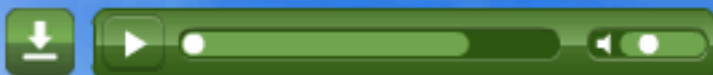


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### Flights reduced, jobs cut at Qantas

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ELEANOR HALL: Now to the problems at Australia's national airline.

The head of Qantas says high fuel costs and a series of natural disasters means the company is facing its most serious challenge since the global financial crisis.

In the last year it has also grappled with a series of mid-air incidents, some of them potentially catastrophic.

Today the airline's chief executive Alan Joyce announced the company will retire aircraft, reduce flights to Japan and New Zealand, and cut staff as Bronwyn Herbert reports.

BRONWYN HERBERT: A temporary trading halt signalled a major announcement from Qantas this morning.

The airline's chief executive Alan Joyce delivered the news that a number of significant events would hit this year's financial figures.

He said the significant and sustained fuel price increases is the most serious challenge Qantas has faced since the global financial crisis, and he added the combined cost of the series of natural disasters in Australia, New Zealand and Japan will cost the airline about \$140 million.

Peter Harbison is the chairman at the Centre for Asia Pacific Aviation.

PETER HARBISON: I don't think it's a surprise in any way. It is significant nonetheless because it does clearly show two things.

One that most of the airlines, in fact many of the airlines in the world, are suffering from the effects of one or other disaster going on.

Qantas - in its case Japan, New Zealand, Australia - all of those sorts of things which are unfortunately regular occurrences for the aviation industry but - which will hurt.

Add to that the combination of higher fuel costs which are really starting to bite seriously, and once you get through about \$100 a barrel oil, which translates to probably \$120 or even \$130 for jet fuel, airlines do start to re-evaluate very seriously the previous capacity and route plans.

BRONWYN HERBERT: In response to the higher costs Qantas has announced new cost-cutting measures.

These include reducing flights to Japan and New Zealand, retiring old aircraft, reducing staff numbers in management and requesting more workers to take annual and long service leave.

Peter Harbison says to some degree Qantas is constrained by threats of worker strikes.

PETER HARBISON: So they're talking here particularly about really just reducing management costs. That's not a major saving but there is still some fat in the management in Qantas I believe.

Taking out some of the older aircraft does reduce your flying cost - your unit flying cost - because they're more heavy on fuel for example and on maintenance.

So those do help to reduce costs, but the...

On the other side of the ledger the feature which is somewhat clouded at the moment but looks a little bit nervous is just the demand issue - whether you can in fact increase fares as Qantas is trying to to improve its - the gap as it were between its costs and its revenues.

If people are not going to be prepared to pay those higher prices then all you're doing by putting prices up is deterring people

from travelling, and that's something that really is a sensitive issue at the moment.

Just how much are we in recovery? How much is business looking better?

BRONWYN HERBERT: Roger Montgomery is the managing director of Montgomery Investment Management.

He questions Qantas' financial health.

ROGER MONTGOMERY: Well the company has increased the amount of equity that it's had employed.

So in other words it's gone to its shareholders and asked them for additional money and about \$2.5 billion over the last 10 years.

They've also gone to the banks and they've asked for another three - almost \$3 billion or \$2.5 billion again in debt.

Now this is in addition to the money that they already had and the debt that they already had.

So they've massively increased - they've almost doubled the debt that they had. They've almost doubled the amount of money that's been contributed to the company by shareholders.

Despite that there's a very small increase in profit over the last 10 years and the recent announcement, or today's announcement, makes things even worse.

BRONWYN HERBERT: Does that raise the question that they would then seek out more funds from potential investors?

ROGER MONTGOMERY: If they keep going the way they've been going - with the amount of planes that they've got, the amount of staff that they've got, the routes that they've got and the prices that they've got - then yes they'll have to keep increasing the amount of money that's contributed to the business.

So it's very altruistic shareholders and lenders to keep this business afloat.

BRONWYN HERBERT: Qantas' boss Alan Joyce says it's still too early to estimate the total impact of all of these significant events on financial year results.

ELEANOR HALL: Bronwyn Herbert reporting.

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