

German govt to climb aboard at Lufthansa in virus rescue

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With the airline losing one million euros per hour Lufthansa urgently needs a rescue

Berlin will climb aboard airline giant Lufthansa as its largest shareholder in a nine-billion-euro (\$9.8 billion) rescue if investors and competition authorities agree, as the coronavirus-stricken carrier faces an arduous years-long recovery from the pandemic.

Following the broad strokes of a scheme dangled last week, the economy ministry and Lufthansa said Monday the German government would

offer a three-billion-euro loan and 5.7 billion of "silent" capital, as well as buying 20 percent of the company for 300 million euros.

If Lufthansa faces a hostile takeover, "the economic stabilisation fund (WSF) may also increase its stake to 25 percent plus one share," the company said, which would offer Berlin a blocking minority.

The final deal reflects concerns within the group and among conservative members of Chancellor Angela Merkel's coalition government about excessive, enduring government influence over the former flag carrier.

Berlin "is not bringing state influence into Lufthansa's operational areas, quite the opposite. Lufthansa is a successful company and should be led by businesspeople in future as well," Economy Minister Peter Altmaier told reporters in Berlin.

Lufthansa will commit to repay the state's "silent" capital injection, plus interest, in exchange for the WSF selling its stake on the market by December 31 2023.

If Lufthansa fails to pay interest on the state's capital, Berlin would also be entitled to claim five percent of its shares.

Brussels showdown

The economy ministry said the deal included "far-reaching limits on pay for board members at the parent company and subsidiaries as well as for management", while Lufthansa spoke of a possible "waiver of future dividend payments".

The group had already suspended its dividend payout for 2019, saying that it needed cash on hand to weather the coronavirus storm.

And the state will also claim two seats on the supervisory board.

Required approvals from Lufthansa's executive and supervisory boards are widely seen as a formality.

That leaves sign-offs from shareholders—who must agree to any plan that would dilute their investments—and competition regulator the European Commission as the two final hurdles for the rescue.

German business daily Handelsblatt reported Monday that Chancellor Angela Merkel plans to resist potential tough conditions from Brussels, which could include Lufthansa giving up prized landing slots at its bases in Munich and Frankfurt.

Talks are "ongoing", Altmaier said, adding that it is "essential for Lufthansa to continue its successful work at the same scale in Germany... that's what we would like to achieve in Brussels in the coming days."

In a statement, service workers' union Verdi urged the Commission not to impose conditions that "endanger not only Lufthansa's competitiveness, but also the 140,00 employees' jobs".

Alongside Germany, Lufthansa's subsidiaries Swiss and Brussels and Austrian Airlines have turned to their respective national capitals for aid.

The group headed into May with around four billion euros of liquidity on hand, but chief executive Carsten Spohr said it was haemorrhaging around one million per hour as 90 percent of its fleet has been grounded.

In the first quarter alone—when the full impact of the pandemic was yet to be felt—the group reported an operating loss of 1.2 billion euros, forecasting an even bleaker result in April-June.

No clear skies ahead

With an effective vaccine and any prospect of snuffing out the pandemic still many months—or even years—off, the airline industry faces a long, slow recovery filled with potential pitfalls.

International Air Transport Association (IATA) chief Alexandre de Juniac told AFP last week that the industry faces the loss of around \$314 billion in revenues in 2020 alone, expecting air traffic to remain below pre-crisis levels until 2023.

Lufthansa boss Spohr has warned that the company likely now has 100 planes too many as a result, putting around 10,000 jobs in danger.

A far-reaching restructuring remains on the cards even after Lufthansa at the weekend confirmed reports that it plans to double its active fleet to around 160 aircraft in the coming weeks, adding some of Germans' favourite Mediterranean holiday destinations back onto its much-reduced flight plan.

The majority of its roughly 760 planes will remain grounded as coronavirus restrictions are lifted only gradually.

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