

**National Aviation Policy Submission**

***ACTU***

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## Introduction

This submission aims to provide an overview of some of the critical concerns and risks in the aviation sector as they relate to the regulation and employment of the aviation workforce.

This paper also focuses on the current scenarios resulting from the financial and economic crisis, which were not evident during the draft of the governments' original policy.

These factors provide evidence of the urgent necessity for further policy development, regulatory reform and contingency planning to sustain Australia's aviation industry.

Particular attention is paid to the necessity for:

- Improving regulatory oversight of Australia's airports to ensure that a safe level of investment is made into the workforce and infrastructure
- Improving the oversight of airlines' investment in Australia's aviation infrastructure, maintenance and workforce to ensure a sustainable industry
- Comprehensive analysis and stress testing of the viability of aviation corporations
- Assessing the vulnerability of services and infrastructure provided by foreign owned aviation companies meeting their strategic and commercial interests
- Analysing the economic impacts, nationally and regionally, of reduced services and capacity

## **Recommendation**

### **Recommendation: The establishment of an Aviation Workforce Standing Advisory Committee to the Minister for Transport.**

The National Aviation Policy (the Policy) highlights the fact that the aviation regulatory regime inherited by the government provides it with fragmented, delayed and agency 'silo' specific advice with which to develop policy.

The ACTU recommends that the government avail themselves with real time, factual, contextual information about systemic and specific risks to the aviation sector. The importance of the timeliness of advice to the Minister, in particular in relation to operational sustainability and consumer safety, has been made all the more critical by the rapid contagion of the global financial crisis and economic downturn.

It is recommended that Minister conduct regular consultation with the workforce to enable a comprehensive understanding of how to interpret the quality, consistency and validity of advice received from its agencies. The recommendation aims to facilitate the government's ability to develop an overarching strategic framework and practical implementation of modifications and improvements to the operation of the aviation sector.

To this end, we recommend the Minister establish and regularly consult an Aviation Workforce Standing Advisory Committee to assist in the further development and implementation of Australia's national aviation policy.

## **Workforce Crisis**

The structure of the National Aviation Policy document into discreet components failed to provide a comprehensive picture of the central role of the workforce throughout the industry and the impact of the policy and regulatory framework on the sustainability of the workforce and the sector.

It is recognised that the government's proposed reforms to the Workplace Relations Act should act to assist in meeting some of the overarching flaws from excessive de-regulation of the labour force.

Identified impacts of the deregulated workforce, in tandem with the de-regulated industry, are evident by the crisis responses to the lack of available workforce contained in the Policy, being:

- The designation of the majority of aviation related skills and professions on the 'skills in high demand' migration incentive to import skills
- The proposal to use defence force resources for commercial aviation and
- The proposal to expand the bonding of workforce to commercial employers

The capacity for industry participants to maximise their ability to drive down wages and reduce terms and conditions of employment was facilitated by Work Choices. This legislation enabled a dramatic reduction in collective bargained agreements which in turn:

- Reduced proportion of employees on collective agreements with identifiable career structures and incentives to stay in the industry
- Increased casualisation of the workforce with associated terms and conditions of employment reducing attraction and retention in the industry
- Increased cost imposts to employees to work, eg. parking, food, own uniform provision etc.
- Decreased protection from bullying and harassment in the workplace from increased managerial control and reduced access to union representation or unfair dismissal arbitration

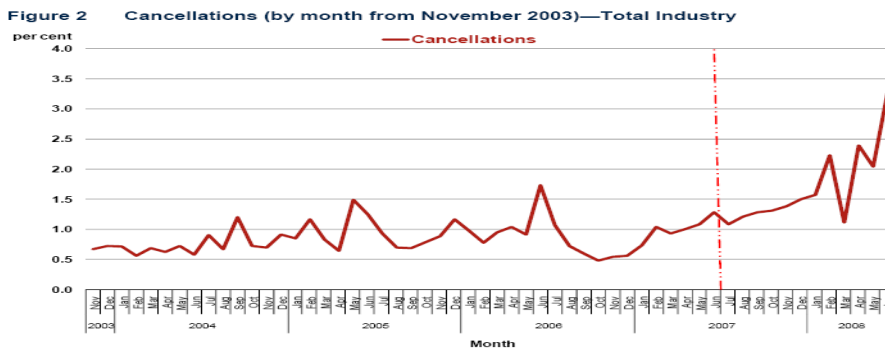
- Increased work intensity and decreased ability to work to professional standards of safety and community service

Additional indicators of the impacts of the deregulated industry and workforce relations, workforce shortages and skills are evidenced by the systemic performance decline, increased accidents and incidents and the reduced proportion of expenditure on workforce.

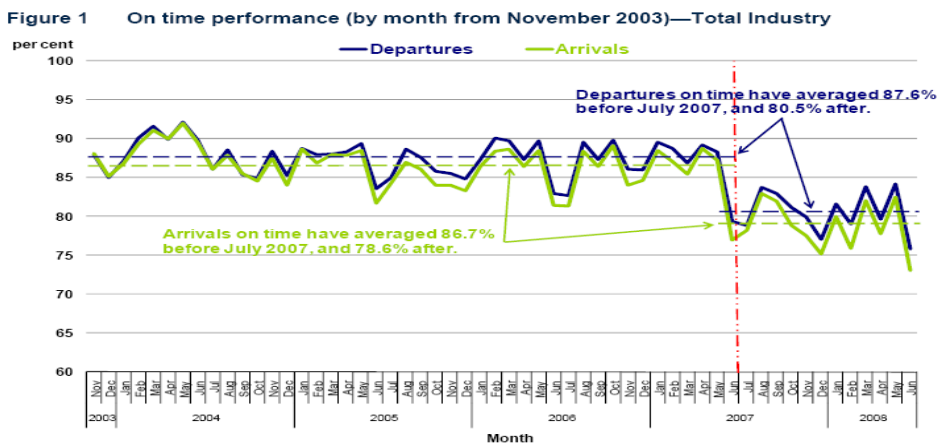
## Systemic Performance Decline

Skills and staff shortages have contributed to the systemic decline in performance.

