FLIGHT IN AUSTRALIA

A concise history of Australian civil aviation
in the Twentieth Century in three volumes

VOLUME THREE

FLIGHT INTO TURBULENCE
1972-2001

Leigh Edmonds

TEXT ONLY VERSION

Circumstances these past few years have prevented me from publishing this third volume of my history of civil aviation in Australia. As more delays are likely I've decided to make a text only version of the history available now. Time will tell if this history ever sees publication in another form.

I want to remind you that this is not a history of flying in Australia. It is a history of the business and politics, and a bit of sociology and culture, of flying in Australia.

Leigh Edmonds
July 2022

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‘I’m not going to spend money because I like the smell of kerosene. We’ll do things where we can make money.’

Gary Toomey. Chief Executive, Air New Zealand & Ansett, January 2001

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ILLUSTRATION

GLOSSARY OF ACRONYMS

AAT	Australian Accommodation and Travel
ACCC	Australian Competition and Consumer Commission
AFAP	Australian Federation of Air Pilots
ALOP	Aerodrome Local Ownership Plan
ALP	Australian Labor Party
ANA	Australian National Airways
AOP	Air Operator Certificate
AOPA	Aircraft Owners and Pilots Association
APEX	Advanced Purchase Excursion (fare)
ASA	Airservices Australia
ATI	Ansett Transport Industries
ATSB	Australian Transport Safety Board
BASI	Bureau of Air Safety Investigation
CAA	Civil Aviation Authority
CASA	Civil Aviation Safety Authority
DCA	Department of Civil Aviation
FAA	Federation Aviation Administration (USA)
FAC	Federal Airports Corporation
GAAA	General Aviation Association Australia
IASC	International Air Services Commission
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
IPEC	Interstate Parcel Express Company
MMA	MacRobertson Miller Airlines
RAAF	Royal Australian Air Force
REX	Regional Express
SAAA	Sports Aircraft Association Australia
SACL	Sydney Airports Corporation Limited
TAA	Trans Australia Airlines
TNT	Thomas National Transport

INTRODUCTION
PEOPLE MAKE HISTORY

People made civil aviation in Australia from nothing. Before the airmen who had learned the intricacies of flying during World War I returned to Australia in 1919 there was no civil aviation industry here. A century later, more than 93,000 people worked directly in Australian civil aviation and the livelihoods of many more were linked to it through the services that the industry provided for the community. Over 60 million people flew on Australian domestic air services in a year, over one million tonnes of air freight flew into Australia, the industry's estimated annual revenue was $45.98 billion and it added $18.42 billion to the Australian economy.

From nothing in 1919 civil aviation grew over a century to find its way into almost every corner of Australian life. People made their living from it, used the services that it provided, enjoyed themselves by participating in it and made profits from it. By the end of the 20th century there was not a person living in Australia whose life had not been touched in many ways by civil aviation.

This history, like almost all histories, tells a story about people, what they did and why and how they did it. In this history the focus in on how Australians adapted the technology of flying to meet their needs and how civil aviation shaped their society. This story is about how the developing technology of aviation and information and communications technology meshed with Australia's social, economic and political environment to create a unique nation with a unique civil aviation industry.

The world began to change in new ways at the beginning of the 1970s. Technical changes included the development of the very large airliner which carried many more passengers that reduced the cost of flying to make it more affordable for many more people and the silicone chip and optical fiber that brought about a revolution in computing and communications. Together they created the potential for a global economy in which people and goods could move around the world quickly and efficiently and business could be transacted instantaneously. The very large airliner and the new information technologies came together in the computer reservation systems that linked passengers with airliners and created, among other things, a global tourism industry.

These technical changes effected, and were effected by, social, economic and political changes that were equally as momentous. A generation which has grown up in the post-World

War II era came to maturity with expectations and a thirst for experiences that were matched by their prosperity. New movements emerged including feminism and environmentalism, which fought for and won significant changes in the way in which Australians lived, as women began establishing themselves in areas of society and work that what had previously been male dominated and when Australia's previous national development ethos began to give way to a more thoughtful way of understanding the workings of the natural world and people's relationships to it. At the same time, the economic certainties of the early post-war world gave way to new orthodoxies about society, which led to more than two decades of radical economic change which also brought great change to Australian society. These social and economic changes led to, and were led by, changes in Australian politics which evolved to create a new political landscape and philosophy .

On one level this story is about a handful of people who decided on the shape of Australian civil aviation, though the political philosophies they adopted and the business decisions they made. For Australia's leaders, its politicians and key business men, civil aviation was a tool of social engineering and profit making. In the political orthodoxy that emerged in the 1980s Australian society was transformed so that competition and profit making became national goals, and civil aviation was restructured in Australia to that end.

On another level the story of Australian civil aviation is about all the people whose individual lives were enriched by the possibilities for experience and employment that civil aviation offered.

By the 1970s civil aviation in Australia had reached maturity and was well established in the community. What it could do and the benefits it offered society were well known, as were its limitations such as its cost and safety issues. These issues had been, however, masked by the political environment of earlier times which had been willing to intervene on behalf of flying to absorb its costs and ensure its safety, which had created a stable aviation industry in Australia. However, when the world began to change in the 1970s as the old orthodoxy of a collective and regulated society was replaced by the new one of a competitive and unregulated society motivated by the pursuit of profit, the structure of Australia's civil aviation industry was changed to match. Profit has always been a major motivation for civil aviation but previously it had been moderated by other political and social factors. However, the political and economic changes transformed civil aviation from a role supporting the national development of Australia to a tool for leading social change here.

Social changes played an important part in directing the development of civil aviation.

Environmentalism gave the voice of protest to people who were adversely effected by civil aviation, in particular by aircraft noise which became a significant factor in the policy of airport ownership and operation. Concerns about depletion of the earth's resources and the pollution aviation caused also became major influences on the development of new aviation technology including new airliners and their engines and the regulation of how they could be used.

Feminism helped free women from the gender stereotypes and roles of earlier generations which enabled them to start finding their way from airliner cabins and their roles and air hostesses into airliner cockpits as pilots. This was made possible partly by changing community expectations and partly by political change in response to social pressure that led governments to enact anti-discrimination legislation. Business fears that men would not trust women to fly aeroplanes was overcome and social perspectives about women were changed once they began to be seen in cockpits. The employment of men in the cabins of Australia's domestic airliners also signaled the change in the gendered roles of cabin crew.

Migration increased Australia's population and thus the number of people who used the nation's civil aviation. It also made the country more culturally diverse which gave it a more varied and vibrant quality. Aviation helped migration by reducing the dread of separation from home, family and friends which had been experienced by earlier generations because of the long travel times to and from Australia which made family reunions rare and expensive so family members might never see each other again. Civil aviation helped reunite extended families and renew the friendships of people spread around the globe who could visit each other regularly because of the speed and cost of modem airline flying.

Air transport made it possible for most Australians to travel abroad to see, smell and taste the rest of the world and talk to the people there. This changed Australian experiences and expectations of what life at home could also be like. Air transport meant Australians no longer felt isolated from the rest of the world in the way that earlier generations had. Tourism also brought millions of people from overseas to see Australia and the development of a local tourism industry enriched Australia, financially and culturally.

Australians took the tools of civil aviation, its aeroplanes and its infrastructure, and adapted them to suit their social and geographic circumstances. For example, they chose from the wide range of aeroplanes designed and built overseas the ones that they thought were best suited to Australia conditions, but choosing ones that did not match Australian conditions could be a business disaster. The location of Australia's major cities along Australia's eastern coast created an air corridor that was different from other countries so that some airliners were better suited to it than others and the ones that were selected then shaped the air services Australians received. The dispersal of the Australian population across the rest of the continent created an air transport system using different aircraft that suited those circumstances and created a civil aviation fleet unlike that in almost any other country.

Australia's political landscape was the most important influence on the country's civil aviation and when Australia's political philosophy changed from one of a regulated to an unregulated market driven one, it created an environment in which the development and fostering of civil aviation turned the role of civil aviation from being a tool of national development to being a tool of government policy to lead change. Separating civil aviation from national policy through deregulation and privatization was a practical demonstration of the new philosophy.

Air transport effected people in their daily lives and changed their expectations of what they could do. It created the ability to take a holiday in the tropics, the ability to acquire goods from overseas more quickly and the ability to find employment in jobs that had not existed before For example, employment in the aviation business itself, in the industries that supported civil aviation such as catering, light engineering, construction or legal and financial services, or in the emerging tourist industry. Civil aviation created hundreds of thousands of jobs that would not have existed if flight was not possible.

The infrastructure that supported civil aviation reached into many corners of Australian business life, from banking, insurance, law, journalism and adverstising to hire cars, taxis and logistics. Central to civil aviation were its airports. A hundred years earlier shipping ports had been centers of industry and commerce and, by the end of the 20th century, airports were the same, sprawling complexes of a wide range of services related to aviation with hotels, warehouses, car parks and supply centers for everything else that civil aviation needed such as fuel, catering and repair and maintenance.

People effected aviation by the way in which they use it. They made decisions about when to fly, which airline to use and the destinations they want to go to. They made decisions about how much they are willing or able to spend, which created the standards of service that airlines offered them. They decided on the goods and services they would consume that use that civil aviation, such as air mail and freight including perishables and high value goods. They decided where to go for holidays and how and when and how often they would fly to keep in touch with family and friends in other places. They decided on the entertainments they would enjoy, such as national sporting competitions and performances, which depended on civil aviation to carry performers, sports people and the things they used. They decided on whether they would go to an aviation museum or an air displays or whether they would become more involved in civil aviation by learning to fly or taking part in the growing range of general aviation activities.

The founders of civil aviation in Australia had hoped that Australians would all become airminded one day. They succeeded and Australians became so airminded that they took flying for granted, as though the world could be no other way. They took for granted that civil aviation offered speed, efficiency and safety. Civil aviation had become so successful that it had transformed the lives of all Australians without them thinking about it.

CHAPTER ONE
SUDDEN TURBULENCE

Radical change came to Australia, beginning in the 1970s with political, social, cultural and economic transformations which were a rude shock after twenty years of conservative government. Large world wide changes were also on the horizon in the global economy which would have a major effect on Australia. All this would have major effect on Australia's civil aviation industry.

Australia's air transport industry had grown safely and securely through the 1960s. There were slight signs of problems in general aviation but, by the beginning of the 1970s, Australia's civil aviation industry appeared to be in a very healthy condition. In 1971 it employed about 50,000 people, almost half working for the airlines, the estimated value of aeroplanes on the Australian register was $360 million, $285 million of that in airliners, and in 1969/70 domestic airline passenger numbers grew by 16.3 per cent.

The only significant problem facing the industry at the beginning of the 1970s was the government's growing apprehension about the cost of supporting civil aviation. To help reduce some of this financial burden the coalition government introduced the concept of 'user pays' in 1970 when it announced that air transport would progressively be asked to meet a greater proportion of the costs incurred in providing and operating its airports and airways facilities. The industry resisted but the government held the purse strings and controlled the legislation under which the industry operated, so 'cost recovery' became a part of the government's civil aviation policy. When the Two Airline Agreement was renegotiated in 1972 it included an acknowledgment that the government was entitled to recover the costs properly attributable to the civil aviation industry for providing it with facilities.

The major harbinger of change in Australia was the election of an ALP government in December 1972. The party had rebuilt itself, under the leadership of Gough Whitam, with new attitudes and policies that reflected Australia's changing social and cultural environment and offered the hope for a reinvigorated future. The Whitlam ALP government held power for three years, from December 1972 to December 1975. In that period it took Australia on an exciting and adventurous journey that remade the country into a more modern nation. It was also a period of great turbulence that brought uncertainty and confusion to the whole nation, including Australia's civil aviation industry.

The new government's focus was not on national development, as the previous governments' had been, but rather on bringing social and cultural change to Australia. As a result civil aviation was no longer a government priority, rather it became a distraction. Critics of the new government said it believed air transport only served the rich so it set about cutting it down, but to the ALP it was a matter of priorities. It planned to change the national policy focus from national development to the provision of expanded social and cultural services so, while civil aviation was of benefit to the community, the government believed that social welfare, housing, education, health and more were more important, so that was where the new government preferred to puts its energies and resources.

The government's apparent attitude to civil aviation, and its increased emphasis on cost recovery, also raised the ire of the industry. Charlie Jones, the new Minister responsible for civil aviation, was reported to have said that air transport was a pampered industry, that millions of dollars had been wasted on lavish facilities at the new terminals at Melbourne and Sydney Airports and that each airline passenger was subsidised by an average of $8 per journey. The government said the cost of operating airport and airways facilities was some $70 million above the annual revenue that it received for their use and that it could see no reason why the general tax payer should subsidise them. In its first budget the government announced that it would increase the rate of cost recovery to 80 per cent within five years through increased Air Navigation Charges, fuel taxes, rental on airport buildings and other charges. The government also told TAA that it was cutting the amount the airline received for carrying air mails by 25 per cent and told Ansett that if it did not agree to the new rates all air mail would be carried by TAA.

The Labor government placed less reliance on the public service for policy advice than the previous government had. It believed that the service had become too comfortable with the coalition government so the new government brought in changes that suited its style with new men who were more in tune with its agenda. As a result, the decades of administrative and regulatory experience that had been built up in DCA seemed of little account and the future of the Department was swept up in the government's policy of departmental amalgamations. One amalgamation was the combination of the separate departments for each military service into one centralised Department of Defence and, in May 1973, the government announced the amalgamation of the Departments of Shipping and Transport and Civil Aviation to create a new Department of Transport.

When creation of the new department was announced morale in DCA plummeted and the industry was dismayed. A meeting of nearly all the major civil aviation organisations in Australia in August 1973 expressed great concern over the merger and Reg Ansett said it was 'a tragedy'. Despite the many grievances the industry had with DCA it had usually been sympathetic to the industry while the new Department of Transport would retain all the dictatorial powers of DCA but lacked the special place the Department and its Minister had given civil aviation in the government's deliberations.

The new department would be responsible for all forms of transport in Australia, including civil aviation, along the lines adopted by a similar amalgamation in Canada. Charles Halton, an engineer who had been associated with the Canadian transport amalgamation, became the Secretary of the Department of Transport and the new department began operation at the end of November 1973. The long serving Director General of Civil Aviation, D G Anderson, who had also been on the board of Qantas for some time, was sent to become its full time Chairman. He resigned from that position in August 1975 due to ill health and died shortly thereafter.

In its 34 years DCA had spent around $1,689 million on the administration, regulation, support and development of Australia's civil aviation (the equivalent of $15.95 billion in 2018 values). In return, it had overseen the growth of civil aviation from a relatively small undertaking on the outskirts of Australian life to an industry central to Australian business and life in general. It had grown along with the nation: Australia's gross domestic product had grown from £840.5 million in 1939 to $42,907 million in 1971, the Australian population had grown from 7.58 million in 1947 to 12.75 million in 1971 and civil aviation had grown even more; with an increase of 11,131 per cent in the number of passengers carried between 1939 and 1971 (58,082 passengers in 1939 and 6.62 million passengers in 1971). It was a good return on the investment.

Civil aviation was only a small diversion from the Whitlam government's main agenda. Concepts of 'equal opportunity' and 'affirmatives action' began entering the language of policy makers and federal and state public services began to reduce discriminatory practices against women. The new government used the public service to set new standards in working conditions including reduced working hours, an additional week's annual leave and improvement of long service leave. It gave priority to developing relations with the Asia-Pacific region including Communist China and Indonesia while Britain's entry into the European Community in 1973 reduced Australian access to British markets and Labor downgraded residual Australian ties with Britain so 'Advance Australia Fair' replaced

‘God Save The Queen’ as the national anthem and the imperial honours system was superceded by the Order of Australia.

Australia also began severing its colonial control of Papua New Guinea in December 1973. As part of this process a new national airline, Air Niugini was established there from the merged domestic operations of Ansett-MAL and TAA and the New Guinea Government eventually became its sole shareholder. DCA’s assets in the territory, with a value of $24.5 million, were transferred to the new government.

The Whitlan government’s main energy was channelled into transforming, liberalising and energizing Australian society. It’s policy of ‘multiculturalism’ supported the growing migrant and refugee population. It began helping the community to understand the environmental cost of development with the introduction of legislation to protect the environment in 1974 and the membership of environmental groups grew from 100,000 in 1974 to 700,000 by the end of the 1980s.

Cultural change had begun in Australia before the Whitlam government, including reduced censorship and the creation of culturally important bodies such as the Australian Council for the Arts and the Film and Television Development Corporation, but the new government gave new energy and emphasis to Australian cultural growth. Among many other changes Australian film making became a source and expression of a new sense of national pride that was recognized overseas. Second wave feminism began changing Australia through the formation of groups like the Women’s Electoral Lobby and the rise of prominent feminists who shaped awareness of Australian attitudes towards women and campaigned for changes in abortion law, equal pay and relationships between the genders. Their achievements included gradual removal of the marriage bar in employment, equal pay, introduction of no-fault divorce, provision of benefits for single mothers and the creation of paid maternity leave in the public service.

Australia had become a prosperous and industrialised nation by the 1970s with most people employed in secondary or service industries and living in a few large cities. Cars, refrigerators and television sets became accepted necessities of life and the advertising industry, and rapid technological innovations in consumer goods, ensured continuing high levels of consumption. After two decades of unprecedented prosperity Australians had come to believe that continuous improvement in living standards were normal and the government promised even greater improvements in the quality of life and social equity in the future which would be funded through continued economic growth.

However, the government's expected prosperity failed when the economic outlook turned against it. Almost imperceptibly, economies around the world began to slow and this trend was accelerated in late 1973 when the Organization of the Petroleum Exporting Countries (OPEC) cut oil production in protest at western support for Israel in the Yom Kippur War. By then Australia was producing about 70 per cent of its own crude oil needs so it was not directly effected by oil shortages, but oil prices quadrupled and the resulting crisis in the global economy, and resulting inflation, had a severe effect on the Australian economy.

At the same time the rare presence of a Labor government in power encouraged the trade unions to pursue pay increases in response to inflation. Average weekly earnings rose by 13.6 per cent in 1973 and by 30.8 per cent in 1974 . Overall, average earnings increased in Australia by 50 percent from the December quarter of 1972 to the December quarter of 1974. These changes had a dramatic effect on the state of the Australian economy. In 1972 inflation in Australia was running at 6 per cent and unemployment at 2 per cent, which seemed unacceptably high after twenty years of unfettered prosperity. By December 1973 inflation had climbed to an annual rate of 13.2 per cent and, after the re-election of the Whitlam government in 1974, inflation lifted to 17.6 per cent by March 1975. Unemployment reached four per cent in 1974-75 and nearly 5 per cent by August 1975. These increases blew out the national budget and business confidence as company profits declined so major corporations such as BHP, ICI and Western Mining announced deferment or abandonment of expansion plans.

Australia's economic problems drained the Labor government of it's lifeblood and created an economic crisis and general sense of malaise in the nation. The Labor government used the traditional Keynsian economic technique of spending in the hope of reviving the economy but, while it helped to control unemployment, it encouraged inflation. The economic slump seemed worse after the extended period of prosperity that had preceded it and because the Keynsian management model, which has been seen as the keystone of prosperity, had seemingly stopped working.

Australia was hardly unique, the oil shock created economic turmoil and policy confusion in the years after 1974 that resulted in stagnation in the economies of most industrialized nations. This had a very serious effect on air transport which, by the 1970s, was beginning to integrate Australia more fully into the global network of business and culture. Australia had grown to become a medium sized player in global business, trade and culture and now had the people, and production and distribution systems, to sustain the professional careers of entrepreneurs and creators of all types in Australia. Air transport had brought Australia so close to the rest of the world that it was no longer necessary for Australians to move overseas to become active participation in the world's mainstream culture because of international mobility due to air transport.

The Boeing 747, with its operating efficiency and comfort, played an important part in this change. In January 1972 Qantas began flying them on it's longer stage lengths to make its operations more efficient by stopping, for example, at only Perth and Bombay on the long flight between Sydney and London. Because of their popularity the government allowed Qantas to purchase more 747s so it soon had eight in its fleet. The popularity of economy class also led Qantas to reconfigure its 747 cabins by reducing first class from 56 to 32 seats and increased to 359 the number of economy seats. In April 1974 Qantas introduced two shortened Boeing 747SPs to its fleet which could could carry a reduced payload of 226 passengers non-stop between Sydney and San Francisco in 13 hours 40 minutes eastbound and 14 hours and 40 minutes flying west. Qantas's Boeing 747s were so successful that they had completely replaced the old Boeing 707s on the Pacific route by 1976.

Problems of over-capacity, increasing fuel prices and slowing economies worldwide had caused an unprecedented slump in the air transport industry by 1971 and most of the world's biggest and strongest airlines were effected by it. The energy crisis of 1973 also had an immediate effect on aviation and some of the world's leading airlines suffered fuel increases of 100 percent while the average was 50 per cent. The success of the big Boeing 747s also caused the problem of overcapacity on many routes that became so severe that American Airways withdrew from the trans-Pacific route in March 1974 and British Airways also withdrew in early 1975, though it continued to offer the service under its pooling arrangement with Qantas. This reduced overcapacity on the route so Qantas then flew at improved loads of 53 per cent of capacity.

Qantas also began making losses in 1972 due to, among other things, increased costs in salaries and wages, fuel prices, interest charges, landing fees and ground handling charges. Revenue was also effected because only 21 per cent of Qantas passengers on the Kangaroo Route paid even the full economy fare by 1973. However, low fares were necessary to attract more passengers so Qantas, and most airlines, faced the problem of balancing fares against capacity. These problems were compounded by increased competition and larger capacity airliners creating too much capacity on many of the airline's routes so that seat occupancy rates fell to well below break-even point. Qantas began losing heavily on the San Francisco to

London route across America and strugged to remain profitable on its other routes. To reduce cost and eliminate unprofitable routes Qantas stopped flying between Hong Kong and London and ceased flying from San Francisco to London in April 1973. In January 1975 it discontinued its service to London via Mexico because passengers preferred to fly in 747s on the Kangaroo Route to Britain rather than in 707s on the longer route. Qantas was now no longer a globe circling airline but, in the competitive international air transport market of the 1970s, profitability was more important than prestige. Qantas coul still offer a wide range of services through it pooling agreements with other airlines, over a dozen by 1974. They helped it survive through this difficult period and the pool with British Airways was probably the most helpful because it gave Qantas access to world wide booking networks which helped fill more seats on long distance routes.

The level of air fares charged by international airlines was regulated by IATA so, during the second half of the 1960s, some airlines began offering non-scheduled charter flights with cheaper fares that IATA did not regulate. Most of these charter flights were not allowed to fly into Australia so many passengers flew on Qantas to Singapore and transferred to the cheaper charter flights from there on to Europe. This left Qantas flying on to Europe with unprofitable passenger loads so it developed strategies including ‘Group 40' that offered discounts of 44 per cent on the basic economy fares for groups of 40 or more passengers. For a while at the beginning of the 1970s Qantas also contemplated using a new company, Qantair Limited, to offer non-scheduled lower fare charter flights in competition with the other charter operators. However, in February 1972 Qantas received IATA approval to offer new return excursion fares between Australia and London via Asia costing $700 in the off-season, $750 in the peak period and slightly more via North America and, from April 1972, new one-way fares to selected points in Europe for $420. To improve its yield - the revenue raised from every seas in its airliners - Qantas also introduced ‘business class’ with a fare level, and level of comfort and service, between first and economy classes to attract the business market.

Qantas carried 1.1 million passengers and 27 ,000 tons of freight to and from Australia in 1975/76. It had 14 weekly fights on the Kangaroo route, three additional flights a week to Singapore, five a week to Indonesia to cater for the tourist traffic and five 747 services a week to the United States.

Within Australia the government’s two airline policy protected the domestic airlines from the problems that ravaged international civil aviation. In 1972, not long before the

Whitlam government came to power, the Two Airline Policy was renegotiated to continue until at least 1982. It continued the policy's fundamental aim of ensuring a stable airline industry and introduced several new provisions including a requirement that Ansett Transport Industries (ATI) would publish annual statements of its airlines' financial results to give the government some indication of their airline's financial performance in the ATI roup. It also allowed TAA to expand its operations with limited air services within Western Australia and to engage in government approved land based activities such as making mutually beneficial arrangements with surface transport carriers and hotel/motel operators. Ansett and TAA also agreed to work towards providing additional promotional fares, stimulating air freight, limiting to a minimum flights to airports with curfews within curfew hours, accepting the validity of the government's cost recovery policy and recognizing the desirability of permitting limited expansion by other established and smaller airlines (such as East West) onto main routes.

The Whitlam government reaffirmed this policy in 1973. It also enable TAA to expand its operations in competition with Ansett by allowing it to provide more intra-state flights, provide road transport and accommodation services, perform engineering work for other companies and provide charter air services. These new powers allowed TAA to form a new company, Australian Accommodation and Tours (AAT), with Mayne Travel Industries to compete with ATI in selling package tours including air travel, ground travel and accommodation. TAA also acquired a controlling interest in the Great Keppel Island tourist resort that it had been associated with since 1966.

Air fares became caught up in the inflationary spiral. At the beginning of the 1970s the government had hoped to see lower APEX fares introduced but Ansett did not want them and TAA wanted their introduction delayed. As a result, rather than lower fares, they rose rapidly. In August 1971 domestic air fares increased by 6.5 per cent, in October 1973 they rose by an average of 11.5 per cent (10 per cent economy and 16 per cent first class), in 1974 they went up by an average of 12 per cent and in July 1975 fares increased by another 15 per cent. Two months later they rose by another 7.5 per cent and in April 1976 by another three per cent.

Australian domestic airlines carried more than 9 million passengers on scheduled services in 1973-74 and over 9.5 million passengers in 1974-75. They employed 17.320 people by June 1974. However, the instability of Australia's economy from the beginning of the 1970s made it difficult to forecast growth in passenger numbers with any accuracy so it became difficult to calculate the amount of new capacity the airlines needed to add to their fleets to meet growing demand. For the second half of the 1960s passenger growth had been steady at around 11 per cent a year and, after growth of 16.3 per cent in 1969/70, it was only 8.6 per cent in 1970/71. The following year growth was 6 per cent and 10 per cent in 1972/73. An increase in national economic activity in 1973/74 created a surge in passenger demand of 19.5 per cent but the following year growth was only 7 per cent and it fell to minus one per cent im 1975/76.

Despite fluctuating growth rates the domestic airlines needed to add more capacity to their fleets in the early 1970s. TAA and Ansett disagreed about the next generation of domestic airliners to be introduced to Australia, TAA looked at the coming wide body airliners such as the Airbus A300 and Boeing 767 but Ansett was hesitant about moving to even larger airliners so quickly so an agreement was reached that wide body airliners could be introduced into domestic service in 1975 or 1976 and the government authorised each airline to buy four Boeing 727-200s at a total cost of $67.5 million in February 1972. They were 20 feet longer than the earlier Boeing 727-100s, could carry 151 passengers, fly fully loaded from Sydney to Perth under all conditions and had new, quieter, engines. They started in service at the end of February 1973 but fluctuations in capacity demand reduced the need to introduce so many 727-200s to service as quickly as expected. As a result, by the beginning of 1974, both airlines had two Boeing 727-200s, six Boeing 727-100s and 12 Douglas DC-9s in their fleets and had added another two 727-200s each by mid 1975.

The airlines had agreed to accept the coalition government's objective of recovering 80 per cent of the annual cost of providing Australia's aviation infrastructure by 30 June 1978, but they did not like it. They liked even less the new government's more aggressive cost recovery program which, in its 1973 Budget, announced increased lease rentals on government owned airport properties, imposition of five cents a gallon fuel excise and adjustments to charges for postal and telephone services. It also announced that all government travel would be flown economy class These impositions added $3.29 million to TAA's costs for the remainder of the financial years and, as a result, the airlines requested fare increases, which the government approved.

Since the amount the government expected to raise from cost recovery was linked to its expenditure on civil aviation the Whitlam government announced, in June 1974, that it would reduced expenditure on civil aviation to somewhat reduce the impact of cost recovery on the industry. However, in February 1975 airport tenants received letters from the

Department of Transport telling them that their rentals were to increase, some by as much as 2,600 per cent. At Sydney Airport Qantas' rent went from $260,000 to $2.521 million and MMA's rental at Port Hedland went from $143 to $18,000.

By 1975 the government's financial situation was so bad and the economy in such a state that the government felt forced to use Keynsian pump priming to invigorate the national economy. The money had to come from somewhere and civil was on the negative side of the ledger so, in its 1975 Budget, the government increased cost recovery to 70 per cent, imposed a levy of $2 per barrel on crude oil and increased Air Navigation Charges, which had been $35 million in 1973 and were to rise to over $100 million by the end of 1975.

The industry complained that the Labor government was pricing aviation beyond the reach of the average citizen. 'It is clear', wrote *Aircraft*', 'the government has set aside aviation - Government and free enterprise - for slaughter.' TAA said that the cost recovery increases to 70 per cent in 1975 'would add millions of dollars to costs and result in further large fare increases to ruinous levels that would lead to a decrease in passengers and therefore revenue'. Industry protests did not move the government and in October 1975 the Minister for Transport said that its cost recovery policy was 'reasonable', given the need to balance the difficulties of the civil aviation industry against the nation's difficulties in meeting the rising costs of operating aviation facilities. He went on to threaten that the government looked on the provision, operation and maintenance of the air transport infrastructure as a commercial enterprise so it considered it reasonable that it should make a profit from its investment in that infrastructure.

The Whitlam government planned to make more major changes to its air transport policy including to the Two Airline Policy and the possible amalgamation of TAA and Qantas, but political issues overtook it. In its haste for change the government had tried to do too many things too quickly and it had been unable to control the prices and wages inflationary spiral and growing unemployment. By 1975 political mismanagement and hints of scandals had made Whitlam's government very unpopular so, after it was removed from office in November 1975, it was soundly defeated in the general election the following month. With the end of the Whitlam government the civil aviation industry looked forward to a return to business as usual after three years of instability.

CHAPTER TWO
NOTHING BUT PROBLEMS

In 1949 Ivan Holyman and ANA had hoped that the return to power of a conservative government would restore their fortunes. In 1975 almost the entire Australian civil aviation industry hoped that the return of another conservative government would again restore their fortunes. In 1949, and again in 1975, only disappointment followed the return of the new government. In the 1970s the problems that had overtaken Australia needed new solutions because the old ones seemed to have failed but new solutions were not easy to find because that needed new, not conservative, thinking. The new government seemed as perplexed as the Whitlam government had been about how to overcome the big problems it faced and, when it came to civil aviation, the new government found itself with many problems and few solutions.

The new government had much bigger problems than civil aviation. When the dour Malcolm Fraser formed his new coalition government in December 1975 he told Australians they had had life too easy and they would have to learn to face the harshness of competition in the modern world. His government ushered in a period of austerity with a strategy of reining in inflation by cutting government spending and restraining wage increases in the hope that private enterprise would lead a return to investment, employment growth and prosperity. The government dismantled many of the ALP's achievements, quickly began reducing the public service workforce and returned the emphasis of government policy to primary production and the support of business. During the seven years of the Fraser government the average annual rate of growth in government spending was less than a quarter of what it had been during the Whitlam government.

The harsher industrial circumstances of the second half of the 1970s resulted in worse industrial relations, which also effected civil aviation. Department of Transport air traffic controllers went on strike in May 1977, costing the industry about $10 million. In June 1977 the engineers who serviced and maintained airliners went on strike for wage increases, cabin crews struck in July over TAA's intention to reduce crew numbers and Ansett pilots also struck for two days. In 1980/81 TAA lost 8.5 days of operations due to industrial disputes outside its control and another five days through a flight attendant's strike, and industrial disputes reduced the airline's profitability by an estimated $9 million.

Fighting inflation by rigorously cutting expenditure resulted in rising unemployment, which had passed 400,000 by 1978. The government expected this would reduce inflationary wage expectations and by the late 1970s there were signs that the Fraser government's hard economic medicine was working. Inflation had slowed, unemployment had stabilised and the budget was headed towards surplus. However, all this was thrown into chaos by a second oil shock in 1979. In 1974 the cost of crude oil had been about US$10 a barrel but, after further events in the Middle East in early 1979, it rose steeply to US$32 a barrel. This unleashed another bout of inflation when western governments responded by tightening monetary policy and global economic activity contracted.

The increased cost of fuel had an enormous impact on the cost of airline operations. In 1978 fuel represented about 18 per cent of the cost of a TAA ticket, by the end of 1979 it was about 25 per cent, adding $25.688 million to the airline's operating costs. In 1972 the Qantas annual fuel bill was $17.5 million and it was over $210 million by 1980.

These cost increases forced the airlines to think of new ways to economize. By filling more seats on each flight TAA reduced the average amount of fuel it needed for each passenger from 87 litres to 75 litres. By revising flying procedures to cut fuel consumption it also saved about 8 million litres a year, worth around $2 million. Qantas monitored its fuel use very carefully to make every possible saving and flew its 747s an average 2,000 feet higher on the most efficient cruising speeds. In 1980 Qantas announced it was reequipping its Boeing 747 fleet with Rolls Royce RB221-524 engines which offered greater range so a 747 could fly non-stop from Melbourne or Sydney to Bombay and give a fuel saving of 6 per cent worth $1 million a year for each 747. The increased cost of operations also led to increased fares and TAA and Ansett were granted yet another increase, 8 per cent for fares and 8.5 per cent for freight, in January 1980.

The government's austerity program and its inability to bring the economy back to the conditions of the 1960s caused increasing unpopularity in the wider community, and in civil aviation. The new government was already unpopular with the industry because it had gone back on its pre-election promise to dismantle the Department of Transport and give civil aviation its own department again. Within months of taking power Fraser announced there would be no change in the structure of government departments so the Department of Transport would remain, as would it's Secretary, Charles Halton.

Further disenchantment came when the government decided to move all the Department of Transport civil aviation head office staff from Melbourne to Canberra. The head offices of most government departments had been located in Canberra for many years but DCA's Head Office had stayed in Melbourne so it could maintain close contact with industry headquarters there. Many of the department's most experienced officers decided not to move to Canberra and their years of experience was lost to the government and the industry, and many were replaced by career public servants with little experience of civil aviation. Many in the industry were also strong critics of Charles Halton, the Secretary of the Department of Transport who, they said, would best serve the aviation industry by taking his undoubted talents elsewhere. By the beginning of the 1980s this had brought the Department of Transport into contempt by most of the industry and the dissatisfaction became so wide spread that the ALP announced it would create an autonomous new civil aviation administration when it was returned to office.

Cost recovery was an even greater source of industry dissatisfaction. In December 1975 Air Navigation Charges were increased by 17 percent, which was a relief to the industry which had expected an increase of around 40 per cent. However, in the first half of 1976 the Charges were increased by another 19 per cent to $53.5 million. The industry complained that it was no coincidence that there had been a marked falling-off in air transport growth since the industry had begun to feel the bite of cost-recovery and that cost increases were unavoidably passed on to air traveller.

Driven by economic pressures the government also began a series of cost cutting and revenue raising measures in 1977 that directly effected civil aviation. They included proposals to reduce the number of Flight Service Units at smaller aerodromes, a review of Rescue and Fire Fighting Services, selling seven aeroplanes in the Departmental fleet and introducing fees for aviation licences. In 1978 Air Navigation Charges increased again while revenue raised from airport terminals was planned to double. In 1980 the Department introduced new fees and charges for more services that had previously been provided free, including charges for examinations, documents, endorsements and printed matter. It also cut rural air subsides from $768,000 in 1976 to $462,000 by 1983.

Relations between the Minister for Transport, Peter Nixon, and the industry grew and remained strained over the government's aviation and cost recovery policies that were, it said, eroding safety standards. A protest poster asked airline passengers:

> If your captain, engineer, hostess, steward, fire fighter, air traffic controller, senior traffic officer, flight engineer and first officer told you Australia aviation is becoming less safe ... would you believe a farmer [Peter Nixon] who says it isn't so?

The government's cost recovery program was running at an average of 66.1 per cent across the industry by 1980, with the international sector paying 159.5 per cent, the domestic airlines 89.2 per cent, regional airlines 30.6 per cent, commuter operators 12.6 per cent and other general aviation 17.3 per cent. The cost pressure the government placed on the industry had an effect on flying safety as civil air service operators were forced to economise where they could. When a commuter Beech Super King Air crashed and burned while taking off from Sydney Airport in January 1980 the pilot and 12 passengers were killed. Investigation showed the crash had occurred because the take off had been attempted with reduced engine power because the commuter company was trying to save money by using reduced power during take-off to extend the life of its engines. However, when an emergency occurred the King Air did not have enough power to climb away safely and then return to the airport.

The government's economic problems also effected Australia's airports and aerodromes. In mid 1981 another drastic reduction in government expenditure included plans to offer domestic terminals at major airports for sale, invite the private sector to build and maintain new terminals and to transfer more regional aerodromes to local ownership. By 1980 there were 441 aerodromes around Australia; local governments owned 260 of them and received government funding assistance through the Aerodrome Local Ownership Plan (ALOP), 101 were privately owned and the government owned the rest. The government said it could not afford to keep operating so many aerodromes, particularly those in the country when second level airlines were planning to introduce F-28s that required expensive facility upgrades to accommodate them. So that those aerodromes could be upgraded the government announced, in 1982, plans to use the ALOP to fund the required work by spending about $10 million in the coming decade on aerodrome that were taken over by local government authorities. It said this would help country centres improve their aerodromes to meet modern needs and encourage tourism. This policy was generally successful but mainly because aerodromes that were not transferred to local ownership usually remained unimproved. The most successful transfer to local ownership was Cairns Airport which went to local ownership after the government agreed to spend $32 million on facilities to make it an international airport for tourism. In 1982 the government added a further $52 million to its ALOP budget, taking it to $89.7 million, so that more of its intermediate size aerodromes including Bundaberg, Coffs Harbour, Port Hedland and Wynyard would be taken over by local governments.

The capital city airports were another problem for the government because almost no major work had been done at them since 1972. In 1977 the government announced a major upgrade at Brisbane Airport which involved building a new international terminal to cost

$170 million. In 1980 $28.4 million was allocated to developments at Perth Airport including construction of a new international terminal complex. Other major work at government aerodromes included spending $6.5 million at Darwin Airport for a new terminal and general aviation area and upgrading Townsville Airport to international standard for the tourist industry. From the early 1980s major works at airports became a form of job creation the government could use to help boot the economy so, in 1982, it announced spending on aviation activities would be increased to $517 in 1982/83 with $355 million going towards new airport works. The following year it accelerated the by then $840 million aviation capital works program to boost employment to a peak of 8,000 jobs in 1984. It became the biggest and most ambitious airport development program so far in Australia's history.

The government could not solve the Sydney Airport problem. No site had been selected for a second airport to serve Sydney and congestion at the existing airport had become one of the most serious problems facing the aviation industry because delays caused there flowed through to the entire domestic airline network. By 1982 Ansett and TAA were paying about $6 million a year for fuel burned in holding patterns over Sydney that added an average of 20 extra minutes to flight times into the city's airport and cost the industry an estimated $30 million. The government allocated $500,000 for consultancies to evaluate suitable sites for a second Sydney airport but, with no decision on a site likely in the immediate future, the government announced that a parallel runway 2,600 metres long would be constructed into Botany Bay to increase the capacity of the existing airport, even though it would be costly and make the airport even noisier.

In addition to these problems the government faced several difficult policy issues. They included the future of domestic and international airline policy, its ownership of airlines, the problem of rising air fares and the general aviation industry. It sought solutions to all these problems by conducting enquiries and investigations in what was the biggest open examination of the Australian civil aviation industry in its history.

A philosophical question that troubled a conservative government that said it believed in private enterprise was whether it should own and operate government businesses. In June 1976 the government announced that a Committee of Inquiry would examine the activities and forms of management of the four Commonwealth owned transport businesses - Qantas, TAA, the Australian Shipping Commission and the Australian National Railways Commission. It would inquire into whether the arrangements under which they operated was conducive to their efficiency as businesses and whether those arrangements gave them advantages or disadvantages in comparison with privately run businesses. It concluded that there was no case for the government disposing of either Qantas or TAA or merging the two airlines.

The main focus of the question of government airline ownership fell on TAA after the government said it had no intention of selling Qantas because it was Australia's national airline and would remain the properly of the Australian people. The philosophical difference was between one group of the government that believed TAA should be disposed of because, they said, no government owned business could be run as well as a commercial business, and the other group that preferred retaining ownership of the airline although they worried about how the government could finance TAA in the future.

A compromise was reached in March 1981 when the Minister for Transport announced that TAA would be 'corporatised'. The Australian National Airlines Commission would be abolished and TAA converted from a statutory authority to a public company. The airline's assets and liabilities would be transferred to the new company and staff become its employees. The government would initially hold all the shares in the new public company with no immediate plans to sell any although it planned to commission a consultant to examine the problem and in May 1981 the government announced that consultants would be appointed to report on the practicality of selling shares in TAA and how independent ownership of Australia's trunk airlines could be assured if shares in the airline were sold.

This compromise did not resolve the problem of funding airline growth at a time when there was a significant drain on government funds and it faced many other financial problems.. Investing in new airliners to keep the government owned airline fleet up to date was very expensive when new Boeing 727-200s cost almost US$9million each. In the early 1980s the government gave Qantas a cash injection of $60 million and TAA $90 million for new equipment, but they still had to borrow heavily to pay for it.

The Two Airline Policy was due for renegotiation in mid 1978 so, in May 1977, the Minister for Transport announced that his department would undertake a review of domestic air transport policy, to be directed by a high-level steering committee. The committee contacted many aviation organizations, sought submissions from anyone who was interested and presented the Domestic Air Transport Policy Review in September 1978. It's fundamental recommendation was to maintain the status quo of a regulated domestic airline industry but that 'changes should be made to allow for greater competition'.

By the mid 1970s both Ansett and TAA had been unsure about the future of the Two-

Airline policy but could see no alternative because it seemed necessary to meet Australian conditions. Peter Ables, with experience of a deregulated transport environment and then head of Ansett, had doubts about the deregulation of Australian air transport. 'It could be', he said, 'that aviation is an area where because of the very high capital investments and the variety of markets plus the aspect of serving the public that makes it impossible to operate in a truly deregulated marked.'

TAA agreed, saying that opening the domestic air routes to more than two airlines flying on trunk routes would increase costs and compound inefficiencies even more. It said that having one airline would be more efficient for economies of scale but objections to it would be mainly philosophical and political, and there would be problems of maintaining satisfactory standards of service without some level of competition between airlines. Reports prepared for the Review disagreed and said that TAA and Ansett were inefficient by world standards, overstaffed and with not a large enough range of fares.

However, the general thrust of the Report's recommendations were to retain the principle of two major airlines operating over Australia's trunk route network but to make some changes to encourage competition. The most significant changes it recommended were the removal of the rationalization arrangements that enforced close co-operation between Ansett and TAA, removing freight from the policy and granting permission for some competition from the regional airlines on segments of trunk routes. It also recommended increased concession fares and allowing the domestic airlines to fly some international routes if Qantas did not have suitable airliners to use on them.

Other factors meant that the government didn't reach a decision on what to do about the report until September 1980 when it announced that the Two Airline Policy would be retained because 'the aviation industry is neither sufficiently large nor robust enough to withstand wholesale change'. However some change was necessary because, there was no justification for persisting with having two airlines, Australia might as well have one big airline so the changes would bring greater flexibility to the airline industry.

