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Qantas cuts staff, flights to counter fuel price hit

By online business reporter Michael Janda

Updated Wed Mar 30, 2011 1:34pm AEDT

Qantas will reduce international and domestic capacity, retire aircraft, reduce management positions and maintain fuel surcharges in an effort to offset soaring fuel prices.

Qantas says natural disasters have so far wiped $140 million off its second half profits (Reuters: Tim Wimborne, file photo)

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The airline's chief executive Alan Joyce says the soaring fuel price has coincided with a string of natural disasters in some of the company's key markets to dent profits.

He says it is the most serious challenge Qantas has faced since the global financial crisis was at its peak.

"The price of Singapore jet fuel has risen from around $US88 per barrel in September 2010 to more than $US131 per barrel today. Qantas fuel costs for the second half of financial year '11 will be $2 billion," Mr Joyce noted in a statement to the market.

The West Australian newspaper's aviation editor Geoffrey Thomas says airlines have been battered by soaring jet fuel prices.

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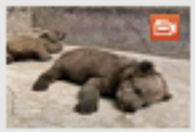
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"While the price of oil has gone up, the actual price of jet fuel is much much higher and it actually goes up at a faster rate," he explained.

Qantas has already increased domestic airfares and international fuel surcharges twice this year, but says the extra charges are not enough to recoup the rising fuel costs in full.

Mr Joyce says natural disasters have proved to be an unexpected extra burden.

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"There has never been a time when the world faced so many natural disasters, all of which have come at a significant financial cost to Qantas Group," he said.

"We need to act decisively to respond to rising fuel costs and natural disasters, just like we did during the global financial crisis, to ensure the ongoing sustainability of our business."

Qantas says its second-half result will be dramatically impacted by a number of events, including: $25 million for the grounding of its A380 fleet after an engine blow-out (on top of $55 million in the first half); $60 million from the Queensland floods; $20 million due to cyclones Yasi and Carlos; $15 million from the Christchurch earthquake; and $45 million from Japan's earthquake and tsunami disaster.

Flight and staff cuts

In response, Qantas is reducing its planned capacity growth on domestic flights from 14 to 8 per cent, and on international routes from 10 to 7 per cent.

Qantas will also suspend up to four Jetstar services from Australia to Japan, as well as Qantas flights between Perth and Tokyo, and put a smaller capacity aircraft on the Sydney-Tokyo route.

The airline is also cutting three daily New Zealand domestic flights to Christchurch and one Melbourne to Christchurch flight.

Geoffrey Thomas says the flight cuts should aid the airline's long-term viability.

"I think it's prudent, and when you look at the traffic figures for February, Qantas International - which is a major problem for the airline because that's where most of their costs are - the traffic only increased by 1 per cent over the previous year, so that's a dramatic slowing of traffic growth," he explained.

Qantas is planning to retire two Boeing 767 aircraft early, and is also looking to make more management positions redundant.

"We want to limit redundancies wherever possible and will be using a range of initiatives to manage the reduction in capacity including annual and long service leave," Mr Joyce added.

"At this stage only management positions will be made redundant."

The chairman of the Centre for Asia-Pacific Aviation Peter Harbison says cutting management will not save much, but there is more room for organisation to become leaner.

"Taking out some of the older aircraft does reduce your unit flying cost because they're more heavy on fuel for example and maintenance, so those do help to reduce costs."

Qantas shares closed 4 cents higher at $2.19 after the company's statement, but Roger Montgomery of Montgomery Investment Management says the company's share price is lower than a decade ago for good reason.

"Since 2001, the company has raised an additional $2.5 billion and borrowed an extra $2.4 billion and yet the profits today are barely improved on those of a decade ago," he observed.

"The company remains alive thanks to the beneficence of its shareholders and lenders. If the hat ever comes back empty, Qantas will have to return to government ownership or foreign ownership."

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First posted Wed Mar 30, 2011 10:31am AEDT