THE AUSTRALIAN NATIONAL UNIVERSITY

Australia's Qantas

Bold, Brave and Innovative

Margaret Jackson AC

Qantas Chairman

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Sir Roland Wilson's abiding legacy was his insistence on the application of reason to public policy. For him, advice must be based on intellectual rigor. It was not enough for the argument to be logically consistent; the premise upon which the argument was based had to be realistic and practicable, rather than based on ideology or wishful thinking.

He emphasized the importance of character, something he learnt at home and as a student. Professor Douglas Copland, one of his mentors, told the Rhodes selection committee that Wilson had 'sufficient force of character and capacity for leadership'.

Precision in argument, a focus on what was possible, and courage to express one's convictions frankly were the hallmarks of his work in government and business.

Selwyn Cornish, *Sir Roland Wilson, A Biographical Essay.*

The Sir Roland Wilson Foundation has a continuing role in the development of the Sir Roland Wilson Scholarships and Prizes for graduates of the National Graduate School Management and the Policy and Governance Program.

The Foundation is also responsible for the promotion and presentation of a series of public lectures – The Sir Roland Wilson Foundation Lectures.

These lectures were inaugurated by Mr David Murray, CEO Commonwealth Bank of Australia. The Foundation Lecture in 2004 was presented by Dr Peter Shergold entitled "Once was Camelot in Canberra". At the launch of this publication Dr Shergold added a post-script address, which is now included in it.

In 2005, the series was continued by Dennis Trewin, Head, Australian Bureau of Statistics with a lecture entitled "100 Years of Official Statistics, with special reference to the contribution of Sir Roland Wilson".

This, the 2006 Sir Roland Wilson Foundation Lecture, entitled *Australia's Qantas: Bold, Brave and Innovative*, was presented by Ms Margaret Jackson AC, Chair, Qantas Airways Ltd, on the 2nd August, 2006.

LECTURE:

Margaret Jackson AC,

Qantas Chairman

Thank you Vice Chancellor Professor Chubb for your kind introduction and also Professor Deane Terrell. It's a great honour for me to be here and I'd like to thank the Sir Roland Wilson Foundation for the invitation. I extend a special acknowledgement to Lady Joyce – Joy – Wilson. I'd also like to recognise the Chancellor Dr Allan Hawke, who, as most here will know, served as Secretary of the Department of Transport and Regional Services during his distinguished career.

And good evening to all distinguished guests and friends.

Introduction

Tonight we walk in Sir Roland Wilson's footsteps.

Here was an outstanding scholar, a great Commonwealth public servant, and in later life, a successful businessman. Today, Dr Ken Henry is one of Roland Wilson's successors as Secretary to the Treasury. I am one of his successors as Chairman of Qantas. But each one of us here tonight is in his debt, because he was a great Australian, part of that great post-World War II generation of Australians, transforming our country into a successful modern economy in a fair and open society.

Tonight I want to discuss the issues that Qantas confronts, the way we approach these issues and the virtues of Roland Wilson's example in the public policy approach to Qantas.

As a young boy from a country town in Tasmania, Roland Wilson's intellectual gifts soon became apparent. He excelled in his studies and eventually graduated with a DPhil from Oxford and an economics doctorate from Chicago. In 1930 this young man came to a crossroads. He could have taken up a sparkling career either in Britain or North America. Frankly these must have looked like very desirable options.

But instead Wilson decided to come home. The story is outlined in the wonderful book *Giblin's Platoon* to be launched by Dr Henry later this evening. When Wilson told an eminent Chicago economist of his plan, Jacob Viner exploded: But Tasmania is miles away from anywhere! To which Wilson replied, in laconic Australian fashion: It's not miles from Tasmania (*Giblin's Platoon*, p58).

You might think that Australia would have welcomed Wilson with immense gratitude and open arms. But things were not so simple. When Wilson decided to make his future in Canberra, the Commonwealth Public Service of the day was structured to favour the appointment of World War I veterans. Incredibly, it actively excluded university graduates. Indeed, Wilson's appointment to the Treasury as a brilliant, highly qualified 28 year old graduate was probably illegal. There was such strong opposition to hiring this graduate and non-veteran that Wilson was sent to sit in what was then the backwater of the Bureau of Census and Statistics. And even there he was welcomed by a protest strike.

