

A.S.U

AUSTRALIAN SERVICES UNION

SUBMISSION TO THE

INDUSTRY COMMISSION

INQUIRY

INTO

INTERNATIONAL AIR SERVICES

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1.0 Introduction

In the 1990's the dominant economic paradigm in Australia continues to be economic rationalism. Deregulation, commercialisation, privatisation and the unfettered operation of free market. The Industry Commission has been without doubt one of the organisations at the forefront of promoting this type of economic reform to policy makers at all levels of government. The Industry Commission remains a dominant source of advice on economic policy to the government of the day.

The ASU continues to have significant concerns about the unfettered application of these principles in a range of industries with which it has had involvement and this concern is also prevalent in respect of international aviation in which the ASU, as representative of a large number of airline workers, has a significant interest.

It needs to be made clear at the outset that the ASU is not anti-competitive or in any way has an interest in bolstering the position of established firms that exercise market power in any industry. However, the ASU is concerned that in industries such as international aviation simplistic policy prescriptions of deregulation may not lead to anticipated outcomes of lower fares and improved service and that indeed the contrary may occur. Generally speaking, and as this submission will show, the international aviation industry is a complex one in its structure. Moves to rely on deregulation to improve the performance of the industry in this context may well fail.

The public are becoming increasingly wary of policy prescriptions that promise long term gain as benefits for short term upheaval. They are coming to realise that short run upheaval may well be a certainty but the long run benefits of economic change are far from certain. Promised long run benefits of improved economic performance rely on the smooth operation of market mechanisms and the meeting of often unrealistic assumptions. The Australian public may well be inclined to stay with the established regime in international aviation in return for certainty of reliability and safety of aircraft and not least to ensure that Australia continues to maintain a viable international airline industry which is a major employer of labour in this country.

The difficulty with an unfettered application of principles of neoclassical economics to complex industries like the aviation industry is that its analysis tends to be static and deal only with key variables of price, quantity, demand and supply. Factors such as reliability, the safety, the regional economic impacts and the long term market structure of the industry is also of vital importance and must be subject to significant attention by the Industry Commission as part of this inquiry.

The ASU in effect is urging the Industry Commission to take a balanced approach to this inquiry and to not make unrealistic assumptions as the Industry Commission has often done in the past in respect of other industries as to the operation of market mechanisms. The Industry Commission needs to take a global view of the industry and

a strategic one considering the economy wide impacts of proposals for further deregulation.

2.0 The ASU in Airlines

The ASU is a principal union in the airline industry in Australia, both domestic and international services. The ASU represents 10,000 - 12,000 workers in the industry. The ASU is also a principal union in the travel industry and in the transport industry generally. The ASU has had a long involvement in the airline industry. The ASU is an amalgamation of a number of unions that came together in its current form in July 1993. The unions that have traditionally had membership in the airlines sector that now form part of the ASU are the pre-existing Federated Clerks Union and the Australian Transport Officers Federation. The clerical division of the union represents clerical and administrative workers in a large number of divisions of airlines, including check-in staff, accounts, load control, freight, engineering and maintenance, catering etc. The Airlines Branch of the Union represents workers in supervisory and managerial roles in all areas of the airlines. The airline industry is highly unionised and has generally had a stable industrial relations history. Both Ansett and Qantas have enterprise agreements that cover the entire workforce that have been negotiated with unions and both airlines are now covered by the third such agreement since enterprise bargaining came to the fore in industrial relations in Australia. The ASU also has enterprise agreements with a number of overseas carriers including Singapore Airlines, United Airlines, British Airways, Garuda, Malaysian Airlines, Cathay Pacific, KLM etc.

2.2 Contracting Out

A significant industrial issue continues to be the proliferation of contracting out and competitive tendering in the airlines sector. Contracting out and competitive tendering have consistently shown to be associated with reductions in terms and conditions of employment and reductions in numbers of employees. In the 1980's a number of airlines adopted concepts such as total travel which involved the broadening of investment into a range of travel activities such as hotels and car rentals. That trend has been reversed and airlines are now moving towards a core airline operation and increasingly contracting out so-called peripheral work. Areas of contracting out include maintenance and overhaul, cleaning of aircraft, loading and baggage handling, catering and security. More recently in Qantas, there was open canvassing of the possibility of all ground services being let to contract, although at this stage it is expected that the in-house tender will continue to run these services, although on lower levels of staff.

