Australia’s second biggest airline collapses

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In the early hours of September 14, Ansett Airlines, Australia’s second largest and oldest domestic carrier, suddenly ended all flights after an administrator appointed by its parent company Air New Zealand declared that it had no funds to continue operating.

Right up to the eleventh hour, Ansett management was assuring staff and the public that flights would continue, despite the company being placed in the hands of the administrator, accounting firm PricewaterhouseCoopers. Ansett staff only found out when they turned up to work yesterday morning. Thousands of passengers due to fly that day were left standing helplessly and unassisted outside terminals across the country. Many thousands more who had purchased tickets or tour packages are unlikely to be refunded.

The airline’s demise will have far-reaching implications. In the first place, it is the largest mass sacking in Australian history. More than 16,000 Ansett jobs have been destroyed and another 60,000 are under threat in supplier companies and throughout the tourism industry. Travel Land, partly owned by Ansett, has already closed down over 100 agencies. Catering company Gate Gourmet, owed $26 million by the airline, has stood down its 800-strong workforce and placed itself in administration.

Ansett employees also stand to lose more than $500 million owed to them in accrued entitlements, including annual and long service leave and severance pay. Having refused to lift a finger to prevent the airline’s liquidation, the government of Prime Minister John Howard has announced a levy on airfares that will only cover some of their entitlements.

People in regional and rural areas serviced by Ansett subsidiaries—Hazelton, Kendell, Aeropelican and Flight West—will be deprived of air services or left with only limited access.

Air New Zealand placed Ansett into “voluntary administration” on September 12 after revealing that its Australian subsidiary was losing $1.3 million a day. Frantic negotiations on both sides of the Tasman over the previous weeks had failed to produce a solution.

The collapse could spark turmoil in banking circles. More than 30 banks have exposure to the airline, with the National Australia Bank alone facing losses of $100 million. Shares in travel, tourism and bank stocks have plunged. Harvey Travel shares fell 11 percent to $5.54 and Flight Centre shares fell 8 percent to $20.50.

Ansett’s failure is the latest and most dramatic in a string of corporate collapses since the beginning of the year. It follows the demise of Australia’s third largest communications company One.Tel, insurance giant HIH, domestic budget-price airline Impulse and retail chains Harris Scarfe and Franklins.

Over the past few days, all the major players—the management of Air Zealand and Ansett, the New Zealand and Australian governments—washed their hands of any responsibility for maintaining the airline and for the future of its workforce. Last week, Singapore Airlines, a 25 percent shareholder in Air New Zealand, withdrew from a proposal that involved the NZ government freeing-up restrictions on foreign ownership provisions to allow Singapore to increase its share in Air NZ to 49 percent and inject more than $1 billion to re-capitalise Ansett. The NZ government then ruled out any assistance to Air New Zealand in order to maintain Ansett. It insisted that Air NZ concentrate on resolving its own financial problems that included a forecast annual loss of more than $NZ200 million ($A168 million). After Air NZ cut Ansett adrift, the NZ government agreed to inject $NZ550 million to keep its national carrier afloat.

There is now evidence that since fully taking over Ansett last October, cash-strapped Air NZ began asset-stripping its subsidiary, even to the extent of running the entire group’s fuel bill through the Ansett account, adding another $300 million a month to the airline’s costs. Moreover, in the company’s closing days, Air NZ awarded chief executive Gary Toomey and other Ansett executives “performance bonuses” worth millions of dollars. Yet, within hours of its closure, representatives of Air NZ argued in the Australian Industrial Relations Commission that the company was “only a shareholder” in Ansett and was not responsible for its debts, including workers’ entitlements.

Despite the looming loss of jobs and livelihoods, the Howard government ruled out any government assistance, even to keep the airline afloat pending a sale. Howard insisted that any such action would involve a “bad principle”—in other words, it would cut across the demands of big business and finance that its program of deregulation and privatisation be accelerated.

