FOR WHOM THE CASH REGISTER RINGS;
creating stability in the Australian air transport industry, 1943-1959

At the turn of the 21st century Australia's air transport industry is in turmoil, some might say crisis. The issues of the day include company ownership, competition policy, safety and fare levels. To many observers these seem new and difficult problems, thrown up by the spirit of the times when capital has become an obsession and share ownership a way of life. But the same problems had beset the same industry fifty years earlier. Perhaps a reason the problems confronting the industry in the year 2001 seem so remarkable is because the solutions to the problems of air transport in Australia that had been found 50 years earlier had created such a stable industry that people grew to take that stability for granted.

The key to the question of Australia's air transport industry lay, as with almost all business, in the matter of profits. How and where to make them, and who they should be made for. And, (as a side issue which our society is only beginning to explore) whether there is more to profit than just making money. The air transport industry flies to make profits and that gives it a flexibility that most other industries do not enjoy. Hudson Fysh was in the United States towards the end of the Second World War and during a discussion with W A Patterson, the head of United Airlines, he asked where United would extend next. 'Brother', Patterson replied, 'United will go wherever the cash register rings!'[1]

In the Unites States the aviation industry had followed that dictum for many years but Australian aviation did not reach that stage until the 1940s because it did not have a market big enough to support an aviation industry motivated by profits. Before then Australia's air transport industry had existed because the Commonwealth government believed an aviation industry was vital for national development and defence and it was willing to support that industry through subsidies for air mail services. By the mid 1940s, however, the air transport industry had developed sufficiently that the matter of profits and who would make them became a key issue for government policy makers. With the industry becoming profitable the question was not so much where the cash registers would ring but for whom they would ring.

The move towards profitability in Australian air transport began in the second half of the

1930s when well financed companies began to take an interest in aviation. Unlike earlier companies which had depended on government subsidies for survival the new ones had sufficient capital backing to develop significant and largely unsubsidised air services between major centres of population. The new air transport companies were financed by existing transport companies that probably moved into aviation to take control of an industry which had the potential to become a long term threat to their existing transport operations.

New England Airways was the earliest. It was founded in 1931 by G A Robinson, manager of the New England Motor Company which was a long established operator of coach, bus and lorry services in northern New South Wales. The air service met with immediate success and New England Airways became Australia's largest and most successful unsubsidised airline. In 1936 the company was transformed into Airlines of Australia with financial backing from the London based British Pacific Trust and operated air services between Sydney and Brisbane and as far north as Cairns.

Holyman's Airways developed out of circumstances which began in March 1932 when a small company began a twice weekly air service between Launceston and Flinders Island. Six months later Captain Victor Holyman, who had learned to fly in the war and was a ships' captain on the Holyman shipping line, bought a small aeroplane and went into competition with the first air service because it had begun to take over some of Holyman's shipping passenger traffic between those ports. The two services amalgamated in October 1932 and the new company was managed by Victor's brother, Ivan Holyman. The company later extended its service along the north coast of Tasmania and to King Island and, in the second half of 1933, began a thrice weekly service between Launceston, Flinders Island and Melbourne. In 1934 the company was awarded a government contract for an air mail service linking Melbourne and Tasmania and Holyman's got additional backing for it from two other shipping companies, the Union Steamship Company (of New Zealand) and Huddart Parker.[2]

Adelaide Airways was registered in July 1935 under the control of the Adelaide Steamship Company and the Orient Line. It started air services from Adelaide to Broken Hill, Kangaroo Island and Port Lincoln, the latter two coastal ports where passengers could easily be lost to aviation. In October 1935 the airline started a service linking Adelaide and Melbourne and, in 1936, it took over the air service linking Perth and Adelaide.[3]

In July 1936 Holyman's Airways and Adelaide Airways amalgamated to form Australian National Airways (ANA) under the control of Ivan Holyman.[4] Early in 1937 ANA bought British Pacific Trust's 60 per cent share in Airlines of Australia for a reported figure of £80 000. This acquisition did not give ANA immediate control of Airlines of Australia. but the airlines reached an agreement to eliminate duplication of services and they formed a very close working relationship which pooled facilities and aeroplanes. The result was an integrated air service which carried passengers and freight from Perth to Cairns or Hobart without disruption.[5] (This arrangement continued until 1942 when ANA absorbed Airlines of Australia.[6]) Thus the major force in Australian air transport came under the control of shipping companies.

Several other airlines were established in the 1930s but the only one of concern here was created by Reg Ansett. He started a road transport passenger service between Hamilton and Ballarat in 1931 and, by 1935, he was ready to extend to Melbourne. The Transport Regulation Board would not give him permission to do so because he would compete with the rail service but the Board could not forbid an air service. Ansett got financial support from a group of graziers and formed an airline company which began a scheduled daily service between Hamilton and Melbourne in February 1936. The service did so well that he increased the frequency to twice daily in March 1937.[7] Ansett moved to Melbourne to expand his business and, by 1939, it was doing well with routes linking Melbourne and Sydney, another route linking Melbourne, Mildura, Renmark, Adelaide, Broken Hill and Sydney with a link between Melbourne and Adelaide.[8]

World War Two brought prosperity to the air transport industry because there was so much work for it to do. To illustrate the growth that occurred - in 1938/39 Australia's airlines flew 9.66 million miles and carried 99 511 passengers and in 1944/45 they flew 12.63 million miles and carried 320 377 passengers. The growth was more than three fold in five years.[9] Airliners which may have been flying half empty in 1939 were usually flying full from 1942.

