



**INQUIRY INTO WORKFORCE CHALLENGES IN
THE TRANSPORT SECTOR**

**SUBMISSION BY
QANTAS AIRWAYS LIMITED**

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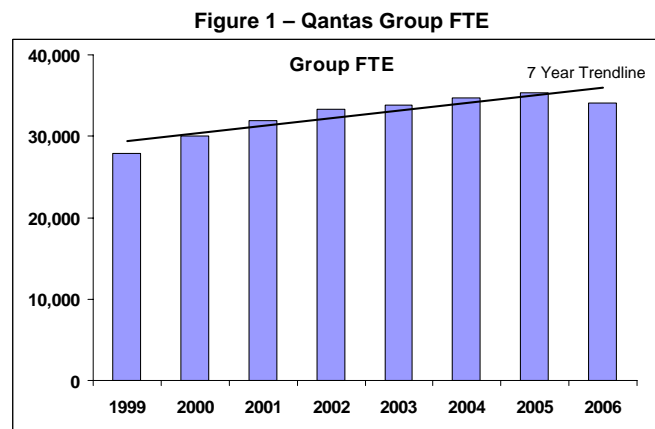


The Qantas Group

Qantas is a major player in the Australian transport and aviation industry. In 2005, the Qantas Group's gross value added as a proportion of Gross Domestic Product (GDP) was 0.7 percent, or approximately \$871 million.

Qantas has a proven track record of supporting Australian jobs. We employ over 37,000 highly skilled staff (over 92 percent of which are employed in Australia) across a diverse array of skills and professions. This includes approximately 6,000 engineers – including 400 apprentices – close to 3,000 technical crew and 8,000 cabin crew, as well as specialist IT and Finance staff.

Qantas offers unrivalled job security in the aviation industry. This is in stark contrast with the majority of airlines around the world which have seen massive job loss in recent years. We have grown employment by over 7,000 new jobs in the last seven years, and our Manpower & Staff Related costs for 2005/06 exceeded \$3.3 billion.



Business growth and investment underpins jobs. Qantas has invested \$12 billion over the past five years in fleet and product, including the delivery of 55 aircraft and installation of the latest inflight entertainment system and the Australian-designed Skybed business class seat. Looking ahead, we have an order for 12 Airbus A380 aircraft, the first being delivered in 2007, and 65 Boeing 787 aircraft for delivery from 2008, with rights for an additional 50 aircraft.

In undertaking our aviation-based activities, Qantas relies upon, and generates demand for, a wide range of goods and services. Our supply chain encompasses firms from industries that produce fuel, magazines, tyres, wine, aircraft seat and galley parts, and services such as security screening, ground handling, engineering and maintenance, catering, accommodation, advertising, cleaning, information technology, ground transport, air navigation and rescue and fire-fighting. Many of these suppliers are Australian based, and in 2004/05, Qantas Group expenditure on locally provided goods and services exceeded \$2.3 billion.



Industry Context

Over the past five years, the global aviation industry has faced unprecedented shocks and pressures for change. Australia's airlines have not been immune, as seen in the dramatic changes that have taken place in the local industry and indeed a consequential impact on jobs in many instances.

International aviation is conducted in a highly competitive and distorted operating environment. As a fully commercial, privately-run airline based in an end-of-line market, Qantas faces ever increasing competition from government owned or supported "national agenda" carriers operating from major mid-point hubs. As a result, Qantas' market share has declined from 40 percent at privatisation in 1995 to around 32 percent.

The structural advantages of these carriers have a significant impact on Qantas' competitiveness in international markets. These include government ownership and support, bankruptcy protection, lack of competition regulation, better access to capital, funding of security and insurance costs and more favourable taxation frameworks.

Consolidation of the industry to achieve economies of scale and scope is gaining momentum. In Europe, mergers of established airlines to form global "mega carriers" has occurred, most notably Air France / KLM and Lufthansa / Swiss. The trend is set to take hold in the US with the recent merger of US Airways and America West. In our own region, the tie-up between Air China, Cathay Pacific and Dragonair represents a significant future force in aviation.