Perhaps those experiences spurred Wilson on, because through his career he was a serious reformer, appointing the Commonwealth's first female librarian and establishing the category of research officer to increase the intake of graduates (Giblin's Platoon, pp160-165).

Roland Wilson was an Australian patriot who chose to make his destiny at home instead of take the easy path when the world was open to him. He was a bold and brave leader in times of adversity. He was an enthusiastic innovator at a time when resistance to change was much greater than today. And, importantly, though he was a superb economist, he never tried to squash reality into a shape that proved an abstract theory. Rather, he always used theory as an aid to dealing with reality. As you can perhaps imagine, I'm keen to come back to this point in a moment. Because it's extremely relevant to Qantas.

Most of all, Wilson's focus was on measuring, understanding, analysing and advising Governments on the Australian economy. He was no devoted zealot of any particular economic doctrine. Instead he was rigorous and pragmatic in his pursuit of the national interest.

Which made Wilson a great choice for Qantas Chairman in 1966.

Roland Wilson and Qantas

When I think of the issues that Wilson confronted as Qantas Chairman I can't help imagining we would have had an interesting time comparing notes.

He faced a major pilots' strike and a wave of further industrial action – in his day Qantas had 42 trade unions to deal with! The costs of everything from aircraft to navigation charges were rising. Competition was increasing and the structure of Qantas needed to change to cope with new realities. There were difficult decisions to be made on emerging aircraft types and purchases. In the early 1970s aviation was hit by a wave of aircraft hijackings. And then huge oil price increases driven by OPEC created massive problems.

Although Qantas was in government ownership, Wilson — a Treasury man — rightly insisted that Qantas make profits, even through the hard times, and that it use the latest technologies and management practices to achieve that aim. The successive governments that he dealt with supported his pragmatic and positive approach. And with the help of Wilson's custodianship Qantas was handed on safely to the next generation.

It all sounds eerily familiar. Like Wilson, we too have to take a bold, brave and innovative approach to ensure Qantas survives and prospers through challenging times.

Qantas since 2000

Let me run through some of the shocks that have hit Qantas in my six-year tenure as Chairman.

In the week beginning September 10 2001 Qantas was invited to purchase Ansett for one dollar: we had three Board meetings in three days to consider this offer before we declined. On Tuesday 11 the attack on America took place, a horrific event which changed the world and aviation forever. On Wednesday 12 an administrator was appointed to Ansett. On Friday 14, Ansett was grounded.

Over the following days we embarked on a massive logistical exercise under tremendously difficult circumstances. We had Board meetings every two days by phone and we were updating the Board twice daily. Our mobile phones never stopped ringing. Decisions we might once have agonised over were taken in two days. We were in constant contact with State and Federal governments. The decisions we made went way beyond the purely commercial. We had to take the national interest into account.

As we recovered from these massive disruptions, along came wars in Afghanistan and Iraq.

We had our own terrible encounter with terror with the Bali bombings of 2002, which killed and injured many Australians. Qantas rapidly responded with flights to return tourists home to Australia, whether they had bookings with us or not. And we transported government, medical and police staff to Bali. We did the same when terror struck Bali again in October last year.

Then there was the health crisis known as SARS which peaked in Asia in 2003. This resulted in massive disruption and cost to the aviation industry including Qantas.

In 2004 there was the tsunami that devastated parts of many nations in South and South-east Asia and again cost the lives of Australians. Qantas again responded immediately while grappling with the implications for our business.

But these challenges, while huge, bear no comparison to the commercial challenge of fuel increases that we face today. At current prices, Qantas' total fuel cost will have increased from $1.5 billion in 2002/03 to a forecast of $2.9 billion for 2005/06. The forecast is for $3.9 billion in 2006/07, a massive $2.4 billion increase over four years. Less than 10 per cent of this increase is due to increased consumption.

