

# State Ownership of Flag Carriers: Its Stability Amidst the COVID-19 Pandemic

Michael Lawrence C. Ulep, CHP  
Institute of Graduate Studies  
San Sebastian College Recoletos Manila  
Manila, Philippines

**Abstract:-** The Novel Coronavirus (COVID-19) has caused a global dilemma as it created major disruptions not just the health of the people, but also to the economy of the countries. One of the industries that has a major impact is the airline industry as they are one of the essential means of transportation around the world. Since countries have closed their borders, the airline industry was also grounded for several months, leading to financial losses, and seeking for assistance.

Because of this, airlines are now in the midst of survival, questioning their ownership if they would maintain as a private airline or a state-owned, and vis-à-vis. Airline M is a privately-owned airline that is faced with financial losses and is barely surviving with their current phase. As for Airline G, a state-owned airline, is also facing even more financial losses as they have been struggling to survive even before the crisis.

Both airlines are now under restructuring their organization and entering equity injections for them to survive and not permanently close. For Airline M, realigning their costs should be one of their priorities for them to have a more efficient and effective in increasing their utilization of costs, simplifying the processes, and invest in automation. Airline G's management should consider the government authorities to not get involved in the decision-making of the airline as this might lead to different political issues.

Ultimately, whether they will be state-owned or privately owned, the management of the airline will play a huge role in the survival of the airlines during this global crisis as not all strategies can be implemented for their betterment. Not just the management themselves, but every stakeholder would have to play their own part as everyone should work together for them to endure this pandemic.

**Keywords:-** State Ownership, Private Ownership, Flag Carriers, COVID-19, Airlines.

## I. INTRODUCTION

State-ownership are properties that belong to the state or government rather than a private institution. This entitles the government the control of any industry, asset, or business at any level, whether it would be regional or national. It is an important factor in any economy as it supports economic and strategic interests and supplies specific public goods and services. State-ownership will remain a major player in an economy as it holds vital public missions but also operate and compete in liberalized and international markets.

The airline industry has played an integral part in any economy as it is one of the essential modes of transportation not just in one country, but for people to travel from one country to another. Travelling to other varies either from business, or pleasure, depending on the purpose of the trip of the passengers.

During the first quarter of the year 2020, the Coronavirus Disease (COVID-19) pandemic struck the global economy, forcing countries to close. The drop in the demand for passenger air transport has threatened the feasibility of enterprises in the airline industry, specifically with the scare of bankruptcy. To date, air travel is limited and has many restrictions. Travelling for non-essential means are not yet allowed. Only those that are considered as essential are allowed such as repatriates and work.

According to the World Health Organization (2020), the COVID-19 slowly started in the last weeks December 2019 in Wuhan, People's Republic of China, as it started as a viral pneumonia, where it was immediately reported to the International Health Regulations. During the First Quarter of 2020, the virus rapidly spread out to different countries globally, and it was declared as a Global Pandemic on March 2020.

From there, continents around the world have their own difficulties with their airline industry. Asia was the first continent to report an airline who filed for bankruptcy as they have been barely surviving even before the pandemic. The Latin America region has some of the biggest airlines who also failed to pull through with their finances, like the airline in Asia. Same as some of the airlines in Europe, who is also holding on by a thread with their finances, eventually, filing also for bankruptcy.

## II. STATEMENT OF THE PROBLEM

Today, airlines are faced with challenges for their survival. Since the start of the pandemic, airlines around the world have been reducing their costs. Airline M, a privately owned enterprise, reported that approximately 6,000 people of their workforce were slashed, and ticket sales dropped by 35% as well. Aside from this, their new aircrafts that was supposed to be delivered in the next two years, were set back to 2025.

In the case of Airline G, a state-owned enterprise, they reported that they have filed for bankruptcy. Even before the pandemic, the airline has been facing difficulties with their sales as it does not cope up with their competitors on low-cost carriers (LCCs). Upon the start of the pandemic, their difficulty worsened since countries closed their borders for tourists.

This raises the question on the ownership of the airlines if they would remain privately owned, or change into a state-owned airline, and vice-versa. Aside from this, it questions the viability of state-ownership to all airlines that are struggling to survive in this pandemic.

## III. CAUSE OF THE PROBLEM

### A. Sales of Airlines

Since the pandemic started, profitability has incrementally decreasing for all the airlines since borders have closed. Aside from cargo, airlines mostly make their profit through international air travel of passengers, whether it would be for leisure or business.

Today, airlines are slowly improving their sales because domestic travel being encouraged by the local government as this would also help generate sales. Nonetheless, travelers are still afraid of travelling as there is no proven and tested vaccination. This is a challenge for all airlines on the long run as revenues for their flights is insufficient to cover the costs. Aside from this, financial obligations of airlines are still rapidly increasing wherein the airlines might not be able to pay-off in time.

### B. Dues on Lease Charges

Since the start of the pandemic, airlines have not yet paid their leases of their aircrafts. This is considered as the largest cost. Even though there has been postponement of payments since March, this will soon expire, and airlines will need to make regular monthly payments plus the deferred payments from the previous months.

