FLYING IN CROSSWINDS
Address by Alan Joyce, Qantas Chief Executive Officer
The Committee for Economic Development of Australia
Langham Hotel, Southbank, Melbourne
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Let me begin with a stark reality.

The current global downturn is a crisis for the aviation industry. It is certainly the worst environment that I've seen in my 21 years in the airline business.

Leading airlines like Singapore, Cathay, Lufthansa and Air France/KLM have all recorded quarterly losses over the course of their trading year. British Airways has announced its first annual loss since 2002. Over the past 15 months, 40 airlines have gone under altogether.

In mid-April, Qantas revised downward our 2008/09 profit forecast - and announced a set of decisive measures to deal with the crisis. We expect operating conditions to remain immensely difficult for the foreseeable future.

So, we are making the hard decisions. We have made capacity cuts, we've grounded some aircraft and put them on sale.

We have deferred aircraft orders and frozen capital expenditure.

We are also reducing labour costs, using tools like part-time work, job-sharing and leave-taking to minimise job losses wherever we can.

Qantas does not have the advantages that some of our competitors enjoy. We are not government owned. Our activities do not form part of a national strategic agenda. Australia is not an aviation hub.

But we do have two of the world's best airlines in their categories in Qantas and Jetstar.

This gives us the capacity to mix and match our offerings to meet and stimulate customer demand.

We have maintained a strong balance sheet and an investment grade credit rating.

We have successfully gone to the market to raise more funds.

We have financing facilities in place to cover our aircraft purchase obligations to October 2010. And we have strong liquidity with more than $3 billion in cash.

So we are well prepared if the economic "glimmers of hope" turn out to be false dawns, and the downturn extends for some time.

And we are positioning ourselves to grow and prosper when things do improve.

During the last growth cycle, demand for premium travel drove high returns for Qantas International in particular.

Premium travel has now slumped, but Qantas Domestic and QantasLink are still performing solidly for us.

And Jetstar is able to respond rapidly as demand switches to low cost travel and travellers take advantage of new routes.

Frequent Flyer is Australia's leading loyalty program with 5.5 million members and more than 400 partners.

Next month our Woolworths partnership goes live, which will increase our market penetration significantly.

And our Freight and Jetset Travelworld businesses are focused on being fit for the future.

Ours is a portfolio business: we really are the Qantas Group. It means we can use our scale, skills and flexibility to manage the present volatility.

Business stress certainly drives short-term change.

But we are not distracted from our long-term vision of having the best premium and low-cost airlines able to deliver on behalf of our shareholders.

We will achieve this by ensuring that the Qantas and Jetstar brands stay strong, and by matching the right aircraft with the right configurations to the right routes.

Safety is our number one priority and underpins all that we do.

In terms of our customers, our goal is nothing short of excellence.

Qantas has invested $1.7 billion in new product over the past five years, including lounges and aircraft interiors. All our executives, and now about 20,000 staff, are being trained through our new Centre of Service Excellence.

So far this year, an average of 88 per cent of Qantas domestic flights are taking off on time. The figure would be higher but for some recent difficult weather around the country.

Qantas international on-time performance has been steadily improving since last year's industrial disruptions and we are now on track to post our best monthly on-time performance in six years.

What is really good news is that the level of customer satisfaction with Qantas in 2009 has improved significantly and is now at its highest level in five years.

But we equally know that our long-term competitiveness depends upon achieving maximum operating efficiency.

We have now taken out 90 senior management positions and we are in the process of removing 500 more management-level positions to make us a flatter, faster and more accountable organisation.

We can do this without compromising quality because we are finding ways to simplify and streamline, through process improvements across the organisation.

We are modifying our segmentation program, by which we set up businesses as individual segments to service third parties.

In cases like Qantas Frequent Flyer and Freight, segmentation is working well for us.

But we're now moving engineering back under the Qantas Airlines banner, with the primary intention to service Qantas.

That means we can remove overheads in terms of accountancy, management and marketing.

We believe this approach will retain the strength of the portfolio model, while lowering costs within a more traditional airline structure for Qantas mainline.

We are also energetically pursuing back-of-house efficiencies so that we can continue to invest in outstanding product and service for our customers.

To take one example, the Qantas Group spends around 3.5 per cent of our revenue on information technology.

Jetstar spends less than one per cent of its revenue on information technology – and it has superior systems because they were designed for a start-up carrier.

So in our IT arrangements we're looking at creating a more responsive culture, with a shift to high value, critical in-house capabilities, supplemented by outsourced services to deliver simplicity and higher productivity.

Qantas Shared Services is another instance where we have been driving down the cost-base while improving services to staff, culminating recently in a prestigious Award for Best Australasian Shared Services Operation[1], with our Shared Services Executive Manager, Suzanne Young, named industry thought-leader.

[1] Shared Services and Outsourcing Network 2009 Asia Pacific Conference

And we have now put in place a program to extend our internal financial disciplines and process improvements right along our supply chain.