Investment in innovation is making aviation more capital intensive than ever, yet the bilateral framework inherently impedes cross-border flows of capital and global integration. Airlines cannot base aircraft in overseas markets – generally services must originate or terminate in their home markets. Airlines can only participate as producers indirectly in foreign markets through limited investment in locally based carriers, eg Qantas' investment in Singapore-based Jetstar Asia.

In contrast, the absence of constraints on cross-border movement of capital and labour in many of the industries that provide key inputs to aviation has facilitated extensive globalisation. This has resulted in a concentration of suppliers with superior scale and efficiency, while the ability of airlines to compete effectively in the supply of these services has been eroded.

Further, globalisation means that companies are increasingly able to source their goods and services, including labour and skills, from a worldwide market. Boeing as an example, is reported to be outsourcing over 70% of the manufacturing for its new 787 aircraft.

The above factors challenge legacy business models such as ours, and mean that we are constantly having to find new ways to increase our own competitiveness to ensure our ongoing viability. This includes the need to continually seek efficiencies from all areas of our operations, including our workforce. Ensuring that the workforce has the right skills and capabilities, and that the maximum efficiency and effectiveness is gained from these has never been more important than now.



Case Study 1 – Qantas Engineering

Current Environment

Qantas Engineering operates in the global aircraft Maintenance, Repair and Overhaul (MRO) industry sector. This industry has undergone enormous change over the past ten years, from one characterised by traditional maintenance departments embedded within their parent airlines, to one that is now substantially made up of increasingly efficient, stand-alone service providers, is globalised and is becoming dominated by a handful of larger foreign players.

Qantas Engineering is one of the few remaining, fully capable airline-embedded MROs. In the face of globalised competition, the work volume scale benefits of the stand-alone providers and price discounting, Qantas Engineering could potentially shrink by up to 80 percent (reduce from 6,500 to around 1,000 to 1,500 people) within five to ten years, if it cannot find ways to compete effectively. Were this to occur, Australia would lose a national capability to maintain large, complex aircraft and to support their operation with advanced intellectual property and high-tech knowledge. This includes the significant support provided for aircraft and engine maintenance of the Royal Australian Air Force Transport and VIP squadrons.

In an effort to avoid this, Qantas Engineering is progressively reviewing every aspect of its business to identify the prospects for remaining competitive and the nature of new business models required to achieve this. Earlier this year, Qantas committed to retain the heavy maintenance of wide-body aircraft in Australia despite incurring an annual cost penalty of \$30M compared with offshore options. This saw the closure of our Sydney heavy maintenance facility completed in May and the transfer of work to an expanded operation with 850 staff at Avalon in Victoria. In taking this course, Qantas Engineering must drive business improvements to deliver over \$110 million in savings within two years if the work is to be retained in Australia.

Qantas has also recently concluded a comprehensive review of our Melbourne based narrow body aircraft heavy maintenance operations and determined that this work will remain in Victoria providing that significant scale and productivity targets can be met. Negotiations are currently underway to agree the workforce flexibilities required to attain those targets.

The Workforce at Qantas

Qantas Engineering provides direct employment for about 6,500 people in Australia, the great majority in high-tech, skilled roles that require extensive training and experience. The key groups include:

- Aircraft Mechanical Engineers
- Avionics Engineers
- Sheet Metal Workers
- Licensed Engineers
- Professional Engineers
- Technical Officers and Draftspersons
- Non-destructive Inspectors and Test Engineers
- Advanced Composite Material Workers



- Fitters, Machinists and Electroplaters
- Procurement, Logistics and Contract Management experts

Qantas constantly invests in developing and retaining the skills of engineering staff, including its large apprenticeship scheme. Such costs are largely absorbed by Qantas, relying little on government funding and resources, providing not only the necessary balance of skills required by Qantas, but also contributing significantly to the skilling of the national workforce. It is becoming apparent that other companies with whom Qantas Engineering competes for labour are often not investing to the same degree (if at all), resulting in poaching of skilled Qantas engineering staff by such companies. For example, large aviation manufacturers and MROs in Australia that do not have apprentices, are hiring Qantas graduates with offers of inflated wages. If Qantas was to match these offers we would become uncompetitive and be forced to send maintenance overseas. We are also currently losing Avionics specialists to the medical equipment maintenance and other similar high-tech industries. (Refer box below).