The new agreement reduced the amount of compulsory co-operation between the airlines, including the choice of new airliners so that, in the future, there could be greater but still regulated differences between the services they offered. It gave greater flexibility to the second-level airlines by allowing them to use airliners such as F-28s in limited competition to the major domestic airlines, it brought the commuter airlines under greater control through the introduction of Supplementary Airline Licences that replaced Regulation 203 approvals and it reduced the tight controls that had previously regulated air cargo.

The third domestic airline problem the government faced was the level of airfares which was a political problem because the government regulated the level of air fares in Australia. The government announced a public inquiry into domestic air fares in May 1980. It's report said that competition was an illusion under the Two Airline Policy and recommended that it should be phased out to be replaced by air travel prices related as closely as possible to the cost of providing them.

The government partially accepted the report's recommendations but the close relationship between air fares and the organization of Australia's domestic air transport under the two airline policy prevented immediate radical change. In April 1981 the government decided to continue the existing system of air fares but establish an Independent Air Fares Committee to conduct reviews and set domestic air fares in the future. It met for the first time in January 1981.

The government introduced some changes to existing fare levels at this time by increasing the cost for shorter flights and reducing them for long flights. For example, the Sydney-Canberra economy fare increased from $40.50 to $56.20 while the Sydney-Perth economy fare fell from $268.10 to $253.70. In addition, Super Apex fares (35 per cent below economy fares) and stand-by fares (25 per cent below) were introduced and off-peak fares were discontinued. These changes resulted in a slump in air travel because the price rises on the shorter routes discouraged passengers but the decreased air fares on longer routes did not encourage more passengers to compensate. This did not please the airlines and the Chairman of TAA said it was the result of what happened when people with no experience in aviation meddled in it, and asked the government to leave the airlines alone to run their own business in what was, he said, a fairly efficient industry.

The government's deliberations on the future of Australia's domestic airlines came together on 28 May 1981 when the government introduced into parliament a package of bills about the airline industry. They were the Airlines Agreement Bill 1981 (ratifying the agreement negotiated between the two domestic airlines); the Airlines Equipment Amendment Bill 1981 (which removed freight from the two airlines policy and revised controls over the import of aircraft by airlines other than Ansett and TAA); the Independent Air Fares Committee Bill 1981 (to establish an independent air fares committee); and the Australian National Airlines Repeal Bill 1981 (to corporatize TAA). They were passed by both Houses of Parliament in June that year.

The government also enquired into international air transport policy with a Review of Australian International Air Transport Policy but it was not universally welcomed and was abandoned at the end of 1981. Ansett, travel agents and the tourist industry welcomed the review because they hoped it would give them greater access to the international air transport market but Qantas and TAA opposed it. The government explained that it abandoned the review because Australia's airlines needed time to adapt to the changes they already faced but still introduced some changed to its international policy. Qantas remained Australia's sole international air line and Ansett and TAA its major domestic airlines but the government said it would open up additional international gateways to Australia. Previously international flights had been limited to the major capital cities such as Perth, Melbourne, Sydney and Brisbane but that limited tourism, so international flights would be allowed to deliver passengers to Darwin in the Northern Territory, Townsville in northern Queensland and Port Hedland in northern Western Australia to encourage tourism there.

During the 1970s two State government's conducted reviews of their internal air transport arrangements, as the New South Wales government had earlier done when it allocated routes between East-West and Airlines of New South Wales. When the Northern Territory was granted self government in 1978 it conducted an inquiry into how air transport there might be improved but proposals included the possibility of Ansett flights through Darwin to Singapore and Northern Airlines (the new name for Connair) services to Bali, Timor and New Guinea. However, international air transport was the preserve of the Commonwealth government which did not approve these suggestions. The Western Australian government published its review of internal air transport in July 1982 which recommending competition on many routes that had previously been operated exclusively by MMA. The Western Australian government advertised for proposals and some airlines including East West applied, but the local airline Skywest was given approval to fly on routes to places in the state such as Geraldton, Kalgoorlie, Port Hedland and Karratha.

Another large Commonwealth government review was the General Aviation Study that was proposed to help the government better understand the structure, operations and economics of general aviation so it could make decisions about the sector and put cost-recovery on a more equitable and efficient basis. The study was undertaken by a small team in the Department of Transport with the support of general aviation and accepted submissions from a wide selection of the aviation community.

The Study's 400 page report was released in March 1980 but pleased almost nobody and caused the government more trouble. Its main recommendation was that cost recovery from general aviation should increase to 38 per cent, three times its existing level, mainly through the introduction of a new Air Movement Charge. The report also rejected general aviation's claims that it made an important contribution to the nation. Within a month thirteen general aviation organisations had agreed to form a national committee to oppose implementation of the study's recommendations and political pressure on the government against the report's recommendations was so intense that, in July 1981, the Minister announced that the government would not introduce the proposed Air Movement Charges and rejected the study's suggestions that the general aviation industry had no value to the whole nationally.

The outcome of the General Aviation Study was symptomatic of relations between the government and the civil aviation industry. In part it was said to be the result of poor communication between the government and the industry so, in 1977, the Minister for Transport, Peter Nixon, suggested creation of machinery for formal interaction between his department and the industry in the form of an aviation industry consultative council, chaired by Halton with representatives of ATI, East-West, Qantas, TAA, general aviation, commercial and private operators. The government hoped it might improve communication between the administration and the industry but Ansett saw little value in it, saying that it had the appearance of another talking group which had little capacity for decision making. Despite this, the Minister created the Aviation Industry Advisory Council which began meeting in September 1978.

The Council did not appear to achieve much in the big scheme of things. As early as January 1977 *Aircraft* had reported that Peter Nixon, the Minister for Transport, and Charles Halton, the Secretary of the Department of Transport had a poor reputation in the industry. There was something seriously wrong, *Aircraft* said, when the transport administration began to take on the appearances of a continuous seminar, study group and think tank but with little decision making and resulting action.

The government eventually acknowledged this dissatisfaction and a review of the Department of Transport senior management structure began in 1980. When it was completed in April 1982 the government announced that it would establish a separate Office of Civil Aviation within the Department of Transport and appoint a Controller of Civil Aviation who would be subordinate to the Secretary of the Department. A special Bureau of Air Safety would also be created to report direct to the Secretary. This arrangement was remarkably similar to the one that had been created in 1921 when the then new civil aviation administration had first been established as a subordinate part of the Department of Defense.

As events transpired this decision was not put into action. Instead, what happened was reminiscent of what had happened in 1938 that led to the creation of the Department of Civil Aviation. It included the economic and social upheavals of the early 1980s that put the government under severe pressure, a cabinet crisis which forced the Prime Minister to reshuffle his cabinet in early 1982 and the Cold War which had reached a new intensity, putting the Minister for Defence under severe criticism with demands for his replacement. There was also the tension between coalition partners about the balance of power in cabinet and it seemed that Ralph Hunt, the Minister for Transport at the time, would be dropped from cabinet and replaced by Wal Fife who had impressed many of his colleagues with his performance. Prime Minister Fraser in 1982 was in a similar position to Prime Minister Lyons in 1938 and had a number of option, ranging from minimal changes to wholesale reconstruction and, like Lyons before him, Fraser chose a minimal rearrangement. On 7 May 1982 he announced that the Minister for Defense would be replaced, a new Department of Defense Support would be created, Ralph Hunt would remain the Minister for Transport and Wal Fife would become the Minister for Aviation so he could give the industry ‘undivided ministerial attention’.

The Department of Aviation was created in May 1982 with Wal Fife as its Minister. He had no experience of civil aviation but was a member of the inner cabinet, which gave civil aviation a voice in government it had lacked for over a decade. Halton was sent to be the Secretary of the new Department of Defence Support and Col Freeland was appointed Secretary of the Department of Aviation. He had no aviation background but was said to be a good administrator.

The aviation industry established amicable relations with the new Department but there were problems that could not resolve because, while the new department was better for the industry than the Department of Transport, it was not DCA. Most of the experienced DCA officials had been replaced by Department of Transport staff who were career public servants so the old trust that had developed between DCA and the industry could not be regained. In addition, the economic and political situation of the early 1980s was quite different from the problems that DCA had faced.

CHAPTER THREE
LIVING IN THE EIGHTIES

This chapter moves away from the specifics of Australian civil aviation for a little while to consider Australia more generally during the 1980s. This is necessary because the transformations that occurred during that decade were the source of the changes that subsequently took place in Australian civil aviation. The social and cultural changes that had been brewing since the 1960s began to revolutionize daily life while the economic problems of the 1970s led to the development of a new attitude towards the role of government in Australia.

Australia had become a more diverse and sophisticated society but it was also less easygoing as the exuberance of the late1960s and early 1970s was subdued by the economic insecurity that grew during that decade. Life had never been better in many ways with more people getting better educations and many families having two incomes, so spending on goods like motor vehicles, video recorders and travel increased to record levels. Change also came from migration and a growing Australian self confidence that made Australia a more dynamic, self assertive and pluralistic society.

Australia became one of the world's most multicultural nations as the percentage of migration from the British Isles declined in favour of migration from many other countries, with about a third of Australia's migrants coming from Asia between 1976 and 1980. A major new group came from Vietnam as refugees at the conclusion of the Vietnam War in 1975, 73,000 between 1976 and 1985 . By this time almost all migrants and tourists came to Australia by air but 2,000 Vietnamese refugees came by boat for economic and political reaons, which began to become a concert to some sectors of the Australian public.

Australia also forged stronger trade links with Asia as the share for European (primarily British) trade dropped from 63 per cent to 16 percent and trade with East Asia increased from 14 per cent to 56 per cent. Australia benefited from the fast-growing Japanese market during the 1970s and 1980s, from the rise of South Korea and Taiwan and later the growing importance of China. Links with Australia's traditional partners remained strong with foreign firms dominating key industries with household brands including - Shell, Ford, Kodak and, Philips, but the reorientation of trade, investment and migration flows weakened the old ties and forced Australians to face the challenge of dealing with new cultures and customs and the arrival of new Asian brand names such as Mitsubishi, Kawasaki, Sanyo and

Samsung.

The emphasis that had been given to industrialization in post-war Australia began to decline and deindustrialization began from the 1970s, slowly at first after manufacturing employment reached a high of almost 1.5 million in 1972-73. Agricultural employment also declined and, after Australian farmers and graziers had supplied 86 per cent of Australia's exports in 1950, that share had fallen to below 25 per cent by the 1990s. Primary production remained the main source of Australian exports with the percentage made from exporting fuels, minerals and metals rising from 6 per cent in 1950 to more than 40 per cent. Australia also began exporting services which rose from 5 percent of exports to 20 per cent.

The nature of work changed with the introduction of new methods and new technologies. Mechanization began replacing many jobs traditionally done by the working class. Mechanized labour and containerization on the waterfronts ended the need for most manual labour there and heavy machinery such as bulldozers and cherry pickers replaced muscle power in much other manual labouring work. There was also less demand for domestic labour due to the growing acquisition of white goods such as refrigerators and washing machines. Computerization began to change middle class work. Computers had begun to enter offices and laboratories in the 1950s but the introduction of microprocessors in the early 1970s resulted in many middle class jobs, such as accounting and clerical work, being automated and women began to find that some areas of work such as typing, secretarial work and switchboard operating also began disappearing.

Urbanization, increased affluence and the growth of a middle class created greater demand for a range of services including transport, utilities, tourism and personal service that only the rich had previously been able to afford. This led to an increasing size and sophistication of the service sector which became an essential part of the Australian economy. Many jobs in the sector were low status and low paying but others, which became known as 'knowledge industries' were prestigious and well playing, including occupations in finance, health and education. They became some of Australia's most significant new industries, education became an export industry and finance and investment services expanded quickly. Many services became more professional as the economy developed and required greater levels of skill and qualifications. Professionals, including lawyers, accountants, engineers and others began taking more prominent roles as society became more complex and required more specialized expertise and they incorporated new knowledge into the services they provided to create an increasingly complex society. For example, the Aviation Law

Association of Australia held its inaugural meeting in 1980. It was well supported by insurance brokers, freight forwarders, the major airlines, commuter and general aviation operators and all those who had been taken into civil aviation as it expanded, grew more sophisticated and the need for their specialist services increased.

The service industry included growth in the arts in Australia as a middle class form of consumption. Sport became more professionalized as entertainment that was made accessible through television with, for example, the advent of World Series Cricket in 1977-78 and the expansion of state based football codes to become national competitions. Civil aviation enabled these developments by flying performers and teams between cities quickly and comfortably.

From the mid 1960s the number of women in the workforce grew at almost three times the rate for men and around 45 per cent of working age women were in the workforce in 1980. Birth control became widely accepted and the fertility rate had dipped to below 2.0 children per woman by the late 1970s, compared to around 3.3 children per woman in the first half of the 1960s. Following the Whitlam government's family law reforms, the number of divorces grew to more than 60,000 before stabilizing at about 40,000 a year during the rest of the 1970s. Women's increased economic independence altered gender relations but women remained clustered in low-paid sectors of the economy and many worked only part-time. The Affirmative Action Act of 1986, that required employers with more than 100 staff to create equal opportunity programs, recognized that impediments to equality continued to exist despite the anti discrimination laws that had been passed previously.

Gender stereotyping and discrimination remained commonplace everywhere, including the aviation industry. By the beginning of the 1980s there were over 367,000 people working in Australian civil aviation, over 51 000 of them pilots. In the United States some major airlines began employing female pilots in 1973 but when Deborah Wardley attempted to become a pilot with Ansett from 1976 she was rejected because, Ansett said, passengers would not be comfortable with a woman pilot. In 1978 Wardley went to the Victorian Equal Opportunities Board which determined that she had been discriminated against on the grounds of sex and that Ansett should enrol her in the next pilot training program. Ansett appealed to the High Court of Australia but, by the time the Court rejected the appeal, Wardley was already flying with the airline after a change in management and creation of a more inclusive culture there.

Both women and men began working in airliner cabins but discrimination also existed there. When Qantas began employing female cabin crew they had different wages and conditions; a flight steward's maximum wage was $28,000 a year and a flight hostess's was $18,000 a year after ten years service. Males could be promoted to positions of senior flight steward and chief steward but promotion for women was very limited, they could only reach the rank senior flight hostess and there were few of them. The domestic airlines began employing men as cabin crew on 5 November 1980 when TAA employed its first two male cabin attendants while Ansett employed four men as cabin crew in October 1981. As a consequence the Airline Hostesses' Association changed its name to the Australian Flight Attendants Association. However, when the domestic airlines began employing men as flight attendants it was under different wages and conditions to female cabin crew.

These social and cultural changes took place against a background of economic and political uncertainty as the Fraser coalition government tottered from crisis to crisis. The second oil shock in 1979 saw the price of crude oil skyrocket which pushed up interest rates and inflation in Australia past 10 per cent again. Fraser attempted to bring the economy under control through renewed confrontation with the unions which threw much of their energy into achieving reducing the working hours, with the result of increased industrial disputes from 1980-81. A short resources boom of 1979-81 turned out to be an illusion and mineral exports collapsed. Much of eastern Australia was ravaged by drought during 1981 and 1982 and farm incomes fell sharply, leading to a drop in rural exports in 1982-83.

Australian economic performance was the worst since the Depression in 1982. Real wages rose by 4 per cent in 1981-82 but only at the cost of accelerated unemployment which rose from 6.2 to 9.6 per cent between 1981-82 and 1983-84. In an attempt to revive the economy the government relaxed its tight control over public spending and monetary supply and embarked on an expansionary federal budget for 1982-83 in the hope of stimulating the economy. The result was renewed inflation, a breakout of wages and a further jump in unemployment with inflation running at an annual average of 10 per cent.

The source of all these problem seemed to lie in the failure of Keynsian economic theory which had been the fundamental assumptions underlying Australian economic and political philosophy. In 1975 the Australian treasurer had said that the simple Keynsian world they had known since the war had collapsed, but Fraser's government found this hard to accept. It tried to use the previously proven economic tools of controlling money supply and government spending to manipulate the economy, but they did not work as expected and it turned to regulation in the hope of managing aspects of the national economy. For example the Trade Practices Commission was established in 1975 to deal with consumer protection and similar matters and the Foreign Investment Review Board was established the same year to screen and monitor foreign investment and limit takeover of Australian companies. Similarly, the National Companies and Securities Commission was established in 1980 to help rehabilitate the share market and watch over the public interest.

This reliance on Keynsian theory and regulation took place as politics worldwide shifted to the right with a revival of the Cold War and its arms race, and with Thatcher in power in London and Regan in power in Washington. They promoted a new theory of economics which Thatcher explained by insisting that what counted was individual competition in an economy rather than a collective society. In Australia this economic theory was called ‘economic rationalism’ with a simple philosophy that governments should take their hands from the levers of economic control and leave it to the marketplace to control the economy, save for some regulation to ensure the market place was ‘a level playing field’.

By the early 1980s the Fraser’s government was threatening to disintegrated over what should be done to resolve the problems confronting Australia. A pro-free-market group formed inside the government which believed Fraser had been timid in tackling Australia’s structural economic weaknesses and cowardly in his reversion to Keynesian pump priming in the 1982 budget. They insisted that Australia’s recent chequered economic history could only be remedied by sweeping market reforms that would free the country from its regulatory straightjacket and enable it to compete successfully in the global economy.

This doctrinal struggle effected the government’s civil aviation policy. When the Two-Airline policy was negotiated a growing number of federal government backbenchers were philosophical opposed to it because of its strict regulation of the airline industry. They said they were prepared to cross the floor in the House of Representative to reject the new two-airlines legislation and, when the vote was taken, the new Two Airline Policy legislation passed by only one vote. The corporatisation of TAA was also intended to quieten this increasingly vocal sections of the government which favoured less government involvement in commercial enterprises.

The Fraser government’s troubles ended when, demoralized and unpopular, it was defeated in the March 1983 election and the ALP returned to power, led by the charismatic and hugely popular Bob Hawke.

Hawke and the ALP intended to avoid the mistakes of the Whitlam period and demonstrate their capacity for superior economic management so they grasped with both hands the political thorn that Fraser had been too timid to hold. They repositioned the ALP as the party of market oriented reform with policies for private sector deregulation, public sector reform and economic growth. They believed that only improved trade conditions, improved national efficiency and greater competition could save Australia, and that could only be achieved if the Australian economy became more competitive through a return to 'free markets'.

Treasurer Keating warned that unless national performance improved Australia would 'end up being a third rate economy ... a banana republic'. Agencies which specialized in assigning credit ratings to the world's governments on the basis of their economic management were watching Australia and their influence on the world of investment and the international money market had a strong influence on Australia's decision makers. Consequently, Australian concerns turned from nation building and industrialization protected by duties and tariffs to the removal of trade barriers, competition, privatization, deregulation and unfettered enterprise which were necessary, the Hawke government said, for Australia to compete effectively in a world market. To achieve these goals the government reviewed its provision of goods and services and public sector ownership of utilities, and began to privatize some activities and agencies - the Commonwealth Bank among the first - and streamlined regulation and competition policy.

Reforms began with the Public Service, replacing the previous nation-building ethos with demands for flexibility in employment, priorities and measures of performance that were more attuned to financial cost than social outcome. Public sector staff numbers had fallen by the early 1990s, replaced by the trend to buy in expert advice in contracts and consultancies which tended to concentrate policy making and enabled government ministers to reasserted control over the bureaucracy to ensure their new policies were put into action.

Central to the Hawke government's success was securing cooperation of business and the trade unions. The Prices Surveillance Authority was created in 1984 to promote price restraint and the Prices and Incomes Accord between the government and unions that was designed to restrain inflation. The Accord evolved, in stages, into a two level system of wage levels granted in the national wage case and wage increases granted for increases in productivity. Over time a growing number of workers moved from collective bargaining agreements to individual contracts negotiated with their employers and more than a third of employees were covered by them by 2000. With the unions in check and business onside, the government began work on a series of reforms that brought to fruition changes that Fraser had merely toyed with.

The government floated the Australian dollar in December 1983, deregulated capital markets by unpegging the exchange rate of the Australian dollar, reduced bank regulations and lifted restrictions on the entry of foreign banks into Australia. It progressively reduced tariff protection for Australian industries, manufacturing and rural production that opened Australia's markets to overseas exporters. Australia's tariff barriers had protected and encouraged the growth of local industry so when they were removed Australian manufacturing declined in the face of overseas competition. Businesses that had flourished were forced out of business and sectors of Australian manufacturing disappeared along with thousands of jobs.

The Australian economy began to lift between 1983 and mid 1985 with a GDP that rose by 5 per cent each year, in comparison to the average of under 2 per cent for the last six years of the Fraser government. However, Australia's economic problems were far from over. Inflation was at nearly 8 per cent in 1989 so the government tried to curb it by allowing lenders to charge up to 20 per cent interest to cool demand. Unemployment peaked at 10 per cent in the first year of the Hawke government before receding gradually over the next two years to around 8 per cent. Twenty-five per cent of the teenage labour market was unemployed in 1983, and never dropped below 20 per cent during the Hawke years, and the number of long term unemployed rose from about 20 per cent under Fraser to around 30 per cent under Hawke.

The ALP's reforming zeal was matched by the entrepreneurial spirit of men who used the deregulated financial market to created multi-faceted corporate empires in Australia and around the globe. Australia's most prominent business leaders threw their energies into bigger and greedier take-over bids, often using the foreign capital so Australia's external debt, which stood at 8.6 per cent of GDP in mid 1982, nearly quadrupled during the next four years, passing 31 per cent by mid-1986. Nearly 55 per cent was private sector debt, a lot of it spent on take-over activity and conspicuous consumption. During 1986 and 1987 John Elliot and Robert Holmes a Court struggled to secure control of Australia's largest company, BHP, while others fought for control of businesses in Australia, Britain and the US. By the late 1980s Rupert Murdoch was not only Australia's biggest media magnate he had also become owner of many newspapers in the English speaking world.

The exploits and extravagant lifestyles of these men made them famous in the emerging celebrity culture of the time. Ables, Murdoch, Packer, Elliott and Bond became the heroes of the time, and Prime Minister Hawke and his political friends moved easily in their sphere. Many Australians reveled in the exploits of these men so the culture of saving and self-sufficiency that had typified earlier middle class values was replaced by a culture of consumption. This world of unfettered spending had been opened to most Australians in late 1974 when the banks began to promote credit cards.

The speculative boom was snuffed out in October 1987 in a global stock market slump that created a worldwide financial crisis because overenthusiastic competition had driven most banks to lose any sense of caution in making loans. When the end came many of the foremost players of the 1980s found themselves swamped in debt: Bond Corporation had a debt of $9.3 billion, John Spalvin's Adsteam $9,2 billion, John Elliott's Elders-IXL and Harlin $7.9 billion and many others had debts of more than a billion dollars. This did not mark the end of big business deals, only their celebration in Australian popular culture.

CHAPTER FOUR
PROBLEMS OF NOISE AND SAFETY

When the Hawke government took power in 1983 it had a simple civil aviation policy which was part of its wider policy of creating a market driven economy free from unnecessary regulation. It's policy was to have as little to do with civil aviation as possible by divesting itself of responsibility for and involvement in the industry. Australia's civil aviation industry was an ideal subject for the government's reform agenda because it owned two major airlines, almost all the nation's civil aviation infrastructure and regulated the industry.

Australia's airports were a good place to start because the government owned all the most important ones and they were a very expensive responsibility. In October 1984 the government announced that it would establish the Federal Airports Authority (FAC) to take over the ownership and operation of the six major capital city airports at Sydney, Melbourne, Brisbane, Perth, Adelaide and Hobart. The Corporation would remain fully owned by the government but be financially self-supporting and operate commercially to pay the government reasonable dividends. This would stop airports from being a major drain on government funds and reflected the economic theory of the times which held that commercial facilities such as airports would be better managed by government business enterprises than by government departments. By mid 1985 the government had added another 17 major airports to those that would be taken over by the FAC, including all the major capital city general aviation airports. (In 1989 the government gave the FAC a further six airports to administer, making 23 in all.)

The FAC began operations on 1 January 1988 with a staff of about 1,600 transferred from the Department of Aviation. Just before it was established Ansett and TAA were given long term leases (20 years with a 10 year option) on their airport terminals so they would invest in their development. The Corporation's assets were valued at $1,096 million and, at the end of its first year, it reported a profit of $43.7 million and paid the government a dividend of $12.8 million with interest repayments of $46 million. Commercial activities such as leases and commercial rents made up 62 percent of its revenue, the remainder coming from aeronautical charges such a landing fees. The industry complained, saying that the FAC was using its monopoly powers to charge unnecessarily high fees. The FAC replied that it's landing charges were the fourth lowest on a list of 40 world airports and complained that there was too much outside interference in it's operations.

The FAC was profitable, making $43.6 million in 1989/90, $80 million in 1990-91, $23.6 million in 1992/93, $36 million in 1993/94 and $123 million in 1994/95. Twelve of the 23 airports made profits with the biggest contributions coming from Sydney, Melbourne, Brisbane and Perth airports.

In 1985 there were 269 locally owned aerodromes that received financial assistance under the Aerodrome Local Ownership Plan and only 40 government owned aerodromes remained eligible for transfer to local ownership. With Australia’s most important airports in the hands of the FAC the government decided to cut its support to locally owned aerodromes. At the Australian Airport Owners Association meeting in September 1990 the government announced it would stop funding all locally owned aerodromes and local governments would have to accept ownership of the aerodromes in their area or they would be closed. This left local authorities with full responsibility for their aerodromes but with no government financial support for them. The cost of operating airports also increased on 1 July 1999 when the government made airport owners responsible for security at their airports, including a counter terrorist presence, overall access control and the security of the air side areas of airports.

After the government stopped supporting small country aerodromes their survival depended on how much they were used and how much their owners were willing to support them. In many towns across Australia the local aerodrome had become an important link to the rest of the world and a community that lost its aerodrome was cut out of the modern world of business, government and tourism. Larger regional aerodromes could do well if they attracted regional airlines and general aviation companies but towns and cities close to capital cities usually did not develop regular air services because air transport could not compete with good road and rail links. One example was the aerodrome at Goulburn (two hours drive and two and half hours train travel from Sydney) that was not generating enough traffic to pay for its maintenance by 1996 when the Goulburn City Council made $12,000 revenue from its airport but spent $68,000 on their airport. Places further away fared better because the speed of air travel made them competitive with land transport so, at Albury (five and a half hours drive, seven and a half hours by rail and only one and a quarter hours flying time from Sydney) the airport could be self supporting.. However aerodromes were costly to run and increasing costs forced owners to lift their charges so, in 1998, the Albury City Council increased its charges from $7 to $10 for every passenger who passed through their airport. In Western Australia the extreme distances and thinly spread population made it impossible for many local aerodromes to break even so the Western Australian government allocated $7 million to enhance its network of regional aerodromes in 1995.

Regional aerodromes serving major tourist destinations did better. When Cairns Airport was taken over by the Cairns Port Authority in 1981 projections suggested it would receive 780,000 passengers annually by 1990 but the actual figure was 1.13 million during that year. In 1994/95 the Cairns Port Authority began a $85 million airport upgrade to include international and domestic terminal extensions that would increase retail space by 250 per cent.

The FAC embarked on a massive works program that was planned to cost $2.3 billion by the end of the century. It included doubling the capacity of international terminal at Sydney Airport, new passenger terminals at Darwin and Alice Springs Airports, a new international terminal at Brisbane Airport, terminal improvements and a freight city and multi storey car parking at Melbourne Airport and a runway extension at Adelaide Airport.

Despite the change in ownership, Sydney Airport remained a significant problem for the Hawke government. The ALP held seats around the airport and community anger about aircraft noise made the party afraid to do anything that could lose those seats and possibly cost it an election. So, when it returned to government in 1983 it stopped construction of the parallel runway the previous government had approved to be built at the airport and allocated $500,000 to finding a site for a Second Sydney Airport. In 1986 it announced that the Second Sydney Airport would be constructed at Badgery's Creek, 42 kilometres south west of Sydney which would, it said) initially be opened in 1991 as only a general aviation and freight airport.

This new airport at Badgery's Creek would reduce the noise problems and congestion at Sydney Airport but the proposal was controversial. Interest groups rejected environmental impact studies for the new airport as inadequate and estimated that 50,000 people would be subjected to noise and other environmental problems, including air pollution, from the new airport. Because of these objections, and with its attention focussed elsewhere, the government made no progress with the Badgery's Creek airport proposal while the situation at Sydney's existing airport grew worse.

Airport noise had become a serious political problem and in the 1990s a 'No Aircraft Noise Party' ran candidates in electorates adjoining the airport. At the same time, the capacity of the airport had become a serious problem for the civil aviation industry. In 1987 Sydney Airport handled over 203,000 aeroplane movements and delays in taking off and landing were so common that flights from Canberra and Newcastle had to contact the Sydney control tower for permission to join the queue to land at Sydney Airport before they took off. At peak periods demand sometimes exceeded capacity by more than 30 per cent, costing Ansett and TAA about $25 million a year by 1989. Sydney's congestion problems were aggravated because about forty per cent of all international flights to Sydney Airport arrived in the five hours between 6 and 11 in the morning and linking flights to domestic destinations created simultaneous peak period for both..

Some work was done to increase the airport's capacity and a peak period charge was introduced to encourage regional airlines to use the airport at other times, but the capacity problem had become too critical to ignore and, in 1989, the government was forced to approve construction of the third runway it had cancelled in 1983. Work began at the end of 1992 on land reclaimed from Botany Bay and the new runway was ready by November 1994. The new runway was parallel with the existing main runway so it could doubled the airport's capacity also promised to reduce aircraft noise because more flights could take off over the bay, improving the noise situation in many surrounding suburbs. Nevertheless, the curfew on jet operations between 11pm and 6am remained.

The new runway was opened a year before the new control tower and radar that were necessary for the parallel runways to be used together, which reduced the capacity of the airport from 75 to 50 movements an hour. The major domestic airlines claimed that this cost them the equivalent of keeping a Boeing 737 circling the airport for 10 hours a day. The new control tower and radar system began operations in December 1995 so the airport was then able to handle up to 80 movements an hour in good weather but when the new runway was opened the east-west cross runway was closed (except for weather and emergencies) because, the government said, using all three runways at the same time was too dangerous. This closure focussed aircraft noise to the north and south of the airport away from ALP held electorates but caused greater noise annoyance along the new flight paths from the main runways and the number of noise complaints the FAC received rose from an average of five calls a day to 35 during the first few weeks.

With more airliners using the airport and new flight paths, noise was no longer confined to a few suburbs and many more people found themselves effected by it, leading to protest marches, airport blockades and political controversy. Some 31,000 households, as well as schools, hospitals and nursing homes were said to be under the new flight paths and one report claimed that the value of homes, there had fallen by 16 per cent. Airport noise around Sydney Airport became such a problem that, in 1994, the government approved a

$184 million compensation package to buy and demolish 133 of the most effected houses and insulate another 4,200 houses, schools, hospitals and nursing homes against the noise. From July 1995 the government introduced a noise levy of $3.40 for each passenger at the airport to help pay for the package.

Even though airports remained something of a problem, the government found that divesting itself successfully of the rest of the Department of Aviation was much more difficult. This was because people would not use civil aviation if they thought it was unsafe and the public also thought that ensuring safe flying was a government responsibility so the weight of public opinion was always a strong factor in any government decision about aviation. However, safety cost money which the government was increasingly unable or unwilling to spend and, while cost recovery was supposed to solve the money problem, the industry resisted it as strongly as it could.

The conflict between safety and the cost of ensuring it became a serious problem as the government faced the difference between the theories of deregulation and free markets and the practicality of aviation safety. This combination of money, safety and political dogma made finding a solution about what to do with the rest of the Department of Aviation very challenging. The conflict of these three forces started to come into focus at the annual general meeting of the GAAA in November 1984 when the Minister for Aviation suggested the possibility of breaking up the Department of Aviation and Dick Smith launched his book *Two Years in the Aviation Hall of Doom*.

The Department of Aviation cost the government $490 million in 1983 and, after cost recovery was taken into account, it still cost $184.8 million. To cut costs the Department was restructured ‘along commercial lines’ to reduce staff and increase productivity so the government could take the industry to full cost recovery in ten years. However, due to the economic climate and budgetary difficulties of the times, the government later decided to reduce its subsidy of the aviation industry even more quickly so cost recovery would reach about 93 per cent by 1986/87.

To many in the industry it seemed that the high level of cost recovery was the result of departmental overregulation, inefficiency and bad management. This was highlighted by Dick Smith, a household name in Australia by the 1980s, whose book *Two Years in the Aviation Hall of Doom* described the difficulties and frustrations of trying to deal with the Department in the apparently simple business of establishing a helicopter landing pad near central Sydney. It quickly became a rallying point for all those who believed that the Department was too heavy handed, too expensive and used the word 'safety' to justify whatever it did, but were afraid to speak up for fear of reprisals.

Smith had the knack of stirring up public interest in the causes he championed so he made aviation safety and the government's administration of it newsworthy. The resulting public outcry led to a House of Representatives Standing Committee investigation into the matter that received over 800 submissions (rather than the usual 60 to 80). It's report was highly critical of the Department, saying that it had gross internal contradictions in its safety philosophy and did not communicate well, internally or with the aviation industry.

To overcome this criticism, in October 1985 the government announced that it would establish a Civil Aviation Authority (CAA) to take control of the operational aspects of the Department of Aviation from 1 July 1988. In 1987 the Department was absorbed into the Department of Transport and Communications and, when the CAA was created, most of the policy sections, and the Bureau of Air Safety Investigation, remained within that Department under direct government control.

The CAA was a statutory authority under the direction of a board of nine with responsibilities including setting and enforcing safety standards and providing air traffic control, flight advisory services, communications, navigation and surveillance systems and rescue and fire fighting services. It had a staff of 7,184, mainly transferred from the old Department of Aviation and assets worth $455 million, mostly airways equipment and buildings. Like the FAC, the CAA was expected to be profitable and in its first year it made an operating profit of $44.6 million on a total revenue of $560.93 million.

Safety was a primary Authority responsibility, but cutting costs came a close second. An Air Safety Regulation Task Force was set up in October 1987 to report on aviation safety and resolve friction between the administration and the industry. Its first report criticised the CAA for failing to consider the economic implications of safety regulation and reported that many sections of the industry regarded the CAA with 'antipathy, cynicism and fear'. It's second report stressed the need to strike a balance between cost and safety, saying that all previous civil aviation administrations had given little consideration to cost when making decisions about safety, but that that philosophy was no longer acceptable because costs were an essential component of the safety equation.

Dick Smith became one of the CAA's first board members and he agreed, saying the CAA had to reduce costs significantly because it had a staff of 7,000 for 8,900 aeroplanes registered in Australia, while Canada had a ratio of about one staff for every three aeroplanes.

When Smith was later appointed Chairman of the CAA he planned to promote this policy vigorously and told the staff in Canberra that it was time for major change; if they agreed with him he wanted their 'committed and loyal support', but if they didn't he wanted them to leave. Some did, including the CAA's Chief Executive and his deputy.

Smith called the concept of balancing safety against its costs 'affordable safety' because, he said, safety had to be limited by how much the industry could afford to pay for it. So that the aviation industry could afford its safety the CAA had to refocus its objectives and review its resources with plans to cut its staff by about 2,500 over four years and abandon a $300 million air traffic control re-equipment program. Traditionally, aviation safety had been ensured in Australia through strict Departmental testing, inspection and documentation but this would now be replaced by a new management tool called 'quality control' or 'quality assurance'. This was a form of self regulation in keeping with the philosophy of the times that put the onus for safety on civil aviation operators rather than the regulators by merely requiring operators to comply with the procedures set out in approved manuals.

Under this new system the CAA issued and audited Air Operator Certificates (AOCs) which replaced its long standing system of operator licences. Obtaining an AOC could be a long, arduous and expensive process that involved preparing detailed manuals and demonstrating proficiency in meeting the procedures set out in them. This new process relied largely on the CAA trusting companies to follow the procedures set out in their manuals and checking, from time to time as resources permitted, whether or not companies were complying with their manuals. It was cheaper to administer than the previous system of close personal supervision and checking by government officials which had required trained staff, and it gave companies more flexibility in finding ways to cut costs by maintaining their fleets at lower standards and perhaps overlooking slight safety problems.

The CAA also dispensed with some traditional safety requirements. One was the practice of examining in detail every new kind of aeroplane introduced into Australian service that had cost Ansett and TAA over $3.7 million to certify Boeing 737-400s for service in Australia, even though they had already been certified by the FAA in the United States. In May 1990 the Authority gave Qantas approval to issue its own certificates of airworthiness for its own aeroplanes to streamline and reduce costs further, a practice that it later extended to others in the industry.

To reduce costs further the CAA began cutting back on other services. It withdrew rescue and fire fighting services from aerodromes where services flown by F-27s and F-28s were replaced by regional airlines flying smaller aircraft that, the Authority said, did not justify the services. The Flight Services Units at up to 93 aerodromes, that had previously provided aeradio service, conducted pilot briefings and many administrative functions were all closed by February 1993, being replaced by services provided remotely from centralised offices. The CAA also reduced manning levels at many control towers and closed some, claiming new technology made it possible to provide equivalent or better services from more centralised bases. The loss of these services in regional areas led to the loss of jobs which had contributed to the economy and life of those country communities and the CAA announced it was selling about 300 houses that had previously accommodated its staff and families in country towns in 1992.

CAA staff were demoralized. Between 1988 and 1995 the CAA staff fell from 7,500 to 4,750 with a further reduction planned by 1996. An internal survey showed that up to 75 per cent of staff had little or no faith in senior management and a leaked confidential paper reported that CAA middle management were unhappy with their executives, considering them 'yes' men on contracts that had not been awarded on merit. Staff reductions had cost the Authority an enormous amount of technical expertise and practical knowledge while the loss of corporate wisdom, professional knowledge and deskilling had demoralised the remaining staff. By the mid 1990s the CAA was widely discredited and the industry believed it lacked the resources and properly trained staff it needed and that commercialisation had led to reduced safety standards. CAA staff reductions, declining levels of experience and falling morale reduced its level of competent in monitoring the industry and, in 1995, the CAA discovered it had failed in its responsibility to pass on about 200 airworthiness directives from overseas safety agencies to the local industry.

These problems were compounded by the government's attitude towards funding the CAA. Initially the government committed itself to funding a 'safety contract' with the industry, saying it would pay the cost of setting safety standards but the industry would have to pay the cost of enforcing safety through the levies charged by the CAA, with full cost recovery being phased in over seven years. However, even before the CAA commenced operations the declining economy led the government to reduce funding to the Authority by $80 million, forcing it to increase its aviation charges by 3 per cent. In 1991 the government announced it was phasing out safety funding so the CAA would have to find an additional $15 million a year, leading to further cost cutting.

The industry reacted ferociously and lobbied the government strongly to change its policy. As a result the government committed itself, in August 1992, to funding 50 per cent of the cost of safety services, not exceeding $22.8 million. However, in 1993, the government introduced an aviation fuel levy that was later raised to 1 cent per litre to collect $18 million a year to recoup the cost of safety services. That, along with other charges, would raise about $24.3 million a year from the industry while the government continued to contribute $22.8 million a year to safety regulation. The CAA announced charge reductions in real value terms; by $96 million in the 1992/93 financial year, by $109 million in 1993/94 and $66.4 million in 1995/96. In its 1994/95 annual report it claimed to be charging over $200 million dollars a year less than it had in 1988.

The civil aviation administration had probably never been more unpopular and the general aviation sector set up a fighting fund to combat any further government attempts to increase safety costs. In 1989 a Senate committee examined the operations of the FAC and CAA and found widespread hostility. The FAC was accused of imposing discriminatory charges and the CAA with being self serving, excessively regulatory and imposing unfair and unnecessary costs. Partly in response to these findings and partly because of the government's desire to make them more competitive, the FAC and CAA were converted into Government Business Enterprises that were expected to be profitable and pay income tax. It also made their fees and charges subject to Prices Surveillance Authority scrutiny to curb their monopolistic tendencies.

All this disruptive change was reported in detail by the media, highlighting the problems of administrative efficiencies and threats to aviation safety. The reputation of the CAA was further damaged when it awarded the $270 million contract for a revolutionary air traffic control system in May 1992, it but the decision was immediately attacked as unsafe and unfair. This led to the resignations of the Chief Executive and the official in charge of the selection process. Later inquiries into the process found it had been unsound and unfair but when tenders were awarded again the same contractor won the contract, but the process had been delayed by two years.

Another example of apparent incompetence occurred in 1993 when the CAA announced it would introduce a new airspace arrangement at the beginning of November to improve air safety, reduce costs and simplify flying procedures. Although these new arrangements had the full support of most of the industry's key organisations Dick Smith alleged it would threaten safety, was too complex and would further emasculate general aviation. His protest created a wave of public protest that forced the CAA to abandon the system just before it was due to be introduced.

Cost reductions to achieve ‘affordable safety’ worked well until It was tested by cold reality and public alarm. When the nosewheel of an Ansett International Boeing 747 was damaged at Sydney Airport the damage was slight but the headline news raised questions about the administration of aviation safety.

When a Monarch Airlines Piper PA31 crashed and the seven people on board were killed in June 1993 the CAA’s critics blamed the crash on its failure to enforce safety and its reluctance to ground airlines that were having financial difficulties, despite constant breaches of safety standards. The report released a year later said the CAA appeared to be biassed towards letting an airline survive rather than promoting safety. The criticism was so strong that, in July 1994, the Minister for Transport announced that the House of Representatives Standing Committee on Transport, Communication and Infrastructure would enquire into air safety standards, and the compliance with, and supervision of, air safety standards in the commuter and general aviation sectors.

As if to reinforce the lessons the Monarch tragedy, a Seaview Air charter flight crashed and nine were killed in October 1994. Allegations of government and CAA incompetence led to censure of the Minister for Transport and three enquiries into the state of air safety in Australia. The CAA replaced its Director of Air Safety Regulation, transferred the responsible officers, effectively put Seaview out of business and set up three flying squads to subject small companies to the most rigorous examination. As a result four small airlines and 51 aeroplanes were grounded and 11 companies were issued with notices to bring their aeroplanes up to the required safety standard.

The government’s response to the growing public outcry about aviation safety was rapid and predictable. On 12 November 1994 the government announced that the CAA would be abolished and replaced by two new bodies, an aviation safety regulator to be knows as the Civil Aviation Safety Authority (CASA) and an airways service provider to be known as Airservices Australia (ASA). This new arrangement, it said, would eliminate the possibility of safety regulators being compromised by industry cost recovery.

The CAA was divided into CASA and ASA on 1 July 1995. CASA’s staff of 530 was expected to increase to up to 800 by the end of the year and it’s chief, who had come from the United States Federal Aviation Agency, said his main task was to ‘help restore confidence in the Authority and aviation safety’.

CHAPTER FIVE
DOMESTIC AIRLINES IN THE 1980s

By the beginning of the 1980s it was clear to Australia's airlines that the end of the two-airline policy was on the horizon. The task they faced was to position themselves so that they would survive and prosper in a deregulated environment, when it came.

Deregulation has started to seem inevitable from the 1970s when the problems created by the government's domestic aviation policy - such as parallel scheduling - had illustrated it's contradictions. The 1981 review into domestic air fares had also concluded that the Australian air transport industry was economically inefficiency because the government encouraged it to remain inefficient. Deregulation of United Sates domestic air transport in 1978 also influenced Australian thinking because, although it had created a period of chaos and confusion, it also dramatically reduced the cost of many air fares and made air travel the normal mode of travel over long distances there.

The coalition government's amendments to the Two-Airline policy in 1981 had set the scene for change by making domestic air transport a little more competitive. It reduced the amount of compulsory co-operation between the airlines, including the choice of new airliners, so there could be some difference between the services they offered. It allowed the second-level airlines greater flexibility so they could offer limited competition to the major domestic airlines. It also brought the commuter airlines under greater control through the introduction of Supplementary Airline Licences that replaced Regulation 203 approvals, and it reduced the previous tight regulation of air cargo.