The growth of air transport during the war attracted political interest. Politicians had taken practical interest in it since the end of World War One but previously that had been in terms of how much the industry would cost. Now it was a more philosophical interest. The shape of that interest was directed by who was in power and their view of what post-war Australia

should be like.

R G Menzies became Prime Minister in April 1939. In the Federal election of September 1940 the coalition parties and the ALP gained 36 seats each and the balance of power in the Parliament was held but two independents, Wilson and Arthur Coles who supported the coalition.[10] Due to party in-fighting Menzies resigned as Prime Minister in August 1941 and Fadden, the leader of the Country Party, took his place. This pleased no-one so when Curtin, leader of the Australian Labor Party, moved a lack of confidence motion in the parliament Wilson and Coles voted against the government.[11]

Curtin's Labor government came to power in early October 1941 and brought a new name to air transport, Arthur Drakeford who became Minister for Civil Aviation. Drakeford came from the railway unions but he had long been an enthusiast for air development, he travelled by air whenever he could and had kept himself informed of aviation issues.[12] Drakeford was a staunch Labor man steeped in its traditions and doctrines and this would shape his attitudes about how air transport should develop.

In January 1943 Corbett, the Director General of Civil Aviation, prepared a report titled 'Post War Reorganisation, Outline of a Plan for Civil Aviation'. It reviewed the development of civil aviation and predicted that the new profitability of the airline industry would lead naturally to the development of a single major operator. He wrote:

> National control of air transport is of course quite possible and it could be done on similar lines to either the Post Office or the Railways. Whether it should be done, or whether the results would be satisfactory, would depend very largely on how the organisation was set up, what its objects were, whether it had the means to achieve those objects, the quality of the control provided, and its power to combat harmful interference.[13]

Corbett's report made only general recommendations so the government set up an Inter Departmental Committee to recommend on civil aviation policy and organisation during the war and post war periods. Its report was ready by late December 1943. This report analysed the development of Australia's aviation industry and predicted the development of one airline operator because that was the logical development that would cut overheads by making the best use of administrative and engineering establishments.[14] The Committee recommended that the subsidy system used to develop aviation over the previous two and a half decades be

abandoned because it was unprofitable and inefficient compared to a more integrated system. The committee proposed the formation of a Statutory Corporation to run Australia's internal civil air transport. The experience and qualifications of a number of people already in the industry could be brought to the new airline by establishing a joint company combining the existing airlines in a single company. The Commonwealth would hold a large proportion of the shares, be represented on the board and have power of veto on some major matters of policy.[15]

There was, however, a major stumbling block to this proposal. The Constitution did not give the Commonwealth government powers to exercise such sweeping control over air transport. It could regulate interstate trade, but beyond that its powers were very limited. A Cabinet Sub-committee examined the Inter-Departmental report and offered the government three alternatives; to leave things as they were, to try forming a merger company or to form a wholly owned government statutory corporation to take over, operate and maintain all interstate airlines.[16] On 10 November 1944 the government decided to establish a wholly government owned statutory corporation to take over, operate and maintain all interstate airlines.[17] The government planned to nationalise the existing aviation industry rather than take it into a partnership because, as Drakeford said; 'civil air services [were] a public utility and should be owned and operated by the Government'.[18] The decision was announced on 22 November 1944.[19]

The government decided to form one major airline because it believed it would provide the best service at the least cost. Corbett, the Inter-Departmental Committee and the ALP agreed that conditions in Australia would inevitably lead to a monopoly airline, and Holyman, the chief of ANA, agreed.

There was, however, the matter of philosophy. The government was committed by socialist theory to a policy of state ownership of the means of production, which included airlines. Chifley, by then Prime Minister, said 'the only proper monopoly is a Government monopoly'.[20] Holyman believed monopoly was inevitable as a business necessity of survival and profitability in the air transport industry. Holyman also believed, however, that government had no place in industry and that public corporations could not be managed properly. You could agree either with Chifley, Drakeford and Corbett or you could agree with Holyman. But

the fact of the matter was that Labor was in power.[21]

The government could have chosen the moderate option and created a joint company but there were two reasons why it did not. One was that nationalising airlines was popular across the British Commonwealth; Canada and South Africa had nationalised their airlines and New Zealand was proposing to.[22] The other was that the Labor government probably had a particular dislike for ANA.