A steady increase in the number of cancellations since December 2006 and record numbers of delayed flights and cancellations is evident.<sup>1</sup>



The reduction in on time performance is contributed by a range of factors including inadequate levels of airport and airline staffing, including check-in, security, maintenance and baggage handling and ancillary ground staff.



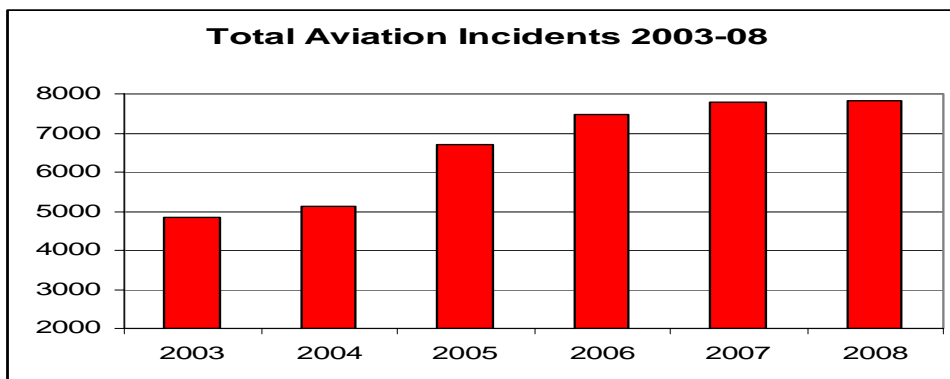
<sup>1</sup> Airline, On Time Performance, 2007-08 Financial Year, Report — OTP 62. See Appendix A

## Accidents and Incidents

The Policy recognised the need for improved planning of the workforce, but the seriousness of this was under-emphasized because the issue was not correlated with aviation performance.

Importantly, the increased use of overseas workforce through contracting out maintenance functions has paralleled the decline in performance and increase in incidents and accidents. The workforce has strong anecdotal evidence of short cutting measures in maintenance and unsafe repairs. While workforce representatives continue to report these issues, there has been no systemic analysis of their evidence to provide the level of information required to address this issue from a policy perspective. Concerns about the independence of CASA from the major airlines and their 'doing their bidding' to reduce costs over safety continue unabated.<sup>2</sup> This issue has also been raised by Pilots, with the key example of the introduction, and CASA's promotion of, reduced qualifications for Pilots, eg. Multi-Pilot Crew License. This initiative is contrary to international recognised safe practice. Concerns continue that there will be no revision to these practices until after a major accident.

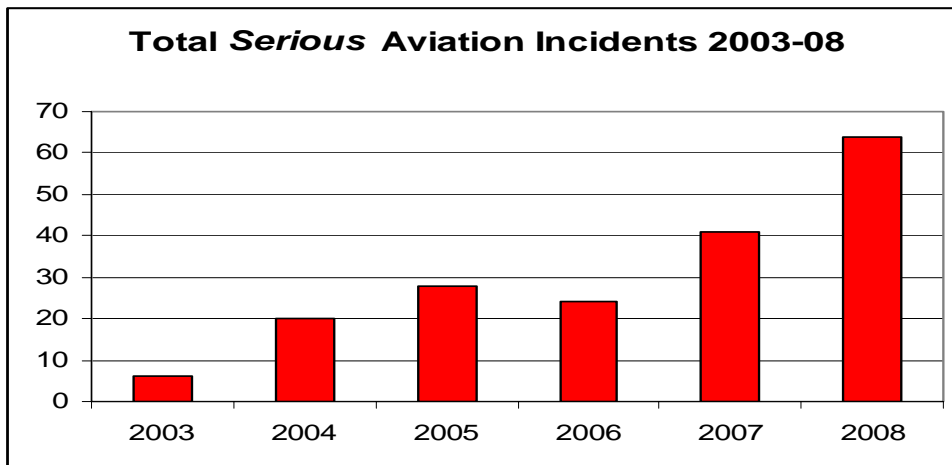
The Australian Transport Safety Bureau (ATSB) data on incidents and accidents demonstrate the marked increase and continued high growth in overall incidents and serious incidents. This data demonstrates the increasing danger which is antithetical to the national interest and the government's obligation to act centrally and urgently.<sup>3</sup>



ATSB. Transport Safety Report Aviation statistics 2008 Final AR-2008-057(4)

<sup>2</sup> For further information see Licensed Aircraft Engineer's Association safety reporting information and correspondence with CASA.

<sup>3</sup> For further information see the Australian commission study for more specific information in relation to skills and workforce needs to meet maintenance needs.