QANTAS ENGINEERING'S COMMITMENT TO APPRENTICESHIPS

Over the last 80 years, commencing with our first 2 apprentices in 1927, Qantas Engineering has trained in excess of 7,000 apprentices to qualified tradesperson level and beyond, constituting in the order of 50,000 person-years of training, mentoring and supervision. At any time, Qantas Engineering has hundreds of apprentices in training, covering aircraft mechanics, aircraft avionics, sheet-metal, advanced composites, electroplating, fitting and turning and other aircraft related trades. Apprentices are employed in Sydney, Brisbane, Melbourne and Avalon and provide the basis for Qantas Engineering to sustain its operations and to provide a national capability in high-technology aircraft maintenance and support. Qantas Engineering is far and away the largest aircraft apprentice employer and trainer and one of – if not the - largest employer of apprentices of any type in Australia.

Qantas Engineering must also increasingly compete in an intensely competitive global market for aircraft maintenance where skill is no longer the sole differentiator and where labour cost is critical. Qantas Engineering invests tens thousands of dollars in each apprentice, both directly through remuneration, benefits and training costs and indirectly through the cost of mentoring and supervision. Qantas cannot then afford to have graduating apprentices poached with high remuneration offers by alternative employers who contribute nothing to national skill building and whose only contribution is to escalate labour costs to levels that are unsustainable compared to global rates. The inevitable consequence if this continues is that Qantas Engineering will not be able to afford to build the skills and to conduct maintenance in Australia.

Whilst Qantas does not have trouble attracting a large number of applicants for its apprenticeship programs, the quality of such applicants often falls short of the mark. Each year we only fill approximately 75% of the positions and as this declines, and the appeal for people to pursue a “trades” career weakens, a definite skills shortage is looming.

Qantas Airways and Jetstar's fleet renewal programs will introduce many new technology, low-maintenance aircraft over the next few years. In many cases these will replace older higher



maintenance aircraft types and will act as catalysts for either the renewal or demise of large aircraft engineering and maintenance in Australia. If Qantas Engineering has not adapted to these new technologies or to the characteristics of the lower-maintenance requirements and developed globally competitive work practices, relocated to create large scale operations, developed business systems, intellectual and leadership capabilities and freed itself of legacy business models and burdens then it will not survive.

What We Are Doing

The Qantas Group has continued to support a viable Qantas Engineering capability in Australia, providing it with significant people and resource investments, such as:

- Continuation of the apprenticeship program with more than 300 apprentices employed and receiving state-of-the-art training.
- Investment of \$85m in a new hangar/workshop/warehouse facility in Brisbane.
- Investment of over \$60m in a new warehouse in Sydney.
- Investment of \$33m in training for recent aircraft types (737-800 and A330).
- Infrastructure in preparation for A380 aircraft maintenance (\$34m).
- Investment in tooling and equipment for Rolls Royce and other legacy engine maintenance (\$5m).

Qantas Engineering is restructuring all its aircraft, engine, component maintenance and engineering and support businesses and is driving the philosophy and practices of Lean Manufacturing and Six Sigma process efficiencies into every business area. This investment in people and training is supported by investments in capital, business and IT systems. However, even as these actions are delivering business improvements foreign competitors are leveraging their scale, often a consequence of their geographic location in Europe, Asia or the USA and are themselves also implementing business improvement schemes. A number of these MROs benefit from government ownership/sponsorship or have been established through initiatives with airframe and engine manufacturers based upon new aircraft fleet purchases which have had government support.

