

# Embattled Qantas in talks on Emirates alliance

SYDNEY: Embattled Qantas said on Thursday, 26 July 2012, it was in talks with carriers including Emirates to revive its struggling international arm, an alliance that could see its Europe-bound flights routed through Dubai.



The revelation, which saw Qantas's share price soar almost 10 percent, is part of the Australian airline's drive to turn around its fortunes after an 83 percent slump in first-half net profit in the six months to December.

"Qantas confirms it is in discussions with a number of airlines about potential alliances," it said in a statement as its shares, which have been trading at record lows, surged as high as Aus\$1.10.

"These airlines include Emirates, among others.

"Qantas's policy is not to comment on the nature or status of these discussions."

Last month Emirates chief executive Tim Clark told Dow Jones Newswires he was not interested in an equity investment in Qantas but was keen on other types of commercial arrangements, such as codesharing.

The Australian Financial Review said that codeshare negotiations were at an advanced stage and would give Qantas access to the network of the largest international carrier in the world.

Qantas is primarily losing money on its international routes.

The tie-up would see Qantas fly to Dubai for the first time and rely on its new partner to transfer passengers to destinations in Europe, the Middle East and Africa, the newspaper said.

This would mean most London and other European flights going through Dubai instead of Singapore, casting a cloud over its long-standing joint venture with British Airways.

The newspaper said a link-up with Emirates would allow Qantas to maintain a global focus without having to use its own planes, as high fuel costs sap profits.

It would also give the carrier scope to fly more aggressively to Asia, a stated goal of chief executive Alan Joyce.

In return Emirates would get access to Qantas's market-leading share of Australian domestic traffic.

But analyst Neil Hansford, from Strategic Aviation Solutions, said he doubted an Emirates tie-up could save Qantas.

"It's a good theory but code shares are band-aid solutions," he said.

"Just by Emirates giving Qantas a bigger network won't save a business losing \$500 million."

Qantas is struggling with soaring fuel costs and worsening global conditions and recently warned its underlying profit before tax was expected to drop from Aus\$552 million (US\$574 million) last year to Aus\$50-100 million.

It saw Moody's lower the airline's long-term senior unsecured rating to Baa3 from Baa2 with a stable outlook in January.

The ratings agency on Thursday said a sustainable and profitable international business was key to Qantas maintaining an investment-grade rating over time.

"A scenario involving a major tie-up with a Middle East or Southeast Asian-based hub carrier could alleviate some of the strategic disadvantages that Qantas faces as an end-of-line carrier," said Moody's vice president Ian Lewis.

"We see a partial sale and/or strategic alliance as being a more realistic scenario than a full sale or wind-down scenario for the international business," he added.

*Source: AFP*

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