Stanley Brogden, one of Australia's most important aviation commentators, later wrote that a motivating force behind the drive to nationalise Australia's airlines was Labor's almost instinctive hatred and fear of shipping interests.[23] Brogden further suggested the government didn't like the idea of Australia's airways being monopolised by a company which was owned by shipping interests. The government had watched ANA swallow up a number of other airlines including Airlines of Australia and their opinion of the airline was not helped in 1943 when Holyman said he wanted to buy out most of the other airlines in Australia.[24] Another commentator noted that shipping interests had moved into air transport to protect their business from competition and they were backed by British capital. The government believed those companies were a threat to Australia's sea transport and it did not want the same people to control the airways as well.[25]

The government's intentions for the future of Australia's domestic aviation were set out in the Australian National Airlines bill which was introduced for parliamentary debate on 4 July 1945. Its purpose was to give the Commonwealth power to establish and operate a national airline service and do things which made that possible. It was hotly debated. Menzies said the nationalisation of air transport was 'dull adherence to academic Socialist theory for its own sake' and Drakeford replied with a reference to the 'age-old championing of the private profiteer'.[26] Despite strong resistance the government had the numbers and the bill became law. The Australian National Airlines Act 1945 was given Royal Assent on 16 August 1945, the day after the Japanese surrender ended World War Two.[27]

ANA and other airlines challenged the legislation in the High Court. This was expected because the Constitution did not give the Commonwealth powers to control interstate trade and because the monopoly provisions of the Act would effect private freedom of trade. In

December 1945 the High Court said there was nothing to prevent the Commonwealth from operating air services but it also said the Commonwealth could not prevent interstate trade by the existing companies.[28] This meant the Commonwealth could not absorb the existing airlines.

In January 1946 the government decided to establish a Commonwealth owned airline company. If it could not use legal methods to set up a monopoly airline it would achieve the same ends by other means. These included taking back the aeroplanes the Commonwealth had loaned the existing aviation companies to help them through the war years, keeping all mail as a government monopoly for the government airline, charging private companies to use government aviation facilities through Air Navigation Charges and by excluding privately owned aeroplanes from government owned hangars.[29]

The government's original intention to take over or drive Australian National Airways out of business was implicit in the name chosen for its airline company, Australian National Airlines. However, since the Australian National Airways could not be nationalised a new name had to be found for the government airline and the name Trans-Australia Airlines (TAA) was announced in April 1946.[30]

In February 1946 the government appointed members to the Australian National Airlines Commission. They included representatives from the three government departments most closely interested in aviation, the Postmaster General's Department, Treasury and Department of Civil Aviation. The Chairman of the Commission was Arthur Coles, a highly successful businessman who had been managing director of Australia's largest retail chain store and whose vote in 1941 had brought Labour to power.[31] His critics said he had been given this important appointment as a reward for his actions.

The post-war era began well for ANA. It held about 90 per cent of the domestic air transport market, operating services over 10 000 miles of routes from Cape York Peninsula to Hobart and Perth.[32] On the other hand, Reg Ansett found the post-war environment difficult and in March 1946 he considered selling out to the Australian National Airlines Commission for £103 476, but nothing came of the idea.[33] Ansett then decided to compete with the big airlines. In February 1947 he said:

I believe in private enterprise transport. You must have competition to produce good services. When the Government's Nationalisation plans were knocked back I thought I could be ANA's big competitor but when TAA was formed I realised that was out of the question. There could be no future for me as a third operator in such a set-up. The business offering just would not stand it. So I must go slowly. I'll get there but it will take time. It will be a long term plan ...[34]

Setting up Trans-Australia Airlines (TAA) should have been a difficult long term project but it was quickly achieved. Coles had agreed to lead TAA only if it could be run as a commercial enterprise because he believed competition kept an organisation efficient.[35] But when it was established all TAA had was the government's support. There was no ground equipment, hangars, buildings, booking organisation, pilots, mechanics or aeroplanes. The consensus was it would take at least 18 months to get the airline going but Coles achieved a much shorter gestation. An election was due in December 1946 and Coles wanted TAA to be flying by then so if the government changed it would be more difficult for it to scrap the new airline.[36]

TAA's first flight occurred on 9 September 1946 and the first service for public bookings was flown from Melbourne to Sydney on 7 October 1946.[37] Within three months the airline was providing daily services on a network from Brisbane to Hobart and Perth.[38] Early flights were only half full but TAA concentrated on providing high levels of passenger service such as toys for children and cots for babies.[39] It used the advertising slogan, 'Fly TAA - The Friendly Way' to emphasise its high level of service and this promoted a good public opinion which soon attracted some support.[40]

By the end of 1946 the struggle between TAA and ANA was well under way. It was a period of growth and over a million passengers travelled on Australia's airways for the first time in 1947 so, although TAA did not reduce ANA's passenger numbers, it grew much faster than ANA. In the year to June 1949, 1.42 million passengers flew, ANA carrying 612 083 passengers and TAA 454 759.[41]

One of the reasons TAA did so well so quickly was because it had the full support of the Commonwealth government which used almost every legal means at its disposal to promote TAA and restrain ANA. It provided TAA with millions of pounds in capital, it assigned all government business to its own airline and provided TAA with the dollars it needed to buy

new aeroplanes but denied them to ANA at a time when the government controlled expenditure of US dollars for economic reasons.

ANA's difficulties were not helped by poor business decisions. The company had a huge client base and the support of the business community which was very strongly anti-government by 1947 but TAA was well and aggressively managed while ANA did not manage its defence properly. Holyman made two important tactical mistakes; one was in fares, another was in equipment.

