

5 February 2003

Tim Grimwalde
General Manager
Adjudications Branch
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

Dear Mr Grimwalde,

**RE: Proposed Cooperation Agreement Between
Qantas, Air NZ and Air Pacific**

Enclosed is AMWU's submission regarding the ACCC's consideration of
authorisation of the above agreement.

Please contact me should you have any queries regarding our submission.

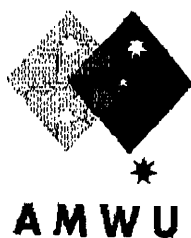
Yours sincerely,

DOUG CAMERON
NATIONAL SECRETARY

cc: Sally Taylor

WORKING FOR YOU

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AMWU SUBMISSION TO THE ACCC

REGARDING APPLICATIONS

FOR AUTHORISATION

LODGED BY

QANTAS AIRWAYS LIMITED

AND

AIR NEW ZEALAND

**FEBRUARY 4, 2003
SYDNEY**

INDEX

SECTION	PAGE
I. EXECUTIVE SUMMARY	2
1. BACKGROUND	3
2. PUBLIC BENEFIT	4
- economic and social	5
- airline maintenance skill's base	6
- Qantas' maintenance safety record	9
- Qantas as a civil and defence services provider	10
3. THREAT TO THE ONGOING VIABILITY OF QANTAS MAINTENANCE IN AUSTRALIA	11
4. COMPETITION	13
5. RECOMMENDATIONS	15

SECTION I

EXECUTIVE SUMMARY

The AMWU's submission to the ACCC is presented in five sections. Section one establishes the interests of the AMWU in the alliance proposed by Qantas, Air New Zealand and Air Pacific. The AMWU submits that the detrimental impact of the Strategic Alliance Agreement on Qantas' maintenance and engineering operation is a matter seriously considered by the ACCC when determining whether or not to grant authorisation.

Section two reviews issues to be considered as relevant public benefit considerations and concludes that those issues, including the social and economic impacts of the alliance on maintenance and engineering services, the effect of the alliance on employment, safety, skill availability, and civil and defence services capability suffer a public detriment as a result of the proposed alliance.

Section three examines the impact of the alliance on the sustainability of Qantas' Australian maintenance and services operations. The alliance's proposal to increase its sub-contracted heavy maintenance work to Air New Zealand by nearly 40% is found to have a negative sustainability impact on Australian services. The impact of contracting out on civil and defence services is found not to be to the public benefit. The acknowledgement in the necg's report that the increase in sub-contracted work to Air New Zealand is not cost effective raises serious issues regarding public detriment and benefit.

Section four reviews the unique history and role of Qantas as a recipient of nearly 50 years of public monies and as a provider of civil and defence services in relation to competition policy. We argue that Qantas has social responsibilities that cannot be abrogated in the name of competition policy. We point to sections of the aerospace industry such as the Defence Department who find that the existing level of competition compromises industry sustainability and hence supply.

Section five provides recommendations regarding required undertakings for authorisation to proceed.

1. Background

- 1.1 The AMWU has been invited to make a submission in relation to the application for authorisation (A30220, A30221 and A30222) made to the Australian Competition and Consumer Commission by Qantas, Air New Zealand and Air Pacific to enter into a "Strategic Alliance" (the airlines' submission). The application deals with a proposed far-reaching alliance between the two airlines to *"co-ordinate all aspects of the pricing of passenger and freight services."*¹

The AMWU's submission is that the proposed alliance detracts from the public benefit and is therefore detrimental to the public benefit. Qantas' unique role as a provider of services to Australian civic and defence aerospace operations and its international safety record are, at best ignored or worst, compromised by the alliance which advocates competition policy without regard to the ongoing viability of an Australian aerospace maintenance and engineering industry.

