

# MY SHINING STAR

Qantas boss Alan Joyce tips LCC subsidiary Jetstar to go from strength to strength

By Tom Ballantyne in Sydney

**Q**antas Airways' boss, Alan Joyce, describes low-cost carrier (LCC) subsidiary, Jetstar, as the group's "shining star". He could be forgiven for having a soft spot for the carrier he launched as its chief executive in 2003.

But the fact is Jetstar has been propping up Qantas's financial fortunes in recent times and it is on course for another record year.

The figures speak for themselves. In the first half of the year, which ended December 31, and at a time when Jetstar increased its capacity 32.9%, the carrier posted its best interim results to date with an after-tax profit of US\$109.2 million, up 89% on the same period in the 2009 financial year. Meanwhile, Qantas recorded a 72% slide in first-half after-tax profit to \$52 million.

For the whole of 2009, Jetstar posted a profit of \$114 million while the Qantas Group saw after-tax profit plunge 87% to US\$111.4 million with its mainline operations losing \$68.1 million.

It was a crucial contribution at a time airlines worldwide were faced with combined annual losses of more than \$11 billion and another \$5.6 billion estimated losses to come this year.

Joyce, who succeeded Geoff Dixon as Qantas chief executive in 2008, said the carrier's international operations were still a long way from making money. "We have been making money domestically, but Jetstar is making money both internationally and domestically," he said.

"We are seeing Jetstar's business going from strength to strength. It's underpinning a lot of Qantas's positions domestically. The two brands work unbelievably well in the domestic market."

Between them Qantas, Jetstar and regional subsidiary, Qantas Link, have a 65% domestic market share. "We have great strength in both sectors of the market. The leisure market clearly sees Jetstar as the price leader and the business market clearly sees Qantas as the business leader," said Joyce.

"That pincer movement just gets stronger every year around our competition [Virgin Blue and LCC Tiger Airways]. We haven't left a gap in the domestic market for someone to fill a vacuum."

The theme is mirrored internationally with Jetstar International, Singapore-based Jetstar Asia and Vietnam-based Jetstar Pacific set to grow and complement Qantas's full-service network. The LCC subsidiaries allow Qantas to pass on loss-making or marginal services to its budget



Qantas Airways chief executive Alan Joyce: launched Jetstar in 2003



partners, which can operate them at a profit.

The recent announcement of a major LCC alliance deal – a world first - between Jetstar and the region's largest LCC, Malaysia-based AirAsia, promises huge returns. Initially, major savings will be made through economies of scale like joint maintenance operations, but eventually profits will multiply by linking the carriers' networks with revenue or code-sharing arrangements.

Nevertheless, there are worrying issues for Joyce. In Vietnam, two Qantas executives have been prevented from leaving the country by authorities as an investigation into fuel hedging losses suffered by Jetstar Pacific continues (see separate story).

At the same time, Qantas is facing increasing competition, particularly from Middle East operators. And while market recovery is clearly underway, mainline international operations are struggling with low yields and pre-recession levels of critical business

**The leisure market clearly sees Jetstar as the price leader and the business market clearly sees Qantas as the business leader**

**Alan Joyce**  
Chief Executive  
Qantas Airways

traffic are some way off.

Even more challenging, in the next few months Joyce faces tough negotiations to reach new collective employment agreements with unions representing around a third of his 35,000 strong workforce.

The airline's often troubled relationship with unions will be severely tested. Five separate agreements with the Australian Services Union – it represents check-in, information technology, administration and clerical staff – expire in June. Talks with the Pilot's Association on a new agreement for 1,700 long-haul pilots are expected to begin this month and another agreement covering Jetstar workers expires in September. Qantas also has to deal with the union representing 1,600 licensed engineers – it has already accused management of a "campaign of thuggery" against its

## A thorn in Tiger's foot

*Jetstar is planning to increase its fleet from 45 to 100 jets within the next three years and launch flights to Europe. It is also doing its best to upset its Singapore-based rival, part Singapore Airlines-owned Tiger Airways. In January, Jetstar chief executive, Bruce Buchanan, signed a three-year agreement with Changi Airport, committing to boost flight frequencies and destinations from Singapore.*

*Speaking in Singapore, Buchanan said Jetstar, which has a 49% stake in Singapore-based Jetstar Asia, wants to bolster its presence in the city state and use the hub as part of its pan-Asian strategy to take advantage of low-cost carrier growth in the region. It also plans to boost engineering and other capabilities in Singapore.*

