Switzerland: A market in turmoil

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In Switzerland, the global downturn in the airline industry over the past years climaxed in the dramatic events surrounding Swissair, the former Swiss national carrier. Early October 2001, the entire Swissair fleet was grounded worldwide. Shortly after, Swissair, its parent SAirGroup and various other affiliates went into moratorium proceedings. Their creditors agreed to the liquidation of the group, which has been under way since early 2002. Creditors are estimated to receive liquidation proceeds between 1% and 12%, depending on which specific SAirGroup entity is the obligor. Financiers and lessors of the Swissair fleet will suffer losses going into the hundreds of millions of Swiss francs and so will numerous bondholders of the formerly AAA-rated SAirGroup.

In April 2002, the successor airline, Swiss International Air Lines (Swiss International), took off. Swiss government together with major Swiss corporations and high-net-worth individuals funded Swiss International with a share capital of more than SFr2 billion ($1.56 billion). However, despite ongoing efforts, Swiss International continues to suffer losses and some pessimistic voices predict an end similar to that of Swissair.

Apart from Swiss International, a considerable number of other new airlines have emerged in the Swiss market and are trying to fill the gap left by Swissair – not all of them successfully. Among those still in the air or expected to take off soon are Belair, Darwin Airlines, Edelweiss Air, Hello AG, Helvetic Air and Sky Work Airlines. In addition, new business models, such as business jet services and jet sharing, are becoming increasingly popular, the present market leader in this category being Jet Aviation. All of these operators are facing increasingly fierce competition from foreign operators including low cost airlines EasyJet and Ryanair.

The Zurich airport, which was privatized and went public in 1999, did not go unaffected by all this. It is interesting to note that the main airport of Switzerland – a country famous for its precision watches and clocks – is one of the last ranking in terms of timeliness among the main European airports. On the other hand, the Zurich airport facilities were, and still are, renovated and embellished on a grand scale. Unfortunately, passenger figures did not develop accordingly. Therefore, Zurich airport was forced to increase its fees considerably – possibly creating a vicious circle with airlines such as EasyJet moving to other Swiss bases (Basel and Geneva airport).

The crash of a Russian passenger aircraft with a freighter Boeing 757 within the territory of Swiss air traffic control, Skyguide, in July 2002 and various near misses reported in the wider Zurich area are not enhancing the somewhat troubled picture.

Against the above background, Swiss lawyers, politicians and others involved in aviation matters will be kept busy by a myriad of challenges, including:

- *Aircraft finance*: Swiss International and the various other new airlines are constantly reviewing their fleet policy.
- *(Re-)negotiations of contracts*: The continuing difficult economic background creates strong incentives for airlines and their counterparties to re-negotiate existing arrangements.
- *Mergers and acquisitions, initial public offerings*: Some of the major assets of the former SAirGroup have been sold to private equity houses: SR Technics (aircraft maintenance and overhaul) was acquired by 3i, Swissport (aviation ground handling) was sold to Candover Partners Ltd, Nuance Group (duty free business) was sold to the Italian Gruppo PAM and Gate Gourmet (catering) went to Texas Pacific Group. It is expected that in the medium term these investments will be monetized, either by way of trade sales or IPOs. Other Swissair assets remain

unsold, sometimes because of legal and factual complexities. For instance, Avireal, SAirGroup's real estate company, could not yet be sold because the ownership situation of certain real estate abroad remains unclear.

- *Debt collection and bankruptcy*: The liquidation of SAirGroup and its affiliates is expected to continue for the next two to four years.
- *Litigation*: Certain differences between former SAirGroup entities now in liquidation and the successor airline Swiss International remain unresolved. For example, the liquidator of Swissair has lodged a law suit against Swiss International on grounds of abuse of trademark.
- *Alliances*: Swiss International has not succeeded in being admitted to one of the leading alliances, such as Star Alliance or Oneworld. Swiss management itself repeatedly stated that joining an alliance is decisive for Swiss International's survival.
- *Politics*: The Swiss federal government has been widely criticized for its alleged failure to defend the interests of Swiss International and Zurich airport in the face of unilateral German measures that limit the vital approach to the Zurich airport over German territory.

The latest news: Swiss International's losses from operating activities (EBIT) for the first six months of this year are down to SFr19 million from last year's SFr346 million for the same period. The Swiss government seems to consider supporting the Swiss airports in respect of cost of safety and noise prevention. Zurich airport reports an increase in turnover and revenues for the first six months of 2004... Does the Swiss air transport industry see the light at the end of the tunnel?