UK Flybe airline reaches bailout deal with government

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UK airline Flybe has secured a promise from the government to review air passenger duty—a tax paid on each flight taking off from the UK—prompting shareholders to pledge more investment in the company. The deal allows the airline to defer the payment of a £106 million tax bill.

Flybe, Europe's largest regional airline, had been facing collapse, threatening the jobs of its 2,400 employees and potentially more in regional airports highly dependent on its 8.5 million passengers annually. The loss of the airline's UK domestic connections would have a negative effect across the whole economy, especially outside the capital, London.

While a crisis has been averted for now, the carrier remains in a fragile position.

Emergency discussions with the government followed a decade of deep financial trouble for Flybe, which has suffered under the pressure of intensifying competition in the airline industry. Publicly floated for £215 million in December 2010, Flybe was sold to Connect Airways—a joint venture between Virgin Atlantic, Stobart Air and hedge fund Cyrus Capital — for just £2.2 million in January 2019.

Peter Morris, an aviation economist with *FlightGlobal*, told the BBC in 2017 that Flybe was "sandwiched" between the business model of budget airlines such as Ryanair, and network carriers like British Airways that use short-haul flights to connect with long-haul services. "For example, it might fly from Southampton to Amsterdam, but it's not a major trunk route, so it doesn't have enough corporate flyers. But if it gets to a critical mass, then low cost airlines will join in and fly those routes at lower costs," Morris said. "If you are successful, either group will come after you."

The company was also sharply affected by the 2008-2009 recession, which had a disproportionate effect on the UK's regional economies, where most of the carrier's business is located. Domestic air traffic fell 20 percent between 2007 and 2017.

Flybe reported losses of £41.1 million in 2012-2013 and began a £65 million savings agenda in 2013. After a brief period of profitability in 2013-2014, the company's shares slumped 23 percent in January 2015 on the announcement it would only just break even that year. A drop in passenger revenue and the drain of maintaining surplus aircraft—nine extra Embraer jets, at a cost of £26 million—were cited as the main causes.

The situation worsened dramatically from 2017. Between then and now, nine European airlines have gone out of business. Attempts by major European carriers to dominate the market led to a price war, which crashed fellow UK airline Monarch in 2017, making 1,900 workers redundant. Flybe announced a full-year pre-tax loss of £19.9 million in June 2017. Shares fell another 20 percent in October when first-half profits were reported to be some £5 million to £10 million less than expected, already a decline on the previous year's total. Flybe made a loss of £20 million in the year 2017-2018.

When it was reported in October 2018 that losses were expected to worsen in 2018-2019, Flybe's shares fell 40 percent and the company was put up for sale. The falling value of the pound—fuel and aircraft leases are paid for in dollars—a 39 percent increase in fuel prices over a year ago and continuing problems of excess capacity all contributed.

Connect Airways acquired the company in January 2019 with plans to inject £100 million into the airline. However, serious problems have gone unaddressed. The delay to a planned rebranding of Flybe as "Virgin Connect," the extension of the company's accounting period and its recent reports of slow winter trading were enough to spook credit card companies, which gated customer payments to the airline, causing a massive cash flow problem.

Flybe's long-term decline has been accompanied by a massive attack on its workforce, facilitated by the trade unions. The company shed 1,100 jobs in 2013-2014 as part of an attempted turnaround. Last summer, jet bases were closed at Cardiff and Doncaster, with the loss of 60 jobs in Cardiff, and jet flights ended from Norwich and Exeter airports. Many staff handed in their notices ahead of the closures.

In 2013, Unite and the British Airlines Pilots Association (Balpa) unions worked merely to "to avoid compulsory redundancies." Balpa's then general secretary, Jim McAuslan, admitted in 2014, "Pilots have made huge sacrifices to help Flybe turn a corner."

Over the last four days, Unite has appealed to Boris Johnson's pro-business Conservative government to "demonstrate that it has learned the lessons from the collapse of Monarch, which it failed to apply during the collapse of Thomas Cook" calling on the company and government to "stop hiding and talk to us." The Prospect union tried to seek "immediate talks with the company to clarify the situation." Balpa has uncritically welcomed the deal.

A Flybe collapse would have far-reaching consequences beyond the redundancy of Flybe's 2,400 employees. The airline plays a central role in domestic air travel and linking the UK's regional cities to the continent. Two out of every five UK domestic flights are run by Flybe—more than half of internal flights outside London.

At Southampton airport 95 percent of seat capacity is taken up by Flybe, 74 percent at Newquay airport, 79.5 percent at Belfast City airport, 78 percent at Exeter airport, 51 percent at Cardiff, 39.6 percent at Humberside, 36.2 percent at Aberdeen and 20.7 percent at Birmingham, while 100 percent of flights from Anglesey airport are run by the company. The airline transports 17,000 patients a year from the Isle of Man to Liverpool for hospital treatment.

These connections would likely be permanently damaged by the company's collapse. Mark Simpson, an aviation analyst at Goodbody Investment, told the *Financial Times* that other carriers would be unlikely to seek Flybe's slots at regional hubs in the event they were up for sale. John Strickland, an aviation consultant, told the newspaper that Flybe's collapse would have "a significant impact in certain communities." He added, "At a market level, it doesn't look like very much. But if you look at the regions [Flybe serves], it's dramatic."

Flybe is a case study in the anarchy of capitalist production and its social consequences. Profit-seeking competition between private corporations throws thousands of workers out of productive employment and tends to the destruction of vital but relatively unprofitable services like Flybe's regional connections.

Where the government decides a service must be maintained, it provides public subsidies—as it does for Flybe's Newquay-London route—or tax cuts and deferrals, allowing wealthy shareholders to profit. Richard Branson's Virgin has form when it comes to this practice. If the government's review orders cuts to air passenger duty, an industry-wide bonanza will follow with grave climate implications.

The close interconnection of the economy and society by air travel is a progressive process but is beset with problems produced by capitalism. Billions must be expropriated from the bank accounts of competing CEOs and their shareholders, and poured into research and implementation of new, green flight technologies, and the coordinated provision of a comprehensive and fully staffed transport system.

The only social force capable of achieving this transformation is the international working class. The past year has seen a groundswell of strikes and protests by airline workers across Europe and internationally. These actions demonstrate the absolute necessity for a break with the bankrupt, nationally based trade unions and a turn to an international socialist perspective—to fight for the ownership and management of humanity's immense technological resources by the working class for public good, not private profit.