*Last year, had been a standout year in revenue growth for Jetstar, said Buchanan, and he forecast it would carry almost 14 million passengers in 2010. Ticket revenue is forecast to be above \$2.5 billion across the Asia-Pacific, up from \$1.8 billion last year.*

*Qantas Group chief, Alan Joyce, told Orient Aviation Jetstar Asia's business "is ripe for a bigger network".*

*The Singapore-based fleet will be increased from nine to 12 A320s this year. "We have expanded Chinese services from Singapore, we have expanded into Phuket and Bali and we are looking at a range of other destinations. We think getting critical mass in Singapore is vital," said Joyce.*

*Focus on the Singapore hub will go ahead in conjunction with growing co-operation with new low-cost alliance partner, Kuala-Lumpur-based AirAsia. Joyce said the deal, which initially involves cost-saving co-operation in areas such*



**From left: Jetstar CEO, Bruce Buchanan, AirAsia Group CEO, Tony Fernandes, and Qantas Group CEO, Alan Joyce, at the signing of the Jetstar-AirAsia alliance deal**

*as maintenance and spare parts, "is a great opportunity for us to grow our presence in Asia".*

*With revenue and code-sharing on the agenda sometime in the future, he said the networks of AirAsia and Jetstar were complimentary. "AirAsia has a presence in Malaysia, in Thailand and Indonesia. We have a presence in Singapore, Australia and Vietnam and they are complementary. Anyone who gets Asia right has to cover all of those," said Joyce.*

*Some deals may not be too far away. "There may be opportunities we think are too big an opportunity to pass up. It could be ad hoc rather than being systematic across the system. For example, AirAsia is keen to come on the Sydney-Kuala Lumpur route. It could get Jetstar to operate it and that could be the way you would start a partnership. It would be on a case-by-case basis."*



## Cloud over Vietnam operation

The future of Qantas Airways' involvement in Vietnam's Jetstar Pacific may hinge on the outcome of an investigation by Vietnamese authorities into US\$31 million fuel hedging losses suffered by the carrier in 2008 and the fate of two Qantas executives who have been barred from leaving the country since before Christmas.

Vietnamese economic police arrested Jetstar Pacific's former chief executive, Luong Hoai Nam, in December, then banned Qantas employees Tristan Freeman, Jetstar Pacific's chief financial officer, and its chief operating officer, Daniela Marsilli, from leaving Vietnam. They were being questioned about the circumstances surrounding the hedging losses, but neither has been charged with any offence.

Jetstar Pacific is a key element in Qantas's low-cost Asia-Pacific strategy and Vietnam is its second LCC hub in the region after Singapore.

Qantas has a 27% stake in Jetstar Pacific after initially taking an 18% investment in July 2007. The remainder is owned by the government-owned State Capital Investment Corporation, the Saigon Tourist Company and Luong.

Luong was appointed to the top job in Jetstar Pacific five years ago (it was then Pacific Airlines, a subsidiary of government-owned Vietnam Airlines) by the Communist Party. He resigned suddenly in November and has been accused of "being irresponsible" and "causing serious losses".

Qantas group chief executive, Alan Joyce, told Orient Aviation: "My top priority is my people." He said Freeman and Marsilli had done "nothing wrong" and many airlines around the world had suffered hedging losses in 2008, most of them far greater than Pacific Airlines.

In response to suggestions authorities had acted because Jetstar Pacific was increasingly taking market share from Vietnam Airlines, Joyce said there were "probably a lot of different complex issues, which has made our life more difficult".

"We believe the Vietnamese market will benefit from two strong carriers. This is going to happen anyway with the Vietnamese market over time," said Joyce.

He added that Jetstar Pacific was now seeing the first profit in its history. "It's on-time performance, which was pretty bad in Vietnam at 60%, is getting into the 80% consistently, which is a big turnaround. Its market share has risen from 17% to 24% and is getting closer to 27% in the domestic Vietnamese market," he said.

"The airline has a great foundation. Vietnam is a market of 90 million people and it's a market that has huge potential for us."

However, the priority is to solve the current diplomatic impasse. "We want this resolved so we can look at where we take the business longer term," said Joyce.

members - whose three-year agreement expires in September. Negotiations promise to be torrid.

In 2008, management had a 10-week stand-off with engineers which caused substantial damage through delayed and cancelled flights.

While he tussles with this, Joyce is busy managing the group's post-recession recovery.

