The collapse of Swissair

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On October 2, Switzerland's national carrier Swissair halted all its flights due to a severe cash shortage. Some 39,000 of passengers worldwide were unable to take the Swissair flights they had booked, and their tickets were not recognised by other airlines.

Chaos ensued when all Swissair's European flights were grounded on the morning of October 2, with all other international flights being cancelled the same afternoon. Swissair desks in all the major airports were shut down, with nobody from the company being available to give advice to stranded passengers, who were offered neither alternative flights nor cash to pay for a hotel room. At Zurich airport 4,000 passengers who had waited in vain for their flights were put up in civil defence accommodation, but elsewhere Swissair passengers had to sleep on airport floors.

Some stranded passengers cried before the television cameras, and a young Argentinian said: "And I thought, I was in the first world here". The newspapers spoke about a "national tragedy", stating that Switzerland's image had been "damaged beyond repair" and that this was a failure on a scale previously unknown in the Swiss business world. The value of Swissair shares fell on Wednesday from 100 Swiss francs ($61) to barely 1.27 ($0.78), almost wiping out the company's entire share capital. In 1998, the stocks had been worth 500 francs ($307).

The following days were marked by a contradictory and confusing mish-mash of mutual recriminations, as management, banks and politicians blamed each other for the collapse. "Communication difficulties between the banks and management," and also the crisis in aviation following the September 11 events in the USA were given as the main reasons for the debacle, with the banks being presented as the chief culprits. But for this small circle of bankers, business leader and politicians, the collapse of Swissair—one of Europe's largest and most renowned airlines—did not come as a surprise.

A crisis had been building up at Swissair since the end of last year. For the first time in its 70-year history, the company recorded a loss in 2000, amounting to 2.9 billion francs ($1.8bn) and which consumed almost its entire capital reserves. The company's debts exploded over the course of this year, reaching 15 billion francs ($9.2bn) by September 28, up from 6.8 billion francs ($4.2bn) at the end of December 2000.

The liberalisation and deregulation of aviation markets, beginning in 1978 in the USA, means that airlines are exposed to increasingly harsh competition in order to become profit making enterprises, which no longer require government subsidies and routes guaranteed by the state. This initiated a development aimed at lowering the standards for passengers and personnel. New cheap flight, no-extras operators, such as EasyJet, Ryanair, Buzz and Go only pay a fraction of the wages of the traditional carriers.

In the last two decades, drastic changes in European air travel have also been made. A bitter struggle ensued to establish so-called "hubs", where high passenger numbers could be realised through linking intercontinental and regional feeder flights, and which are now the most important prerequisite for surviving in this industry.

Intercontinental alliances were forged, and European airports such as London Heathrow, Paris Charles de Gaulle or Amsterdam and Frankfurt/Main were substantially developed. Zurich-Kloten was also set to become one of the ten largest European airports, and received over 2.3 billion francs ($1.4bn) in investments in the last two years alone.

An integral part of this plan was the expansion of Swissair to become the fourth largest European airline. Given Switzerland's small population (approximately 7.1 million) and the well established competing European aviation partnerships, Swissair tried to become the nucleus of its own alliance, the so-called Qualifier Group. It acquired shares in Belgium's Sabena, the French AOM/Air Liberté, the Portuguese TAP and other smaller airlines, which faced similar financial problems as Swissair due to the international competition. For a time, Swissair was able to win support from America's Delta Airlines for a tie-in.

However, passenger numbers remained well behind expectations and the beginning world recession meant the enterprise was unable to finance its ambitious plans and accumulated a gigantic mountain of debt.

Since the beginning of the year, intensive negotiations took place with the main creditor banks, the United Bank of Switzerland (UBS) and the Credit Suisse First Boston (CS), over further credits and the reorganisation of Swissair. At first, Mario Corti, since January the new head of the Swissair Group, was able to limit further expensive purchases of Sabena and TAP shares and sell off some of the group's other businesses. At the same time, Corti announced the dismissal of 1,300 employees by the end of the year. These plans were not extensive enough to stop the company's debt from spiralling out of control.

By the end of September the banks were no longer prepared to pump any more money into the airline without management making more drastic cuts. They regarded the white-collar staff at Swissair as the main problem. Worldwide Swissair employs 72,000 staff, with 21,000 working in Switzerland. This is a much higher staffing level compared to other airlines, with Swissair employees among the best paid in the world. The *Financial Times Deutschland* commented: "The old Swissair enjoyed living it up. Its staff enjoyed privileges that were inconceivable for the

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competition."

