

# Collapse of Sabena heralds drastic cuts in European airline industry

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On November 7, Sabena, the Belgian airline, ended its 78-year history and filed for bankruptcy. The collapse of Sabena, which employs 12,000 workers, is the biggest commercial failure in Belgian history and another link in the chain of airline bankruptcies, following this year's termination of Canada 3000 (the second largest Canadian airline) and Australia's Ansett, and the dissolution of Swissair into its own subsidiary.

On Tuesday evening, November 6, the airline's last flights were wound up and aircraft still in foreign airports flown back to Belgium to avoid the possibility of planes falling into the hands of creditors. On the following day there were dramatic scenes all over Belgium and particularly at Brussels' Zaventem Airport. Thousands of Sabena workers refused to obey the request of the company's management to stay home and instead gathered at protest rallies on airport premises.

On November 8, demonstrators blocked entrances to the customs clearance zones, bringing everything to a standstill, and on Friday, November 9, they took over the motorway. Anger was directed against both the government and Sabena management. According to press reports, Christoph Müller, the German chairman of the airline's executive board, received death threats and has since been living under close guard at the Sabena Hotel in Brussels. Since November 5, the number of police at Zaventem Airport has been increased to 150.

Belgium's prime minister, Guy Verhofstadt, announced that at least 5,100 jobs at Sabena would be cut immediately. The fate of employees at Sabena's subsidiary firms is unknown. Consequences for the 30,000 to 40,000 workers indirectly dependent on the airline are also uncertain.

Following the example set by the Swissair-Crossair solution in Switzerland, Sabena is to be dissolved into its own subsidiary, the cheap flight carrier Delta Air Transport (DAT), which plans to give up nearly all its transatlantic routes and concentrate almost exclusively on destinations within Europe.

Sabena's declaration of bankruptcy drew an end to the company's long history of problems and conflicts. It was one of the smaller firms in Europe and, despite all its efforts, never managed to become seriously competitive, especially in relation to the European big three—British Airways, Lufthansa and Air France.

As a publicly owned airline, Sabena had been a thorn in the side of the Belgian state at least since the beginning of the 1990s. At that time it was decided to push ahead with the deregulation—begun in the 1980s—of the European airline companies in order to meet increasing competition, especially from the US. All market restraints on American-based carriers had been removed in the 1980s, and mass redundancies and low wage conditions were implemented on a wide scale and in the face of bitter industrial action—like the PATCO air traffic controllers' strike of 1981.

Belgium's national debt placed increased pressure on Sabena. Under the Treaty of Maastricht, the European states agreed to set restrictive limits on the extent of their indebtedness. With a national debt amounting to almost 140 percent of gross national product, Belgium exceeded the agreed target of 60 percent by more than double the limit. It therefore inaugurated a drastic course of cost-cutting.

Among the most important of these measures was the privatisation of state-owned enterprises, one of which was Sabena. During the whole of its corporate history, Sabena had avoided being in the red on only two occasions, and had to be financially supported by the Belgian state on a continual basis. It thus became associated with the Belgian welfare state system. Its demise is linked to the dismantling of welfare state structures by all of the European governments.

Responding to continual demands throughout the 1990s, the company's management tried in vain to enforce drastic cuts in wages and staffing. Employees reacted with spontaneous strikes, organised by different sections of workers and outside of the control of the trade unions. As a result, Pierre Godfroid, the then-chairman of the airline's executive board, had to relinquish his post.

In May 1995, 49.5 percent of Sabena was sold to Swissair. Swissair's strategy was to become Europe's fourth largest air service provider by buying up a number of airlines, including some that were even smaller than Sabena, such as Portugal's TAP, France's AOM/Air Liberté, and Poland's LOT. Consisting of these mostly unprofitable airlines, Swissair's so-called "Qualiflyer Group" was set up to compete against the alliances forged by the big airline companies at the end of the 1990s.

However, the expected expansion of international air traffic did not take place, and this association began to break up with the withdrawal of America's Delta Airlines in 2000. Swissair and Sabena, the two weakest European airlines, became the first to be gripped by an emerging crisis of the aerospace industry.