And no one knows just how high fuel prices will go — or how long they will stay up. West Texas Intermediate crude (WTI) hit a new intra-day high of $US78.40 on July 14, due to the outbreak of hostilities in the Middle East. It seems unlikely fuel prices will return to the historic average price of about US$30 per barrel.

Qantas' fuel costs are forecast to total over 30 per cent of all operating expenditure in 2006/07. To put this in perspective, in 2003/04, fuel costs comprised only 13 per cent of operating expenditure.

Qantas' successful fuel hedging program has delayed the full impact of these rising fuel prices to date, but as older, lower priced hedging has matured, Qantas has had to hedge at higher market prices going forward.

We are also making great efforts to conserve fuel. Our fuel conservation program, which has been in place since October 2005, has a three-year target of $100 million from reducing fuel usage in the air and on the ground.

New technology aircraft like the Airbus A380 and Boeing 787 Dreamliner are to be major contributors to fuel savings. According to Boeing, the B787 will use up to 25 per cent less fuel per seat than any other aircraft of its size.

Qantas takes delivery of the first of its A380 aircraft next year, and will operate the new aircraft on high volume routes such as Los Angeles and London. The B787s will be delivered from 2008, with the first 12 of these aircraft going to Jetstar.

And of course, our leisure travel airline Jetstar has a cost base significantly lower than the mainline operations and is well placed to grow aggressively in international markets.

But the stark reality is that Qantas' profit before tax last year was just under one billion dollars and the increase in the cost of fuel this financial year is one billion dollars.

To help cope with increasing fuel prices Qantas has been looking for other savings. Indeed, last year we doubled our Sustainable Future Program target from $1.5 billion to $3 billion. But this will still not be sufficient to fully offset the impact of fuel prices and we will need to create and implement additional cost reduction initiatives.

One issue that gets a lot of attention — often negative attention for Qantas — is industrial relations. The unions like to portray us as a bad employer. Just as they did in Roland Wilson's day. As he calmly said on the occasion of Qantas' 50th birthday, *Well, there are some quite simple physical yardsticks by which this can be judged*

...and the simplest is our turnover rate. In 1970 Qantas had the lowest turnover rate in Australian industry. Today Qantas still has attrition rates lower than other Australian Industrial companies. And indeed, over the past twelve months the attrition rate for our long haul flight attendants was only half a percent.

Our operating context

If there's one thing this series of crises demonstrates, it's just how global Qantas is. We operate in a global context, we are affected by the events and issues over which we have no control, we must respond to the world as we find it. It's not quite true to say that if a butterfly flaps its wings in the Amazon, Qantas wingtips will also shudder, but it's certainly true that an earthquake in South Asia or a virus in North Asia or a bombing in London is sufficient to have massive negative effects on our business. Try as we might, we simply can't make ourselves shock-proof. We are often takers, not makers, of the aviation agenda.

We are confident about our ability as an organisation to respond to short and long term challenges. But the truth is we can only reach our full potential if our complex operating circumstances are well understood here in Canberra. CEO Geoff Dixon and I plus other Qantas Executives spend a great deal of time walking the corridors and explaining our case. Our future as a business very profoundly depends upon Canberra decision-makers having an appreciation of our competitive realities.

Three things are powerfully shaping the long term future of Qantas:

- We operate in an outdated industry structure which is far from rational and weighted against us
- We face chronic overcapacity in the aviation industry and an extraordinary push from competitors running national, non-commercial agendas
- The rise of Asia is going to deliver huge change that will reshape aviation in our region.

The global system

Let me start with the global aviation system. Frankly it does not look anything like an economic rationalist's elegant free trade network. It is complex and messy and compromised by history. It is still based on an agreement made between governments sixty years ago called the Chicago Convention. It is highly regulated, arbitrary and inflexible. Whether governments – or airlines – like it or not, under this system governments are required to act as bilateral brokers for aviation market access – or to be more specific, for capacity and route and traffic rights to enable airlines to operate.

