantas, as a parent company, ensures that its subsidiaries and associated entities – such as Jetstar – have their principal operational centre located in Australia;

■ The majority of heavy maintenance of aircraft and the majority of flight operations and training conducted by Qantas or by its subsidiaries and any associated entities is conducted in Australia; and

■ At least one of the directors of Qantas has a minimum of five years professional flight operations experience and that at least one of the directors has a minimum of five years aircraft engineering experience.

The Qantas Sale Act only allows an application to the Court for injunctions by the Minister. Senator Xenophon's bill allows for applications to the Court by 100 shareholder members or shareholder members who hold at least five per cent of the shares in Qantas.

Joyce: Why Qantas opposes the 'Still Call Australia Home Bill'



Alan Joyce

QANTAS claims the proposed amendments to the Qantas Sale Act would threaten the viability of the airline, cost jobs in

Australia and change the spirit and intent of the Act.

Chief executive Alan Joyce said the Bill would have the effect of handcuffing Qantas to investments in Australia only and prevent it from investing capital and resources into new airline ventures anywhere outside Australia.

"Qantas will always be owned by Australians, will always be proud that the vast majority of our operations are based in Australia and will always call Australia home," Joyce said.

"The Qantas Group employs 35,000 people and with 92 per cent of these based in Australia it makes the airline one of the largest employers in the country. We are the only major airline that does heavy maintenance in Australia.

"The primary purpose of the Qantas Sale Act was to ensure that Qantas would remain a majority Australian owned flag carrier.

"The Federal Government recently acknowledged that nothing Qantas is

doing is in contravention of the spirit or intent of the Act.

"The Bill being proposed would not do more to protect Australia's Qantas. It would not make us more Australian. It would not protect Australian jobs. It would have the opposite effect. It would put our business in jeopardy. It would threaten Australian jobs.

"The Bill represents a significant threat to the viability of Qantas and

'The Bill being proposed would not do more to protect Australia's Qantas.'

the growing number of Jetstar airlines operating in Asia – even those that don't fly to and from Australia.

"This legislation would have significant repercussions for all Australian companies seeking to do business and compete internationally, and for the Australian economy, in particular our struggling tourism industry.

"Would Australia seriously consider applying these principles to other great Australian companies such as ANZ, BHP or Westfield, who also invest and employ in overseas markets? Like Qantas, these are great Australian companies who have sought out new markets, created jobs, grown opportunities and wealth for this country."

AFTA VIEW



Jay Westbury, chief executive
Australian Federation of Travel Agents

Caught by the Qantas grounding but luckily I use a travel agent

NO MATTER what your political persuasion, or your views of the industrial relations laws of Australia, I think it is clear that the travel industry and more particularly travel agents are pleased that the Qantas (QF) fleet is flying with certainty following the decision to lock out the employees in dispute and ground the fleet.

As someone directly impacted by the decision – I was scheduled to return on QF32 from Singapore on Sunday October 30, I can speak first hand of how frustrated passengers were.

However, luckily I use a travel agent and was re booked onto an SQ flight on the Sunday and got home two hours earlier than first planned.

Now it might be that I was one of the lucky ones you could say, but I strongly believe that it was not luck, but clear and simple choice of having used a travel agent who could sort my needs out.

Over the past few weeks following the grounding we have been really pushing this point home in the consumer media and they [the consumer media] have been lapping it up.

There is no question that this disaster, albeit a man made one, demonstrated categorically the benefit of using a travel agent rather than having booked direct.

Choice, service, knowledge and ability have been the bedrock of what travel agents offer and thousands of effected passengers know this first hand.

Fortunately it would also appear that the consumer media is also finding this out from feedback from people writing, calling or appearing on the various forms of media.

AFTA has been pushing this line very hard on this occasion as it is a very different set of circumstances to those when natural disasters have

occurred and in some cases where lives have tragically been lost.

On this occasion it is clear that thousands of lives have been put into disarray, but nobody got hurt.

As the weeks and months flow on from the QF grounding it will be interesting to see how consumers and travel agents react.

The communications from QF to consumers and the trade has been strong and most people know how to get the compensation offered.

These things are never easy and I am sure there will be some hiccups along the way but, at the end of the day, Australia needs a strong national carrier both domestically and internationally.

Let's hope that over the next two months all the matters will be resolved and we can get back to business as usual.

There has been some consumer media reports that legislation is needed to ensure that QF can and cannot do certain things. In my view it would be a shame if for no other reason than being an Australian, a legislative imposition be placed upon any business which is competing in a global environment.

It's called a level playing field.

It is also very close to the hearts of travel agents as this is what we have been asking for in the review of consumer protection.

In the end I hope that intelligence will prevail and that decisions by the legislator will be to support the success of Qantas going forward and ensure that Australia, the travel industry and the travelling public will have a strong and competitive national carrier that we can all be proud of.

■ Jay Westbury's AFTA View column appears monthly.