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Tiger's demise could see airfares soar

By David Taylor, Alison Caldwell and staff

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Analysts say if Tiger Airways calls it quits, travellers can expect airfares to increase as industry competition eases.

The budget airline's domestic services were grounded on Friday by the Civil Aviation Safety Authority (CASA) amid "systemic" safety concerns.

Tiger executives are expressing optimism, but aviation analysts are not so confident the airline will survive.

They says there is only room for two carriers in Australia's airline market, as the budget airline's share price drops to a record low.

Tiger Airways began operations in the Australian domestic airline market in 2007 as an aggressive entrant looking to undercut the then Virgin Blue and Jetstar with even cheaper prices.

But according to one expert, it is the airline's culture rather than its pricing strategy that has led to recent problems.

"That culture has not been acceptable to the Australian regulator, who learnt a lot of lessons out of the start of Virgin," Strategic Aviation Solutions chairman Neil Hansford said.

"They certainly had to step up to the mark in their regulatory supervision of Virgin and they expected Tiger to meet the same standards as what Virgin did in its start-up."

Tiger now faces the difficult task of meeting those standards, which will only put a further squeeze on the company's bottom line.

The AMP Capital Investors head of investment strategy, Dr Shane Oliver, says there is a high chance Tiger will call it quits.

"I suspect you'd have to say that Tiger might just take the view [that] it's easier to leave," he said.

"I'd have to say there's a reasonably high probability they might end up exiting the market."

Dr Oliver says as a result, Australian airline travellers are now facing at least five years' worth of higher airfares as competition is reduced.



Tiger executives are expressing optimism, but aviation analysts are not so confident (AFP: William West)

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"I think it's pretty clear that the introduction of Tiger to the Australian market in the last couple of years or so did lead to a lot of downwards pressure on prices," he said.

"So if Tiger were to exit the market we'd see quite substantial upward pressure on airfares over the next few months."

Mr Hansford agrees, saying he expects fares to go back to 2007-2008 levels.

According to Dr Oliver, it is part of a cycle that traps new entrants in the Australian airline market. But he says new entrants do not stand a chance.

"It wouldn't surprise me at all if we go through another five years where prices go back up," he said.

"In other words, we do go into a period of higher prices, and then another international better looks at the Australian market and says 'well, there's quite nice margins there', comes back in, prices go down again and then we repeat the same cycle over again.

"But I think the reality is that the Australian airline market is probably only big enough to support two - two significant operators."

Funds manager Roger Montgomery puts it down to the economics of the airline business.

"I actually think there should only be two global carriers otherwise nobody makes any money. Airlines don't make any money," he said.

Mr Montgomery says it is simply too expensive for airlines to replace their planes.

"Forget about the accounting profits that are reported. That's not the real profit at the business," he said.

"The cost of replacing aircraft is so high that you have to charge significantly more to fly people anywhere in order to justify the replacement of an aircraft, otherwise you have to go to the market."

There may be a short-term gain for investors though, as Virgin and Qantas stretch their wings.

"I have no doubt that if Tiger were to leave the market that'd be great news for shareholders in the incumbent airlines, ie. Virgin and Qantas," Dr Oliver said.

About 3:30pm AEST, shares in Qantas were up 6 per cent, or 11 cents to \$1.96, while Virgin was up 14 per cent, or 4 cents to \$0.325.

Tiger Airways was down 11.3 per cent, or 13.5 cents, to a record low of SGD\$1.055.

Having its Australian fleet grounded is costing Tiger Airways at least \$1 million a day in lost revenue.

Tiger Airways is still selling tickets to passengers wanting to fly from this coming Saturday.

CASA is meeting with Tiger representatives and its partner Singapore Airlines in Melbourne this afternoon to discuss safety concerns.

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