- 1.2 The AMWU represents 144,176 members working in the Australian manufacturing industry. The AMWU represents aircraft maintenance engineers (AMES), licensed aircraft maintenance engineers (LAMES), aircraft planners, technical and supervisory staff and other maintenance staff at Qantas and its subsidiary operations around Australia. The AMWU has approximately 1,500 members who are employed by Qantas Airways Limited or its subsidiaries. The bulk of the AMWU's members are employed in Qantas' major engineering and maintenance facilities in Sydney (Qantas Jet Base Mascot and Qantas Defence Services Bankstown) and Melbourne (Qantas Maintenance Base Tullamarine). Qantas employs a total of more than 6000 employees in its maintenance operations around Australia, out of approximately 30,000 total employees.
- 1.3 The AMWU is concerned that authorisation of the proposed strategic alliance will lead to further outsourcing of key maintenance projects and functions to overseas, in particular to New Zealand, and a consequent loss of current or potential engineering and maintenance facilities, employment and skillbase. The ongoing engineering and maintenance of Qantas' fleet of 187 aircraft, defence and third party work in Australia is manifestly in the national interest and for the public benefit.
- 1.4 The granting of an authorisation is not automatic. The Act recognises that the public interest may not always be met by the operation of competitive markets.² The 'statutory test' that the Commission must apply to applications for authorisation is that the proposed arrangement or conduct results in a benefit to the public that outweighs any anti-competitive effect and that the onus is upon the applicant/s to establish that the appropriate test is satisfied.

¹ Airlines' submission - Executive Summary.

² Tim Grimwade, ACCC, Manager Adjudication Branch - Correspondence to Mr Cameron; 19/ 12/02

- 1.5 The AMWU submits that the likely detrimental impact of any Strategic Alliance Agreement between Qantas, Air New Zealand and Air Pacific upon the continued operation of Qantas' Australian maintenance and engineering operation is a matter that the ACCC should properly consider when determining whether or not to grant authorisation. In the absence of enforceable undertakings regarding the future operation of Qantas engineering and maintenance facilities, the ACCC should not grant authorisation due to the clear public detriment arising from the "*operation of competitive markets*". Any public benefit created by the alliance is outweighed by the diminution in the Australian capacity to provide reliable airline services in times of security need, disaster relief and unforeseen circumstances e.g. the Bali Bombings; collapse of Ansett/Air New Zealand.

2. Public Benefit

- 2.1 The ACCC has identified a range of matters which may constitute a public benefit. The public benefit is not to be construed narrowly or be limited to the alleged benefits of competition policy. The public benefit is to be considered broadly³ and includes matters such as expansion of employment or prevention of unemployment in efficient industries, employment growth in particular regions, cost efficiency and the improvement in the quality and safety of goods, the development of import replacements and industrial harmony.
- 2.2 The AMWU submits that the continued growth and development of Qantas maintenance facilities, the promotion of employment and apprenticeship opportunities for young Australians in Qantas maintenance facilities and the continued maintenance of Qantas aircraft within Australia are an important public benefit and clearly in the national interest. A reduction in Qantas' maintenance capacity and its ability to deliver the above outcomes is to the public detriment. The ACCC's consideration of the proposed alliance must include recognition of the history and unique position Qantas holds. Qantas' success and safety was funded by generations of Australian taxpayers. Qantas cannot be considered as merely another corporation subject to the theoretical strictures of competition policy. The impact of the alliance on Qantas's capacity to maintain its safety record and continue to meet its civic and defence responsibilities are public interest matters.

Specifically, the AMWU submits that the public benefit of the Qantas maintenance operation in Australia accrues in the following areas:

- economic and social (section 2.3);
- airline maintenance skills base (section 2.4);
- Qantas maintenance's high quality and safety reputation (section 2.5) , and;
- civil and defence infrastructure (section 2.6) .

The AMWU's submission is that authorisation of the airlines' submission leads inevitably to further contracting out and the running down of Qantas' maintenance operations and consequent detriment to the public benefits established below.

