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## More Cathay Pacific overseas base closures rumoured

News › Hong Kong

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*Airline's closure of Paris base amid rumours of a tax scheme gone wrong could herald a wider shutdown, troubling Cathay's 876 crew abroad*

Cathay Pacific's advertising motto, "People. They make an airline", might give the perception of a harmonious operation.

But behind the scenes the people at Cathay Pacific are not very happy. In fact, following the sudden closure of the airline's pilots' base in Paris, giving the 39 crew there just 11 weeks to uproot to Hong Kong, many of its staff have been left in an excruciating state of limbo.

The airline has 18 overseas cockpit crew bases, home to 876 of its 2,661 cockpit staff. Now they fear the airline plans to shut them all, amid rumours a tax-saving scheme has backfired and could cost the company millions and lumber staff with an unexpected tax bill.

Cathay closed its Paris base on September 1 and pilots say the decision was not about people but about cost-cutting.

The airline allegedly wanted to give them cheaper, local contracts rather than the expatriate terms they enjoyed under France's stringent labour laws.

While Cathay's management attempted to downplay the decision, France's labour watchdog became embroiled and is being urged to investigate their employment contracts.

The Hong Kong Aircrew Officers Association (HKAOA), the pilots' union, contacted the French Labour Inspectorate (LI) about the case late last month, after the airline rejected its request to delay the closure.

"Investigations into the terms and conditions whereby the Paris-based officers had been employed highlighted the fact that it appeared there could be irregularities in their employment arrangement under French law, as well as in how the Paris base closure was being handled by Cathay management," HKAOA chairman Peter Vinna wrote in the union's internal newsletter.

Now Cathay pilots fear Paris is only the beginning, with rumours second-guessing the management's motives and possible next move rife on internet forums, such as PPRuNe (The Professional Pilots Rumour Network).

In July, Cathay's general manager for aircrew told the HKAOA newsletter the bases in Vancouver, Sydney and Manchester were chronically overmanned and did not make business sense.

The viability of the bases in Adelaide and Perth were being reviewed, the newsletter said.

Cathay has overseas cockpit crew bases in Britain, Germany, Australia, the United States, Canada and New Zealand. Most of the foreign-based pilots operate passenger aircraft, but some fly freighters.

The airline's network of overseas bases, which allows pilots to live in their home countries, is unique in the industry, as most international airlines do not use expatriate pilots.

A Cathay spokeswoman would only say that the company was conducting a review of its overseas basing strategy, but that it was "too early to say what the outcome will be".

However, the issue may be more complicated than a simple case of streamlining. Back in August it was claimed that Cathay Pacific and many of its overseas-based pilots were facing a huge financial hit after a perfectly legal "tax-saving" scheme set up in the early 1990s backfired.

One well-informed source said the problem might already have cost Hong Kong's flagship airline a substantial sum.

The revelation came just days after Cathay reported a HK\$935 million first-half loss, compared with a HK\$2.8 billion profit in the same period last year.

In 1992, Cathay employed all its pilots overseas through a specially set-up shell company called Veta Limited. The move was undertaken to save on foreign tax and social benefit contributions. But an aviation insider told the *Sunday Morning Post* that governments in several countries where Cathay has bases are seeking outstanding contributions stretching back more than 20 years.

Cathay initially believed the Veta scheme would offer tax benefits. But in January 2006, Britain's House of Lords upheld an appeal court decision allowing George Crofts, one of 51 pilots sacked by Cathay in 2001, to seek compensation for what he saw as unfair dismissal by Veta.

The ruling set an important precedent as it denoted Crofts, an employee of a Hong Kong company, as being employed in Britain. This meant he was covered by British employment laws.

The source said: "Governments around the world started looking at these Cathay bases and worked out it was Cathay as their employer who was liable for the likes of their tax and social security. That's the real reason behind the closure of the Paris base.

"Being covered by employment legislation gave the pilots employment protection rights they didn't have in Hong Kong and exposed Cathay to the likes of social security payments."

A Cathay spokesman said Veta was created to establish bases for flight crew outside Hong Kong, but had little impact on the company's tax position.

However, Hong Kong's Inland Revenue Department is understood to be looking at possible outstanding payments linked to Cathay and many overseas-based pilots. This means some pilots could be facing a double financial blow.

Sources familiar with the situation say the tax and social security problem was the most significant

reason for the airline's decision to close its Paris base and recall the dozens of pilots.

Cathay insisted this was not the case. It maintains the review of the home bases it operates for flight crew included "consideration of the relevant factors that determine the establishment; maintenance; and crew requirements for home bases, both current and future, as well as operational and schedule requirements".

But a veteran Hong Kong-based Cathay pilot, who requested anonymity, said he and his colleagues understood Paris would be just the first of several bases to close because of the tax and social security issue. Whether this will turn out to be the case or not, the row over the closure of the Paris base rumbles on.

The airline last month offered the affected officers based in Paris paid leave, so they would have more time to make arrangements for returning to Hong Kong. But the offer was contingent upon the HKAOA signing agreements not to encourage its members to seek redress with the French LI.

About an hour after the offer was made in a meeting with Cathay's management, the HKAOA was told the LI had visited Cathay's office at Charles de Gaulle Airport.

"Given the overall facts and circumstances of the situation, and based upon legal advice, it was determined that the best way to proceed - that would ensure we were acting in the best interests of the Paris-based officers - was to co-operate with the LI," the HKAOA's internal newsletter said on September 11.

In the newsletter it was made clear that it was the HKAOA's belief that management's possible failure to employ the Cathay pilots in accordance with French law was the underlying problem.

Another union newsletter on August 29 suggested the decision to close the Paris base was made on the recommendation of the company's strategic review workgroup.

Cathay said the decision to close the Paris base had not been an easy one. How that affects its other bases remains to be seen.

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