Australian airline Qantas reduced to “junk” status

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International credit rating agency Moody’s yesterday downgraded Australian airline Qantas to investment “junk” status, following a similar move by Standard & Poor’s last month. Moody’s announcement comes as even more job cuts at the airline are threatened, with Qantas executives preparing to release a major “strategic review” expected to involve major asset sales.

Explaining its unusual decision to downgrade Qantas by two notches, to Baa3, junk or “non-investment grade,” Moody’s cited a “sharp deterioration in the company’s core domestic business” due to “aggressive competitive actions by Qantas’ key domestic competitor, Virgin Australia.” A spokesman for the credit agency, Ian Lewis, explained that further downgrades were possible, with a “negative outlook” assigned to the company. “The material downturn in Qantas’ domestic business also comes at a time when the carrier is grappling with a turnaround in its loss making international mainline business,” Lewis said. “As such the business is exposed to execution challenges on two fronts, simultaneously.”

The situation at Qantas forms part of a broader crisis affecting the entire international airline industry. In the aftermath of the 2008 global financial crash, major airlines have been hit by declining passenger numbers in advanced economies due to rising joblessness and declining wages, as well as rising fuel and other costs, and new competitors emerging from the Gulf States and in Asia. Qantas’s credit downgrades now leave just one carrier, America’s budget Southwest Airlines, assessed as investment-grade by more than one credit ratings agency.

In every country, airlines and national governments have moved to make engineers, pilots, cabin crew and other airline workers pay for the crisis through mass layoffs and cuts to wages and conditions.

Qantas last month announced it was eliminating another 1,000 jobs, at the same time revealing that it expected losses of $250–$300 million in the final six months of 2013. Next month, the company will unveil a strategic review, providing details of the company’s drive to cut costs by $2 billion over the next three years. This will almost certainly see the sale of significant assets, including terminal leases at Sydney, Melbourne, Brisbane and Perth airports that are reportedly worth about $500 million, and the company’s profit-generating frequent flyer program. Qantas CEO Alan Joyce has also floated the prospect that the company’s budget airline subsidiary Jetstar could be sold off.

The company’s chief financial officer, Gareth Evans, yesterday responded to the Moody’s downgrade by emphasising the need for cuts. “We will make the necessary decisions now—however tough they might be—to ensure we remain strong and disciplined in the years ahead,” he declared.

Every round of cuts and layoffs at Qantas in recent years has been imposed in collaboration with the trade unions. In 2011, the airline locked out its workforce and grounded its planes around the world, triggering the then Labor government to intervene with the support of the unions and, via Labor’s industrial court, ban all industrial action by Qantas workers in defence of their jobs and conditions. The unions have since lined up with the company’s management to demand various forms of nationalist protectionism and federal government assistance.

CEO Joyce is expected to meet again with Liberal-National government ministers in the next few weeks. Joyce has asked the government to guarantee Qantas’s debt, like the former Labor government did for the banks during the global financial crisis. This would effectively allow Qantas to share the government's AAA credit rating as it invests in a newer airline fleet, circumventing the problems caused by its "junk" status in accessing credit from global banks and finance houses.

Together with Qantas, some members of the government have called for the 1992 Qantas Sale Act to be revised to eliminate the 49 percent cap on foreign investment in the company. This would likely see Qantas carved up by international banks and finance houses. The government's junior coalition partner, the National Party, opposes any revision of the legislation, fearing reduced flight services to its electoral base in regional Australia.

The Labor Party, which in office backed every restructuring and retrenchment by Qantas, and imposed the airline's privatisation in 1992, is also opposed. Its transport spokesman, former deputy prime minister Anthony Albanese, this week suggested that the government could make a profitable investment in the airline instead. Any profits, of course, would depend on further cost-cutting at the expense of Qantas workers.

In October 2012, amid increasingly cut-throat global competition, Qantas sought to rescue its international operations by ending a 17-year partnership with British Airways and striking an alliance with Dubai's Emirates, designed to provide wider access to the Dubai hub and destinations in the Middle East and Europe. By some reports, however, the deal has backfired, with many of Qantas's business and other frequent flyers simply switching to Emirates. Moreover, attempts by Qantas low-cost subsidiary Jetstar to expand operations in several East Asian countries, capitalising on the growing market there, have failed to generate significant profits.

Within Australia, Qantas has attempted to maintain its domestic market share at 65 percent. Executives calculated that rival Virgin Australia could not sustain lower fares and rising debt caused by the purchase of additional aircraft. Last November, however, Virgin raised $350 million in capital from co-owners Air New Zealand, Singapore Airways and Etihad Airways. Joyce has since denounced Virgin for what he calls "market distortions."

Qantas's restructuring also forms part of a wider offensive being waged by the ruling elite against the Australian working class. As the China-fuelled mining investment boom shudders to a halt, workers across the economy are being accused by the government and major corporations of being overpaid and unproductive.

Today on the US-based financial news website *Bloomberg*, commentator William Pesek declared that Moody's "just did Australia's 23 million people a great service by junking their national airline." Referring to the Qantas downgrade and the recent announcement by General Motors Holden ending car production in Australia, Pesek continued: "Odd as it sounds, these corporate shocks come at a serendipitous moment. They provide a much-needed wake-up call to officials in Canberra and corporate executives alike to act decisively to raise the nation's competitiveness."

By reducing Qantas—promoted for decades as a national icon—to junk bond status, the financial oligarchy, internationally and within Australia, is underlining its determination to force the government to proceed with US- and European-style wage cutting and austerity measures aimed at boosting corporate profitability at the expense of working people's jobs and living standards.