The fragility of the situation was reflected in the five months to November yields on its domestic and international flights were down 8.9% and 23.2%, respectively.

During November, the latest month for which statistics are available, total passengers carried across the Qantas group were up 9.7% compared with a year earlier. But the bulk of the growth was in Jetstar international operations, where passenger numbers more than doubled. By contrast, Qantas mainlines international passenger numbers were down 22.6%.

Joyce said about 340,000 seats are being added on domestic Qantas routes from this month to restore the capacity that was taken out during the economic downturn. Jetstar recently announced it would add 77

new domestic flights by July, representing about 700,000 additional seats.

In addition to this Qantas has increased domestic fares twice in recent months and raised ticket prices on its international routes by up to 5%, a clear sign it believes the market can bear higher levels of fares as recovery comes.

It's a far cry from a year ago. By grounding planes and deferring deliveries, including four A380s for a year as well as 12 B737s, and cancelling 15 B787s, the equivalent of around 40 aircraft were grounded.

At the same time a new cost reduction programme, known as Q Future, was launched. It targeted \$1.5 billion in permanent savings over three years. Some 1,750 jobs are being cut, including 900 management positions.

"For us the effects of the GFC (global financial crisis) were immediate," said Joyce. "The minute it occurred we saw business traffic taking a dive both domestically and internationally. It dropped 20% to 30% across the board. It was really a matter of utilizing what Qantas has always been good at, flexibility and adapting to the situation quickly."

The Qantas Group operates some 245 aircraft, 136 of



Jetstar: expected to fly to Europe by 2012



Qantas Airways: \$15 billion  
commitment in new aircraft

them with Qantas Airways, 45 with the various Jetstar subsidiaries and 49 with QantasLink. Another 15 are operated in other divisions, including freight.

There are 79 new aircraft on firm order, including 14 A380s (six others are in service), 35 B787-9s (many of these earmarked for Jetstar) and 29 B737-800s. It has options on 24 more jets (including four A380s) and purchase rights on another 42.

It adds up to a US\$15 billion commitment that Joyce believes Qantas is well placed to handle. During the financial crisis the carrier didn't need to delve into its cash reserves.

"We kept a very healthy cash balance of around A\$3 billion (US\$2.7 billion), which was what we were aiming for, and we maintained our investment credit rating during the period," he said.

Qantas is now one of only two airlines in the world – the other is U.S. LCC Southwest Airlines – that retains an investment credit rating with Moody's and Standard & Poors.

Joyce doesn't buy into the argument the world's legacy airlines face massive structural change to their business models following the international financial woes. "We are big believers there is a role for the premium market and it will return," he said.

"We are seeing the strength returning to the domestic market, most probably because the Australian economy has been robust during this period. We are seeing slower international market recovery, but we are not betting on a step change or a paradigm change that says this is a complete change in the business going forward."

Nevertheless, Qantas has been reviewing its seat configurations to achieve the right long-term balance. First

class seats will only be available aboard the A380, serving key routes such as London and Los Angeles.

But said Joyce: "We see ourselves as a first class airline and we see ourselves continuing to invest in product like inflight entertainment, lounges and lie-flat business class seats. But we also have to bet the other way. We have a low-cost carrier that is doing exceptionally well at the other end of the segment and we are continuing to invest in that too."

It gives the Qantas Group "a natural hedge in the business that probably some of the other players don't have", said Joyce.

One area of uncertainty in recent months has been the future of troubled Japan Airlines, a long-time commercial partner of Qantas and fellow oneworld alliance member.

U.S. giants American Airlines, a oneworld member, and Delta Air Lines, a Sky Team member, were vying for a stake in JAL. Joyce believed the package being offered by oneworld was superior.

Last month JAL opted to stay with oneworld. This provides Jetstar with the possible opportunity of helping JAL set up an LCC, which would present Jetstar with an opportunity for a hub in Tokyo to add to its existing hubs in Singapore and Vietnam.

Meanwhile, and perhaps surprisingly for some people, Qantas has no intention at present of meeting growing competition from Middle East carriers such as Emirates, Etihad and Qatar Airways by launching flights to or through the Gulf region.

