

The New Tax System Public Compliance Commitment

Qantas Airways Limited
ACN 009 661 901

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THE NEW TAX SYSTEM PUBLIC COMPLIANCE COMMITMENT

INTRODUCTION

- A. Qantas Airways Limited ACN 009 661 901 and its subsidiaries ("**Qantas**"), has initiated a major review and planning process (the "GST Implementation Project") in preparation for the introduction of The New Tax System legislation ("TNTS"). The GST Implementation Project identifies the impact of TNTS upon Qantas and co-ordinates the implementation of changes in response to TNTS. The GST Implementation Project represents a significant investment by Qantas in approximately 37 projects. A detailed outline of the GST Implementation Project is attached in Schedule A.
- B. Qantas expects to receive some cost reductions from the reduction and eventual abolition of wholesale sales tax and other indirect taxes. There will be both direct cost reductions to Qantas and other cost reductions to suppliers which should be passed on to Qantas. A summary of the estimated short-term cost reductions and implementation and compliance costs is attached in Confidential Schedule B (which also includes an independent review by KPMG). A description of the process to be used to track the implementation and compliance costs is attached in Confidential Schedule C.
- C. In July 1999, Qantas began selling tickets for travel after 30 June 2000 and providing other services that will be used after 30 June 2000. TNTS received Royal Assent on 8 July 1999 and from that date Qantas will be required to remit GST in respect of tickets and services supplied for use after 30 June 2000.
- D. Due to the delayed introduction of TNTS, the requirement for Qantas to develop acceptable procedures and systems to deal with the TNTS changes and the necessity to discuss the implementation of the GST with the Government, Qantas has absorbed the cost of the GST due on the tickets and services referred to in paragraph C.
- E. Commencing from 25 September 1999, Qantas will include the GST payable in the price of tickets sold for travel to be undertaken after 30 June 2000 and the price of other services which will be supplied after 30 June 2000.
- F. Qantas and the Australian Competition and Consumer Commission ("**the Commission**") have been in discussions regarding the implementation of TNTS and the invitation in the Guidelines to make a public commitment. In accordance with the Guidelines, the Commission invited Qantas to make a TNTS public compliance commitment. Qantas has accepted this invitation and has drafted this Commitment in consultation with the Commission.
- G. The purpose of this Commitment is to record the commitment of Qantas to furthering the principles of the *Trade Practices Act 1974* and the Guidelines with respect to TNTS, and to provide greater certainty as to the basis on which the Commission may review the actions of Qantas.
- H. The Commission has noted the TNTS compliance efforts of Qantas as witnessed by the GST Implementation Project and this Commitment.

COMPLIANCE COMMITMENT

1. DEFINITIONS

The following definitions apply in this document.

"**ACCC Liaison Officer**" has the meaning given to that term in clause 7.2.

"**Act**" means the *Trade Practices Act 1974 (Cth)*.

"**Commitment**" means this public compliance commitment, and includes the Introduction and Confidential Schedules.

"**GST**" means the goods and services tax liability under TNTS.

"**GST Implementation Project**" has the meaning given to that term in paragraph A of the Introduction.

"**Guidelines**" means the price exploitation guidelines produced from time to time by the Commission pursuant to section 75AV of the Act.

"**Qantas Liaison Officer**" has the meaning given to that term in clause 7.1.

"**TNTS**" means The New Tax System legislation and in particular the New Tax System changes as defined in section 75AT of the Act and any related legislation enacted as a result of the TNTS changes.

2. COMPLIANCE COMMITMENT

2.1 General Commitments

This Commitment complements the well established culture of trade practices compliance within Qantas.

Qantas commits to:

- (a) comply with Part VB of the Act, namely not to engage in price exploitation in relation to TNTS;
- (b) pass on to consumers any net realised cost benefits which arise as a result of TNTS;
- (c) comply with the Guidelines as expanded in this Commitment;
- (d) advertise and display the GST-inclusive price in a manner which is not misleading or deceptive; and
- (e) extend its trade practices compliance program to cover TNTS. The compliance program will continue to be materially in accordance with the provisions of Australian Standard 3806 (1998).

2.2 Cost Monitoring and Pass Through Commitment

Qantas will use all reasonable endeavours to identify cost changes which result from TNTS and:

- (a) where there has been a net realised cost reduction – ensure that such reduction is passed on to consumers in the form of lower prices or smaller price rises; or
- (b) where there has been a net realised cost increase - ensure any price rises, or reductions in price falls, based on the cost change are no greater than the net realised cost increase.