Quite simply, for many of our bilateral partners, what Australia has to offer is of marginal interest. Virtually all European airlines have withdrawn from Australia and don't even bother to use the very liberal access they currently have in the Australian market. As you can imagine it's difficult to try and bargain for European access when they have no interest in what you can offer in return.

While Australia is an end-of-the-line destination, the winners under the system are often those many airlines based in a favourable geographic location - the so-called hubs. That's because airlines like Singapore and Emirates and Cathay Pacific are able to combine aviation rights to produce a plethora of network opportunities in a way that end-of-line carriers like Qantas cannot. It has nothing to do with their competence as airlines, although they certainly are very well run: it has far more to do with where these airlines are based.

Over the past 15 years the Government has negotiated capacity well ahead of demand. So today the Australian aviation market is both highly competitive and one of the most open in the world. And aviation market access is not constraining tourism growth or consumer interests.

At Qantas we want to see further liberalisation of market access, and we believe we could succeed in a completely free system. But in the absence of a fully open system and a level playing field, we want liberalisation to be carefully timed and sequenced, so that we are not left holding our rather poor hand of cards from the current system while other airlines carry their aces into the future.

These complexities were recognised by the Australian Government in its recent decision regarding Singapore Airlines' access to the Pacific route. The Pacific route is one of the remaining high value cards Australia has left to play, and if additional foreign carrier access opportunities are to be created, the Government would rightly want something significant in return.

Overcapacity and government agenda

When Sir Roland Wilson was Chairman of Qantas the airline was owned by taxpayers and accountable to them. Today Qantas is a fully commercial enterprise, creating many thousands of great jobs for Australians, serving Australian travellers well and providing rewards to shareholders. But it's a very tough business to be in. There's a reason for that old saying: if god had meant man to fly, he'd have given him a lot more money. In fact, Qantas' price to earnings ratio is good for an airline, but poor for an industrial company. And we still don't cover the cost of our capital.

But our commercial focus is an exception in the aviation industry. Over two-thirds of our competitors are government-owned or subsidised or wrapped up in the cottonwool of bankruptcy protection. And this is one of the key contributors to a massive overcapacity problem across global aviation, because so many governments are loath to let their non-performing national carriers fail or restructure.

To understand how regressive this state of affairs is, think of the modern car manufacturing industry. In the motor vehicle business today there is competition, cross investment, consolidation and diversification. The fantasy that every nation needs a flag-waving car industry has largely disappeared.

But not in aviation.

From traditional “legacy” carriers such as Singapore Airlines and Alitalia, to the aggressively expanding Middle Eastern carriers like Etihad and Qatar, to recently re-nationalised airlines such as Malaysia Airlines and Air New Zealand, governments are backing, funding or propping up airlines.

In the US market nearly all the older legacy airlines have been or are in chapter 11 bankruptcy, meaning among other things, that they are protected from their creditors, have court support to negotiate wages down, and the government takes on their pension liabilities. Over 15 billion taxpayer dollars were handed to US airlines to help them recover from 9/11.

The most extreme example of government support is Emirates. Emirates benefits from government-provided infrastructure, a supportive tax regime, and concerted policies aimed at building Dubai into a global hub for commerce, trade and tourism. The Dubai Government recently announced it will set up a $15 billion aerospace enterprise aimed at providing worldwide maintenance services, which will be headed by the Chairman of Emirates. Emirates has roughly doubled in size every four years for the past two decades and is now a serious player in European markets, in Australia and elsewhere. It now operates 85 aircraft and has another 122 on order. Yes, 122. All this in a nation where the population base is only a bit over a million people.

Now other oil-rich nations are getting into the aviation business. The governments of these city states are pumping billions of dollars into their airlines and infrastructure to attract more traffic through their hubs. Over the next fifteen years $US44 billion will be spent just on regional airports. The Gulf carriers have around US$70 billion of aircraft on order and are planning to double their combined fleets by 2015. These airlines enjoy no company or personal tax, cheap labour from the sub-continent, sovereign borrowing costs and the benefits of orchestrated government policies to boost tourism and trade, including low airport charges. And the reasons are clear from this statement made by the CEO of Qatar Airways, *You should put the airline business in the context of a bigger picture. Even if your company may not be able to make profits, the country can immensely benefit from it.*

This is not the language of economic rationalism, but of economic nationalism. It's extremely challenging for Qantas to face competitors flush with oil money, who are quite comfortable — who actually boast — that their airline business will be a loss leader.