ANA tried to capture a large slice of the market when TAA was created by announcing a rebate scheme in which a person or organisation that paid ANA £85 in advance and kept their credit good with monthly payments received £100 worth of air travel. A further reduction of 15 per cent was given for return trips. By October 1946 nearly 75 per cent of ANA's customers had joined the scheme.[42] People who did not fly regularly with ANA did not qualify for the scheme and, in September 1946, TAA announced the slogan 'One Fare For All - The Lowest' in association with an overall fare reduction of 15 per cent. It claimed this was not a fare reduction but that it gave all passengers the same fare concession ANA was already giving its privileged customers. ANA complained but did not reduce its fares to match TAA for eight months.[43] This ate away at ANA patronage, especially those who did not fly regularly.

More fares trouble came in early 1948 when Ansett fitted its DC-3s with an extra seven seats, reduced the level of cabin service and cut fares on the route between Sydney and Brisbane by 20 per cent, A few months later it did the same on the route between Melbourne and Tasmania. TAA reduced its fares by the same amount, even though it did not reduce the level of cabin service. ANA, however, refused to match Ansett or TAA.[44]

The kinds of airliners operated by the competing companies became a major battleground because speed and comfort attracted passengers while the efficiency of newer types made operations more profitable.

By 1946 the major aeroplanes in ANA's fleet were DC-3s of pre-war design and the larger four engined DC-4s. TAA had the same aeroplanes in its fleet. However, in December 1946

TAA learned that a batch of new Convair 240 airliners had come onto the market. They were pressurised, fully air conditioned, carried 40 passengers and cruise at 300 miles an hour. TAA quickly ordered five, reasoning that greater passenger comfort and speed would attract customers.[45] The first Convair arrived in Australia in September 1948 and demonstrated its capabilities by carrying 40 passengers between Melbourne and Sydney in 1 hour and 45 minutes.[46] TAA flew the Convairs on services linking Adelaide, Melbourne, Hobart, Sydney and Brisbane and they attracted many passengers.[47]

ANA did not attempt to purchase similar or better aeroplanes, instead asking for permission to import two more DC-4s in July 1948. The request was turned down, the government giving the excuse of the dollar shortage. The government's refusal to allow the purchase of less attractive equipment suggests that ANA may not have asked for better aeroplanes because it believed it would not be allowed to buy them.[48]

TAA's public image was also improved by three accidents to ANA DC-3s in two months in 1948.[49] TAA advertised that 'Schedules are Important but Safety is *Most* Important' in response.[50] TAA became accepted as a safe airline which battled for low fares and offered the best aeroplanes and service.

TAA also continued to expand its routes and to improve its performance. From November 1947 TAA took over air services to New Guinea.[51] In April 1949 TAA also took over Qantas Empire Airways's air services in Queensland and the Northern Territory including the flying doctor service.[52]

ANA began losing money from 1948/49. The muted sound of ANA's cash register had an effect on the board of ANA which seems to have become unwilling to invest more in it to compete with TAA. The board seems to have been content to wait until 1950 when it hoped a Liberal government would be elected which would be more sympathetic to it.[53] And in December 1949 the Liberal-Country Party coalition government led by Prime Minister R G Menzies came to power. It was fiercely anti-communist and just as fiercely in favour of private enterprise. This promised a brighter future for ANA but there were a couple of factors that clouded that future

The new Minister for Civil Aviation was bitterly opposed to TAA but in 1950 he announced that the company had made a profit of £215 000 in the 1949/50 financial year.[54] Despite the government's objection to its existence TAA had also become popular with the community and so dismantling it had become politically difficult.[55] Worse still for ANA, it soon discovered that the Menzies government was not inclined to return to the monopoly situation that had been developing before TAA was created.

Arthur Coles made TAA's survival easier by retiring as its Chairman because coalition politicians still remembered how he had helped remove them from power in 1941[56] Norman Watt, who had been with the Australian National Airlines Commission from July 1946, became the new Chairman. He was the Secretary of the Treasury at the time and one of the most powerful public servants in Australia.[57]

In the 1940s both sides in the debate over post war aviation had believed a monopoly airline was inevitable and the only question was which side would own that monopoly. Now, however, Menzies said that his government did not believe in a monopoly but in competition.[58] The government's advisers in the Department of Civil Aviation had come to agree. Many had read a Harvard University report published in 1949 titled 'Airline Competition' which said the most efficient form of competition was between two operators on one mainline route.[59] By April 1950 the new government had decided the whole matter was much more complex than simply disposing of TAA so it set up a Cabinet sub-committee on aviation to examine the whole matter in detail. Its members were among some of the most powerful and influential coalition politicians; Menzies, Fadden, Casey, White, Anthony and Spender.[60] In 1950 and 1951 they discussed the future of the air transport industry with the two major airline companies and the smaller companies such as Ansett. ANA favoured a form of amalgamation, which might include all the major airlines in one giant company.[61] In October 1950 Holyman had told the government: 'The issue is clear. Either TAA as a separate entity disappears or ANA disappears. It is a fallacy to suppose that TAA and ANA can continue in separate existence as competing airlines'.[62] TAA, on the other hand, was doing well and favoured things as they were.

