Unions agree to carve-up of Australian airline

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Backed by the trade unions, the administrator of Ansett airlines, accounting firm Arthur Andersen, struck an eleventh-hour deal with the Federal Liberal government on Wednesday that will see five of the airline's A320 Airbuses resume flying on certain major routes today. Another six jets will be brought into service over the next two weeks.

Under the deal, the government will underwrite $25 million worth of tickets for a period of 12 weeks in case the airline is forced into liquidation. However, the administrator has indemnified the government against risk by guaranteeing that it can recoup any potential losses from the sale of the airline's assets.

The development was immediately welcomed by Australian Council Of Trade Unions (ACTU) secretary Greg Combet as a "small start that will give Ansett people some hope about their future". On the contrary, the deal, which will see only 1,500 of the 16,000 displaced Ansett staff return to work, is not part of a grand plan to resurrect Ansett in its old form or to restore the majority of workers to their jobs. It is primarily aimed at the creation of a scaled-down operation plying some of Ansett's more profitable domestic routes that can be sold off as an ongoing no-frills budget-price airline.

The move is an essential step in breaking up and selling off the airline's various assets, allowing the payment of tens of millions of dollars owed to large secured creditors like the more than 30 banks now lined up. Ansett is believed to have liabilities of more than $2 billion.

The burning concern shown by the Howard government for multi-million dollar creditors has not been extended to the thousands of Ansett workers, most of whom have lost their jobs and are owed more than $500 million in accrued entitlements. After days of protests and demonstrations by the workers, the government finally agreed to cover entitlements via a levy on airline tickets, but capped redundancy payments to the equivalent of eight weeks salary, meaning long-serving employees will miss out on millions of dollars. The CEOs of Ansett and its parent company Air New Zealand, who bear central responsibility for the airline's collapse, either continue to enjoy vast salary packages or have been paid substantial severance packages. Air New Zealand awarded Ansett CEO Gary Toomey and other executives a large "performance bonus" in the airline's final days, said to be worth millions of dollars.

It is no accident that after weeks of refusing to lift a finger to avert the airline's collapse, the Howard government has rushed to broker an agreement. Just days ago, the administrator announced it had begun negotiations with at least five parties interested in the fallen carrier's key domestic routes. Besides ensuring that Ansett's major investors are quickly reimbursed, the government has its own political and commercial reasons for cobbling together some semblance of an operational airline and getting the Ansett issue off the front pages.

With an election only weeks away, Prime Minister Howard is anxious not to go to the polls with the collapse of a major corporation hanging around his neck, the prospect of continuing demonstrations over job losses and entitlements, and tens of thousands of irate passengers demanding airline seats.

It is now public knowledge that despite claims to the contrary, the government had information in June on Ansett's dire financial position, but chose to ignore the warnings. Last week, Air New Zealand claimed it had met with Transport Minister John Anderson on June 27 and presented a document stating that Ansett had spent $170 million more than it earned in the 2000-01 financial year and that its revenue had slumped 26 percent.

While Andersen denied knowledge of the June 27 document, Air New Zealand has produced a letter it sent to the Australian government on August 14 in which its acting chairman Dr Jim Farmer warned: "We have provided early access to the group's financial results to be announced to the markets in three weeks time, including very serious losses of Ansett."

The crisis surrounding Ansett has impacted on the government's electoral strategy by undermining its plan to sell off Sydney airport before the election and raise an estimated $4.8 billion. This would have partly funded its budget proposals for business tax cuts and public spending promises. The plan was postponed earlier this week when it became clear that the adverse conditions caused by the Ansett collapse could see more than $1 billion sliced off the airport price. The government now hopes that an operational airline will partly fill the void left by Ansett and create conditions more favorable for the sale. It should come as no surprise that the government's promise to underwrite ticket sales will expire immediately after the election.

The current bids for Ansett are part of a scramble among various contenders, who, having waited on the sidelines for the airline to collapse, want to take over its more lucrative routes, grab its assets at bargain basement prices and establish a niche in a domestic market where passenger demand still outstrips seat availability.

Those interested reportedly include the Dubai-based carrier Emirates Airline, Singapore Airlines, Germany's Lufthansa and an Australian consortium headed by transport magnate Lindsay Fox and former secretary of the Australian Council of Trade Unions, Bill Kelty.

The bid involving Kelty is particularly pernicious. It speaks volumes about the corporatist trajectory of the unions over the last decade. On September 25 the *Australian* reported that the Fox-Kelty bid involved the creation of a budget price airline catering for 10 percent of the domestic market, paying wages 20 to 30 percent below those previously paid by Ansett. The bid will be backed by a number of union-based superannuation funds, on which Kelty still serves as a key board member, and is expected to receive the official backing of the ACTU within the next few days.

