

The Chairman,
Commerce Commission,
PO Box 2357,
Wellington,

Dear Sir,

Reference: Air New Zealand / Qantas matter.

Maurice McGreal FRAeS Consultant/ Historian

Phone : Local 09 4445118 International 64 9 4445118

Fax : Local 09 4445708 International 64 9 4445708

Postal 19 Sunward Rise Glenfield North Shore 1310 New Zealand

e mail <mcgreal-aviohist@extra.co.nz>

9 January 2003.

The Chairman,

Commerce Commission,

PO Box 2357,

Wellington,

Dear Sir,

Reference: Air New Zealand / Qantas matter.

I wish to put before the Commission the following points with regard to this matter.

My Background.

1/ I have been involved in aviation since 1939.and spent six years in the RNZAF/ seconded to the RAF. [1940/45]

2/ After the war I was a pilot with Tasman Empire Airways/ TEAL until Dec 1962.I then joined CAA as a specialist officer concerned chiefly with operational basics of aerodrome design and the performance of aeroplanes. I retired in 1983 at the level of Assistant Director.

3/ Since then I have continued my aviation interest as a broadcaster, and writer on aviation history and as an aviation commentator in general.

Backgrounding re the Air NZ/ Qantas matter.

1/ Air Transport has become irreplaceable in today's worldwide commerce because of its ability to span the Globe within 24 hours. This aspect from the very earliest days was the over-riding advantage that attracted politicians and passengers and traders to support it. Very early on however, Winston Churchill became aware of the horrendous costs that lay behind this new system of transportation. In 1919 he warned Westminster of this saying, " Aviation must fly by itself; Government cannot possibly hold it up in the air."

2/ Within three years though, he was forced to make an about face and the British Government voted millions of pounds to support the formation of Imperial Airways because without this support the French airlines were wiping the British from the then paramount route; London/ Paris.

3/ New Zealand's aviation industry started with Union Airways but although it was a commercial venture by a Shipping company, this airline received regular

and significant subsidy on an annual basis until its demise with the passing of the

National Airways Act. Union's choice of aircraft too was influenced through what was known as "Imperial preference". [It may be of interest to note too that the Union Shipping Co included the operation of air services in its documentation plan dated 1913.]

4/ Aerodromes and such other documentation etc as related to operational aviation safety; eg the Air Pilot, were published and distributed free of charge by the Ministry of Works .

5/ The aerodromes of the thirties were designed and built by the Air Services Branch of the Public Works Dept led by Mr E.A.Gibson and the taxpayer paid the bill.

6/ From 1935 when the Empire Air Mail Scheme was ratified by the NZ Government there was a degree of support from this source for the air transport industry and in late 1936 Savage announced that three Tasman would be flown by "17 ton flying boats" . The drive for this was clearly from the Imperial side of the airline business that served the Empire.

7/ In 1941 before Tasman Empire Airways was formed the shareholding involved Union Airways, the NZ Government, Qantas and British Airways.

8/ In 1944 New Zealand was a founding signatory and took a prominent role in the Chicago Convention which led to the formation of ICAO and towards the end of 1944 together with the Australians met with the Air Ministry in London to discuss the Imperial air route to Australia and New Zealand.

At that meeting both Australia and New Zealand were grateful for the unity of objectives for their air route developments.

9/ There is no doubt that during the years of 1946/60 the drive from Canberra was aimed at ensuring that Qantas would be the only operator across the Pacific although this was an objective still held in Wellington ever since the Pan American exchange of "rights" back in 1936. Wellington was able to use its shared role in Fiji Airways [after the death of Harold Gatty] to maintain its status in the Eastern Pacific, but pressure from Canberra did lead to TEAL buying the Lockheed L 188C / Electra aircraft instead of the Comet jet; a move that caused serious anger within the TEAL staff at all levels. By the beginning of the decade of the sixties, New Zealand had decided to buy out the Australian share of TEAL and within a few

years the airline was renamed Air New Zealand.

10/ The internationalisation of civil aviation was created in Chicago in 1944 and New Zealand entered that arena as a significant player. Financial constraints led to our acceptance of an Australian representative on the ICAO Council to represent the New Zealand and South Pacific matters and this probably gave to Canberra a sense of being the "big boy" on the block. The reality though, has been that that NZ has sustained a highly respected and significance presence in the corridors at ICAO through the wide range of valued technical officers who have served the international body. Our role and status would be denigrated should our airline become just another local South Pacific operator.