Soon after it came to power the Hawke ALP government amended the policy to give TAA substantial financial independence and freedom from government control over it's basic commercial activities. It also repealed the previous government's legislation to make TAA a public company to prevent it from being sold and restore staff morale. However, its main concern was to determine a framework for domestic aviation policy into the 1990s so, in 1984, it announced an independent and comprehensive review of the two-airline policy that included everything except operational and safety matters. The Independent Review of Economic Regulation of Domestic Aviation reported its finding to the Minister on 7 January 1987. It's 800 page report was critical of the existing policy and highlighted significant public dissatisfaction with it because it had been designed to preserve the structure, stability and stable profit levels of the industry rather than meet the expectations of consumers.

The findings of the Enquiry were the final nail in the coffin of the Two-Airline Policy and, on 7 October 1987 the government announced that it would terminate the Two Airline Policy in October 1990. Control over importing airliners and capacity would end and the Independent Air Fares Committee would be disbanded. It would be left to the Trade Practices Commission and Prices Surveillance Authority to ensure fair competition in the industry.

Part of the reason for the stability of the Two Airline policy had been that, since the mid 1950s, the private airline in the duopoly had been under the control of Reg Ansett who used it to his advantage when the coalition parties were in government. Ansett's airlines were only part of the larger Ansett Transport Industries (ATI) which had other interests including road freight, general aviation aircraft sales, insurance, television, hire purchase and finance. This made it an attractive target for more aggressive companies with interests in those industries.

A takeover of ATI began in 1972 when Thomas National Transport (TNT) acquired 23.5 per cent of ATI and Peter Abeles, the head of TNT, joined the ATI board. This arrangement continued through the rest of the 1970s until the collapse of a financial company in which ATI held shares cost it $20 million and put it under severe pressure, inviting more takeover activity. After a series of negotiations, secret meetings and broken agreements typical of the 1980s, News Corporation and TNT each held 50 percent of ATI's shares and Rupert Murdoch and Peter Abeles were named its joint Managing Directors. Reg Ansett remained Chairman of the board until he died in December 1981.

TNT and News Corporation were global enterprises. TNT employed 52,000 people and did business in eighty countries and News Corporation was active in the media across the free world. Murdoch's main interest in ATI was in its media subsidiaries including television stations, and Abeles' interests were its transport subsidiaries including its airlines. They said they intended to retain the airlines and committed themselves to major improvements in their fleets and services. To mark this change, in mid-1980 the airline introduced a new all-white livery, a new tail logo and only the word 'Ansett.' on the fuselage. The other ATI airlines were also given new leases of life after the take-over with new liveries and individual images. Ables liked airliners and bought more than ATI's airlines needed so, by 1986 he had 66 airliners on order. To use them he set up Ansett Worldwide Aviation Services to provide lease packages of aircraft and services to other airlines around the world.

Abeles and Murdoch breathed new life into ATI's airlines and Ables' enthusiasm drove them. He wanted Ansett to grow to become a global business. They created a whole new image with new aircraft liveries, new passenger terminals and vastly improved in-flight services which caught TAA off guard. Ansett's new ownership also gave TAA a serious public relations problem because Ansett now had the backing of News Corporation which was the largest press group in Australia and could exercise strong political influence in favour of Ansett against TAA.

Direct competition between Ansett and TAA was still regulated and a gain of only one per cent in the market share represented $10 million in revenue. There were, however, other ways in which the airlines could compete and that became stronger after the Whitlam had amended the Two Airline Policy so TAA could enter new areas of business including accommodation and tourism in direct competition to Ansett. In 1976 TAA became a partner in TAA-Mayne Travel Industries which operated as Australian Accommodation and Tours (AAT) and the airline also bought interests in the northern Queensland resorts of Great Keppel Island, Wanderers' Paradise Tourist Park and Dunk Island (in conjunction with P&O Australia).

When Ables took over management of Ansett he expanded into more aviation activities which competed with TAA. Ansett entered an agreement with Qantas in 1985 to create joint sales offices which, TAA estimated, saw a 25 per cent shift in traffic to Ansett that would cost TAA some $7 million a year. ATI bought Traveland International in August 1986, which had channelled $9 million of business to TAA the previous year, and also Elders IXL Travel that gave it access to the very large pastoral market. It started managing Polynesian Airlines in 1987, which gave it access to air travel in the Pacific region. TNT also bought Lloyd Aviation which flew charter and regional air services that had previously been linked into TAA's airline network. Ansett also entered an agreement with Jetstar travel agencies that linked the airline with Avis Rent-a-Car which helped Ansett in airport terminals where TAA controlled Hertz and it controlled Avis as they competed for desk space and customers.

The growing popularity of private cars also led to another change because, by the end of the 1970s, most passengers drove to airports. Since the beginning of air transport the airlines had city terminals where passengers could check in their luggage and then take an airline coach to the airport, but both airlines closed their city terminals in October 1982 to economise because the service was not well used by then.

The airlines also competed in air freight after it had been largely deregulated. On most routes deregulation had little effect because both Ansett and TAA already had well established air cargo businesses using their passenger flights and, for example, TAA carried 48,954 tonnes of freight that way alone in 1980.

The routes between Tasmania and the mainland were the greatest area of competition where, in 1977, Brain and Brown and Air Express each used an Armstrong Whitworth Argosy heavy cargo aeroplane which was capable of carrying 12 tonnes of cargo but could not be converted to carry passengers. Along with Ansett and TAA they carried about 39,000 tonnes a freight a year across Bass Straight. They were joined on the route by IPEC which imported two Argosies and then also acquired Brain and Brown's Argosy. In 1981 Air Express ceased flying, leaving IPEC as the only significant air freight competition to Ansett and TAA.

IPEC wanted to expand further but the government rejected an application to operate freight services linking Melbourne, Sydney and Darwin. Instead it gave IPEC approval to import a Douglas DC-9 freighter for use on its routes between Melbourne and Tasmania that commenced in August 1982. TAA formed a close association with IPEC and chartered capacity in it's all cargo DC-9 and Argosy freighters to carry night freight for TAA on east coast routes. However, Mayne Nickless and Ansett bought control of IPEC in 1988 and it switched over to serving Ansett which gave that airline the capacity to dominate Australian air cargo. IPEC disposed of its old and slow Argosy's and had, in 1989, two DC-9 freighters operating a shuttle service between Melbourne and Launceston and a nightly freight run from Melbourne to Brisbane and back via Sydney.

To improve their performance the airlines looked for ways to attract more passengers, in part by charging lower fares. They introduced off peak fares from June 1973 and APEX fares in November 1977, which offered 25 per cent discount for economy travel booked 30 days in advance. Stand-by fares were introduced in 1978, offering discounts of 20 to 30 per cent on economy fares and the airlines also offered Super APEX fares from 1980 which offered 40 per cent discounts on economy fares but with tighter conditions. The airlines also offered concessions for children and students and concessional tourist packages that included reduced air fares.

These strategies filled seats that might otherwise have flown empty but they did not make as much as a seat carrying a full fare paying passenger, so both airlines set out to improve their yield, the amount of revenue gained from every seat in an airliner. When TAA introduced new airliners to its fleet in October 1982 it also introduced 'business class', which cost 15 per cent more than economy class fares but attracted passengers who wanted more comfort but were not prepared to pay first class fares. Ansett did not offer this new class at first because it claimed its economy class service was as good at TAA's business class, but when it introduced new airliners to its fleet in July 1989 Ansett also offered business class.

Both airlines opened special lounges in 1982 to attract preferred passengers who were waiting for their flights. TAA's 'Flight Deck' and Ansett's 'Golden Wings' lounges catered for frequent passengers - predominantly business people and senior public servants - who were a valuable segment of the market but TAA's first 'Flight Deck' lounges were not as good as Ansett's lounges so, in October 1983, it announced plans to spend more than $4 million to expand and upgrade its lounges. Lounges proved so popular that the airlines upgraded them every few years to include extensive food and beverage services and business and meeting facilities including fax, telephone, photocopying and secretarial services. These clubs charged an annual membership fee but their real role was not to generate profit but to create passenger loyalty in the high yield business and government market.

The 1980s was not a good time to try managing a successful airline because instability in the Australian economy led to a similar instability in the industry. In 1978/79 Australia's domestic airlines carried 10.783 million passengers, a growth of 4.5 per cent over the previous year. The industry then entered a severe slump and, in the year to March 1982, TAA passenger figured fell by 6.8 per cent, Ansett's by 1 per cent and all Ansett's second level airliners made losses. By mid 1983 passenger figures were down by 13 per cent and air freight was 11.9 below the figures for previous years.

The industry downturn in 1981 effected TAA badly. AAT, which had already been making losses, lost $2 million that year but TAA kept it because it was an important source of passengers. In December 1982 TAA decided to sell eight of it's properties, a resort and it's main property in Sydney, but kept Dunk Island and Keppel Island because they remained profitable and contributed to the airline's traffic.

Almost as quickly as it had come, the slump lifted and the domestic airlines returned to growth in 1984, a trend that continued for the rest of the decade during which growth increased at an annual rate of around nine per cent. For year ended 30 June 1984 TAA reported an operating profit of $15.99 million and $29.96 million the following year. After that the airline achieved a series of record profits; $29.9 million in 1985, $37.7 million the following year, $39.1 million in 1987, $46.8 million in 1988 and $70.3 million in 1989. For the year to 30 June 1988 TAA's passenger demand greatly exceeded expectations and it reported an increase in revenue of 16.8 per cent to over $1 billion.

Air fares rose often during this period to keep in step with inflation and the other increasing expenses the airlines faced. In 1980, for example, they rose three times; by 8 per cent in February, 5 per cent in June and another 5 per cent in September. Increases continued through the 1980s and in 1989 fares rose by 5.7 per cent, but inflation was higher at 7.6 per cent.

There were other factors that effected domestic airline performance. International airlines ate into the domestic airlines' profitability and when only Sydney and Melbourne airports had been Australia's international airports the domestic airlines had done well from carrying international passengers on to other parts of Australia. However, when the government opened other airports to international flights the domestic airlines lost that on-carriage business so when, for example, Adelaide airport was opened to international flights it cost TAA business worth more than $9 million a year.

Strikes also effected the airlines. In the year to 30 June 1981 strikes within and outside the industry reduced TAA's profitability by an estimated $9 million and later that year a strike by Licensed Aircraft Maintenance Engineers reduced the airline's profits by another $6m. A two day domestic pilots strike in October 1983 cost both Ansett and TAA more than $2 million each.

Strikes effecting one airline and not the other helped the one that stayed flying. For example, troubles at Ansett in 1988 gave TAA a market share of 54.4 percent and 58 per cent on the Melbourne-Sydney route. Earlier, in 1984, a strike at TAA over the employment of flight engineers cost it a market share reduction for the quarter from an expected 50.1 per cent to 46.3 percent, that reduced profit by $9 million and seriously affected forward bookings by an estimated further $7 million.

That strike had occurred because improved technology in airliners made it possible to remove the flight-engineer from the cockpit so airliners could now be flown by only two pilots. In November 1984 the union approached both airlines with a demand for guaranteed employment for presently serving flight engineers for their normal career expectancy. Ansett agreed to the demand but TAA did not and its largest airlines were grounded for eleven days before their flight engineers agreed to accept retraining or redundancy when they were no longer required in the cockpit. After this Ansett had flight crews of three and TAA had flight crews of two when they introduced new airliners to their fleets.

After the Two Airline Policy had been revised so the airlines no longer had to buy and fly the same kinds of airliners this became the main way in which they could offer competitive difference to passengers. The government still controlled the overall capacity of the two airlines' fleets so the choice lay between having fewer airliners with more seats or more airliners with fewer. At the end of 1977 both airlines had fleets of four 727-100s, seven727-200s and twelve DC-9-30s. In mid 1977 both airlines ordered two more 727-200s each and then another two each to be delivered in 1980. Due to the downturn they withdrew some of their old 727s from service and sold or leased them overseas.

Ordering more 727-200s had been a compromise between the requirements of the two airlines and uncertainty about the new generation of more efficient airliners that were becoming available. For the most heavily patronized routes, such as the one between Melbourne and Sydney, either the Airbus A.300s or Boeing 767s would be suitable. The A.300 had a passenger capacity of up to 271, was relatively simple with proven economies, had been flying since 1974 and could be delivered early. The Boeing 767 had seating for around 200 passengers, was more advanced, had yet to fly and would be available later.

TAA was keen to include larger aeroplanes in its fleet and could get A.300s soon if it made a quick decision so, in December 1979, it ordered four 269 seat A.300s to be delivered between June 1981 and November 1982, with options on two more. Reg Ansett had also been interested in A.300s but after the change in management Ansett decided to order new Boeing airliners instead and it's managers thought TAA was making an unwise and hasty decision.

TAA's order for A.300s was the largest single investment every made by an Australian domestic airline, costing some $200 million including spares and ground equipment. TAA also committed another $36 million for capital works associated with the order including a new maintenance hangar, a new cargo terminal at Perth and renovations and alterations to the airline's Sydney and Melbourne passenger terminals. The A.300s put TAA into heavy debt and it's debt-equity ratio, which had been 4.2:1 in 1979, was expected to be 13:1 in 1984-85.

TAA's first A.300 entered service on 22 July 1981. It brought to Australia's domestic air routes the wide-body flying experience that international passengers already enjoyed, included 12 channel in-flight audio entertainment, more spacious passenger cabins and larger carry-on luggage storage. With A.300s flying on the popular Melbourne-Sydney route TAA was able to use its 727-200s on other routes. But, although the A.300s promised to give TAA great improvements in operating efficiency, that was only possible if it flew with good passenger loads, and that did not happen. TAA had planned for a 7 per cent growth in 1981-82 but the arrival of TAA's A.300s coincided the deep downturn in passenger demand so customer response was well below TAA's expectations. Ansett countered the A.300s with a brilliant advertising campaign, upgraded its cabin service and used its larger fleet of smaller airliners to offer more frequent flights while TAA's less frequent A.300 flights often left with empty seats. TAA also soon found the 269 seat A.300s were about 50 seats too big to fit well into it's fleet structure. By 1984 TAA had a fleet of 26 aircraft including five A.300s. Ansett's fleet had three more jet airliners, and an addition ten jets in its subsidiary airlines that were available to supplement the main fleet. So, while both airlines had the same number of seats to offer customers, Ansett could offer more frequent flights with the result that TAA's share of the market fell to a disastrous 48 per cent.

As a result of these factors TAA recorded it's first operating loss for 30 years of $9 million in May 19892 . By October it's finances were at crisis point, it had a bank overdraft of $30 million and long term debt commitments exceeding $250 million, and it was losing $1 million a week by December 1982. The government agreed to give it a capital injection of $25 million but that was far short of the airline's need so the board decided to sell some of its assets. The airline's problems continued into 1983 when it made an operating loss of $18.3 million. After several years of cost-cutting it was approaching the limits beyond which further cuts would be detrimental to service standards so staff reductions became a necessity and it's staff, which had reached 9,003 in November 1981, was cut to 8,100 in March 1983 and 7,874 later in the year. TAA delayed delivery of its fifth A.300 for a year but Airbus refused to consider cancellation so the airline decided to sell one of its earlier A300s 'on any reasonable offer' and it eventually leased off a couple outside Australia and later sold some. It also used one as a dedicated freighter on the Melbourne-Sydney-Brisbane route in competition with IPEC's DC-9 freighters.

Ansett responded to TAA's A.300 order by placing a $400 million order with Boeing for five wide body 767-200s, four additional 727-200s and 12 737-200s. The timing was good. TAA's 269 seat A.300s had arrived in Australia at the beginning of the downturn in mid 1981 and Ansett's first 201 seat Boeing 767 did not arrive until June 1983 when the worst of the slump had passed. Being almost seventy seats smaller than the A.300s, they also fitted nicely with growing passenger demand so their introduction to service was not the disaster that the A.300s had been for TAA.

By the late 1970s both airlines were also seeking replacements for their DC-9s which were getting old and had limited range that made efficient scheduling difficult. Likely replacements were the more efficient Airbus A.320 and Boeing 737 that were becoming available. Ansett ordered Boeing 737-200s to replace it's Douglas DC-9s on eastern coast routes, they both carried around 100 passengers but 737s offered improved passenger accommodation. They began entering service in mid 1981 and fitted easily into Ansett's existing route structure and were popular with passengers. Instead of matching Ansett's 737-200 purchase TAA decided to spend $2.5 million upgrading half its DC-9 fleet with improved accommodation and quieter engines, but they were uncompetitive with Ansett's 737s.

In May 1985 TAA announced that it would buy 12 737-300s for $506 million to replace its DC-9s. These were improved versions of Ansett's Boeing 737-200 with new and quieter engines and a passenger capacity of 126 with transcontinental range that allowed them to fly directly from Sydney to Perth. First delivery were planned for July 1986 with monthly deliveries thereafter. Ansett also ordered twelve 737-300s to replace it's 737-200s. The first arrived in Australia in August 1986. Ansett's 737-300s had first and economy classes and TAA's had first, business and economy classes, but both had 112 seats due to the Two Airline Policy.

The airliner that appeared to best replace the airline's Boeing 727-200s was the Airbus A.320 which had a passenger capacity of about 140. Ansett ordered eight 140 seat A.320s with an option for a further nine, with deliveries starting in late 1988. In 1985 TAA also ordered nine A320s to replace its 727s and DC-9s with deliveries commencing in April 1989. However, at about the same time as these orders were placed Boeing announced a new version of the 737, the Boeing 737-400, a stretched version of the -300 with capacity for 147 passengers. TAA calculated that it could save about US$100-130 million by buying 737-400s rather than A.320s because of the advantages in scheduling and staff efficiency from fleet commonality. While Ansett continued with its purchase of A.320s TAA decided to abandon theirs and announced, in October 1987, that the government had given it approval to buy more 737-300s and eight 737-400s, with further 737-400s subject to later confirmation. They were modified to operate at higher take off weights than standard -400s and had two auxiliary fuel tanks so the could fly unrestricted on Australia's longest routes. The 737-400 order brought TAA's outstanding 737 family order to about $600 million in a package that covered four 737-300s that had previously been ordered, six 737-400s to be delivered in 1990 and three in 1991 plus options on five more 737-400s to be delivered in 1992.

The first the 737-400s arrived and went into service in March 1990 and TAA's last five DC-9s were put on the market in July 1989 and sold to American company for $US32 million. By November 1990 Ansett had a trunk fleet of five 767-200s, eight A.320s, 14

Boeing 737-300s and four 727-200s. Australian Airlines had a fleet of five 737-400s, 16 737-300s, four A.300s and nine 727-200s.

By the early 1980s there was a feeling in the industry that TAA was drifting without a clear sense of direction and its poor decision making and performance against the revived Ansett needed to be reversed if the airline was to survive. TAA's fortunes were restored when James Strong was appointed as TAA's General Manager in late 1985. He was 41, a lawyer with experience in the mining industry who intended to give the airline a more 'commercially attuned' focus.

After Strong's arrival the airline developed new strategies to make it an enterprising, innovative and competitive airline in competitive times. Coinciding with the arrival of its first Boeing 737 in July 1986 the airline was rebranded as Australian Airlines with a new distinctive livery. Among its other strategies the airline aimed to improve its performance by concentrating on high yield passengers in the business passenger triangle between Sydney, Melbourne and Adelaide. It also began a restructuring program in 1990 which included plans to retrench up to 1,000 staff in the immediate future, restructuring and cost cutting to minimize losses and prepare itself for deregulation.

At the beginning of the 1980s there were six second level airlines in Australia, three of them owned by ATI, but by the early 1990s there were none. They had disappeared because the cost of using airliners like Fokker F-27 and F-28s, which carried between 50 and 80 passengers, was not competitive with the smaller and more efficient regional airliners that now served Australia's regional areas.

Airlines of South Australia (initially Guinea Airways and then a part of ATI) had three F-27s which it used on all its routes but it faced stiff competition from regional airlines, had little scope for growth and was losing about $1.5 million a year, so it ceased flying in mid 1986. Airlines of Western Australia (initially Macrobertson Miller Airlines that had been acquired by ATI) faced competition from commuter airlines, primarily Skywest, and lost heavily. In 1984 the airline was renamed Ansett WA, it's airliners began appearing in Ansett livery and its flights to the major centres of the state were incorporated into Ansett's schedules, so that it effectively disappeared.

Airlines of New South Wales (initially Butler Air Transport that had been acquired by ATI) was Ansett's major airline in New South Wales that served the major regional centres allocated to it by New South Wales government. In March 1990 it was renamed Ansett NSW but when the government reviewed its air services that airline lost five of it's most profitable routes and was threatened with closure. The airline was relaunched in 1991 as 'Ansett Express' to fly subsidiary services for Ansett and then gradually declined to almost nothing more than a brand name.

In the Northern Territory Northern Airlines (initially Connellan Airways) was taken over by East-West Airlines in September 1980, but lost $200,000 a month and lasted less than six months. After that Ansett Northern Territory used F-28s on a service from Darwin to Alice Springs but it's route was incorporated into Ansett's national network in March 1991.

The situation was more complex in Queensland because of competition between Ansett and TAA for the valuable on-carriage of passengers, but the outcome was the same. After a struggle between the airlines TAA took control of Bush Pilots Airways which flew to forty destinations using large aircraft like DC-3s and F-27. It was not a success and the airline was closed in 1987. TAA flew, with government subsidies, on inland routes using F-27s but when the subsidies were withdrawn 1984 the services became unprofitable. Some routes were taken over by smaller companies such as Sunstate Airlines and TAA tried to maintain some services with smaller 15 passenger aircraft, but these services did not break even so TAA closed its operations in Queensland.

The only second level airline that came close to surviving was the New South Wales East West Airlines. Eventually it suffered the same fate, but it's trajectory showed the changes taking place in Australia's air transport industry as it approached deregulation at the end of the 1980s.

With deregulation on the horizon East West Airlines planned to become Australia's third major domestic airline but it needed to expand to do that. It began F-27 services to Norfolk Island in March 1977, replacing Qantas flights, and in April that year it became the first airline in Australia to accept credit card payments for the convenience of customers. In 1978 it launched a $99 return fare between Sydney and Hobart and, by early 1980, it had become the third largest domestic airline in Australia with a fleet of 10 F-27s. In February 1982 TAA gave East West some of its routes from Melbourne to northern Tasmania and Albury, and a little later East West also began flying from Sydney to Newcastle and Coolangatta.

Things started to go wrong when East West bought a controlling interest in the Northern Territory's Connair for $1.8 million and sold Connair's aeroplanes to small Northern Territory aviation companies which took over some of its routes. East West set up Northern Airlines but for territorial services but it was not successful and ceased flying in

February 1981. This weakened East West, making it vulnerable and creating an opportunity for Brian Grey, an accountant working for Ansett who had experience of airline management in New Guinea. With associates backed by a large loan, he bought all the shares in East West for a reported $7.5 million in August 1982 and was appointed the airline's Managing Director. It was an expensive gamble because, despite East West's popularity, the Two Airline Policy prevented it from importing more airliners to give it capacity to meet passenger demand, and it was said to be make substantial losses when it was sold to the Western Australian company, Skywest, in December 1983.

Skywest was the largest general aviation company in Australia with a fleet of 44 aeroplanes and the contract to operate the Costal Surveillance and Customs flights around the Australian coastline. It planned to establish its own airline to compete with Ansett in Western Australia and continue its competition with the major airlines, particularly in the cut price tourist market. It offered discount fares 45 per cent below the major airlines' fares so demand increased rapidly but its fleet was limited and the government did not grant it permission to import any new airliners to meet that demand.

The government gave East West approval to fly on some of Australia's main air routes and it expand its routes dramatically with cheap fares, but still limited it's passenger capacity. The major airlines saw this as a threat to the Two Airline Policy which resulted in a number of court cases which went as far as the High Court. The cooperative relationship that TAA and East West had enjoyed since 1947 ended and, in the battle between the two airlines TAA poached Dennis Howe, East West's Managing Director, who joined it as a senior manager.

East West was rumoured to have lost more than $10 million in 1986 with debts of about $170 million. In mid 1987 Skywest lost its $20 million Coastwatch contract and the financial shock was too much for the struggling company so East West and Skywest were sold to TNT/News for $150 million in July 1987. ATI's acquisition of East West lifted ATI's share of the domestic airline business from 46 per cent to 54 percent and took away from TAA feeder traffic worth about $40 million a year.

On the eve of deregulation Ansett announced it would rebrand East West as a discount, no-frills airline in the tourism and low fare market so Ansett could promote itself as an up-market business airline. East West's operating costs were reduced by integrating it's management, engineering, reservation systems and training into the Ansett group. In mid 1989 East West ordered eight new medium capacity jet airliners with options on four more but nothing seemed to make East West profitable despite Ansett's efforts. By the middle of 1993 all that remained was a brand name and, when Ansett finally closed the airline on 1 January 1994, it had made losses totalling $244 million in the previous three years.

On the eve of deregulation Australia's domestic airline landscape had been rearranged with two major airlines that were well managed and prepared for a fight. There were no second level airlines worth consideration but a flock of smaller regional airlines allied to and supporting the major airlines. However, Ansett and Australian Airlines were still quite inefficient by world standards due to the legacy of the Two Airline Policy. One area of inefficiency was their level pilot employment.

Pilots knew that deregulation would put pressure on the airlines to reduce their costs and that would include pilot's working conditions so they moved to oppose that. In early 1989 the Australian Federation of Air Pilots (AFAP), which represented almost 1,500 pilots, began preparing for deregulation by telling its members to prepare for prolonged industrial action later in the year over their claim for improved wages and conditions that included pay increases of around 30 per cent. That, however, was well beyond anything acceptable to the airlines and the ALP government.

Negotiations between the Federation and the airlines stalled in early August 1989 and pilots held a stop work meeting on 11 August at which members voted for the Federation to take any action it saw fit. In response the airlines stood firm and the government announced it would support them. On 17 August the Federation said that pilots would only work 'office hours' and after that the situation escalated quickly. A fully blown strike might have followed but the implications of Australia's industrial relations laws forced Australia's domestic airline pilots, 1,647 of them, to resign en mass on 24 August. This left Australia with a domestic airline industry that could not fly. Airports were silent, the entire Australian domestic airliner fleet stood abandoned, hundreds of thousand of passengers were stranded, the country was brought to a standstill and the Prime Minister declared it a 'national emergency'.

The government helped the airlines in several ways. It gave them about $50 million so they didn't have to lay off staff who had no work to do and the FAC and CAA waived $27.4 million in charges to also help. It allocated eight RAAF transport aircraft to carry passengers on Australia's major routes (that had to be refueled at air force bases because the Transport Workers Union refused to refuel them). It also authorised all international airlines flying to Australia to carry domestic passengers on flights inside Australia and fourteen overseas airlines agreed to carry stranded passengers.. By late August the RAAF and international airlines carried some 7,500 passengers a day, compared with the usual 40,000 passengers each day.

The airlines rebuilt their services slowly. They restarted their Melbourne-Sydney services on 13 September with one airliner each flown by management crews, and gradually introduced a very small number of services that way. The airlines also began ‘wet-leasing’ overseas airliners (leasing aircraft and the crews to operate them) and the first one began flying for TAA on 24 September. Eventually 19 wet leased airliners flew in Australia. These flights helped a little but were very limited so, for example, in September TAA carried only 9.2 percent of its budgeted traffic and it’s total revenue for the month was more than $97million below budget.

The airlines needed pilots urgently and advertised for them widely, in Australia and overseas. They told the Federation that they were resolute in their determination to rebuild and would offer contracts to about 60 per cent of pilots who had resigned, but if response was slow they would continue recruiting widely for replacements. By mid September Ansett had negotiated individual contracts with fifty pilots and Australian was hiring new pilots at the rate of sixteen a month. By the end of January 1990 TAA had recruited 217 pilots, only 101 of them former Federation members.

Australia’s airlines slowly returned to full service. The RAAF transports discontinued civil services on 15 December and TAA stopped leasing seats on scheduled international airline services on 31 December 1989. By 8 January the airlines were generally meeting demand, comprehensive schedules for domestic air services were in place and the government announced that its compensation arrangements for the airlines would end. On 26 April 1990 the last wet leased airliner returned overseas. When it was back to full services in April Australian’s pilot workforce consisted mainly of its former pilots and Australians who had returned from overseas, recruits from general aviation and around sixty very experienced pilots from overseas airlines.

In the short term the strike was a disaster both for the airlines and pilots. Ansett and East West estimated they lost $106 million, Australian said it had lost about $100 million and the strike probably cost Qantas a similar amount due to the drop in tourist numbers. Tourism was badly effected and visitor numbers at many resorts during the final quarter of 1989 were drastically down; Ayres Rock by 96 per cent and Alice Springs by 71.7 per cent. The loss to the domestic tourism industry from the strike was estimated at between $230 million and $350 million. The strike was disastrous for the pilots, some of them never returned to the industry, and those who did had poorer working conditions than when the strike began.

The strike had a huge cost to the nation which lost perhaps $600 million worth of flying training invested in the pilots who went overseas or did not fly locally again. By the end of November forty-one of the 105 former check and training pilots - the most experienced and qualified pilots in Australia - were snapped up by overseas airlines and about 500 of Australia's most experienced airline pilots had gone overseas by the middle of 1990.

The strike had shown that Australia was dependent on its civil aviation industry and that it was now the dominant form of long distance travel. The railways, long a bitter rival to air transport, did nothing to exploit the situation. In earlier times they would have run as many extra interstate train services as possible to handle passenger demand but they did nothing in 1989, having reached the dismal conclusion that the more interstate passengers they carried the more money they would lose.

In the long term the pilots strike was a boon for the airlines because it helped them to become more efficient. Before the dispute East West had employed 142 pilots, after it the airline employed 57. Australian cut its pilot list from 547 to 280 and Ansett, which had employed 870 pilots, only needed around 400. Under the new working conditions pilots would fly about 700 hours a year rather than the previous 370 hours. Ansett said this had basically doubled productivity and Australian said it's cockpit productivity had increased by between 25 and 35 per cent.

The stage was now set for deregulation. In September 1989 James Strong left Australian Airlines to take up a position leading one of Australia's major law firms and his place was taken by John Schapp who had been a senior executive with Qantas for many years. Australian Airlines had been rebuilt into a much leaner organisation with a restructured top management. Ansett undertook a similar top management reorganisation and, on the verge of deregulation, rebranded itself as Ansett Australia and put the Australian flag on the tails of its airliners to show that it intended to serve all Australia. The major airlines were ready for the new world of the free market and Ables commented: 'Our competitors will have the rights of free enterprise - they will have the right to go broke'.

CHAPTER SIX
GOING FOR BROKE

At midnight on the last day of October 1990 the Two Airline Policy came to an end. The Department of Transport marked it with a party at the Melbourne Zoo and Australian Airlines held a function at Ayres Rock. Australia's domestic airlines were now free to decide the routes they flew, the aircraft they used, the services they offered and the fares they charged without interference from the government.

The early 1990s were not an auspicious time to launch new domestic airlines in Australia. The economy was entering another down turn and the world wide air transport industry was declining. In 1990 IATA reported combined airline losses of US$2 billion and estimated that the total airline industry had lost more than US$1.2 billion in January 1991 alone The Gulf War (August 1990 to February 1992) led to a sharp fall in demand for air travel which forced the world's airlines to make drastic reductions in services, staff and operating costs. The war also led to a rapid escalation of fuel prices from $19 to $40 a barrel. The resulting general decline in global air transport saw the world's airlines carry 4 per cent less traffic in 1991 than in 1990 and three major Unites States airlines collapsed as a result.

Australia's domestic aviation traffic also began declining in the first half of 1989 and by November the slump in traffic had led Australian to lease two of its Boeing 737-400s overseas. Business suffered badly in the declining Australian economy so businesses cut costs, including air travel, so airline bookings were slow and inbound tourism was affected by the Gulf War.

Starting new domestic airliners in Australia would be easy despite deregulation because of its relatively small market and the competition of two strongly entrenched airlines. Australian and Ansett prepared themselves for competition by reorganizing and refurbishing their brands. In August they introduced discounts of up to 50 per cent on their standard economy fare for selected Melbourne-Sydney flights and, later, extended these discounts to most of their primary jet networks to tap into the leisure market. In October 1990 Ansett announced a rebranding to be called Ansett Australia with a revised livery and Australian announced a major restructure to focus on profitability and performance in February 1991.

Deregulation started with promise. The CAA estimated that deregulation could bring about 17 additional Boeing 767 class airliners into Australia and when the FAC asked for information from possible new airlines it received responses from six possible new major airlines and five regionals that were planning to expand. News and rumours circulated freely with the names and plans of possible new airlines including Trans Continental, Southern Cross, Seaboard Airlines and AAA Airlines.

Out of all the potential new airlines only one, Compass Airlines, emerged immediately after deregulation. The man behind it was Brian Grey who had earlier led East West's failed attempt to break the duopoly. This time he planned to launch an all-economy class airline with fares cut by up to 50 per cent using a fleet of five Airbus A.300 airliners fitted to carry 277 economy passengers. Grey's plans were popular with the public and, although he said he needed $50 million to launch Compass, he had raised $65 million when the share issue closed. Compass began flying on 1 December 1991, commencing on the Sydney-Brisbane route and expanding by stages to a six airport network which covered 80 per cent of Australia's domestic airline traffic.

Compass's arrival started a vigorous fare war. Initially Compass offered discounts of 20 per cent on Ansett and Australian Airlines economy fares but, within two months, all three airlines were offering network wide limited seat discounts of up to 60 per cent. From May 1991 Compass offered fare reductions of up to 70 per cent for some seats on each flight and the other airlines followed. Competition forced a real decrease in Australian domestic air fares by an average of 20 per cent, but much less on routes where Compass did not compete. By early September Compass was ready to call at truce in the fare war but Ansett and Australian were not ready to stop once they had started. By the end of 1991 average air fares between capital cities had dropped by as much as 41 per cent and less than a quarter of passengers paid full fares. By late 1991 Compass was offering very low Melbourne-Sydney fares of $79, making air travel $100 cheaper than road coach fares on some routes.

Ansett and Australian responded to Compass differently. Ansett aggressively sought to build its market share while Australian stood back, letting Ansett pick up more passengers but also make greater losses. As a result by April 1991 Australian Airline's share of the market was 37.5 per cent, down from almost 43 per cent in November 1990. ATI's share in the same period fell from 48.5 per cent to 42 percent and Compass's share of capacity had grown 18.3 per cent in April 1991.

A record 14.2 million domestic passengers flew in 1990/91, in the June quarter of 1991 figures were up by 18 per cent and, as the fare discounting went deeper, passenger figures increased by almost 38 per cent in the September quarter. During the worst recession to hit Australia in half a century more people flew and load factors on major routes were up to

84.8 per cent.

Towards the end of 1991 Compass was carrying 12 per cent of total domestic passengers and 24 per cent on the routes it flew. In tourist resorts like Cairns it became difficult to find accommodation and car hire companies were struggling to cope with demand. As a result of the fare war the airlines took as much as 50 per cent of the Melbourne-Sydney rail passenger traffic, forcing cancellation of some services and the introduction of an inferior XPT services in 1992. Other inter-capital train services were also reduced and long range passenger rail travel struggled to survive in niche markets like the Ghan and Indian Pacific tourist trains. People also used their cars less for long distance trips, declining from 82 per cent of all such trips in 1975-79 to 66.4 per cent in 1994-95.

Despite its apparent success and popularity Compass stopped flying on 20 December 1991. It was the beginning of the Christmas holiday peak season, more than 125,000 people were left holding Compass tickets worth over $38 million and thousands of holiday plans were ruined but Ansett, Australian, Qantas and the RAAF helped to fill the void. A thousand staff were unemployed and 11,000 investors lost their money. The Compass collapse brought overwhelming public sympathy and support as its unemployed staff took to the streets, urging somebody to save the airline. Within days a fighting fund of over $5 million had been raised to help keep Compass going, but it was too late.

Compass's failure had several causes. One was it's computer reservation system that was completely inadequate in the first couple of months, resulting in many of its early flights leaving with only a few passengers. Grey said Compass had failed for other reasons including the economic downturn, problems in getting the A.300s the airline needed, the Gulf War and the escalating cost of fuel. He also claimed that a lot of the blame was due to his airline's inability to get access to the terminal gates it needed. Grey had negotiated with Australian Airlines for access to some terminal gates, which it was forced to give him at some airports under the terms of its leases with the FAC, but Grey claimed that was unsatisfactory. At Melbourne and Sydney Compass had used Australian's terminals, at Perth Airport it used the international terminal and at Adelaide it use a shed. However, most industry experts said the terminal gates Compass got were adequate and that it would simply have gone broke sooner if it had been given access to more terminal gates.

The fundamental reasons for Compass's collapse was the ability of its competitors to beat it in the key areas of capacity, efficiency, brand loyalty and the depth of their pockets. Grey had expected that there would be no further reductions after some fares had dropped by about 60 per cent because, he thought, the major airlines lacked the capacity to meet the increased passenger demand that reduced fares created. However, Ansett put more capacity into competing with Compass by adding 11 jets to its fleet in a year and Australian, after initially taking two airliners out of service to reduce capacity, realized that it was losing too much market share and had virtually added a third to its capacity by the end of the year.

Grey had not learned from TAA's problems with the A.300s which offered the potential of cheaper operating costs, but only if they flew with high passenger loads. His competitors did what Ansett had done to TAA at the beginning of the 1980s and offered seats on smaller but more frequent flights, which attracted business passengers in particular.

Grey also believed that Compass could offer fares 20 below those offered by Ansett and Australian because its operating costs were 8 cents per seat/kilometre while Ansett's was 14.8 and Australian's 15.5. However, both airlines began improving their efficiency by reducing operating costs and rationalising services. In early 1991 Australian planned to save about $100 million by cutting up to 1,500 jobs, increasing efficiency and replacing its remaining Boeing 727s with 737-400s while Ansett began rationalising its route network, particularly its second level airlines.

Ansett and Australian also used brand loyalty and their three class cabins against Compass to improve the yield they could make from each seat in their airliners. Compass offered only economy class seats so it could only charge economy class fares while both Ansett and Australia used three class passenger layouts to offer a variety of services at a range of prices to attract passengers, including business passengers who flew more frequently and usually paid full fare. While Compass cut fares to attract more passengers Ansett and Australian matched them with low fares for some of their seats but also carried passengers who paid full and premium fares.

Both airlines encourage repeat business by introducing 'frequent flyer' programs in August 1991 to create brand loyalty and stop the drift of passengers to Compass, or each other. (American Airlines had launched the first frequent flyer scheme in 1981 and Qantas started one in the mid 1980s to compete with the United States airlines flying to Australia.) By the end of the 1991 Ansett's scheme had 70,000 members and Australian had 80,000. Their frequent flyer programs and club lounges were attractive to business passengers while Compass attempted to counter by offering to add free or bonus tickets on full fare economy fares, which were attractive to passengers such as holiday makers but not the business market so Compass only had nine per cent of the business market by the time it collapsed.

What really counted in the end was that Ansett and Australian could afford to lose more money than Compass during the fare war that raged across 1991. Compass had flown for only 385 days and run up debts of $150 million but Ansett was said to have lost up to $204 million in the same period. Peter Ables commented that if Compass had had $150 million rather than $60 million Ansett wouldn’t have been able to match it.

Compass had serious liquidity problems from at least early 1991 and was behind in its payments to the CAA within three months. The Australian Securities Commission later said that Compass had traded for at least five months while insolvent, and lost $27.5 million during that time so it began court action against ten former directors. The mess was not tidied up until 1996 when creditors got only three or four cents in the dollar of what the airline owed them.

Compass’s failure meant that any new airlines would find it very hard to attract investors. A potential new airline, Transcontinental, claimed to have raised more than $100 but nothing came of it and AAA Airlines went into provisional liquidation with debts of about $4 million without having flown.

The only new airline to fly on Australian domestic airways was Southern Cross Airlines which offered to pick up the pieces when Compass collapsed, using the brand name Compass II. Compass share holders would get 25 per cent of the new company and Souther Cross would get an operational airline infrastructure including highly motivated staff and headquarters, an AOC and great public support for the popular Compass brand, but it also inherited a $22 million debt in unused Compass tickets. The new airline did not make some of the same mistakes, it had a fleet of five MD82/83s (improved versions of the old DC-9) with 142 seats in two classes so it could offer higher frequency services, greater flexibility and a better price structure. Even so, support for Southern Cross was not the same as it had been for Compass, it spent $500,000 over three weeks to promote it’s share float but only raised $27 million.

Compass II started flying on 31 August 1992, initially offering service linking Adelaide, Melbourne, Sydney, Brisbane and Townsville, and adding Cairns and Coolangatta later. By early December it had carried 250,000 passengers, but it had lost $10.9 million by the end of the month. To improve its performance the airline announced new fares designed to matched the major airlines and began developing a new marketing plan to capture more full fare paying business travellers. However, on 11 March the airline ceased flying when its major creditors refused to forego about $12 million in payments. It had debts of $27.8 million including $3.74 million owed to the CAA and $907,000 owed to the FAC. Like Compass, it has simply run out of money before it could start making any.

Ansett and Australian increased their capacity to fill the void left by Compass and keep up with growing demand. Ansett took delivery of the rest of it's A.320s, Australian's subsidiaries took over some of its smaller routes so it could increase capacity on trunk routes and it had a fleet of 16 Boeing 737-300s and 15 737-400s by March 1993 . Both airlines continued to offer special fares to fill excess capacity at off-peak times to attract additional passengers. On average, domestic air fares remained 22 per cent lower than they had been before deregulation, although some full fares such as Melbourne-Sydney and Sydney-Brisbane went up by about 20 per cent.

Despite the failure of Compass and Compass II more plans were announced to launch new domestic airlines. Names like City Express and Australian City Jet briefly made the news, then disappeared. In 1995 Brian Grey announced plans to launch Aussie Airlines. He first focussed on getting access to terminal gates but when the time came to pay the $10.5 million required Grey did not have it and Aussie Airlines also disappeared.

The failure of Compass and Compass II questioned whether Australia was big enough for more than two major domestic airlines. Theory said that competition would drive down costs and thus prices to the consumer, but the experience of competition in the Australian air transport market showed that unrestricted competition could reduce costs to the consumers, for a while, but cost investors a great deal more. Experience seemed to show that a new airline would need at least $100, and perhaps as much as $200 to $400 million, to launch because of the costs of establishing an airline and keeping it flying until it's brand had become accepted by passengers and it had a big enough route structure to achieve economies of scale.

Both the failed airlines had been undercapitalized for a battle with Ansett and Australian, which was fought largely on price, although schedules, destinations and other factors such as terminal access had their place among the issues that decided the outcome of the contest. Australian and Ansett had much greater experience, established customer bases and industry alliances. They also had greater resources, could dictate the tactical moves and could withstand competition for a longer period, even if it meant accepting heavy losses.

Deregulation also brought little change to Australia's domestic air freight. The recession of the early 1990s caused a 20 to 30 per cent drop in demand for air express that led Ansett and Mayne Nickless to close IPEC and lease its' two DC-9s to Ansett Air Freight.

Later a wet-leased 727-200 freighter flew freight to Perth while BAe 146s flew most of Ansett Air Freight's other flights. Strong competition from express road transport companies, using Australia's growing network of good quality freeways and main roads forced the air transport business to rationalize down to two main carriers; Ansett Air Freight, that remained the biggest, and Australian air Express, a joint venture between Australia Post and Qantas which was established as a dedicated air express and courier operation in 1991 and had about 38 per cent of the market by mid 1993.