³Airlines' Submission - paras 4.8 - 4.10

2.3 ECONOMIC AND SOCIAL

- 2.3.1 Qantas maintenance facilities employs more than 6000 workers in Australia. In addition several hundred more are employed in maintenance facilities by Qantas subsidiaries in Australia. Qantas' major maintenance facilities are in Melbourne (at Tullamarine) and in Sydney (at the Qantas Jet Base, Mascot and the Qantas Defence Services facility at Bankstown). Qantas is currently building a major heavy maintenance facility in Brisbane. Qantas subsidiaries have maintenance facilities in Tamworth, Sydney, Mildura and Brisbane. Qantas maintenance is a major employer in each of these geographic locations and makes a significant contribution to the local economies, even in the metropolitan centres of Sydney and Melbourne.

The construction of new maintenance facilities in Brisbane accommodating the heavy maintenance of Qantas' growing fleet, is a major boost to the Queensland economy. Conversely, any negative impact on Qantas' maintenance operations will have negative effects on employment in the locations where Qantas currently draws skilled maintenance workers.

- 2.3.2 Qantas airline maintenance is the major employer of airline maintenance engineers and licenced aircraft maintenance engineers in Australia. Any reduction in current or prospective employment in Qantas maintenance will severely depress the job market for skilled aircraft maintenance tradespeople, engineers and technical employees.
- 2.3.3 employment (wages bill, annual report, taxes) upstream and downstream contractors, suppliers etc.
- 2.3.4 The Qantas brand is associated with safety. The increase in heavy maintenance contracted out by Qantas and the reduction in its ability to directly oversight and quality control the maintenance safety of its planes will lead to an erosion of the public's confidence in our flagship carrier.
- 2.3.5 The necg's analysis concedes "the Alliance would remove competing providers of engineering and maintenance services from which an entering or expanding airline could potentially obtain services"⁴. The necg analysis further concedes this contraction is anti-competitive.

⁴ Necg analysis - Sub-clause 2.3.4 - Vertical Relationships - Engineering & Maintenance Service

- 2.4 necg's propose that the anti-competitive outcome in engineering and mechanical service is overcome by new and/or expanding airlines outsourcing heavy maintenance "functions to overseas service providers"⁵.
- 2.5 necg's proposal cannot be considered in the public benefit. The necg proposal whilst advancing "outsourcing" does not address the issues of sustainability such as safety, skills shortage and the availability of training attached to such a proposition. necg's proposal also ignores the perspective and practice that keeping close control of Maintenance & Engineering in-house enhances safety and public confidence.⁶
- 2.6 In July/August 2000 the AMWU surveyed its Qantas maintenance members regarding contracting out. In total 226 surveys were returned.

In response to the statement : *"Contracting out has improved productivity and efficiency at Qantas"*, 75% of respondents disagreed or disagreed strongly;

In response to the statement : *"Contracting out has impacted on safety and maintenance standards"* 83% of respondents agreed or agreed strongly.

In response to the statement : *"Safety and maintenance standards have been affected by staff losses"* 68% of respondents agreed or strongly agreed.

In response to the statement *"I feel less secure in my job than I did four years ago"* 81% of respondents agreed or strongly agreed.

- 2.7 AMWU members experience the daily, not theoretical, impact of contracting out. They experience competition policy as a daily reality of work pressures, staff shortages and cut-backs. This is the hangar and runway reality of competition policy for maintenance and engineering workers. AMWU survey results confirm contracting out by Qantas has not been to the public benefit. necg's insouciantly proposes and the Alliance agreement establishes, increased contracting out as if contracting out per se is in the public benefit. Neither the airlines' submission or necg's analysis explores the impact of increased contracting out on the quality of maintenance services. The impact on the quality of products and services is a factor recognised by the ACCC as going to the public benefit or detriment.⁷

2.4 AIRLINE MAINTENANCE SKILLS BASE AND TRAINING

- 2.4.1 As the major employer of skilled aircraft maintenance engineers and tradespeople within Australia, training provided to Qantas maintenance and engineering staff is vital to the ongoing future of the aircraft maintenance industry within Australia.