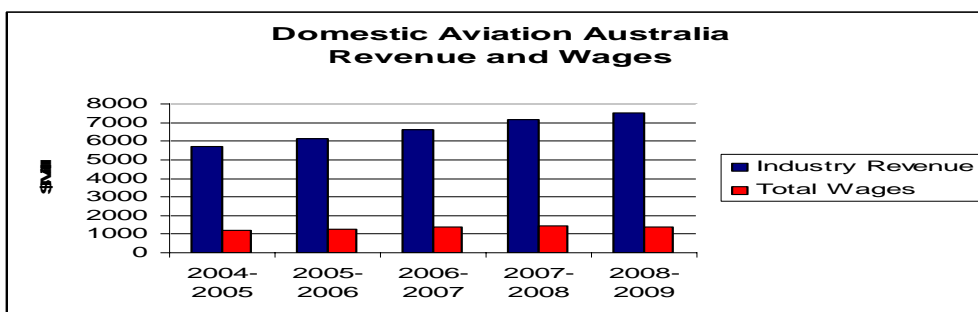


ATSB. Transport Safety Report Aviation statistics Final AR-2008-057(4)

### Reduced proportion of expenditure on workforce

The systemic decline in the workforce is best represented by the systemic under-investment in the workforce. Under current regulation the relative proportion of revenue devoted to staff has been able to consistently decline, notwithstanding higher throughput and productivity of staff. This has obviously led to a reduction in the attractiveness of the work, attraction and retention of staff in the aviation sector.

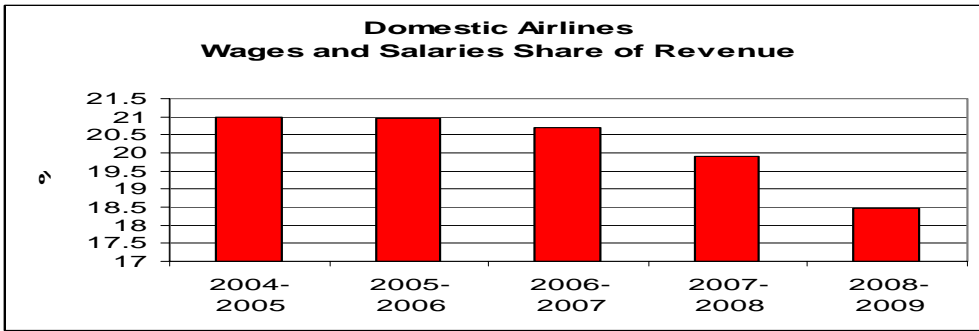
The reduction in workforce expenditure is paralleled with excessive, above market returns to the owners of infrastructure from regulated sectors.<sup>4</sup> The following charts display the aggregate stagnant expenditure on the workforce capacity as well as the endemic reduction of wages and salaries shares to profits.<sup>5</sup>



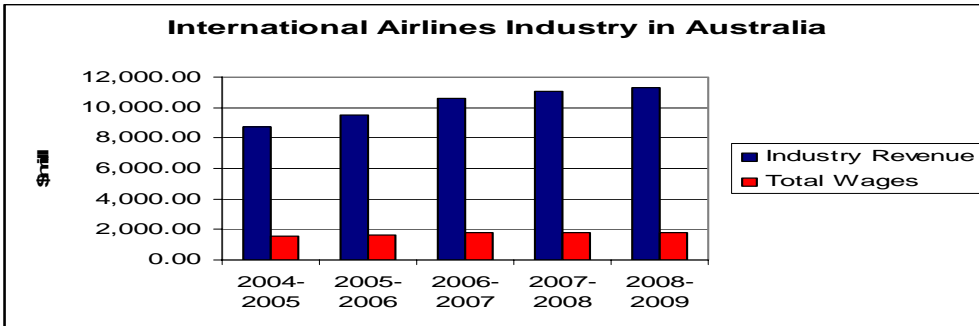
Source Ibis: Domestic Airlines in Australia I6402

<sup>4</sup> See Macquarie Airport (MAp) investments returning 37% per annum on average for the first several years, rising to 87% in 2005. Above average industrial sector returns have continued since 2005. See ASX releases

<sup>5</sup> See IBIS reports on International and Domestic Airlines in Australia



Source Ibis: Domestic Airlines in Australia I6402



Source Ibis: International Airlines in Australia I6402



Source Ibis: International Airlines in Australia I6402



Airports in Australia: I6630 September 2008

While the government’s Policy implicitly acknowledges the workforce crisis, its response continues to focus on arms-length monitoring. This is at the expense of a regulated

approach to ensure that there are adequate inputs (capital, infrastructure and workforce) to achieve sustainability, let alone broader objectives.

The final government policy must incorporate findings of the flaws in the Australia's post-privatisation regulation to adequately inform the government of the scope and direction of regulatory reform. A continuation of broadly the same regulation will only exacerbate the failings endemic under the existing system.

Finding of reviews of the privatisation of airports against objectives has found that, it has:

- *failed to* deliver a higher level of capital investment in aeronautical services and infrastructure<sup>6</sup>
- *failed to* increase traffic diversity from domestic or international destinations (in fact it has decreased)<sup>7</sup>
- *failed to* improve socio-economic gains to regional and remote areas<sup>8</sup>

The one finding of any significant 'achievement' is the decrease in the average employee cost per 'workload unit'. The correlation between this and workforce shortages and falling airport and airline performance ought to be obvious.

There has been no evaluation of the redistribution of operational resources from the workforce/wages expenditure, to profit since the highly lauded privatisation of the sector. This in itself would have provided the government with a clearer assessment of the major trends in the industry, and where the risks lie, which have been evolving over time. As such, the Policy does not recommend improvements to regulation, to ensure appropriate investment in the workforce skills and retention.

Notwithstanding the aggregate shortage of skilled staff, the employers in the industry are not necessarily competing for staff in an 'open market'. This is because they are often the sole geographic employer who enjoys a veritable monopoly (airports & maintenance infrastructure). The low level of competition between domestic airlines has also facilitated collusion in strategic and operational agenda to mutually manipulate earnings

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<sup>6</sup> TTF Australia. Assessing the Impact of Airport Privatisation. Final Report. 2006

<sup>7</sup> Ibid

<sup>8</sup> Bureau of Transport and Regional Economics, Report 115: Air transport services in regional Australia: trends and access. July 2008

growth. The same behaviours can be observed as a means to drive down wages. The capacity for this is evidenced by degree of market concentration as well as the successful prosecutions for cartel behaviour among the airlines<sup>9</sup>.