On September 24, the company presented its plans for radical change. Swissair and its regional subsidiary Crossair, over 70 percent of which belongs to Swissair, would develop a new airline—the Swiss Air Line. Crossair was regarded as the most profitable part of the Swissair Group, because its pilots were only paid half the amount of their Swissair colleagues. Crossair cabin crews received a third less than their colleagues at Swissair. To further reduce costs, the number of dismissals would be increased to 10 percent of the staff, affecting about 7,000 employees.

André Dosé, the former Crossair chief, will head the management of the new airline. The 44-year-old Dosé is considered suitable to push through the necessary cuts. As an agricultural pilot he first worked in the USA, where he crop-dusted cotton fields, and became a co-pilot with Crossair in 1986. One year later he was promoted to flight captain and took over the management of the company in 1990. Asked how he wanted to carry out the cuts, he answered dryly: "As a pilot, you cannot afford to chew over a problem for a long time."

Now the crisis of Swissair has rapidly accelerated. The airline was already practically bankrupt on September 26, after several smaller banks cut their lines of credit, leaving only 100 to 200 million francs ($61 to $122m) in liquid assets. After further negotiations with the UBS and CS, it was agreed on September 29 that the banks would purchase a 260 million franc ($160m) share in Crossair and give Swissair an interim credit of 250 million francs ($154m) to guarantee flights until October 3.

As it turned out, however, the signing of the contract and the transfer of funds was delayed so much by the banks that the cash arrived "too late" and Swissair had to ground all its flights. The company did not even have the money to pay for fuel and airport taxes and had to declare bankruptcy.

Swiss politicians and the Swissair management immediately launched a campaign against the banks, painting UBS boss Marcel Ospel as the nation's bogeyman. *Tribune de Geneve*, the largest newspaper in Geneva, lead the next day with the headline, "UBS—United Bandits of Switzerland". There were also angry reactions in the general population. Thousands closed their accounts with the two banks, and demonstrations of Swissair employees were supported with sympathy and enthusiasm.

On October 3, the *Bundesrat* (upper house of parliament) posed as the "saviours of the nation", agreeing a federal credit of 250 million francs ($154m), so that Swissair could continue operating, at least maintaining some flights.

The debate that has unfolded in the aftermath of the Swissair debacle has clearly revealed that the company's collapse had been on the agenda for a long time. Politicians, bankers and management clearly understood that the drastic reductions in wages and sackings necessary to actually "restructure" Swissair could not be implemented without meeting considerable resistance and unleashing a political crisis in Switzerland.

UBS board member Peter Kurer admitted on October 3 at a press conference: It "would no longer have been possible to save Swissair this autumn". One did not want to take over the "moribund Swissair or the responsibility for the foreseeable sackings", in a company one had known inside out for years.

Kaspar Villiger, responsible for finances in the *Bundesrat*, the *Neue Züricher Zeitung* that the *Bundesrat* had "underestimated the internal dynamics of such a liquidity crisis and thus the speed with which the situation could come to a head". One knew of "the threat of closure, but had not expected it to come so soon." However, he was contradicted by Swissair chief Corti, who indicated that before the crisis meeting he had called on Monday October 1, he had already told the *Bundesrat* about Swissair's additional financial needs of some 500 million francs ($308m). What is clear is that when it met the *Bundesrat* decided not to intervene to help Swissair, giving the banks the crucial signal.

Some savings have been made possible to the company as a result of its speedy collapse. Its original redundancy plan, envisaging some 600 million francs ($365m) in compensation for dismissals, will most probably not be even needed, because Swissair is now officially bankrupt and a cap is set on any claims that can be made against it.

Leading government representatives made clear that their main concern was above all to "limit the damage to the country's image". The Swiss trade union federation also welcomed the *Bundesrat* credit decision, merely demanding that the loan should not be repayable, with the government instead taking shares in the new airline.

The decision to let Swissair collapse is a declaration of war not only on the company's staff, but also on Switzerland's previously relatively high level of social provisions. Swiss ruling circles have come to the conclusion that they should now follow the policy of cuts in social spending and wages long the norm in the USA and now also being energetically applied in Europe.

The *Neue Züricher Zeitung* aptly noted on October 7: "It is probably the case that with the fall of Swissair a further, important and considerable piece of 'Swiss exceptionalism'—which still exists— will be irretrievably lost."

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