Contracting out has clearly been seen by some airlines as a useful way to de-unionise its workforce. The aim of removing unions being to reduce the bargaining power of the employees and reduce terms and conditions of employment. As the magazine *Airline Business* noted "on the face of it creating a separate company for say, maintenance, and selling it to a partner outside the industry could be an attractive option... and

taking it outside the main airlines union structure could help cut costs". (Editorial, Airline Business, June 1992). According to the Canadian Union CUPE, Air Canada aims to, "replace some union jobs such as baggage handlers with non union personnel. Sub contracting to lower paid, non unionised workers has already resulted in annual cost savings of 25 million dollars". (Background to Bargaining, CUPE, 1990).

According to Peter Smith, Executive Chairman of Serco, a subcontractor of Aviation Services such as air traffic control and aviation security, "much of the savings [from contracting out] arises from removing the staff from the traditional airline environment, with its central industrial relations bargaining and its historic terms and conditions, work practices, seniority grades and pay rates". (Think Tank Airlines, Airline Business, June 1 1992).

The ASU, as one of the airline unions, has been in the forefront of promoting safe working practices in the industry for the protection of its members, as well as the travelling public, through its own efforts and through the efforts of the ACTU and the International Transport Federation, of which the ASU is an affiliate.

2.1 Conditions of Employment

The ASU is clearly concerned that deregulation will place pressure on labour costs and conditions of employment were it to be pursued as Australian airline workers will in effect be increasingly compared to workers' wages and conditions applying in other economies which are often much lower than those which apply in Australia.

In the United States, after deregulation, an initial period of intense competition had a devastating effect on wages and conditions. The structure of typical airline operating costs has labour costs as 26% of total costs (ITF, 1992: 40).

According to Transport Canada, the average annual real wage for Canadian airline employees declined at the rate of 1.1% per year for the 1984 - 1990 period. Labour costs have declined from more than 41% of non fuel operating expenses in 1984 to about 35% in 1990.

In Australia the period immediately after deregulation was not characterised by significant reductions in conditions of employment or wages for airline workers. This was related primarily to the protections of workers that were part of the Labour Government's industrial relations system. The changes to the industrial relations system that have been brought about by the Howard Government have meant that those protections are no longer available to airline workers or any worker. In recent years the pay and conditions of workers in Australian airlines have come under significant pressure.

Companies like Serco promote task separation and essentially elimination of the multi-skilled aspects and the integrated nature of the airline company to suit their own objectives of tendering for discreet sections of work.

Contracting out has been embraced to such a level by some airlines, the most infamous being Value Jet who have introduced the notion of "virtual airlines". All of the functions are contracted out and subjected to regulation by a contract with the airline itself being made up of a small number of administrators and contract managers. Hence the notion of the airline being virtual, in that it actually employs very few people to run its operations.

The ASU is extremely concerned that contracting out will lead to further erosion of conditions of employment and that this will become an impact that is felt in Australia should further airline deregulation be embraced. Contracting out in a range of industries with which the ASU and other unions have experience has not by and large produced the benefits claimed by organisations such as the Industry Commission. In a previous inquiry by the Industry Commission into contracting out by public sector agencies the ASU, through the ACTU, made extensive submissions both during the inquiry and in response to the draft and final reports of the Industry Commission. The submissions of the ACTU are attached as appendices to this submission. The analysis of contracting out contained within the ACTU submissions does not deal with material in the aviation sector as that industry was not under examination within that particular inquiry. However, the information is included because the issues, the problems and the outcomes from contracting out are likely to be common across a range of industries not least in the aviation industry. Indeed, in respect of the key issues of accountability and quality of service, the major airline accident of a Value Jet aircraft was blamed on poor standards of maintenance which was undertaken by arms length contractors. In the Value Jet case, the air safety regulators raised concerns that it was not clear who was responsible for the maintenance when chains of subcontractors were involved. (O'Connor, 1997: 6). The ASU urge the Industry Commission to re-examine the evidence provided to the Industry Commission by the ACTU on the issue of contracting out at its previous inquiry. The increased use of contracting out should not be promoted in the aviation industry. (O'Connor, 1997: 8).