2.3 TNTS Implementation and Compliance Costs

- (a) The Commission has indicated that in accordance with the Guidelines Qantas may, in determining whether there are any net realised cost changes as a result of TNTS, take into account any additional internal and external implementation and compliance costs associated with TNTS which were and will continue to be reasonably incurred.
- (b) When including these implementation and compliance costs in its assessment of the net effect of TNTS on costs, Qantas commits to:
 - (i) consider only those implementation and compliance costs which are incremental and directly attributable to TNTS; and
 - (ii) offset against TNTS implementation and compliance costs any compliance cost reductions arising from the removal of the previous tax system.

A non-exhaustive list of estimated Qantas TNTS implementation and compliance costs is attached in Confidential Schedule B (which also includes an independent review by KPMG) and a description of the method used to track certain implementation and compliance costs is attached in Confidential Schedule C.

3. ADMINISTRATION OF THE COMPLIANCE PROGRAM

Qantas will implement a GST compliance program with the following elements:

- (a) Senior Management Responsibility for Compliance

The Qantas General Counsel will:

- (i) be responsible for ensuring that Qantas complies with this Commitment;
- (ii) be responsible for investigating any significant issues and concerns which may impact on the ability of Qantas to comply with this Commitment including any issues that are raised in the auditor's report provided under clause 3.1(i) (Audit Review), raised by staff or identified through the customer enquiry procedures; and
- (iii) where necessary, raise significant issues which may arise in connection with this Commitment with the Qantas Chief Executive and/or the Qantas Board.

(b) Cost Monitoring Group

Qantas has established, as part of the GST Implementation Project, a cost monitoring group whose function it is to quantify identifiable cost changes arising from TNTS and to track those changes.

The cost monitoring group has established and will implement a process to recognise and track identifiable cost reductions arising from TNTS. Qantas has and will continue to amend and supplement the process to enable the cost monitoring group to perform its functions.

The intended process, procedures and responsibilities of the cost monitoring group are set out in Confidential Schedule D.

While Qantas cannot be responsible for ensuring that suppliers comply with the requirements of the Act and the Guidelines, it is noted that the process currently specified for the cost monitoring group includes a process to monitor the conduct of Qantas suppliers. The process aims to track cost changes that have been passed on to Qantas.

(c) Internal Pricing Department

Qantas has an internal Pricing Department that will ensure that any and all net realised cost changes are passed on in domestic published fares in accordance with this Commitment and the timeline set out in Confidential Schedule D.

(d) Advertising Review

Qantas policy requires all Qantas commercial advertising to be reviewed by the Qantas Legal Department to ensure compliance with the Act. Qantas will ensure that the review takes into account any TNTS requirements including that all advertised prices are GST inclusive.

(e) Training

Qantas will provide training and awareness programs for its staff and its agents to inform them of their obligations under the Act and this Commitment.

The obligations of Qantas under the Act, the Guidelines and this Commitment will be incorporated into the existing Qantas Trade Practice Compliance Program.

(f) Consumer Information

Qantas will make information regarding the impact of TNTS on Qantas available to consumers in such ways as it considers reasonable, including:

- (i) posting a TNTS/GST page on the Qantas website, which will include information for customers about the way GST applies

to the products and services of Qantas specifically and, subject to the approval of the Commission and the ATO respectively, links to the relevant Commission and Australian Tax Office websites; and

- (ii) make resources available within the existing Qantas Customer Service Department to provide information to customers in relation to Qantas and TNTS/GST.

(g) Qantas Consumer Enquiry Procedures

Qantas will establish a TNTS/GST Consumer Enquiry Service within its Customer Service Department that will:

- (i) receive and answer TNTS/GST-related enquiries; and
- (ii) report monthly to the Qantas Liaison Officer appointed pursuant to clause 7.1.

The Qantas Liaison Officer will be responsible for:

- (iii) ensuring enquiries relating to TNTS/GST are dealt with promptly and satisfactorily; and
- (iv) identifying practices and procedures which are giving rise to enquiries and which may require review or more urgent attention.

Methods available to consumers for making an enquiry will include telephone, e-mail and written correspondence as described in Schedule E.

If, following a review and investigation of an enquiry, Qantas needs to take action to address the conduct that gave rise to the enquiry, Qantas will:

- (v) take any necessary action (including stopping the relevant conduct if necessary);
- (vi) adjust its practices and procedures to avoid a recurrence of the conduct; and
- (vii) review the affected practices and procedures.