Improvements in regulatory oversight which require airports and domestic airlines to report on staffing numbers' per function, employment type, average hours worked and training expenditure could make a substantial difference. The benchmark performance differences, as they relate to differences in staffing levels and types, would be enlightening and offer practical solutions to worsening problems.

It is assumed that improved industry and employee relations regulation will facilitate the means to address many of the risk and shortages issues identified by regulators, industry participants, consumers and the workforce.

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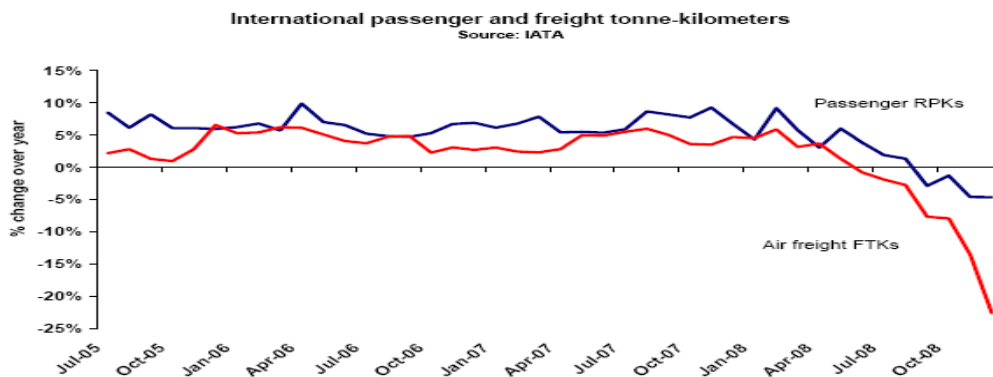
<sup>9</sup> IBIS World data shows that concentration of the top two players in the Domestic Airlines industry accounts for 95.5% of industry revenue in 2007-08. See also ACCC and international trade practices violations prosecutions in 2008.

## Current Economic Environment

The current economic environment, compounded with the ownership forms of Australia's key aviation infrastructure, require urgent and comprehensive attention. The flow-on consequences for the real economy and domestic and international trade, from a reduction in aviation services, present a critical risk to Australia in the current economic environment.

The highly leveraged financial intuitions' buy-outs of key infrastructure, from airports to maintenance facilities, are under clear threat from their operating structure and heavy reliance on borrowed capital. Repayments will be made more difficult by the projected downturn in international and domestic passenger and freight. The dual factors of the economic downturn and capital shortages upon the ownership structure of airlines, airports and associated companies dictate that their sustainability is at risk.

To date the timing and regional impact of the downturn has varied, with Australia sustaining higher traffic than its international counterparts. However the rapid pace of the economic contagion internationally indicates that Australia is extremely vulnerable to unprecedented falls in passenger and freight movements. Moreover, the Asia Pacific region is experiencing the largest falls in airfreight globally. In the year to December 2008 global airfreight fell 22.6%, while the Asia Pacific Region fell by 26%.<sup>10</sup> This is paralleled with the fall in exports in the region of 20-30%.



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<sup>10</sup> International Air Transport Association, Airlines Financial Health Monitor. IATA Economics: January 2009. [www.iata.org/economics](http://www.iata.org/economics)

<sup>11</sup> Ibid. RPK = number of passengers multiplied by the distance flown by the passengers per year. FTK = freight tones per kilometer.

Regional transport hubs are predicting further falls in passenger traffic with Singapore's Changi Airport projecting passenger traffic to fall by another 8.5%, and cargo traffic by 5.1% in 2009.

The impact on Australia's traffic is indicated and further compounded by capacity cuts by Australian and major international airlines on Australian routes, including Singapore Airlines which plans to cut its capacity by 11% from April.<sup>12</sup> Qantas similarly plans to cut capacity, routes and services, along with the less profitable domestic routes it has also begun to cut. The reduction in services to important economic trading partners, including China and India are likely to compound economic losses.

According to BITRE, these reduced regional services follow a clear downward trend in the number of regional air routes and airports, which are already impacting on negative employment, income and growth in regional areas.<sup>13</sup>

The government needs to undertake a real stress test of the companies providing aviation transportation services to all domestic and export oriented industries.

This is required to ensure that contingency plans are available in the likely event that their financial capacity does not unduly prevent the movement of goods and services required to sustain Australia's economy.

Lessons from the Asian Banking Crisis demonstrate the necessity of transport infrastructure and services to sustain real trade. The contribution of the aviation sectors to increasing access to foreign trade and currencies, to recapitalise banks and industries during the crisis, is well recognised.<sup>14</sup>

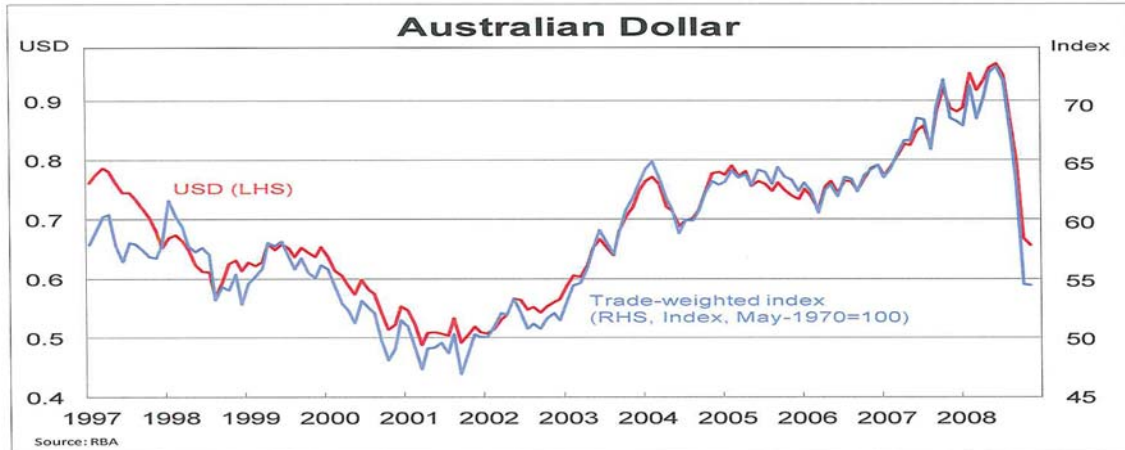
The Asian banking crisis also provides an important lesson for Australia's aviation policy in relation to the correlation between the falling currency and the opportunities to sustain or encourage new exports.