⁵ Necg Analysis - sub clause 2.3.4 - Vertical Relationship - Engineering & Maintenance Services

⁶ Capt Jensen - SVP Operations, Ansett Australia & Air New Zealand Engineering Services - Senate Inquiry - Air operator maintenance, regulation & oversight; Hansard, 4/5/01. *The report from the Inquiry, due end 2002 is now due by 26 June 2003*

⁷ ACCC correspondence to Mr Cameron - Ibid, pge 3

- 2.4.2 The Aerospace Industry Action Agenda (AA)⁸ has identified major skills shortages across the Australian aerospace industry over the next five years. The AA's Education & Training issues paper states *"Although Australia is able to produce engineers of high quality, many are attracted to other industry sectors and overseas companies, mainly based on the perception that the Australian aerospace industry has limited opportunities to offer"*⁹
- 2.4.3 The limited opportunities are more than a 'perception' and the airlines' submission further erodes employment opportunity in the sector. The reduction in employment opportunities for (LAMES) and (AMES) has arisen in part due to:
- **Cost-cutting**
 - increased work pressure associated with heavy workload and staff shortage¹⁰
 - Qantas retrenching 300 of its national maintenance workforce in the early 1990's
 - subsequent reductions through voluntary redundancy
 - the cessation by Qantas in 1997 of its apprentice training scheme
 - the refusal in 1997 by Qantas to employ 40 apprentices on completion of their apprenticeships;
 - the abolition of a further 185 engineering jobs in 1997;
 - increased outsourcing of maintenance functions
- 2.4.4 Mersitab¹¹ identified the following factors affecting skill supply to the Aerospace industry:
- Decline in apprentice and trade training rates
 - Difficulty in attracting new entrants
 - High average age of Licenced Aircraft Maintenance Engineers (LAMES) and Aircraft Maintenance Engineers (AMES)
 - a future skills shortage with LAMES & AMES retiring, reduced apprentice numbers and minimum 5-7 year time gap for new tradespersons to acquire industry experience
 - Defence Department outsourcing major aircraft work and running down its Forest Hill TAFE training programme

⁸ Department of Industry, Science & Resources Aerospace Industry Action Agenda - Education & Training Issues Paper - Canberra 12 Sept 2001

⁹ Department of Industry, Science & Resources Aerospace Industry Action Agenda - Education & Training Issues Paper - Canberra 12 Sept 2001; Background section

¹⁰ Australian Transport Safety Bureau (ATSB) Survey of Licences Aircraft Maintenance Engineers in Australia - Canberra; Feb 2001; page 17.

¹¹ Mersitab Report - Aeroskills Training Needs for the Aerospace Industry Beyond 2000; 10 May 2000

2.4.5 The Mersitab and AA reports project the need to increase apprentice numbers based on Defence contracts in place or in process as at March 2000. The projections do not include any additional requirements that may arise as a result of increased surveillance following September 11 or Australia's involvement in the threatened war on Iraq. The expected additional demands for training from companies involved in Defence aircraft and aircraft component maintenance identified by Mersitab and the AA ¹² are :

- * 33 avionic apprenticeships per year (in an emerging worldwide shortage of avionic trade skill);
- * 46 mechanical apprenticeships per year; and
- * 14 structural apprenticeships.

2.4.6 ABS data¹³ commissioned by the AMWU indicates those targets are not being met. In 1996 there were 35 apprentices engaged as AMES (Structures, ASCO code 411483) however in 2001 this was reduced to 12. The 2001 result must be considered against the projected requirement for an additional **14 new apprentices per year**.