CHAPTER SEVEN
A COMPETITIVE SOCIETY

Australia had one of the fastest growing economies among mature economies in the last decade of the Twentieth century and Australians had vastly more choice and enjoyed more goods and services than every before. Prosperity created a society oriented to consumption of new commodities including colour television - from 1975 - and new forms of audio and visual entertainment such as CDs and DVDs that was encouraged by access to easy credit. Working, shopping and leisure were increasingly designed around consumption, enabled by individual transport in motor vehicles and encouraged by a media, now highly concentrated in the hands of Murdoch and Packer, that played an increasing role as the promoter of tastes, fashions, and political opinions.

Sport became a major industry and interstate competitions flourished under lavish media coverage. The government regarded the arts as 'creative industries' and the Australia Council began marketing them as creative products for sale, dispensing with the humanist and aesthetic rationales of previous times. Australian movies flourished, promoting the nation overseas and making it an attractive tourist destination.

The excesses and uncertainties of the previous two decades made Australian society in the 1990s more risk averse and less colourful and extravagant. Business took on a more sober style and managers sought efficience through tight financial control and the adoption of quality control processes. It was no longer chic to show off, as it had previously been, and the new 'Galaxy' uniform design for Qantas reflected the general conservatism of the era in contrast to earlier more exuberant Qantas uniforms.

Women became a necessary part of the workforce and female participation in it increased from 25 per cent of the total workforce in 1960 to nearly 44 per cent by 2000. More women than men attended universities and there were more women than previously in parliament, management positions and the professions, but women still dominated the ranks of the low paid, part time and casual workforce, and they continued to do the vast majority of unpaid domestic work.

Women played a greater part in civil aviation but gender stereotypes remained strong. Australia's airlines began employing female pilots in the 1970s but it was not until 1992 that Sharelle Quinn became the first international Qantas Captain. Most flight attendant were women but this role, once the epitome of glamour and prestige, had lost its shine as flying become commonplace. Trends in women's fashion extended to airliner cabins and Qantas flight attendants were given the option of wearing pants as part of their uniforms, a radical change from even the early 1970s when they had been forbidden.

Aboriginal people and culture had earlier been ignored or denigrated by most Australians but they began to become a part of Australian cultural and political debate. Aboriginal land rights, living conditions, deaths in custody and the abduction of Aboriginal children opened wide rifts in the Australian community and polarised political attitudes. Qantas was aware of this and instigated an Aboriginal and Torres Strait Islander employment and training program in 1988 and set up programs to recruit indigenous flight crew and attendants in 1999. Aboriginal culture, including music, literature, dance and painting, gained wide acceptance and became well known overseas. In 1994 Qantas painted one of it's Boeing 747-400s in an indigenous Australian design, 'Wunala Dreaming', that depicted the story of a journey by spirit ancestors in the form of kangaroos, and it became the single most watched aircraft around the world of the 1990s. A second 747, 'Nalanji Dreaming' painted in an Aboriginal rainforest design, joined it on the international airways the following year.

The changes Australia experienced were part of a global process following rapid improvements in transport and communications that no advanced nation could escape. Australian reforms, including drastically reduced tariffs, a floating dollar, and liberalised controls on foreign investment, all opened Australia to developments in Asia and closer ties to economies there. Australia's international relations focussed on four main nations, the United States, China, Japan and Indonesia, all on the Pacific rim. As a result Australian exports to East and Southeast Asia rose from 41.3 per cent in 1972/73 to 58 per cent in 1992/93 and imports from there rose from 25.2 per cent and 38.8 per cent.

Between 1980 and 2001 Australia's population grew from 14.7 million to 19.4 million and the trend to increased urbanization meant that nearly two thirds of them lived in the nation's capital cities; 4.13 million in Sydney and 3.39 million in Melbourne alone. Of that number a great many were migrants; by the early 1980s 14.1 per cent of the population had been born outside Australia or the United Kingdom and by the end of the century half of Australia's population were either migrants or the children of migrants. Before the mid 1970s almost all migrants were of European origin but the balance began to change with Asians making up around one-third of Australia's migrant intake by the end of the 1970s and more than 40 per cent in the 1990s.

The influx of Asian migrants and Asian industrialization influenced Australia in many ways and introduced features of Asian culture into Australian life. Asians constituted a growing proportion of Australia's overseas visitors and people in travel and tourism businesses began learning their languages. More Australian tourists also flew to Asia rather than the traditional destinations of Europe and North America. There was also a move in Australia from the traditional northern European cuisine to the lighter and cheaper food of southern Europe and Asia.

The state of the Australian - and global - economy became a national obsession. The doctrine of the free market became the dominant ideology and the deliberation of economists and analysts determined the success or failure of many businesses and governments. Analysts became the commentators on daily life, evaluating business and government and suggesting what their leaders, bureaucrats and politicians should do to enhance share value, minimise business risk and increase efficiency. Shareholder profit became the primary motivation of business and the rationale for most business decisions, and government policy was to support and encourage business.

Following the deregulation of financial markets prudential standards fell and credit growth reached an annual rate of almost 30 percent as the Australian economy blundered into recession in 1990-91. Interest rates approached 20 per cent, business empires based on speculation and borrowing collapsed and some politicians and entrepreneurs spent time in prison. The recession began to lift in early 1992 and the inflation rate had halved to four percent by 1994, the lowest for thirty years. Unemployment began to improve, although the rate tended to stick at 8 per cent.

By the end of the 1980s the reforming goals of the Hawke government had been largely achieved but, following a bitter struggle in the ALP, Paul Keating replaced Hawke as Prime Minister and his government began 'fine-tuning' reform through 'micro-economic reforms' In October 1992 Keating announced the establishment of a major independent inquiry into Australian competition policy which became the source of further change when it reported in 1993, advocating further far reaching reforms to intensify competition and extend it into every corner of Australian government and business. That report became the basis of the agenda for microeconomic reform in Australia from the mid 1990s with new approaches to the regulation of competition and new administrative arrangements for implementing reforms.

In February 1994 the Commonwealth and State government agreed to accelerate micro-economic reform to support high economic growth and the new policy became law in

1995. As part of the package the Trade Practices Commission and the Prices Surveillance Authority were merged in November 1995 to create the Australian Competition and Consumer Commission (ACCC) that had, among other things, responsibility for implementing competition policy and regulation of telecommunications, air ports and utilities

In 1996 the Coalition government, led by John Howard, was returned to power. He promised to make Australian lives 'comfortable and relaxed', a highly attractive promise after two decades of almost constant change and stress. The Labor government's reforms had been tempered by traditional ALP values and its relations with the labor movement but these limitations did not constrain the Coalition government. It continued the market driven reforms with even greater enthusiasm, increasing the level of competition in the economy, imposing greater efficiency and accountability on government business enterprises and bringing further corporatisation and privatization to some including the Commonwealth Bank. In the public service costs were cut by outsourcing many government functions to contractors and consultants and the Commonwealth public service shed more than 76,000 staff in the decade from 1986.

Change and the quest for profits controlled more of the relationships between Australians and government policy and the market based doctrine dominated their daily lives. Competition policy forced millions of Australians onto short term work contracts, to become independent contractors or into unemployment, resulting in the increased stress and uncertainty of unstable workplaces and working conditions.

Rapid changes in technology assisted this trend and improvements in computers and telecommunications technologies automated and sped up many government and business processes that had previously been done manually by thousands of white collar workers. Competition policy also dictated how these services would be provided. In 1979 the Australian government created Aussat as Australia's national satellite company to deliver satellite television, telephone and other services to greatly improve communications in regional and outback areas. It became one of four government owned telecommunications businesses; Australia Post and Telstra (which had been the postal and telephone branches of the old Postmaster General's Department) and the Overseas Telecommunications Corporation and Aussat. To compete with Telstra the government merged Aussat and the Overseas Telecommunications Corporation which it sold to private interests, Optus, in 1991. Telstra became part of the government's privatization and competition policies and Telstra was privatized in stages, beginning in 1997.

Innovations in digital telecommunications led to the introduction of mobile telephones to Australia in 1992 and initially Telstra and Optus offered the service. There was no bar to other businesses entering the market but fierce competition quickly pruned away most of the newcomers. Competition also made mobile telephones popular and relatively inexpensive so more than half of all Australians owned one by the end of the century.

In 1989 Telstra began setting up the Integrated Services Digital Network (ISDN) that transmitted voice and data over existing telephone lines at high speed, allowing direct communication between computers. By 1990 the personal and small business computer market was growing at eight per cent a year and there were over five million of them in Australia by 1996 . Anyone with a computer could link into the rapidly expanding internet system and the introduction of hypertext brought the world wide web to Australia so internet use grew from 4.9 million people connected in 1999 to 7.5 million connected in 2000. The internet spurred domestic personal computer sales that grew by 39 per cent a year between 1996 and 1999. The world wide web began to have a noticeable impact on all sectors of travel and tourism and two major travel marketing sites with links to very large American companies were launched on the internet in 1996.

Banks began using computers for accounting in the 1960s but they became visible to customers with the introduction of credit cards in the 1970s. The first automatic teller machine appeared in 1981, EFTPOS in 1983, telephone banking in 1985 and internet banking in the mid 1990s. Credit cards and the systems behind them changed the way Australians used money. In 1998 Australians held 8.3 million credit cards and two years later they held 9.3 million, each with an average debt of $934. People became used to personal debt and while 8,493 people had been bankrupted in 1990, 23,298 were in 2000.

Rapid technological innovations improved many aspects of civil aviation. For example, until the 1970s all navigation on long distance flights not using radio navigation aids was done by a navigator plotting the course. Inertial navigation began replacing human navigators on international flights and was installed on Boeing 747s when Qantas began introducing them to service. It was also used on long range domestic flights where it saved time and fuel. The American global radio navigation system, Omega, was introduced in the

1980s and allowed an aircraft fitted with it to know where it was on the surface of the planet with great accuracy. In the mid 1990s the satellite based Global Positioning System became available to civil users with increasing accuracy and entered common use. It began replacing earlier navigation systems as the primary flight navigation system and resulted in virtual abandonment of inertial navigation, the turning off the Omega navigation system in September 1997 and the decommissioning of some of Australian's ground based radio navigation aids.

Satellites also became an important part of Australia's civil aviation communications system. In 1982 the government approved the Department of Transport's $30.9 million plans to use Aussat satellite communications for a network of ground stations to link its air traffic control, flight service centres and air-ground link stations across the continent. When the first satellite was launched in 1985 the Department of Aviation became its second largest user and constructed 100 ground stations to provide high clarity air-to-ground communications across Australian controlled air space.

In the 1990s airlines also found many ways to cut costs and improve efficiency by using information and computer technologies. Links between credit cards and airline frequent flyer schemes helped encourage brand loyalty. In 1992 Ansett replaced its traditional paper timetables with an information disc that it made widely available. In 1997 Ansett entered a 10 year $100 million contract with IBM to manage all its data including the day-to-day management of computer systems and services such as reservations, flight planning, finance, crewing, fares, revenue management and departure control. In 1998 Qantas signed a six year contract with Telstra to build and manage its new telecommunications network to provide advanced telephone, computer and internet links around Australia. In 2000 CASA published a data disk containing all the civil aviation legislation, regulations, orders and advisory publications, circulars and some forms and manuals. This information also became available from the CASA website and it stopped issuing paper copies of its publications. In 2000 AirServices Australia also announced it would end free distribution of information over telephone and fax to save it about $1.5 million a year and encouraged pilots to use its website instead.

Innovations in transport also transformed Australia. Technological developments brought down the cost and improved the ease and effectiveness of transport and communications to such an extent that it enabled Australians to mitigate many aspects of the tyranny of distance. Air transport gained the most from these innocations and became the dominant mode of long range passenger transport to and in Australia. The number of inbound tourists increased from 100,000 in 1964 to 2.2 million in 1990 and 4.1 million in 1996, making possible a flourishing of international tourism trade. Other modes, sea, road and rail, found niches, mainly in urban transport and as tourist experiences and, between 1975 and 1998, the Commonwealth government spent $43 billion on roads, $1.2 billion on rail and $1.3 billion on urban public transport.

Time was the real advantage that air transport offered over other transport modes and it was speed, particularly after the introduction of jet airliners, that virtually wiped out passenger shipping to and around Australia. By the mid 1970s virtually all migrants and the rapidly growing number of overseas visitors came to Australia by air. Most cargo still came by sea and, as containerisation reduced the cost of ocean transport, it helped create an almost homogeneous world market which brought Australia even more into the global market.

After ocean liners stopped carrying passengers they became an integral part of the tourist industry and 'cruising' from Australia into the Pacific Ocean began in 1974. Favourite passenger ships like the P&O's 'Canberra', the Orient Liner's 'Oriana' and the Italian 'Achille Lauro' began sailing their customers to tourist destinations on Pacific islands and offered them entertainment and relaxation on the way. Air transport became a part of cruising by carrying passengers to meet their ships and to overseas destinations when Australians began flying to cruise holidays starting from Singapore and Indonesian ports.

The only remaining major passenger shipping service in Australia was between the mainland and Tasmania but it was not profitable and only survived with government support. The Commonwealth owned Australian National Line offered services with the 'Princess of Tasmania' and then the 'Empress of Australia'. When that line announced it would no longer provide the service the Tasmanian government formed the TT Line and bought a European ferry for $26 million which it renamed the 'Abel Tasman'. It sailed the route from 1985 until it was replaced by another second hand ferry that cost the Tasmanian government $150 million, was renamed the 'Spirit of Tasmania' and started on the route in 1993. It was a tourist ship rather than a form of public transport, designed to attract visitors to Tasmania as part of the holiday experience. It had capacity for 1,225 passengers and 360 cars and was fitted out with all the facilities of a tourist ship including restaurants, bars, gaming areas and and swimming pool and sauna. She sailed four return trips a week and took about 15 hours. When she was retired from service in 2002 she had made 2,849 crossings, carried a total of 2.3 million passengers, 807,000 cars and 185, 000 containers.

Increased speed was not the main attraction of sea travel across Bass Strait. TT Line experimented with two wave piercing catamarans that offered a five hour crossing but they were not successful. The 'Sprit of Tasmania' and the catamarans were replaced in 2002 by two new ships that were larger and more economical, the 'Spirit of Tasmania I' and 'Spirit of Tasmania II' which had capacity for 1,400 passengers (750 of them in berths) and 500 cars. The Bass Strait route was operated and subsidized by the Commonwealth as though it was a road service because there was no road between Melbourne and northern Tasmania and sea transport could not otherwise compete with the increased productivity of road and rail transport.

Road transport flourished in the final two decades of the century. More than 11 million Australians held drivers' licences in the mid 1990s and there was almost one passenger vehicle for every two people in the country. Most of this motor transport stayed in Australia's cities but the nation's major roads network was improved after the Commonwealth government began directly funding intercity freeways and highways in 1974. This funded upgrades to major roads such as the Hume Highway between Sydney and Melbourne and a sealed highway around Australia that was completed in 1986. These roads encouraged journeys by holiday makers but, overall, Australian long distance road travel in private vehicles declined.

Major deregulation of interstate road haulage and some dergeulation of intrastate road coach transport took place from the 1960s. This deregulation, the improved road system and improved vehicle efficiency, led to much greater interstate freight on the nation's roads and the introduction of heavy freight vehicles which could carry as much as railway trains. Road coach services that had flourished in the deregulated environment on improved national freeway and highways system, withered away under the pressure of the airline fare war of the early 1990s and only one major company survived into that decade.

The state owned railways that had dominated Australia's land transport for a century suffered badly from the deregulation of road transport. South Australia repealed its Road and

Railways Transport Act in 1963 and others soon followed. When New South Wales removed its restrictions on road freight in 1973 the government railway worked at a loss for the first time in its long history. By then the trains that had been new and modern in the 1950s needed replacement and the lines that had become marginal through competition and lack of investment were abandoned. with negative effects on many regional communities. Regional railways in South Australia and Tasmania were abandoned and in other states some main line services remained with road coach services replacing most services.

In Victoria rail services from Melbourne to nearby regional centres remained because some of their inhabitants commuted to work in Melbourne so they were well patronized. In Sydney the lines to Newcastle and Wollongong were upgraded for commuters and across New South Wales new XPT trains were introduced to service in 1982. They that were capable of speeds of 160 kph but often restricted to much slower speeds because of the deteriorating state of the tracks on which they ran. In Queensland the south coast railway serving the Gold Coast was rebuilt and rail services north along the coast became popular with tourists . In Western Australia rail passenger services continued only between Perth and Kalgoorlie and Bunbury.

The number of country and interstates rail trips in Australia fell from 46 million in 1965 to just 10 million in 1990. Rail passenger services between Brisbane, Sydney and Melbourne survived the air fare war only with reduced service standards as extensions of the New South Wales XPT train services. Some other interstate train services were sold to private investors in 1997 and iconic long distance train services such as the Indian Pacific between Sydney and Perth and the Ghan to Alice Springs (and later Darwin) survived only as tourist trains. Freight became the staple of the nation’s railways and the state railways began operating‘superfreighters’ between state capitals at passenger train speeds during the 1980s.

Rail passenger transport remained only in most capital cities where growing populations and road congestion made them popular with commuters. There were, however, no railway stations at any major Australian airport which became a great inconvenience to travellers who used public transport. Around the time the third runway was constructed at Sydney Airport the State government reached an agreement with a local consortium to build a rail link between the central business district and the airport that would reduce travel time to less than 15 minutes. The $900 million joint government and private enterprise project was opened in May 2000 and went into receivership in December 2000 because, of the expected 48,000 passengers a day, there had been only 12,000 . Another consortium built a rail link from Brisbane Airport to the existing metropolitan rail system that was opened in May 2001. It also failed to attract passengers and only 6,000 passengers used it weekly rather than the forecast 51,800.

By the beginning of the new century it appeared likely that construction of any new long haul rail links would be for freight and not passenger transport. The only passenger rail service that might be competition for air transport was the very fast trains that were successful in Europe and Japan. The concept of a very fast train line linking Melbourne and Sydney was first suggested in 1984 but governments showed little interest until the mid 1990s when the Howard government said it would support the proposal, if private companies invested most of the capital. A consortium was chosen in 1998 to construct a very fast train line between Sydney and Canberra, at a cost of $4.5 billion, that could later be extended to Melbourne and then to Brisbane. The government proposed construction by a partnerships between government and private investors but no private investors were interested so the project was abandoned in December 2000. The reason for the lack of private investor interest was, one analyst explained, 'because people would rather fly'.

CHAPTER EIGHT
AIRPORTS FOR SALE

The Federal Airports Corporation (FAC). a Commonwealth Government business enterprise, commenced operation on 1 January 1988 after being separated from the Department of Aviation. The value of it's airports had increased from $649 million in 1987-88 to $2.7 billion in 1996-97 when total revenue for the year was $635million and its operating profit after tax was $110million. That year the FAC's airports handled more than 50 million passengers, 3.19 million aircraft movements and 32 million tonnes for freight.

After Paul Keating ousted Bob Hawke as Prime Minister in 1992 he pressed on with economic reforms by restricting public spending, selling or partly selling major government enterprises and keeping up pressure for reform through the National Competition Policy. Part of his Micro Economic Reform policy was to sell the FAC's airports to remove them entirely from the government's responsibility, create the potential for greater competition and raise several billion dollars for the government. The ALP's left wing resisted selling the airports which, they said, was like 'selling the family silver' so, as a compromise, the ALP National Conference resolved to only lease the airports for 50 years with a further 49 year option. The FAC hoped to bid for the major airports in its own right but the government barred it from bidding, morale plunged, about 100 key people resigned and some FAC staff set up Australian Airports Limited to bid for some of the airports.

To make the airports more attractive to buyers the government planned to make them more profitable by greatly increasing landing charges that would, for example, lift the cost of landing a Boeing 747 at Sydney Airport from $2,708 to $3,106. The airlines complained the charges would add millions to their annual operating costs and the government agreed to reduce the increases and postpone them until July 1996.

The government announced, in April 1995, that it would sell its airports in two phases. The first phase would comprise Melbourne, Brisbane and Perth Airports leased separately and simultaneously and Sydney and the proposed Second Airport leased as a package. However, none of the legislation necessary for the sales had passed through parliament when the coalition government returned to power in March 1996. It supported the sales but made some changes to sale conditions and limited cross ownership of Sydney, Brisbane and Melbourne airports to 15 per cent to stop the eventual owner of Sydney Airport from also controlling Brisbane and Melbourne airports and running them down. It also deferred the sale of its airports in the Sydney Basin (Sydney, Bankstown, Camden and Hoxton Park Airports and the planned second airport) pending the resolution of noise issues over Sydney Airport and the future of the proposed Second Sydney Airport.

Under the Airports Act, 1996, the Commonwealth retained control of land use planning and airspace around airports and the new airport lease holders would have to comply with government requirements about the ownership, control and protection of airspace. The new lease holders were to prepare airport master plans and major development plans that were subject to public consultation that included the views of airlines, airport tenants, the community and Commonwealth, State and local governments. The new airport operators had to develop, implement and comply with environmental strategies about how the airports would be operated to maintain or improve their environmental health. An Airport Environment Officer was to be appointed by the Department of Transport and Regional Development for each airport (substantially funded by the individual airport operators) who was responsible for the day-to-day administration of environmental issues and enforcement of environmental protection regulations regarding the airports.

The Australian Competition and Consumer Commission (ACCC) was to oversee many of the new airport owner's operation including monitoring airport pricing and quality of service with price caps on aeronautical activities to protect airport users from the potential abuse of market power and monitor some other charges. The Act also imposed a 49 per cent limit on foreign ownership and control of the companies that leased the airports and required them to take all reasonable steps to ensure that unacceptable foreign ownership situations did not occur.

The first round of airport sales began in September 1996 when the government invited expressions of interest to buy long term leases over Brisbane, Melbourne and Perth Airports. About 170 parties registered an interest in the sale and 60 of them participated in the bidding process. The government requested firm proposals in October 1996 and announced the successful bidders on 3 May 1997. Contracts were signed on 7 May and the leases began operation on 1 July 1997. Brisbane was sold for $1,314 million to a consortium that included Schiphol Airport in Holland, the Commonwealth Bank, the Port of Brisbane and the Brisbane City Council. Melbourne Airport was sold for $1,255 million to a consortium including the British Airports Authority and the AMP. Perth Airport was sold for $631 million. The leasers paid a total of $3.37 billion which was significantly higher than the book values of the airports and compared favourably with the market values of previous privatization of international airports in Europe. The successful bidders committed themselves to spending $520 overall on infrastructure development over the coming ten years and undertook to decrease aeronautical charges over the next five years by around 20 per cent.

On 12 June 1997 the government announced the commencement of Phase 2 of the airports privatization program that comprised eight major airports and seven others, the major airports were to be leased and the smaller ones sold outright. They were: Adelaide, Parafield, Canberra, Launceston, Alice Springs, Darwin, Tennant, Hobart, Townsville, Mt Isa, Archerfield (in Brisbane), Moorabbin (in Melbourne) and Jandakot (in Perth). Between 10 June 1998 and 30 June 1998 long term leases were granted to nine different consortia raising $730.8 million for the Commonwealth. The total direct sale costs to the Commonwealth were estimated to be $35.4 million or 4.8 per cent of the proceeds. The biggest investor was Manchester Airport which won control over Adelaide, Parafield and Coolangatta airports. Townsville and Mt Isa airports were sold to Australian Airports, led by former FAC executives.

At the end of Phase 2 the FAC remained responsible for five airports, four in the Sydney Basin - Sydney, Bankstown, Hoxton Park and Camden airports - and Essendon Airport in Melbourne. Essendon Airport had been included in Phase 2 but was withdrawn from sale in April 1998 because the government was not happy with the tenders it received, probably due to uncertainties about the future of the airport. A report published in 1991 recommended that the airport should be closed because flying from it was noisy and unsafe. Local government wanted to redevelop the land into a residential area with 3,000 houses and a business park, the State government agreed but the Commonwealth government still owned the airport. It was subsequently leased under a separate tender process with the sale announced for $22 million on 10 August 2001.

The government wound up the FAC and created a new authority, the Sydney Airports Corporation Limited (SACL) to manage the remaining airports until they could also be sold. When the FAC ceased operating after twelve years in September 1998 it's final annual report announced a profit of $125.95 million.

The cost of using Australia's airports increased to make them profitable and encourage further investment in their development. The ACCC was responsible for regulating airport charges which was necessary, it said, because airports were regional monopolies, particularly those at major capital cities. In April 2001 SACL asked the government to drop all price controls over airports, arguing that the ACCC's intervention deterred investment in airport infrastructure. In response the government directed the ACCC to calculate charges separately for aeronautical uses and for other commercial uses such as shop leases, office leases and car parking. In May 2001 the government directed the ACCC to limit aeronautical charges to 68 per cent of all airport revenues and drop regulation of non-aeronautical charges to allow leasers to charge whatever they liked. The ACCC had to comply but warned that deregulation of non-aeronautical charges would result in higher charges for the travelling public. The government's decision allowed the SACL to increase its aeronautical revenue by 97 per cent to $183 million, making it more attractive to buy.

Competition began between the major airports and the leasers of Brisbane and Melbourne Airports planned to compete with Sydney Airport, helped by the restrictions in place there. In 1997 Melbourne Airport attempted to increase its share of the market by offering discounts of up to 50 per cent on landing, terminal and security charges to airlines starting service to Melbourne or developing existing ones. The Melbourne airport leasers also redeveloped their international terminal retail area by 40 per cent and planned to have 80 retail outlets spread across more than 10 000 square metres by 2005 because, as it said, 'To have wealthy international passengers standing around with money to spend but not enough offerings to lighten their wallets is poor airport management'. A new $55 million Hilton Hotel was constructed above the short term car park and the airport owners began developing a $800 million industrial park on 300 hectares of airport land in October 2001.

The leasers of Perth Airport planned to spend up to $1 billion to develop their airport with new terminals and a 700 hectares freight and logistics park, with a further 300 hectares set aside for conservation. Brisbane Airport began extensive developments including a $40 million hotel and office tower and five new precincts developed on 2,700 hectares of surplus airport land. The leasers of Moorabbin Airport planned to extend one of its runways to accommodate regional jets and construct a passenger terminal and corporate jet hangar to compete with similar facilities at Essendon Airport.

The company that operated Melbourne and Launceston Airports reported earnings of $109 million in 1998/99 on a total revenue of $157 million; $50 million from aeronautical charges, $61 million from retail and $46 million from property and miscellaneous services. By the middle of 2000 the Brisbane Airport Corporation had accumulated losses of $144.4 million but the airport was of immense value to the community. Just one 747 landing there generated the equivalent of eight full time jobs a year and $262,700 spent in southern Queensland. The airport generated $4.89 billion annually in value added goods and services in south eastern Queensland and indirectly created 67,000 jobs

Sydney Airport was the most important and valuable airport in Australia, handling half of Australia's international traffic, generating more than 60,000 jobs and contributing $4 billion to the country's revenue. It was also the airport with the most problems because its location close to the centre of the city created severe noise problems and constrained its capacity to meet increasing demand. It remained unsold because its true value remained unclear without a decision about future airport developments in the Sydney region .

The ideal solution to Sydney's airport problems would have been to construct a second major airport but nothing had come of an earlier government decision to construct a general aviation and freight airport at Badgery's Creek opening in the early 1990s. When Sydney was granted the right to host the 2000 Olympic Games the ALP government was forced to make hasty decisions to build airport facilities that could handle hundreds of thousands of passengers in a few days and, in mid 1995, it decided to spend $610 million to build the new airport at Badgery's Creek for domestic and international passengers which would be ready by the Sydney Olympics. However, the Senate defeated the government's attempt to sell the existing Sydney Airport, which delayed plans for the second airport by at least 12 months so it could not be ready by 2000.

Instead, the existing airport had to be improved to meet the demands of the Games. A FAC study in 1997 showed that Sydney Airport's runways could meet expected demand and the airport could handle the expected 57,000 people a day, but to do that a great deal of work was needed including expanded taxiways, modernized the air traffic control system, new roads and car parks and improved passenger terminals. The international terminal was enlarged to 34 gates and 40 extra check-in counters that increased its capacity from 4,500 to 7,000 passengers an hour. An elevated road was constructed to improve access to the domestic terminal, Ansett spent $167 million on upgrading its domestic terminal and Qantas spent $200 million on its terminal. The revitalised airport then had 138 retail outlets (previously 77) and 22 cafes and restaurants.

Aircraft noise remained a serious problem around Sydney Airport, indeed it was a problem everywhere. When the main runway at Adelaide Airport was lengthened so the airport could handle all interstate and international traffic and South Australia could tap into new export and tourism markets, a noise curfew from 11 pm to 6 am was imposed from February 2000 and almost $64 million was allocated to insulate about 550 homes and public buildings against noise. Noise and flight path monitoring systems were also installed at

Adelaide, Brisbane, Cairns, Melbourne and Sydney airports.

Unlike many airports, Sydney Airport had two problems, noise and the need to increase the airport capacity to meet growing demand. When the coalition government returned to power in 1996 it re-opened the east-west runway for up to five hours a day to help spread the noise around the airport more evenly. However the noise problem remained so severe it was forced to cap airport use to no more than 80 movements an hour and tightened the airport curfew from 11 pm to 6 am with exceptions granted only in extraordinary circumstances.

AirServices Australia began using new flight paths around Sydney in 1997 to distribute the noise more evenly throughout the day. The government boosted the noise compensation and insulation program by about $20 million to cater for areas under the reopened runway. All the new jet airliners then entering service were quieter than earlier ones but many of the old ones were still in service so Ansett began reducing flights by noisy airliners and disposing of them. It cut F-28 flights to Sydney from 86 to 48 a week and noisy 727s flights from 124 to 74 flights a week.

Restrictions on airport capacity caused serious problems. Stories of endless delays, cancellations, interminable waits in holding patterns, shuffling queues for taxis and wrecked schedules and appointments were common so many who had business in Sydney flew in the day before to make sure they were on time for morning appointments. Qantas claimed the delays at Sydney were ten times worse than the average for other airports and congestion there cost it $270 million over three years in the mid 1990s.

The government tried to reduce the congestion problem by asking the smaller regional airlines to use Bankstown Airport instead, but the regionals and major airlines had integrated networks which would be disrupted if they moved and Bankstown was too far from the central business district, which was where most regional visitors wanted to go. To encourage more services to use Sydney Airport during off-peak periods the government tried a $250 peak-period surcharge, but it was discontinued in late 1998. Instead, from March 1998 the government introduced a 'slot system' to allocate the 80 movements an hour among airlines using the airport. The system reduced the flexibility that airlines had previously had in waiting for late or lost passengers and organising their schedules. By 2001 the airport had run out of peak hour slots and 'owning' them gave airlines control over market share that could be worth tens of millions of dollars a year. In early 2001 the Ansett group of airlines has 2,152 slots a month and the Qantas group 2,246 slots.

The Second Sydney Airport issue remained unresolved and when the coalition government returned to power in 1996 it decided to conduct another environmental review of Sydney airport proposals. The $6 million study took about three years to complete and found no insurmountable environmental issues that would prevent the airport from being built at Badgery's Creek. The insurmountable problem was that the coalition government held seats in the Badgery's Creek area and the suggestion of building an airport there threatened their loss at future elections. In December 2000 the government announced that it would protect the Badgery's Creek site from urban encroachment so an airport could be built there eventually, but it would delay a decision on the new airport for five years because, it said, Sydney Airport would be capable of handling growth for another ten years.

The SACL owned and operated the airports in the Sydney basin. It was incorporated as an unlisted public company on 28 May 1998 with 100 $1 shares and acquired leases over its airports at a cost of $1,477.5 million, of which $1,433.5 million related to Sydney Airport. It raised the money to meet the sale price, and for airport development, through a share issue and a $1.9 billion borrowing program during 1999 so it had an estimated debt of $1.288 billion by 30 June 2001.

One of SACL's main goals was to make Sydney Airport as profitable as possible and therefore more attractive to potential buyers. To do this it announced, in 1999, increased charges for terminal facilities by between 30 and 70 percent and aeronautical charges that were more than doubled. Analysts estimated the increase in aeronautical charges added about $1 billion to the value of the airport. SACL's revenue increased from $294.9 million in 1998-99 to $454 million in 2001-02 and its net profit after tax rose from $48 million in 1989-99 to $87.1 million in 2001-02.

The government waited until it thought the sale of its Sydney airports would not effect an election result and the market was optimistic and strong enough to pay a good price which, it hoped at the end of 2000, would raise $4 billion. It announced that the SACL would be broken up and privatized as two separate and competing companies: one operating Sydney Airport and the other leasing Bankstown, Camden and Hoxton Park Airports. It expected to complete the sale of Sydney Airport in the second half on 2001 with the other three airports to be sold in the second half of 2002. The government also announced that the new owner of Sydney Airport would be given the first right of refusal to build and operate any second major airport within 100 km of the Sydney central business district.

Thirteen expression of interest were received when submissions closed on 14 May

2001. Requests for Indicative Bids were then issued on 4 June 2001 with bids to be lodged by 17 July 2001, and three were received. Requests for Binding Bids were issued on 1 August 2001 with a planned closing date of 17 September, but the events of that month and the subsequent disruption in global financial markets and the airline and aviation sectors, forced the government to announced, on 24 September that, the sale had been deferred until early 2002.

The Government was advised that market conditions had stabilized in March 2002 so the tender process recommenced. The request for binding bids was reissued on 26 April 2002 with bids due on 12 June 2002. The decision was announced and sale agreement signed on 25 June 2002. The sale price was $5.588 billion. The successful bidder envisaged that the airport would remain the pre-eminent New South Wales and Australian gateway and a hub between New South Wales, the rest of Australia and the global air network. It's bid incorporated a proposal to spend $2.079 billion on the airport over twenty years to develop and maintain it as a world class facility.

Bankstown and Camden Airports came under the control of Bankstown Airport Limited which had plans to become a regional commercial airport by doubling its charges which could force out general aviation to make way for regional airlines and larger aeroplanes. Hoxton Park Airport was not a commercial success and was later closed.

The sale of Sydney Airport in 2002 raised $5.588 billion and the sale of the three other airports in the Sydney basin, Bankstown, Camden and Hoxton Park, in 2002 brought in another $211million. From the sale of all its FAC airport the government raised not quite $9.89 billion.

FAC airports sold by the Commonwealth government

Airport	Date of lease sale	Price for lease
Brisbane	1 July 1997	$1.387 billion
Melbourne	1 July 1997	$1.307 billion
Perth	1 July 1997	$643 million
Adelaide and Parafield	28 May 1998	$363.5 million
Canberra	28 May 1998	$66.5 million
Coolangatta	28 May 1998	$106.6 million
Launceston	28 May 1998	$17.2 million

Darwin, Alice Springs & Tennant Creek	10 June 1998	$110.15 million
Hobart	10 June 1998	$35.9 million
Townsville & Mt Isa	10 June 1998	$15.9 million
Archerfield	18 June 1998	$3.1 million
Moorabbin	18 June 1998	$8.2 million
Jandakot	30 June 1998	$6.7 million
Essendon	10 August 2001	$22.044 million
Sydney (KSA)	30 June 2002	$5.588 billion
Sydney Basin (Bankstown, Camden & Hoxton Park)	14 November 2003	$211 million

CHAPTER NINE
SAFETY IMBALANCE

Australians only used civil aviation because they believed it was safe and they only believed that because the civil aviation industry and the government had invested a lot of hard effort, experience and money into making it so. Any threat to that belief should have been an overriding government concern but it instead struggled to find a balance between the imperative of aviation safety and a business model to administer it that was compatible with the new philosophies of deregulation and applying business principles to government activities.

The government had been able to divest itself of many of its previous responsibilities for civil aviation because they were tangible assets, such as the airports or the airways infrastructure, but safety was not tangible, even though it was an invaluable asset. The government could not escape responsible for the intangible of safety because the public in general believed it was responsible for civil aviation safety. Enforcing aviation safety had been the first reason for the government to take responsibility for Australia's civil aviation and its strict regulation and enforcement of safety had been, for decades, the government's guarantee to the public that flying was safe. Consequently, when that guarantee failed and there was an accident, the public and the media invariably blamed the government. This made safety more than a matter of cost, it became it a matter of politics.

After decades of hard effort and great expense flying seemed so safe in Australia that the public took it for granted. There were few significant flying accidents but when a crash did occur it was invariably news which reminded the public that flying could be unsafe. Crashes that didn't happen and conversations that didn't take place were the best way to preserve the belief in aviation safety. The best way to keep the public believing that flying was safe was therefore to prevent crashes and not to talk about safety at all because even talking about it reminded the public that flying was inherently unsafe. Qantas had one of the world's best safety records but it did not advertise this because it believed that mentioning safety only reminded potential customers that flying was actually quite dangerous.

Having accepted responsibility for ensuring aviation safety in 1921 the government created a succession of agencies, culminating in the Department of Aviation that was responsible for all aspects of the administration and regulation of Australia's civil aviation safety. When the Department was broken up it's safety investigation branch became the

Bureau of Air Safety Investigation that remained a part of the Department of Transport and Communications that was funded out of government revenue, and the Civil Aviation Authority became responsible for all other aspects of safety. That business model failed so government separated the CAA into two organizations, AirServices Australia (ASA) and the Civil Aviation Safety Authority (CASA), both to be largely funded by the civil aviation industry. Funding ASA was a business transaction based on the measurable cost of providing the measurable service of flying on Australia's airways. Industry might complain about how much ASA charged and the quality of its service but both were measurable services and accounting for them was relatively straight forward.

ASA provided navigation facilities, air traffic and information services, fire fighting, search and rescue, communications and environmental regulation to the aviation industry as a government business enterprise. By the end of the century it had an annual income of about $500 million, derived from the industry with only about $7 million being government funded to maintain control towers at 14 regional airports. In 1998 it was restructured to make it 'customer focussed' and 'market sensitive' in readiness for possible major changes including outsourcing or privatisation but, in 1999, the government said ASA would be corporatised and some areas of its business might be contracted out in the future.

New practices and technologies helped ASA to cut it's costs. In 1992 the CAA examined the possibility of outsourcing radio navigation aid testing and calibration and, in early 1997, ASA announced that it would contract out that testing to a private company from the second half of 1997 so it's aeroplane fleet was sold. Further cost savings were achieved from reducing the number of air traffic controllers by using new technology. Until 1999 Australian controlled airspace was directed from five air traffic service centres and three terminal control units using conventional radar screens and cardboard slips to keep track of flights. The CAA began developing a new system, The Australian Advanced Air Traffic System (TAAATS), from the early 1990s to integrate information from a range of systems including radar, satellites and navigation equipment in aeroplanes to provide air traffic controllers with a computer driven integrated control system that covered the 11 per cent of the world's surface that was under Australian air space control. The project took seven years to reach commissioning stage and cost $275 million, first tests began in July 1997 and it started in operation in March 1999. Despite early fears over the safety of this complex system, it functioned well.

CASA had a much tougher time because safety could not be accounted for so easily at a time when business and government philosophy favored a business model of self regulation and cost reduction that was alien to previous safety regulation enforcement regimes. Under this new business philosophy services were expected to be paid for by the people who used them and the cost of the service should be as low as possible. For this reason, and in an attempt to distance itself from the problem of safety, the government set up CASA as a business with a board that was responsible for everything the agency did. The Board's role was to make the cost of safety as low as possible while maintaining it at an acceptable level but the question of what was an 'acceptable safety level' created conflict in the Board which was counterproductive to CASA's operations and made it a topic of political debate.

CASA adopted the then fashionable management tool of quality assurance in which the role of the regulator was to ensure that the industry set up safety systems that met government requirements and the industry was responsible for complying with those government approved safety systems. CASA used the Air Operator's Certificate (AOC) as its main tool for regulating the industry by requiring operators to write documents containing detailed descriptions of all the necessary safety and operational systems it would have in place to assure its safe operations. Operators also had to assure CASA that they would comply with all the details in that approved documentation. Getting an AOC from CASA was cumbersome, expensive and time consuming so, by 2000, applications for AOCs were taking up to 12 months to process and any significant change to a company's operations needed an AOC amendment that took months to receive CASA's approval.

This approach to regulation showed a level of trust in the industry that the old Department of Civil Aviation would have found laughable because it expected people to act honestly, which was in conflict with the industry's need to operate profitably in a harsh and competitive economic climate. The pursuit of short term profit goals led to skill shortages and failure to invest in training, intense competition led to job cuts that heightened work pressure and excessive working hours. One in four licenced engineers routinely worked twelve hour shifts and one in ten had worked 21 hours shifts in the previous year, despite the proven fact that long hours affected work performance. A report published by the ATSB in February 2001 told of serious problems with aircraft maintenance with engineers reporting hundreds of safety mishaps, memory lapses and fatigue, leading many maintenance staff to take short cuts at the expense of safety to get jobs done on time. Those in the industry who complied with CASA's safety requirements resented the fact that they had to compete with those who did not and could therefore offer cheaper services because most customers made choices based on cost rather than safety.

In an attempt to detect breaches of safety regulations CASA opened an anonymous 'hot line' in November 1997. However, it then found itself torn between treating breaches leniently by using 'common sense' so it did not impede efficient flying operations, showing sympathy for genuine and admitted errors, or a rigorous enforcement of the rules so that safety standards were not compromised.

These conflicts in the administration of safety made the matter very newsworthy, which was not helped by the governmen's actions. In July 1999 the government incorporated the Bureau of Air Safety Investigation into an Australian Transport Safety Bureau (ATSB), along with similar agencies for road, maritime and rail safety. Within a few months the official who had led BASI resigned, claiming it was partly due to politics and partly in opposition to the changes and funding cuts that undermined the air accident investigation branch's ability to do its job properly. He was replaced by a career public servant who, it was reported, had no technical experience in the field of air safety. Morale fell, staff feared for their independence and ability to work properly while the media happily reported everything.

CASA mismanagement also helped make aviation safety newsworthy. It announced plans to introduce a new airspace control system but then suspended it in December 1997 due to safety concerns. It tried to introduce the new system again in stages between October 1998 and December 1999 but a trial drew instant opposition from some airlines, air traffic control officers and BASI so it was abandoned after seven weeks. After this failure CASA announced it would no longer advocate airspace reform because it's job was only safety regulation but it was too late because the fiasco caused intense media interest and further soured relations between CASA and the aviation industry.

More publicized controversy came when CASA opened a new page on its website to provide the travelling public with details about aviation organisations that had had their operations cancelled or suspended. It then discovered that it could be sued by those organisations, even if the allegations were correct, and went to the other extreme of not giving the public any information at all about the quality and safety of air services.

Aviation accidents and incidents created more and sensational news about safety. In July 1998 a Cessna 185 seaplane crashed and five people were killed. It emerged that CASA had grounded the company that owned the Cessna two months earlier for serious breaches of safety regulations but had granted a stay of suspension on the condition that the company comply with the regulations. However, CASA had not checked to see if the company had complied and, as a result, three staff were suspended, as scapegoats many believed, which angered staff and pushed morale in the agency as low as it had ever been. On 31 May 2000 a Whyalla Airlines Piper Chieftain crashed and eight were killed. It was found that the airline had been trying to keep costs down and a subsequent CASA audit revealed discrepancies in the airline's paperwork and concerns over pilot workload so it was grounded and later closed down.

