Bulletin LATEST excerpt June 2023

Airlines- Making so much money, a balancing act, but at who's expense ?

"If you think that the Airlines will claw back and reduce airfares any time soon based on the current playing field of there being far more demand than there is supply , then think again" says Max Najar from Axis Travel Centre in South Australia.

It's not just planes that are taking off, with a succession of airlines declaring their best profit results ever as the world recovers from the pandemic pause.

A SUCCESSION of record profit announcements by airlines in recent months shows that the leaders of these carriers are certainly not "wasting a crisis".

Singapore Airlines this week announced the biggest profit in its 76-year history, a hefty S$2.2 billion (US$1.6 billion) result for the 12 months to 31 March, with total bookings worth about US$13.2 billion. Emirates also delivered its largest ever result, with US$3 billion in profit on revenue worth $32.6 billion. Lufthansa Group nearly doubled its yearly revenue to €32.8 billion (US$35.6 billion) and generated a €1.5 billion profit (US$1.63 billion). And closer to home, the Qantas first half result was also a record at A$1.43 billion (US$950 million).

- In somewhat of an understatement based on these figures, IATA's most recent forecast in December predicted that collectively the world's airlines are expected to post a "small net profit" of US$4.7 billion during 2023. Clearly that figure needs a rapid reassessment, with just the results reported by SQ, EK, LH and QF already totalling more than US$7 billion.
- Nobody can blame the airlines for putting their pedal to the metal after a few years of suffering, like the rest of the travel and tourism economy, through the travails of the COVID-19 pandemic. Like any business involved in the sector, carriers had to make hard decisions, including biting the bullet of mass restructurings, parking their fleets in the desert and taking on hundreds of millions of dollars in debt to survive.
- However the speed of the recovery, at least in terms of aviation demand, has put them in the box seat to maximise returns, and there's absolutely no doubt that's what they are doing. While much of the rhetoric around the reasons **for high fares (and thus high profits)** is around claiming to be simply adapting to market conditions, along with logistical and workforce issues which are slowing the return of normal capacity levels, the bottom line is that these are commercial enterprises whose best interests are served by maximising their yields – and that means there's little incentive to do anything that will bring those historically high ticket prices down.
- Indeed, Lufthansa CEO Carsten Spohr pretty much let the cat out of the bag during an analyst briefing after the carrier's first half results release. Questioned about whether LH Group carriers planned to add more capacity to deal with surging passenger demand, **Spohr almost gleefully admitted that was unlikely because "high yields are just too much fun," according to a *Bloomberg* report. And sadly, even if airlines did decide to return more planes to the air, there are also constraints right across the aviation ecosystem, with airports struggling to adapt, not to mention the entire supply chain.**
- **"So there's not much room as well to do stupidity on the pricing… you can see the smile on my face, I'm a happy camper here," Spohr said.** He noted various announcements of capacity increases by some competitors on North Atlantic routes – which have not actually eventuated

due to labour shortages and insufficient spare parts. “You name it, they are now cancelling one after the other…so I think we’re not going to see that huge capacity growth,” he suggested.

- **Qantas CEO Alan Joyce** faced some heavy questioning about fares after announcing the carrier’s recent record first half profit in February. While QF domestic capacity is back to pre-pandemic levels, international flights are only expected to approach 80% of 2019 seat numbers in the next couple of months **so overall availability is likely to remain lower than current soaring levels of demand**. That **means flight prices will remain high, because “Qantas cannot dictate the airfares of the market,” Joyce insisted.**
- So if, as predicted by Lufhansa’s Spohr, it takes a long time for supply chain and workforce issues to enable carriers to put more planes in the air, what does the future hold? **At least airline balance sheets will become much more healthy, which should in turn enable them to improve their product offering (in situations where they have a competitive incentive to do so). And of course shareholders will benefit, such as from the current $500 million buyback program being conducted by QF.**
- Some more generous carriers may even decide to share the bounty with their stakeholders – as appears to have already happened at **Emirates, where 50,000 staff will reportedly receive a whopping bonus worth 24 weeks pay in their pockets this month.**
- It’s also interesting to consider the impact of the record results on the current Australian Competition and Consumer Commission consideration relating to the alliance between Qantas and Emirates. The QF/EK submission, lodged in November last year before the profit bonanzas became public, makes much of “the operational and financial challenges that have faced (and continue to face) both Qantas and Emirates”**.** Indeed, the application highlights the $1.19 billion statutory loss recorded by Qantas in the 2022 financial year as part of the justification for the ACCC’s ratification of the deal.
- Those claims are likely to carry much less weight in the Commission’s decision making process, given that both QF and EK are now well and truly back in the black.
- In Australia, Axis Travel Centre is listed as the only travel agency that has had their submission to the ACCC accepted in full. They have challenged the forthcoming continuation of the QF/EK alliance with their four-page submission accepted in full by The Australian Competition and Consumer Commission (ACCC). Their agency submission challenges the continuation of the QF/EK merger until “*both QF/EK improve consumer compensations when some affected flights cause consumer hardships and also to improve the delivery to consumers of each carriers loyalty benefits with improved levels of respect and consistent support to all travel agents……”.*
- **That figure is not much more than a rounding error given the massive post-pandemic windfall airlines are now enjoying, as they fly all the way to the bank.**