In 1996 there were 108 enrolled apprentice AMES (Mechanical, ASCO code 411481) and in 2001 there were 136, falling short of the projected requirement for an additional **46 new apprenticeships per year**.

2.4.7 The increase in demand by Defence, the loss through retirement of skill availability and the reduction in training and work opportunities to improve and restore skill levels in the aerospace industry, and particularly within Qantas, raises significant questions regarding aircraft safety and the public perception of safety. Within the Australian and worldwide environment of reduced aerospace skill availability, it is incumbent for Qantas to establish where the additional 224¹⁴ Air NZ jobs are coming from and for Qantas to undertake that there will be no reduction of Qantas's Australian based maintenance and engineering capacity.

2.4.8 The reduction in skill levels available to the aerospace industry has an immediate impact on safety. The ATSB ¹⁵ recorded that 12% of major accidents world wide are due to maintenance deficiencies. In Australia, the ATSB record that 110, or 4.5% of aircraft accidents, involve maintenance deficiencies.

Qantas has overseen the sectoral decline of maintenance and engineering training and skills. The ACCC is now asked to accept that the proposed strategic alliance is in the public benefit without any assessment by the Alliance of the proposal's impact on skills shortage and safety.

¹² AA report - Ibid; section 4.14

¹³ ABS data 1991-2001 Census of Population & Housing : AMWU commissioned report, ASCO code 4211 Aircraft Maintenance Engineers; 28 January, 2003

¹⁴ necg's analysis; Ibid ; section 5.4 Engineering & Maintenance

¹⁵ ATSB Survey; Ibid; section 1.2

2.5 HIGH QUALITY/SAFETY RECORD

2.5.1 Despite the cutbacks Qantas' Australian maintenance operations have a very strong domestic and international reputation for quality and safety. This is an unsustainable situation unless the focus on competition and cost-cutting is addressed. Under clause 4.7(a) of the alliance agreement Qantas abrogates any care and control over the increased work it proposes to contract out to Air New Zealand. Notwithstanding the proposed alliance Qantas' strong safety performance is a result of four key factors:

- the highly skilled, increasingly stressed and dedicated **in-house** aircraft maintenance workers **directly employed** by Qantas;
- the strong 'safety culture' promoted within Qantas;
- the close surveillance over quality and safety management within Qantas, and;
- the role played by the Civil Aviation Safety Authority and its forebears in monitoring and enforcing safety standards.

Authorisation of the airlines' submission and by corollary further contracting out and unidentified "cost efficiencies" adversely affects the factors identified above. If the Strategic Alliance results in further Qantas maintenance being outsourced to Air New Zealand, there will be a detrimental impact on Qantas maintenance quality and safety.

2.5.2 Qantas' reputation as one of the safest airlines worldwide was seriously jeopardised during 1999/2000. A series of accidents including :

- the 1999 over-run of a Qantas Jet carrying 410 passengers at Bangkok Airport;
- the loss on 24 September 1999 , at 10,000 feet, of a large piece of engine;
- In April 2000, at Rome airport passengers were stranded on the tarmac after the undercarriage of their Qantas jet collapsed beneath them;
- In May 2000, flight QF 128 returned twice to Hong Kong after a warning light indicated a generator had failed; and
- In May 2000, CASA ordered Qantas to take corrective action on six matters covering the maintenance workshop operation.

The ATSB report ¹⁶ found that pressure, equipment and training were the factors identified most commonly by engineers as contributing to safety occurrences. Training not only emerged as a significant factor in occurrence reports, but was also a commonly mentioned issue in the general comments section of the survey. The report concluded that despite CASA regulations few maintenance engineers receive refresher training once they gain their licences

The public interest is not served by the airlines' submission which fails to address the issues of cost cutting and its impact on training, maintenance oversight and maintenance pressures. The onus is upon Qantas to establish that the Alliance will not diminish quality and safety standards to the public's detriment.

