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INSIDE BUSINESS

January 10, 2012 3:40 pm

## JAL provides blueprint for others to follow

By Mure Dickie

Given all the [gloom that has shrouded Japanese corporate circles in recent months](#), this is surely a good moment to salute a success story: the recovery of former national flag carrier [Japan Airlines](#).

Two years after filing for bankruptcy, the airline – one of Japan’s most famous brands – has radically reformed its operations, is generating healthy profits and appears on course for a public offering and re-listing later this year.

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That makes JAL an inspiring example for anyone involved in such current corporate car crashes as [Olympus](#), the optical equipment maker mired in a Y100bn accounting scandal, or [Tokyo Electric Power](#), the utility laid low by the failure of its Fukushima Daiichi nuclear plant.

A successful public offering, which some media have suggested could be worth more than Y500bn, would also mark a rare policy win for Japan’s ruling Democratic party, which has struggled to make a mark since its historic general election victory in 2009.

It was a then-novice DPJ minister who finally called a halt to government-organised JAL bail-outs, the favoured response of the former ruling Liberal Democratic party to the carriers’ chronic problems. The resulting bankruptcy was Japan’s biggest ever corporate failure outside the

financial sector.

Now, the government can reasonably expect that the state-backed Enterprise Turnaround Initiative Corporation, which invested Y350bn in JAL to fund its revival plan, will be able to cash out in decent shape.

It was also the DPJ administration [that turned to Kazuo Inamori](#), a supporter of the party and the revered founder of the [Kyocera](#) technology group, to lead the airline back to health.

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Mr Inamori, 79, is not only the author of philosophically minded management books such as *How to Live* and *How to Work*, he is also an ordained Zen priest. At JAL he has shown the value of clear, decisive command for a once-proud company long buried in bureaucracy and vested interest.

This has involved some tough talk. In 2010, he suggested that JAL managers were not up to the job of “managing a grocery store”. Last year he issued a pre-emptive warning to the government not to try to force the airline to resume unprofitable but politically useful routes. “We’re not qualified as real business managers unless we can say ‘no’ to those in power,” Mr Inamori declared.

Alongside this campaign of what the veteran boss has rather scarily described as “consciousness reform” was a sweeping restructuring. Since early 2009, JAL has cut employee numbers from 48,000 to slightly over 30,000 and suspended operations on a host of routes including flights to international destinations such as Rome and Amsterdam.

More than 100 aircraft have been withdrawn from service, including JAL’s beloved fleet of Boeing 747s, and the types of airliners it operates has been reduced from 7 to 4. The corporate structure has been simplified and scores of non-core businesses disposed of.

Such efforts are already bearing fruit. Despite the lingering impact of last year’s tsunami and nuclear crisis – which caused massive domestic economic disruption and slashed international visitor numbers – JAL is back in the black. The carrier reported net profits of ¥97bn for the six months to September, four times those of closest domestic rival, All Nippon Airways.

In November the company said that for the year to March 2012, it expected net profits of ¥120bn, nearly twice its previous forecast.

Though smaller than before [bankruptcy](#), JAL is far fitter, says Peter Harbison, chairman of the Centre for Asia Pacific Aviation, an industry consultancy that gave the carrier its “airline of the year” award in October.

“Before it was like an old ship with 100 years of barnacles on it,” Mr Harbison says. “It’s been transformed.”

The new JAL should be well placed to tap into opportunities thrown up by the rapid regional growth and the opening of routes to destinations in China and South Korea.

Still, anaemic economic growth and demographic decline means Japan’s domestic market will remain tough, and JAL is likely to face increasing competition from low-cost carriers amid domestic market liberalisation.

To ensure it is not left out of the low-cost market, JAL plans to this year establish a budget airline called Jetstar Japan in partnership with Australia’s [Qantas](#) and [Mitsubishi Corp](#), the trading house.

Still, optimism about JAL should not go untempered. Its revival could still be held hostage to high energy prices and economic woes in the eurozone and elsewhere that could easily threaten Japan’s fragile recovery.

Would-be subscribers to JAL’s proposed share offer should remember that, as Mr Harbison says, long-term investment in airlines is usually a mug’s game.

heralds shift towards data for tricky corner

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Flying remains a brutal business. Trans World Airlines in the US showed carriers can go bust more than once. Just last November, [AMR Corp](#) – the parent company of JAL’s US partner American Airlines – filed for bankruptcy.

JAL may now be flying high but investors should keep their feet, and their funds, firmly on the ground.

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**awr500** | January 11 12:17pm | [Permalink](#) [Report](#)

I'm unsure why the author felt no need to comment on the strength of JPY and how this will be massively benefiting JAL., particularly when it's main overhead, fuel, is denominated in USD?

**unspokenhermit** | January 11 1:40am | [Permalink](#) [Report](#)

The damage caused to the business by the Fukushima nuclear disaster will take years to get completely repaired. Even so JAL has made a remarkable progression which will encourage all other business entities to remain operational.

I recently came across these atmospheric simulations, produced an American independent organization, that indicate TEPCO vastly under-reported radionuclide emissions from the Fukushima Plant.

<http://www.datapok...t-al-source-terms/>

<http://www.datapoke.org/partmom/a=40>

I've suspected for some time that the publicly released emissions data had been manipulated - If the models are correct I suppose this re enforces my hunch. Is there anyone here that can help us explain the implications of this model?

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