In the final days, the government asked the former state-owned airline, Qantas—Australia’s largest carrier—to consider taking over its failing competitor, indicating that it would relax competition regulations to allow a bid to go ahead. On September 12, however, Qantas walked away from the proposal, declaring that Ansett's debts were too great. Even if Qantas had decided to intervene, it would have carved the company up, eliminating an estimated 9,000 jobs.

In mutual buck-passing, the Howard government has claimed that it was unaware of the extent of Ansett's financial crisis, but Air NZ executives have produced documents showing that they warned Canberra of the situation as early as June.

Since the outset of the crisis, the Australian Council of Trade Unions and the airline unions have worked to prevent any action by workers to defend Ansett jobs. Furious sacked workers and their colleagues at Qantas have been confined to brief walkouts, protests and symbolic pickets outside empty Ansett terminals.

Having already helped Qantas and Ansett cut thousands of jobs in recent years, union officials presented the closure as either a fait accompli or sought to divert the anger of workers into anti-New Zealand tub-thumping. Throughout the week, their activity has largely consisted of trying to find a company to take over Ansett under any conditions, while pleading with Howard to launch a bailout. The unions offered to cooperate with a Qantas takeover, even while conceding that the outcome would be an "aggressive cost cutting drive" and massive job losses.

With Qantas out of the picture, the unions have now accepted the liquidation. Ansett workers have been confined to begging the Liberal government to underwrite their entitlements or told to wait for protracted legal action to extract payments from Air NZ. Labor Opposition leader Kim Beazley has sought to make political mileage by castigating the Howard government for refusing a bailout. It needs to be recalled that he was a key minister in the Labor government that de-regulated the airline industry, privatised Qantas and backed wholesale cost cutting.

Over the past decade, Ansett has been hit hard by the cutthroat competition in the airline industry globally. In addition, last year two budget-price airlines—Virgin Blue and Impulse—entered the Australian market, setting off a price cutting war. When Impulse eventually went to the wall, Qantas benefited most. Six years ago, Ansett commanded 50 percent of the domestic market but this subsequently plunged to 39 percent. The airline was also badly savaged by rising aviation fuel costs and by the falling value of the Australian dollar, which pushed up the cost of parts and essential items.

However, Ansett's plight cannot be understood only from recent developments. Over the past two decades, it became a victim of the type of corporate plundering that has become the hallmark of major capitalist investors.

Originally established in the 1930s, Ansett expanded during the post-World War II period with the help of government protection under the official two-airline policy. It grew to rival the government-owned national domestic carrier TAA, emerging in 1969 as Australia's largest domestic carrier.

In the late 1970s, Ansett became the target of hostile takeover bids. In 1979, Rupert Murdoch of News Corp and transport giant TNT, headed by Peter Abeles, gained control after waging a battle against Robert Holmes a Court's Bell Group and Ampol. News Corp and TNT starved the airline of vital reinvestment needed to upgrade its fleet and operations. Murdoch's primary interest was to gain control of television broadcaster Channel 10, owned by Ansett, and to use the airline as a cash cow to fund the growth of his media empire. In 1984, News Corp used a $78 million dividend from its half share in Ansett to finance its expansion into the US media market.

From 1989, dividends from Ansett began to fall and the two investors began to focus on milking it for all it was worth, and then making a killing on its sale. In 1996, TNT sold its half share to Air NZ for $325 million. News Corp eventually offloaded its share in 2000 for $580 million and a deferred equity stake worth $100 million.

News Corp and TNT left Ansett with a fleet now ranked as the second oldest among 50 world-class airlines. The airline began to suffer systemic maintenance problems, eventually resulting in the grounding of its jets on safety grounds twice since last December, costing millions of dollars in lost revenue. Air NZ was unwilling and unable to provide the billions needed to rectify the years of pillaging and neglect.

Ansett's destruction again focuses attention on the enormous contradictions involved in the collapse of major corporations. Its demise has not been caused by any fall in the need or desire for air travel—on the contrary, the introduction of lower fares in Australia over the past year has produced a substantial increase in numbers. The crisis in the entire airline industry results from the fact that these vital assets remain privately owned, run solely for the financial gain of a handful of giant corporate investors.