(h) ACCC GST Consumer Enquiry Procedures and Communication with Qantas

Qantas acknowledges that the ACCC has its own GST consumer enquiry and enforcement procedures.

The Commission has advised Qantas that, in the event that the ACCC receives a GST consumer enquiry that it considers requires an explanation by Qantas, the ACCC Liaison Officer (appointed under clause 7.2) will contact the Qantas Liaison Officer and inform Qantas

of the issue. Qantas will use its best endeavours to co-operate with the ACCC. Following a review and investigation, the Qantas Liaison Officer will provide any necessary explanation in relation to the issue raised.

If the communication between the Liaison Officers fails to resolve the issue, the Qantas General Counsel will contact the Commission's Executive General Manager GST Operations and they will discuss the issue and attempt to obtain a satisfactory resolution.

(i) Audit Review

The Qantas Internal Audit Department will undertake a review of procedures on a half yearly basis during the TNTS transition period to determine whether the requirements of the Act and this Commitment are being fulfilled.

The Qantas Internal Audit Department will provide a written report to the Qantas Liaison Officer identifying amendments, if any, to the procedures or processes that it considers are required to ensure that the requirements of the Act and this Commitment are fulfilled.

(j) Reports to the Commission

To assist the Commission in its responsibilities under Part VB of the Act, Qantas will provide the following reports to the ACCC Liaison Officer on a six monthly basis:

- (i) each final audit report referred to in sub-clause (i);
- (ii) half-yearly and full-year profit announcements (once released to the market) and the Annual Report to Shareholders; and
- (iii) such other financial information as is agreed between Qantas and the Commission.

All such non-public reports shall be treated by the Commission as Qantas commercially sensitive and confidential.

4. COST VERIFICATION

- 4.1 Prices in the airline industry often change on a daily basis. Generally these price changes are not due to cost changes, but represent responses by carriers to (often short-term) demand fluctuations or pricing incentives to capture market share. As provided in clause 2.2, Qantas commits itself to identifying and passing-on any net realised cost reductions which result from TNTS.
- 4.2 Qantas acknowledges that it may be required to verify that it has passed on any changes in realised net costs due to TNTS in accordance with clause 2.2.
- 4.3 Qantas understands that complying with clause 2.2 and clause 4.2 meets its obligations under the Guidelines.
- 4.4 Should Qantas change the price of its published base airfares or other products and services during the New Tax System Transition Period (as defined in Part VB of the Act) Qantas will, on the request of the Commission,

provide the reason, including details of any TSTS related cost adjustments.

5. QANTAS EXPECTATIONS FOR PRICES AND COSTS UNDER TSTS

Qantas has determined that there will be some cost reductions from the reduction and eventual abolition of wholesale sales tax and other indirect taxes in the short term. However, Qantas notes that it will also incur TSTS implementation and compliance costs which will be considered in determining the net impact of the cost reductions (see Confidential Schedule B).

At this time, Qantas is not able to determine the extent of any net cost reductions in the long term. However, Qantas will monitor cost reductions and pass on net realised cost reductions in accordance with the Act and the Guidelines as expanded in this Commitment.

6. SPECIFIC TSTS POLICIES

6.1 GST Impact

In summary, GST will be charged on wholly domestic travel from 1 July 2000. International travel and domestic travel purchased in conjunction with international travel is not subject to GST. Qantas provides other products and services (eg Qantas Club, Frequent Flyer membership, ground handling, engineering and maintenance services, catering, freight and rental of property) which will be subject to GST to the extent the services are not GST free.

6.2 GST Inclusive Pricing: Airport Taxes and Charges

Qantas collects a number of taxes and charges that are displayed separately from the fare on the ticket. Currently, when it displays or advertises its prices, Qantas quotes the price exclusive of these taxes and charges (although it notes that taxes and charges apply). Qantas intends to continue this practice of advertising the price exclusive of the taxes and charges after the introduction of the GST. As such, its advertised GST-inclusive price will include the GST on the fare, but not the GST (if any) on the taxes and charges.

Whenever the amount of one of these taxes or charges is quoted to a customer, Qantas will use its best endeavours to ensure that the tax or charge is quoted on a GST inclusive basis.

6.3 Display of Fare on the Ticket

It is intended that a passenger ticket will show the following amounts:

- (a) the airfare, exclusive of GST;
- (b) total taxes and charges, exclusive of GST;
- (c) total GST (being the sum of the GST on the airfare and the taxes and charges); and
- (d) the total price for the fare inclusive of GST on the airfare and the taxes and charges.