Asia

Now let me turn to the third key factor I want to mention, the dramatic changes occurring in Asia and particularly China. Internal traffic and flights between Asia and the rest of the world are growing at a tremendous rate across the region. But China is the story. In the past fifteen years China has built 25 new airports while expanding existing facilities. In the next four years another 44 airports will open. Think how long it takes us to get one airport built. And in the decade 2010 to 2020 another 34 are planned. The total fleet of commercial aircraft in China is now 863. That number will nearly double by 2010 and will be something like 4000 by 2020. That's simply incredible.

China, like other Asian nations, retains extensive government ownership and control of airlines even though partial privatisation is now common.

There are tremendous opportunities in China, and Asia more broadly, but this is a long way from being a fully commercial marketplace. For Qantas, there's going to be an extraordinarily exciting and challenging time ahead trying to maximise our interests in this most dynamic marketplace in the world.

Bold, Brave and Innovative

I said that Qantas has been bold, brave and innovative in dealing with shocks, but we've got the same attitude towards confronting these long term strategic challenges.

Qantas today is not one but many flying businesses: Qantas mainline, both international and domestic; Qantas Link, our regional airline; Jetstar, which has now gone fully international; alliances with international airlines including oneworld partners; and we are investing in intra-Asian airlines to capitalise on Asian growth, including Jetstar Asia and Valuair, and evaluating further opportunities.

And our non-flying businesses are increasingly important to smoothing out cycles and maximising our core transport skills:

- Freight: We established Australian Air Express with Australia Post and, two years ago, we acquired Star Track Express, a major time-definite logistics operator.
- Catering: We employ nearly 4000 people supplying Qantas airlines and more than 30 external customers.

- Qantas Holidays is Australia's largest travel wholesaler.
- Qantas Defence Services provides aviation maintenance services to the Australian Defence Force
- Engineering: We are one of the few airlines in the world with our own industry training program

So we are still a great airline business – in fact, Qantas was named Number Two Airline in the world in the biggest airline passenger survey (Skytrax) last year and again this year. And we are also a national resource in times of trouble, a major sponsor of Australian art, sport and culture, a proud carrier of Australian goodwill into the world.

Canberra's understanding

So Qantas is doing everything we can to be internationally competitive, but a set of balanced and forward looking aviation policies and regulatory framework is equally important. And that's why it is very important to us to have a receptive hearing in Canberra.

- We welcomed the Government's recognition of the importance of the Australian aviation industry in its policy review decision earlier this year.
- The changes to depreciation announced in the last Budget recognise the importance of depreciation as a competitiveness issue and went some way to addressing Qantas issues in this area.
- In this time of enormous change in the aviation industry, Qantas needs to be able to access capital at competitive prices. The artificial limits on capital imposed by the Qantas Sale Act mean that we currently face a higher cost of capital than would otherwise be the case – we are weighed down by our icon status.
- Some airlines have been permitted by their governments to merge into scale-friendly global mega-carriers – Air France and KLM, and Lufthansa and Swiss for example, and in our own region, consolidation between Air China, Cathay Pacific and Dragonair. We attempted an equity partnership with Air New Zealand a few years ago, only to be knocked back by regulators. This was a case of short term and narrowly focused consumer concerns winning the day and did little to help the prospects of either Qantas or Air New Zealand.
- Most of all, we need an appreciation that Qantas is operating in a rapidly changing world and that we need to change to survive. It's not optional, it's necessary.

On the whole I think there is a recognition in Canberra that Qantas operates in a global environment that looks nothing like an ideal competitive marketplace. On current indications, things may only get more complex, as the Middle Eastern governments pour money into their airlines to build tourism, and Asian markets take off.

