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GOVERNMENT SNUBS QANTAS

Qantas' pleas for government help in its battle with Virgin Australia appear to be floundering as the Australian Prime Minister warns of the precedent of any guarantees.

And adding to the bitter debate that has erupted over past two weeks in Australia former Coalition Treasurer Peter Costello suggested that Qantas is being hypocritical, because it fought against any government assistance for Ansett when that airline was on its knees in 2001.

Qantas has been lobbying the government to stop a $350 million capital raising by Virgin Australia which is being underwritten by its four major foreign shareholders — Air New Zealand, Virgin Group, Singapore Airlines and Etihad Airways.

The national airline says that Virgin's owners are funding an unsustainable price war while the latter accuses Qantas of capacity dumping to maintain market share forcing fares down.

Speaking on ABC radio Prime Minister Tony Abbott said "the trouble with providing a government loan guarantee is that where does that stop? Once you start giving it to one business, why shouldn't you give it to other businesses?"

Mr Abbott also questioned exactly what Qantas wants.

"Now, I know (Qantas chief executive) Alan Joyce is unhappy with what he sees as an unlevel playing field," Mr Abbott said.

"To the best of my knowledge, he hasn't settled on a specific proposal to put to the government and I'd suggest that we need a community debate on this."

"We need Qantas to, I guess, settle on what it wants."

And former Coalition Treasurer Peter Costello hit out at Qantas telling the Australian Financial Review that when Ansett was on the ropes in 2001 looking for guarantees, it lobbied the government not to help.

"The first people in my office opposing any bailout for Ansett were Qantas," said Mr Costello.

He added that "Qantas made the point that this (Ansett) was a private sector airline that had to stand on its own two feet and why should the government pick it up."

"They were right then but they are wrong now."

Qantas needs the Australian government guarantee to ward off a credit rating downgrade that is expected in February. Analysts are predicting a full year loss of between $200 million and $500 million.

Virgin has also hit back at Qantas allegations that its ownership structure is illegal.

Rather than illegal the airline argues that its current shareholding structure is comparable to that employed by Qantas for its various off shore airline operations in Singapore and Japan.

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Geoffrey Thomas, PO Box 8205, Perth Business Centre, Stirling St, Perth WA 6849
Phone +61 41 793 6610 • geoffreythomas@silverskypublishing.com

Emirates President and Qantas CEO Alan Joyce hold models of each others A380s in Dubai in April.

QANTAS IN A SPIN

The battle for Qantas's future is complex and in some ways no different to that that has faced many Australian industries.

Qantas has traded very successfully on its safety reputation for decades.

In the movie Rain Man, Dustin Hoffman, playing Raymond Babbitt, uttered the now famous words that "Qantas never crashed".

The movie came out in 1988, at a time Qantas was at the top of its game with well over 40 per cent of the traffic into and out of Australia.

Government policy was to protect from foreign competition a national carrier which taxpayers owned and which was selling tickets at a premium to adoring travellers at a time when well-known airlines, such as Pan Am, Alitalia, Korean Air, and Continental Airlines were having many accidents. In 1989 there were 231 accidents and incidents, which made Qantas' unblemished jet plane record shine.

The landscape is very different today. Qantas is privatised and exposed to the reality of an unforgiving share market. The Government has opened up Australia's skies to fierce competition from better-equipped lower-cost airlines.

And the Flying Kangaroo can no longer charge a premium for its safety record because most airlines now boast perfect records over the past 10 years.

Compounding the problems are bad management decisions dating back to the 1990s when Qantas rejected the world's most versatile and economical plane the Boeing 777, snubbed its nose at premium economy and steadfastly refused to put seat back videos in economy.

It is estimated that if Qantas had purchased 777s in the late 1990s it would have saved over $1 billion in fuel up to last year.

Chief executive Alan Joyce has been dealt a tough hand by previous management and is doing a good job getting the airline back on the right path. He has been able to forge an alliance with the world's biggest international airline, Emirates, but it remains to be seen if the airline led by President Tim Clark will invest in Qantas.

