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## COMMENT

# JAL's demise a lesson for all carriers

It was a spectacular, although hardly unexpected, fall from grace. Japan Airlines (JAL), Asia's biggest carrier in revenue terms, had little choice but to file for bankruptcy. With debts of \$25.6 billion, more than many of the world's nations, even signs of market recovery could hardly give shareholders hope JAL could continue in its current form.

The carrier is lucky Japan has similar bankruptcy laws to the U.S., which allow a failed company to continue operating with protection from its creditors.

But the biggest non-financial corporate failure in post-war Japan isn't the end of the story. JAL will continue to fly. Prime Minister, Yukio Hatoyama, has pledged government help for the restructure, clearly to the annoyance of rival, All Nippon Airways, which said it is "highly concerned that the fair and competitive environment would not be secured under the financial support and injection of public funding".

Cutting 25% of its costs and slashing staff numbers by more than 15,000 will see a new JAL emerge, one much smaller, with fewer aircraft and a network focused more on domestic and regional flying than long-haul intercontinental routes.

The rebuilding will be painful, but today's problems lie in JAL's history. Once a state-owned airline, even when privatized its corporate structure was bureaucratic and unwieldy. The workplace culture of Japan resisted modernisation. Staff could not be reduced and people, even at the top, were often promoted because they were next in line, rather than because they were the best persons for the job.

A difficult merger with Japan Air Systems started in 2001 added to internal problems. When global recession bit JAL was in no shape to cope with crisis.

Now, there are more critical decisions to make. Will JAL stay in the oneworld alliance or team up with Delta Air Lines in SkyTeam? Reports at press time suggested Delta will be the chosen partner. While this will be a blow for oneworld it is not necessarily a fatal one for some of its members, who are not precluded from co-operative arrangements outside the alliance.

On the other hand, oneworld's American Airlines will be a big loser. Along with JAL it currently controls 35% of the U.S.-Japan market and that will have to end. The real winner will be Delta, already the world's biggest airline, which will tie up with JAL across the Pacific and gain extensive access to JAL routes across Asia, with all the revenue that goes with the deep tie-up.

Of course the real lesson of JAL's fall is that no matter how big you are, no one is immune from failure if management does not adapt to changing operating conditions. ■

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