In September 1999 a Qantas Boeing 747-400 landing at Bangkok during a tropical storm slid off the end of the runway, some passengers suffered minor injuries and the airliner sustained $100 million worth of damage. The Australian media sensationalised the incident. An Ansett Boeing 737 had an undercarriage malfunction in March 2000 and in April an undercarriage legs on a Qantas Boeing 747-300 collapsed at Rome airport. Nobody was hurt but they became headline news. In May 2000 a Qantas flight from Hong Kong to Sydney turned back with a generator failure and, although the generator was repaired, it failed again when the flight resumed. In June 2000 an emergency life raft deployed while the crew were closing the door on a Qantas domestic flight and in July a Flight West Fokker 100 lost a wheel. By then even the smallest air transport incident was reported in the media.

After the Qantas incidents the Minister for Transport called a meeting with Qantas and CASA to discuss the situation. Critics claimed these incidents were the result of the severe staff reductions across the airlines that were now putting profitability ahead of safety and that reductions in maintenance staff, outsourcing some maintenance work and the pressure on staff to create even more profits had resulted in safety standards declining to potentially dangerous levels. Qantas replied that it's overriding rule was that safety came first, but there was nothing wrong with improving safety practices to become more efficient so long as that didn't have any impact on safety.

CASA's reputation fell even further over Christmas in 2000 when Ansett discovered that it had not complied with notices that had been issued the previous July about the mandatory inspection of some Boeing 767s. The mistake was discovered on 23 December 2000 and involved almost half the airline's wide body fleet. Grounding them would have caused serious disruption to Ansett's services during the busiest holiday period of the year so CASA allowed Ansett to keep those 767s flying, so long as it conducted the inspections within 90 days and also conducted very frequent visual inspections until they were done.

Ansett and CASA also agreed that the airliners would be immediately grounded if any problem was found and, just after Christmas, engineers found cracking in one 767-200 that was not related to the previous problem, and three 767s were grounded. CASA launched an investigation into Ansett's quality assurance systems to find out how the Boeing notice had been ignored and, later in January 2001, when Ansett discovered that the leading edge slats of a 767-200 had been fitted instead to a 767-300, CASA expanded its investigation to find if there were any more systematic problems in safety at Ansett.

The Boeing 767 crisis sapped morale and confidence in the industry. It also reflected badly on the government's regulation of aviation safety and the Minister for Transport told CASA that Ansett was to be treated the same way as any other airline in relation to the safety regulations because it's problems were undermining the credibility of aviation safety administration in Australia. By the middle of January 2001 two Ansett senior officials had resigned, as had the director of safety investigations at the ATSB which also launched investigations into CASA and Boeing over their part in Ansett's failure to comply with safety rules and maintenance requirements.

Further problems at CASA came to light. They included alleged deficiencies in its airline surveillance and claims by current and former staff of serious morale problems and staff shortages that hindered its ability to monitor safety. CASA had started the process of completely rewriting Australia's air safety regulations in 1993 but, by 2002, it was still unable to even give a completion date for the project. In an attempt to include the industry in its decision making process it began issuing Notices of Proposed Rule Making but many thought it was simply a bureaucratic way of going through the formalities of consultation that took up the industry's time and effort and still allowed CASA to do what it liked. One manufacturer accused CASA of 'bureaucratic laziness' and 'lack of intellectual rigour'.

A CASA audit blamed the problems on a series of management fads, each negating most of the authority's 80 years of experience. Another draft audit found CASA incapable of detecting failings in Ansett's maintenance because of serious flaws in its own surveillance procedures. In the major airline sector of the industry CASA appeared ill equipped to identify and correct problems that could lead to a major air disaster while general aviation continued to complain that CASA was crushing it with inappropriate regulations. For many in the aviation industry CASA remained an object of contempt and fear, becoming at the same time more intrusive because of its greater use of information technology to reach into every aspect of the industry but also becoming more remote at the personal level.

A leaked internal audit in 2001 said CASA no longer measured the industry's level of compliance with safety legislation and that the industry was virtually self regulating. Stories and gossip about CASA's lamentable state circulated freely with stories of injustice and petulancet. The general aviation industry began to see CASA at 'The Enemy' and small operators were warned to call their lawyers as soon as they were approached by somebody from the Authority. When the entire CASA board went to open forums with the industry in April 2000 it was visibly surprised by industry anger and the fear that the Agency was headed for total collapse that would take the industry down with it. In the hope of retreiving something of its reputation, CASA launched a public relations campaign to tell the public it was 'competent and improving' and that the Australian air safety system was the envy of the rest of the world.

Part of CASA's problems came from it's leadership, with a board that was subject to political interference and external lobbying. It was commonly said that the first board, that had been appointed by the ALP government, had no knowledge of civil aviation and that even though Dick Smith was keen to join the board the ALP government wouldn't have him. The new government appointed him and he became the chairman in late 1997, leading to more turbulence, reviews, reorganisation and bitterness that culminated in his resignation in March 1999. His replacement said that CASA would 'get on with the job of restoring the public's confidence in this Authority' but, when ICAO audited the CASA at the turn of the century it found it had failed to achieve more than half the safety surveillance goals it set itself, lacked training for airworthiness surveyors, had long delays in responding to minor matters and that restructuring had overloaded staff and reduced the Authority's performance.

The Ansett crisis showed politicians, again, that the public imagination was easily gripped by high profile perceived threats to aviation safety and that the modern media could expose the smallest flaws to intense scrutiny. A review of CASA by its Chairman, completed in March 2002, said it suffered from chronic delays, a dysfunctional management structure, poor internal communication and a severe shortage of expertise. It was the fourth major restructuring the authority had undergone since the mid 1990s and it was enough. In November 2002 the Minister for Transport decided to take CASA under firmer control and announced that its board would be disbanded and the authority would again come under direct ministerial control from July 2003.

CHAPTER TEN
GENERAL AVIATION

General Aviation was the largest sector of Australia's civil aviation. It was, by definition, almost all flying in Australia that wasn't military or airline flying. At the end of 2001 there were 165 airliners flying for Australia's major airlines and 10,402 general aviation and regional airline aircraft, including 1,059 gliders, 979 helicopters and 334 balloons and airships. Major airline flying made up only twenty five per cent of the hours flown in Australia in 2001, by the end of the century general aviation and the regional airlines flew over two million hours a year including charter flying (15.6%), flying training (13.6%), regional airlines (10%), aerial work (9.9%), private flying (8.8%), ultralights, hang gliding and gyroplanes, (7.8%), business flying (4.8%) and aerial agriculture (3.6%).

General aviation was diverse, ranging from multi-million dollar regional airliners to tiny ultralight aircraft. It reached into every corner of Australian society which had become so airminded that most people usually took it for granted. The general aviation industry began holding its own trade shows in the late 1990s, starting with two four day displays with more than 300 trade stalls at Bankstown Airport before they became too big and had to move to a less crowded venue. The industry faced many problems, some the same as always and some new ones. Many companies were only marginally profitable and increasing costs made their survival difficult, the general aviation fleet was ageing, so were many pilots and mechanics and there were not enough youngsters coming in to replace them.

Air shows and flying displays remained popular and the RAAF put on many until the 1970s when cost cutting curtailed them. Aero clubs and other general aviation organizations continued to hold displays, usually with a military component to attract spectators and big air shows returned in 1988 when Australia's celebration of its bicentennial year included the Australian Bicentennial Air Show. It was a major international event that began with several days open only to the industry followed by two days open to the public. More than 400 companies and around 350 aircraft were present, some the latest and biggest military aeroplanes, airliners, light civil aeroplanes and many veteran and vintage aeroplanes. It was the largest air show held in Australia and 250,000 to 300,000 spectators attended the two open days.

The success of that air show led to the inaugural Australian International Air Show and Aerospace Expo which was held at Avalon Airport south of Melbourne in October 1992.

It followed the format of the Bicentennial Air Show with 291 exhibitions from 12 countries and 175,000 spectators attended the weekend displays. These events became a popular biannual event and the 2001 Air Show drew a crowd of over 200,000. Other air shows proved popular and the 'Outback Air Shows' was an enormous success, comprising many historic aeroplane flying over Qantas's old territory on a 13 day tour. At the little town of Emerald people from all over the region converged on the local aerodrome and the queue was five kilometres long so the flying display had to be delayed until everyone got in.

Restored military aeroplanes, generally called 'Warbirds', became a very popular part of most air shows. Before the late 1970s DCA's strict airworthiness rules had made it all but impossible to fly old military aeroplanes such as World War II fighters in Australia but an amendment to the Air Navigation Regulations allowed the warbirds movement to flourish and there were nearly 40 flyable warbirds in Australia by 1987. The end of the cold war and the collapse of the iron curtain opened the western world to large numbers of old Russian fighters and three Polish MiG-15s arrived in Australia in June 1989. By 1993 there were 45 different kinds of ex-military aeroplanes flying in Australia and over 450 warbirds on the Australian aircraft register by June 2001. Most warbird activities came under the control of Australian Warbirds Limited that held or played a major part in increasingly common and popular air shows.

By the 1980s only a handful of the men who had established civil aviation in Australia sixty or more years earlier remained and they were all dead before the end of the 1980s. Herbert Larkin died in 1972, Hudson Fysh in 1974, Horrie Miller in 1980, Edgar Johnston in 1988 and Norman Brearley in 1989. Their achievements were kept alive by the Aviation Historical Society of Australia that held regular meetings and published a journal and the aviation museums that began to spring up to collect and display retired aircraft and aviation memorabilia. They included a large collection that was gathered at Moorabbin Airport, the Western Australian Aviation Museum that was opened in 1979 and the Queensland Air Museum that was opened in April 1987. A museum was established at Longreach, dedicated to the origins of Qantas and, at Hamilton in Victoria, the Ansett Museum was established in a hangar that had been used by Reg Ansett in the 1930s. The Royal Australian Navy set up a museum at its air base at Nowra and the RAAF opened a museum at its first base at Point Cook. The Australian Aviation Museum at Bankstown Aerodrome was opened in 2000, with Qantas help a museum of TAA memorabilia was set up in the old TAA head office building in Melbourne and the Airways Museum was opened at Essendon Airport with the support of

ASA. Aviation museums became popular tourist attractions and most major cities had some kind of aviation museum, usually run by local enthusiasts. A 1992/93 survey of 54 aviation museums and collections in Australia and New Zealand revealed that a total of 3.7 million people had visited 30 aviation museums.

The Inaugural Australian Aviation Museums Conference was held in Sydney in November 1989 and 100 attended. They established the Aviation Museums Association of Australia and supported a proposal for the creation of a national aviation museum. In 1994 the Victorian State government allocated funds to establish a National Air and Space Museum of Australia to be located at Point Cook as a joint venture between the Museum of Victoria and the State and Commonwealth governments. A small team was assembled to set up a web site and attract interest but could not find the $25 million needed to open the museum so the attempt was abandoned in February 1998 .

Australia civil aviation industry began celebrating the achievements of its past with commemorative flights and air races. A flying replica of Kingsford Smith's 'Southern Cross' was completed in August 1987 and flew around Australia raising money for the Royal Flying Doctor Service. In 1994 a replica of the Vickers Vimy recreated the Smith Brother's 1919 flight from Britain to Australia. On 5 December 2001 three deHavilland Tiger Moths of the Royal Aero Club of Western Australia flew in formation to represent Norman Brearley's three Bristol Tourers and celebrate the 80th anniversary of Australia's first scheduled air service. The Ansett Air Race of 1996, commemorating an air race won by Reg Ansett in 1936, attracted 65 aeroplanes in a race from Brisbane to Hamilton and an air race in 2001 that followed the route of the 1919 and 1934 air races from Britain attracted 35 entrants.

Aero clubs and flying organizations were popular areas of recreational flying. The Aero Clubs continued to be a focus for flying enthusiasts and also developed strong commercial operations in charter and flying training. By the end of 1982 the Royal Federation of Aero Clubs of Australia had 60 member clubs and gliding clubs also continued to attract enthusiastic support. Around the same time the Aircraft Owners and Pilots Association of Australia (AOPA) had 11,000 members who flew almost half the aeroplanes in Australia. In June 1977 the Ultra Light Aircraft Association of Australia changed its name to the Sports Aircraft Association of Australia (SAAA) to include enthusiasts in all kinds of flying including aerobatics, restoring and flying vintage aeroplanes, ex-service aeroplanes, warbirds and building and flying light helicopters. By 1978 the Association had 1,000 members and at the 6th National SAAA Fly-In over Easter in 1980, more than 200 aeroplanes flew-in and

50,000 people attended the four day event.

In 1985 the CAA gave approval for ultra-light aeroplanes of up to 400 kg weight to be made and flown in Australia. This allowed amateur builders and pilots to construct and fly very small machines that made flying more widely and cheaply available. In 1998 the ultra light movement was 20 years old and had thousands of members. Anyone over the age of 15 who was medically fit to drive a car and held an Ultra Light Federation licence could fly outside controlled airspace in Australia at relatively little cost.

Many other special interest groups formed. They included the Antique Aircraft Association of Australia that celebrated its 21st anniversary in 1995 with an air show and fly-in was attended by over 200 aeroplanes. Parachuting and sky diving grew in popularity with the Australian Parachute Federation representing 67 clubs and over 3,500 members by 1986. Hot air ballooning emerged and found a profitable niche in the tourism industry.

Australians learned to fly in increasing numbers, many at their local aero clubs and small flying schools, but flying training became a significant business as airline flying became a highly paid and sought after profession. In 1985 4,715 people were issued with student licences and 3,438 with their first Private Pilots' Licence. In 1989/90 over 480,000 hours of training were flown in Australia, declining to 419,000 in 1994/95 (partly due to wider economic conditions) and rising again to over 481,000 hours by the end of the century.

Flying training began attracting students from overseas because Australia offered good flying conditions and a long tradition of excellent flying training with the result that flying training had become an export industry worth $120 million a year by 1994. The Australian Flying Training School at Bankstown graduated cadets for Zambia Airways in 1980 and began training commercial pilots for Malaysian Airlines Systems. Ansett and British Aerospace established a $40 million pilot training college at Tamworth in 1989 with a fleet of about 50 aeroplanes and a staff of around 180 that trained cadets to become qualified first officers on passenger jet aircraft. Singapore International Airlines opened a flying school in Perth in July 1990 to train cadets because of the airspace problems it had around Singapore. The West Australian Flying college began teaching pilots for China Southern Airlines in 1993 and planned to train all its pilots over the coming decade. In 1991 the Australian Defence Forces also began sub-contracting flying screening and elementary flying training to civilian organizations.

Universities and other tertiary institutions also began taking an interest in flying training and broader aviation education. The first formal aviation education qualification offered in Australia was an associate diploma in civil aviation from the Australian Aviation College in association with the South Australian Institute of Technology in February 1986. In 1988 the University of Newcastle established Australia's first Diploma in Aviation that qualified a student after two years of full time study and a Bachelor of Science with additional courses in subjects such as aviation law and resource management gained after a further year. The RMIT University, in association with the Civil Aviation Flying College of China, began training student pilots and teaching them English. The Australian Aviation College and University of South Australia began training airline pilots in 1990/91 and was soon training pilots sponsored by overseas airlines. Professor Ross Telfer was appointed to the first Chair of Aviation in Australia at Newcastle University in 1991.

Other tertiary institutions soon introduced aviation studies courses and some secondary schools also established courses that created career paths into the aviation industry. By 1995 eight universities were offering aviation courses ranging from Association Diplomas to Degrees. They usually combined theory taught at universities or colleges and practical flying taught by associated flying schools. The Australasian Universities Aviation Association was founded in 1993 to represent the universities offering courses and to lobby the government to treat flying training as preparation for a profession no different from medical practitioners, lawyers and engineers who could only gain qualifications after studying under the government run tertiary education system.

Aviation education extended beyond flying training. The Broadmeadows College of TAFE opened a $14 million Aerospace Industries Training Centre that offered training across many aviation trades for about 650 students. The Institute of Aviation at the University of Newcastle offered a 'Human Factors in Aviation' course that included modules on pilot management, ground crew and support staff. Griffith University introduced a course for flying instructors to improve their educational skills and began offering a Master of Aviation Management courses that would give graduates the tertiary qualifications needed to advance to senior management positions in the industry. The Swinburn University of Technology introduced a Graduate Diploma in Air Transport Management with course topics including air operations management, aeroplane selection, airport development and management of facilities, aircrew and staff safety, security, aviation law and financial management.

Business jets became the accessory of the exuberant business climate of the 1980s and the most well known entrepreneur of the time had them. Alan Bond, took delivers of his Canadair Challenger 600 in May 1983 and used it, and other business jets, to fly around the world overseeing his business empire. Businesses could also hire business jets and Australian Jet Charter's Dassault Falcon 10 could carry six corporate passengers across the continent at the cost of around $1,450 an hour. In 1986 Hawker Pacific opened a million dollar corporate jet facility at Sydney Airport that offered passenger handling and aeroplane servicing facilities specifically for business jets and the Australian Business Aircraft Association that was established in 1986 and had 50 members by 1989. The stock exchange crash in October 1987 grounded most of the high flying entrepreneurs who has to sell their business jets and Alan Bond's Falcon 900 went on sale for $20 million. There had been around 100 business jets flying in the Australian region in 1989 but there were only 69 in Australia and New Zealand by 1993 and 65 by the end of the decade.

Most Australians saw little of general aviation which did most of its work in Australia's rural and remote areas. There were 279 helicopters in Australia in 1984, just over 650 in 1993 and just under 1,000 by the beginning of 2001. Australians became used to helicopters which flew over cities for police, media and tourist flights and became commonplace in providing emergency medical transport. By November 1979 the helicopter service based at the Royal North Shore Hospital in Sydney had flown 1,000 missions and the Westpac Bank helicopter life saver service, that started in 1973, had performed more than 3,000 missions and saved dozens of lives by 1985.

Helicopters remained vital in the traditional role of offshore oil and gas exploration and drilling. In Bass Strait they had carried more than 70,000 people by mid 1980 and Lloyd and Bristow Helicopters Australia dominated the charter and offshore helicopter support sectors of the market. Helicopters became popular in cattle mustering because small helicopters could reduce the size of a permanent cattle station crew from seven or eight to four and a helicopter cost only about $35,000 to $40,000 a year to run. There were about 50 helicopters doing cattle mustering in Australia by the mid 1980s and the demand for them was so great that the biggest mustering company, Heli Mustering by early 2001, operated 85 aeroplanes and helicopters. Helicopters also became popular at tourist spots selling joy rides over spectacular scenery such as Uluru, the Kimberley in Western Australia and nearly all the major cities.

The Royal Flying Doctor Service continued to serve the sparsely settled areas of the country with a fleet of 37 aircraft that flew about 7.6 million kilometres, attended 144,705 patients and evacuated 10,221 of them in 1990. In 1991 it received corporate sponsorship of more than $9 million that was matched by funding from the Commonwealth for a ten-year aeroplane replacement program. When it celebrated it's 70th birthday in 1998 the Royal Flying Doctor Service employed 350 staff and flew 45 aircraft from 18 bases to cover an area of more than 7 million square kilometres or 80 per cent of Australia. It provided emergency services and health clinics in remote areas with a radio network covering every Australian state and territory. It's fleet comprised mainly King Airs and several smaller aeroplanes but also an increasing number of Pilatus PC-12s with 16 in its fleet by the end of 2001. Governments also set up or supported aeromedical services in more settled areas such as the New South Wales Air Ambulance Service and the air ambulance and aeromedical services in South Australia.

The government continued to provide some direct subsidies to civil aviation which remained important to the economic survival of rural and remote areas. In the Northern Territory the small population was so widespread that people depended on 3,000 airstrips for delivering essential services and everyday necessities. Western Australia still had only two sealed roads and a single railway line linking it with the rest of Australia and also needed support. The government's Remote Air Services subsidy for 2000 provided $2.5 million for services to 205 remote centres in Queensland, Northern Territory, Western Australia and South Australia.

Aboriginal Air Services provided services to some of the most remote places on the continent. Five individual air services were established by Aboriginal groups in central Australia, beginning with Ngaanyatjarra Air in 1982 and served 40 communities across the centre by the end of the century, using a joint AOC from January 2001 to simplify administration. Like most air services in remote areas, Aboriginal Air Services started with small single engine Cessnas providing closed charter flights between remote communities and grew as other Aboriginal groups bought their own aeroplanes and began their own services. For a while the organization used several larger twin engine Cessna 402s but when a change in the regulations allowed the use of some single engined aircraft for passenger air transport they were able to dispose of twin engined aeroplanes and include Cessna Caravans and a Pilatus PC-12 in the fleet. The PC12 flew the longer services from Alice Springs to Katherine and to Perth via Kalgoorlie which was the longest regional air service in Australia.

Aerial agriculture went through cycles that were dictated by the weather. 1980 was a peak year, in 1982 aerial spraying declined by 30 per cent and in 1984, when New South Wales drought broke, aerial agriculture increased by 51 percent there and 21 per cent Australia wide. By 1991 there were 260 aerial agriculture aircraft in Australia, 44 powered by turbo prop engines that used cheaper fuel and were more reliable.

General aviation became a feature in bushfire fighting. In the bush fires of 1983 aircraft were used as fire bombers and the Victorian government began employing aircraft regularly for fire fighting from 1985. By 1990 it had three light surveillance helicopters, three heavier helicopters fitted with tanks or buckets and four agricultural aeroplanes used for fire bombing with more on standby during fire seasons. During the Sydney fires in January 1994 over 90 helicopters and aeroplanes were involved in fire fighting and crew transport. In 1997 the Victorian Department of Natural Resources and Environment began leasing a large Sikorsky S-64 helicopter that could dump 9,000 litres in two seconds and assembled a fleet of 23 aircraft to use against bush fires during the fire fighting season. In the bush fires around Sydney in the 2001/02 fire season about 100 aircraft were employed for spotting and reconnaissance, nine large capacity agricultural aeroplanes were used as fire bombers and about 75 helicopters, including the S-64 from Victoria, were credited with saving 300 houses.

General aviation also provided much of Australia's search and rescue capability. In July 1997 a new nation wide organisation was created by merging existing aviation and maritime search and rescue organizations to co-ordinate operations over the whole of Australia and an additional one third of the earth's surface using the latest computer and satellite technology. When appalling weather conditions caused havoc during the 1999 Sydney-Hobart yacht race the organization co-ordinated the rescue effort and helicopters plucked about 50 people from sinking or disabled yachts over an area of a thousand square kilometers off Australia's eastern coast in the worst possible weather conditions.

The largest contracts for general aviation were paid by the Commonwealth government for its Coastwatch program that began in the late 1970s. Refugees from south-east Asia began coming to Australia by sea in 1975 and 31 boats carrying 1,204 refugees had landed on Australian shores by March 1978. This wave of 'boat people' stirred political passions so the Air Force and Navy increased their patrols of Australia's northern waters to catch the boats but they did not catch every one. The need for better patrolling of Australian waters increased in April 1978 when the 200 mile Australian Fishing Zone came into force so the government announced, in July 1978, a new program to use civil aeroplanes in daily coastal surveillance flights, flying close to shore for six thousand miles around the coast from Cairns to vessel while the Air Force and Navy patrolled further out. Flights began modestly with 4,200 hours of military and 400 hours of civil patrols flown in 1977/78, but more intensive flying of 250 hours a week commenced in March 1979. In 1980 the government offered contracts worth around $10 million for coast watch flights that flew regularly over the country's coastal waters searching for unlawful entries by fishing vessels or refugee boats. By the early 1980s increased drug smuggling led to police and customs involvement in coastal surveillance flights.

In 1983 Skywest took over the contract for the flights from Townsville around to Port Hedland using 16 aircraft. In 1987 it lost the contract when the Department of Transport awarded it to a competitor whose bid was so unrealistic that, after a hard won appeal, the contract continued with Skywest until late 1994. New contracts worth $245 million for nine years were then awarded to National Jet Systems for fixed wing services and Reef Helicopters for helicopter surveillance of Torres Strait. These companies set up a joint special purpose company, Surveillance Australia, and started in October 1995 with 13 aircraft but increased people smuggling by 1999 led to expansion of the contract and National Jet Systems ordered two more aircraft for the work.

Australians learned how much their country relied on general aviation in December 1999 when contaminated fuel grounded more than half of the general aviation fleet. The CAA stopped making spot checks of aviation fuel to cut costs in 1991, arguing that fuel expertise rested with the refineries and they were the best people to ensure that fuel quality was maintained. However, a temporary variation in the fuel production process caused the contamination of fuel produced between 21 November and 23 December 1999 that went into bowsers at aerodromes across south eastern Australia. It reacted with brass in the fuel systems to form a black 'gunk' that clogged fuel lines and pumps and made piston engined aircraft using it unflyable.

The problem was first noticed on 21 December 1999 and CASA issued warnings the next day after other reports of contamination started coming in. On 24 December it grounded thousands of general aviation aircraft while further tests were made and, on 10 January, it grounded all aeroplanes that had used the contaminated fuel, about 5,000 of the 8,300 piston engine aeroplanes and helicopters in Australia. A kit to test for the contamination was not ready until 23 January, distribution was very slow at first but by the end of April about 80 per cent of the affected aircraft were back in the air. The damage went deep into Australian society that lost mail deliveries, crop dusting, fire fighting, medical services and supplies, passenger tourist and supply flights, mustering and many more kinds of aerial work. Many small operators went to the brink of bankruptcy and laid off staff. The fuel company compensated more than 4,175 companies and individuals a total of $17.2 million for damages it had caused.

CHAPTER ELEVEN

QANTAS AND ANSETT

At the beginning of the 1990s Australia's airline industry was much as it had been over thirty years earlier with two government owned airlines - Australian Airlines (previously TAA) and Qantas - and one major and several subsidiary airlines owned by Ansett Transport Industries. By the end of the 1990s all this had changed.

The Australian government faced two problems in owning and operating airlines, one was the free market ideology that had been adopted so enthusiastically during the 1980s which said that governments should not operate any business that could be operated instead by private enterprise. The other was more simple, the high cost of owning airlines.

By the time the ALP came to power in 1983 both TAA and Qantas were chronically short of capital. The previous government had given TAA $25 million in 1982 and the new government gave it a further $90 million, and also gave Qantas $60 million. This gave TAA a competitive debt equity ratio of some 70:30 which substantially relieved its interest burden and cash flow problems. Those capital injections brought the total government investment in TAA to $130 million and in Qantas to $149.4 million but they needed much more; Qantas said it needed up to $4.5 billion to buy new equipment and TAA needed about $1 billion. No government cash injections came after this, however, and the situation grew more serious so the airlines were instead forced to borrow heavily. In September 1990 Qantas told the government that its competitors were reequipping with the same or similar new aircraft at debt-equity ratios averaging 55:45 but it's debt equity ration was 78:22. It said that over the period 1994-95 it needed to invest some $6 billion and Australian Airlines some $1.6 billion in fleet replacement and expansion. In the economic climate of the times, however, the government could not provide those funds and the airlines could not borrow more because of their already very high debt levels.

After it came to power in 1983 the Labor government had other priorities so it did not begin to think seriously about the future of the Commonwealth owned airlines until the beginning of 1987 when severe financial problems made their sale an attractive option. By this time most western governments had lost interest in exercising tight control over their air transport industries and the philosophy of the marketplace took hold of the political imagination, leading to the global trend of airline sales. Singapore International Airlines was privatised in 1986, British Airways in February 1987 and, also in 1987, the New Zealand government announced plans to privatise Air New Zealand. Economies of scale were becoming very important in air transport, leading to the creation of larger airlines through mergers and takeovers. In the United States and Europe major airlines were acquiring their smaller competitors, often with the support or at least silent blessing, of their governments. In Britain the government merged its two airlines (BOAC and BEA) to create British Airways so it could be sold for the highest possible price in 1987 and British Airways took over its remaining competitor, British Caledonian, the following year. In France, Air France took over its competitor, UTA, in 1990.

The Qantas board was vitally interested in these developments because they showed that it also had to grow to survive. This created for it questions about the choice of domestic allies, choice of international partners and how best to use the privatisation process to further Qantas' domestic and international relationship. It discussed leading a consortium that would offer to buy the whole of Australian Airlines, negotiate with Ansett for a substantial share holding and seeking a foreign airlines to acquire strategic stakes in Qantas.

The futures of Australian Airlines and Qantas became bogged down in ALP factional politics, as it had with the FAC airports, between the right wing which favoured the new philosophies and wanted to dispose of its business interests, including Commonwealth owned airlines, and the left wing which traditionally believed in state ownership of the means of production. Howevewr, the right wing of the ALP had the numbers where it counted so it was inevitable that the airlines would be disposed of, eventually. The stock market crash of October 1987 seriously weakened the government's ability to privatise anything so the debate lost its urgency. However, the government took the first step towards privatisation in March 1988 when Australian Airlines was converted into a public company and detailed government controls over its operation were removed. Left wing opposition to the sale of major Commonwealth owned transport and communications businesses was overcome at a Special Federal Conference of the ALP in September 1990 where a compromise was reached that the government would sell up to a 49 per cent stake in Qantas and up to 100 percent of Australian Airlines.

The government moved quickly to establish a selling team to control the sale of equity in both Australian and Qantas. It began with a scoping study into an initial valuation of the airlines, an assessment of the possible methods of sale, and an evaluation of when to sell and whether the sales should be sequenced. The government began the sale process concurrently on 22 April 1991, comprising an initial trade sales to be followed by a public float.

The appointment of James Strong as General Manager of TAA in 1986 signalled a change for the airline. His task was to align the airline to the new political and economic realities of the time and carry through a thorough transformation of the airline. He was highly experienced in both management and high level government relations but had no background in the aviation industry. He said that selling airline seats was no different from selling oranges or shoes and put greater emphasis on offering a more commercially focussed service that included thorough managerial reorganization, controlling costs and improving seat yield without increasing costs. Ancillary parts of the airline's business including the subsidiaries of Hertz and Air Queensland were sold and the airline ceased offering services that second level operators could fly more efficiently.

These changes were not made to make the airline more profitable for the government but to make it more attractive to potential buyers. They did not resolve the two major problems of capital and competition policy that remained beyond Strong's control. At the end of June 1987 the Commonwealth's total equity in its wholly owned airline was $190 million, made up of $130 million subscribed capital and $60 million in reserves.

Qantas was keen to grow because a strategic review of the aviation industry it completed in 1988 said that deregulation in the United States had led to the creation of very large airlines and it needed to become much larger to compete with them. The Qantas preferred solution was a three way merger between Qantas, Australian Airlines and Air New Zealand which would create a single Pacific based international airline with domestic bases in both countries but negotiations failed due, some said, to Ansett's opposition. Qantas then hoped for a merger with Air New Zealand but the New Zealand Government wanted to maximise its sale receipts from the privatization of Air New Zealand. Finally Qantas sought a shareholding in Air New Zealand when it was privatized, primarily as a defensive strategy against its big and aggressive competitor, British Airways. When Air New Zealand was sold in December 1988 for $NZ660 million it was to a consortium including Qantas (with 19.9 per cent of shares) and the two airlines began co-operating on services between Australia and New Zealand.

A simple solution to many of Qantas's problems would have been to buy into Australian Airlines, but the government told Qantas it would not be allowed to buy Australian. There was strong support within the ALP for Qantas to invest in Australian Airlines but the government refused, possibly, media speculated, due to the influence of Peter Abeles who had a strong personal relationships with the prime minister. This changed in

December 1991 when Paul Keating deposed Bob Hawke as Prime Minister, breaking the close relationship between Peter Abeles and the government. This opened the way for Qantas to participate in the sale of Australian, which also had the advantage of making Qantas a much more valuable asset when it was sold.

Firm expressions of interest for Australian Airlines and Qantas closed on 30 April 1922 and Qantas bid for Australian in its entirely. On 22 May Australian Airlines agreed that Qantas would purchase it for $400 million, Keating announcement the sale on 2 June and on Monday 14 September 1992 Qantas gave the Commonwealth a cheque for $400 million and the Commonwealth gave Qantas all its shares in Australian.

The sale was applauded by almost every sector of the industry and gave Australia an airline big enough to compete in the international market with a combined fleet of 84 aeroplanes ranging from small Cessnas to Boeing 747-400s and with more than thirty-five on order or option. Qantas then flew overseas to 39 cities in 23 countries and to 47 destinations across Australia, carried more than 12 million passengers a year and became the 15th largest airline in the world and the second largest in the region. Within a month the two airlines' frequent flyer programs were merged and they began using each others aeroplanes to achieve greater flexibility. An Australian Boeing 727 freighter began flying for Qantas across the Tasman and from March 1993 they began interchanging airliners with some Qantas 767s flying on domestic routes and Australian 737s flying on some internal sectors of Qantas's international services. When Qantas absorbed Australian their computer systems were incompatible so a new integrated computer system, costing more than $100 million, called QUBE (Qantas Universal Business Environment) was introduced in late 1996. It was one of the biggest software engineering projects ever undertaken in Australia.

When Qantas bought Australian Airlines it announced that the two companies would continue to operate as separate entities, one specialising in domestic operations and the other in international carriage. However, by early 1993 the need to make Qantas more efficient led to the decision to merge the two airlines. Savings estimated at $158 million could be made through a merger while staff reductions of 1,835 could save $95 million. Market research showed the Qantas brand was known and respected around the world and was the strongest brand name in Australia so Australian Airlines was merged into it under the single brand name, 'Qantas The Australian Airline'.

The merger between Australian and Qantas was not easy. The two airlines had long and proud traditions that were not easily merged and changes had a serious effect on staff morale, especially the domestic staff. For the merger Qantas introduced new uniforms for its 25,000 air and ground staff and, in May 1993, the first Boeing 737-300 appeared in Qantas colours while Qantas Boeing 767s began flying regularly on domestic routes, substantially increasing capacity at peak times and freeing 737s for other services including some international routes. All the paraphernalia of customer services were standardised so that Qantas customer would not notice the difference while transferring from Qantas domestic to international flights and the Qantas in-flight magazine was renamed from July 1993. The regional airlines that belonged to Australian also began appearing in Qantas livery so the entire Qantas group of airlines had the same look. In June 1993 the CAA issued Qantas with a single AOC that covered all the airline's routes and Australian had been fully absorbed into Qantas by 18 August 1994 when the final flight of an airliner in Australian Airlines livery occurred.

The sale of Qantas took place alongside the sale of Australian Airlines. The Australian character of the airline was protected by the Qantas Sale Act, 1992, which contained provisions to protect Australia's national interests. For example, at least two-thirds of the board of directors had to be Australian citizens, Qantas' main operational base and headquarters would remain in Australia and the name 'Qantas' would be preserved for the company's scheduled international passenger services. Any single investor was limited to a 25 per cent stake in Qantas, foreign airlines could hold no more than 35 per cent of the company's shares and total foreign ownership of Qantas was capped at 49 per cent.

There were only three main overseas bidders; British Airways, Singapore International and Air New Zealand. In December 1992 the Commonwealth government accepted a $665 million bid for the sale of 25 per cent of Qantas to British Airways which said that it did not want to take over Qantas or run it. The bid was contingent on the government and British Airways making significant additional payments to reduce Qantas's debt/equity level to 60 per cent and, at completion of the sale, the government provided Qantas with a capital injection of $1.35 billion.

The government hoped to float the remaining 75 per cent of Qantas shares in early 1993 to raise about $2 billion but stock market fluctuations and other difficulties delayed the float to July 1995 following an intensive advertising campaign designed to promote Qantas to investors as a national icon. 750 million shares were offered at a nominal $2 each and when the final price was announced at the end of the month, small investors paid $1.90 a share and institutions, which took 64 per cent of the shares, paid $2.32 each. The float raised $1.45

billion.

After British Airways bought its shareholding in Qantas the two airlines began mapping out a ten year commercial agreement to closely integrate their operations and make other savings. James Strong, who had led Australian Airlines from 1986 to 1989 and been on the Qantas board since 1991, was appointed the airline's managing director from 26 October 1993 and his experience and knowledge helped lift morale and weld Qantas into one airline. He assembled the best management team he could find, some from Ansett, and two of them, Gary Toomey and Geoff Dixon, were appointed deputy chief executives when the Executive General Manager of Operations retired in 1998.

In 1995 Toomey, then Qantas finance director, told the airline's managers that Cathay Pacific and British Airways were cutting costs and Qantas had to do the same to be competitive. To do this management set a cost cutting target of $100 million in 1995 through a systematic analysis of all costs and making cost saving. As a result the airline saved $70 million in 1994/95 and management then committed the airline to saving a further $300 million in the following financial year, and Strong set an even higher cost reduction target of $1 billion over the coming three years. Cost cutting strategies included staff reductions, postponing new aeroplane purchases, cutting in-flight service, improving fleet management, contracting out or franchising some operations, suspending loss making routes, and introducing new passenger revenue accounting and fare auditing systems.

The airline refined it's international air routes by dropping some of its unprofitable direct international services to smaller Australian capital cities. It delayed the decision on a new 300 seat airliner in 1998 by introducing regular domestic Boeing 747 services on some peak time services to increase capacity that improved fleet utilization from 11.7 hours a day in mid 1996 and 12.3 hours by early 1997. In August 2001 Qantas announced launch of a new low-cost airline to take over routes to Asia that were unprofitable for Qantas that would have lower costs, simpler route structure, reduced handling costs and increased seating capacity.

To promote itself as an international brand Qantas launched a multi-million advertising campaign using the song 'I still call Australia Home' that was shown in Australia, Britain and the United States. Along with cost cutting the airline also made significant investments in improving productivity, including new terminal improvements, loyalty marketing, refurbishing cabin interiors and information technology. It's new QUBE computer system improved the airline's passenger services such as reservations, yield management, seat inventories and frequent flyer scheme. The airline divested itself of subsidiaries such as Qantas Flight Catering and Qantas Terminals but agreed to keep other subsidiaries if unions agreed to cost savings of up to $30 million over several years. In 1993 it sold it's 49 per cent share in Thomas Cook Australia but continued to get sales through the agency. In 2000 it sold its Sydney headquarters and then leased it back for 10 years with a series of long term options, raising $150 million from the sale.

Management said Qantas's manpower costs were 25 per cent higher than their major competitors and had to be reduced by 20 per cent to remain competitive. Qantas and Australian Airlines had cut around 5,000 jobs by early 1993 and announced cuts of more than another 1,800 jobs and later cut another 2,300 jobs. Qantas began contracting our some of the work that had previously been done in-house. When its ground handling services were contracted out the contract at Sydney Airport was awarded to the in-house team with an overall cost saving of 30 per cent, but not all in-house bids won and some security, printing, maintenance, revenue accounting and fare audit contracts went to outside bids.

Staff and their unions resisted almost all these cost control and staff reduction activities with little success. Strong told them these things were essential if the airline was to survive but the unions said that in the race for profits management was destroying Qantas's traditions, turning it from a highly efficient airline into a badging service for outside contractors and losing control of critical areas of maintenance that was turning Qantas from an excellent airline into a mediocre one. Strong replied that achieving reasonable profits was not the opposite of maintaining high standards. Investors agreed with him, Qantas was becoming an excellent airline by the important criteria of profitability.

The result of all these changes was efficiency and profitability. After a $376.8 million loss in 1992/93 (mostly associated with the merger with Australian Airlines) Qantas returned a profit of $180.1 million in 19994/95, $246 million in 1995/96, $260.5 million in 1996/97. $305 million in 1997/98. $420.9 million in 1998/99 and $517.9 million in 1999/200. By the mid 1990s Qantas was among one of the world's larger airlines, ranked 10th measured by capacity and the 11th largest domestic airline. Its position on the world stage was a source of national pride and prestige but, in the eyes of the analysis who measured and commented on its performance, Qantas was successful because it made profits and paid dividends.

In 1998 Qantas was voted the best corporate image in Australia for the ninth year in a row and, in a separate poll, the most admired company in Australia. This did not mean it was the best airline, it was said to have the rudest flight attendants in the world and take its passengers for granted. Instead, Ansett was named 'Airline of the Year' for the fourth year in a row by the Australian Federation of Travel Agents in 1997. These awards showed the difference between the airlines, Ansett was an excellent airline but not always a good business while Qantas was not always an excellent airline but it had become an outstanding business.

Ansett's poor performance as a business was a matter of leadership because the airline's owners, Abeles and Murdoch were distracted by other business ventures. Murdoch's News Corp media empire expanded to include over 800 companies in more than 50 countries with a net worth of over $5 billion. Abeles interests in transport had seen his TNT grow to become the world's second largest transport company by the mid 1980s but, unlike Murdoch's success, TNT became mired in debt ridden investments in Europe and Abeles was forced to resign as managing director of TNT at the end of 1992. He then said he intended to focus his attention on Ansett but, a month later, he was admitted to hospital and announced his resignation as Ansett's Chief Executive. TNT was sold to Netherlands interests in 1996 and Abeles died in 1999.

After Abeles' departure the fundamental reason for Ansett's decline was it's directors saw it as only one part of a larger money making business and appeared to be interested in it only as an asset that generated income, so if it didn't make profits from its operations it might just as well make money by being disposed of.

Ansett was a poorly performing business by the beginning of the 1990s. Part of the problem lay in its fleet which had seven basic types (while Qantas had only four) which created nightmares in scheduling, training and maintenance. There were also staff difficulties and problems with poorly performing associated companies. By the end of 1993 Ansett's subsidiary in New Zealand, Ansett New Zealand, had lost a reported $200 million since it started in 1987. It's chief executive and 20 staff were laid off in early 1993 but the airline's performance improved only slightly and it lost $NZ 47.6 million in 1992/93 and $NZ9.7 million in 1993/94.

By the early 1990s Ansett had accumulated debts of about $2.2 billion, employees were becoming nervous and its market share was sustained only by aggressive advertising and sponsorship, combined with a generous customer loyalty program. To improve productivity Ansett introduced tighter cost controls, modern computerised yield management techniques and continued its tradition of high service and product standards. In 1994 Ansett in Australia rebranded itself Ansett Australia. to distinguish itself from Ansett New Zealand and a new airline, Ansett International, and announced plans to cut costs by at least $150 million. These changes helped, Ansett lost about $50 million in 1990/91 and $66.4 million in 1991/92, in 1992/93 it made an operating profit of $59.5 million, in 1993/94 it made $152 million that fell to $51.5 million in 1994/95 and a mere $3.4 million in 1995/96.

Ansett tried to make its way back to profitability by concentrating on 'core' business, so it began divesting itself of about $500 million in 'non-core' assets. In 1993/94 it raised more than $100 million from the sale of non core businesses and surplus assets including TNT's share in Ansett Worldwide Aviation Services, the general aviation division of Skywest, two road transport companies, the bus and coach builder Ansair, the general aviation company Pacific Aviation, Turbine Components of Australia, its share in American West and the Australian Air Academy at Tamworth, the Hayman Island resort, a half share in the Hayman Island Airport, it's in-flight catering service, it's Transport Industries Insurance company, it's major stake holding in Diners Club and it's door-to-door air express business.

By the middle of 1993 analysts reckoned Ansett Transport Industries was worth about $250 million with total assets standing at $2.6 to $2.9 billion and debts of $2.6 billion. These results were, to use TNT's words, 'extremely disappointing'. TNT began regarding Ansett as a distracting black hole and News Corporation came to see it as a non-performing asset that it would be happy to be rid of. The airline needed more than $100 million in capital from its owners to cover losses and reduce interest on its debt, but neither of its owners was willing to invest more or blow out the debt by ordering new aeroplanes for the airline's fleet. Both tried to sell parts of their half shares in Ansett to gain capital for expansion but could find no buyers.

Overseas airlines became interested in Ansett because acquiring an interest in it would give them access to Australia's domestic air services in the same way that Qantas had achieved when it acquired Australian Airlines. The two airlines that became seriously interested in Ansett were Singapore International and Air New Zealand. Singapore International was one of the world's most profitable airlines and was looking for opportunities to expand in Australia's direction after loosing to British Airways in its bid for the Qantas shares. Taking part ownership in Ansett would give it access to the Australian domestic market and it's financial strength would be a great boost in solving Ansett's financial problems. Air New Zealand was another successful airline, making profits of $NZ139.5 million in 1992/93, $NZ260.2 million in 1994/95 and $NZ225.2 million in 1995/96. Acquiring Ansett would remove the domestic competition of Ansett New Zealand, which was worth around $NZ40, and give it access to the Australian domestic market.