¹⁶ ATSB Report; Ibid ; section 2.7

- 2.5.3 The public's perception of airline/Qantas' safety is essential to Qantas' future operations. Public confidence in the national airline must be maintained. This reality was expressed by Senator McGauran during the Senate Inquiry into maintenance and air safety. The Senator stated :

"all that matters through all of this is the public's confidence in the planes and the skies that they fly. A lack of public confidence, of course reflects commercially in Ansett or any other such airline and, ultimately on government".¹⁷

Further maintenance outsourcing will have a negative impact on public confidence in Qantas' maintenance standards. The public's perception of Qantas' safety will be eroded when the public is appraised that Qantas intends contracting out the majority of its sub-contracted heavy maintenance to Air NZ on the premise of "cost effectiveness". (In fact, despite the airlines' submission, the necg analysis concedes that contracting out to Air NZ is not actually cost effective. (refer paragraph 3.4.1 herein)

2.6 CIVIL, DEFENCE, INFRASTRUCTURE

Qantas has been Australia's flagship carrier since 1920. Historically Qantas has had a unique public and social role to play, in 1928 operating the first flying doctor service for the Reverend John Flynn. Qantas was nationalised by the then Federal Government in 1947 and through the ensuing decades has continued to play a pivotal role in times of national emergency and disaster, for example Cyclone Tracey, Timor and the Bali Bombings. Qantas is relied on by Government and civil society in emergency situations .

Qantas was a publicly supported entity until 1995. Its history of public support and position as flagship carrier imbues Qantas with economic and social responsibilities. The airline's submission and necg analysis are silent on the impact the proposed alliance will have on the ability of Qantas to continue to perform its civic role. A contraction of Qantas's ability to perform its civic role is a public detriment.

- 2.6.1 The Department of Defence is almost totally reliant on the civil aerospace industry to deliver its mechanical and engineering capacity. The Aerospace Industry Action Agenda ¹⁸ also reports a substantial growth of Defence demand in the aerospace sector over the next ten years.

¹⁷ Senator McGauran - Chair, Senate Inquiry - Air operator maintenance, regulation & oversight; Hansard, 4/5/01. *The report from the Inquiry, due end 2002 is now due by 26 June 2003*

¹⁸ AA - Defence Procuring- Industry Scoping Workshop Issues paper; DISR Canberra : 12 September 2001

- 2.6.2 The AA stresses the urgency of dialogue between industry and Defence to determine whether Defence's forecast for required support can be achieved now, and into the future. The AA recognises the requirement for : *"long-term strategies and business arrangements with key industry suppliers to ensure the sustainability of defence capabilities."*¹⁹
- 2.6.3 Qantas has major aircraft and aircraft component maintenance contracts with Defence²⁰.
- 2.6.4 Despite opposition from civil society, including the AMWU , the Australian Government is on the brink of entering a war. This action places further Defence maintenance and engineering stresses to those already identified in the AA's issues paper.
- 2.6.5 The airline's submission and necg's analysis are silent as to the impact the Alliance will have on Qantas' capacity to service its existing and future Defence maintenance contracts. The airlines' submission and necg analysis are silent as to the impact of the Alliance on Defence's projected increased demand for maintenance and engineering services. The airlines' submission and necg analysis do not contain any reference to past or planned dialogue between Qantas and Defence regarding the impact on sustainability.
- 2.5.6 ABS data raises serious issues regarding whether Defence's projected requirement vis apprentice numbers will be met. (Refer Training section herein). The airline's submission and necg analysis have not considered the impact of the Alliance on apprenticeships in the aerospace industry.
- 2.5.7 The airline's submission does not reflect any cognisance of the issues identified by significant industry bodies regarding Defence's current and projected maintenance and engineering requirements. As a major supplier of maintenance and engineering services to Defence, Qantas' disregard is clearly not in the public interest and is to the public detriment.
- 2.6.8 Undertakings as recommended by the AMWU would ensure Qantas maintain and expands its maintenance and engineering operations in line with Defence's requirements.

