

How an Australian discount airline funds its cutprice fares

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25 August 2000

Australian discount carrier, Impulse Airlines, recently announced a sharp reduction in fares on some of the country's main national routes, immediately sparking a price-cutting war with the two major airlines, Qantas and Ansett.

Impulse has offered 10,500 reduced-price off-peak tickets from August 28 through to September 13, with one-way seats between Sydney and Brisbane priced at just \$33. A limited number of return fares from Sydney to Melbourne have gone for \$88.

Not only do these fares constitute a huge discount on the current prices charged by Ansett and Qantas (a cheap fare from Sydney to Brisbane presently costs \$327 return, while a regular fare stands at \$706), they are well below the “no-frills” fares announced by Impulse itself a few months ago, when it launched its bid to enter the lucrative \$7 billion-a-year main-route domestic market.

Impulse claims that one of the reasons for its ability to offer such cheap fares is that the majority of its bookings are made through the Internet, eliminating many of the overheads associated with booking staff and facilities. However, information has now surfaced revealing that the airline uses an elaborate employment arrangement, allowing it to drastically slash its labour costs.

Impulse only directly employs one employee—its chief pilot—as required by government legislation. Since 1994, the company has engaged the rest of its flight staff through Air Crews Control, a separate company, which has supplied it with 65 flight attendants and 105 pilots. (The hire arrangement has now been extended to the 200 extra staff the company has engaged since expanding its operations earlier this year.)

In turn, Air Crews Control does not directly employ the workers either. The flight crews are “unit holders”

in a trust, which makes a monthly monetary “distribution” to them in lieu of wages. This arrangement allows Impulse to avoid even the minimal constraints placed on employers under the Howard government's Work Relations Act. The Act abolished the national award system for wages and working conditions, but it stipulates that workers should not be “worse off” under any agreement negotiated under the new regime. While there are numerous methods of avoiding this provision, many employers still consider it far too restrictive.

The unit trust “employment” system has allowed Impulse to pay wages far below the present standard, undermine working conditions and achieve a 15 percent cost saving compared to its rivals. According to the Flight Attendants Association of Australia, flight attendants working on Impulse carriers earn only \$25,000 a year, 30 percent less than those employed by Qantas or Ansett.

The employment arrangement also allows the company to shed labour without costly redundancy payments or expensive unfair dismissal claims. If it wants to dismiss a worker, the trust's directors simply “redeem” the employee's units. Impulse is not directly involved. In 1997 Justice Murray Wilcox of the Federal Court overturned an unfair dismissal claim against Impulse by three of its pilots declaring that there was, in fact, no “employer-employee” relationship.

The cut-price fares offered by Impulse and the major airlines will be impossible to maintain without seriously slicing into profits. Recent reports reveal that the current cost to the airlines of a flight from Sydney to Brisbane, including airport tax, safety levies, security fuel and other charges, is approximately \$46.65 per passenger.

The price-cutting war, which is set to escalate further

with the entry of Richard Branson's Virgin Blue Airlines into the Australian domestic market next month, will open a renewed assault on airline workers' conditions.

This has been acknowledged by the Australian Council of Trade Unions, Australia's peak union body. Prior to its meeting with airline unions in Melbourne last week to discuss the Impulse "employment" arrangement, an ACTU spokesman said the unions feared "a race to the bottom on industry pay and conditions".

But the ACTU's alleged opposition to cuts in wages and working conditions is completely fraudulent. Already, the unions have struck a series of agreements with Qantas and Ansett covering pilots, flight assistants and ground crew, which has seen substantial concessions given to the airlines. The unions have also agreed to the destruction of hundreds of jobs through redundancies and the outsourcing of non-core operations.

At the beginning of 1999, for example, the Transport Workers Union gave concessions to Ansett that allowed the airline to cut labour costs by over \$135 million. The union dropped negotiations for a new work contract, including a meagre wage increase for the airline's 17,000 workers, after the company claimed that it faced a "deteriorating financial position" and could not even afford a one percent pay increase. When a deal was finally struck, the unions allowed Ansett to outsource catering and express freight services, at the cost of 2,000 jobs.

What actually concerns the unions is that the two major airlines may both try to follow Impulse's lead and dump them as the intermediaries in labor-management relations.

Impulse would prefer to keep information on the treatment of its workforce under wraps. The airline has gone to great lengths to present itself as a small company challenging the major air carriers. This, however, is far from the truth. Impulse, which has the backing of large financial players and millions of dollars at its disposal, has grown rapidly since it was founded in 1982 as a dedicated carrier for the Fairfax newspaper group.

Plans by Impulse to raise \$100,000 dollars this year through public issue were scrapped when the airline secured the backing of AMP, one of Australia's major

insurers, and Arabian Gulf Investments (Far East) Ltd, GIC Special Investments and CVC Asia Pacific Limited.

These private funds allowed Impulse to lease five brand new Boeing 717-200 twin-jet airplanes, making it the first company in Australia to use the aircraft. The airline also plans to take delivery of five more 717s next year, enabling it to increase flights on current routes and open up new services to the South Australian capital, Adelaide. These are cost-effective airplanes designed to serve quick-turn-around, high frequency, short-range routes. Impulse also operates twelve 19-seat Beech 190D turboprop aircraft flying over 500 services a week.

Impulse recently opened a new \$350,000 maintenance and engineering building at Williamstown Airport in the Hunter Valley and announced plans to invest another \$1 million for new headquarters in Sydney. Reports show that the company increased its passenger base from 148,000 in 1997 to 200,000 last year, lifting its revenue by 20 to 25 percent per annum.



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