6.4 Refund of GST on Domestic Ticket Purchased Outside Australia by a Non-Resident

A domestic flight ticket is GST-free if:

- (a) it is purchased by or on behalf of a person who, at the time of the purchase is outside Australia; and
- (b) it is purchased for travel by a person who is, at the time of travel, not an Australian resident for income tax purposes.

As it is impossible for Qantas to determine whether the exemption applies at the time the booking is made, Qantas initially intends to adopt a policy of collecting and remitting GST on all domestic flights that are not sold in conjunction with an international itinerary. Passengers will be able to claim a refund of the GST amount if they can establish that they fall within the exemption.

7. LIAISON OFFICERS

7.1 Qantas will appoint a Qantas Liaison Officer who will report directly to the Qantas General Counsel and whose duty it is to maintain on-going contact with the Commission with regard to this Commitment. In particular the Qantas Liaison Officer will:

- (a) in conjunction with the Qantas General Counsel, be a point of first contact for the Commission for any queries or requests the Commission may have; and
- (b) inform the Commission of any developments or changes in the industry which, in the opinion of the Qantas Liaison Officer, may be of relevance to the Commission, in particular any developments which may necessitate a variation of the Commitment.

7.2 The Commission has informed Qantas that the Commission will appoint an ACCC Liaison Officer who will be the point of contact for the Qantas Liaison Officer. Any reports or information to be supplied to the Commission under clause 7.1 may be directed to the ACCC Liaison Officer.

8. PUBLIC STATEMENTS

A list of representations about the scope and effect of this Commitment is attached in Confidential Schedule F. The Commission has informed Qantas that it considers the representations listed in Confidential Schedule F are fair, reasonable and accurate, and may be used in public statements by either Qantas or the Commission.

9. PUBLIC REGISTER

Subject to clause 10, the Commission may place a copy of this Commitment on a public register.

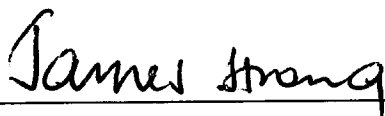
10. CONFIDENTIALITY

The Commission has agreed that, unless specifically stated to be non-confidential, all Schedules to this Commitment are confidential and commercially sensitive to Qantas and that the Schedules will not be placed on the Public Register.

11. LEGAL STATUS OF COMMITMENT

With the exception of this clause and clause 10, this Commitment is not legally binding. However, Qantas intends to comply fully with the terms of this Commitment.

SIGNED for Qantas Airways Limited
ACN 009 661 901


A handwritten signature in black ink, reading "James Strong", is written over a horizontal line.

James Strong
Chief Executive
23 September 1999

NON-CONFIDENTIAL SCHEDULE A

(Introduction, paragraph A)

Brief History of the GST Project

Planning for the GST

Qantas commenced planning for the GST in October 1998.

GST Implementation Structure

A structure has been established to oversee the implementation of the GST at Qantas. This involves an Executive Steering Committee whose role is to ensure appropriate priority is assigned to the project. GST Working Groups have been formed for the purposes of detailed issue identification and problem resolution. To date, there are five working groups each of which represent an integral part of the operations of Qantas. Representation by each Group aims to ensure that relevant information from each area is identified and collected for the purposes of the GST implementation project. The working groups are as follows: Aircraft Operations, Commercial, Finance, Information Technology and Suppliers/Clients. Each group is managed by a Chairperson whose role is to ensure resources and priority are allocated to the project work. This is done in co-operation with the core GST Project Team who are responsible for overseeing the projects on a day to day basis.

Staff Awareness and Education Campaign

The Core GST Project Team conducted the first of many staff awareness and education workshops in January 1999. This was completed with the assistance of KPMG.

Issue Identification Process

An issues database has been developed for the purposes of recording and tracking the progress of GST issues. This was done in consultation with the relevant business units.

Implementation Plan

A consolidated GST Project Implementation Plan has been developed (see attached structure diagram). This identified approximately 40 distinct projects. The 40 projects have been consolidated to 37 projects. The projects relate solely to the impact of the GST on Qantas and would not have been required but for the introduction of the GST.