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<sup>12</sup> Reuters, Traffic Downturn, February 16 2009

<sup>13</sup> Bureau of Transport and Regional Economics, Report 115: Air transport services in regional Australia: trends and access. July 2008

<sup>14</sup> The World Bank. Lessons from World Bank Research on financial Crises. Policy Research Working Paper 4779. November 2008.



The relative resilience of the Australian economy to date has been underpinned by high domestic demand. The rapidly declining quantity and frequency of domestic routes, resulting from carriers' financial incapacity and need to maximise returns to operators will dampen economic activity in less well serviced routes. This too will stifle domestic demand and GDP.

In light of the current economic environment, the government needs to give additional consideration to its role in protecting the national interest in sustaining a robust aviation sector. We trust that this will have a more central consideration in the next iteration in the development of Australia's national aviation policy.

## **International Aviation Regulation**

Internationally the dominant form of airport ownership is public ownership. Only 2% of passenger airports internationally are privatised.<sup>15</sup> The US, for example, with one of the highest levels of overall privatisation in the world, retains government ownership of all of its major commercial airports.

Australia is an international aberration with 100% private ownership of all major airports as well as no government interest in a major carrier. In combination this decreases the government's ability to directly assess and influence levels of investment in aviation infrastructure and workforce.

The dominance of public ownership of major airports internationally reflects governments' national interest concerns. These include identified needs for maintenance of sovereignty, security, economic and social accessibility. Ownership rights also provide governments with input on the provision of domestic capacity and distribution of scarce capacity in alignment with their international relations policy.

Typically governments also have a major ownership stake in a carrier providing a various distribution of international and domestic routes. The form and composition of government investment in a carrier varies according to the geographical distribution of the country as well as other strategic and social obligations, such as building economic ties with particular countries and regions.<sup>16,17</sup>

The majority of international airlines operating in Australia have a majority government' ownership or equity investment, as well as limitations on foreign investment.<sup>18</sup>

Government interest in an airline allows input into budget and planning processes, not only between airports and airlines, but cognisant of related government policy and investment into infrastructure and economic development, including education and training. The long time frames and investment required to provide aviation infrastructure

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<sup>15</sup> Global World Class Airports Conference, Dubai, UAE, 30 Oct – 1 Nov, 2007.

<sup>16</sup> Mahani Zainal-Abidin, Wan Khatina Wan Mohd Nawawi, and Sazalina Kamaruddin  
Strategic Directions for ASEAN Airlines in a Globalizing World, Ownership Rules and Investment Issues  
Final Report 2005 REPSF Project No. 04/008

<sup>17</sup> Ibid.

<sup>18</sup> See Appendix A

also supports forward planning and investment in services and future capacity requirements. Government's equity interests therefore represent the long term investors interest.

The former government placed a high degree of faith in market mechanisms when it created Australia's aviation policy, contrary to the basic economic assessment applied internationally. A less altruistic benefit to the former government was reaping the revenue from the privatisation of 17 of Australia's 22 airports and relegate future investments to the States. This contributed to the federal Government paying down public debt, through a direct transfer of debt (as well as the higher borrowing costs) to the private sector and States.

It is the cost of that debt to private owners and users of airlines and aviation infrastructure which is currently threatening to cripple the industry. Australians have already paid a high price for this form of regulation, they should be protected from further equity hemorrhaging or collapses.

The aviation sector is on the precipice of a major catastrophe as the economic reality of 'business cycles', is being borne out in a major way with the global financial crisis.

As such, economic theory and empirical research demonstrates that, while long term economic growth increases, it makes no such promises about the short term. Reliance on market mechanisms is to expect fluctuations. How deep and long these 'fluctuations' are depend in large measure on government regulation and mitigation measures when the market turns.

## Australian Airports Regulation

As stated, not only does Australia have the most privatised airports, it also has the most ‘light handed’ regulation. That is, no explicit regulation of pricing and how it relates to the cost of providing adequate aeronautical and customer services.

The form of regulation influences pricing behavior and performance of an airport significantly. Although various forms of airport regulations have been adopted by different countries around the world, the most widely used regulatory regimes are: price-cap and ‘rate of return’ regulation<sup>19</sup>.

Under rate of return regulation, prices for airport services (such as aircraft landing fees and terminal usage fees) are set based on costs of operating the airport. Australian regulation currently does not monitor the direct expenditure on inputs or quality of services. The principles which guide what is to be monitored and reported are also entirely inadequate to address any exploitation of market power within a given year, or mitigate the impacts of overcharging on customers and staff within any useful timeframe.<sup>20</sup>

For example, it is 7 years since the ACCC first found that short term airport parking displayed the following characteristics, and there is still no explicit price regulation.