The delay in reaching a decision helped TAA because while deliberations continued it continued to receive full government support in patronage of all official government

passengers, freight and mails. TAA received, for example, a subsidy of £325 000 a year to carry the mail while ANA received only a fraction of that.[63]

While ANA continued to loose ground Ansett was beginning to prosper with freight and tourist flights. By 1950 Ansett was carrying only a little over five per cent total passenger and freight traffic but this was more than double its performance in 1946.[64] Reg Ansett was ambitious and had a much greater base to operate from with Ansett Transport Industries which, among other things, ran road coach services and hotel and tourist businesses.[65] His intention was to be a major player in the aviation industry and in the early years of the 1950s the government discussed with him the possibility of becoming TAA's major competitor with some form of financial backing if ANA collapsed.[66]

By the end of 1951 the government was ready to make a decision. It had talked to the industry and hired a firm of public accountants to examine the affairs of ANA and TAA to give itself a clear picture of the real situation. In financial terms it found that ANA had accumulated losses of £550 000 for the three years ending in June 1951 while TAA had showed a profit of £206 000 in 1950/51. It decided to keep the two major airlines but make concessions to ANA that would make its operations profitable again.[67]

Key areas in which this could be done were increasing air fares and in reducing Air Navigation Charges. Air fares had been increased by 15 per cent in July 1951 but they had only increased by 25 per cent since before the war while coastal ship fares had gone up by over 100 per cent and overseas shipping tourist fares had gone up by almost 90 per cent.[68] The Air Navigation Charges the Commonwealth had introduced in the 1940s were also causing ANA difficulties and it refused to pay them so that, by the beginning of 1952, the company was hundreds of thousands of Pounds in arrears. It seemed likely that ANA could not afford to pay the arrears so a compromise had to be reached which would preserve the charges and yet not push ANA over the brink.[69]

In March 1952 the government decided to write to Holyman setting out the Commonwealth's new policy about domestic civil aviation in seven points:

      There would be proper and substantial share of air mail given to ANA
      Government business would be shared
      Air Navigation charges would be substantially reduced

The government would help ANA to get new types of aeroplanes for its fleet

There would be rationalisation of the industry

A special committee would be set up to oversee the rationalisation

A contract between the Commonwealth and ANA would guarantee these provisions.[70]

The government's attitude to the future of Australian civil aviation could not have been put more clearly than by, Paul Hasluck who said that the government was opposed to monopoly and would seek to avoid it wherever it could:

> We believe that competition between ANA and TAA has produced advantages to the travelling public and has assisted in the creation of a technical efficiency of operation which it was the duty of the Government to maintain. It followed that both TAA and ANA must be retained as the major operators of air transport in Australia.[71]

In April 1952 Holyman agreed to accept the government's policy.[72] The terms of the agreement was negotiated between ANA and the government over the next few months and introduced into Parliament as the Civil Aviation Agreement Act. The agreement was for 15 years between ANA and the Commonwealth to guarantee the existence of a two airline system and maintain competition and efficient and economic operations of air services within Australia including provision of equal access to mails and government business for both airlines. The Commonwealth would guarantee ANA loans of up to £3 million to purchase up to 6 heavy aeroplanes and spares and to increase that guarantee so ANA could buy more aeroplanes to match any purchases that TAA might make.[73]

At the same time three other bills were introduced or amended to support this major policy change including amendments to the Air Navigation (Charges) Act that reduced ANA's bill from over £1 million to £410 000.[74] The Agreement brought ANA much grater mail revenue; in 1951/52 TAA's mail payment was £500 000 while ANA received about £50 000 but in 1953/54 TAA received £238 000 and ANA received £219 000.[75] The division of other government business did not work so well because public servants were free to use which ever airline suited them and most public servants seemed to prefer TAA so even by 1956 three quarters of Commonwealth passenger business still went to TAA. In addition Labor governments in Tasmania, Queensland and New South Wales gave all their business to TAA.[76]

The new arrangement should have guaranteed ANA's profitable existence but there were three problems with it. The first was that Holyman was not committed to it. The second was that the Agreement did not enforce parity between the services the two major airlines operated.

The third was that the Agreement said nothing about the minor airlines.

Ivan Holyman, while signing the Agreement on 24 October 1952, was not committed to it. The same month ANA was still internally talking about the possibility of amalgamating the major airlines and rumours of the proposal appeared in the press in January 1953.[77] For Holyman and ANA the agreement was probably simply an expedient arrangement to keep going because the guaranteed loans from the government were almost an offer of free money that did not give the shipping companies behind ANA any incentive to invest further in the company.[78]

The arrival of new types of airliners in Australia had the potential to destabilise the balance between the airlines, as had been the case with the Convair 240s. Bigger changes were on the way with rapid strides occurring in aviation technology after the war, particular with jet engines, that would be even more destabalising.