Qantas Engineering attends trade shows, school career fairs, air shows and open days in order to stimulate interest in the industry. Senior members of the Engineering business work closely with training groups such as Aviation Australia in Brisbane and technical colleges such as Kangan College in Melbourne, in order to continually develop strategies and actions to improve recruitment. A very senior Qantas Engineering production manager is, as part of her broader agenda, looking at ways to increase the appeal of these positions with females, who represent only about 7% of the Qantas Engineering workforce.

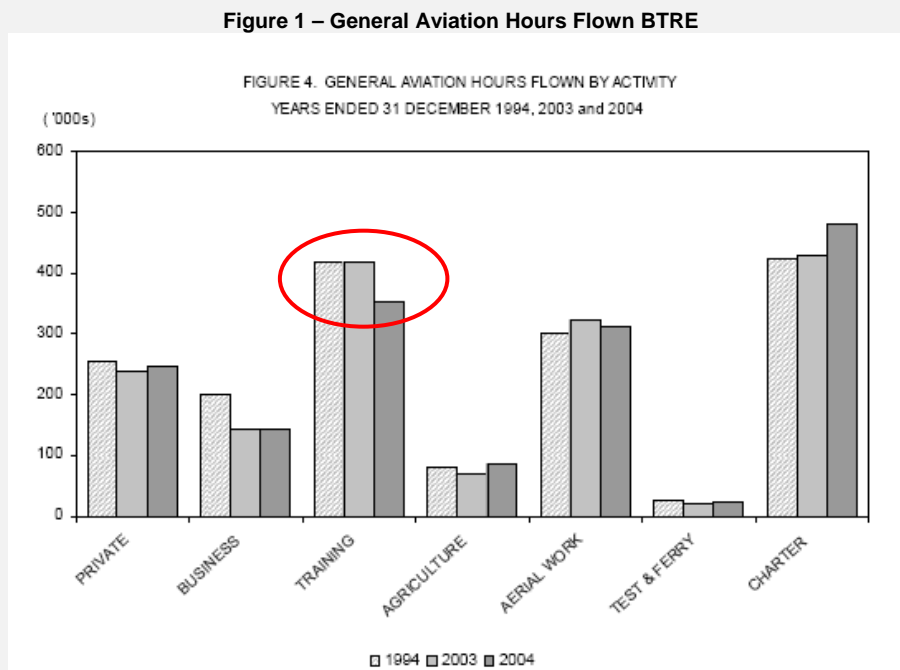
Case Study 2 – Pilots

Current Environment

Pilots are a very specialised group of employees, with narrowly defined skills that are thus less able to be transferred to other industries than that of other workgroups.

Signals are beginning to indicate potential shortages of pilots in the future, for example already in Australia we are seeing the number of student pilot licences issued declining. This will have a significant impact on the number of suitable applicants for direct entry pilots and a consequential direct flow on to the ability to meet demand for such labour.

For example, in the latest General Aviation Statistics Report by the Department of Transport and Regional Services, it can be seen that Flying Training Hours recorded the largest decrease of all categories, with a fall of 16.2% in 2004:



Additionally, the substantial costs associated with becoming a pilot act as a deterrent to many. From the financial outlay associated with extensive licensing requirements, CASA fees and medical costs, to the opportunity cost associated with accepting low-paid employment in order to gain experience necessary to obtain employment, the path to becoming an airline pilot is indeed expensive, often prohibitively so, at an estimated outlay of approximately \$100,000.



We are also beginning to see a rise in the number of Australian pilots who are willing to be based overseas to work for other carriers eg. Cathay Pacific, Emirates, Dragon Air have all been taking on significant numbers of pilots from Australia. As the demand for pilots globally increases without a concurrent rise in supply, so too will the rate of pay demanded by pilot rise.

