

*Some may regard it as an unholy alliance, but the announcement last month that sometime bitter rivals, Australian low-cost carrier (LCC) Jetstar and Malaysian LCC, AirAsia, are to co-operate on a variety of major cost-savings may be a precursor to an even bigger challenge for the region's full-service carriers. TOM BALLANTYNE reports.*

When AirAsia group chief executive, Tony Fernandes, and his counterpart at Qantas-owned Jetstar, Bruce Buchanan, confirmed rumours of many months in January that they were to form the world's first budget airline alliance, the duo insisted it was a non-equity affair aimed at gaining major cost savings.

After more than 18 months of recession, their target is to bring annual bottom-line savings of up to US\$250 million to their operations by such measures as joint fuel purchases, maintenance, sharing of spare parts and ground handling in the Asian markets where both carriers operate. That money, they declared, would be passed on to passengers in the form of even lower airfares.

But at their Sydney press conference, also attended by Qantas chief executive, Alan Joyce, there was another, more serious undertone to the event for the region's big legacy airlines.

The message was that this was only the beginning. The next step for the partners, said Joyce, would be to look at joint ventures on routes, as well as other commercial activities such as joint procurement of hotel inventory for holiday packages.

Also on the cards, although it will require regulatory approval, will be revenue-sharing and code-sharing.

The implications are massive for the region's aviation industry. Jetstar operates into and from Australasia, Singapore and Vietnam and employs more than 7,000 staff. It carries 13.9 million passengers annually. AirAsia operates from Malaysia, Indonesia and Thailand, also with 7,000 staff. Its network of 130 routes and 70 destinations carries around 25 million passengers. And it has long-haul LCC, AirAsia X, flying from Malaysia to Australia, China, Taiwan, the Middle East and Europe.

Already jointly carrying nearly 40 million passengers annually, their combined fleets

total 120 jets, with more than 200 new aircraft on order. By any measure, working together on a code-share basis they would be able to offer unparalleled networks covering the entire region and beyond, feeding each other with traffic the length and breadth of the Asia-Pacific.

The initial alliance agreement was "an important first step", said Buchanan. Joyce added that the Asia-Pacific aviation market is a growth market and has proven resilient in the past 12 months, despite the tough operating environment, with significant growth in passenger numbers forecast in the region. "This partnership will ensure that both airlines can capitalise on these growth opportunities," he said.

# World's first puts pressure

## AirAsia, Jetstar 'thinking to remain leaders



Fernandes said the main thrust of the plan was to increase the airlines' efficiency and to find ways to lower fares. "From this [venture] I believe we will move into revenue ideas. We have a few that we've been discussing. Then the sky is open to what else we can do," said Fernandes.

Joyce said the world's first LCC alliance was "the

**[The alliance] will reinforce Qantas group's position in Asia as we continue to focus on Asia**

**Alan Joyce**  
Chief Executive  
Qantas Airways

# LCC alliance on majors

outside the box' in the region



AirAsia and Jetstar hope to share \$250 million in cost-savings

foundation to the beginning of a relationship that will lead to joint ventures and huge cost savings. This will reinforce Qantas group's position in Asia as we continue

to focus on Asia." Fernandes said the extent to which ticket prices will drop depends on fuel prices. As an example he pointed out AirAsia X currently charges about A\$800 (US\$880) return from Melbourne to Kuala Lumpur. "I would love to see a consistent fare of about \$600 return to Malaysia. I think that's achievable this year."

Full service airlines typically charge more than \$1000 for the same return trip, even at a discounted rate.

One mission the alliance already has is to use its size and purchasing power to influence aircraft manufacturers in defining the next generation of narrowbody aircraft, destined to replace their existing workhorse A320s.

What they want is a lighter, more fuel-efficient jet that is more robust and optimised for LCC operations in the Asia-Pacific. They have indicated areas they want to be developed, including a strengthened undercarriage that better copes with repeated landings and take-offs, new maintenance schedules and door placements better suited to planes trying to load 180 passengers in short turnarounds.

"We have the purchasing power to influence aircraft makers in the design of the next generation of narrowbody aircraft for the LCC industry," said Joyce.

The alliance has been viewed favourably by analysts. Australian-based IG Markets analyst, Ben Potter, said in

a client note the tie-up was a positive development for both carriers and shows both management teams are "thinking outside the box" to ensure they remain leaders in the region.

"In an extremely competitive environment where airlines have been under constant pressure from a number of different forces, this world-first alliance is very positive indeed," said Potter.

News of the agreement came on the same day Singapore Airlines-allied LCC Tiger Airways began an investor roadshow to gauge demand for a planned listing in Singapore in January. It need not have worried.

The institutional portion of the deal, which accounted for more than 90%, was four times over subscribed while the clamour by retail investors was 21.3 times over subscribed.

The company eventually fixed the price at S\$1.50, the mid-point of the S\$1.35 to S\$1.65 offering range. This raised S\$247.7 million (US\$178 million).

The money will be used as part payment for 50 new aircraft as well as for repayment of short-term loans and the establishment of new hubs.

Some analysts questioned the timing of the listing, given the airline market has not fully recovered from recession. There were also suggestions the Jetstar-AirAsia alliance deal was purposely announced to coincide with the Tiger roadshow to undermine the float.

But Fernandes said the timing was based on the difficulty of getting the airline chief executives together on the same day. He welcomed the Tiger IPO, saying another publicly listed LCC would allow AirAsia to compare its performance with another LCC. ■