Emirates could buy up to 25 per cent of Qantas.

Mr Joyce is right to bring the Virgin Australia capital raising to a head if only to use it as a lever to right the uneven playing field.

Qantas has never faced such intense competition.

Its international market share is barely 17 per cent compared to Air

Former CEO of Qantas Geoff Dixon with Alan Joyce at the delivery of the airline's first A380 in Toulouse.

New Zealand which enjoys 43 per cent local support.

The outlook for Qantas is grim with predictions that the airline is flying towards a record loss of up to A$504 million.

According to leading financial analysts, the bitter war between Qantas and Virgin Australia over fares and capacity is decimating profits for the airlines.

Morgan Stanley has downgraded Qantas, widening its forecast loss from $73 million to $504 million for the financial year ending June 30 next year.

That assessment was backed by Macquarie Securities, which predicts a $440 million loss. Only J.P. Morgan saw a better picture, with a $204 million loss. Despite the predictions, analysts note that Qantas has significant cash reserves to weather the storm.

Morgan Stanley said in a client note that even if 2015 was as bad as it expected next year to be, Qantas would still have $2.5 billion in cash reserve.

Last financial year capacity — airline seats — increased by 8.2 per cent, while demand rose only 5.4 per cent. Analysts believe there is no sign of the capacity increases easing.

Qantas has been working on cost efficiencies but these and the full benefit of its tie-up with Emirates are yet to flow through to the bottom line.

However the airline is weighed down by historic inefficiencies, according to one of the region's leading analysts.

Chairman of the Centre for Aviation Peter Harbison warned that Qantas needed to address its historically high cost base if it were to compete with Virgin Australia.

Mr Harbison said Qantas was caught in a perfect storm of an aggressive attack by Virgin Australia, extra capacity and a softening economy.

He warned that Qantas was being hurt by its self- imposed policy of maintaining 65 per cent market share.

"They used this to send a signal to competitors but there is a limit ... and now it's biting them," said Mr Harbison.

Essentially the airline's cost structure is too high for the market conditions.

For years passengers have been deserting Qantas for lower cost international airlines and now they have a lower cost domestic operator offering premium services.

When Qantas applied for permission to align with Emirates it revealed to the ACCC that its average salary was A$92,000 compared to Emirates A$47,000 and Singapore Airlines A$42,000.

Looked at from another angle Emirates' labour costs were 13 per cent of revenue while Qantas' were 25.1 per cent.

Any investor in Qantas is going to want major labour concessions to bring the airline into line with its competitor Virgin Australia.

At the same time however unions — particularly the pilots — would welcome a longer term vision and security and a bringing forward of the purchase of planes such as the 787.

But over the past decade many of the airlines' unions have shown little appetite for concessions.

Tragically it may take near bankruptcy before the unions realise how out of step they are with the reality of today's airline market.

WORLD BEATER

London to Sydney non-stop at fares 20 per cent below current levels is the promise of the latest model of Boeing's 777 launched at last month's Dubai Air Show.

To see an interactive presentation and video go here:
http://www.airlineratings.com/news/160/boeing-launches-another-game-changer-the-777

Emirates, the world's largest international airline, gave a ringing endorsement to the 410-seat Boeing 777X, with an order for 150.

Etihad Airways ordered 25, Qatar Airways 50 and Lufthansa 34.

Trendsetting airlines such as Cathay Pacific, Air France, Singapore Airlines, British Airways and Air New Zealand are expected to order the 777X in due course.

The launch is the largest product launch in commercial jetliner history by dollar value. The 259 orders are worth US$95 billion at list prices.

"We are proud to partner with each of these esteemed airlines to launch the 777X — the largest and most-efficient twin-engine jetliner in the world," said Boeing Commercial Airplanes President and CEO Ray Conner. "Its ground-breaking engine technologies and all-new composite wing will deliver unsurpassed value and growth potential to our customers."