The Workforce at Qantas

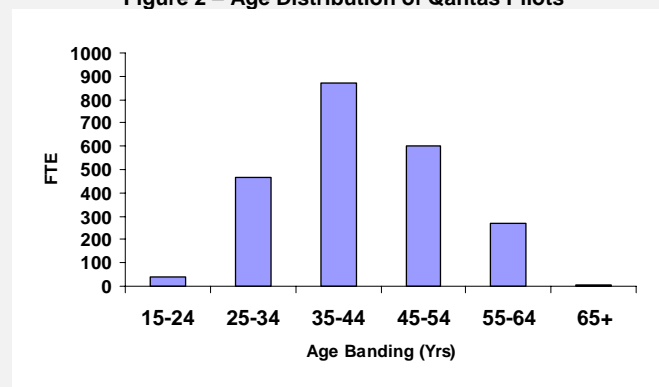
Whilst we do current not have shortage of candidates for pilots at Qantas, as our rate of recruitment is expected to increase over the next 3-5 years, we may start to see a decline in the size of the candidate pool.

Should other airlines, such as those mentioned above, introduce additional Australian bases or expand the size of their current Australian bases, it is anticipated similarly that we will see the number of people resigning to take up positions with these carriers increase. For example, historically it has been very unusual for second officers to resign from Qantas to work for another airline, yet recently we have had a small number do this.

Currently, turnover of Pilots at Qantas is very low at 1.1%, especially when compared with the current Australian average of 9.4%. They have an average tenure with the company of 13 years. In large part this could be driven by the lack of available alternative employment, however as mentioned above as this increases, we could expect to see our turnover increase.

The current Qantas Pilot is, on average, 41.9 years of age:

Figure 2 – Age Distribution of Qantas Pilots



ICAO recently made a decision to allow pilots to fly until 65 years of age. This is expected to shift the distribution of Qantas Pilots to the right in the above graph so that we begin to see an increase in the average pilot age. With our current seniority based promotional system, this will also impact the number of promotional opportunities available for younger crew, and may increase the time required to reach initial command.



What We Are Doing

We currently offer a Qantas Cadet program which includes approximately one year of flight training at a training school, and two years of industry placement. This is a self-funded program, which offers no guarantee of employment at Qantas upon completion of the program.

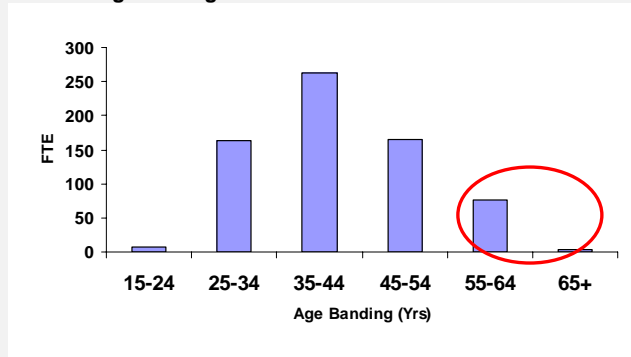
In order to address the potential shortage of pilots, we are currently working with a university to create an extension of the program. This will involve Qantas cadets completing a Bachelor of Aviation and a Graduate Diploma in Flight Training. In this case the fees are able to be deferred through the government Fee-Help Program. It is anticipated that this will increase the number of people applying for a Qantas Cadetship as they will no longer be required to pay the approximately \$100,000 for their Flight Training upfront.

Qantaslink (Regional) Pilots

The story for Qantaslink pilots is quite different to that as for main-line Qantas pilots above. The increasing shortage of qualified pilots for recruitment is already present. Furthermore, the Qantaslink Pilots have an attrition rate that is 8 times than that of the mainline Pilots.

Additionally, an increasing number of current pilots are approaching retirement age with 12% of this workforce over 55:

Figure 3: Age Distribution of Qantaslink Pilots



Whilst we receive approximately four applications for every vacancy, only one in four actually meet the job requirements. The skills and experience required for regional pilots are higher than that for mainline, as pilots enter the regional workforce directly as a First Officer, whereas in mainline they enter as Second Officers.

As mentioned above, the cost of entry into a permanent Pilot position is extremely high, and alternative careers are becoming more and more attractive for would-be pilots.