General Comments.

These background notes highlight the reality of Churchill's warning words back in 1919 but the technology still costs big dollars and the answer now is the same as then. Government has no alternative but to "hold it up in the air" and throughout the world, the nation states have considered the value of a "flag carrier" to be worth the investment it called for.

There are two questions that have to be answered when air transport is being discussed. The first question. "Is it worthwhile?" and history tells us that

the in terms of being a nation, the answer has been in the affirmative for the past 60 years.

In the Australasian arena from the post war days up to the present, the input of the two parent Governments into the support of both Qantas and TEAL/Air NZ is undeniable. The supportive structures in New Zealand, for aerodromes and air route/ air traffic costs etc were targeted with these policy words. " The costs of providing [aviation/ sic] facilities are to be sensibly transferred to the users so as not to adversely affect the industry etc."

This was highlighted in the paper delivered by the then Director of Civil Aviation [I.F.B.Walters] in 1976 when he declared that overall, the scheme had been of considerable benefit in financial terms to the Nation. The same attitude was expressed by Douglas Patterson in regard to the profitability of his National Airways activity.

Profit moves and Cheap Fares.

The big jets that came into air transport worldwide from the 60's onwards created a scenario of "big money" that attracted the big commercial backers and the boardrooms became loaded with men who knew how to make profits. "Cut back on wastage and pare down unnecessary expenses." Cheap fares and competition became the by-words and the "cost benefit analysis" became a tool for the staff to apply to ensure that profitability was enhanced.

The objectives enunciated by the ICAO Convention of 1944 were that civil aviation should be, "Safe, Secure and Economical" and while these were not abandoned as improved profitability was targeted, they were now hedged by

the concept of cost benefit.

From the old fashioned idea that air travel should serve the public the target now aimed to load the carrier with the costs of providing the service. The beneficiary moved from the "passenger[taxpayer]" to the user; ie the licence holders who operated the service.

The recent years all across the world have seen the collapse of major airlines and some have been sustained only by being hurriedly backed by the Authority of the State.

Air Transport is a unique business.

The reality is that Air Transport is NOT just another business. It is highly risk fraught and as aircraft get bigger then the greater is the disaster and the loss of life when things go amiss. This risk is clearly worrying the Nations that have within their purview the heartland of the aviation business. eg the USA and Europe. Only this week we see the National Transportation and Safety Board [NTSB] of the USA, in deep divergence over the cost and the responsibility for maintaining what is known as " the fail / safe" concept. The ICAO Annex 13 (Air accident investigation) targets the REASONS for an accident; NOT who can be charged with the blame. Clearly though, the State has often a very significant interest whether as the planemaker; the operator or the State within whose airspace an accident took place and so inevitably becomes deeply involved.

[This note grows out of the reports on the loss of the Air Alaska MD 800 which crashed into the Pacific Ocean on 31 Jan 2000; the New York Airbus crash where the tail of the European built aircraft separated from the machine and the Egypt Air crash off New York a year or so before. In all of these investigations (and others) the interests of the State of registry of the aircraft has been significant in the accident investigation; clearly indicating the concern that, worldwide the State maintains in what happens in its air transport activities.]

The second question is this. Who is responsible for safety in the air transport business? and the answer to this question rests back in the 1944 Chicago Convention..

Where the State stands behind its flag carrier there is a greater chance that safety will be retained as a prime objective but if the State stands back and leaves it to the financiers, then the safety objective becomes blurred in a " cost benefit" decision. Since safety is the duty of the State, the State cannot back away from a commercial input into the airline that wears its flag. In spite of the great safety advances made in aircraft operational practices and technical developments crashes still take place and to misquote the current road safety advertisement, " The bigger the aircraft the bigger the mess".

Summary Comment.

Air New Zealand and Qantas need each other now, as never before and while we must always retain control of our end of the business, (as so also must Canberra) we must work together for the sound continuity of the air

transport business and ensure that it is operated for the benefit of our nation. We are located at the end of the world and unless we care for ourselves no one else will; they will simply use us for their own benefit.

Maurice McGreal. F.R.AeScty.

9 January 2003.

Mauri McGreal
mcgreal-aviohist@extra.co.nz