

Supplementary Qantas Submission to the Senate Economics Committee

Qantas Sale (Keep Jetstar Australian) Amendment Bill 2007

Qantas is concerned that statements contained in the written submissions and oral evidence provided by representatives of the Australian and International Pilots Association (AIPA) and the Australian Licensed Aircraft Engineers Association (ALAEA) are false or misleading.

In our view, key elements need to be clarified to enable the Committee to draw accurate conclusions.

AIPA Evidence

Mr Peter Somerville, General Manager of AIPA, stated in his evidence (Proof Hansard Page E19) that:

“There are different standards between Qantas and Jetstar. Jetstar meets the minimum standards imposed by CASA. Qantas traditionally has a very proud record and, there is no doubt, has higher standards. It does not mean that the pilots are any better or worse; it means that the airlines operate to different standards.

For example, Qantas does four licence renewals a year for pilots. They have to be undertaken and failing any one of those licence renewals could result in the loss of a licence and loss of livelihood. Some years ago Qantas reduced that from four to three and noticed a reduction in standards and went back to four. Jetstar does two licence renewals a year. Qantas command training is five months; Jetstar command training is five weeks. So there are different standards between the airlines.”

These assertions are not correct. Jetstar demonstrates the highest standards in all its operations in domestic, short haul trans-Tasman routes and its recently launched and highly successful long haul international operations.

Pilot Licensing

All pilot licence renewals occur annually with the issue of pilot medical certificates.

In stating that “*Qantas does four licence renewals a year for pilots*”, Mr Somerville may have been referring to the “Simulator Cyclic Program”. This program is approved for each operator by the Civil Aviation Safety Authority (CASA) and covers the design of the ongoing pilot currency and checking system.

The cyclic program requires the same hours of simulator training and checking over a 12-month period for all operators. Operators choose to structure that training in different blocks depending on the content of their various simulator exercises.

Jetstar, along with many other airlines, elects to use the “2 sessions x 2 days ” structure. Qantas uses the “4 sessions x 1 day structure. CASA approves both structures. They each have benefits and disadvantages that on balance produce the same outcome.

Pilot Command Training

Mr Somerville states “*Qantas command training is five months; Jetstar command training is five weeks*”.

A valid comparison would relate to Qantas Airways B737 and Jetstar Airways A320 requirements, as these are similar narrow body aircraft. Both command courses for these aircraft require a minimum of 8 weeks

All other aspects of the training, such as safety pilots, areas of operation, and other requirements are comparable.

Alleged Business Plan

Mr Somerville (Page E20 Proof Hansard) stated that:

“We believe there is a business plan to transfer the business of Qantas into subsidiaries, in particular Jetstar, and that is demonstrated by what has happened with Australian Airlines.”

There is no such plan. Indeed, as made clear by the Qantas Group’s CEO Geoff Dixon, at the 2006 AGM, it is Qantas’ objective to grow both Qantas and Jetstar, to which end the Group is committed to ongoing investment in fleet of around \$2 billion a year.

Further, in her address to the same AGM, the Chairman, Margaret Jackson, emphasised the importance of the two brand strategy - Qantas and Jetstar - to the Qantas Group’s business transformation program. An extract from the Chairman’s address is attached.

ALAEA Evidence

Qantas rejects suggestions contained in the submission and oral evidence by the ALAEA that Qantas is prepared to compromise on safety in the interests of cost saving, or that Qantas is prepared to use maintenance providers that are unsafe. Similarly, Qantas is concerned at ALAEA claims regarding alleged safety breaches involving aircraft sent to offshore maintenance providers.

At no time during the preparation of their submission or evidence did ALAEA representatives seek to contact Qantas management to test their claims or seek supporting information.

Shortcomings in Qantas’ chosen offshore maintenance providers

Qantas will never compromise on safety.

If Qantas was prepared to make a decision to send maintenance offshore based purely on cost as alleged, it would not have retained heavy maintenance of wide body aircraft (B747 and B767) in Australia. The decision in March 2006 to transfer the Sydney heavy maintenance workload to Avalon was not the lowest cost option – outsourcing offshore would have saved Qantas an additional \$30m per annum.

Any allegations relating to defects on aircraft returning from maintenance are thoroughly investigated by Qantas' Quality System and Risk Management Department. Follow-up action is taken if necessary. This applies both to external maintenance providers and Qantas' internal maintenance organisation.

The allegations made by the ALAEA were either anecdotal and had no basis in fact, or were issues investigated, followed-up, resolved and determined not to be of a significant safety nature.

Avalon Heavy maintenance work sent offshore

ALAEA (Submission Item 11, Proof Hansard pages E26 and E31) claimed that since the closure of the heavy maintenance facility in Sydney in March/May 2006, maintenance work that was scheduled to be undertaken in Sydney has all been done overseas, not sent to Avalon as Qantas had announced.

In the ALAEA Submission, Item 6 it is stated that:

“When the Sydney facility closed the work that had been scheduled for the facility was transferred to overseas sites in China, Singapore and Switzerland. At this point in time most of the work previously planned for the Sydney Heavy Maintenance facility has not been returned to Australia.”

The actual position is very different to these claims. At the time closure of the Sydney Heavy Maintenance facility was announced, the scheduled B747 work for the forthcoming year involved 27 maintenance checks, comprising 5 X 'D' checks, 2 X 'C' checks, 8 X 'Half C' checks, and 12 X 'Super A' checks.

There were Initial and anticipated set-up issues due to disruption associated with the closure of Sydney and the expansion of the operation in Avalon, including coordination of the relocation of specialised tooling, equipment and spare parts. Accordingly, five checks were outsourced overseas, including 3 'D' checks that were conducted in Singapore and Hong Kong.