Air New Zealand began negotiations with News Corporation in October 1994 but was not prepared to meet News's asking price of between $400 million and $600 million so the airline then took up negotiations with TNT and soon reached an agreement to purchase its shares in Ansett. There were complications because of the cross share holdings of TNT, News Corporation, Qantas and Air New Zealand and, after lengthy negotiations, Air New Zealand bought TNT's 50 per cent share of Ansett for $325 million in August 1996, agreeing also to inject a further $150 million as part of a $200 million capital increase. The sale was concluded on 1 October 1996. Air New Zealand and Ansett retained separate identities but code shared on some Ansett domestic and trans-Tasman services, shared frequent flyer programs and planned further co-operation in sales and marketing, engineering and maintenance, in-flight entertainment and information technology. After the sale Qantas sold its shares in Air New Zealand and terminated the six year old code sharing agreement with it from May 1997.

Ansett's position had become so severe by the middle of 1996 that Ansett Australia's managing director and chief executive (who had been with the airline for 40 years) and other top managers were forced out. Rod Eddington, previously the Managing Director of Cathay Pacific was head-hunted by News Limited to take over and turn Ansett into an efficient business that could be sold for a good price. 'Ansett', Eddington said, 'is an excellent airline but a poor business because it doesn't generate profits.'

Eddington found Ansett hard to change and his first attempts were frustrated by poor progress so, in late 1997, he launched the 'Great Business Plan' to raise profitability by 10 per cent through 70 reform projects. Not all of them were successful, the proposal to cut travel agency commissions by 20 per cent created such ill-will in the travel industry that it was dropped and attempts to negotiate a partial wage freeze and contracting-out with unions failed. Some savings came from closing 15 retail outlets and centralizing Ansett's corporate business so Ansett had shed 600 staff with another 300 to go over the next two years by the end of 1998. By the end of 1998 Eddington's Great Business Plan was starting to show some success and it's business position was improving, but it was still far from a successful business. It's costs were still too high - Singapore International made $543,000 per employee, Qantas made $278,000 and Ansett only $217,000. It needed to upgrade it's fleet and its reservation and revenue management systems to compete with Qantas but News Corp was not interested in investing more in the business so Ansett had to shelve a critical $2 billion fleet renewal program. It planned to reduce costs by reviewing route structures and withdrawing from or scaling down services and using a subsidiary on a number of ports in Queensland, New South Wales, Tasmania and the ACT.

In June 1997 Ansett and Air New Zealand formed an alliance with Singapore International, the largest commercial alliance of airlines the Asia Pacific region with code sharing, integrated networks and schedules, co-operation on product development, promotion and marketing and combining information technology and cargo operations. A little later Singapore International announced plans to acquire shares in Ansett and possibly take a substantial stake in Air New Zealand.

In 1996/97 Ansett made a loss of $35 million, in 1997/98 a profit of $30 million (largely helped by $22 million in asset sales) and Ansett's profit was $156.8 million in 1998/99. These profits were, in the words of the airline's Executive Chairman, 'far from where we need to be in order to re-invest in the business' but with Ansett back in profit News was ready to sell its shares in the airline. The most interested buyer was Singapore International but Air New Zealand had first option on News's share so News and Singapore International suspended discussions on the Ansett sale in June 1999. This left the airline's future up in the air and Ansett staff tried to organise a buyout of News's share. but were unable to raise the $500 million that Singapore had offered. That airline then turned to other investment opportunities and, in March 2000, bought a 49 per cent share in Richard Branson's Virgin Atlantic airline for about $1.5 billion. At the same time it purchased more shares in Air New Zealand which took its shareholding to 25 per cent, the maximum allowed by New Zealand law. Air New Zealand then bought News Corp's shares in Ansett in an agreement reached on 18 February 2000 for around $680 million. The Australian government agreed to the takeover under the conditions that Ansett remained based in Australia, that it would maintain its regional services and there would be no significant reduction in skilled employment. The acquisition was completed on 23 June 2000. This made the Air New Zealand group of airlines the world's 20th largest and about 85 per cent the size of Qantas, with a combined fleet of 110 jet airliners and 24,000 staff serving more than 100 destinations.

The take over seemed to offer little for Ansett because Air New Zealand could do little to solve the main problems of its relatively poor business performance and the necessary fleet upgrade. Air New Zealand's debt after it took over Ansett was $3.05 billion and it's share price had dropped by 40 per cent in the previous 18 months due to rising oil prices and investor concern about its lack of capital and management skills, and the state of Ansett.

News continued to sell its aviation interests. It approached Qantas to buy Ansett New

Zealand outright but wanted over $100 million when Qantas was only prepared to pay around $40 million. News then sold the airline to a trans-Tasman consortium for $NZ48 million in early 2000 and Qantas sold it's new owner a franchise to use the Qantas brand, including the full package of airliner livery, products, services and staff uniforms. This transformed Ansett New Zealand into Qantas New Zealand that began scheduled services on 4 September 2000. This arrangement gave Qantas a seamless trans-Tasman service to compete against the similar Ansett and Air New Zealand services, creating two integrated Australian and New Zealand air networks that extended from Australia and New Zealand's regional centers out into the wide world.

As the take over of Ansett by Air New Zealand was being finalised Eddington was offered the position as Chief Executive of British Airways. The relative success of his Great Business Plan had attracted that airline's attention and he accepted the offer because he wanted to continue running an airline but could not work with the new Air New Zealand management. With Eddington's departure Air New Zealand began retrenching key Ansett staff and running the airline along Air New Zealand lines, leaving Ansett demoralised and rudderless.

Against the background of turmoil at Ansett, James Strong and his team, including Geoff Dixon and Gary Toomey, led Qantas through five years of sustained and increasingly profitable restructuring and expansion. Strong announced he would resign in the second half of 2001, leading to speculation about whether Dixon or Toomey would replace him. They both came from commercial backgrounds with operational experience instead of the technical and engineering credentials of many pervious airline executives. Strong had poached Dixon from Ansett in 1994 and Toomey had led Qantas's attack on costs and was probably the best cost cutter in Australian air transport.

In mid September 2000 Toomey resigned from Qantas to become the new chief executive of the Air New Zealand/Ansett group. He was a 45 year old with an accounting background and a love of aviation who had spent much of his youth watching aeroplane at Essendon Airport. He saw his appointment as an auspicious opportunity that was widely endorsed by the investment community. This prompted Qantas to announce, in November, that Geoff Dixon would take over from James Strong in March 2001 and that, before then, he would become responsible for decisions that would have longer term effects on the company.

CHAPTER TWELVE
REGIONAL COMPETITION

Australia's regional airlines emerged from general aviation to become competition for the second level airlines that they eventually drove out of business. Their emergence was partly the result of government policy to foster competition in the air transport industry and made possible by the arrival of new generations of more efficient smaller airliners.

Before 1988 the Commonwealth government's Supplementary Airline Licence had limited the capacity of regional airlines by restricting the aircraft they could use to those carrying fewer than 39 passengers or a payload of less than 4,200 kilograms. The government's policy of creating greater competition in the Australian economy led the CAA to replace the earlier airline licencing system with Air Operators Certificates that included all forms of commercial air transport. This gave regional airlines greater flexibility in the routes they flew and the aircraft they used so they could more easily match customer demand with the services they offered.

A new generation of small, turboprop powered regional airliners became available from the early 1980s including SAAB 340s that carried 32-35 passengers and deHavilland Canada Dash-8s that came in several versions carrying from 37 to 50 passengers. They both cost around $8 to $10 million and had performance similar to F-27s, but with much greater efficiency. They made up about 40 percent of the entire regional airline fleet by 1991. and there were 50 Dash-8s flying with Australian regional airlines by 2000. A new generation of regional jet airliners also became available in 1990s, offering the same speed as jet airliners such as the Boeing 737 but with lower operating costs so they could serve on routes that did not have enough demand to make the larger jets profitable. One was the 50 seat Bombardier CRJ200 that began flying in Australia in October 1999.

Regional airlines carried 122,742 passengers in 1972 and two million in 1992, with an annual growth rate that averaged 16.1 per cent (compared to the major domestic airlines of 5.3 per cent). Over the decade of the 1990s Australia's regional airline activity rose nearly fivefold and in the second half of the decade it climbed from 2.97 million to 5.6 million passengers a year. During the same period the number of regional airlines fell from 59 in 1980 to 52 in 1995 and only 36 by 1999 because of the gradual transition from smaller piston engine aeroplanes to larger capacity turboprops and jets aeroplanes. Most regional airlines remained small however, with an average of less than five aircraft and mostly small single engine Cessnas and Pipers that carried around half a dozen passengers.

Most regional airlines developed symbiotic relationships with Australia's two major domestic airlines in arrangements that provided them with patronage through on-carriage of passengers and freight and frequent flyer schemes, creating almost seamless services from regional and outback communities to national and international capitals. Regional air transport became important to the major airlines as a source of passengers which was reckoned to be about 20 per cent of their total passengers. In 1999/2000 regionals owned by Ansett carried 1.6 million passengers, Qantas owned regionals carried 2.6 million passengers and the four major independent regionals carried 1.1 million passengers. Qantas had 16 affiliated regional airlines and four major subsidiaries in 1998 and Ansett had ownership links with three regionals, shareholdings in others and used alliances to bring other regional airlines into its national network.

Most regional airlines began as general aviation companies and began offering regular services in an attempt to expand and stabilize their businesses. It was a risky because of slim profit margins and uncertain customer demand but those that succeeded had the potential to grow by taking on more routes using larger, more capable, aircraft.

Hazelton Air Services started in aerial agriculture and began the 1990s as an independently owned company with a large and well established New South Wales network and affiliated with Qantas. After severe financial problems in the early 1990s it cut costs drastically, adopted an all SAAB 340 fleet and returned a profit of $2.067 million in 1997/98. In 1999 it switched over to an agreement with Ansett, joined the Ansett frequent flyer scheme and Ansett gained first refusal on 20 per cent of Hazelton shares.

Flight West started with a single leased Beech King Air in June 1987, entered a long term alliance with Ansett in 1992 with code sharing, integrated ground handling, catering, and participation in Ansett's frequent flyer program. It had a fleet of 28 aeroplanes flying nearly 40,000 kilometres daily to 50 ports and carrying 230,000 passengers annually by 1993. It began taking over unprofitable Ansett routes and acquiring old Ansett F-28-400s for its expansion. By the end of 2000 it has 15 airliners flying to 35 cities and towns as part of its extensive network in western Queensland.

Skywest formed in 1980, initially as Carnarvon Air Taxis. It merged with another West Australian airline in 1982 to create a company with a fleet of 39 aeroplanes, assets worth nearly $27 million and an annual turnover of $18 million. After a crisis in 1997 it was sold to TNT/News and became an Ansett subsidiary.

Impulse began by carrying newspapers and night freight from Sydney along the north coast to Ballina, Coolangatta and Brisbane. In 1992 it bought the small and failing Oxley Airlines, established close links with Ansett in 1994 and began building a network linking regional centres along the New South Wales coast. By 1997 it had an established route and a growing fleet of Beech 1900D turboprop aeroplanes.

Kendell Airlines began in 1971 flying a Piper light aircraft on a route from Wagga Wagga to Melbourne that had been abandoned by Ansett which it later expanded to include Canberra and Sydney. In 1987 TNT/News bought a controlling interest in Lloyd Aviation which also held 36 per cent of Kendell Airlines. In June 1990 the Kendell family sold its remaining shares in the airline to Ansett and it began taking over some of Ansett's unprofitable routes, such as it's Fokker 50 services to northern Tasmania and in regional New South Wales, using smaller SAAB 340s.

The small North Queensland airline Macair bought two SAAB 340s in July 1998 and launched scheduled services in affiliation with Qantas linking Townsville, Mt Isa, Cloncurry, Mackay and Brisbane. It absorbed two smaller airlines in mid 2000 and then flew to nearly 20 places in central and northern Queensland on mining contract and scheduled regional airline services in alliance with Qantas using a fleet of 14 turboprop aeroplanes.

Sunstate Airlines had routes in Queensland and Victoria in 1983 when it took over some of the Queensland F-27 services that TAA shed. By 1988 it was effectively half owned by Australian Airlines and took over all that airline's regional flying in southern Queensland, up the Queensland coast to Cairns and in Victoria linking Mildura, Broken Hill and Adelaide. In 1991 Australian Airlines acquired full ownership of Sunstate's operations in both states with a fleet of 12 aeroplanes including Dash 8s. The southern branch of Sunstate was renamed Southern Airlines in 1991 and began flying to Tasmania, taking over some routes from another Qantas owned regional airline, Eastern, because that airline was expanding onto other routes.

Eastern Airlines began as Tamworth Air Taxi Services in 1949, grew through a series of amalgamations and acquired additional routes in New South Wales after ATI was forced to relinquish them when it bought East-West. By 1988 Eastern carried about 125,000 passengers annually and generated revenue of about $10 million. Australian Airlines acquired Eastern fully in August 1991 for about $16 million when it had a fleet of nine turboprop airliners flying to 20 destinations in New South Wales, Queensland, Victoria and Tasmania.

Qantas created Airlink specifically to give it a strong regional presence where previously only Ansett airlines had flown. It was launched in August 1991 with a small headquarters, three wet leased 70 to 80 passenger British Aerospace 146-100s and took over some of Australian Airline's unprofitable Boeing 737 routes. By mid 1995 it had a regional network serving five ports in Western Australia, four in the Northern Territory, five in Queensland and Adelaide and Canberra, catering for a mix of tourist and business passengers with services that linked with but did not duplicating the routes flown by other Qantas airline. By the end of the decade Airlink was Australia's largest regional airline with 19 ports in all states and territories except Tasmania.

Competition between Ansett, Qantas and their regional airlines created two major networks across Australia that was disrupted only when an independent regional changed alliance, as happened when TAA lost the on-traffic from Masling/Aeropelican when it was was acquired by ATI and Hazelton changed its loyalty from Qantas to Ansett. To prevent this trend Qantas used ownership of its main regional airlines to protect its regional network.

As the two nation wide airlines networks became stabilised the regional airlines began repainting their aeroplanes in the liveries of the major airlines to which they were allied. Eastern, Sunstate and Southern were originally to have only modified Australian Airlines livery but were given full colours after they complained that they wanted to feel full partners in their network. In 1994 Ansett's regionals began adopting Ansett livery, their only distinguishing feature being their company name on the upper forward fuselage instead of Ansett. Skywest, Aeropelican, Kendell and Flight West adopted the new look and Impulse followed when it became affiliated with Ansett. Only Hazelton kept its own colours to demonstrate its independence.

In all but the details of ownership and the names of airlines Australia had two airlines offering competing services from rural and remote areas through to capital city airports. For example, Qantas's Eastern flew in competition on Ansett Fokker 50s and Kendell routes and Sunstate flew in competition with the Ansett affiliated Impulse. Southern Airlines began flying Dash-8 services between Melbourne and Tasmania in competition with Kendell in 1994. In December 1996 it leased two British Aerospace 146-200s to fly on the Melbourne-Launceston and Launceston-Sydney routes, replacing the previous mix of Qantas 737s and Southern Dash-8s. As part of Edington's Great Business Plan for Ansett Kendell ordered 12 new 50 seat Bombardier CRJ200s in 1998 that would allow it to take over poorly performing Ansett services with jet airliners that offered similar speed to the Boeing 737s that had lost Ansett $55 million the previous year. The first CRJ200 arrived in October 1999 and they began flying services between Melbourne and Tasmanian destinations.

Neither network could afford not to offer competition to the other but flexibility in the services they offered sooner or later found the level of service that was profitable on any route. As the larger regionals began to standardize on larger airliners like Dash 8s they began to shed some smaller routes and for example, in July 1998 when Southern dropped its Mildura-Broken Hill and Mildura-Renmark-Adelaide Cessna 404s services, they were taken up by a smaller regional airline using a smaller capacity Cessna 414.

This competitive flexibility often led to reduced levels of service in regional and remote areas. When the Western Australian government deregulated its air transport, beginning with the largest jet air routes in May 1991, it expected fares to fall and hoped that service standards would be maintained. However, when Airlink announced, in 1994, that it would start services using BAe 146s on the most popular routes in Western Australia Ansett warned that it would have to give up some of its unprofitable routes to remain competitive. Competition did lead to reduced fares but, since Airlink only flew on profitable routes, Ansett was forced to drop some unprofitable routes and towns that had previously enjoyed high standard daily jet service saw standards fall when they were replaced by Skywest turboprop Fokker 50s. The drop in service standards was more severe for routes that offered even less profitability and, when Ansett dropped its jet service between Broome and Derby in August 1995, Skywest used a 19 seat Jetstream 31 as a replacement. In October 1996 Ansett dropped its jet services to Learmonth and Carnarvon and Skywest Fokker 50 services were substituted. Some of these services proved unsustainable for Skywest too and were abandoned, to be taken up by smaller airlines. So, when Skywest services in the north-west of the state did not prove profitable Skipper Aviation took over some of the routes using a smaller aeroplane. When Skywest stopped services to Busselton and Margaret River south of Perth in May 1998 they were initially taken over by Rottnest Airlines which went out of business, then by Maroomba Airlines using a 13 passenger King Air 200 that ceased flying in July 2000, and then by Skipper Aviation using a ten seat Cessna 402.

The New South Wales government hoped to avoid this kind of thing happening there and resisted deregulation of some routes because it feared small rural centres might suffer reduced service levels and some of the smaller airlines might go out of business. However, it introduced full deregulation from May 1999 because it could no longer resist the pressure to conform to the national competition policy.

CHAPTER THIRTEEN
FLYING THE TASMAN

Australia and New Zealand, two prior British colonies on the edge of the South Pacific Ocean, shared many common interests. New Zealand was a smaller and more compact nation with a relatively small population that made it a challenging market for civil aviation. By the mid 1980s New Zealand's population was 3.3 million with the three major cities; Auckland (population 850,0000) and Wellington (325,000) on the North Island and Christchurch (300,000) on the South Island with no other cities with populations over about 100,000. Most inter-city distances were between 300 and 500 kilometers, with the exception of Auckland and Christchurch which were 747 kilometers apart. Just as the sea gap between Tasmania and the mainland created a special air transport market in Australia, the sea gap between New Zealand's North and South Islands gave airlines a useful advantage, especially in connecting Christchurch in the south with the northern cities of Wellington and Auckland.

The New Zealand government merged its international and domestic airlines into Air New Zealand in 1978. After many years of regulation it began deregulating its domestic airlines from 1 April 1984, beginning with its regional airlines. Competition came to New Zealand's domestic air transport in 1986 when Ansett bought a controlling interest in Newman Airways, an existing regional airline, which was then renamed Ansett New Zealand. The new airline started almost from scratch, building its own terminals at Auckland, Wellington and Christchurch airports and began flying on 25 July 1987 with two Dash-8s and three Boeing 737-100s. It hoped to attract the business end of the market with high quality services but New Zealanders wanted cheaper fares so a fare war quickly erupted with Air New Zealand offering 25 per cent fare discounts and improved services, Ansett New Zealand replying with discounts of up to 30 per cent and Air New Zealand responding with 35 per cent off-peak discounts. After a year of competition Ansett New Zealand was providing 29 per cent of capacity on the Auckland-Wellington-Christchurch trunk route and had agreements with two regional airlines and Qantas to give it passenger feed from regional New Zealand to overseas destinations. To meet this competition Ansett New Zealand introduced British Aerospace 146s, primarily for tourist traffic in the South Island, and new Boeing 737-500s to serve business passengers on the main domestic routes.

By 1989 Ansett had invested more than $350 million in Ansett New Zealand which was said to be losing $1 million a month. The situation worsened when Qantas became part owner of Air New Zealand because it then transferred its passengers to Air New Zealand's domestic service rather than Ansett New Zealand. Abeles threatened to close Ansett New Zealand because of this but, after the New Zealand government arranged for Qantas passengers to go to Ansett New Zealand for another 21 months, the airline stayed. When Air New Zealand acquired full ownership of Ansett Australia News sold Ansett New Zealand to a consortium that formed an alliance with Qantas, the airline was rebranded as Qantas New Zealand and flew on New Zealand's domestic air routes in competition with Air New Zealand.

Their British heritages and geographic proximity gave Australia and New Zealand many common interests and, from the 1970s, they shared a special Trans-Tasman Travel Arrangement that allowed a virtual free flow of citizens between the two countries. Despite this air travel between the two nations was governed by bi-lateral agreements that controlled the number of flights and the routes that could be flown between them and limited trans-Tasman flights to the two national airlines, Air New Zealand and Qantas. In 1980 the Australian and New Zealand government gave approval for weekly flights by TAA and Ansett between Hobart and Christchurch using Boeing 727s, but they were flown using Qantas flight numbers. Ansett, unable to gain approval to fly in its own right, and seeking other opportunities, withdrew from the route a year later and TAA continued flying it until 1988 when, under Strong's emphasis on cutting losses, that airline also withdrew from the route.

In discussions leading up to the establishment of the Closer Economic Relationship that began in 1983, the two governments also discussed creating a single air transport market that would allow unrestricted airline flying to and in each other's countries. However, New Zealand insisted that Air New Zealand be allowed to fly on Australia's domestic air routes and to international destinations from Australia so the Australian government withdrew from the agreement at the last moment. When the coalition government returned to power in Australia in 1996 negotiations resumed over the creation of a single aviation market. By then Air New Zealand owned half of Ansett so there seemed less threat in a New Zealand airline flying in Australis and negotiations progressed rapidly. As a result Australia and New Zealand became a common aviation market on 1 November 1996 with unlimited flights between and within each other's countries, creating a single market valued at $5 billion and covering more than 31 million passengers.

The trans-Tasman air route was already a fare war battleground for New Zealand airlines seeking access to the larger markets and tourist destinations of Australia. In late 1994 Kiwi Travel International Airlines started charter flights between New Zealand and Brisbane and Sydney and gained New Zealand government approval in 1995 to commence twice weekly service from Dunedin and Hamilton to Sydney using a wet leased airliner and offering fares about $NZ100 below standard fares. It's flights became very popular and in it's first ten months it carried almost 113,000 passengers and made a pretax profit of $NZ1.08 million.

Air New Zealand responded and it's wholly owned subsidiary, Mount Cook Airlines, launched Freedom Air in early December 1995. The two airlines entered a price war in which Kiwi's limited resources and Freedom's substantial backing culminated with the grounding of Kiwi's leased airliner at Brisbane on 9 September 1996, driving the company into liquidation. About 4,000 passengers were stranded and another 6,000 held tickets so Qantas and Air New Zealand carried them at discount rates. Kiwi failed with debts of $NZ8 million and an investigation into its failure found it had been caused in the main by 'reckless and careless' management, under capitalisation and competition from other airlines. Like other new cut-price airlines before it, Kiwi had simply run out of money before it could make any.

After Freedom Air had disposed of Kiwi it continued providing cheaper no-frills trans-Tasman services that had carried 72,000 passengers by late 1996. Two more airlines tried their luck on the routes, one did not start and the other lasted a month before it stopped flying and it's director was declared bankrupt. Cut price no-frills flights by new airlines on the trans-Tasman routes were constrained by their very limited capacity in comparison to Air New Zealand which had, in 1998, 103 trans-Tasman flights a week and Qantas which had 158.

Qantas New Zealand was in serious financial trouble by early 2001 and losing about $NZ400,000 a month. It stopped flying on the early morning of 21 April 2001 and Air New Zealand and the regional airlines put on extra flights to carry stranded passengers. Qantas needed to protect its brand in New Zealand so it soon sent a Boeing 767 and three Boeing 737s from Australia to fill the gap. From early June it permanently based some of its 737s in New Zealand to provide services between Auckland, Wellington and Christchurch and entered an alliance with a New Zealand regional airline, Origin Pacific, which flew to 11 destinations in New Zealand. This created the same kind of network as Qantas had established with regional airlines in Australia and, through its trans-Tasman flights, linked its two networks in New Zealand, Australian with international destinations. Competition between Qantas and Air New Zealand/Ansett now extended from the far corners of Australia and New Zealand to the four corners of the world.

CHAPTER FOURTEEN
ON THE GLOBAL AIRWAYS

The world's scheduled airlines carried 106 million passengers in 1960 and 311 million in 1970. Growth continued rapidly and by 1995 the world's airlines carried 1.29 billion passengers and over 20 million tonnes of freight, and civil aviation contributed an estimated $US1 trillion to the world economy and created 22 million jobs. It accounted for more than $US2.15 trillion of the world's gross output by 1999 and employed over 24 million people - more than the populations of Australia and New Zealand combined.

Australia's population was 18.89 million in 2000, only 0.31 percent of the world's total population of 6,055 million. It's minuscule population and location at the bottom of Asia, well off the world's traditional trade routes, should have limited its contribution to the global economy and world affairs but its influence was greater because of its relatively highly developed western culture, natural resources and use of modern technology. The modern technologies of shipping contanizeration, air transport and information and communications created a globalized world in which Australia played a full and active part. Combined with the rational of competition and the 'free market', they created a highly dynamic global system in which the search for efficiency and profitability dominated. If it was more profitable to grow flowers in Africa and fly them to markets in Europe, rather than to grown them locally, it was done. If it was more profitable to transport raw materials from Australia to China, turn them into electronic goods there and then transport them to markets in North America and Europe, rather than making them locally, it was done. World spanning systems created economies of scale in which a handful of suppliers in one location could meet the needs of the entire world at the most competitive price. The logic of this globalized system made perfect sense to the economic and business thinking of the times, what else could capital profitably do with itself?

As Japan, and then other Asian countries, experienced rapid industrial development and economic growth their airlines also grew rapidly. In the 1970s the Asian share of world air transport doubled and Asian passenger numbers more than tripled. By the 1990s the economic center of the world was moving from the north Atlantic to the western Pacific. The Chinese government relaxed control of its economy and steered it into the world market as a major producer of industrial goods and, after economic reforms in 1978 China experienced a tenfold increase in its gross domestic produce with growth figures accelerating from the early

1990s. The growing importance of Asia as an air transport market was demonstrated in late 1997 when the region's economic stability collapsed and the number of Asian tourists to Australia dropped by 24 per cent in December 1997, compared to the same month the previous year. Many Asian airlines suffered severely declining traffic and deferred deliveries of new airliners, which forced Boeing to cut 48,000 jobs, 20 per cent of its workforce.

Air cargo became an integral part of this global system through the development of global supply chains, just-in time delivery schedules and intermodal logistics. Manufacture of high-value goods like computers and electronic equipment, that had previously been produced in the Western world, was outsourced to factories in low-wage countries and then airlifted to distribution centres in the industrialized world. Integrated air and surface transport companies like Federal Express and DHL, operating their own fleets of aircraft and vehicles, offered overnight deliveries anywhere in the world.

Australia became part of this system and sent deliveries of fresh sea food to Asia and fruit and vegetables to Pacific islands by air. High value products such as medical equipment, clothing, computers and software filled the holds of air freighters and Qantas carried 400,000 tonnes of domestic and international air freight in 1993/94. In an arrangement with an air freight company it flew two 747 freighters a week from Los Angeles to Sydney and Melbourne and later a total of nine dedicated freight flights a week to the United States and the South Pacific. Large overseas air freight companies also established regular services into Australia. FedEx established a daily service between Sydney and it's hub in the Philippines and DHL launched a service from Sydney and Melbourne into Asia with freight picked up in Melbourne at 3 pm being delivered to Singapore, Hong Kong, Tokyo and other Asian destinations the following day.

Economies of scale created the rapid growth of air freight and the same change occurred with flying passengers, beginning in the 1970s. Economic stagnation after 1973, the cost of introducing new wide-body airliners, increased competition, monetary instability and the two oil shocks (which quadrupled fuel prices) forced a 35 per cent increase in intercontinental air fares which resulted in a drop in passenger numbers and passenger traffic between the United States and Europe fell by 1.2 million in 1974 and more in 1975.

Airlines had traditionally focused on customer service to attract and keep passengers and resisted lower fares because they needed higher fares to support their relatively high operating costs. This model was broken in September 1977 when Freddie Laker launched a cut-price, no-frills air service between London and New York which was the main money making air transport route for international airlines. Laker's Skytrain service offered nothing more than an airline seat, there was no advanced reservation, a smaller luggage allowance than other airlines and no free onboard services and amenities. This reduced Laker's operating costs and allowed him to sell Skytrain tickets at up to 60 per cent below the going rate. Young people in particular flocked to the service and the fact that there were no meals and minimal services was marketed as part of the fun. Skytrain's success forced major airlines to reduce fares, resulting in a flood of new stand-by fares and other discount tickets and, in 1978, IATA sanctioned APEX (Advanced Purchase Excursion Fare). Like many cut-price airlines to follow, heavy competition from the established airlines forced Laker's Skytrain out of business in February 1982.

Deregulation, in the United States in 1978 and elsewhere later, also forced airlines to focus on cost cutting. New airlines were established, and old ones restructured, with the same principles of high aircraft utilization and no-frills service. Cut price fares attracted more people to fly and changed the culture of flying from an exclusive experience for the well to do to a normal travel mode in which the price of the fare was more important than the quality service.

This new kind of competition and further economic instability created problems for air transport. IATA airlines lost $2 billion in 1981 and the top sixteen American airlines had accumulated $10 billion in long term debts. Their situation improved through the 1980s but the Gulf War plunged the air transport sector into yet another crisis and worldwide passenger embarkations dropped in 1991. Profits evaporated and airlines were forced to reduce frequencies and ground aircraft. The industry lost $US3.8 billion in 1991, more than the aggregate of profits made by all airlines over the preceding forty years, and Pan American Airways, formerly the most prestigious airline in the world, went bankrupt and stopped flying December 1991.

During the 1970s Qantas flew to North America across the Pacific, Europe along its traditional Kangaroo Route, New Zealand across the Tasman and many destinations in Asia. Until August 1977 it also flew to South Africa but suspended that service partly because it had been making losses of about $2 million a year and partly because of popular political opposition to the racial politics of the South African government.

Qantas faced the same problems as other international airlines and increased competition on its Pacific route when a second United States airline, Continental, joined the route in May 1979. In response Qantas increased its flights on the route to 10 weekly services, though four were with Boeing 747s fitted to carry more cargo to expand Qantas' cargo carrying capacity on the route. The airline was not as severely affected as European and US airlines by the problems of this period but it reduced it's flying programme, cut costs and reduced its staff by 3,651 to bring numbers down to 17,138 and save $161 million.. By the beginning of the 1980s the decline in the global economy, an exchange rate imbalances that discouraged tourist travel to Europe and competition had reduced the airline's traffic on the Kangaroo route by 20 per cent and the Gulf War cost Qantas about $200 million because jet fuel tripled in price and some potential passengers decided not to fly. It minimised losses by rationalising some services, deferring some expenditure, dropping some routes to Europe and the middle east and putting on more services to Japan, Thailand and the United States.

Qantas also maintained its profit levels by improving the products if offered. In April 1977 it introduced a package of fares between Australia and Britain including an off-peak advance purchase return fare of $850 in conjunction with British Airways and reduced first class and economy fares on the Pacific route by 7 and 15 per cent. Aiming to attract high full fare paying passengers Qantas introduced full length sleeper chairs for its first class passengers and a new 'Business Class' for business travellers which offered improved passenger seating and service, improved in-flight entertainment, dedicated check-in areas and improved baggage service at fares still well below first class.

In 1980 more than 4.1 million passengers flew into and out of Australia and Qantas carried 44.3 per cent of them. Achieving profitability remained difficult, however. In 1978 Qantas made a profit of $6.472 million, $773,000 in 1979 and a loss of $21.209 million the following year. It carried more passengers each year but its costs rose even more and in 1979/80, for example, its revenue rose by 23 per cent but costs by 29.1 per cent. By the end of the 1980s Qantas' annual revenue was regularly over $3 billion but its profit depended on the state of the global economy. In 1988/89 it's profit was $177.2 million but dropped away to $44.7 million in 1990/91. To stay profitable Qantas did several things including staff reductions, cost cutting and asset sales. By mid 1984 it had reduced its staff by about 1,000, cut costs by about $30 million a year and sold the Wentworth Hotel and its headquarters building in central Sydney. In 1990 it cut senior management by ten per cent, put a freeze on recruitment and shed more staff.

The Qantas fleet was another key to profitability. The airline phased out its last Boeing 707s in mid 1979, leaving it with an all Boeing 747 fleet. This gave it economies of scale in maintenance, handling and training but no flexibility in arranging its route structure to accommodate shorter routes or serve routes that required less than Boeing 747 passenger capacity. To overcome this problem it ordered three advanced Boeing 747-300s and six Boeing 767s for $860 million in late 1983. Boeing 747-300s had extended upper decks which allowed them to carry 413 passengers (28 of them first class and 38 business class) and 13 tonnes of cargo with new engines that gave them a range of more than 10,000 kilometres with full payload. They began entering service in late 1984 and were very popular, particularly with business class on the upper deck. As the new airliners entered Qantas' fleet the old 747-200s began disappearing and six had been sold by the end of 1984. The first 767-200 entered Qantas service in July 1985 and flew on shorter routes, or routes where the larger capacity 747s could not operate profitably and, by 1988, Qantas had a fleet of 25 Boeing 747s and 9 Boeing 767s.

Qantas's efficiency was improved again by new Boeing 747-400s which had improved fuel efficiency and could fly direct from Singapore to London or from Sydney to Los Angeles in flights lasting over 14 hours. Later in the year Qantas also ordered three Boeing 767-300s that were seven metres longer than the 767-200s with a capacity of 251 passengers and 11.2 tonnes of cargo, making them eight to ten percent more efficient than the earlier 767-200s. The new 747-400s began entering Qantas service in 1989 and changed the nature of long distance flying. Previously all flights to North America (with the exception of the Boeing 747SPs, which had not been very profitable) had to stop at Hawaii to refuel and the trip to London had been broken into three stages of about 7 hours each but the 747-400s could cross the Pacific without refueling and fly to London with only one stop. The new 747-400s also allowed Qantas to add more new flights to destinations around the Pacific rim. By 1990 Qantas had taken delivery of five of its 13 ordered Boeing 747-400s and 12 of 19 ordered Boeing 767-300s which gave it a fleet of airliners capable of flying profitably to anywhere in the world. In 1991 Qantas removed first class from all but its longest range Boeing 747s to make room for more economy seats but also reduced first and business class fares to the United States by up to 38 per cent to combat the decline in sales in those classes.

By Australian standards Qantas was a very large company with a huge fleet, but it was small in comparison to some of the World's major airlines. This could have put it at a competitive disadvantage but it used agreements with other airlines to expand its capabilities. Most important was its association with British Airways following that airline's acquisition of 25 per cent of Qantas when it was privatised. The two airlines established a Joint Services Agreement in 1995 that enabled them to offer a comprehensive range of fares and streamlined baggage and check-in facilities on their combined 35 weekly Boeing 747-400 Australia-Europe flights that offered the airlines savings of $90 million. From 1996 they merged operations in many Asian centres including Bangkok, Singapore, Hong Kong, Thailand, Malaysia and Indonesia and they expanded their agreement to include routes in Britain and Europe and on the trans-Tasman route in 1998 . Qantas said that air fares between Australia and Europe had been reduced by up to 25 per cent with more discounted fares and improved quality of service due to the agreement.

Qantas and American Airlines coined the word ‘codeshare’ in 1989 to describe an arrangement under which they both gave their individual flight code number to one joint flight. This enabled them to expand their passenger offerings without substantially increasing their fleets or operating costs by sharing services between an array of Australian cities and United States domestic cities. Code sharing became popular with other airlines very quickly and became commonplace in the airline industry. It enabled passengers to make bookings that included flights offered by allied airlines and, for the airlines, it offered the ability to offer passengers flights to destinations they did not fly to or to offer more frequency on routes they did serve.

Flying between nations was regulated by the system of bi-lateral international agreements about how much airline capacity would be permitted to fly between their countries and other conditions. For example, a new agreement between the governments of Australia and the United States reached in August 1988 greatly expanded Qantas’ opportunities in the United Stated by allowing it to fly to 15 cities rather than the previous four, but this opened virtually every Australian international airport to American airlines which had previously been limited to four. In 1989 Australia and Singapore negotiated a new agreement to allow Qantas and Singapore International to offer about 3,800 extra seats a week so that, between them, they provided a total of more than fifty Boeing 747 services a week in each direction.

For many years government policy has been that Qantas was Australia’s only international airline but the new emphasis on competition and free markets, and the merger of TAA and Qantas to create a joint domestic and international airline, led the government to decide that Australia’s domestic airlines should be allowed to compete on international air routes. To do this it established the International Air Services Commission (IASC) in June 1992 to allocate Australia’s international airliner capacity among Australia’s airlines.

Fully unregulated competition between Australian airlines for overseas airliner capacity was not possible because flights to and from Australia were controlled by bi-lateral capacity agreements so the IASC could not give out more international capacity than the agreements allowed. The IASC's powers were also limited because the government wanted to preserve the value of Qantas when it was sold, so it's existing air services were protected from IASC decisions for several years.

Qantas had not taken up all the available bilateral rights that Australia had negotiated so the IASC could allocate them to other airlines and, as more bilateral agreements were made, more capacity and new routes became available that the IASC could also allocate. By the time the IASC had been in operation for five years it had allocated capacity of 105,000 airliner seats a week, the equivalent to 263 Boeing 747s. However, the government's hopes of bringing competition to Australia's international air routes was only a limited success. Of the 200 determinations and decisions the IASC made between July 1992 and August 1998, only 85 related to Australian airlines other than Qantas. It had made preliminary decisions on 14 applicants besides Qantas but only four that were allocated capacity started flying, others that had been granted capacity did not start operations and some applications were rejected because the IASC decided they were not reasonably capable of implementing their proposals. As a result only five Australian airlines flew on international routes. Qantas remained Australia's major international airline, Ansett started an Asian network, National Jet Systems flew to Singapore and Indonesia, Flight West started a short international service to Papua New Guinea and Asian Express started a freight services to New Zealand. In May 2000 Airlink commenced services between Darwin and Dili in East Timor but stopped in January 2001 due to insufficient demand

This lack of interest limited the number of tourists coming to Australia so the government decided, in June 1999, to encourage tourism by giving foreign airlines controlled access to the regional areas of Australia. All Australian international airports except Sydney, Melbourne, Brisbane and Perth were opened to unrestricted international air services but overseas airlines showed no interest.

Reg Ansett, and Ivan Holyman before him, had tried in vain to gain access to international air routes and one of the main reasons why Qantas had entered into its close commercial agreement with Ansett in 1986 was to hold in check it's international aspirations. Finally, the new government policy allowed Ansett to fly overseas. It's new airline was named Ansett International and Ansett's domestic services were rebranded Ansett Australia to distinguish between the two. The airline planned to begin in the booming air transport market of Asia and then expand, and the IASC granted it capacity rights to destinations including Kuala Lumpur, Singapore, Seoul, Hong Kong, Osaka, China and Taipei. It was a new world of competition and Ansett expected to make a loss of up to $50 million in the first year. It's main competitor, Qantas, was adept at making the most from its routes and had the flexibility of a relatively large fleet and route structure to vary its schedules quickly to provide capacity where it could be most profitably deployed. These were things the new airline also had to learn.

Ansett International made its first flights in September 1993 using domestic airliners for services to the Indonesian tourist resort of Denpassar. It leased two Boeing 747-300s from Singapore International with options for three more, costing about $US 650,000 each a month, and began flying to Japan and Hong Kong in September 1994. It leased two more 747-300s and began flying to Kuala Lumpur and Taipei in November 1966, and also used some 767s for its international services. The airline emphasized high quality cabin service and offered the best first and business class accommodation on long haul international routes with the latest in in-flight entertainment, greater space for first class and business passengers and an on-board chef. In nine years Ansett won the 'best international business class service' award four times and it replaced its first class with a 'superior business class' to improve yield in 1997.

Asia was a small and growing part of Qantas' overseas network, representing about 20 per cent of it's capacity, excluding Japan. Asians generally thought of Qantas as a leisure airline because they thought of Australia as a tourist destination, but competition from Ansett International led Qantas to also promote itself as a business airline that offered one of the best business classes in the world. In 1995 it began improving its business image by upgrading the cabin quality of its 747-400s which flew mainly to Europe and North America, but also served some Asian destinations.

Political change in South Africa saw Qantas resume flying there in 1992 In 1994 it added Vietnam to its destinations with a weekly Boeing 767 service to stimulate business travel and cater from increasing Australian tourist interest. By mid 1996 Qantas was flying to Bejing and Shanghai and demand was so high that it increased frequency to those destinations to six flights a week. It expanded services to all its Asian destinations from several Australian capitals to exploit and encourage tourism and trade links, serving primary destinations including Djakarta, Singapore, Bangkok and Hong Kong.

Ansett and Qantas needed to join with other airlines to remain competitive in international air transport, expand the services they offered and achieve economies of scale. Ansett reached agreements with airlines in Japan, Britain, Hong Kong and the United States in 1992 and added four more Asian and European Airlines in 1993. This enabled it to sell tickets and award frequent flyer points to hundreds of destinations around the world and for overseas airlines to add Ansett's domestic destinations to their networks. It also allowed Ansett to offer more frequent flights so when it started flying to Kuala Lumpur it code shared with Malaysian Airlines and, between them, they offered eleven code shared services a week of which Ansett International flew only two.

The agreement between Qantas and British Airways enabled them to offer, among other things, round-the-world flights over a diversity of routes. Qantas passengers began flying to New York through its codeshare agreement with American Airlines and it also reached codesharing agreements with airlines in Germany, Japan, South America, the Pacific, the Middle East, Europe and North America.

These codesharing agreements gave airlines many valuable benefits but loss of an agreements was also the loss of networks and passengers so, when British Airways bought into Qantas it's previous agreement with Ansett ended, cutting that airline's access to passengers arriving in Australia on British Airways flights. Airlines used commercial arrangements such as owning shares in other airlines to cement arrangements but they were limited in share holding tactics such as mergers and acquisitions because government control of national airlines made that kind of business difficult. To overcome these problems groups of airlines began to form, initially in regions such as North American, the European Union, South America and Asia. In 1990 Singapore International, Swissair and Delta formed a world spanning groups that linked networks around the world with 237 destinations in 64 countries. These groupings became formalized in 'Alliances' that overcame many of those problems without involving mergers or equity holding and share swapping but still enabled airlines to make operational economies, offer integrated ticketing and seamless connections and share customer loyalty programs.

In May 1997 five international airlines - Lufthansa, United Airlines, Thai Airways International, Scandinavian Airlines Systems and Air Canada - announced they had formed the 'Star Alliance'. Partners in the Alliance would share frequent flyer schemes, code share, give each other's passengers reciprocal access to lounge facilities and give passengers smoother connections. The five foundation members of Star Alliance served 584 destinations worldwide, including 340 in the United States. Other airlines soon became interested, Ansett and Air New Zealand joined Star Alliance in March 1999 and Singapore International in April 2000.

Competing with Star Alliance was the 'oneworld' alliance that was established in September 1998 by British Airways, American Airlines, Qantas Airways and Canadian Airlines which, between them, carried 194 million passengers using 1,524 aeroplanes serving 632 destinations in 130 counties. Through 'oneworld' Qantas could offer 22 round-the-world fare combinations in conjunction with 25 other airlines.