All competitors—both domestic and oversees—are hoping to use the glut of skilled labour created by the Ansett collapse to set up operations with reduced wages and working conditions. Virgin Blue wants to double its fleet to 18 aircraft and pick up desperate Ansett staff willing to accept the reduced pay levels the airline negotiated with the unions when it set up business in Australia last year. These are about 25 percent lower than the wages previously paid by Ansett.

Virgin has been demonstrably hostile to any move towards the re-entry of a revamped budget-priced Ansett into the arena. The airline's chief executive Brett Godrey condemned the government-sponsored deal, claiming that government interference would lead to the return of a duopoly.

Qantas, Australia's largest carrier, has also worked hard to block any chance of Ansett re-emerging, rejecting an earlier attempt by the administrator to arrange for Qantas to lease 10 of Ansett's Airbus A320s and get them back into service. First, Qantas complained that the administrator's leasing charges were too high, insisting that the company could obtain aircraft from overseas more cheaply. Then it raised "difficulties" with insurance and indemnity, and "complexities" associated with obtaining warrants from the planes' owners. In this way, it managed to drag out negotiations, finally withdrawing on the eve of a September 25 deadline, after which the myriad of leasing companies that own 90 percent of Ansett's fleet were entitled to repossess the aircraft.

It turns out that Qantas has orders for up to 37 new Airbuses, with the first due in just over a year. The Ansett collapse will create a ready supply of pilots and engineering staff experienced in Airbus operations, making it far less expensive than if Qantas had to undertake its own staff selection and training.

The breakup of Ansett is well underway. Ansett subsidiary regional airline Hazelton this week received a combined $6 million loan from the Federal and NSW State governments to keep it operating over the next six months until a buyer can be found. Newcastle-based AirPelican, the most profitable of Ansett's regional carriers, is operating for the present as a stand-alone company. Ansett subsidiary Traveland was sold off to a Sydney-based consortium last week.

While thousands of angry Ansett staff and other airline workers have attended rallies and demonstrations at air terminals across the country, winning widespread public sympathy, the unions have refused to mount any industrial and political campaign to defend their jobs.

The unions have worked to block any industrial action by other airline workers in support of their Ansett colleagues, and to divert the workers' mounting anger into anti-New Zealand tub-thumping. Air New Zealand, Ansett's parent company, asset-stripped its subsidiary in the months prior to the collapse and then refused to take any responsibility for the workforce when the airline finally failed. Air New Zealand itself could now be placed in the hands of an administrator after the New Zealand Stock Exchange suspended trading in the airline's shares. This was despite an earlier announcement of a government-backed scheme to inject millions of dollars into the troubled airline. But the anti-New Zealand campaign being conducted by the Australian unions only serves to undermine a unified struggle by airline workers on both sides of the Tasman.

Having confined Ansett workers to limited protests, the unions are being brought forward to assist in the airline's carve-up. At a packed creditors meeting on September 19, administrator Mark Mentha acknowledged that the unions where central to "sorting out the Ansett mess," redefining them as "creditor representatives" on the basis that their members were owed millions of dollars in entitlements.

The ACTU welcomed the development as a "first" and a "breakthrough". This new official status brings the unions off the sidelines and into the centre of organising Ansett's restructuring, a role they have unsuccessfully sought in previous corporate collapses.

The ACTU worked hard to facilitate the "breakthrough". On the eve of the creditors' meeting, the peak union body forced the resignation of the former administrator PricewaterhouseCooper—known to be reluctant to recognise the unions as creditor representatives—by claiming there was a conflict of interest because its sister company was engaged by Air New Zealand to provide financial advice.

Union representatives have taken their place on a committee of creditors set up to assist the administrator dispense with Ansett's remaining assets. No doubt they played a key role in thrashing out the deal with the Howard government to get the airline's planes up and running.

On Wednesday ACTU secretary Greg Combet called on the remaining Ansett staff to "hang in there" and be prepared to wait for weeks, and possibly months, without income while the carve-up proceeds. This is designed to place the workers on hold allowing the administrators to pick and choose the staff they require.

Combet announced that the unions would not be seeking redundancy payments. While the administrator was legally bound to honour existing wages and conditions during the limited start-up of Ansett operations, he made clear that over the longer term, the unions would negotiate new terms, including reduced staffing levels, with potential buyers. "We will of course be negotiating improved productivity, flexibility and operational management systems to make sure this thing is viable," he said. "Obviously, staffing numbers will be on the table as well."

With these pledges, the ACTU has secured a new niche for itself, working alongside professional administrators, to breakup and asset-strip Ansett and other collapsed companies.