Asia’s airlines struggle to keep flying

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EXCEPT for Singapore Airlines, Qantas and Cathay Pacific, Asia-Pacific’s carriers are not in good financial shape and will continue to face tough conditions next year.

Many airlines, like Garuda Indonesia, are faced with huge debts and aircraft lease payments, and unless they shape up, they face the constant spectre of collapse, said Mr Shukor Yusof, Standard & Poor’s aviation specialist.

Fuel, which accounts for about one-quarter of airline costs, will remain a crucial determining factor in carriers’ performance.

According to Standard & Poor’s, crude oil prices are likely to average US$57 ($69) a barrel next year. While lower than this year, they are still high.

Typically, the price of jet fuel, or refined oil, is higher.

Assistant Professor Terence Fan, from the Singapore Management University’s Lee Kong Chian School of Business, said that while some carriers are “gently optimistic about the future of fuel prices”, there is lingering uncertainty.

His view is that airlines in Asia can do more to manage costs and maximise revenue to help weather the storm.

For example, they could be quicker when it comes to adjusting routes and capacity so that they can benefit more from profitable routes and minimise losses from less popular services.

Mr Shukor added that cutting costs will continue to be key, because while the cost differential between full-service airlines and budget carriers is narrowing, it remains substantial.

Budget airlines are also expanding fast, he said.

The merged entity of Valuair and Jetstar Asia, and Tiger Airways will both be servicing 13 destinations by the end of next month.

SIA-backed Tiger is also said to be in talks with Malaysian authorities to start a new budget airline that will be controlled by Singaporean and Malaysian shareholders, said Mr Shukor.

He said: “The prognosis is not good for cash-strapped and inefficient hub-and-spoke carriers such as Malaysia Airlines, Garuda, Japan Airlines, Thai Airways and Philippine Airlines...which continue to struggle.”

To succeed, these airlines must restructure more aggressively and trim costs and staff.

However, Mr Richard Pinkham, a consultant with the Centre for Asia-Pacific Aviation, has a less bleak outlook.

“Budget airlines will put some pressure on the major carriers but I do not think that the impact will be overly significant,” he said.

He noted that budget carriers do not compete head-on with full-service carriers on all routes.

On routes where they do, budget airlines “fly with typically smaller aircraft and often not on a daily basis, so the addition of one three-times-weekly flight with 150 seats each time, is not going to throw the market entirely out of whack”, he said.

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