Star Alliance and 'oneworld' had central management teams to guide them and provide services in marketing, information technology and financial activities. Between them the two alliances controlled 80 per cent of the capacity flown between Asia and Australia. They became so important that the owners of Brisbane Airport considered converting their separate international and domestic terminals so Qantas and its 'oneworld' partners could use one terminal and Ansett and its Star Alliance partners could use the other.

More alliances formed, the European Qualiflyer alliance in 1998 and Sky Team in 2000. Alliances were not the complete solution to the problem of running airlines on a world wide scale and had problems. One was that not all member airlines in an alliance offered identical products, particularly in business class, the quality of service at airports and in earning frequent flyer points. Ansett said its membership of Star Alliance could be worth more than ten per cent to it's bottom line but Qantas said its Joint Services Agreement with British Airways was more valuable than its membership of 'oneworld'.

The Asian financial crisis forced Qantas to prune services to some Asian destinations but it used that surplus capacity to increase flights to other destinations. Growth was rapid on the North American route, it flew 12 non-stop 747-400s services a week to Los Angeles in 1994 and 42 Australia-United States return flights by 2000. It also commenced a twice weekly 747-400 service to Buenos Aires via Auckland in 1998 and a daily direct services to Vancouver and Toronto via Honolulu using 767-300s in July 2000. It extended services to more European destinations such as Frankfurt and Paris and added more services to South Africa as passenger numbers grew rapidly.

To meet this demand the Qantas fleet included 35 Boeing 747s (25 of then 747-400s), 36 Boeing 767s (29 of them 767-300's) and 38 Boeing 737s (some of which flew on international services) by the end of the 1990s . Competition on international air routes was severe, the world financial situation was poor and the weak Australian Dollar kept many Australians from travelling overseas, so Qantas' outlook was not good. In 2000/2001 it's profit was down by 19.7 per cent to $415.4 million from the previous year, but the airline regarded it as a ‘considerable achievement in the current climate’.

The Asian economic crisis forced Ansett International to abandon its plans for new services, although it continued to offer code shared flights flown by other airlines to those destinations. In 1995/96 the airline lost $20 million, in 1996/97 it lost $46 million and in 1997/98 it lost $57 million. By mid May 1998 it had only five international destinations; a small service to Bali and its four main services to Hong Kong, Shanghai, Osaka and Taipei. In October 1998 it was forced to drop its flights to Shanghai but developed a new philosophy of flying to destinations where the Ansett brand was strongest and began a twice weekly service to Nandi in the Pacific. In September 1999 it tried to develop its route to Hong King using leased 747-400s, but suspended its service to Taipei in February 2000 due to declining yields and heavy fare discounting by other airlines.

When Air New Zealand took over Ansett research showed that Australians preferred to use a locally branded airline rather than fly with Air New Zealand so Ansett International planned for a new lease of life. There were suggestions that it might acquire up to 12 747s and fly as far as the United States.

CHAPTER FIFTEEN
NEW DOMESTIC CHALLENGES

After Qantas and Ansett had disposed of Compass and Compass II at the beginning of the 1990s Australia's domestic air transport settled into the stability of an unregulated two airline system. The two airlines continued to offer some reduced fares and some competition in services but all fairly well balanced and maintaining the status quo. In 1999, however, this quiet environment was disturbed by the arrival of two new airlines, Impulse and Virgin Blue.

Impulse was a regional airline flying on routes in New South Wales using 19 seat Beech 1900Ds turboprops in association with Ansett. It's owners, Gerry & Sue McGowan, cut their ties with Ansett and gained financial support from a number of major investors that gave their airline a capitalization of $100 million. They announced plans that Impulse would start flying a trunk route service between Australia's east coast capitals using a fleet of five 117 seat Boeing 717s (an improved version of the old Douglas DC-9s). They would use the low operating cost model by doing most of their business through their web site and call center, not offering business class or frequent flyer scheme and limiting in-flight service to newspapers and tea or coffee so it's operating costs would be 25 per cent lower than Qantas's and 40 per cent lower than Ansett's and it could offer low fares.

While Impulse was laying its plans Richard Bransom visited Australia in November 1999 to announce plans to launch a new domestic airline to be called Virgin Blue. Virgin was a globally recognised brand name, the Virgin Group was valued at $5.2 billion and Bramsn was no stranger to airlines, having launched two low cost airlines, Virgin Atlantic and Virgin Express in Europe. An Australian pilot on a Virgin Express flight had told him about the aviation market in Australia and planning for a Virgin airline in Australia began early in 1999.

Branson announced that Virgin Blue would be a no-frills cut price airline starting with a fleet of ten economy class Boeing 737-400s flying the Brisbane-Sydney-Melbourne routes and later expanding onto other routes using later model 737s. He said he expected the new airline to run at a loss for three or four years but, because many people had lost by investing in new airlines in Australia, Virgin would take the risk of getting the airline started before seeking Australian investment. The new airline would be called Virgin Blue because it was 'true blue about delivering low fares' and its airliners would be painted red to emphasise the point. The key to the airline's operations would be to do everything as cheaply as possible with nothing that added unnecessary costs so tickets could also be sold as cheaply as possible. The airline had an experienced management team and the Queensland government lured it to Brisbane with attractive rents and flexible arrangements at the airport. By the time Virgin Blue was ready fly it had a staff of 280 and a capital reserve said to be around $18 million.

Sydney and Melbourne Airports constructed new terminals for the new airlines. The 'Domestic Express' terminal at Sydney Airport was a modest building lacking the style of other airport terminals with 12 check-in counters capable of handling up to two million passengers annually. It was constructed in 56 days, in time for Impulse's first flights, but the similar $8 million multi-user terminal at Melbourne Airport was not completed until December so Impulse used a gate in the international terminal in the meantime. At Adelaide a temporary terminal was set up near the international terminal until more permanent facilities could be completed.

Impulse started flying on the Melbourne-Sydney route on 5 June 2000 with three Boeing 717s, offering eight return services daily for a one way fare of $139 on all seats on all flights. By mid July it was offering 11 return flights daily and it's business was growing at the rate of 16 per cent a week with an average load factor of 46.9 per cent.

Virgin Blue began by flying between Brisbane and Sydney on 31 August 2000, offering an introductory one way fare of $48. More than 14,000 seats were sold in 48 hours. It started Brisbane-Melbourne flights on 7 September with an introductory fare of $99.

Impulse reported its first profitable month in September 2000. It was overshadowed, however, by the public impact of Virgin Blue and announced, in October, a complete image make over to promote itself more strongly including a $2.5 million advertising campaign, a new blue livery for all its airliners to contrast with Virgin Blue's red airliners, new terminal signage, promotional material and uniforms. The Impulse board also agreed to spend another $30 million to acquire three more Boeing 717s and begin a Melbourne-Brisbane service to compete with Virgin Blue. By the end of the year Impulse said it was doing well on the Sydney-Melbourne route with average load factors of 80 per cent and strong yields while it was not doing as well on the Sydney-Brisbane route due to Qantas capacity increases and Virgin Blue's competition.

Virgin Blue also reported initial success. It had spent $9 to $12 million preparing the airline for its first flights and, by November, it had carried 85,000 passengers at 75 per cent load factors and was exceeding revenue targets by 35 to 40 per cent. On 7 December Virgin Blue inaugurated the route linking Brisbane and Adelaide and more than 2,500 passengers booked in advance at $99.

Ansett and Qantas promised to resist the newcomers with vigorous competition. and neither Impulse or Virgin Blue thought there was space in Australia's domestic air transport market for four airlines. The established airlines were more worried by Virgin Blue because of its brand name and because they knew it had enough money to survive the most torrid competition. They planned to fight off the new airlines with every weapon at their disposal including fares, capacity and their loyalty programs.

The new airlines planned to use new business models to establish themselves. Qantas and Ansett provided a range of services from full fare business class to heavily discounted economy fares across a broad network of routes but the new airlines aimed to create and exploit niches in that market. Impulse planned to offer mid-range fares that were cheaper than the existing airlines aimed at budget business travel. Virgin Blue aimed to cut costs to keep fares low and introduce a new kind of customer service that was structured around irony and humour at the expense of his competitors to make them look earnest and old fashioned. Cabin crew tried to put some fun into flying with their dress, their safety presentations and interaction with passengers to attract new, younger, passengers.

Ansett and Qantas had launched their frequent flyer loyalty programs to defeat Compass and kept them to compete with each other. In May 2000 Qantas was attracting about 900 to 1,000 new members a day to it's frequent flyer program and Ansett was attracting roughly three times that number, so it's scheme reached 2.3 million members, almost equaling Qantas's 2.5 million members. They expanded the scope of their schemes to make them more attractive to customers with links to other services such as telephone companies, banks and retail outlets so members could earn additional points through spending with them without flying. In response Impulse introduced a simple loyalty program that offered one free flight for every ten economy fares purchased and Virgin Blue said it was working on a scheme that would be tied to other Virgin products.

A fare war was inevitable. Ansett began at the end of June 2000 with a new fare of $99 one way and $198 return on its Sydney-Melbourne and Sydney-Brisbane routes. Qantas followed with a similar offer, so when Branson visited Australia he announced that at least half of all Virgin Blue fares would be $99 and the airline's top fare would be $162. Impulse hoped to maintain its higher fares because Ansett and Qantas offered only a limited number of cheaper fares but, at the beginning of August, it was forced to announce a special offer of Melbourne-Sydney fares as low as $66 for about 20 per cent of its seats, mainly available in the middle of the day to boost its load factors. Ansett and Qantas responded quickly with more than 30,000 seats on the same route with similar conditions and Qantas sold about 10,000 of them in the first four days. At the end of August, with Virgin Blue about to start flying and the Sydney Olympic Games imminent, the major airlines offered more than 100,000 seats on 80 routes across Australia with fares cut by up to 85 per cent.

Domestic air traffic declined substantially during the Olympic Games that were held in Sydney at the end of September 2000 and more than 2,200 flights were cancelled as people went on holidays in their cars or stayed at home to watch the Games on television. The record day at Sydney Airport was the Tuesday following the Games when the international terminal handled 43,450 passengers. Losses on domestic routes were offset by very strong international traffic, with load factors on international flights running at between 90 and 97 per cent. Ansett International and the international division of Qantas did well from the Games but, overall, Ansett's increased international traffic did not offset it's slump in domestic travel, despite it's status as official Olympic airline that gave it up to $300 million of new business.

Qantas started another round of fare cuts from mid March 2001 with the simple aim of driving one or more of its competitors out of business. It began offering Melbourne-Sydney fares as low as $36.50, compared to it's one way full price economy fare of $330. In a battle fought almost exclusively on the internet, Qantas and Ansett generally offered fares from between $55 and $330 between Melbourne and Sydney, while Impulse offered fares ranging from $37 to $172.

Reduced fares brought a rapid expansion in passenger numbers. Compared to September 1999, passenger figures for September 2000 were up by 16.4 per cent between Melbourne and Brisbane, by 24.4 per cent between Melbourne and Sydney and 35.3 per cent between Sydney and Brisbane. Between January 2000 and January 2001 passengers on the Melbourne-Sydney-Brisbane routes increased by 41.6 per cent and, on the routes served by Ansett, Qantas and one of the other airlines they increased by 40.9 per cent. At the Sydney Airport Express terminal daily aircraft movements increased from 56 to 84 in February 2000 and it handled an average of 5,500 passengers a day.

Deeply discounted fares made air travel more competitive with land transport, passenger train service between Sydney and Brisbane reduced their standard economy fares to $33 and coach fares fell from around $80 to $55. Reduced fares encouraged small business owners to fly more and stay away from home less because even the most expensive Impulse or Virgin Blue fares, or reduced Ansett and Qantas fares, were often cheaper than the cost of staying overnight in a capital city.

Airlines used the internet and computers to reduce the cost of selling tickets and encouraged customers to book over the internet by offering cheaper fares that were only available there. Computer reservation systems helped the airlines improve their marketing techniques including their frequent flyer loyalty programs and improve their profitability through yield management systems. Computer based yield management systems allowed airlines to offer wider ranges of fares by calculating all the permutations of the value of each seat in an airliner, depending on the time of day, the class offered, capacity available and discounts offered. Yield management allowed Ansett and Qantas to offer a greater range of fares to make the best possible profit from each seat so, while Impulse offered cut but fixed price fares, they could quickly match or undercut any fare Impulse offered for a large but limited number of their seats and sell them exclusively on the internet, while still collecting full price on many of the seats they sold.

At the end of March 2001 Qantas introduced a new form of yield management that calculated fares based on the urgency and time of the travel. This system calculated the price for a seat by how urgently and deep into peak periods a passenger wanted to travel, creating a range of fares on the same route so Qantas's Melbourne-Sydney route standard economy fares ranged from $198 to $330. Ansett followed with a similar system but it was less advanced than Qantas's, which gave Qantas the edge.

The flexibility and novelty of computer booking masked real rises in air fares. Increased fuel costs forced the airlines to increase their basic air fares towards the end of 2000 but the sale of cheap air fares on computer booking systems tended to hide this. When Qantas introduced a $10 fuel surcharge on it's one-way domestic tickets at the beginning of December 2000 the CEO of Virgin Blue went to a Qantas terminal and started handing out $10 notes to publicise that fact (even though Virgin Blue had only recently also increased its fare prices without attracting attention).

Ansett and Qantas also used capacity against their new rivals. When the new airlines started Air New Zealand and Ansett had 112 jets in their fleet, Qantas had 118 jets, Virgin Blue planned a fleet of 10 and Impulse a fleet of five jets. Despite their small size the new airlines were a threat because they planned to compete on the profitable routes between Melbourne, Sydney and Brisbane that carried 40 per cent of the 25 million Australian domestic passengers a year.

The Qantas strategy was to put as much capacity onto some routes as it thought the ACCC (which regulated competition in Australia) would allow. Qantas increased its capacity by leasing seven Boeing 767-300s from British Airways which had too much capacity at that time. This solved the problems of both airlines and gave Qantas additional 767s for its overseas services that freed some capacity to be used on domestic routes. By late June 2000 it had 22 Boeing 767s and some were used on the Melbourne-Sydney-Brisbane corridor, freeing Boeing 737s to offer more capacity on other routes. From early July Qantas also began using its Boeing 747SPs on daily flights between Cairns, Darwin and Singapore so the 767s that had previously flown that route could also fly domestic services. Qantas also increased frequency with a CityFlyer service which started in July between Melbourne and Sydney, offering flights every half hour on week days with priority departure gates and handling. These services were aimed mainly at day trip business travelers and enjoyed strong patronage.

Impulse began with three 117 seat Boeing 717s offering eight return services daily on the Melbourne-Sydney route that increased to 11 return flights daily (a total of 1,287 seats) by mid July . Against that Qantas and Ansett offered 54 daily return Melbourne-Sydney services with airliners having a capacity ranging from 130 to 230 seats (and the occasional Boeing 747) averaging about 17,280 seats on the route each week day. By February 2001 Impulse had added three 717s to its fleet and increased its return Melbourne-Sydney services from 12 to 19 daily and Sydney-Brisbane services from seven to ten, many in peak hours to attract new business passengers. However, Qantas and Ansett lifted capacity on their major interstate routes by replacing their smaller jets, such as their Boeing 737s, with their larger Boeing 767s.

Increased competition on the main routes forced Impulse and Virgin Blue to diversity onto other routes that were less profitable but also took them out of the fiercest competition and offered some chance of making profits. Impulse began flying a daily Newcastle-Melbourne Boeing 717 service that it had previously flown using its smaller Beech 1900Ds and added four services a day between Melbourne and Hobart. On Virgin Blue’s Brisbane-Adelaide route Qantas introduced additional services and cut price fares creating a 130 per cent increase in capacity on the route, so Virgin Blue compensated by introducing direct Sydney-Adelaide and Brisbane-Townsville services in March 2001.

The huge injection of Qantas capacity led Impulse and Virgin Blue to ask the ACCC to investigate Qantas’s actions which, they said, were anti-competitive and in May 2002 the ACCC announced that it was taking Qantas to court over alleged anti-competitive behaviour.

Virgin Blue said that it should have acted faster and that the existing Trades Practices Act needed to be strengthened to make it easier to prove anti-competitive behaviour. Qantas replied that the ACCC was overzealous and stifling legitimate competition.

Virgin Blue was not really threatened by the competition, partly because of its strong brand image, partly because of the market niche it had carved for itself at the cut-price end of the market and partly because it had reserves of about $51 million by April 2001. After Qantas began serious competition Virgin Blue started using that reserve and had spent about $8 million of it by the end of March. Despite the competition Virgin Blue never lost its focus on providing a low-cost efficient air service but it did increase its capacity. It ordered ten Boeing 737-700s and four 737-800s (the -700s had a seating capacity of almost 150 and -800s about 30 more) and when the 737-700s began arriving in April 2001 the airline's earlier 737-400s were withdrawn from Australian service.

By early 2001 Impulse was struggling under the weight of competition and had lost $23 million. From early March it tried to boost patronage with more reduced fares, offering a limited number of $39 one way fares between Sydney and Brisbane that Qantas quickly matched. (Virgin Blue did not join in, saying that $39 did not even cover the cost of carrying the passenger.) As Impulse's situation declined it sought another $50 million from its investors and began looking for ways to reduce its losses on regional routes and maximise profits on jet routes and the McGowans talked to Ansett, Qantas and some regional airlines about the possibility of merging Impulse's regional services into other operations. At the beginning of May 2001 Impulse was losing an estimated $1 million a week and pulled out of the competition when its investors decided that it was too risky to put more money into the airline. The McGowans looked for ways to keep the airline flying and, after discussions with Virgin Blue, offered Impulse to Qantas to save what they could.

The agreement Qantas and the McGowans reached turned Impulse from a competitor into a contractor flying for Qantas. The McGowans received $50 million which allowed them to buy out the other investors and take back full control of their airline. Qantas agreed to honour all tickets issued by Impulse and contracted it to supply its entire fleet of eight Boeing 717s and 13 Beech 1900Ds for ten years to fly on regional, leisure and developmental air services, in the same kind of arrangement Qantas already had with National Jet Services to supply airliners and staff for Airlink. Impulse ended all its interstate jet flights on 22 May and continued its regional services for another few days. In late November 2001 Qantas purchased Impulse outright and continued to operate its fleet of 717s and 1900Ds.

The ACCC approved the agreement between Qantas and Impulse in mid May. Qantas gave the ACCC assurances on access to Sydney Airport peak times slots to enable new airlines to compete on domestic trunk routes, agreed to maintain similar services on the routes on which Qantas and Impulse had previously competed, agreed to restrict air fare increases and pointed out that the takeover was preferable to Impulse going broke. Virgin Blue complained that these conditions would allow Qantas to continue its anti competitive activities but the existence of Virgin Blue was one reason why the ACCC approved the merger because it expected Virgin Blue to stop Qantas and Ansett from increasing their fares unreasonably. Virgin Blue predicted that Qantas would then be able to dispose of Ansett and return Australia to a two airline market.

Taking over Impulse gave Qantas the impetus to reorganise its subsidiary airlines into a new entity called QantasLink and the new name began appearing on all Qantas regional airliners from mid May. QantasLink airliners flew from Qantas terminals with timetables and routes tailored to coordinate with Qantas schedules. The first Boeing 717 wearing the new QantasLink livery began flying on the Melbourne-Hobart service in late May, freeing larger Qantas Boeing 737-400s for other services.

After Qantas acquired Impulse very low fares dried up but the three way competition between Qantas, Ansett and Virgin Blue meant passengers could still find some fares as low as $66 on hundreds of flights, usually only available over the internet and normally only available on off-peak flights. The disappearance of Impulse opened up the cut-price market for Virgin Blue which had avoided the most lucrative Melbourne-Sydney route while Impulse was flying. It commenced that service in mid July, aiming to build up a solid base of business travellers with one way fares ranging from $66 to $184.

Virgin Blue celebrated its first birthday by selling 1,000 one way tickets at $1 each over the internet. It thrived on a network of nine routes with a fleet of nine 737s and was considered so successful that there were suggestions it might also start flying in New Zealand. To counter this, Freedom Air, the Air New Zealand subsidiary, launched a no-frills domestic service in May using two leased 737s to make the New Zealand market less attractive to Virgin Blue.

Ansett was not doing well by the end of 2000 and it’s problems were compounded by the performance of its regional airlines. Kendell’s 50 seat CRJ200 regional jets freed up Ansett capacity for competition on the main domestic routes and they began flying Melbourne-Launceston services in December 2000 and then added Melbourne-Hobart and

Canberra-Brisbane flights. The transition to the new airliner did not go well and Kendell lost heavily because, for the first few months, it was only able to use two CRJs for commercial services because the other two had to be used to give Kendell pilots training and experience in flying the faster airliners. As more CRJs arrived and its fleet grew, Kendell started Sydney-Maroochydore and Sydney- Canberra services and its network grew to include Melbourne, Hobart, Launceston, Canberra, Brisbane and Rockhampton.

When Qantas acquired Impulse it not only removed a competitor, it gained a low cost airline that could compete with Kendell's CRJs. QantasLink's Boeing 717s cost about the same to operate as CRJ200s but had 117 seats rather than the CRJ's 50 and were a lot more popular with passengers, so when QantasLink used its larger 717s on routes to Tasmania and rural Queensland they destroyed any profitability the CRJs might have had.

Hazelton became another problem. In 2000 it was an independent regional airline based in New South Wales that was linked with Ansett with on-carriage services worth $14 to $15 million to Ansett. Hazelton negotiated an agreement with Impulse to take over that airline's regional routes in return for shares in the merged company and the deal was all but signed in October 2000 when Ansett, concerned that it might lose its on-carriage agreement, made an attractive offer to buy Hazelton. The deal made business sense, Hazelton already controlled a good share of the New South Wales regional market and had 445 landing slots each week at Sydney Airport so those assets made it a worthwhile acquisition even though the airline was losing money. Qantas then made a higher offer to buy Hazelton which Ansett bettered. If Qantas acquired Hazelton it would have 60 per cent of the New South Wales regional market and 55 per cent of the slots at Sydney Airport and if Ansett won it would have 62 per cent of the regional market and 50 per cent of the Sydney Airport slots. The airline that acquired Hazelton could transfer it's peak time slots to major trunk services because using a slot to land a 230 seat Boeing 767 rather than a 36 seat regional airliner could be worth at least $1.5 million a year.

Qantas pulled out of the bidding for Hazelton towards the end of January 2001, leaving Ansett committed to a bid of $20 million that was probably more than the airline was worth. To make the sale even less worthwhile, Ansett also had to agree to limits on slot swapping at Sydney Airport within the Ansett group, restrictions on air fare increases on some regional routes and to make some slots at Sydney Airport available to new entrants on New South Wales regional routes when it acquire Hazelton.

Ansett's third regional problem was another airline with which it was associated.

Flight West went into voluntary liquidation on 19 June 2001 due to problems including rising fuel costs, the low Australian dollar, the cost of operating a mixed fleet on a far flung network, QantasLink competition on 13 of Flight West's routes and Ansett's gradual decline that reduced passenger on-carriage. Ansett and Qantas helped stranded Flight West passengers and QantasLink services carried extra passengers on the routes it had flown against Flight West. QantasLink announced it would add more destinations and start services into south east Queensland using Beech 1900Ds, Ansett sent a Kendell CRJ to Darwin to fly on former Flight West routes and another Ansett partner, Sunshine Express, flew on some Flight West routes.

QantasLink's mixed but integrated fleet, that included Boeing 717s, Dash-8s and Beech 1990Ds, allowed it to adjust its regional services to make them more profitable. The airline began replacing some of the Dash-8s on the smaller routes with 1900Ds, often offering more flights but with reduced overall capacity. For example, on the route between Sydney and Taree the 20 weekly Dash-8 flights were replaced by 25 return weekly 1900Ds flights which reduced the number of seats offered by 34 per cent and a similar change on the Sydney-Newcastle-Williamtown route led to a 30 per cent capacity reduction.

Qantas was confident about its future and a study team spent most of 2000 carefully studying the airline's future fleet needs to match any of its international competitors. At the end of November it revealed plans to reequip with orders of 12 Airbus A.380s, 13 A.330s and six extended range 747-400s that would cost a total of almost $9 billion. The expansion would increase its fleet capacity by 25 per cent, the new A.380s and long range 747-400s would keep Qantas competitive on the global air routes while the A.330s could eventually replace the older 767-300s on international and domestic routes. Qantas's re-equipment plans put great competitive pressure of Ansett and Air New Zealand. They had plans to expand Ansett International's routes to include the United States. Tokyo and possibly London but the potential cost of the necessary fleet upgrade was around $3 billion and that was simply beyond the company's reach.

James Strong retired from Qantas in February 2001 and handed over to Geoff Dixon who announced major changes including the reduction of 1,470 jobs as part of another massive restructuring to reduce costs. He said that while competition and cost reduction gave the community cheaper fares the other side of the coin was that people had to lose their jobs to make cost cutting and thus cheaper fares possible. He also said Qantas would continue to make itself more profitable through another wide ranging review that could lead to asset sales, joint ventures and outsourcing. It would also suspend underperforming international services and redeploy four 767-300s to domestic routes to increase the airline's domestic capacity by 11 per cent.

At the same time Ansett was in disarray. After an Air New Zealand board meeting in July 2000 the airline's chief executive left suddenly and the chairman became executive director until a new chief executive could be appointed. In mid August a new Air New Zealand/Ansett management structure was announced with only three Ansett executives and plans for the two airlines to become more closely integrated to cut costs by $200 million a year. The appointment of Gary Toomey as the new CEO of Air New Zealand followed and he took up the appointment in December 2000.

Some wondered why Toohey had taken up such a seemingly impossible challenge because it needed to increase capacity on key east-coast routes to keep up with Qantas. By the time he arrived Ansett's share of the domestic market had slipped to 41.5 per cent, eroded by Qantas's growing strength and the new domestic airlines. By February 2001 Ansett's market share had fallen to 37 per cent and Air New Zealand announced a disastrous interim profit of only $NZ3.8 million which was mainly due to Ansett's losses.

Toomey faced challenges including poor staff morale, a lack of clear direction, the Air New Zealand takeover that involved trying to merge two different business cultures, the Boeing 767 groundings crisis, the removal of many important head office functions from the Ansett to the Air New Zealand head office and the desperate need for capital to upgrade the airlines' fleets. Toomey said, 'I'm not going to spend money because I like the smell of kerosene. We'll do things where we can make money' and his team revised the entire portfolio to find areas of redundancy and unnecessary cost with plans to rationalise operations to relaunch the group's masthead brands under a new corporate identity later in 2001.

Ansett continued to lose money and Air New Zealand warned its investors of substantial operating losses which, analysts suggested, could blow out to $170 million for the financial year. An Air New Zealand board meeting to decide on the way forward agreed on a massive advertising campaign to boost the brand image, aggressive price competition in an effort to recover market share and the sale and lease back its Boeing 767 fleet to free up several hundred million dollars, and to add four 767s and two Boeing 737s to the Melbourne-Sydney-Brisbane triangle to bring its capacity closer to Qantas. It began offering prizes of free tickets to attract people to its web site and launched a $13 million advertising campaign designed to reassure travellers that Ansett was a safe, friendly and secure airline that was there to stay

CHAPTER SIXTEEN
FLYING AND TOURISM

International tourism had not been very important to Australia and Australians before the 1960s because travel to and from this isolated nation was too slow and too expensive for most people. Air transport changed that by allowing more people to travel to and from Australia quickly for shorter periods of time at costs more of them could afford. In 1972, 426,402 visitors arrived in Australia and 504,519 Australians went overseas on short term trips. In 1987 1,784,900 visitors arrived and 1,622,300 Australians departed on short term trips. In 1973-74 travel and tourism was estimated to have contributed 2.6 per cent to Australia's Gross Domestic Product and Australia's tourism industry employed 118,000 people. In 1995-96 travel and tourism was estimated to have contributed 6.23 per cent to the Gross Domestic Product and it employed 551,000 people in 2000-01.

Over one million tourists visited Australia for the first time in 1984 and 2.25 million came in 1988 when tourism was worth $4.03 billion. In 1991 2.37 million overseas tourists visited Australia, over 2.6 million visited in 1992 and 3.36 million in 1994. The Asian economic crisis reduced tourism from 4.32 million in 1997 to 4.16 million in 1998 but in 1999 a record 4.5 million tourists visited Australia.

In 2000 4.95 million international visitors flew into Australia and receipts from their visits were worth US$8.44 billion, but Australia was only a tiny fraction of the world's tourism business. There were 689.8 billion international tourist visits world wide that year creating income of US$475.8 billion. Of that, East Asia and the Pacific (in which Australia was counted) experienced the most rapid growth and accounted for 16 per cent of the world wide tourist market. And, of the 111.89 million international tourists in the region in 2000, Australia accounted for 4.4 per cent of the visitors and 10.7 per cent of what they spent.

The Boeing 747 was the harbinger of this new world. Usually seating about 400 passengers it offered intercontinental flights at prices that attracted more and more travelers. By mid-1993 747s had carried more than 1.4 billion people and they, and other wide-body airlines carrying hundreds of passengers each, made mass tourism possible. By 1988 the equivalent of 250 Boeing 747 flew to and from Australia each week but very few of their passengers flew because they enjoyed flying, they occupied seats in airliners so they could get where they wanted to go.

Passengers flying at 30,000 feet were sealed in large metal containers isolated from almost all outside influences and had little experience of the outside world and of travel. The opulence of first class - which was offered on fewer flights - and the relative comfort of Business Class - which gradually improved to include some of the features that had previously been reserved for first class - were too expensive for most people who flew in economy class. The conditions there were usually barely tolerable but people flew in them because it was the cheapest and quickest way to get to their destinations. The term 'Economy Class Syndrome' was coined around 1997 to describe the experience of sitting in a tightly confined space sharing the same air with hundreds of other people. A British inquiry found that air travel made passengers feel sick and exposed them to potential health risks including the spread of infectious diseases and cancer inducing doses of cosmic radiation from flying at high altitudes. They were exposed to tightly packed, unwashed, stressed, virulent and flatulent fellow passengers with no liberty or dignity in conditions that one passenger described as 'inhumane'.

Flying improved in one way as smoking in aircraft became unpopular and then banned. Public attitudes turned against the habit in the 1970s and when Australia's domestic airlines introduced no-smoking sections to their flights in 1972 they were well received. Australia's airlines knew that smoking effected passenger comfort and asked the government to ban smoking in 1986, initially on flights of less than 90 minutes and later on all domestic flights. By the beginning of the 1990s Qantas, Singapore International, Cathay Pacific and other international airlines began introducing some non-smoking flights, in July 1992 the FAC banned all smoking in passenger terminals and smoking was banned on all Australian registered airliners flying overseas from July 1996.

Flying was a hazard to passengers in other ways. Airliner cabins were enclosed spaces where infectious diseases were easily transmitted between passengers. Deep vein thrombosis, the result of sitting for many hours confined and unmoving in one seat on long intercontinental flights became a recognised health hazard in the 1990s. A Sydney study identified 18 deaths in eight years that were possibly related to the condition, an Australian surgeons estimated that up to 400 people suffering from the problem could be arriving at Sydney Airport each year and a hospital near Heathrow Airport in London estimated that 2,000 airline passengers a year died from it. To help alleviate the problem airlines began recommending exercises to their passengers during long flights. Another emerging problem was 'Air Rage' in distressed and disturbing passengers. In four years to 1997 the worldwide incidence of air rage on airliners rose by about 500 per cent to 5,416 cases, and it had quadrupled by 2000. Airlines trained their cockpit and cabin crews in identifying and managing disruptive passengers.

The tedium and discomfort of long distance flying led airlines to find ways of distracting passengers. From the beginning they provided passengers with distractions such as meals, magazines and newspapers, packs of playing cards and other games. In 1967 Pan Am began offering more modern entertainment on flights across the Atlantic with a movie and nine channels of music programs that passengers could listen to through individual hollow tube ear pieces. By 1971 480 air liners world wide were equipped with 16mm projectors and a handful with cassette super8mm projectors to show movies. By 1982, almost 800 airliners were fitted with in-flight entertainment, most with a cassette film system which was easier for cabin crew to use and gave greater flexibility in what could be shown, and 85 airlines spent US$20 million a year on movies, mostly for long distance flights.

By the beginning of the 1990s almost all large airliners were fitted with some kind of in-flight entertainment system including multi-channel audio offering a variety of music and other entertainment and screenings of current movies on relatively large screens (that were often difficult for all passengers to see). Qantas began installing ceiling mounted video screens in its Boeing 737s in 1993 so it could also show in-flight video magazines, episodes of popular television shows and advertisements on shorter flights. Video entertainment became continuous, particularly on long flights during which movies and infotainment was shown endlessly. Personal video screens began appearing in first and business class in the early 1990s and began spreading to seat back screens in economy on long routes by the end of the decade. In 2000 Qantas spent $300 million upgrading the in-flight entertainment on its fleet of Boeing 747-400s including individual seat back video screens in economy class, larger screens with touch control in first and business class and a wider range of entertainment options.

Passenger expectations changed as they became blase about flying and standards of service diminished. At the beginning of the 1970s, when Qantas's main airliner was the Boeing 707 with up to 200 passengers, cabin crew could give each passenger at least a little personal attention but when Boeing 747s began entering service and passenger numbers doubled, the relationships between passengers and cabin crew changed. The number of cabin crew on big airliners increased to cope with heavier work loads but what they did became more routine and systematized in order to cope with and manage so many passengers.

The uniforms flight attendants wore also reflect changing times and attitudes. When

Qantas introduced a new uniform in the 1980s it was more conservative and formal than the more relaxed styles of earlier times with a return to the quasi-military style of the 1940s that was in keeping with the more stressful and less optimistic times. The Qantas uniform changed again in the early 1990s, partly out of necessity following the merger with TAA but also reflecting the spirit of that decade with more emphasis on a conservative corporate and professional image with a sense of utility rather than the elegant style, energy and fun, or glamour and luxury, of earlier periods and earlier airline uniforms.

By 2000 flying hardly felt like flying at all for most people. Rather, the passenger experience was one of waiting as they went through a series of stages to reach a destination; waiting at check-in, waiting in holding lounges, waiting in airliners and then waiting for their baggage to appear. From the moment a passenger arrived in an airport terminal they were enclosed and moved through the stages necessary to reach their destination as efficiently as possible, without even seeing an aeroplane if they didn't wish to. Airport terminals also contributed to the sense of waiting rather than flying. Until the mid 1960s Australia's major airports had been modest affairs with simple and utilitarian terminals but, by the end of the 1990s, they had grown into huge complexes boasting an array of goods, services, shops and eateries which existed mainly to occupy people attention and encourage them to spend their money. In this way many airports became tourist resorts, shopping centres and meeting places in the own right.

The time it took to travel overseas before intercontinental air transport meant most Australians who went overseas then did so for longer periods than just the two or three weeks of their annual holidays. One group was the young people - who might in later years have been called 'backpackers' - who filled the cabins of the returning migrant ships in the 1950s and then the cheaper charter flights of the 1960s to go overseas to see the world, usually Britain and Europe. After a year or two most returned to Australia to settle down to a steady suburban life. The other group were older, either on long service leave or retired, who also wanted to see the outside world but in a more structured way and had the time and money to pay for it. Package tours offering flights to overseas destinations and tours arranged there to take tourists to well known destinations began to flourish in the 1970s. Long package tours of Europe became popular and in one year 1,200 Australians took the five-month duration world discovery tour that was promoted through the extremely popular *Women's Weekly* magazine.

Tourism in Australia was dominated by domestic visits before the 1970s and international visitors accounted for only around one-quarter of total Australian tourism. With the exception of long-distance travel in Queensland and Western Australia, cars were the dominant means of travel because they were cheaper and more flexible, especially for families, so only just over ten per cent of Australia's domestic tourists flew. Most of those were the relatively short flights from the southern cities to the tourist island resorts that began to open along the north coast of Queensland to attract customers from the south during the winter. Ansett and TAA created holiday packages that were sold mainly through travel agents and promoted by lifestyle television programs such as 'Getaway' and 'Holiday'. Carrying leisure passengers made less profit from each seat the airlines filled but the large number of domestic tourists made them an integral part of the airline's marketing strategies. The airlines monopolised the domestic sale of packages by only offering discounted fares of 15 per cent on air fares for their packages for tour of seven days or more. From1980 they allowed other tourism operators to also sell cheap air fares in their packages and packaged tourism became a multi-million dollar industry with Jetset Tours being the first company to break the $100 million mark in May 1982.

The airlines provided the tourist resorts they flew customers to in package deals. Ansett owned and operated some resorts and TAA either owned others or worked in partnership with the companies that did. Resorts with names like Great Keppel, Hayman, Hamilton, Dunk, Bedarra, and Brampton Islands were all popular and profitable tourist resorts for the airlines and by the time Qantas purchased Australian Airlines in 1992, the company's resorts offered 504 rooms nightly. However, in the 1990s, both airlines disposed of their resorts because they were considered 'non-core' assets, but they still flew the tourists to the airports that served those resorts.

The airlines also developed short term packages to suit the emerging Australian lifestyle as more stringent economic conditions made life more stressful with more work pressure and less leisure so they began offering shorter but more expensive holidays packages. The opening of the Wrest Point Hotel-Casino in Hobart in 1973 brought a new kind of tourism to Australia, short duration holiday packages that included a full airfare and two nights accommodation for around $400. Wrest Point was designed to attract visitors year-round despite the climate by offering stage shows, spacious and well-equipped convention venues and special gambling facilities. They were very popular and Ansett sold more than 10,000 weekend packages to Wrest Point in 1975-76. More resorts in this casinos style followed, in Adelaide and Perth and on the Gold Coast in 1985.

Other packages the airlines offered included flights and accommodation in major capitals to see popular events and shows. In 1993 Qantas sold 200,000 of these holiday packages and Ansett a similar figure. Qantas's 'Miss Saigon' package flew passengers to Sydney from Melbourne or Brisbane, provided accommodation, A reserve tickets for the show and champagne and chocolates at interval, and had more than $3 million worth of bookings before opening night.

Three things led to the rapid increase of tourist visits from overseas. First was the relatively cheap and quick flights offered by the airlines and second was the floating of the Australian currency and abolition of exchange controls in 1983 which made it cheaper to visit Australia. Once the Australian dollar floated the stronger Japanese yen meant Australia became even cheaper as a holiday destination so Japanese tourism to Australia increased from 24,100 in 1975 to 479,900 in 1990 and 766,600 in 1996. Tourist visits from Singapore went up by almost six times in the decade 1985-95 and visits from South Korea, Taiwan, Malaysia, Thailand and Indonesia all grew very quickly.

The third reason for the rapid increase of overseas tourist visits was promotion of Australia as a tourist destination. Australia was a long way from most other tourist destinations and Europeans and Americans regularly complained about the long duration of flights needed to get here. However, globalization brought Australia closer to other destinations and made Australia more like other places. Australia's two major airlines, Qantas and Ansett, were partly foreign owned and members of international alliances, the two biggest Australian based hotel companies were foreign owned and part of worldwide chains, and many of the world's major hotel management companies operated in Australia. Australians working in tourism and hospitality were trained to international standards so what they offered in Australia was similar to what was offered in most other tourist destinations around the world.

However, Australians promoted themselves and their country overseas as a different tourist destination. For example, in the late 1970s tourist marketing in Japan promoted Australia to large groups such as young singles, honeymooners and sports fans by emphasizing scenery, sport and the Australian way of life. Qantas made Japanese tourists feel comfortable, there could be up to fifty Japanese passengers on any Qantas flight so, in 1986 the airline employed the first Australian born flight attendant fluent in Japanese to work on the expanding Australia-Tokyo route and over 150 cabin crew and ground customer contact staff completed full-time Japanese language courses in the 1988-89.

Australians also promoted themselves to North Americans as a tourist destination using topical and novel advertising. When Colleen McCullogh's 'The Thorn Birds' became very popular there $1.3 million was spent in 1979/80 on advertisements featuring her and fifty American travel agents and 100 journalists were sponsored to visit Australia. In 1983/84 the Australian Tourist Commission spent $3 million to exploit Australia II's victory in the Americas Cup and the popular Australian comedian Paul Hogan promoted an Australian larrikin image with a 1984 TV advertising campaign in both the United States and Australia.

Qantas also promoted Australia with its airliners. When it's first Boeing 747-300 was delivered in 1984 the airline introduced a new livery with a white fuselage, a large red tail and rear fuselage with a white kangaroo wrapped around it to give a bolder, prouder and clearly Australian look. In 1994 Qantas painted two of it's Boeing 747-400s in indigenous Australian design, 'Wunala Dreaming'and 'Nalanji Dreaming', which were recognized around the world. Qantas's airliner interiors were also designed to reflected the best of Australian style with the patterns of the ancient Australian landscape based around what passengers could see when looking out over Australia from an airliner window from 35,000 feet. In 1997 Qantas used the Peter Allan's song 'I still Call Australia Home' to expand the image of Australia beyond the beach and bush to include the feelings of a cosmopolitan and world traveling Australian who has seen the world and knew that Australia was a special place.

Backpacking became a recognised form of tourism when cheap air fares and accommodation attracted young people to Australia from around the world and between 200,000 and 300, 000 international backpackers a year visited Australia in the mid-1990s. Unlike most tourists who stayed only a week or two, backpackers stayed three times as long and spent twice as much. Specialized travel centers were established to help them make their travel arrangements, the Youth Hostel Association operated a travel agency for members and Backpackers Travel Centre, founded in 1993, has offices in Melbourne, Sydney, the Gold Coast, Brisbane and Alice Spring five years later.

Air transport also enabled tourists to visit remote destinations away from Australia's main population centers, such as Broome in Western Australia and Cairns in Queensland. The Western Australian government developed a strategic plan in 1993 to promote the tourist town of Broome with tourists flying there straight from Asia and the rest of Australia. Flying tourists to remote resorts grew rapidly and the Northern Territory and other remote destinations developed and promoted themselves as tourist attractions. The regional airline Hazelton launched a major marketing drive by offering fare reductions of up to 60 per cent for tourists on holiday packages to attract tourists to the destinations it served. Cairns in North

Queensland was well located to attract tourists from the Asia-Pacific region and exploded as a tourist resort in the 1980s and 1990s. In the early 1960s it had 700 rooms for tourists, 1,700 rooms in 1984, 4,600 by June 1986 and 6,500 a year later. It's airport was upgraded to take international flights in 1984 and had become the eighth biggest in Australia by 1987 with, in addition, a large marina, an ocean cruise liner terminal and vast shopping center by the early 1990s.

Reliance on tourism and air transport made Australia vulnerable to fluctuations and unexpected events. Cairns, for example, suffered badly during the Asian economic crisis of the late 1990s. Because almost all travelers to North Queensland flew the tourist trade dried up during the 1989 airline pilots strike and continued well into the peak winter months of 1990 that followed.

Behind the customer experience of travel lay a large supporting infrastructure. Fundamental to it were the computer reservation systems that the airlines began using in the 1970s to help them efficiently handle rapidly growing passenger numbers. By the beginning of the 1980s about 60 per cent of all TAA's passenger tickets were issued by computer and its upgraded system, which went into operation in 1980, gave greatly expanded reservation services with access to information about more than 5,000 air routes on 42 Australian and 60 international airlines as well as hotel bookings and package holidays.

Australia's airlines did not give travel agents access to their computer reservation systems until 1976. Before then it had been difficult for most travel agents to make bookings overseas and for overseas travel agents to make bookings in Australia because most international communications was limited to telephone, which was very expensive, and mail, which took too long. Linking the tourism industry into the airlines' computer reservation systems, and other industry databases, gave travel agents access to international information and allowed tourism operators to participate in the airlines' loyalty programs or run their own, and also operate yield management systems like those of the airlines to maximise their revenue. In 1978 Qantas, Ansett and TAA launched the Travel Industry Automated Systems which gave travel agents access to various airline systems that linked the Australian travel and tourism industry into global systems and revolutionized it so almost three quarters of airline bookings were made through computer reservation systems by the mid 1980s.