Joyce said a "battle of the hubs" is taking place between Asia and the Middle East. "You base where you hub on a whole series of characteristics. Just going into the devil's lair

## Why Qantas quit AAPA

*The recent decision by Qantas Airways to leave the Association of Asia Pacific Airlines (AAPA), underscored the carrier's future strategy in Asia of focusing more heavily on low-cost airline operations, said chief executive, Alan Joyce.*

*"Looking at our priorities we felt that a low-cost carrier was more of a focus for us within the Asian region. The AAPA hasn't been able to penetrate LCCs," he said.*

*The bottom line? Qantas through its new-found relationship with AirAsia Group chief, Tony Fernandes, which led to the cementing of the recent LCC alliance between its subsidiary Jetstar and AirAsia "is probably a better way for us leveraging these type of relationships going forward and our*

*government to government relationships in those areas".*

*Joyce said Qantas had been conducting a review of its interactions with governments. "We felt our resources, and every airline has limited resources, were probably more focussed on separate areas. One is the Australian government, which we can do better ourselves in Canberra because we have our own resources," he said.*

*"Internationally, we have had an active role with IATA (International Air Transport Association) for some time. The role of IATA has become stronger over the last decade in the Asia-Pacific region."*

*Joyce denied quitting the AAPA to save on membership fees.*



[the Gulf], to serve the markets in Europe is not necessarily the best way to be competitive against them," he said.

"The lower cost airport, the one that gives you the best feed, the one that has the best network and the best marketing support and the one that has the best local traffic are bigger criteria. At the moment the Middle Eastern hubs don't compete with the Asian hubs in those categories."

It is here that Jetstar comes back into the picture. Joyce said there could be flights by the budget operator into southern Europe by next year or 2012. Flying from Rome to Singapore, for example, it could feed traffic on to Jetstar Asia services to 12 destinations around Asia. This would be a far better option than operating to southern Europe through the Middle East, said Joyce.

Like many airlines, Qantas continues to push for further consolidation in the industry, but Joyce is pragmatic about the prospects. Efforts to construct a consolidation deal with British Airways last year have been shelved. They had tried to construct a partnership similar to the Air

Some 1,750 jobs are being cut at Qantas, including 900 management positions as the airline targets \$1.5 billion in savings over three years

France-KLM agreement, where back office management merged, but the two airlines retained their brands.

"A lot of airlines now have the vision that consolidation will take place around the world. It's the way the aviation industry needs to go, but it could take a lot longer than we had expected," said Joyce.

He believes the regulatory environment remains the problem. "Lack of government intervention has to be a prerequisite before you can do it. Everybody has to be running these businesses as commercial entities."

As for the future, Joyce said Qantas was very conscious it had to have the flexibility to cope with market situations, whether things get better or worse. "One thing is certain. No one will get it perfectly right. Nobody predicted swine flu. Nobody predicted the global financial crisis," he said.

Sometimes speed to market was all-important, he added. "That's the way we have always run Qantas. It's the way Jetstar was created because speed to market in some cases is more important than getting the decision 100% right. Then you quickly adjust." ■

## NEWS

# AirAsia clinches Vietnam deal

**A**irAsia may have announced an alliance with Jetstar, but it hasn't stopped the Malaysian budget operator from making a move on the Australian carrier's until now exclusive hold on Vietnam's low-cost market.

With part-owned offshoots already in Thailand and Indonesia, AirAsia announced last month it had bought 30% of Vietjet Air for 180 billion dong (US\$9.8 million).

Vietjet Air was the first private airline to be granted a business licence by Vietnamese authorities, in December 2007, but it has never operated a commercial flight.

While few details have been released about the partnership's plans, the move allows AirAsia to set up a joint venture LCC that will be known as Vietjet AirAsia. It is understood AirAsia will second aircraft to the new operation, which will operate both domestic and international flights. Executives are finalizing details of routes, frequencies and a launch date. Services could begin as early as next month or at least by June.

The AirAsia joint venture will raise the competitive temperature in Vietnam skies. Jetstar Pacific Airlines, 27%-owned by Qantas Airways, is the only private airline



operating domestic flights and competes with state-owned Vietnam Airlines.

Jetstar Pacific does not operate to regional international destinations although it is expected to expand beyond Vietnam.

Vietjet Air has share capital of 600 billion dong (US\$32.6 million). Its founding shareholders are Sovico Holdings, HCMC Housing Joint Stock Commercial Bank and investors from Vietnam's civil aviation industry. Following the completion of the share transfer, the shareholding structure in the joint venture airline will be AirAsia (30%), Sovico Holdings (51%) and Nguyen Thanh Hung (19%).

The only other private airline in Vietnam is Indochina Airlines, which began flying in November 2008. However, local media reported its single aircraft was grounded last November because the airline owed an estimated \$1.6 million for jet fuel and other services. ■