- Generates high reported profits;
- Faces limited competition;
- Sustains prices above competitors; and
- Is not discretionary

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<sup>19</sup> Tae H. OUM & Xiaowen FU. Impacts of Airports on Airline Competition: Focus on Airport Performance and Airport-Airline Vertical Relations Discussion Paper OECD International Transport Forum, Joint Transport Research Centre, No. 2008-172008

<sup>20</sup> On average the ACCC report on prices is published 9 months following the conclusion of the financial year it is monitoring.

Moreover, since 2002, passenger numbers at Australia's five major airports have increased by about 41 per cent, while for the same period parking revenues grew by 77 per cent.<sup>21</sup> This notwithstanding, no intervention into customer costs has occurred.

That the regulation of Australia's airports is 'extremely flawed' is shared by widespread and expert opinion.<sup>22</sup>

Primary flaws that have been identified are:

- Lack of regulation of market power of airports and lack of incentive to keep prices at socially optimum prices
- Low incentive to invest in aviation infrastructure and improved safety or aeronautical services
- Failure to contain rent seeking behavior
- Inadequate protection of the taxi industry and customers in the regulation of Airport Taxi fees and Taxi passenger charges<sup>23</sup>
- Low investment in direct workforce and skills acquisition<sup>24</sup>

The regulatory framework in place only 'monitors prices over cost'. So provided prices increase with costs, no regulatory intervention is triggered. The 'costs' monitored are not the direct operating costs, but total costs, which include the cost of interest on borrowed money. (For example, Sydney airport charged the government (taxpayers) \$61.6 million in "security recovery" expense (2007/08), of that amount \$7.3m were 'borrowing costs')<sup>25</sup>

It is noteworthy that one of the major reasons for price regulation regimes is to ensure that cost cutting measures do not compromise safety. Currently for Australia's major

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<sup>21</sup> In April 2008 the government included car parking price review under the existing monitoring regime, the disutility of this is shared with the flaws in the monitoring regime discussed. Also Vincent Morello Airports on notice over car park rates. SMH, April 6, 2008

<sup>22</sup> Forsyth (2006) & Tae H. OUM & Xiaowen FU. Impacts of Airports on Airline Competition: Focus on Airport Performance and Airport-Airline Vertical Relations Discussion Paper OECD International Transport Forum, Joint Transport Research Centre, No. 2008-172008

<sup>23</sup> See TWU.asn.au for history of prices and regulatory handballing

<sup>24</sup> See also ASU Submission 'Towards a National Aviation Policy Statement' Issues Paper April 2008

<sup>25</sup> MAp financial statements 2008.

airports, the cost of interest payments swamps capital and maintenance expenditure costs.<sup>26</sup>

Meanwhile *real* operating revenue at airports has been increasing and *real* operating costs for aeronautical services (less interest) have been decreasing. Increased ‘real operating profitability, before interest charges’ has been a consistent finding since the privatisation of airports which has enabled unfettered price and income increases.<sup>27</sup>

**Thus, while workforce productivity and efficiency have increased above 15% per employee Airports have increased prices on average historically by 50%.<sup>28 29</sup>**

#### ACCC Airports Price Monitoring 2008 Key Points

Total aeronautical revenue generated by the price monitored airports increased by 112 per cent to \$830.4 million between 2001–02 and 2006–07. Increases at the individual airports over this period ranged from 64 per cent to 512 per cent.

In 2006–07 the change in unit costs ranged from reductions of 7.5 per cent to increases of 40 per cent.

Since 2001–02 the change in aeronautical operating expenses per passenger has ranged from reductions of 5.6 per cent to increases of \*\*74 per cent (\*\*related to major capital expenditure).

Aeronautical operating margin per passenger (the difference between the average revenue per passenger and average operating expenses per passenger) continued to increase at most airports in 2006–07 with average margins ranging from \$1.86 to \$8.15 per passenger.

This scenario of increased productivity *and* prices and reduced workforce expenditure is facilitated, if not actually encouraged, by the current regulatory framework administered by the ACCC.

The airlines and the ACCC themselves have been critical of this form of regulation. The problem is it does not mitigate the monopoly power of the airport to ‘dictate’ increased prices, while it also fails to regulate the level of service. As such, services and performance has declined, while prices have increased, and this dynamic appears to dangerously spiral as Airports:

- Ramp up laying off people to reduce costs, to pay debt and,<sup>30</sup>
- Ramp up prices, to pay the rising cost of debt

<sup>26</sup> See Macquarie Airports and Australian Pacific Airports Corporation earning distribution.

<sup>27</sup> Peter Forsyth. Department of Economics. Airport Policy in Australia and New Zealand: Privatisation, Light Handed Regulation and Performance Paper for Conference “Comparative Political Economy and Infrastructure Performance: the Case of Airports 2006

<sup>28</sup> TTF Australia – Assessing the Impact of Airport Privatisation – Final Report. 2006

<sup>29</sup> Peter Forsyth (2006)

<sup>30</sup> Scott Rochfort, Sydney Airport sacks 25 workers. Business Day, The Age. November 20, 2008

Basically two banks have operational control of Australia's major airports, Westpac, through their investment banking arm Hasting's 'AIX' Trust and Macquarie Bank, through their investment fund subsidiaries, primarily MAP.

Both Airport owners are currently experiencing extreme difficulty in refinancing their debts, which is the major cause of operational cost cutting.<sup>31</sup>

Their difficulty in paying debts is compounded with the share price fall tumbling in response to:

- Double exposure of parent company to hybrid debt/equity interest in airports
- Net asset values falling due to credit and economic downturn
- Reduced income due reduced traffic & freight projections
- Escalating cost of debt due to the above factors as well as:
  - Corporate Bond Market contraction in Australia
  - Credit wrapped debt instruments incurring higher risk weighting (as insurers are re-rated downwards)
  - Lower projected income from asset sales used to pay debt

The explicit relationship between economic growth and the aviation industry growth, performance and profitability clearly indicates that the aviation sector is in for some challenging times ahead. Under these circumstances it is incumbent on government to protect the national interest by having an explicit regulatory regime and plan which will support the sustainability of the aviation sector.

