

# Australia's second largest airline collapses, again

Mike Head  
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For the second time in less than six months, Australia's second largest airline has folded suddenly, eliminating the jobs of thousands of workers and leaving tens of thousands of passengers stranded or out of pocket. The announcement came at 9am on Wednesday, just two days before what remained of the airline was due to be taken over by the Tesna consortium of millionaire businessmen Lindsay Fox and Solomon Lew.

Ansett collapsed for the first time last September 14, at the immediate cost of 16,000 jobs, after its parent company, Air New Zealand placed it in administration. This Wednesday, Fox and Lew, who had contracted with the administrators to buy Ansett's name and core assets, with a deadline of February 28, walked away from the deal, destroying the jobs of the 3,000 remaining Ansett employees.

Having done everything in its power to block the Tesna bid from succeeding, the Howard government announced urgent talks with the administrators to discuss starting negotiations with another bidder, expected to be transport company Patrick Corporation in conjunction with Virgin Blue, the British-owned cut-price airline. Last November, Patrick boss Chris Corrigan unveiled a rival bid with Virgin to operate a no-frills airline, employing less than 1,500 Ansett workers.

The Tesna collapse is devastating for the remaining Ansett workers, most of whom now have few employment prospects. Since last September, they have been led along by Lew and Fox—supported by entire leadership of the airline unions and the Australian Council of Trade Unions (ACTU)—into accepting vastly reduced staffing levels and working conditions, in the hope of getting Tesna off the ground.

Some turned down jobs with other airlines; others uprooted themselves and moved to new locations to fit in with Tesna's business plan. Those who spoke to the media were visibly distressed. One flight attendant, Michelle Knott from the Perth suburb of Mount Lawley, said she moved across the continent to Melbourne, some 3,000 km away, after being offered a job with Tesna. "I'm feeling absolutely devastated," she said. "I moved all the way from Perth ... in good faith. Now I'm out of pocket again to the tune of about \$3,000 and I wished I had listened to some good advice and probably stayed in Perth."

All those involved in Tesna's decision feigned concern for the plight of the employees. Fox and Lew declared that their own misfortune was "completely overshadowed by our regard and disappointment for Ansett's people". ACTU secretary Greg Combet said the shock outcome was a "tragedy for the staff," whom the unions would be doing their "utmost" to help. Deputy Prime Minister John Anderson sought to assure the jobless workers that the government's current levy on air tickets would cover their outstanding entitlements.

Yet, the record over the past five months shows that all major parties—Tesna, its Patrick-Virgin rivals, the unions and the Howard government—treated the Ansett workers as pawns in their various business and political manoeuvres.

In their statement killing off Tesna, Fox and Lew blamed third parties for making it impossible to finalise the Ansett purchase before the

deadline of midnight Thursday set by the administrators. They specifically referred to delays in transferring Ansett's terminal leases at Australia's main airports—Sydney, Brisbane, Melbourne, Adelaide and Perth.

However, their statement came just hours after the Sydney lease was agreed to. Other airport authorities quickly claimed that they too had been ready to sign leases. While the lease deals were repeatedly delayed—in part due to objections raised by the Howard government—there has been speculation in financial circles for weeks that Fox and Lew would abandon their bid. According to some reports, the pair was seeking to force the administrators, Mark Mentha and Mark Korda of auditing firm Arthur Andersen, to lower the \$453 million price they had agreed to pay. Other analysts suggested that the Tesna bid was simply a "property play" to acquire Ansett's most valuable assets—its airport leases.

After Lew and Fox missed a January 31 deadline to finalise the deal, the administrators revealed that they were losing more than \$1 million a day by keeping Ansett planes flying. *Australian Financial Review* columnist Alan Kohler commented on February 13: "On the surface, Lindsay Fox and Solomon Lew would have to be crazy to complete the Ansett deal. At the very least they have the administrators by the undercarriage and are squeezing."

Kohler concluded that Fox and Lew were "probably overpaying" for Ansett. With Qantas, the biggest Australian carrier, seizing more than 80 percent of the domestic market and Virgin offering cheap flights, there was little room for a third airline. Given that the Tesna deal was highly leveraged, depending heavily on loans from major banks and finance houses, such commentary almost certainly signalled the end of the bid.

This seemed confirmed when Fox and Lew flew to London for last-ditch merger talks with Virgin owner, Richard Branson. Their offer to Branson reportedly included cutting the Ansett workforce to less than 1,500 to match Virgin's low-cost structure, but neither party was willing to concede majority control. Talks with Virgin finally broke down on February 24.

Fox and Lew are both among the country's wealthiest individuals. Fox owns and operates a trucking and transport empire, while Lew formerly headed and part-owned Coles-Myer, the largest retail group. However, they risked little of their own funds in the Tesna bid, relying instead on their financial clout to attract backing from large investors and banks. As late as February 19, they vowed that their plans would proceed, announcing a commitment to purchase 30 new Airbus planes and unveiling a new frequent flyer points scheme to woo customers. In the end, they appear to have made a calculated business decision to ditch their bid two days before it was due to come into operation, fearing exposure to multi-million dollar daily losses.

As it has done throughout the Ansett-Tesna saga, the Howard government claimed publicly that it did all it could to assist the Fox-Lew bid. "The Transport Minister John Anderson has done his best to do everything he reasonably could to help the Tesna consortium to move forward," Employment Minister Tony Abbott said on Wednesday. "If that

has not been enough, obviously I'm sorry, but that in the end is a question for the commercial judgment of the Tesna syndicate."