The world's first jet powered airliner to go into operation was the Vickers Viscount and both TAA and ANA expressed serious intentions to buy them.[79] The government gave approval for TAA to buy six Viscounts in April 1952 and TAA then went to Britain and signed up ahead of ANA. Holyman then dropped ANA options to buy them and it was said that when he learned TAA was in the queue ahead of him and he refused to deal with the Vickers company and instead ordered more Douglas airliners.[80] In all ANA ordered four DC-6Bs and two DC-6s with loans of £4.35 million.[81]

Despite the change of plans the DC-6 and DC-6B seemed like the right airliners for ANA because they could compete directly with the Convair 240s. They were a development of the DC-4 already flying for the company, they could carry four tons of freight and 58 passengers and had the range to fly direct to Perth Perhaps more importantly, ANA would have DC-6s before Christmas 1953, a year before TAA's Viscounts would be in service.

The first DC-6 arrived on 17 December 1953 and from 18 December to 28 December the DC-6s carried 4721 passengers as well as four to four and a half tons of cargo.[82] They began to recapture some of ANA's lost passengers and TAA's share of the market fell from 56.2 per cent to 52.8.[83] The first of ANA's DC-6Bs arrived in February 1955 for use on the

Melbourne-Sydney and Melbourne-Adelaide-Perth routes.[84] By then, however, TAA's first Viscounts had arrived. TAA began operating them in mid-December 1954 and over the Christmas period two Viscounts were in operation. They were extremely popular.[85]

By March 1955 ANA and TAA were competing with DC-6Bs and Viscounts. On the major long haul routes from the eastern state to Perth DC-6Bs had the advantage because of their greater range and passenger capacity, but on the eastern coast the Viscounts were unchallengeable and won TAA great popularity. It was partly the difference between flying in old piston engined aeroplane and a new modern jetliner. With the piston engines there was noise, and vibration which tired travellers. TAA advertised that in a Viscount a coin would stand on edge on a cabin table and stay there, and passengers found the claim was right. There was also the weather. The Viscounts could fly higher than the DC-6s and so rise above a lot of the turbulence which caused so much unhappy flying.[86] While the DC-6s carried 58 passengers and the Viscounts only carried 44 TAA made a virtue of its smaller aeroplanes by using their speed to put on more flights. Better, TAA said, to put on ten flights a day with 44 seats than to put on 7 with 54 seats and to be able to give smaller towns a daily service rather than four or five a week with the DC-6s.[87] The Viscounts flew with 86.5 per cent of their seats full and easily regained the initiative and passenger patronage from ANA.[88] In the first 12 months TAA carried 750 868 passengers, the first time an Australian airline carried more than three quarters of a million passengers in a year.[89]

At the end of 1955 TAA has five Viscounts, four DC-4s, five Convair 240s and 21 DC-3s with another four Viscounts on order. ANA had two DC-6Bs, two DC-6s, eight DC-4s and 28 DC-3s with two more DC-6Bs to come.[90] In theory the two fleets were evenly matched but the difference between the Viscounts and DC-6s gave TAA the clear edge.

Ansett and other smaller airlines such as Butler Air Transport and Guinea Airways were carrying about 20 per cent of airline passengers by 1955. The 1952 Airlines Agreement Act had anticipated that there would be increasing productivity and profitability between the two major airlines but not that minor airlines would become an important factor in the growing market that would effect the profits of the major airlines, in particular ANA.[91] The result was that although the policy had tried to give Australia a two airline system it had developed into a multi-airline system. The companies backing ANA tried to overcome this problem by using

another company, Bungana Investments, to buy out the competition and it was successful in getting a half share in Butler Air Transport.[92]

During the 1950s Ansett became minor but serious competition to ANA and TAA. In April 1954 he ordered a Convair 340, an improved version of TAA's Convair 240s, which arrived in Australia in August 1954 and began operating on the Melbourne-Sydney-Brisbane route. When Ansett's second Convair 340 arrived in March 1954 services were extended to Hobart in direct competition with TAA and ANA.[93] Ansett offered a tourist service on the Convairs and although they were more crowded and did not fly as often as the competition, the fares were £1 cheaper and the aeroplanes were pressurised and faster than other tourist services so Ansett's aeroplanes frequently flew full and carried cargo as a bonus.[94]

ANA and TAA could not let Ansett's competition go unanswered so they introduced coach services from October 1954 at fares of £7/2/6 for Melbourne-Sydney and £7/10 for Sydney-Brisbane. However they used old DC-4s that were crowded and flew at inconvenient times so they did not attract very much support. The lower fares offered by ANA and TAA got little support from the public so in August 1956 they reduced them from about 15 per cent of the full fare to 25 per cent and there was a marked increase in tourist passengers.[95] Although tourist traffic was only 10 per cent of total traffic by late 1957 it was growing and the major airlines lack of willingness to compete effectively with Ansett allowed that company to expand its share of the market.[96]

Because of the problems with commitment, poor equipment choices and unforseen competition ANA's strength continued to wain. In mid 1956 Holyman told the government that the only profits the company had made since the beginning of the decade had been in 1955 when the company had made a profit of £18 000, a very poor showing for a company worth £1.5 million. Again he said that ANA could not keep going and proposed a merger between ANA and TAA to form a joint airline company in which the Commonwealth held the majority of shares.[97] By this stage ANA's performance was having a bad effect on staff morale and it was openly said in ANA that TAA was the better airline.[98]