3. Strategic Alliance Agreement Threatens Future Qantas Maintenance In Australia

- 3.1 The AMWU submits that there is sufficient evidence for the ACCC to conclude that authorisation of the Strategic Alliance Agreement results in further contracting out to Air New Zealand and makes detriment to Qantas' Australian maintenance operation likely.

¹⁹ AA - Defence Procuring; Ibid
²⁰ Mersitab report; Ibid, section 4.5

- 3.2 The airline's submission and accompanying necg analysis establish increased contracting out to Air New Zealand. Air New Zealand's Managing Director Ralph Norris has issued a statement (attached and marked "A") claiming in excess of 200 new engineering services jobs will be created by the strategic alliance. These jobs however are not "new jobs" but Australian jobs being effectively transferred through the operation of Strategic Alliance Agreement 4.7(b) from Qantas to Air New Zealand's engineering services.
- 3.3 The Strategic Alliance Agreement claims there will be "cost efficiencies" arising from more cost efficient aircraft usage and *maintenance*.²¹ The claimed maintenance efficiencies are not established in either the combined airlines submission dated 9 December 2002 or the necg's economic analysis of the strategic alliance's competitive detriments and public benefits. The AMWU has written to Qantas seeking elaboration on the claimed maintenance efficiencies however to date Qantas has not advised the AMWU of the substance of its claims.
- 3.4 The airlines' submission contains the following provision:

"4.7 - Air NZ Engineering Services Business

- (a) *Qantas acknowledges and agrees that Air NZ's engineering services business, including the operations and business activities of safe Air Limited, Tasman Aviation Enterprises (NSW) Pty Limited and Tasman Aviation Enterprises (Queensland) Pty Limited is not intended to be subject to any review, control, influence or other decision - making right conferred on Qantas out of this Agreement.*
- (b) *Qantas will treat Air NZ as its preferred external supplier of heavy maintenance services provided that Air NZ's charges and service levels (including quality of service) remains competitive with other external alternatives to Qantas"*
- 3.4.1 The necg's analysis states that in 2001-2003 78% (up from 43% in 2001/02) of Qantas' sub-contracted heavy maintenance work will be given to the Air NZ Engineering Services Business (ANZMS). necg further projects that if the Alliance proceeds up to 80% of Qantas' sub-contracted heavy maintenance would go to ANZMS however if the Alliance does not proceed then Qantas would direct only a fraction of this work to ANZMS. necg concedes that without the Alliance **Qantas would seek out the most cost effective heavy maintenance and, on that basis, Qantas would direct only 10% of heavy work to Air NZ²²**. Effectively, necg's submission is that contracting out more of its heavy maintenance to ANZMS is not cost-effective for Qantas, but it will do it anyhow. Without the strategic alliance Qantas would not only keep the work it is intending to contract out but "bring back" 33% of the heavy maintenance work currently "exported" to Air NZ.

²¹ ACCC Correspondence to Mr Cameron; Ibid; page 2
²² necg analysis; Ibid section 5.4 Engineering and Maintenance

Effectively if the Alliance does not proceed, or proceeds with appropriate undertakings, a minimum of 70% of Qantas' out-sourced heavy maintenance work could be done by Qantas in house maintenance and engineering services and/or other Australian providers. It is not in the public interest to facilitate skilled engineering jobs leaving Australia, the diminution of opportunities for skills acquisition and the running down of Australian heavy maintenance facilities. It is to the public detriment to "export" this capacity.

- 3.5 necg argues that the Alliance will create 224 maintenance and engineering jobs, \$34million in engineering and maintenance service work and *"a substantial platform for investment in the development of additional Air New Zealand engineering and maintenance facilities"*.²³

These projected gains are heading across the Tasman in the wrong direction for any public benefit to accrue in Australia.