Some airlines like Continental in the US in the early 1980's made overt moves to break union influence and very difficult union/management relationships were created. The union/management relationships in airlines like Continental were so bad that current management now recognise the need to live down a reputation for union problems. (Evatt, page 8). Airlines differ in their capacity to manage union negotiations as Jennings (1994) shows in a contrast between United and American Airlines.

A study of JAL reported that the establishment of Japan Air Charter has provided 30% lower labour costs as 90% of the crew are Thai paid about one tenth the wages of JAL flight attendants. (O'dell, 1996: 59). This is a dramatic example of the way in which many airlines are now hiring labour in different markets with the aim of employing the lowest price labour internationally. This phenomenon will worsen with the increased spread of deregulation. It is not in the Australian communities interest that Australian jobs be lost to non Australian labour.

3.0 National Competition Policy

The ASU and the ACTU have raised a number of concerns related to the operation of NCP and its application through a range of industries.

This inquiry has been directly linked by the Treasurer in framing the terms of reference to the NCP and in particular to the Commonwealth Governments Legislation Review schedule.

As part of NCP, governments are to review legislation said to restrict competition. This arose from one of the key principles of the Hilmer Report which was:

*"All anti competitive conduct should be assessed by a transparent review process, to demonstrate the nature of public costs and benefits claimed. This means a continuous review process for all legislation and regulation, with the onus on those favouring the legislation to demonstrate its public benefit".
(Hilmer, 1994).*

This principle is reflected as Part 5 of the Competition Principles Agreement which is headed Legislative Review. The legislation review includes at Clause 5(1)(a) that the benefits of a restriction on legislation to the community as a whole should outweigh the costs. This provision then attracts Clause 3 of the Competition Principles Agreement which states inter alia:

"(3) Without limiting the matters that may be taken into account, where this Agreement calls:

(a) for the benefits of a particular policy or course of action to be balanced against the costs of the policy or course of action; or

(b) for the merits or appropriateness of a particular policy or course of action to be determined;

(c) for an assessment of the most effective means of achieving a policy objective;

the following matters shall, where relevant, be taken into account:

(d) government legislation and policies relating to ecologically sustainable development;

(e) social welfare and equity considerations, including community service obligations;

(f) government legislation and policies relating to matters such as occupational health and safety, industrial relations and access

and equity;

(g) economic and regional development, including employment and investment growth;

(h) the interests of consumers generally or of a class of consumers;

(i) the competitiveness of Australian businesses; and

(i) the efficient allocation of resources. "

On this basis the ASU argues that Clauses (d) through to (j) are all relevant to this inquiry as the Treasurer's terms of reference, consistent with Clause 5 of the agreement, calls for cost and benefits to be taken into account. While all are relevant and therefore must be taken into account, the ASU believe that economic and regional development, including employment and investment growth, the interest of consumers generally and the competitiveness of Australian businesses should all receive careful attention from the Industry Commission.

If the Industry Commission does not consider itself as undertaking this role, then they should recommend that some other body or forum should do so.

The ASU has the view that competition should not be seen as an end in itself, but rather fostered where it could be considered to contribute to improved living standards and welfare of the community. Competition between firms can result in lower prices and improved services under certain market conditions. However, markets, particularly complex ones like international aviation, require regulation to establish the necessary framework to ensure the right outcomes are achieved.

The ASU remains concerned about blanket statements on the benefits of the Hilmer reforms, including statements made by the Industry Commission in its report, "The Growth and Revenue Implications of the Hilmer Reforms". (Industry Commission, 1995). This report made completely unjustified claims about economic growth and consumer benefits arising from competition policy. Economist, John Quiggin, has shown that the report uses a grossly deficient methodology and economic modelling which overestimates economic benefits and does not include any of the costs. Quiggin estimates that increases in economic growth from competition reforms after taking into account the real costs would not be 5.4% of GDP after 10 years as the report claims, but .5%, i.e. less than one tenth. (Quiggin J, 1995: pages 221 and 336).