To make ANA's difficulties even worse Holyman died in January 1957.[99] ANA had no one to equal him but the chairman of the Adelaide Steamship Company was chosen to lead ANA. In

May 1957 he told the Minister for Civil Aviation that ANA was so badly off that it could not meets the loan repayments the Commonwealth had guaranteed. This put an onus on the government to find a solution to the airline problem.[100]

The government examined ANA's position and pondered why it was doing so poorly in comparison to TAA. Perhaps it had been poor fleet selection, perhaps ANA's main shareholders, the shipping companies, wanted to get out of aviation while the second-hand airliner market was good. Whatever the reason, the government had little sympathy for ANA. If the company folded TAA would have to fill the gap in air transport services, perhaps even using some of ANA's old aeroplanes.[101]

The government set the Director General of Civil Aviation and his staff to prepare a detailed report on the economics of the aviation industry in Australia. It recommended several new policies that are not relevant here, but on the problem of ANA all the government could do was negotiate with existing airlines to ensure the emergence of a single private operator capable of providing TAA with effective competition.[102] The government wanted to create an environment in the aviation industry which did not develop into a crisis every few years because of the important role which civil aviation had come to play in the daily life of the community. The Minister for Civil Aviation said, 'it is important that we establish as soon as possible a stable pattern for future development which gives some prospect of the industry emerging as a self-sufficient arm of our transport service'.[103]

The situation was resolved in August 1957. At the Ansett Transport Industries Annual General Meeting in late 1956 he said Ansett Airways had a revenue of £2.1 million and the largest profit so far (though he did not give a figure) and he announced that the airline was 'fully confident of future prospects'.[104] In January 1957 Ansett Airways ordered three Convair 440s to replace the Convair 340s and in July 1957 he wrote to the Minister for Civil Aviation saying that if ANA folded Ansett would immediately expand to fill the gap with a fleet of four DC-6Bs and eight Convair 440s.[105] He also told the trade magazine *Aircraft* that Ansett Airways intended to expand no matter what happened to ANA, that he intended to introduce new Lockheed Electra turboprop airliners, to expand his service to Perth and to compete with Qantas Empire Airways in New Guinea. He said that he was confident of his ability to expand on the trunk routes against TAA and ANA.[106]

The solution to the ANA problem turned out to me much simpler. There were several moves to take over ANA but the best was Ansett's offer to buy ANA as a going concern for £3.3 million. ANA's board of directors accepted the offer on 23 August 1957.[107] Ansett's commitments in the takeover were not, however, just £3.3 million. He also took over ANAs outstanding debts, another £2.969 million and it had to pay for the new Convairs that his company had ordered, estimated to cost £2 million. In all the debt was estimated to be around £8.269 million. Despite this it would be worthwhile for Ansett Transport Industries because it would increase the conglomerate's total annual turnover from £7 million to more than £20 million.[108]

The sale of ANA to Ansett was completed on 3 October 1957 and the new airline, Ansett-ANA, began its first day of operations on 21 October.[109] The new company ended up with a very mixed fleet of 34 aeroplanes of eight different kinds but it emphasised the strength and size of the new company in its advertising which proclaimed that Ansett-ANA was 'One Mighty Airline' and now 'Australia's Major Airline' which provided comfort and speed in pressurised aeroplanes from Cairns to Perth.[110]

The government fully supported Ansett's purchase of ANA, it was the solution they needed to properly implement the two-airline policy they had wanted since 1952. They passed two new acts which made the two-airline policy official. One was the Civil Aviation Agreement Act 1957 which supplemented the 1952 Agreement by making rearrangements so Ansett took over all the rights and obligations that had previously been given to ANA. At the same time other amendments were made using the experience of the earlier Agreement to make its operation more effective. It also set up a rationalisation process so the airlines would, in future, closely co-ordinate their routes, fares and freight, timetables and other related matters so that they could compete effectively.[111]

Perhaps the more important piece of legislation was the Airlines Equipment Act of 1958 which was designed to ensure that neither airline could wreck the two-airline policy by providing aeroplanes which would upset the balance between them. Basically it ensured that neither airline could provide more than 50 per cent of the total major airline capacity - although it did not forbid either of them from getting more than 50 per cent of the market, if they could.[112] This meant both airlines having similar aeroplanes and providing similar

services and gave the government the power to decide the number and type of aeroplanes each airline would have and the capacity that would be provided by each airline over the competitive and non-competitive air routes.[113] There was nothing in any of the legislation to prevent a third major airline starting up in Australia (because that would be unconstitutional) so the government said it intended to use the simple expedient of denying any new airline an import licence for large airliners to stop a third major airline developing.[114]

ATI acquited three smaller airlines, Butler Air Transport, Guinea Airways and Southern Airlines.[115] This helped to reduce the potential for competition in the new two-airline arrangement.