Opening new growth opportunities for airlines, the 777-9X offers seating for more than 400 passengers, depending on an airline's configuration choices. With a range of more than 8,200 nautical miles (15,185 km), the aircraft will have the lowest operating cost per seat of any commercial aircraft.

The second member of the family, the 777-8X, will be the most flexible jet in the world claims Boeing. The aircraft will seat 350 passengers and offer a range capability of more than 9,300 nautical miles (17,220 km).

Emirates President Tim Clark is the driving — and demanding — force behind the 777X, a plane he describes as "an absolute peach."

"Every [long haul] airline will want to buy this plane," Mr Clark told *Flightpaths*.

Key to the enthusiasm is the aircraft's incredible economics, being 20 per cent more efficient per seat than the current industry benchmark the 777-300ER. Those economics will enable airlines to make significant cuts to airfares making the 777X a game changer.

The 777X combines the best features of the current 777, with a longer fuselage, new engine and the composite wing design from the Boeing 787.

It also features 20 per cent larger windows and lower pressurization altitude to reduce jet lag.

"This machine will do Sydney to Rome or Perth to London [with a full payload]," Mr Clark said in an earlier interview.

"There will not be a city on the planet — aside from the mid-Pacific — we can't reach," Mr Clark said.

"This (777X) will be poetry in motion … it will have enormous versatility."

Emirates is considering bars and standing areas for the 777X series.

The 777X is expected to enter service in 2020.

And the secret to the plane's extraordinary economy is the General Electric GE9X — the largest engine ever built.

It will be 3.35m in diameter and produce 102,000lbs of thrust or 160,000hp.

MORE KIWI MAGIC

Air New Zealand has revealed Peter Jackson's theatrical interpretation of the mythical Dragon Smaug exclusively to the world, ten days ahead of the release of The Hobbit: The Desolation of Smaug, a production of New Line Cinema and Metro-Goldwyn-Mayer Pictures.

A Boeing 777-300ER aircraft with the 54 metre (177 feet) long Dragon emblazoned on both sides was unveiled in Auckland on Monday December 2.

The first film in The Hobbit Trilogy, The Hobbit: An Unexpected Journey famously featured just Smaug's eye, leaving it to fans to envisage for themselves how he might look in Peter Jackson's imagination.

Air New Zealand Chief Executive Officer Christopher Luxon says the airline has been in discussions for some time around permission to feature Smaug on the 'flying billboard' ahead of the film's official release.

"For our partners to allow Air New Zealand to reveal their star to the world is a huge privilege. We worked with Weta Digital which designed the graphic especially for us for this purpose."

This is the second 777-300ER inspired by The Hobbit Trilogy in the Air New Zealand fleet. The first was unveiled last year to coincide with the launch of The Hobbit: An Unexpected Journey and has been wowing fans around the world since.

Director of The Hobbit Trilogy, Sir Peter Jackson, says while the first aircraft, featuring various characters from the first film, was extremely impressive the enormous scale of the single Dragon running the entire length of the aircraft is even more awe inspiring.

"To see Smaug fly off the big screen and into the skies like this is pretty exciting. We're proud to debut him here in New Zealand, where our team has worked so hard to bring him to life."

Visual Effects Supervisor Eric Saindon of Weta Digital says designing a graphic which not only fits with Peter Jackson's creative vision but also meets the various specifications required to fit on an aircraft was no mean feat.

"Capturing Smaug's presence and the amazing detail in his design while accommodating the windows, doors and wing shape was quite a different experience for us," said Saindon. "It was great to see Smaug brought to life, and he appears even larger in the film!"

The aircraft will head to Los Angeles Monday evening, to arrive just in time for the premiere on December 2nd local time.

As part of its global marketing campaign around The Hobbit:The Desolation of Smaug, the airline has also released a video entitled Just another day in Middle-earth, which features staff from across its business, with a magical Hobbit movie-inspired twist. The video has been viewed online 1.5 million times in less than two weeks.