The ASU therefore urges the Industry Commission to be careful and thorough in their analysis and that all of the factors that have been raised thus far in this submission are taken into account in order that there can be a realistic assessment made of the public interest outcome of possible further deregulation of international aviation. The Australian community has recently shown that they are no longer prepared to accept the perpetuation of economic doctrine that promises mirage like long term benefits in

return for guaranteed short term decimation of Australian industries. The Australian community judged these to be the likely outcomes of the recommendations of the Industry Commission in the textile, clothing and footwear industries and in the motor vehicle industry reforms.

4.0 International Aviation & Macro Economic Impact

The Industry Commission needs to consider its approach based on a careful consideration of the current market structure and likely future structure of international aviation. There is no doubt that the market in international aviation is increasingly globalised.

The airline industry is now a key component in the economies of most nations. There has been a dramatic increase in the demand for mobility internationally. Global integration of investment has led to the need for regular airline connections of both people and freight.

Further, the expansion of multicultural societies in most modern economies has expanded the need for travel, not just for the purposes of migration, but for continued family contact between families that have settled in other parts of the globe.

Also, tourism has expanded more rapidly than many industries in recent decades further facilitating the reliance and expansion in international passenger aviation.

At the same time as these occurrences on the demand side there has been rapid advances in capacity, frequency, speed and the flight distances of the aircraft which have contributed to the expansion of supply of aviation services.

The airlines industry has become an important source of economic growth; a sector that is significant in economic terms in its own right and linked to almost all parts of the modern economy (O'Connor, 1997). This is most certainly the case in Australia. Qantas is ranked as one of the major export companies of the nation, ranked alongside the big resource traders in terms of asset sales. (Australian Business, 1994). Ansett is also a significant contributor

Aside from the obvious contribution to economic activity that arise from the direct provision of aircraft run from Australia, there is also the significant multiplier effects that the aviation industry has on related industries such as maintenance. The Australian airlines have significant maintenance facilities in Australia. It would be a tragedy for Australia if this work was lost to overseas destinations as a result of deregulation. There is a critical level of volume that maintenance facilities require in order to achieve the necessary economies of scale to enable them to be competitive. On engine maintenance it is estimated that at least 50 engines a year need to be handled to justify an in-house operation. (O'Connor: page 16).

Other countries, like Singapore, have taken a strategic view of the role of their own airlines and airports in development strategies designed to attract tourism, but also regional headquarters and information intensive industries. The Dutch, through their approach to the international role of KLM and Schiphol Airport in Amsterdam, provide an example where air transport acts as a leading sector in the growth and change of the nation.

In the US, the emergence of specialist freight operators in express parcel airfreight (typified by EPS and Federal Express) show the key role the airline industry has played in spawning new services, like just in time delivery of components and products. These types of strategies contribute to the nation's overall economic development.

The success of these types of strategies underline the need to ensure that Australia's aviation industry is seen in strategic economic terms and that prescriptions for its enhancement are not based on ideological and simplistic responses which could lead to loss of employment, not just in the airline industry, but in the many industries which rely on the airline industry for survival.

5.0 Airline Industry Market Structure

The evidence is clear that with the advent of deregulation in many parts of the globe that there has in fact been a concentration of the market, that is, a reduced number of competitors after initial flurries of aggressive competition between new starters. Deregulation has facilitated the increasing domination of the market by global mega carriers.

In Canada and the US there were periods of increased competition before the industry began to concentrate. In the EC it looks like the industry may skip the initial competition period altogether. (O'Connor, 1997: 25).

The difficulties faced by many start up airlines around the world suggest that simple deregulation of the right to fly is a naive policy as it does not comprehend the complex nature of the airline industry.

5.1 The United States Deregulation Experience

In the US there was initially fierce competition after deregulation, followed by a period of industry concentration. In the first 10 years of deregulation in the US more than 170 entrepreneurs received licences to start new airlines, over 150 went bankrupt, were liquidated or never flew; small new airline competitors have virtually vanished; in January 1992 the top four US airlines controlled 70% of the domestic market. The powerful established airlines won the battle for domination of the US aviation market through controlling hubs and domination of marketing through computer reservation systems. (O'Connor, 1997: pp 25-26).