Conclusion

As Chairman of Qantas I can look back to the time Sir Roland Wilson had the job and I can see that while huge changes have occurred, some basic approaches and attitudes must remain the same. His time will always be remembered for the introduction of the Jumbo Jet, for a management revolution and for survival of the first oil shocks.

Qantas itself is now well structured to withstand other shocks and to adapt rapidly to new realities. Internally we feel ready for anything our very different and rapidly evolving markets can throw at us.

For those of us running Qantas our imperative is to survive and prosper, satisfying our customers, rewarding our shareholders, looking after our employees and being good citizens in the Australian and global community where we operate.

In confirming its aviation policy direction earlier this year I think the Government has shown itself to be pragmatic. It has acknowledged that this is an industry like no other, and that the blind pursuit of liberalisation will achieve little for Australia. Liberalisation must be strategically balanced and tempered by a recognition of the distortions inherent in the bilateral framework and the uneven structural playing field. And more broadly, the Government has decided that a strong, viable aviation industry is important for Australia, and is a factor that will be weighed in making judgments about the national interest. I hope that in celebrating the life of Sir Roland Wilson we can remember the wisdom and realism he brought to Government along with the skill and effectiveness he contributed to Qantas.

Let me end with another story about Roland Wilson from *Giblin's Platoon*. In 1942, the Government of Curtin and Chifley sent Wilson to the United States as Australia's sole representative to an international conference to discuss post-war economic planning. Flying back home to Australia over the Pacific, his aircraft developed engine trouble. It made a rough landing in shallow water near a Fijian reef. Then the failed engine fell off and sank. This was an aviation crisis of the most profound order. Wilson not only kept his head, he kept all his key documents.

He was picked up sitting calmly on a reef ... clutching his brief case.

This was a man who was able to reconcile the uncertainties of aviation with the realities of the national interest.

At the Qantas 50th anniversary dinner in 1970, Sir Roland Wilson said he liked to think that responsibility and enthusiasm – with, hopefully, the odd touch of genius would continue to characterise the people of Qantas. In modern terms, I think we can say that we have kept Wilson's promise, by being bold, brave and innovative in pursuit of a secure and prosperous future for Qantas.

As his successors, as custodians of the Qantas that he loved, it's up to us to ensure we hand the airline safely on to future generations.

Margaret Jackson, AC
Chairman, Qantas Airways Limited

Margaret Jackson was appointed Chairman of Qantas on 1 August 2000. She was first appointed to the Qantas Board of Directors on 1 July 1992.

Ms Jackson is also a Director of Australia and New Zealand Banking Group Limited and a Director of Billabong International Limited.

She is Chairman of the Asia Pacific Business Coalition on HIV/AIDS, is a Fellow of the Australian Institute of Company Directors; a Member of the Foreign Affairs Council; a Member of the Melbourne University Business School Association; an Executive Committee member of the Australia Japan Business Co-operation Committee; and Chairmen's Panel Member, Business Council of Australia.

Ms Jackson holds a Bachelor of Economics Degree from Monash University and completed an MBA with distinction at Melbourne University. She received an Honorary Doctorate of Laws from Monash University in December 2002 and a Companion of the Order of Australia in the General Division (AC) in June 2003.

Ms Jackson is also a Fellow of the Institute of Chartered Accountants in Australia.

Before beginning her career as a full time company director in 1992, she was a Partner of KPMG Peat Marwick's Management Consulting Division.

She has formerly served as Chairman of the Transport Accident Commission and Methodist Ladies' College and as Deputy Chairman of Southcorp Limited, a Director of the Howard Florey Institute of Experimental Physiology and Medicine, Co-Chair of the Australia New Zealand Leadership Forum, a Director of John Fairfax Holdings Limited, the Brain Research Institute, The Broken Hill Proprietary Company Limited, Pacific Dunlop Limited, Australian Telecommunications Corporation (Telecom) and the Australian Wool Corporation.

Margaret resides in Melbourne and is married with two children.