SAirGroup, the business concern to which Swissair belongs, suffered a record loss of 2.88 billion Swiss francs (1.89 billion euros) in 2000. Last month, Swissair was dissolved into its subsidiary, Crossair.

From 2000 onwards, Sabena similarly slipped deeper and deeper into crisis, initially as a result of sharply increased oil prices. Christoph Müller became the new chairman of the executive board, charged with the task of pushing through management's long overdue cuts. He began his tenure with the words: "If we are not making significant progress by the end of this winter, one has to wonder whether this company has a right to exist". Following this, he presented a radical restructuring plan that prescribed the wiping out of 400 to 500 jobs and the sale of 90 percent of Sabena's subsidiary firms.

However, spontaneous strikes hindered the fulfilment of these plans, and in 2000 losses ate up almost 75 percent of the company's equity capital. Executive board threats to allow Sabena to collapse, should the employees continue to block restructuring, became increasingly pointed.

During renewed negotiations between Swissair and the Belgian state in January and February of this year, resulting in an agreed cash injection of 250 million euros, pilots went on strike after it was announced that up to 700 jobs were to be cut. Müller warned that the staff's rejection of this "rescue package" would bring Sabena to the brink of insolvency within a month. Another spokesman for the firm's management declared that the pilots would be "holding 12,000 employees hostage."

The global economic downturn further exacerbated the crisis at Sabena. Huge losses in the first half of 2001, together with the Swissair crisis, led to another round of negotiations and the decision to sack 1,420 workers. A further bailout of 430 million euros was to be made available. However, strikes erupted throughout the summer, blocking the implementation of these plans. At the beginning of September, Sabena pilots went on strike, paralysing almost all of the airline's flights for several days.

In view of the renewed pressure on the airline industry since the terrorist attacks of September 11 and the company's increasingly precarious situation, both the executive and supervisory boards pushed for an end to the conflict over the restructuring plan. Otherwise Sabena would "not survive until the end of the year", declared the supervisory board chairman, Fred Cheffart.

After the collapse of Swissair at the beginning of October, the decision was made in principle in Brussels to give Sabena the coup de grâce. Swissair's final instalment payment, amounting

to 135 million euros, was made good with a bridging loan of 125 million euros from the Belgian state. Sabena was granted respite from creditors for a period of one month.

The precondition was that Sabena find within this period a new investor, who would be prepared to continue managing the company. The Belgian government refused to assume any further responsibility for the firm. The European Union's Commission for Competition took a similar position, approving limited "business support" only on condition that the credit merely cover current costs, and not result in an increase in the company's capital.

However, no investor could be found to take over Sabena in its present form. Consequently, a plan was implemented whereby the small DAT subsidiary would take over the company after Sabena filed for bankruptcy on November 7. In all probability the cheap flight operator, Virgin Express, will also participate in the resulting carve-up.

The collapse of Sabena is only one instance of a policy occasioned by developments since September 11 and aimed at destroying thousands of good-paying jobs in the European aerospace industry.

Loyola de Palacio, the European Union's transport commissioner, predicted that more airlines in Europe would be closing down. "There is not enough scope for 15 airlines," he said. "Some companies won't survive this crisis." The next candidates for closure could be Alitalia and Greece's Olympic Airways. KLM and British Airways already withdrew their participation in these companies last spring.

Spain's Iberia Airlines intends to reduce staff by 10 percent, and the Scandinavian airline SAS has announced the elimination of 3,600 jobs.

The executive board of Germany's Lufthansa has been putting pressure on its staff for several weeks. Jürgen Weber, the head of the executive, declared that "joint efforts" would be necessary to avoid losses this year. While the executive board have enacted a voluntary 10 percent reduction in their own salaries, a four-day week for the employees—without wage adjustment—is being openly discussed. Such a move would entail a 20 percent drop in take-home pay. According to management, any other course of action would make layoffs unavoidable.

The recent agreement for the rescue of the German charter airline company LTU points to the way the matter may be settled. There, staff wages are being cut by 10 percent.



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