"US DEREGULATION: AN ASSESSMENT

Professor Paul Dempsey, Director of the Transportation Law Program at the University of Denver recently summarised the experience of US deregulation, including the following points:

- *Under deregulation, the airline industry lost all of the money it made since the Wright brothers' inaugural flight at Kitty Hawk in 1903.*
- *After more than 150 bankruptcies and 50 mergers, we (the US) now fly the oldest and most repainted fleet in the developed world.*
- *In 1991, fully 30 per cent of the nation's fleet capacity was in bankruptcy or close to it.*
- *American, United, Delta and Northwest now control about two thirds of the market, up from 53 per cent just four years ago. This is an unprecedented rate of concentration.*
- *While most passengers now fly on a discounted ticket, the full fare has risen sharply under deregulation, more than double the rate of inflation. The discounts are now encumbered with onerous prepurchase, non refundability and Saturday night stay-over restrictions. They are therefore an inferior product to the passenger flexibility offered under regulation.*
- *Despite allegations to the contrary, average real fuel-adjusted ticket prices are higher than they would have been had the pre-deregulation trend continued.*
- *Although fatality statistics do not reflect it (thank God), the margin of safety has also declined.*

Paul Stephen Dempsey, Address before the Second Annual Conference on Airlines, Airports and Aviation, Washington DC, May 28, 1992".

(ITF, 1992).

The simple notion that extra competition would lower costs did not consider the unique features of the airlines industry. Deregulation created massive losses for US airlines as revenues fell while costs were still high. This led to the demise or operation within special bankruptcy provisions of a number of long standing carriers and also failures of many new carriers.

5.2 Canada & Deregulation

In Canada, airline industry concentration has been even more dramatic since deregulation. Since the first phases of liberalisation in the early 1980's seven airlines

have disappeared through mergers and fourteen others through bankruptcy; small independent airlines have virtually vanished; by 1989 the two large carrier families Air Canada (privatised in 1988) and Canadian International control 95% of the Canadian domestic market. Air Canada and CAI have merged to form a monopoly airline. Approximately 6,000 jobs were lost in the Air Canada/CAI merger. (ITF, page 28).

5.3 Europe

Some of the results in Europe include:

- *In 1989 in Holland KLM acquired control of Martinair and Transavia. Air Holland went into liquidation.*
- *In October 1991 the Belgian carrier TEA went into liquidation; Sabena is now merged with Air France.*
- *In January 1990, Air France bought up UTA and with it gained Air Inter to control 97 per cent of the French domestic market.*
- *Even in the UK, which has the largest and most diverse airline industry in Europe, in 1988 British Airways bought out its major domestic competitor British Caledonian and dominates each sector of the scheduled market, accounting in aggregate or 89 per cent of the British industry's output (67 per cent of passengers)". (ITF, p.30).*

5.4 Globalisation of the Industry

Airlines are increasingly involved internationally in expansion through mergers and major equity links and through alliances through other carriers. Alliances are a form of cooperation between airlines which falls short of major equity links. Airlines enter and leave these alliances as it suits them.

Alliances have become the major area of activity in recent years. In 1996 there were 389 alliances involving 171 airlines representing a 40% increase in the number of alliances identified in a 1994 survey. (Gallacher, 1996). A US Government analysis of the alliance schemes has shown traffic and revenue growth associated with these links has been won at the expense of airlines outside these alliances (GAO, 1993).

Codesharing such as the arrangement of Qantas to meet Canadian flights at Honolulu provides Qantas flights to Vancouver and Toronto as well as Canadian flights to Sydney. Ansett has a similar arrangement with United Airlines. The star alliance involving United, Lufthansa, Thai, SAS, Air Canada and Vardig, is an attempt to have a specialist in each continental market so that intercontinental flights directed between major hubs can provide a range of city to city services. (O'Connor, 1997: p.11).