Comments

From the case studies above it can be seen that there are imminent issues with labour supply across some key skilled labour groups. Some of these groups possess skills and capabilities that are unique to the aviation industry, such as Pilots or Licensed Aircraft Engineers, and any deficit in the supply of this labour would have a direct and detrimental affect on the ability of Qantas to operate. Labour shortages in other groups that have skills and capabilities that are transferable to other industries, such as our Avionics workers to the Medical Industry, would still impact our ability to operate.

Whilst we are committed to jobs in Australia, our strategy is to invest and grow in our business to ensure continued profitability and efficiency. To this end we will continually have to assess the source and vehicles for obtaining our labour. Qantas is making major efforts to restructure its business in order to gain the most efficiency and effectiveness from its workforce, including:

- *Cost Efficiencies* - In the three years to 2005/06, cost efficiencies of \$1.5 billion have been achieved. In light of record oil prices and ongoing competitive pressures, that target has been increased to \$1.5 billion over the next two years. A significant proportion of these savings relate to productivity and efficiency gains from better use of our existing workforce, that will place the business in good stead to continue job growth going forward
- *Segmentation* - The Group has segmented its flying businesses into two main brands - Qantas Airlines and Jetstar. Qantas Airlines offers customers a premium product on routes where demand is sufficient, while Jetstar operates on predominantly leisure routes offering a value-based service for the more price sensitive customer. This has created
- *Outsourcing and Offshoring* - Qantas is assessing a range of functions to determine which are most efficiently carried out in-house, which are best tendered to external providers. As outlined above in Case Study 2 with the support and maintenance of legacy applications which are best located overseas or Case Study 4 where Qantas established a cabin crew base in London in 2004.
- *Investment and Innovation* – As mentioned earlier, Qantas has invested and will continue to invest significantly in capital and innovation. This encompasses substantial investment in training and development of our people, and as mentioned, for Qantas engineering and maintenance we have invested over \$300 million in people and facilities aimed at bringing Qantas engineering and maintenance up to globally competitive standards, and will spend a further \$50 million in 2006 and 2007.
- *Diversification* - Qantas is pursuing growth opportunities in international and domestic air and general freight markets to diversify the earnings base of our business and reduce cyclical risk. This in turn means greater stability and security for our workforce.



For example, Qantas recently announced the formation of a new wholly owned subsidiary domestic air freight business, Express Freighters Australia, to commence operations from October 2006. In 2003 Qantas Engineering in partnership with Patrick Corporation (now Toll Holdings) acquired the former Ansett jet engine maintenance facility in Melbourne, spending millions of dollars to maintain this high-technology capability and jobs in Australia. The joint venture Jet Turbine Services (JTS) has the capacity to support all of Qantas' General Electric engines as well as the other Australian and NZ operators' fleets and ultimately additional customer work from overseas.

- *Emerging Markets* - Qantas has established a presence in the emerging markets of China and India. While it is anticipated that these markets will take time to become profitable for airlines, Qantas is committed to building and maintaining a presence to ensure that Australia becomes a key export beneficiary of these burgeoning economies. Qantas also owns 44.5 percent of Orange Star, which operates the value-based airlines Jetstar Asia and Valuair, based in Singapore. As our presence in these emerging markets grows, it can be expected that jobs will concurrently increase.



Recommendations

Thus from the above, it can be seen that Qantas is making great efforts to ensure the ongoing viability of the company and in turn, a solid platform for jobs in the Australian Transport Industry. Additionally, we invest extensively in the ongoing skills and capabilities development of our workforce. Much of our efforts however, would be synergistically enhanced via greater support from the government, particularly in training and support infrastructure.

Qantas acknowledges that the Government provides a range of programs to support the productive performance of businesses in Australia, including assistance for training. However, our experience has been that determining the assistance available through individual programs, Qantas' eligibility for uptake and the means by which we can access assistance, is often difficult. We would suggest that a simplified system of administrative contacts, perhaps supported by client managers for businesses of a particular size or with significant skilled employment, would be of considerable benefit, and drive a more effective use of the labour market assistance programs currently on offer.