We have recently gone to major suppliers across all parts of our business.

IT and telecommunications vendors, certainly, but also airports, providers of uniforms, crew accommodation and engineering spare parts among others.

With all our vendors, we are looking at ways we can, together, drive down costs and share the savings.

We are working on a series of mini-projects, challenging ourselves and our suppliers to find process efficiencies that really enhance the quality of the business.

And there's certainly one area of our business where we can claim a reputation as a market-leading global buyer.

In a month Qantas celebrates the 50th anniversary of the arrival of its first jet aircraft, the Boeing 707.

We were the first non-American customer for that plane and of course it ushered in a great new era of travel.

Half a century later Qantas remains an influential aircraft buyer whose purchasing decisions can lead the broader market.

Our approach is to combine an appetite for innovation with rigorous technical reviews and careful commercial arrangements to give us maximum flexibility.

During this downturn, as a major aircraft buyer, we have been able to enter into constructive discussions with manufacturers about purchase deferrals.

But our fleet renewal program continues, and our fleet will progressively become younger, greener, more efficient and easier-to-maintain, and offer latest generation in-flight product for our customers.

So we are using our purchasing strategies to manage the short-term downturn, while paving the way for long-term success.

Another key area for us is airports because Qantas pays out more than $700 million each year in airport charges, property costs, licenses and staff car parking.

The larger Australian airports generate massive returns from their non-aviation revenues like car parking, duty-free sales and retail outlets.

But of course these revenues depend upon airlines enticing the customers in.

Now, like other airlines, Qantas is discounting heavily to stimulate travel, especially on our international routes.

But these low prices that keep customers buzzing through airport terminals are not sustainable over the long term.

We need airports to become partners with us in reducing overall costs, and we have limited leverage given that most have a monopoly advantage.

Of course, we appreciate that many airports, particularly privatised airports, have big capital burdens that require servicing.

We understand this because big capital investments over long lead times are a constant and challenging reality for airlines.

We are certainly having constructive discussions with various airport partners.

The Gold Coast is an example, where the owners have worked hard with us to develop a strong and cost-effective base for Jetstar's international operations.

They've been responsive and sensible about keeping operating costs low because they can see the long term benefits.

Recently Melbourne Airport's proprietors have also been helpful, proactively working with us to reduce the cost of our operations.

But so far no major airport has agreed to lower its charges in an effort to cooperatively stimulate passenger demand.

Worse, we are still getting proposals to increase leasing and staff car parking charges significantly.

Qantas, and for that matter, other airlines around the world, operate at relatively low operating margins.

Contrast that with the operating margins of the largest Australian airports:
- 67 per cent for Sydney Airport;
- 71 per cent for Melbourne; and
- 65 per cent for Brisbane Airport[2].

You won't be surprised to hear that these three are ranked in the top five airports in the world as measured by operating margins[3].

[2] Financial Statements published in ACCC Airport Monitoring Report 2007/2008: measured by EBIT
[3] Airline Business Magazine, December 2008

In fact, if we include Auckland, four out of the top five highest margin airports in the world form significant parts of the Qantas Group network.

Meanwhile, international airports like Frankfurt-Hahn, Malaysia, Singapore and Hong Kong are all voluntarily reducing their charges in an effort to support their airline customers and stimulate demand.

Sydney is a particular issue for us. It is our home base, the gateway to Australia and the busiest airport.

Then there's Brisbane, which has imposed a 30 per cent increase in domestic charges on Jetstar.

We are in discussions now with Sydney and Brisbane among others, and we hope that a spirit of mutual benefit will prevail to ensure we can all keep planning positively for the future.

The fact is, as Benjamin Franklin once noted, we must all hang together, or assuredly we shall hang separately.

This downturn is tough, but one thing we know is that Australians still love to travel.

They have responded eagerly to our discounting and I know they will be ready to pack their bags again when good times return.

And I have no doubt that Victoria and Melbourne will continue to be successful tourism destinations, having led the way in developing wonderful attractions here through entertainment, sport, education and culture.

On the weekend I had the joy of supporting Michael Long's *Long Walk to Dreamtime at the 'G* and staying for the Indigenous Round match between Richmond and Essendon.

It was a fantastic occasion and watching the magic of Australia's Indigenous footballers is inspirational.

At Qantas we are shaping a distinctively Australian Group that is globally competitive.

Our people have been doing a fantastic job, often in very challenging circumstances.

With their continuing support, we will have unrivalled capacity to meet and match customer demand across the full spectrum – from the world's first designer passenger aircraft with the A380, through to comfortable regional flying on our growing Q400 QantasLink fleet, to fantastic value and convenience with Jetstar.

And it will all be managed by a more agile organisation - with a leaner cost base and a focus on high impact results for the benefit of our customers.

If we get it right, we'll have managed through the short-term crisis well.

More importantly, we'll be positioned for long-term success.