- 3.6 necg concedes that "the public benefit test relates to the overall impact on the public in the country at issue and so the benefits accruing in New Zealand are not relevant to the Australian analysis".²⁴ The ACCC accordingly must find that there is no public benefit in these opportunities being sent overseas.
- 3.7 Qantas has consistently threatened to outsource maintenance to overseas (in particular New Zealand) facilities when making demands in industrial negotiations.
- 3.8 There is currently a significant amount of core heavy maintenance work being carried out in New Zealand in Air New Zealand facilities.
- 3.9 Individually and in sum the matters raised above lead to a contraction of Australia's aerospace maintenance and engineering capacity. The airlines' submission does not establish how this constitutes a public benefit.

4. COMPETITION

- 4.1 If the ACCC authorises the proposed arrangement then the AMWU is of the view that the conditions that the ACCC attaches to authorisation should not be solely focussed around increased competition, or increased international competitiveness. The conditions for authorisation should reflect Qantas' unique position in the aerospace industry and the role played by Qantas in civic and defence programmes, and in the Australian maintenance and engineering skills base.

²³ necg analysis; Ibid section 5.4 Engineering and Maintenance

²⁴ necg analysis; Ibid section 2.2.5 relevant markets in which to assess public benefits

- 4.2 Application of competition policy is not always in the national interest. Increased competitive pressure in the Australian aviation industry inevitably means lower standards for the travelling public, lower wages for workers in the industry, reduced job security, further contracting out of core airline functions like maintenance and a consequent higher risk of lower safety standards and safety system failures.
- 4.3 The Department of Defence is reducing competition amongst its aerospace service and parts suppliers . The Department recognised that the unfettered level of competition was compromising the sustainability of the industry and hence supply.²⁵
- 4.3 Qantas has expressed a view that it wants "convergence" of Qantas wages, working conditions and industrial arrangements with its key competitor, Virgin. "Convergence" really means lowering wages (which are already moderate and below the standard of similarly skilled maintenance workers), reducing job security, further contracting out and increasing hours of work and pressure on maintenance workers right to reasonable and safe hours. Increased competition in the domestic aviation market has already had an impact on the working lives of manufacturing workers.
- 4.4 The ACCC should not support arrangements which intensify or extend competition in the aviation industry and put additional pressure on the job security, wages and working conditions of airline maintenance workers in the name of "increased competition". It is hard to imagine that any extension of competition in an already highly competitive market could result in net benefits for consumers and the airlines' submission has not established any Australian public benefit to the impacts on maintenance and engineering created through the proposed alliance.

5. Recommendations

- 5.1 The AMWU's submission has established:
- * competition policy, whilst reflecting Government policy, is not always in the public benefit;
 - * Qantas' unique position in providing public benefits through its role in civil and defence aerospace activities is a primary consideration when determining public benefit and by corollary any diminution of its capacity to continue and grow that capacity in line with projected civil and defence need is to the public detriment;
 - * the public detriment inherent in Qantas losing Australian maintenance capacity through increased contracting;
 - * the failure of the airlines' submission to consider the public detriment and the impact of the proposed alliance on defence capability, employment in the Australian aerospace

²⁵ AA defence procurement Report, Ibid

industry, the diminution of training opportunities in an environment of a worldwide shortage of aerospace engineering skill, the pressure created by staff shortages and its impact on safety.

- 5.2 The AMWU submits that the proposed alliance only be considered when it contains the following enforceable undertakings:

The alliance provide for the future operation of Maintenance & Engineering services in Australia including specification over the 5 year period of:

- growth in employee numbers and training/apprenticeship opportunities for young Australians
- an in-service training programme for maintenance employees and the capacity to deliver
- minimum number of apprentices to be engaged and retained per annum.
- infrastructure growth in Australia
- no contracting out / conditions for contracts
- a process for ensuring projected defence skill and maintenance and engineering capability is met by Qantas as a major supplier of those services

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