

# RECOVERY OF BANKRUPT JAPAN AIRLINES THROUGH GOVERNMENT SUPPORT



Three years ago, Japan Airlines (JAL) fell into bankruptcy after 50 years of service as Japan's premier airline established in 1951. Unfortunately, an inefficient and aging fleet of planes and an unworkable cost structure conspired to force bankruptcy. Good decisions, protection under the Japanese Corporate Rehabilitation Law and sheer determination have enabled the airline to get back

on its feet in a very short time.

When JAL filed for bankruptcy, its stocks were de-listed. Now, thanks to the positive changes and upward momentum displayed by the company, those stocks are listed on The Tokyo Stock Exchange again and are trading fairly briskly. In fact, since re-listing, their value has risen by 1%.

Who is buying JAL stocks?

Individuals and small investors have been impressed with the company turnaround that was the result of some very harsh steps on the part of the company. JAL was forced to release about 33% of its employees while slashing pension payouts. Additionally, the company removed all Boeing 747-400 aircraft in 2011 citing fuel inefficiency and technological inferiority. JAL had flown these planes for over 40 years. Removing them from the fleet and replacing them with sleek, new models was a positive step forward for the company.

When stocks were initially re-listed, they were priced low in hopes of attracting new buyers in the wake of the company's rocky history. This seems to have been a wise strategy as smaller investors have taken the opportunity to get in on the ground floor of JAL's recovery.

Could JAL have accomplished this turnaround without private and government support?

Harsh cuts and shrewd management on the part of JAL executives can account for about 75% of the JAL turnaround. It is inarguable that the structural reforms along with the severe job cuts form the underpinnings of the company's recovery. Nonetheless, without large amounts of aid from the state and from private sources, JAL would not have been able to climb out of the hole it was in.

Along with supportive funds from the state, JAL also profited from debt forgiveness to the tune of about 520 billion yen from private banks. Additionally, the company will carry forward approximately 1.1 trillion yen in losses over the next decade. This will amount to about 4.5 billion US dollars in corporate tax breaks.

Will JAL continue to recover and prosper?

Continued recovery and improvement are expected due to wise choices and bold expectations. With a brighter financial outlook, JAL has replaced 45 old 747s with sleek, new, fuel efficient Boeing 787 Dreamliners. This move will give JAL a greatly increased seating capacity at a far lower fuel cost. In fact, JAL expects to save about 25% in expenses on its international flights in the next five years.

Furthermore, JAL has taken bold steps to secure concessions and preferential treatment. For example, the company has pushed to secure the best in allocation of landing slots opening up at the Tokyo Haneda Airport in 2014.

Is everybody happy about JAL's recovery?

In today's weak economy all full service carriers, including JAL, are threatened by cut-rate airlines. This causes uneasy conditions in the world of air service. Partially because of these harsh economic conditions, JAL's rival, All Nippon Airways (ANA), has claimed that JAL is being provided unfair advantage due to the assistance and massive tax breaks it has received. Representatives of ANA state that this presents them with unfair competition both in terms of customers and stock sales. This state of affairs has caused some to call for controls to be placed over JAL's recovery.

Be that as it may, individuals and small investors remain optimistic and enthusiastic about the resurgence of the company. Company executives have openly pledged that JAL will not return to its wasteful ways and will continue to grow and prosper.

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