The government was serious about ensuring that Ansett-ANA and TAA competed on an equal basis and showed it when the airlines wanted to introduce new equipment to their fleets. TAA had been looking for the opportunity to introduce pure jet airliners to Australian domestic service, in particular a jet aeroplane capable of flying large loads to Perth in competition with Ansett-ANA's DC-6Bs, and placed a provisional order for two Caravelles with the French manufacturer.[116] On the other hand Ansett-ANA needed to introduce turbo-jet aeroplanes to overcome the ascendancy of TAA's Viscounts and planned to import Lockheed Electras, new and highly efficient turboprop aeroplanes that could operate on the route to Perth.[117]

The government rejected both requests because it believed the marginal economic condition of the airline industry would be thrown into chaos again if they were approved. The government said it would not consider further applications for major aeroplane purchases until a reasonably stable economic condition had been achieved in the industry and that:

> '... as pure jet operations are likely to add substantially to national air transportation costs and the need for accelerated airport development, Cabinet should not be expected to approve the introduction into domestic service of this type of aircraft for some years to come'.[118]

Neither airline was happy with the outcome because it left their fleets incapable of meeting all the demands on them. They were both given approval to buy improved versions of the Viscount but they wanted more.[119] In May 1958 the government announced it had given approval for 21 new airliners valued at over £20 million to be imported to Australia. The bulk of the purchase was eleven Lockheed Electras and a number of Viscounts and Fokker

Friendships.[120] Approval was given for both airlines to buy Electras, partly because of Ansett's insistence but also because Qantas Empire Airways wanted to use them on some of its shorter international routes.[121] Ansett-ANA and TAA ordered two each, and later ordered another one each.[122]

Ansett had put his order into Lockheed earlier than TAA and so he was higher on the production list for deliveries by about three months. It was the first time that a private airline had beaten TAA to introduce a new standard of airliner and Ansett-ANA made the best of the opportunity. The first Ansett-ANA Electra arrived in Melbourne on 10 March 1959 and began flying on the Melbourne-Sydney route eight days later. It was called the 'Golden Jet Service' which was emphasised with golden carpets and a golden handrail on the stairway to the aeroplane. There were three hostesses to serve the 78 passengers (60 first class and 18 tourist class) on the flight which took 1 hour and 10 minutes from take-off to touchdown. During the first few weeks of the new service it was impossible to find a free seat on the Electra and Ansett-ANA's share of the Sydney-Melbourne market went from 40 per cent to 60 percent.[123] By the time TAA's first Electras arrived Ansett-ANA had recaptured a lot of the public support it had previously lost.

The outstanding growth area of the late 1950s was tourist travel with competition sparked by publicity promoting the new turboprop airliners, attractive scheduling and mixed class accommodation which tapped a new market.[124] The effect of the new airliners was that the overall number of people flying and the distance they flew grew.[125] Expanded tourist class services tapped a new market without affecting the first class market.[126] The result was that both TAA and Ansett did well with Ansett-ANA having a revenue of £13.456 million to the middle of 1959 and TAA bringing in £12.229 million.[127]

The rapid growth of the tourist market and the fare reductions the airlines used to achieve it threatened to introduce new instabilities into the two-airline arrangement. It may have been good for the travelling public but it alarmed the government which decreed that neither airline could embark on fare-cutting of any kind without approval and that the airlines had to mutually agree on any proposed changes with any disagreements being resolved by the Director General of Civil Aviation.[128] This gave the government the ability to reinforced the intent of the two-airline policy in which each airline more or less divided the available

passenger and freight traffic equally between them. In October 1959 the Minister for Civil Aviation explained the policy and its future:

> But let me also say that it is the declared policy of the Government that there should be two major airlines in Australia and while this government remains in office, there will be two main airlines in Australia and one of them will be Trans-Australia Airlines. There are good historical reasons for this.

> Maybe I am rather optimistic when I say that conditions are moving so fast it is not impossible that in the future there may be some different legislation, but there will always be, while this Government is in office, two airlines.[129]

Profits, how they should be made and whether and how they should be shared had been the key feature of government and airline deliberations from the 1930s to the 1950s, a period of three decades. The Labor government's policy of the 1940s was shaped by the then current belief that a monopoly airline would develop and the desire to ensure that the government controlled it. The coalition government's policy of the 1950s was driven by the belief that a monopoly airline was all too possible and that it was undesirable because competition was the only way in which air transport would remain competitive and profitable. But the outcome of the changes in air-transport through the 1950s led the government to the paradox of highly regulated competition with the emphasis in Australian air transport going from competition to co-operation between the major airlines. Before 1958 the two major airlines had advertised the differences between them - the pressurisation of the Convairs, the size and speed of the DC-6s, the comfort and smooth flight of the Viscounts and the golden service of the Electras. Now the airlines were set on a course where the only thing they could compete about was their reputations and their cabin service. The coalition government's two-airline policy, which had been established to prevent the formation of an airline monopoly, created something very similar in a duopoly which guaranteed both airlines about half of the Australian domestic air transport market.

Despite this paradox the two-airline policy remained in place, even with changes in government, for three further decades. After that the government of the day deregulated the industry, but by then the two airlines had become so dominant that they were able to defeat new airlines that tried to enter the domestic market for a further decade. More recently they have been able to compete successfully with new entrants to the point of driving another from the marketplace. However the big questions of who is to profit from the Australian air traveller in the long term, and how loudly their cash registers will ring, have yet to be played

out in full, again.

Leigh Edmonds

June 2001

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