Qantas Engineering

Qantas Engineering is in the process of restructuring all its aircraft, engine, component maintenance and engineering and support businesses (refer Case Study 1 above). This investment in people and training is supported by large investments in capital, business and IT systems. However, even as these actions are delivering business improvements, foreign Maintenance Repair and Overhaul (MRO) competitors are leveraging their scale - often a consequence of their geographic location in larger markets such as Europe, Asia or the USA - and are themselves implementing business improvement schemes. A number of these MROs benefit from government ownership and support, or have been established through initiatives with airframe and engine manufacturers contingent upon fleet purchases which have had government support.

The privately funded fleet renewal programs of Qantas and Jetstar will introduce a significant number of new-technology, low-maintenance aircraft over the next few years. If Qantas Engineering has not adapted to this changed environment and developed globally competitive work practices, business systems, intellectual and leadership capabilities, it will be difficult for it to survive.

Qantas Engineering has a strong international reputation and brand that is associated with quality, integrity and reliability. Qantas believes these qualities can be leveraged, together with enhanced commercial performance driven by the restructuring of operations to achieve greater efficiency, and generate additional customer maintenance work and export earnings. Support for training programs and infrastructure aimed at driving international competitiveness would greatly assist this objective. By way of example, this would include:

- support for the recruitment and training of apprentices and engineers
- support for leadership development and business skills enhancement to enable new generation aircraft to be maintained in Australia (eg advanced composite material



- repair) and create new leaders with global benchmark skill sets (eg Lean Sigma, Materials Resources Planning);
- support for training and data transfer costs to enable new work planning optimiser software solutions to be introduced;
 - Support to standardise regulatory requirements and to focus on “outcome based” regulations, both between states within Australia (for example OHSE) and with overseas regulators (for example, harmonised airworthiness regulations)
 - Support to sustain high-tech intellectual property capabilities, including new technological skills and IT systems
 - Support for training and data transfer costs to enable internationally competitive work planning and optimised software solutions to be introduced
 - Business and people relocation incentives to assist with the creation of new business models

Pilots

A deficit in the supply of this labour group would have a direct and detrimental affect on the ability of Qantas to operate. Whilst Qantas is undertaking efforts to address the future predicted shortage such as Cadet and University programmes, the predominant deterrent for would-be Pilots is the cost of training necessary to gain employment.

The expense of training costs creates a high barrier to entry, with a questionable return on investment (only really receiving return on investment if they are positioned with an airline as opposed to general aviation where returns are generally low). As such, some kind of government training assistance (similar to that offered under the Fee-Help scheme) would be greatly beneficial for the industry. Furthermore, it would also assist in increasing the diversity of those who choose to pursue a flying career.

In addition, the cost of obtaining and maintaining licences required to maintain employ as a Pilot has increased significantly over the last five years. This particularly applies to the Student Pilot Licence, Private Pilot Licence and Commercial Pilots Licence. Costs need to be contained by CASA in order to encourage increased entry into a career as a Pilot.



Conclusion

The Government has acknowledged the importance of an Australian based aviation industry in an increasingly globally integrated environment. As the major player in this regard, Qantas needs to be internationally competitive, capable of attracting investment and continuing to innovate, and able to develop a highly skilled and adaptable workforce.

Qantas is making considerable efforts to restructure our business through driving cost efficiencies, investing substantially in our people, product and infrastructure, segmenting and diversifying our businesses and building a presence in emerging markets. We are continuing to develop our skills and training programs including our extensive apprenticeship schemes and graduate programs.

A supportive labour policy framework also plays an important role in fostering international competitiveness, particularly in an industry where the operating environment is highly distorted.

Increased government support in the training programs and infrastructure could greatly assist Australia's aviation industry in meeting the many challenges presented by a highly competitive and increasingly global operating environment.

**Qantas Airways Limited
January 2007**