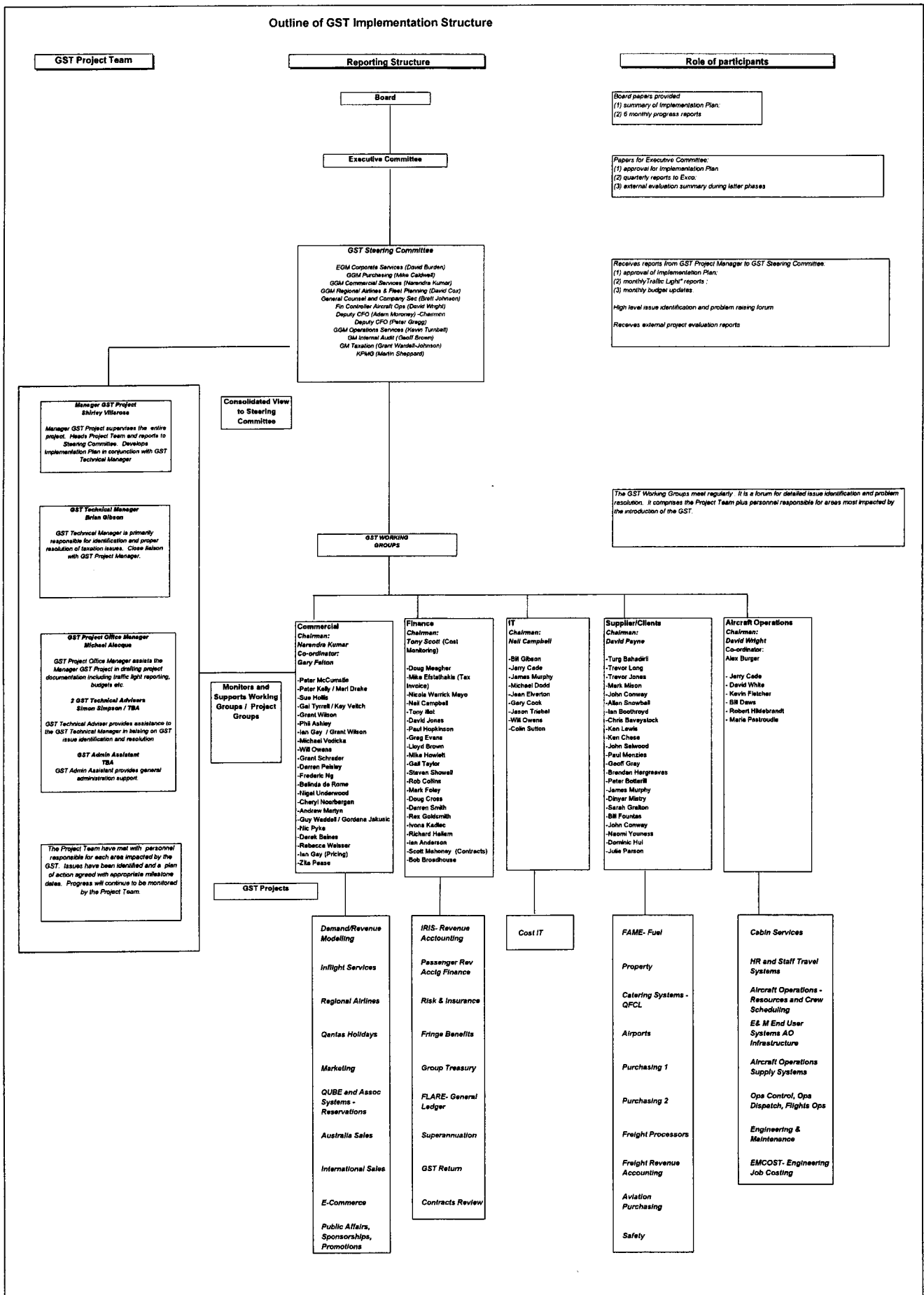
Project Costs

While there is a mix of external and internal resources used by the Projects, the majority of project costs are for internal resources as this is a more cost effective way for Qantas to administer the GST implementation.

KPMG Quality Assurance Review

KPMG have reviewed the approach undertaken to develop the project plans and concluded that all significant processes have been considered. They have also determined that the structure and composition of the Steering Committee, Core Project Team and cross-functional Working Groups are appropriate.

Outline of GST Implementation Structure



NON- CONFIDENTIAL SCHEDULE E
(clause 3.1(g))

Customer Enquiry

Qantas intends to train existing staff within the Customer Services Department to direct any enquiries that are received from customers by phone, email or correspondence in relation to:

(a) Qantas products and services and the effect of TNTS and GST to a nominated person within the Department who will be trained to provide up to date information in response to these issues;

(b) technical TNTS and GST issues to the ATO.

In accordance with the Commitment, Qantas will monitor enquiries received in relation to TNTS and GST and if necessary will provide:

(a) a dedicated telephone enquiry resource; and/or

(b) a dedicated email address,

for TNTS and GST related enquiries.