The questions this scenario poses for government are:

As airport owners seek to reduce costs to avert collapse:

- What level of cost, service and capacity reduction needs to be quarantined to provide safety and continuation of services?

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<sup>31</sup> Bloomberg. Macquarie Airports Tumbles After Axing Share Buyback (Update1) Feb. 23 2009; Michael Smith 'MAP pumps equity into Sydney Airport'. AFR 24 February 2009; Katja Buhner and Vesna Poljak 'Airports grounded by debt baggage'. AFR. 24 February 2009; Michael West. 'Hard Landing Ahead' Business Day, The Age January 20 2009;

- What are the economic cost benefits of delayed investment into aeronautical infrastructure and workforce ?

As the airport owners are required to increase revenue to avert collapse:

- Are the limitations and regulation on fees for airlines and passengers adequate?
- At what specific point will the government intervene to prevent fuller exercise of monopoly pricing and service reduction?

Given current up to date information about the economy and aviation downturn:

- What level of stress testing is undertaken of Aviation companies to determine the likelihood of bankruptcy ?
- Do existing solvency oversight and bankruptcy procedures facilitate airport operation and change of control procedures which protect aviation workers and the public interest?

The analysis required to answer these questions should inform the policy and planning needs into the future, as well as government's and regulators roles.

## **Airlines' Regulation - Open Skies**

It is recommended that the government thoroughly review the current operation of the Trans Tasman and its aggregate economic impact on Australia, before it extends its 'open skies' policy.

The current trend in off shoring aviation operations to New Zealand under the auspices of the Trans Tasman is having deleterious economic effects.

The development of a transport operations hub in New Zealand, exploiting cheaper fuel costs from major international routes, is undermining the aviation and economic security in Australia. This effects not only the economic contribution of the aviation sector, but potentially all Australia's air freighted exports which can be substituted by New Zealand producers and manufacturers.

Australian airlines and airports have relatively underdeveloped investment in developing transport hubs for international freight. The relative efficiency for a range of key export markets to import agricultural products from geographically closer and more integrated transport hub in New Zealand, ought to be a major concern for the Australian government.

Moreover, Australian companies, including Qantas, are using open skies policies to set up subsidiaries in New Zealand to exploit this market access, as well as undercut wages, particularly for the highly skilled professions such as civil aviation engineers and pilots. Australia's national interest is severely compromised by facilitating this. The impact on morale and incentive for skilled workers to remain in the Australian aviation sector provides reason to believe that, unless these practices are addressed, Australia's aviation capacity will continue to decline.<sup>32</sup>

As workforce shortages continue to exacerbate safety and efficiency outcomes, it is a false economy to allow a continued demise of working conditions through undercutting wages by off-shoring jobs by Australian companies.

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<sup>32</sup> For more information see the AFAP, NZALPA & AIPA Charter on Trans-Tasman Co-operation. See also ASU Submissions and information.

## Foreign Ownership

Foreign ownership limits on Australian airlines, as well as airports and maintenance facilities, need to be cognisant of the dominant international limits. This analysis needs to include an understanding of why governments' seek high level of ownership and the protection it affords their population, sovereignty and economy.

Australia does not need to be subject to the whims and vagaries of international strategic and commercial interests. Australian citizens and economic agents should not be made vulnerable to them due to an ideological preference for *laisse faire* economics, without evidence based analysis of the costs, risk and benefits.<sup>33</sup>

The level of ownership limits needs to recognise what is a 'controlling' level of ownership. Under highly dispersed ownership, a relatively small parcel of ownership can represent a controlling share. The company can then be managed to the interest of that owner. Moreover, the current global imbalance in capitalisation, the large fall in the Australian dollar and the near halved value of airlines during the constrained credit environment would create a veritable 'fire sale' of Australian aviation assets. Under these conditions, the cost benefit for an overseas carrier to buy a controlling share and run the operation into the ground, to benefit their own national carrier, could not be ruled out.

There are currently high levels of foreign owned aviation services, many of whom have the same majority owner, the Singapore Government via their investment vehicle Temasek Holdings Pte<sup>34</sup>. The lack of comprehensive mapping of the ownership of strategically and operationally important aviation services is exposing Australia to higher than necessary risks. Should the Singapore government seek retribution for the governments refusal to grant Singapore Airlines additional rights, they have the ownership control tools to wreak havoc on the general and passenger aviation sector.

The majority of overseas airlines operating in Australia have majority ownership by government and/or high foreign ownership limits<sup>35</sup>. As such, to permit a controlling level

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<sup>33</sup> For more information on cost and benefits of prescribed levels of ownership see ASU Submission on the National Aviation Policy Green Paper.