### C. Termination of Wage Support

Labor costs is still a big challenge for any airline. This further increases due to the expiration of government wage assistance. Major airlines have been provided with the said wage assistance that cover up to eighty percent (80%) of the salaries. The problem is these support from the government would expire, thus leading to slashing of manpower. Another challenge for this is also those who will be retained, leading to some cases asking for higher salaries, since their jobs have been doubled.

### D. Other Related Costs

Since airlines is struggling to survive, they lessen their payments like fees and taxes. One example of these costs would be the financial support packages that the government grants to enterprises. These can last longer than the wage support and other benefits. But with the current state, airlines may be requesting for additional packages in the coming years. Thus, governments may not opt to assist the airlines for another chance, which eventually would file for bankruptcy.

## IV. COURSES OF ACTION

State ownership has their own benefits and disadvantages. In terms of motivation of the employees thru salary, private-owned enterprises would get their salaries based on the profit that they are making unlike state-owned enterprises would get their salaries regardless if they are generating profit or not. In terms of adaptability, private enterprises tend to be more adaptable to new technology, thus are more open to invest in such to enhance their productivity and services unlike for state enterprises are not that open to change and focus on their traditional operations. On the long run, state-owned airlines are more focused on maintaining the services and provide the needs of the market, unlike privatized airlines are more ambitious as they tend to be focusing more on passenger satisfaction and competitiveness with other airlines.

For China's state-owned "Big Three" air carriers, the government has used its authority in managing the airlines. Each of the three airline focuses on a specific area of the country to avoid competition among themselves. The government also limited the arrival of international flights to create the demand of utilizing their own airlines. Promoting other routes for other airlines was also the government's plan to help the big three to gain the main airport hubs.

Since the early days of the COVID-19 predicament, government assistance has been a hot topic for the ownership of enterprises, most specifically, the national airlines. Airline M is no stranger to losses as it has suffered billions since the Asian Financial Crisis. They have been struggling to be a better transport provider to their passengers by constantly upgrading their facilities and services. The airline has already requested the assistance from the government financially, enough to cover their monthly fixed costs and lower the interest rates. Their main approach for their recovery is to realign their operations itself. Airline M is juggling their operations between passenger flight, for repatriation and expatriation, and cargo flights, that focuses on their non-stop flights towards their destination. Aside from this, their realignment focuses on managing costs that includes reduced maintenance, repair and overhaul, and ground operations costs, and also, organization restructuring for a better efficiency and effectiveness to increase the utilization, simplify the processes, and invest in automation.

In the case of Airline G, they have already petitioned to file for bankruptcy protection as they are already struggling due to their debts and losses. After filing, their government has granted their petition for a restructuring plan of the airline to not let the airline die. This would allow the airline to still operate and not sell off their assets. This is also best for the airline as this would allow them to delay their payments on their debts, convert debts into equity, and minimize ticket selling through traditional travel agents, and replace their present administration.

Other global airlines are in the brink of bankruptcy like Airline G. Some of these airlines are from the Latin America group, a mix of state-owned and private-owned airlines, where they have entered the US Chapter 11 Bankruptcy protection, wherein this would enable them to annul existing contracts such as aircraft leases and orders, and also restructuring of their organization.

Aside from the present strategies that was mentioned, several strategies could be also put into place. For the case of Airline M, their management may consider to also focus on their most important asset, the people. It is vital to any company to also think of their associates as well aside from their finances. They must make sure that every associate should empathize with them and make them feel as they are a family member and demonstrate that everyone is involved. It is also ideal to redirect their current assets and create a new service from them. They should also understand the behaviors of their consumers, basing to the new normal of travelling. This is not just based on new norms of safety and precaution, but also towards the purchasing power of their consumer.

Since Airline G is a state-owned airline and is will go under restructuring, the management may consider avoiding political interference while managing the airline. Political authorities should not be involved in the decision-making of the management as this might become an issue. This could be done by safeguarding the airline from extreme political influence thru its rules.

Equity injections should be aimed at the enterprise that faces financial challenges that could not be easily addressed through aid to capital markets. This would help minimize the negative long-term effects of meddling with market selection mechanisms, where its functionality may be flawed. For this to work, Airline G should provide and adopt detailed plans on how they intend to implement them.

## V. CONCLUSION

Before this pandemic, airlines had their own strategies for them to be well-established and be prepared for anything. Due to the present circumstances, ownership of the airlines is now a big question as most airlines now are on the brink of bankruptcy.

In the end, the over-all success of an airline would depend on management of the airlines. Many strategies are present that can be utilized by the airlines for them to survive this global dilemma. Airlines may opt to be testing these strategies for themselves to check if it works or not. After all, these airlines would need the support of the government, directly or indirectly.

## RECOMMENDATION

Indications of airline ownership would base on how the government would support them financially. Given with the present time, airlines are now faced with the question if they are to stay as a privately owned airline, or should they opt for state ownership. Whether the airlines are private-owned or state-owned, the strategy of the airlines would depend on the organizational culture and their present status.

It is important to note that not all strategies are applicable to all airlines as this varies, depending on the current state of the country. Certainly, the role of the government will play an essential part for the future progress of the airline industry.

The imperative fact in this situation is the overall management of the airline as this would either help their company rise again from the ashes or will lead eventually to their ultimate downfall. Lastly, all the stakeholders should together for the airline industry to survive and be flexible with the new norms.

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