In a number of countries including the Qantas/British alliance, the airlines have had to demonstrate or be granted immunity from charges of collusion to enable them to

operate the alliances. O'Connor makes the point that the fact that immunity from competition laws is needed to structure and organise these alliances, suggests that simplistic notions of market competition and "open skies" have little effective relevance in the complex world of international aviation. (O'Connor, 1997: p.12).

AN INTERNATIONAL GUESSING GAME

"The whole aviation industry appears to be engaged in an international guessing game as to how many global airlines will dominate civil aviation as a whole, or in particular markets, in the future. Guessers and guesses include:

- ***James Callison (Delta Airlines): within a few years there will only be four or possibly five airlines in the US.***
- ***Bernard Attali (AirFrance): there may be on/y three or four major carriers in Europe when deregulation is completed.***
- ***The ILO: European aviation will be dominated by five to seven mega-carriers.***
- ***Colin Marshall (British Airways): there will be no more than 12 global airlines by the end of the decade.***
- ***Faculty of Commerce and Business Administration, University of British Columbia: it can be concluded that five or six global airline networks are likely to be formed within a decade.***
- ***Aviation specialists Avmark: world air travel will be dominated by no more than ten airlines.***
- ***The OECD: By 2020 the airline industry will be dominated by five companies: two US-based, one Europe-based, and two Asia-based".***

The capacity of airports show another weakness in simple deregulation policy. Airports are expensive to build and run so that landing slots are scarce at times that are convenient for the majority of customers. (O'Connor, 1997: 5). The US Department of Transport observed that slot access was effectively a barrier to entry and so a limit on competition in the airlines industry. (GAO, 1997).

O'Connor argues that the limits to deregulation are even stronger in the international arena. Many national carriers and their governments are much less interested in change in this arena or their interest in change really focuses upon creating more opportunities for their own airlines. (O'Connor. 1997: 6).

The ASU understands that there is now effectively an open skies arrangement operating in the freight sector in Australia. As a result, Australia does not have any long haul freighters operating in Australia and competing for international work.

Australia relies on international carriers for its long haul freight needs. This experience suggests that deregulation of international passenger aviation is likely to expose Australia's passenger airlines to significant threat.

A further experience with "open skies" deregulation can be found in the Pacific region. Since open skies deregulation, the same number of operators exist in the market. New entrants have not been able to maintain a share of the market and so the hoped for proliferation in competition hasn't materialised.

The ability of deregulation to deliver lower prices through increased supply is also likely to be hampered by lack of slot access and terminal facilities. The "lumpiness" of investment in airport infrastructure means that increased supply of aircraft services can be severely constrained by lack of terminal facilities.

This again raises the need for consideration of deregulation to be based on a strategic view of the role of the airlines industry in the Australian economy rather than a simplistic "competition is good" approach.

Cabotage

Australia's ASA's do not allow international airlines from other countries (with the exception of New Zealand) to operate services domestically. This is known as cabotage.

There are sound economic and safety reasons for maintaining Australia's system of cabotage.

Cabotage provides a means of ensuring that domestic demand air services are serviced by Australian airlines. This ensures that local Australian airlines maintain access to viable market.

Removing cabotage means that Australian domestic airlines would be exposed to potential predatory pricing by the so-called global mega-carriers. This could in turn threaten the viability of local airlines on some routes. Cabotage is consistently applied by most countries in order to protect the country's domestic operators from such predators and to provide some certainty within which they can operate.

Removing cabotage also exposes Australia to an increase in air traffic from aircraft that do not come close to Australia's outstanding air safety record. For example, the removal of cabotage would open the possibility for Indonesian airlines such as Merpat and Sempati to become regular carriers of domestic passengers within Australia. The Indonesian air safety record does not compare favourably with Australia's. There were recently two aircraft accidents involving Indonesian Airlines within a six month period.

Cabotage remains just as it is in the shipping industry, integral to the regulation of the airline industry and should not be departed from.

6.0 Safety

Deregulation has added to the safety pressures in civil aviation. While the airlines industry argues that safety is never compromised by commercial pressures, the reality is that safety is a complex matter which involves a wide range of factors including the frequency and thoroughness of maintenance checks, the age of the aircraft, the training levels of employees, the working hours and fatigue levels of ground staff and air crew. Increased competition has placed pressure on these safety aspects.