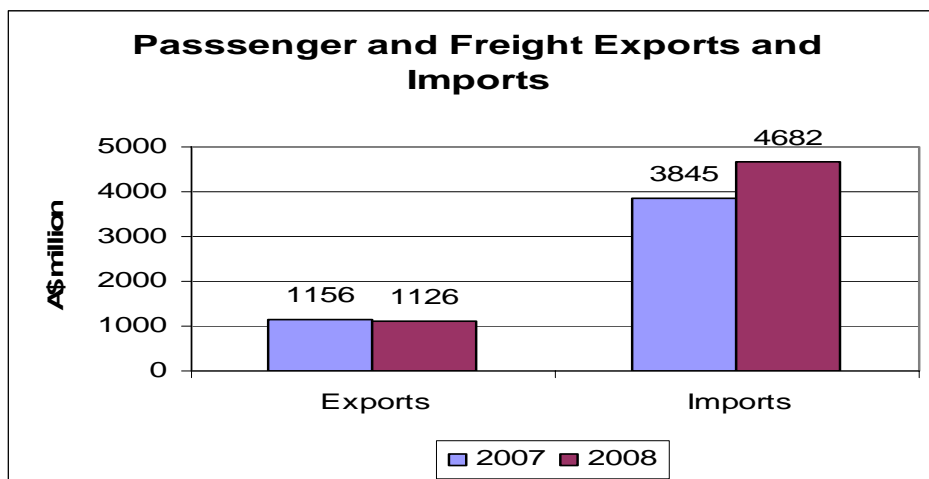
<sup>34</sup> See ownership and distribution of Temasek majority owned subsidiaries including: Toll Dnata Airport Services, Tiger Airways, John Holland Forstaff Aviation, SIA Engineering, ST Aerospace/( incl. 2007 acquired STATA, PFS Australia), etc etc

<sup>35</sup> See Appendix A

of foreign ownership of Australia designated carriers, would be to put us at a relative disadvantage. If the tyranny of distance was not so great, the strategic and economic risks would not be so central to the social and economic well being of Australians.

Moreover, the contribution of the aviation sector to Australia's aggregate export earnings is directly affected by the level of domestic or foreign ownership of aviation companies. This in turn has a real effect on Australia's balance of payments deficit. Transportation services represent the greatest proportion of Australia's export services revenue. In 2007/08 'transport services' represented 18% of Australia's services export revenue, while 'travel' represented 56%.

The sale of transport companies to overseas owners directly contributes to a transfer of 'export revenue' to 'import cost' in the balance of payments. The continued or increased capacity for sale of transportation services to foreign owners will only exacerbate the alarming economic trend of reducing export revenue and increasing imports from passenger and freight services.<sup>36</sup>



<sup>36</sup> DFAT 'Trade Topics: Quarterly statistics' December 2008.

## **Qantas Sale Act**

Qantas as a corporation, and its component operation parts, was not defined in the Act. This facilitated the creation of subsidiaries, outsourcing and contract sale of large components of the original company.

This effectively dilutes the corporation, and fails to protect the spectrum of national interest considerations which were originally anticipated by quarantining foreign ownership limits.

The ownership margin was introduced to protect the national interest. At the time of the Qantas Act, Qantas was the effective owner for the majority of maintenance and overhaul activities. Since then it has contracted or outsourced up to 50% of these functions to domestic, but more frequently, overseas providers.<sup>37</sup>

This effectively results in a depletion of capability, within Australia, to maintain aviation infrastructure: Potentially a sustainable supply required to meet the national interest.

It should also be noted that the majority of national carriers do not have the same extreme geographical distances and relatively small population as Australia. These factors would suggest that there was a greater national interest in more secure ownership guarantees of for the sustainability of a national carrier.

Moreover, the Policy proposal to change ownership rules to 'principle place of business rules' will not afford any real national interest protection, if providers can reduce services or presence to meet their domestic interests.

It is assumed that the dramatic change in the exchange rate, along with the deterioration of world growth figures, will cause a reassessment (based on the now more evident risks) of the policy assumptions.

We look forward to hearing more about evidence based and risk based assessment of foreign ownership limits, based on Australian and overseas examples.

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<sup>37</sup> See Qantas contract with Lufthansa Tech Announcement 2008

## **Bonding Employees**

The Policy proposal to make bonding workers more permissible has very serious and severe implications. It is also a direct contradiction to the 'competitive market' policy assumptions which apply to industries and corporations.

By definition bonding workers denotes limiting the freedom of movement of persons by their employer. It is a restraint of trade in its most basic form.

It is unclear why workers, (and consumers), should be subject to this extreme means of ensuring that for-profit airlines can get and transition to the cheapest possible workforce.

An inherent flaw in bonding workers is that they are constrained in achieving the maximum ability to repay education loans, by being bonded to the employer.

The least the workforce should expect from the government is that the minimum constraints should be placed on their freedom of movement, association and trade.

Employees' bargaining power is derived from the value of an employee to the company, the freedom to bargain collectively and the freedom to leave the employer. Removing these bargaining rights and bargaining power must be understood for what it is: one step from slavery.

While this may appear extreme, it is not in the context that the bonded workforce would be undercutting workers, who attempt to use their rights under international and domestic laws, to bargain for fair outcomes.

The paper proposes that existing educational government infrastructure and programs be used for the training of other aviation related skills. Why the rationale completely changes for pilot training is not articulated. The paper acknowledges that submission stated a preference for HECS/FEE-HELP schemes for pilot training (p.145)

It is not clear from existing evidence that there is a commercial incentive not to take calculated short term risks in exploiting the workforce. For this and the reasons stated above, it is recommended the Government DO NOT facilitate extending employee bonding arrangements to commercial enterprises.

## Appendix A

**Table 1. Major International Carriers Operating in Australia – Level of Government Ownership**

Airline	Proportion Government Owned
Alitalia	49% Italian Government Owned
Air China	Majority Government Owned
Air France	Minority French Government Ownership
Garuda Airlines	Full Indonesian Government Ownership
Gulf Air	Full 'Kingdom of Bahrain' Ownership
Malaysian Airlines	Minority Government Ownership
Singapore Airlines	Majority Singapore Government Owned
Thai Airlines	Majority Thai Government Ownership
Tiger Airways – Domestic	Majority Singapore Government owned <sup>are</sup>
United Arab Emirates	'Government' Owned
Vietnam Airlines	Full Government Ownership

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