Competition was tough in the travel business. An example was the car rental business which went from being used by 5 per cent of Australian adults to 20 per cent. Airports became an important source of car rental customers and the most important companies, Avis, Hertz and Budget bid millions of dollars for the right to locate their desks in airport terminals to serve customers. Having a presence there could be a great boost to business so, when Budget outbid Avis for places in some major airport terminals, it took over $17 million worth of Avis's business within six months, became a market leader in 1980 and ultimately grew to control 50 per cent of the car rental market.

When the internet became commercially available in Australia in the mid 1990s it became another site of intense competition. The budget airlines, Impulse and Virgin Blue used it to promote themselves and reduce their operating costs but Ansett and Qantas where there before them. Qantas launched its first website in 1994 and Ansett in mid 1995 and there were several other Australian aviation websites including travel, flying schools, charter flights, pilot information services and special interest group by 1995. Ansett began selling tickets on-line with little fanfare over the Christmas break of 1998 and Qantas followed at the beginning of February 1999. These services were expensive to set up but cut costs by bypassing travel agents, although the airlines found they still needed telephone call centres and retail outlets to sell to all their customers.

Web based travel agencies also appeared quickly. (There was an early problem with security for credit card payments but they were technically overcome by 1997.) Flight Center set up flightcentre.com, TravelOnline received more than 50,000 visits to its websites each month and Travel.com.au made a profit of $11.8 million in 1999. The international computer reservation systems also began setting up travel and tourism systems linked into their systems and Travelocity, which appeared in March 1996, offered over 200,000 pages of tourist information about 15,000 destinations across the world and two hundred and forty-eight in Australia, and could take reservations for 28,000 hotels and 50 car rental companies. The system included schedules for more than 700 airlines, could take reservations and sell tickets for more than 370 of them and had an automatic search tool to find the lowest fare available between multiple cities.

Travel agencies remained an important retail outlets for travel and tourism. They had flourished in Australia in the 1960s and 1970s offering services that included booking airfares and accommodation, often in packages, doing most of their business by telephone and receiving commissions from wholesalers such as the airlines and accommodation chains. Large businesses including banks, which had well established branches all over the country, motoring organisations, state government tourist bureaus and major transport operators all offered travel agency services .

The travel agency business began to consolidate in the 1980s. Small and independent agents could not gain IATA approval to sell airline tickets without difficulty, which could cost them a great deal of lucrative business, but they could get access to airline tickets in association with other agencies that did have IATA approval. This, and the advantages of brand advertising, led many independent travel agents to merge into a handful of major brands so more than 60 per cent of travel agency outlets were owned by large companies, were franchised or in buying groups by the mid-1990s . By the late 1990s the most prominent companies were Jetset, Flight Centre, Harvey World Travel, American Express and Traveland. Jetset which had about 900 travel agencies associated with it by 1987, initiated about 25 per cent of domestic package tours, sold about 40 per cent of international air tickets from Australia and had 33 offices overseas by the early 1990s. Flight Center flourished after airline deregulation with 100 shops in 1992 and more than 600 by the end of the decade, making it Australia's dominant travel agency and the fourth largest retail group in Australia.

Other well known brands were absorbed into larger businesses. Traveland, for example, was founded in 1968 in association with David Jones, then bought Grace Bros Travel in 1982 and was acquired by ATI in 1987. Jetabout bought up other prominent brands such as Viva! Holidays and Travelscene but Qantas bought a controlling interest in it in 1984. The Jetabout brand name was replaced by the Qantas Holiday brand in 1996, and then the Qantas Australian Holidays brand when Qantas took over Australian Airlines's wholesaling division.

The banks had built up substantial chains of travel and tourism outlets by the 1990s but, when the business fashion turned from diversification to owning only core business assets, the banks sold their travel and tourism businesses. TAA acquired Westpac Travel in 1980, ATI's Traveland bought ANZ Travel in 1990 and the last bank agency to go was the Commonwealth Bank's travel business in 1994.

Qantas Holidays and Ansett Holidays were among the largest Australian wholesalers in travel and tourism by the mid 1990s. Occasionally they worked together but usually they were fierce competitors for the business travel agencies could give them. Qantas had a five year agreement with Harvey World Travel to give it the major share of its sales, and a similar agreement with Jetset which would deliver it a major share of that agencies $800 million business. Ansett was Flight Centre's preferred airline, which was worth about $100 million in sales, but Flight Centre switched over to Qantas in 2000 for the coming five years in a deal worth an estimated $4 billion.

CHAPTER SEVENTEEN
CRASHING AND BURNING

By the beginning of the new century many people believed that two decades of change and economic reform were starting to pay off and Australia's remaining businesses were cost effective and efficient, making them fit to survive in the world economy. However, these changes had brought Australians to a state of reform fatigue and they craved stability and certainty rather than continuing change. Some social commentators began questioning the philosophy of competition at all costs, began raising the concept of 'social capital' and the need to give greater thought to public benefit rather than profit. However, by then a belief in competition and the free market economy had become embedded in politics, business and society as an all-embracing orthodoxy rather than an economic theory.

The metaphor of 'crashing and burning' became a favourite of financial commentators as they described the failure of many highly leveraged businesses which began crashing, and burning many people with them. The collapse of the global dot.com industry from April 2000 was a sign of this. After years of self promotion and dynamic expansion it's financial collapse turned the internet and computer technologies from an exciting new business landscape into just another business tool, like aviation.

The international air transport industry was also heading into problems and May 2001 was the worst revenue month for five major United States airlines in at least two decades. IATA reported that growth, that had been at around 10 per cent in June 2000, had fallen to 1 per cent for June 2001 and that between September 2000 and September 2001 international passenger traffic dropped by 17 per cent. The two major airliner makers, Airbus and Boeing, planned to cut their production rates because the airlines were cutting back their orders to reduce passenger carrying capacity to reduce their losses. Qantas was effected by the downturn and planned several changes including suspension or reduction of some services and retiring six older 747s earlier to help reduce its maintenance costs and international capacity.

The phrase 'crashing and burning' also became popular with the Australian business press when Australian company failures in the first ten months of 2001 went up by almost 20 per cent over the previous year. HiH Insurance went down with debts of over $5 billion and the loss of 1,340 job, leaving a massive hole in the insurance industry that effected every corner of Australian life. One.tel failed with debts of $600 million and the loss of 1,750 staff, creating a major blow to confidence in the telecommunications industry. Pasminco, one of the major mining companies, failed with debts of up to $3.4 million and the loss of 4,322 staff. The major cause of these collapses was mismanagement under the harsh competitive conditions of the times.

Ansett was another struggling company. It's yield management system was not competitive and it's fleet was old and mixed. It's Boeing 737s and Airbus A.320s did basically the same job but required separate maintenance and servicing facilities and it's 767 fleet was old and needed more expensive maintenance, but Ansett did not have the capital resources to replace its airliners or buy more to give it the capacity to match its competition The airline's management had been unstable with five Chief Executives from the mid 1990s and it had not gone through the extreme cost cutting of Qantas so it remained more expensive to run. There was uncertainty in its management and staff cuts had led to serious problems in the airline's operations and poor staff morale and performance. As a result Ansett's market share had slipped to 40-41 per cent.

Ansett found itself with another problem when it discovered that it had overlooked a Boeing direction to inspect the engine pylons of most of its old Boeing 767s. When they were inspected the airline discovered cracks in three of them that were so bad an engine could have fallen off in turbulence or during a hard landing. Within a week the ATSB also told CASA that Ansett had unknowingly flown a 767 with defective emergency slides and CASA grounded all Ansett 767s, about a third of it's total capacity, because of the airline's repeated failure to properly maintain its airliners to the required aviation safety standards.

The Boeing 767s were grounded the day before Good Friday, traditionally the busiest day of the year for air travel in Australia. Ansett used it's international 747s, brought in Air New Zealand airliners and chartered Qantas and six overseas airliners to help relieve its capacity shortage, so the airline was able to carry most of its booked passengers over Easter. These problems led CASA to expand it's audit of the airline and put new conditions on its operations because of it's ongoing structural, management and personnel problems. CASA refused to let the 767s fly again until it had audited and inspected them itself and told Ansett that, if it could not prove that it's maintenance systems were up to the required standards within two weeks, it would lose its AOC and would not be permitted to fly.

These problems were overcome and Ansett's fleet was back to normal operations by early May, but the groundings had cost Ansett more than $4 million and been very bad publicity. They made a fleet upgrade imperative but that would cost around $3.97 billion. The

Air New Zealand executives discussed strategies to integrate and rebuild the two airlines but the key problem was how to raise the money needed for a fleet upgrade and how to cope with the high level of competition the airline was experiencing. One suggestion was for Ansett to buy out Virgin Blue, as Qantas had done to Impulse, but Air New Zealand wasn't prepared to pay enough for Virgin Blue and Branson stood firm on the Virgin brand name and retention of his staff. Another suggestion was to create two large airline groups in the region by Qantas buying a substantial holding in Air New Zealand and Singapore International buying Ansett to create a relatively balanced airline competition across the region, but the idea was eventually rejected. The Air New Zealand board wanted Singapore International to increase its share holding in Air New Zealand from 25 per cent to 49 per cent to inject sufficient capital to help improve Ansett's position, but the New Zealand government rejected the proposal.

Weeks passed as proposals were raised and rejected or fell through and the Australian and New Zealand governments were uncertain about what they should or could do. As the days passed more Australian passengers decided to fly with Virgin Blue or Qantas and Ansett's share of the market continued to fall. Half way through August Air New Zealand and Virgin Blue recommenced negotiations about a possible takeover but Branson rejected an offer to buy Ansett for $250 million a the beginning of September. By this time Ansett was said to be losing between $1 and $1.4 million every day. Air New Zealand turned to Qantas with an offer to sell Ansett (reportedly for $1) but it turned down the offer because 'Ansett's problems are far too great for Qantas to take on'.

Ansett had become headline news across Australia by 10 September when the Australian and New Zealand governments held crisis talks about how to pull Ansett and Air New Zealand back from the brink. Air New Zealand shares had fallen by almost fifty per cent in value and Ansett's failure seemed immanent.

Having gone to bed speculating about Ansett's immanent demise Australians woke on the morning of 12 September 2001 to news from the United States that terrorists, using Boeing 767s as weapons, had killed thousands, demolished the World Trade Centre in New York and damaged the Pentagon in Washington. United States authorities closed that nation's airspace, all airliners were forced to land at the nearest appropriate airport and more stringent security measures were immediately introduced.

These terrorist attacks brought on possibly the worst crisis in the history of air transport. More than 100,000 jobs were lost and many services were suspended as airlines cut capacity to match falling demand. Global airline traffic suffered its first decline since 1991 and the world's major airlines lost more than $12 billion in 2001. To help keep the industry going the United States government gave its air transport industry US$15 billion and the European Commission gave Europe's airlines similar support. Declining international air traffic led to a decline in demand for new airliners and Airbus and Boeing severely revised their production rates and laid off workers.

Worldwide airline passenger demand dropped by half in the two weeks following the terrorist attacks and the world's airlines reduced services by about 20 per cent to around 20,000 flights a day. Two European airlines, Swissair and Sabena, went out of business and British Airways, which was already in severe trouble, saw its trans-Atlantic traffic fall by 60 per cent in the week after the attacks and lost up to £20 million a day, forcing heavy salary reductions, staff cuts and route reductions to try to stem the huge losses. Asian airlines also struggled with loss of passenger demand and reduced services to cope. Airlines in the United States saw their passenger demand drop sharply and they also cut their capacity to cut costs. Qantas's international traffic declined by 10-20 per cent with bookings from Japan falling by 25 per cent and from Britain by 23 per cent.

Many international airlines reduced their services to Australia and some cut them entirely. The number of overseas visitors to Australia in October 2001 dropped by 16.27 per cent in comparison to the previous year but this was partly made up by more Australians taking holidays locally, encouraged by discounting, promotions and a government scheme to give holiday makers in Australia a $150 rebate on their holiday expenses. By Christmas 2001 hotel booking in many destinations had returned to earlier levels but, because more people took their holidays within easy driving distance of the capital cities, the more remote tourist destinations that catered primarily for overseas tourists did not enjoy a similar quick recovery.

The terrorist attacks also created an immediate increase in security at airports which made flying less pleasant, more time consuming and discouraged passengers. There was a more visible presence of security staff and the government employed an additional 179 Protective Service Officers for Australia's eleven major airports. It enhanced electronic passenger and baggage screening, prohibited use of luggage lockers in international terminals, prohibited the carriage of sharp implements and asked passengers to reduce carry-on baggage. The government also began training armed security officers to fly incognito in pairs on domestic flights, authorised to shoot in extreme circumstances and armed with weapons and ammunition designed not to penetrate airliner fuselages.

The speculation about Ansett ended on on 12 September when Air New Zealand placed Ansett in the hands of administrators. They assured its customers and staff that Ansett would keep flying but when staff arrived for work on 14 September they were confronted by security guards and Ansett terminals that had been locked shut. Ansett's administrators told the government they had closed the airline because it did not have the necessary cash or facilities to keep flying. Angry Ansett staff held rallies in major cities to call for support and guarantees for their work entitlements.

Ansett collapsed with debts of more than $3.4 billion. Over 16,000 Ansett employees lost their jobs and indirect job losses in aviation, tourism and associated industries could have been as high as 45,000. Air New Zealand's value was written down by $NZ1.321 billion which was the largest corporate loss in New Zealand history. On 13 September Air New Zealand announced that Ansett's domestic losses before tax and interest were $NZ 165.4 million, Ansett International had lost $NZ 22.8 million for the year and Ansett had lost well over $60 million in the July and August alone.

Everybody found somebody else to blame. Air New Zealand blamed the intense competition in Australia, increased fuel and foreign exchange costs and the effect of the Boeing 767 groundings on public confidence in the airline. Staff and passengers blamed the Australian and New Zealand governments and Air New Zealand for not doing something to save their airline. The Australian government blamed the Air New Zealand board and the board blamed Singapore International and other investors. The New Zealand Prime Minister blamed Air New Zealand for being too hasty in buying Ansett before investigating its finances properly. Qantas said it had done what was necessary to make its operations profitable and if Ansett had not been able to cope with the competition Qantas was not to blame. Gary Toomey was also blamed, but that was unfair. The problems he faced were not of his making and, by the time of Ansett collapsed, he had cut $120 million from it's costs and identified another $500 million in savings which included cutting 3,000 jobs, reducing staff pay and moving the airline's administration to New Zealand.

Ansett International disappeared, the capacity allocated to it by the IASC was taken back and its 747-400s returned to Singapore International. Qantas became again virtually the only Australian airline flying overseas and it applied to the IASC for flexibility to switch some of its capacity to some Asian destinations to a new low cost subsidiary to be called 'Australian Airlines'. In the hope of reviving Ansett its administrators relaunched the airline (generally called Ansett II) on 29 September with five A.320s flying on the Melbourne-

Sydney route with the network later expanding to include Brisbane, Adelaide and Perth.

Ansett's collapse effected thousands of lives. Gate Gourmet, which had previously been Ansett's catering division, was owed $25 million and went into voluntary administration the day after Ansett and 800 staff were sent home. Ansett's advertising agency retrenched 20 people. Retailers in Ansett's Sydney Airport terminal, who had spent more than $100,000 on their shops in 2000, were locked out of the Ansett terminal. There were 16,000 staff members who were priority creditors owed $730 million in unpaid entitlements. Traveland, Ansett's travel agency with 104 branches and 750 staff, was quickly sold to another company for $500,000, which then failed. The entire travel industry was effected; taxis and hire cars, hotels and tourist resorts. Sports events and organisations that had enjoyed Ansett sponsorship were also effected, including the Australian Cricket Board, the Australian Football League and the National Rugby League. The largest group to be effected were the 2.7 million members of Ansett's frequent flyer loyalty program who held around 70 billion points, enough for 270,000 first class return fares to London. The administrators placed a value of only $140 million on those points and made scheme members among the most disgruntled of Ansett's creditors.

Ansett owed money to airports around Australia and Melbourne and Sydney Airports suffered a revenue shortfall of almost $80,000 a week. The government granted the major airports one-off increases in the aeronautical charges of between six and seven per cent to compensate for lost revenue. Ansett had contributed about a quarter of AirServices Australia's annual revenue and its executives agreed to take five per cent pay cuts while 300 other senior managers were also asked to take similar reductions and staff were asked to work reduced hours.

Five regional airlines, Aeropelican, Skywest, Hazelton and Kendell and Flight West, that had all been closely associated, stoped flying on 14 September. They had lost Ansett's passenger on-carriage and use of its services including its terminals and computer reservation system. The Ansett administrators took over all the Ansett owned regional airlines to sell as operating airlines and the government provided nearly $30 million in short term subsidies to keep them flying where there was no alternative. Skywest was bought in December 2001 by a consortium of Western Australian business interests. Aeropelican was purchased and became associated with Qantas. Flight West was sold in April 2002 for $1.82 million to Queensland Airline Holdings which renamed it Alliance Airlines. Kendell kept its SAAB 340s but put its CRJ200s into long term storage. Hazelton resumed flying on almost all its previous routes with the help of government subsidies, losing $10 million between the Ansett collapse and the end of April 2002.

Thirty-one regional centers that had been served by only Ansett associated regional services lost those services and QantasLink became the only integrated network serving regional and remote Australia. Ansett and Qantas had competed on regional routes more or less evenly but, with Ansett's collapse, the competitive pressure on QantasLink to maintain a wide ranging regional network was lost and it became more selective in the services it provided. Qantas also made itself stronger through QantasLink alliances with regionals that had previously been associated with Ansett.

Kendell and Hazelton kept flying in the expectation that they would be allied to the relaunched Ansett. Qantas made their survival difficult by intensifying competition on some routes by increasing its capacity so Hazelton was forced to drop some services in mid February 2002. By then Hazelton and Kendell had 950 staff and flew on 38 routes in New South Wales, Victoria, South Australia and Tasmania, in competition with Qantas on 16 routes, but were losing about $1.5 million a month. In May 2002 they were both bought by a consortium of ex-Ansett employees and merged into one new business called Regional Express (Rex) to serve most of the existing airlines' routes with a fleet of around 24 SAAB 340s and about 600 staff.

After Air New Zealand put Ansett into receivership it was also in desperate trouble. It's problems were compounded by the dramatic reduction of international air travel following the terrorist attacks in the United States, forcing the airline to reduce its international air services. Gary Toomey left by mutual agreement in early October and the New Zealand government recapitalised the airline with about $NZ885 million in the form of a loan and equity investment that gave it 83 per cent ownership of the airline and reduced Singapore International's holding from 25 per cent to 4.3 per cent. Later the New Zealand government added another $NZ 150 million because the airline was in worse financial condition than was first thought. In December the airline adopted a new five year business plan to cut staff by 800 and reduce its $1.91 billion debt by $1.5 billion. In February 2002 a financial consortium gave it additional credit facilities and it appointed a new chief executive who was given the task of returning the airline to profitability and rebuilding its international partnerships.

Air New Zealand established links with both Qantas and Virgin Blue to provide it with Australian domestic passenger on-carriage. The common aviation market between

Australia and New Zealand might have made it possible for Air New Zealand to compete in Australia but it lacked the strength to do so while Qantas flew multiple daily flights between Auckland, Wellington, and Christchurch with a fleet of four 737s and gained 20 per cent of the New Zealand domestic market.

While airlines around the world suffered from a lack of passengers Qantas and Virgin Blue struggled to cope with the passenger demand created in Australia by Ansett's collapse. Travel plans all over Australia were disrupted and Qantas quickly offered assistance with free flights for Ansett passengers who were stranded away from home and special discount fares to passengers holding Ansett tickets. Virgin Blue increased its capacity by making additional flights outside normal hours, but it was too small to do much. Qantas brought in as much capacity as it could and almost every flight was full. QantasLink flew interim services to more than 30 regional centres in conjunction with other regional airlines, Qantas moved twelve of its international airliners onto domestic routes to increase capacity and wet leased three Boeing 767s for trans Tasman services and Boeing 737s for New Zealand services to free up more airliners for Australian domestic services. It flew some of its 747s on its most heavily patronised domestic routes that freed up 767s to take over 737 services that were then able to release 717s to increase capacity on routes that had been flown by BAe 146s.

Qantas found itself presented with a once in a lifetime opportunity. It moved excess capacity that had been created on its international routes - and drove almost all other airline into losses - onto its domestic routes. Ansett's collapse also left the Australian domestic air transport market wide open for Virgin Blue which began looking for investors to raise the capital it needed to expand rapidly and, in the six months after September, it's fleet grew from six to 17 Boeing 737s. It rapidly expanded its network to include all the state capitals, Canberra and Cairns but limited its rate of expansion so it did not blow out its operating costs or let inefficiencies creep into its operations to erode its low cost base.

The severely depressed air transport industry overseas saw the cost of new airliners drop and their availability improve. In October 2001 Qantas took over an order for 15 new Boeing 737-800s that had been placed by American Airlines. It paid $450 million for them that it raised through an institutional share placement which was quickly and heavily oversubscribed. (British Airways did not take part because of its own serious financial problems so its share holding in Qantas was diluted to 21.4 per cent.) The new Boeings carried 46 more passengers than the 737-300s at lower cost. The first began arriving in January 2002 and Qantas planned to place options on many more single aisle airliners at the low prices of the time to give it a fleet big enough to provide 65 to 70 per cent of Australian domestic capacity.

Qantas's new 737-800s, the transfer of 12 international airliners to domestic service and the addition of some leased airliners increased it's domestic fleet by the equivalent of 26 Boeing 737-300s. It's yield and profitability also improved when it picked up almost all Ansett's high yield full fare business passengers and bringing 767s onto routes previously served by 737s increased returns by about 20 per cent. Increased passenger demand on routes which it has previously flown in competition with Ansett also allowed Qantas to use larger and more efficient airliners on routes that had previously have been unprofitable for them.

Ansett's collapse left Qantas facing the competition of Virgin Blue and overseas airlines that were restructuring themselves with cut-price business models. To compete Qantas began identifying efficiencies to improve its productivity, it's executives did not take productivity bonuses, executive staff was cut by 10 per cent, a freeze was imposed on staff, contractors and consultants and discretionary and non-operational capital spending stopped. Qantas's staff, that had reached 30,000, was cut by 600 positions and labour costs were reduced by encouraging employees to take annual and long service leave or leave without pay or start job sharing. Qantas management asked the unions to limit or withdraw their claims for pay increases, ten unions accepted a wage freeze to avoid job cuts but two continued to push for pay increases and placed bans on some work at maintenance bases which led to four months of industrial bans and intermittent strike action and higher maintenance costs, but had no effect on operations.

In December 2001 Qantas announced changes to make its domestic services more cost effective in competition with Virgin Blue and Ansett II. They included extension of its CityFlyer service to the Sydney and Brisbane route every half hour in peak and every hour in off peak periods and hourly between Melbourne and Brisbane. It planned to reconfiguring many of its 737s to all economy class for flights where there was little call for business class, introduce some self-serve check-in kiosks to reduce labour costs and serve in-flight snack and full meals in boxes rather than on trays to also cut costs.

The airline's rapid expansion had caused a decline in service standards because staff and facilities were stretched to capacity and beyond. In early 2002 Qantas management reminded staff to lift their standards or risk losing business to a revived Ansett. In February 2002 Qantas announced a $50 million program to expand and improve its terminal lounges to help rejuvenate service standards and keep its passengers.

Within days of Ansett's collapse new administrators were appointed who had a reputation as company rescuers in the hope of getting Ansett back into the air again with its AOC and airport terminals as its major assets. Air New Zealand had paid the administrators $150 million against any future financial claims and the government advanced the administrators $195 million so that at least 4,800 of the 8,600 workers who were made immediately redundant would receive some payment before Christmas. The Ansett maintenance business was kept open to service Ansett II, Virgin Blue and some overseas airliners. The Ansett fleet of 16 737s, ten A.320s, five 767s and 15 BAe 146s and some smaller aeroplanes was offered for sale at an optimistic value of $930 million.

The administrators kept Ansett II flying with a fleet of 12 A.320s and employed the equivalent of about 1,100 former Ansett staff who shared the work to spread the available pay as widely as possible. The airline was barely larger than Virgin Blue but more expensive to operate. It had little success in winning back the key commercial accounts it had lost while it was grounded and, by the beginning of December, it was flying between Melbourne and Sydney with load factors of less than 40 per cent, well below the 60 per cent needed to be profitable.

On 19 October the administrators announced a $3.6 billion deal with a consortium called Tesna (Ansett spelled backwards without the second t) to buy Ansett and relaunch it on 1 February 2002 with a fleet of A.320s, 4,000 Ansett staff and a limited network of destinations. However, making the arrangements to relaunch Ansett were complex and dragged on. By mid January 2002 the cost of administrators, lawyers and consultants had reached $55 million and the small airline was losing about $6 million a week. Rumours began circulating in early February that Tesna's financial backing had broken down. Tesna tried to reach an agreement with Bramson about either a merger or alliance with Virgin Blue, but negotiations stuck on the non-negotiable points of naming and control so an agreement could not be reached.

On 27 February, with the sale deadline set for midnight the following day, Tesna announced it was withdrawing its offer. It's failure to relaunch Ansett cost the creditors millions of dollars, ended the hopes of thousands of Ansett staff, and ended the Ansett brand. Trying to sell Ansett to Tesna had cost over $100 million and Tesna spent at least $30 million on legal and other fees, employing 180 professionals from legal and financial consulting companies for five months.

Of the 2,800 employees the Ansett administrators had on the payroll all but a skeleton staff of about 750 were immediately retrenched. The government began redistributing Ansett's landing slots at Sydney Airport, about 1,280 domestic and 56 Ansett International slots weekly, giving preference to Virgin Blue to help in its expansion. The government had loaned the administrators $283.3 million to cover worker entitlements and it introduced a $10 levy on each section of all flights made in Australia to repay this loan.

Tesna's withdrawal meant the administrators had to close Ansett, but they kept it flying until midnight on Monday 4 March 2002 to avoid chaos in people's travel plans. It was a very busy long weekend in Australia, so busy that Ansett made a small profit for the first time in many months. All services ceased at midnight so Ansett's final flights were from Perth to Melbourne and Sydney leaving Perth just before midnight. At Perth Airport Ansett flight attendants dressed in uniforms from different periods in the airline's history and workers and supporters gathered to send the flights off. The Ansett flag was ceremoniously lowered and, after the flights left, staff continued their wake in the Ansett Golden Wings lounge. On the flight to Sydney flight attendants strung up green and gold streamers and the 103 passengers shared drinks, all recorded by three television cameras. When the flight arrived at Sydney at 6:45 in the morning it was greeted by Ansett workers, many of whom then went to Ansett's Sydney Golden Wings lounge for that wake.

CODA

Ansett failed because it was unable to survive in the competitive air transport environment at the end of the twentieth century. After seven decades in which the industry had been nurtured by the government, and five decades during which Ansett had been a beneficiary of that nurturing, one decade of unregulated competition had seen the airline fail. There were many contributory causes for Ansett's failure but the overarching one was failure of management at the highest level, and that was because of a failure of vision to understand civil aviation. Peter Abeles, and Reg Ansett before him, had been transport managers generally and airline managers in particular and knew that their airline was a business that made profits, but they also understood the nuances of civil aviation, drew delight from them and transformed their airline to match the changing environments that Ansett served. After they had gone the stewardship of Ansett fell to managers who saw the airline only as a vehicle for making profits without understanding the changed nature of the air transport environment in Australia. So, by the time the airline was put in the hands of Eddington and Toomey the damage had been done and it was too late. At the same time the managers of the government airlines that became the privately owned Qantas, and the managers of Virgin Blue, understood the changes that had occurred in Australian air transport and transformed and created their airlines to survive in the new competitive environment, in a way that Ansett had not.

From the beginning of air transport in Australia eighty years earlier the business of managing civil aviation had been the key to its success. Pioneers like Norman Brearley, Hudson Fysh and Horace Brinsmead had understood the political, economic and social environments into which they introduced flying as a business in Australia and had matched their actions to those environments. Those that did not understand the environment of the time in which they managed civil aviation failed. At the end of the century the manager who understood the environment of his time was James Strong who said that selling seats in airliners was no different than selling shoes. By then seats in airliners had become almost as commonplace as shoes, but selling those seats to make flying profitable had become a subtle, complex and competitive business.

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The business of flying in Australia remained one of trying to make money. Having failed to make money by flying, Ansett made money for its owners by being sold in lots. By late April 2002 its administrators had 63 airliners for sale and Kendell's unhappy CRJ200 fleet was also sold. More was raised through the sale of 10 million items ranging from jet engines to spare parts and consumables. In May the Ansett Headquarters buildings in Melbourne were sold for $30 million and SACL bought Ansett's most valuable asset, its Sydney Airport passenger terminal, for $192 million and leased it to the airlines.

Regional Express (REX) standardized its passenger fleet on SAAB 340s and flew profitably in regional areas along the eastern seaboard and in South Australia. QantasLink made Qantas overwhelming dominant on regional routes and, by August 2002, it had a fleet of 14 Boeing 717s flying on routes between capital cities and many regional centres that had previously been unprofitable with larger airliners. It's Beech 1900Ds had high operating costs and low profit margins so they were taken out of service. Some of their routes were upgraded with larger and more efficient Dash-8 services and other services were closed. Other regional airlines picked up some of those routes, some towns got less frequent Dash-8 services and some smaller centres lost their services altogether. There were complaints that Qantas did not understand the effect of its actions on small communities but Qantas replied that many country services had never been sustainable and could not continue, but it would provide services that could profitably meet regional needs and promote tourism.

Air New Zealand began regaining its strength and confidence and planned changes to make it competitive with Qantas, and with Virgin Blue that threatened to enter the New Zealand domestic market. In April 2002 it ordered 15 Airbus A.320s that could fly on trans-Tasman, domestic and south Pacific routes and fitted them with a flexible economy layout so services could be tailored to routes and demand. In October 2002 it launched Air New Zealand Express that offered heavily discounted fares and reduced customer service in Boeing 737-300s that were reconfigured to carry 136 passengers in economy class accommodation. The airline also began warming to the idea of a relationship with Qantas and in November 2002 the two airlines announced plans for Qantas to take a 22.5 per cent shareholding in Air New Zealand for $500 million that might lead to a Joint Service Agreement similar to the one between Qantas and British Airways.

Virgin Blue expanded into the vacant market left by Ansett by starting to offer some of the services offered by traditional airlines. From February 2002 it began offering improved services including connecting flights, through fares and automatic baggage connections, and it joined the world's largest computer reservation system. It added a few dollars to the cost of its air fares, moved into some of the terminal space at major airports vacated by Ansett and began gathering a small but growing amount of corporate and government business.

To raise the capital necessary for expansion Virgin reached an agreement with the transport company, the Patrick Corporation, to take a 50 per cent holding in Virgin Blue, for an initial payment of $260 million and following instalments that could add up to between $350 and $400 million. This strategic investment left Branson as the airline's head along with the full Virgin Blue management team and its current staff. Branson had launched Virgin Blue only 18 months earlier for around $20 million and rejected an offer to sell the entire airline for $250 million. By being imaginative and entering the market at the right time he had made a relatively large fortune out of the Australian aviation industry, starting with a very small one.

By July 2002 Virgin Blue held roughly 18 per cent of Australia's domestic air transport market and about 23 per cent on key routes such as Melbourne-Sydney. It had tripled its capacity in the previous year and added routes to Cairns, Hobart and Coffs Harbour but contained its expansion to remain profitable. It held discussions with some ex-Ansett regional subsidiaries about the possibility of establishing code sharing arrangements, met with Singapore International to discuss potential alliances and entered a code sharing arrangement with United Airline of the United States to provide it with an international source of passenger on-carriage.

Virgin Blue paid a dividend of more than $15 million to the Virgin Group in early 2002 and planned for a company float in 2003 to raise capital to pay for fleet expansion from the 18 Boeing 737s that were in service in April 2002 to the fleet of 40 or 50 airliners.

Australia again had two major airlines, as it had for most of the previous half century. They competed head on using the weapons of capacity and price and indirectly with the weapon of service, with Virgin Blue offering its low cost service as part of the popular Virgin brand image and Qantas with a range of services depending on cost and availability. They prepared themselves for the possible emergence of a new domestic airline but that seemed unlikely because analysts estimated it could cost more than $2 billion to launch a new airline on the eastern coast with sufficient size to challenge the established airlines.

The instability of Australia's air transport industry after deregulation had led some observers to suggest it should be reregulated. The government did not agree, it was happy to have two efficiently run airlines in the deregulated environment, preferring Virgin Blue to expand and become strong enough to check Qantas's market power. From the government's viewpoint the problems of industry instability had not been caused by a lack of regulation but by the inability of some airlines to manage themselves to compete effectively. Virgin Blue said real competition between airlines in Australia was impossible while Qantas used capacity dumping against it and Qantas said the ACCC's restriction of the abilities of big companies to compete with little companies jeopardised competition by protecting less efficient and under resourced airlines. The ACCC found it difficult to control prices or capacity in the airline industry due to its computer driven high volatility, complicated pricing systems and variable capacity.

Virgin Blue taught Qantas a lesson in what could be achieved by keeping costs to an absolute minimum to offer cheaper fares and Qantas used its competitor as a yardstick by which it could judge its own performance. It launched a new airline with an old name, Australian Airlines, with a cost base 30 per cent lower than Qantas to make money on services into the Asia-Pacific market that Qantas had found unprofitable. The new cut price airline was based in Cairns, initially with a fleet of four Boeing 767-300s configured in an all economy 270 seat layout rather than the Qantas 229 mixed class layout. It aimed directly at the tourist market and flew to holiday destinations, initially in north Queensland with plans to later expand to the rest of Australia. Qantas also decided to improve profitability by no longer providing full business class services on routes where the returns did not justify them so it could reduce operating costs to levels comparable with Virgin Blue. Some of its Boeing 737s were configured to carry only economy passengers and others were converted so they could be quickly changed to include business class accommodation if there was enough passenger demand to justify it. Ten of its Boeing 747-400s were reconfigured with only business and economy classes layout to serve international destinations where there was little demand for first class service.

Ansett's collapse gave Qantas overwhelming domestic market dominance that created the temptation to relax its efforts but it also put Qantas under enormous pressure. About 50,000 former Ansett Golden Wings Club members moved to the Qantas Club and pushed its business lounge facilities to the limit. There were also problems with flights not leaving on time and the lack of in-flight services that made Qantas's most lucrative passengers unhappy. After cutting back on its services in 2001 to contain costs and meet demand, Qantas planned to keep those high yield business passengers by offering them the frequency and standard of service that justified higher fares and began redeveloping its Qantas Club facilities to provide more business services in 2002.

QantasLink made a profit of $42.5 million in 2001/02 and fed an estimated $500 million worth of passengers traffic onto Qantas trunk domestic routes. Qantas's other subsidiaries including its flight catering, Qantas Holidays, Qantas Defence Systems, Australian air Express, Qantas Business Travel and its frequent flyer program and credit card businesses, turned a profit of $105.9 million in the first half of 2002. Analysts put the value of Qantas as high as US$3.58 billion and it was popular with investors. When it sought $800 million from shareholders to help fund a stake in Air New Zealand and a fleet upgrade it was quickly oversubscribed.

In 2002 the $10 million Qantas Founders Museum was opened at Longreach. At the official opening the airline's chief executive officer, Geoff Dixon, promised to donate one of the airline's surplus 747-200s to the museum and said, 'The status of Qantas within the global aviation industry is a singular reflection on the dreams and ambitions of the airline's founders back in 1920'. He assured the audience that the passion and spirit of those early days remained alive and well.

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PRIMARY SOURCES

Official year book of the Commonwealth of Australia (also titled as the *Year book of Australia*, *Australian year book* and *Commonwealth year book).*

This annual publication if published by the Commonwealth Bureau of Census and Statistics and contains a great deal of statistic information about Australia. A little of it is related to civil aviation but there is also a great deal which is useful in learning about the wider context of Australian life and times. These volumes are available on line.

Department of Civil Aviation Annual Report
Department of Transport Annual Report
Department of Aviation Annual Report
Civil Aviation Authority Annual Report
Civil Aviation Safety Authority Annual Report
Airservices Australia Annual Report

These annual reports contain statistical information on the activities and responsibilities of these agencies and summary reports on their activities. Most are available for research in the library of the Civil Aviation Historical Society.

Australian National Airways Corporation Annual Report
Qantas Airways Annual Report

These annual reports contain information about the activities of these airlines.

Miscellaneous papers in the library of the Civil Aviation Historical Society

The Civil Aviation Historical Society library has extensive collections of books, reports, photographs and papers including the Bradshaw Papers, the Johnson Papers, cuttings books relating to airlines from the 1950s to the 1980s, folders of press releases and civil aviation documentation including civil aviation regulations and orders, and much more.

Aircraft
Aircraft & Aerospace

Australian Aviation

Aircraft was the trade journal of the Australian aviation industry from the beginning and was renamed in *Aircraft & Aerospace* in June 1988. *Australian Aviation* was launched as a competitor to Aircraft in 1977 and was published at increasing frequencies and was monthly by 2000. Both also published occasional annual supplements. They are both extremely rich sources of research information.

Newspapers

Daily and weekly newspapers are a very useful source of information about civil aviation when it is newsworth enough to interest journalists and editors. Currently only newspapers published before the mid 1950s can be searched on TROVE so the research for this volume was all conducted on microfilm in library reading rooms. The newspapers most often consulted were *The Age*, *The Sydney Morning Herald* and *The West Australian* for general news and *The Australian Financial Review* for information focusing on financial matters. The weekly *The Bulletin* also contained some longer pieces of interest.

Commonwealth Parliamentary Debates (also known as *Hansard*)

This transcript of debates in the Commonwealth Parliament is an excellent source of information about official government policy which is usually found in Ministerial Statements, Second Reading Speeches and answers to Parliaments Questions. They are now available and searchable on the Parliament of Australia Website.

SECONDARY SOURCES

HISTORIES ABOUT AVIATION

There has been very little published about Australian civil aviation in the period after 1972. There are some books on highlights that have caught journalistic interest, such as the Ansett collapse, and some memories which are interesting but add little to a broader understanding of Australian civil aviation.

Prudence Black, *The Flight Attendant's Shoe*, Kensington, NSW, University of New South Wales Press, 2011.

An excellent history about Australian flight attendants, their live and times and their

uniforms. This history also contains a great deal of useful material about airline operations.

Samuel Brimson, *Ansett, The Story of an Airline*, Sydney, Dreamweaver Books, 1987.

A general and sometimes sketchy history of the airlines in the Ansett Transport Industries Group, focussing mainly on Ansett but with summary histories of the second level airlines.

Marc Dierikx, *Clipping the Clouds, How Air Travel Changed the World*, Westport, CT, Praeger Publishers, 2008

A general and well informed history of global air transport from a European perspective, excellent for putting Australian civil aviation into a wider perspective.

John Gunn, *Contested skies: Trans-Australian Airlines Australian Airlines 1946-1992,* St Lucia, Qld, University of Queensland Press, 1999.

A long and dense history of TAA written mainly from a board perspective and probably from board papers. It contains a lot of worthwhile material but not with any great consistency.

John Gunn, *High corridors: Qantas 1954-1970*, St. Lucia, Qld: University of Queensland Press, 1988.

This is the third and final volume of Gunn's history of Qantas. It is similar in content and style to his history of TAA.

Neville Parnell and Trevor Boughton, *Flypast, A Record of Aviation in Australia*, Canberra, AGPS Press, 1988.

This volume is a very useful compendium of information about aviation in Australia from its beginnings to the mid 1980s. It is organized in loosely chronological order with comprehensive indexes that aid in finding relevant entries.

SECONDARY SOURCES

GENERAL AUSTRALIAN HISTORY

General histories of Australia are very important for putting developments of civil aviation in Australia into a broader context to show developments in Australian political, social, economic and cultural life that effected the development of civil aviation here.

Alison Bashford and Stuart Macintyre (eds), *The Cambridge History of Australia, Volume 2, The Commonwealth of Australia*, Port Melbourne, Vic, Cambridge University Press, 2013

This second volume of the Cambridge History of Australia contains a number of individually authored chapters about Australia in the Twentieth Century. They have been written by academics and are generally complex and densely structured, but worthwhile reading. The chapters that have been used for researching and writing this history are:

Nicholas Brown, Chapter 17, 'Government, law and citizenship'
David Carter and Bridget Griffen-Foley, Chapter 10, 'Culture and media'
Katie Holmes and Sarah Pinto, Chapter 13, 'Gender and sexuality'
David Lowe, Chapter 21, 'Security'
Stuart Macintyre and Sean Scalmer, Chapter 15, 'Class'
Agnieszka Scobocinska and Richard White, Chapter 20, 'Travel and connection'
Paul Strangio, Chapter 6, 'Instability, 1966-82'
Simon Ville, Chapter 16, 'The economy'
James Walter, Chapter 7, 'Growth Resumed, 1983-2000'

Geoffrey Bolton *The Oxford history of Australia, Volume 5, 1942-1995, The Middle Way*, Second Edition, Melbourne, Oxford University Press, 1996.

The second edition of this excellent and very informative history covers most of the period of this civil aviation history and is probably the most useful single volume in learning about Australia during this period.

Frank Broeze, *Island nation, a history of Australians and the sea*, St. Leonards, NSW, Allen & Unwin, 1998.

A maritime history of Australia which is useful for setting civil aviation into a multimodal context.

Jim Davidson and Peter Spearritt, *Holiday business: tourism in Australia since 1870*, Carlton, Vic, Miegunyah Press, 2000.

This comprehensive history of travel and tourism in Australia contains much detailed information about the development of tourism which is closely related to many aspects of the development of civil aviation in Australia.

Robert Lee, *Transport: an Australian history*, Sydney, UNSW Press, 2010.

This history explores the history of Australian transport with chapters on the various modes. It is a general survey history so there is not extensive detail but the work does give a good coverage of all aspects of travel, including one chapter on civil aviation.

Stuart Macintyre, *A concise history of Australia*, Port Melbourne, Cambridge University Press, 2004.

This is a broad survey one volume history of Australia which paints a broad brush picture of Australian history but not in any great detail.

John I. Richardson, *A history of Australian travel and tourism*, Melbourne, Hospitality Press, 1999.

This general history of travel and tourism in Australia contains a great deal of useful information about the experience of tourism and the tourism industry which helps to set the context for the development of tourism based air transport in Australia.

Simon Ville and Glenn Withers (eds), *The Cambridge Economic History of Australia*, Port Melbourne, Vic, Cambridge University Press, 2015.

This collection of authored chapters extends the Cambridge History of Australia into the realm of Economic History. The chapters have been written by academics and are generally complex and densely structured but are important for setting civil aviation into a broader context. The chapters that have been used in researching and writing this history are:

Jeff Borland, Chapter 19, 'Microeconomic reform'

Tim Hatton and Glenn Withers, Chapter 16, 'The labour market'

Diane Hutchinson, Chapter 13, 'Manufacturing'

Michael Keating, Chapter 20, 'The evolution of Australian macroeconomic strategy since World War 2'

Monica Keneley, Chapter 17, 'The service economy'

David T Merrett, Chapter 14, 'Big business and foreign firms'

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http://adb.anu.edu.au/

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https://www.bitre.gov.au/statistics/aviation

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