Union and Labor leaders, however, accused the government of working secretly to kill the bid. Victorian Premier Steve Bracks, whose government offered Tesna hefty payroll tax rebates and other incentives to base its operations in Melbourne, the state capital, attacked the federal government for "directly doing the opposite, behind the scenes". Bracks added: "I think there's enough evidence to show that they did not want the Fox/Lew syndicate to get up, they did not want Ansett Mark II to get up."

From the outset, the federal government refused to financially assist or underwrite Tesna, claiming that to do so would be contrary to the free market system. By contrast, in the run-up to last November's federal election, it extended loans to several former Ansett subsidiaries to resume flights to regional and rural centres, where it feared electoral damage from the loss of air services.

Before the election, Howard pledged to "fix" the Ansett disaster. After the election, it soon became apparent that he and his ministers preferred the rival Corrigan-Virgin bid, which sought to scrap Ansett completely, leaving Australia with just two domestic competitors—Qantas servicing the corporate market and Virgin providing cheaper flights. Before Corrigan launched his proposal on November 18, a week after the election, he first met Transport Minister Anderson to discuss it.

In mid-February, the government backed the Sydney Airport Corporation in refusing to assign Ansett's airport terminal lease to Tesna unless Fox and Lew gave the government-controlled Corporation full details of its commitments to pay workers' entitlements in the event of financial failure.

As soon as Tesna folded, Howard baldly stated his hope that the administrators would "immediately" consider the Corrigan plan. "I think [they] ought to have a look at the bid from Corrigan because that is an alternative," he emphasised.

It is no secret that the government sees the Corrigan bid as a means of furthering its industrial relations agenda. Virgin already operates with far lower manning and pay levels than Ansett or Qantas, and its employees work longer hours in worse conditions. Eliminating Ansett would set the scene for imposing similar conditions at Qantas.

Corrigan led the 1998 offensive against waterfront workers, when the government heavily backed his mass sacking of workers and their replacement by non-union scabs. Although a groundswell of public opposition threw the government into disarray and forced Corrigan to strike a deal with the ACTU and the Maritime Union of Australia, the agreement largely achieved his stated goals of slashing the Patrick workforce and speeding up cargo movement rates.

Just a month ago, the government gave another clear signal of its preference for working with Corrigan. Together with the NSW and Victorian governments, and supported by the transport trade unions, it sold most of the national rail freight system to Patrick, in partnership with another transport giant, Toll Holdings. The two companies paid just \$1.17 billion for the National Rail Corp and Freightcorp, far below the market estimates of up to \$1.7 billion. Overnight, Toll shares rose 14 percent, while Patrick shares jumped by 22 percent. The markets saw the privatisation as a bonanza for the two firms, paving the way for major restructuring, rationalisation and job-shedding throughout the rail, road and shipping industries.

At the Patrick annual general meeting on February 5, Corrigan told shareholders it was "increasingly likely" that the Fox-Lew bid would fail. Patrick "continued to have an interest" in buying Ansett, he stated. If Corrigan succeeds in cheaply acquiring an airline, or parts of an airline (perhaps the freight operations), he and his partners will have a significant hold over the entire cargo industry—rail, road, air and the waterfront.

The Tesna debacle is a severe blow to the trade union hierarchy. The

ACTU and union leadership stifled and derailed the protests of Ansett and Qantas workers when Ansett first collapsed. They argued that the Ansett employees' only hope of securing their futures was to help the administrators keep planes flying in the short-term and then to make whatever sacrifices of jobs and conditions were necessary to meet the requirements of the Tesna syndicate. For weeks, some Ansett staff worked without pay.

Initially, the union leaders told workers that Fox and Lew would reward their efforts by employing 8,000. By the time that the unions had negotiated their contracts with the consortium in January, the figure was down to 3,000. Two weeks later, it was 1,500. At the urging of union officials, workers had agreed to work longer shifts, give up many previous conditions and trade off wage levels for productivity and profit bonuses. Nevertheless, Fox and Lew ultimately drew the conclusion that these savings were not sufficient to ensure high profitability.

ACTU secretary Combet said the unions were angry at the Fox-Lew decision. "We negotiated everything, productivity improvements, changes, new agreements, protected entitlements, we agreed on job numbers—we've done everything to try and make this thing work, so it's a tremendous blow." Even so, Combet defended the unions' conduct and vowed to continue on the same course. "We would not have done a thing differently," he said. "You can only save the jobs if you find a buyer." Combet and other union leaders pledged to work cooperatively with Corrigan if he resurrects his bid.

Combet was installed as ACTU secretary in the midst of the 1998 waterfront dispute as part of a new image for the union bureaucracy. His predecessor Bill Kelty was closely identified with the defeated Labor government of Paul Keating, having policed the prices and incomes Accord with the Labor leaders between 1983 and 1996. Almost as soon as Kelty departed, the long-time ACTU leader became an adviser to Fox, and was centrally involved in promoting the Tesna bid.

The final outcome has confirmed the political bankruptcy of the trade union movement, tied as it is to the private profit system. Tesna's rise and fall is only the final chapter in the demise of Ansett, a 66-year-old airline that enjoyed government protection under the "two airline" policy in the post-war period. From the 1980s, a series of owners, including former TNT transport boss Peter Abeles, Rupert Murdoch and Air New Zealand, extracted short-term profits by refusing to invest in new planes and running the airline and its workers into the ground. At every turn, the unions did their utmost to keep the operations profitable.



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