All the other scheduled work, comprising 81% of the planned Sydney checks, representing 68% of the planned man-hours, has been transferred to and conducted at Avalon. This includes two 'D' checks, the first of which was accomplished in April/May 2006.

Prison Labour

ALAEA has claimed (Submission Item 11 and Proof Hansard page E27) that prisoners are being used as cleaners on and in Qantas aircraft at a Singaporean maintenance facility. Qantas views this allegation with extreme concern.

The work in Singapore is contracted to reputable maintenance providers, approved and audited by CASA and Qantas' quality department and overseen by a team of Qantas engineers and support personnel, who are present totally at Qantas' discretion to protect the Group's interests. The maintenance providers have assured us that the allegation is without foundation.

The ALAEA has been asked to detail its claims but has been unable to provide information that will enable Qantas to investigate the matter properly. The only reports to date are second or third hand hearsay, referring to possible occurrences that took place many years ago.

Engineering Certification

ALAEA has claimed (Submission page 10, Proof Hansard pages E31 and E37) that certifying licenced engineers used overseas, specifically in Singapore and the Philippines, are provided in insufficient numbers and are not as fully licenced (i.e qualified or capable) as Qantas engineers.

In Australia, the proportion of licenced engineers supervising employees, whose work they certify in Qantas heavy maintenance, is 27% in Avalon, 32% in Brisbane and 59% in Melbourne.

All the offshore maintenance providers used by Qantas meet CASA regulatory requirements regarding skill, experience and competence levels. All maintenance facilities and their operations are audited by CASA and Qantas' own quality organisation to ensure that this is so.

At Lufthansa in the Philippines (LTP), the line that is carrying out A330 aircraft work for Qantas has 64 appropriately licenced and Qantas trained engineers providing certification and oversight - a ratio of 28%.

In Singapore, SIA Engineering Company is currently conducting 2 X B747 checks and has 23% appropriately licenced and Qantas trained engineers. These figures do not include other approval holders such as workshops, including structures and non-destructive test specialists.

The licenced engineers employed by our maintenance providers have qualifications and certification privileges comparable with those of Australian licenced engineers on the aircraft type being maintained. They are acceptable as such to CASA. The system in the Philippines is based on the US system; that in Singapore, on the UK system.

Engineers that are licenced in their national system are given additional training by Qantas to cover the unique requirements of Qantas aircraft (under CASR 214). It is only these Qantas trained engineers that can certify Qantas aircraft.

Qantas Airways Limited
19 March 2007

ATTACHMENT

Extract from address by Qantas Chairman Margaret Jackson 2006 Annual General Meeting

“A major area of focus for Qantas this year will be taking our segmentation program to the next level.

Over the past three years, we have separated our businesses into units with their own revenue, cost, profit and return targets. This has given us a new perspective on each unit’s real contribution to the Group.

This year, we will focus on transitioning units that were cost centres – including service businesses such as engineering, catering and ground handling – to profit centres. Each business will need to cover its cost of capital. We will invest where we can generate the highest relative returns. Every part of the business will be part of this process.

- Our flying brands, Qantas and Jetstar will compete for growth routes and new aircraft based on the returns they can generate.
- Our service businesses will compete for investment based on the returns they can generate using market-based pricing.

Two Brand Strategy

As Qantas moves forward, we continue to deliver the high standard of product and services that our customers rightly expect of us. Our two brand strategy - Qantas and Jetstar – is giving us the flexibility to serve and support our different customer groups more effectively.

Domestic

In the domestic market, we have consistently maintained a market share above 65 percent. Qantas and QantasLink have strengthened their position on premium and regional routes. And Jetstar now has an all-A320 fleet. Jetstar and QantasLink are growing into new capacity. And Qantas has added capacity to key markets such as the East-West Coast routes, where we now fly Boeing 747s to Perth.

International

And this year we will take our two brand strategy to international markets.

Qantas will focus on defending its position on key markets where there is demand for the premium product such as the US, UK, Tokyo, Hong Kong and South Africa. Qantas is also developing its presence in growth markets such as Shanghai, Beijing and Mumbai. We plan to further increase Qantas flights to China in the lead-up to the Beijing Olympics in 2008.

Next month, Jetstar will become the world's first long haul international value based carrier. This is a huge step and very exciting. With a cost structure at least 40 percent below that of Qantas, Jetstar will focus on point-to-point flying. Subject to final regulatory approvals, its inaugural Melbourne-Bangkok service will commence on the 23rd of November, followed the day after by Sydney-Phuket. It will then add services to Ho Chi Minh City, Bali, Honolulu and Osaka. Forward bookings are meeting expectations with strong support for markets like Bali and Vietnam.

This strategy is about taking advantage of some of the fastest growing markets in our region. It is also about meeting the needs of our busy customers, who want to fly direct. And it is an effective way for us to counter the traditional advantages of hub-based carriers.

Jetstar International will offer three simple fare classes and very competitive prices as well as a quality product. The initial response has been very strong, with all markets selling well.

Jetstar's international operations will transition from its start-up fleet of A330-200s to the Boeing 787 aircraft from 2008. Once Jetstar is established in the Asia-Pacific, we will look at extending it to Europe and the US.

We believe Jetstar represents a wonderful growth opportunity. It also creates some healthy competitive tension within the Group. As I said, we will invest in the airline that is able to generate the best returns. This will give us improved flexibility to respond to changes in our markets.

We now market Jetstar as one brand, with a single web site which promotes Jetstar's domestic and international operations, plus our Singapore-based joint venture. And we are looking at more joint venture opportunities in Asia to establish additional hubs".