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## Airlines hopeful of take off, but fares set to rise

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For the past 18 months the region's airlines have been riding out turbulence arising from a collapse in passenger traffic. But now at least one of the big three Singapore Airlines, Cathay Pacific and Qantas says the worst might be over. While Qantas has reported a \$US52 million profit for the six months to December, and competition is fierce, cheap fares won't last.

*Presenter: Scott Alle, Finance correspondent*

*Speakers: Alan Joyce, chief executive officer, Qantas, Shashank Nigam, aviation editor, Roger Montgomery, independent analyst*

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ALLE: Behind the dubious glamour the airline industry is one of the toughest around. Fuel costs, high capital requirements and low margins mean turning a profit is difficult, so Qantas chief executive Alan Joyce could be forgiven for some self-congratulation.

JOYCE: Well we're certainly seeing things improving. And it's great Qantas is making money when the rest of the airline industry's still producing big losses.

ALLE: In 2009 the global airline industry plummeted to \$11 billion in the red. This year the losses are expected to shrink to just over \$5.5 billion. But aviation website editor Shashank Nigam says Qantas's business model still can't avoid the industry wide problem of one part of the operation - funding other routes that lose money.

NIGAM: Their international operations are hurting a little and domestic and regional are subsidising loss-making international routes. So I think it's a blessing in disguise that Qantas has Jetstar because a lot of their competitors do not have that advantage.

ALLE: First class, that rarefied space formerly frequented by CEO's, celebrities and some politicians has become a casualty of the new global austerity, disappearing from most Qantas routes.

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**NIGAM:** It's kind of nice and it's expensive as well and at the same time I think there's overcapacity when it comes to first class and I'm not sure if everyone is making money there and filling up the cabin. So I think it's a good idea Qantas moves to premium economy because not a lot of airlines have that space yet.

**ALLE:** More and more of us are choosing to forgo the personalised grooming kits and fly Jetstar, Tiger, or any one of around 45 low fare carriers operating across Asia from Japan to Pakistan. Increasingly free of brand loyalty, customers make decisions purely based on price alone, and that puts legacy carriers without budget brands at a big disadvantage. Roger Montgomery is an independent share analyst and former fund manager.

**MONTGOMERY:** They go online they find 'what's the cheapest price I can get to Melbourne, what's the cheapest price I can get to Bangkok, Singapore' or wherever it is you're going and so you're flying in a competitive environment and you're selling a product where nobody cares about the brand so nobody can charge a high price for that.

**ALLE:** But according to Qantas chief executive Alan Joyce bargain seats on international routes can't last.

**JOYCE:** Discounting has occurred, it cannot be sustained going forward and air fares will have to rise because people cannot continue to lose the money they are internationally.

**ALLE:** It's a view shared by Shashank Nigam who runs airline brand consulting firm SimplyFlying.

**NIGAM:** And to break even, or even make a profit on economy class seats, the fares need to be much higher than what they are at the current level.

**ALLE:** Indeed analyst Roger Montgomery says the only reason airlines can claim to be profitable at all is by virtue of some selective accounting practices.

**MONTGOMERY:** What that means is they're costing their planes based on what they paid for those planes two decades ago in some cases yet a new plane costs significantly more. If they replaced the charge on their accounts called depreciation with some sort of a provision for the replacement cost of the planes you would find there would be no profit reported.

**ALLE:** But propped-up by capital raisings, borrowings and in some cases government assistance the region's airlines continue to strive to deliver more services, with lower fares. They're anticipating China and the Southeast Asian ASEAN grouping of nations which have a combined population of nearly two billion people will provide new revenue streams to keep them in the air.

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