Monarch Airlines collapse causes air travel chaos

Steve James
3 October 2017

With little warning, and only a few media hints that the company was even in trouble, British-based Monarch Airlines lost its Air Travel Organisers' Licence (ATOL) and ceased trading at 4 a.m. Monday morning when none of its flights were in the air.

The collapse pitched the travel plans of up to 860,000 people into disarray. Some 110,000 travellers, mostly holiday makers, face days of chaos and uncertainty over their return flights, while 300,000 future bookings, which will include many family holidays, have immediately been cancelled. As late as yesterday, Monarch was tweeting to its customers that flights were operating as scheduled.

Thousands of customers have taken to social media to complain of the impact of the collapse on their wedding plans, anniversaries, sporting engagements, work assignments and long anticipated holidays. Others, stranded in airports across Europe, report no communication from the company at all.

Monarch employs around 2,750 workers, mostly in the UK, at its Luton Airport headquarters and at London Gatwick, Manchester, Birmingham and Leeds Bradford airports. According to the Civil Aviation Authority (CAA), which oversees and regulates civil aviation in the UK, Monarch is the biggest UK airline ever to cease trading. The failure testifies to the multiple and interacting forms of political and economic chaos impacting on the European airline industry.

Firstly, over the last few years, Monarch's holiday traffic to Egypt, Turkey and Tunisia has collapsed because of a spate of terrorist attacks on tourist resorts. These attacks are directly rooted in the quarter century of colonial wars visited by the US and its European allies on multiple countries in North Africa and the Middle East.

Secondly, there is huge oversupply in the European air traffic market. Monarch directed much of its traffic to Spain and Portugal—routes where the largest operators have increased competition—resulting in cheaper fares. As a result, according to Monarch administrator KPMG, over the last year the airline transported 14 percent more passengers yet earned £100 million less in revenue.

Monarch is the third major European airline to go under this year. In April, the former Italian national airline, Alitalia, entered administration, three years after 49 percent of the company was sold to Saudi-based Etihad. The airline, which employs 12,000 workers, was also undermined by the refusal of leading Italian banks, UniCredit and Intesa Sanpaolo, to back the company after workers rejected pay cuts and job losses agreed by the trade unions.

For the moment, the Italian government has propped up Alitalia with a €600 million bridging loan that will allow it to operate as far as next year's general election.

In August, Air Berlin, Germany's second-biggest airline which employs 8,600 workers, filed for bankruptcy having lost €2 billion over six years in the face of growing competition from low cost carriers such as Ryanair and EasyJet. Air Berlin, also part owned by Etihad, has for the moment been kept afloat with a €150 million bailout by the German government—pending a sale of sections of the business to Lufthansa.

Then there is Brexit, which has also impacted Monarch with the fall in the value of the pound increasing the company's fuel bill by some £50 million. Brexit has led to uncertainty over the terms on which British airlines will be able to operate to European Union (EU) countries.

Only last year, the company's majority owners, vulture fund Greybull Capital—a London-based investment house owned by precisely four individuals—pumped £165 million into Monarch, confident that a six-year business plan proposed by the company could satisfy Greybull's investment requirements.

The collapse was not due to any lack of cooperation from the trade unions. In 2014, as part of Greybull's investment, workers were forced by the Unite and BALPA unions to accept a 30 percent pay cut and 900 jobs losses t o prop up the airline.

What has changed in Monarch's position since last year is not yet clear, but the manner of the collapse is a direct product of the British government's refusal to bail out the company in the manner of its German and Italian counterparts. Chris Grayling, the Conservative government's Transport Secretary claimed implausibly that the collapse only became apparent in the "last very few hours and day."

Grayling nevertheless agreed—under conditions in which the Tory government are desperate to avoid acute embarrassment as they meet this week during their annual conference---that the CAA should put together the "biggest peacetime operation of its kind" to repatriate the 110,000 passengers stranded abroad.

The CAA intends to hire 30 jets, to create, according to CAA CEO Andrew Haines "what is effectively one of the UK's largest airlines to manage this task." Acknowledging that this will be chaotic, Haines accepted that the "scale and challenge of this operation means that some disruption is inevitable."

Monarch has outstanding orders for as many as 45 Boeing 737 aircraft. Thirty were ordered in 2014, the first were due to be delivered next year in a €3.2 billion deal, while as late as June this year another 15 of the aircraft were ordered at a cost of a further €1.7 billion. At the time, Monarch CEO Andrew Swaffield described the expanded order as "illustration of confidence in Monarch's future success."

In these circumstances, the British government's refusal to support Monarch sends a message to the US administration of Donald Trump and manufacturer Boeing over its imposition of 219 percent tariffs on Bombardier C Series aircraft. Wings for the Bombardier C type are manufactured in Belfast, Northern Ireland. The minority British government is currently entirely dependent on continued support from Northern Ireland's Democratic Unionist Party. Only last week, British Defence Secretary Michael Fallon warned that the tariffs "could indeed jeopardise our future relationship with Boeing."

While Monarch's thousands of workers and hundreds of thousands of passengers face weeks and months of uncertainty over their jobs and disrupted travel plans, the company's competitors are likely to immediately benefit from the crash. Share prices of rival airlines and tour operators immediately shot up.

EasyJet rose 4 percent to 1258p. EasyJet is one of five airlines coming to dominate an increasingly consolidated European market. The others are Ryanair, Lufthansa, International Airlines and Air France-KLM, while market analysts report midsized operators are under increasing pressure.

A spokesman for EasyJet chair Sir Stelios Hajo-Ioannou hailed the Monarch crash because "taking capacity out of the system will give operators greater freedom to set prices and increase shareholder value." Credit Suisse described the mayhem as "helpful" to improving profit margins.

Ryanair is likely to benefit in another way. The Irish-based budget carrier has been in the grip of a major crisis over pilot rostering.

With typical contemptuous high handedness, the company has responded to staff shortages over the last weeks by cancelling 18,000 flights on 34 routes over the next six months. The move impacts nearly 400,000 passengers on top of 2,000 flights already cancelled. Ryanair only conceded that passengers had a legal right to be offered flights on other airlines when faced with CAA action. Ryanair is expected to poach many of Monarch's 400 pilots. Its share price rebounded too.