Value Jet's rapid growth was constrained by a major accident which was subsequently blamed on poor standards of maintenance and load management. The air safety regulators raised concerns it was not sure who was responsible for the maintenance when chains of subcontractors were involved. (O'Connor, 1997: pp 10 & 16).

There is evidence from the United States deregulation experience that airlines are reducing maintenance expenditure to cut costs in the face of competition. Aircraft are being increasingly pushed beyond their safe age limits. Aircraft corrosion and structural fatigue have been a factor in at least 36 aviation accidents in the US since 1983. Also of concern is the increasing pressure of airlines on flight time limitations, again driven by deregulation. Flight time limitations should take no account of commercial pressures. However, this will become increasingly difficult to sustain in a deregulated environment.

THE FLIGHT ATTENDANT'S STORY

"Then came deregulation. We all know how that has affected us, as the competition increased many carriers looked around for some even more ingenious ways to increase productivity. There was one crew, already exhausted from a 28 hour duty period and due to fly from Philadelphia to Europe, who refused to fly. The flight attendants said 'Look, there is no way we share going to be able to hang on for another 14 hours or so. We are tired. We can't complete our jobs safely. They were harassed; they were intimidated; they were promptly fired, all 12 of them out there in the hangar. One of the flight attendants pursued her case with the help of her union and was reinstated, but she said, 'Nothing can ever replace the trauma of being fired in the middle of the night in a hangar for doing what you think is safe and going to be for the safety of the passengers'".

Condensed from a presentation by Ms. Noreene Koan, National Air Safety Committee, Association of Flight Attendants, AFA International Health Conference proceedings, Nov 12-14, 1990, Washington, USA.

Safety is an important issue in all transport modes, but is vital in aviation. Australia enjoys a reputation internationally as a country with a solid safety record. It is not in the Australian public's interest to jeopardise that reputation.

7.0 Conclusion

This submission has disclosed the complex nature of the national aviation industry and the fallacy that deregulation will automatically lead to improved services for consumers. The ASU agrees with O'Connor that the character of the industry emerging suggests that notions of open skies deregulation are far too simple to manage the mix of services and locations that make up the industry and cope with its continued growth and likely continued congestion. (O'Connor: page 19).

The scale and complexity of the changes suggest that firm government policy direction is still needed; it is significant that in the most deregulated national market in the airlines industry the US, re-regulation in the form of controlling gate access is under consideration. (O'Connor, 1997).

Walker comments that if the US takes action on gate control he would suggest that the US had made the judgment that the pro competition pendulum had swung too far. (Walker, 1997c).

Leadership on strategic matters is still needed by Government. The application of National Competition Policy to the airlines industry needs to account for the increasing globalisation of the industry and its increasingly complex structure. Qantas and Ansett need to stay in a strong position internationally and governments should facilitate that objective by helping the Australian airlines to bolster their market position. In the immediate future the peculiar character of the airlines industry means that bilateral negotiations will remain at the core of decision making, so a strong Australian perspective on the role of aviation in our national development is important. It would be lunacy to throw away Australia's negotiating position in the international arena. Currently, access rights remain as chips on the table rather than throwing them to the open sky and allowing open access to foreign carriers. To do so is to throw away Australia's bargaining position. When you have given up everything that other countries want, what is there left to concede? A stronger regulatory presence is beginning to emerge in the US, and in Europe the complex linkages between state aid to national carriers and the ideal of Europe-wide deregulation of air traffic is unravelling very slowly. Australia needs a strong and strategic position, rather than an ideological one, on aviation matters as its airlines battle for market share in the Asian region. (O'Connor, 1997: 19). Embracing deregulation will not place Australia in that position.

The ASU remains committed to seeing a strong and viable Australian based international aviation sector. The ASU will continue to resist and modify efforts to expand contracting out in the sector as this is likely to place continued pressure on employment conditions and potentially on safety standards.

A sensible application of the public benefit test to the deregulation of international aviation should clearly come down in favour of the current arrangements.

The ASU looks forward to receiving the Industry Commission Draft Report on this Terms of Reference and will continue to input into the debate.

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