

The Nationalization of Aerolíneas Argentinas and Austral: Will the Government Set Them Straight?

2008-08-07

After months of delays in scheduled flights, thousands of stranded tourists, broken down planes and conflicts with the unions who represent their nearly 9,000 workers, Aerolíneas Argentinas and its subsidiary Austral are once again run by the Argentine government.

For 18 years, Argentina's flagship airline was in private hands. Its last private owner, Spain's Marsans tourism group, agreed with the government of Cristina Fernández de Kirchner to transfer 94.6% of its shares after having spent seven years at the helm of its operations.

The Argentine government, which already owned 5% of the company's shares, and Marsans have not agreed about whether the combined debt of the airlines is \$890 million but the Argentine Association of Airline Pilots has confirmed that the companies could be losing about \$1 million a day. Actually, before Marsans decided to leave Argentina, the government of Cristina Kirchner had to pay some \$14 million in back salaries to employees, as well as cover unpaid bills for fuel, rental fees for airplanes and replacement parts.

At the height of Argentina's winter vacation season, Aerolíneas Argentinas and Austral have been plagued by a rash of over-sold flights and flight delays caused by a shortage of usable airplanes. Meanwhile, the Argentine government, which took control of operations on July 21, decided to send the airline nationalization plan to the country's Congress so that it could approve the transfer of ownership. Within two months, an auditing process will establish the real value of the company, evaluate its equipment and other assets, and assess how both airlines are functioning.

'The absence of competition and the decline of airplane equipment were the basic causes for the decline of the flagship airline,' says Enrique Déntice, a researcher at San Martín National University (UNSAM). In reality, he adds, 'There's not much pressure by the government to take over the flagship airline again, it's more a case of a business that has stopped being profitable for a private-sector operator. This way, it can take part in a re-nationalization process that is still not very well defined.'

Other factors also helped determine the departure of the Spanish company, according to Gustavo Martínez Pandiani, dean of the department of educational sciences and social communication at the University of Salvador (USAL). 'When a company is in crisis, there are always several causes. On the one hand, it is obvious that the Marsans group didn't know how to manage the company correctly. But it is also clear that most airlines are experiencing hard times. For example, Alitalia is going through similar conflicts.' The Italian airline, which is in the process of being privatized, has been in a delicate financial condition while it looks for a buyer.

The case of Aerolíneas Argentinas and Austral is not an isolated one. The international airline business has been dragged down by problems ever since the Twin Towers in New York fell in 2001, which led to higher costs for [airline] security. Beyond that, there is the steady increase in the price of fuel. As Pandiani notes, 'Most airlines are suffering problems, whether or not they are privately owned or state-owned. Factors such as the remarkably high price of oil affect the sector as a whole, so it is hard to determine if state-owned companies respond better than private companies do in the current landscape.'

Aerolíneas Argentinas was created in 1950, and privatized during the 1990s under the leadership of President Carlos Menem, along with other state-owned companies such as the YPF oil company, and public utilities that supply water and electricity.

A Stronger Governmental Role

The decision of the government of Cristina Kirchner to take control of the flagship airline adds to the wave of nationalizations that the current president inherited from her husband Nestor, who governed Argentina before she took office. Correo Argentino (the Argentine postal service), Thales Spectrum (which controls the Argentine radio-and electronics sector), Aguas Argentinas (the water utility), Transener, the energy transportation company, and the railroads have been returned to government control. Most of these firms were in foreign hands.

'There is little doubt that the Kirchner administrations have an orientation that gives the government a preponderant role, including in the business sector,' notes Oscar Oszlak, researcher at the Center for Studies of the State and Society (CEDES) and CONICET, the national council for scientific and technical research. According to Oszlak, 'The re-nationalization of public companies can be viewed as a policy that these governments apply whenever a whole range of factors - which do not necessarily have the same character in each case - lead them toward this option, whether or not it is technically justified. Even during his second administration, [Prime Minister] Tony Blair of the United Kingdom promised that he would re-nationalize the railroads because of the disastrous way they functioned.'

Likewise, last February, the Grupo Petersen purchased a 14.9% ownership in Repsol YPF, the Spanish-Argentine company, for about \$2.2 billion. Petersen belongs to Enrique Eskenazi, a businessman very close to the Kirchners. Eskenazi owns businesses in the construction sector as well as banks in Santa Cruz (the province where Nestor Kirchner was born), San Juan, and Santa Fe. The Banco Santa Cruz administered the famous \$600 million that the province of Kirchner took to Switzerland when the economic crisis broke out in 2001.

Parallels with Venezuela

In any case, Pandiani does not believe that the Kirchner government has a large scale nationalization strategy. 'On the contrary, the re-nationalizations have been few, and in very diverse activities such as the postal service and water utility. As a result, I don't think you can talk about a 'trend.' The experts say, in contrast, that the policy of Venezuelan president Hugo Chávez is indeed worrisome because it involves putting pressure on private companies. Recently, Techint, an Argentine company that invested in Venezuela, was forced by that country's government to withdraw from the steel market. The process of selling companies to the state in Argentina and Venezuela 'may be occurring at the same time but Argentina's relationship with Spain is good, and I don't believe that the conditions are similar,' argues Enrique Déntice.

Along the same lines, Oszlak stresses, 'There are notable differences between the political plans of the two governments [Argentina and Venezuela], beyond the similar desire for more power on the part of both heads of state. I don't believe that the Argentine president is ready to recreate the immense public sector that existed until the end of the government of Raúl Alfonsín (1983-89), but I do believe that Chávez would not view such a goal with displeasure.'

In addition, unlike Sidor in Venezuela, which ran a steel business that was strategic for the Venezuelan economy, 'Argentina is taking over a company that is facing serious economy problems in its operations and its labor relations,' warns Pandiani.

Aerolíneas Argentinas and Austral are not the first airline companies under the control of the Kirchner couple. In 2003, a company known as LAFSA (Federal Airlines) was created in order to absorb the employees of two other troubled companies: Lapa and Dinar. However, from that point on, the company generated only expenses and never actually took off.

The experts don't rule out the possibility that other service providers may be the target of the Argentine government in the future. Both Déntice and Oszlak see the energy companies as possible candidates. It is not very hard to believe, says Déntice, that 'companies in the energy sector will be on the list. Their [utility] rates, which have lagged behind since the change in relative prices in 2002, and the meager volume of investments that have been made [in these companies] have hardly made for a happy situation when it comes to the supply of electric current to meet the potential production capacity currently in demand locally.'

Given this situation, says Oszlak, 'For private suppliers of electricity and gas, subjected to continuous negotiations with the government regarding the level of their rates and subsidies, the situation can wind up being hard to tolerate.'

An Uncertain Future

Aerolíneas Argentinas and Austral airlines jointly provide 80% of Argentina's domestic flights. Of the 67 airplanes that comprise their fleet, more than 50% are immobilized by technical problems. Its 9,000 employees are represented by six unions who fight separately for their workers' rights, and have carried out various work stoppages in recent years. Their combined debt exceeds \$890 million, and no one knows for sure if it is safe to fly with these two companies.

According to experts, it will be a challenge for Cristina Kirchner to demonstrate that her government can clean up these companies, improve their service and make them profitable again. On the other hand, according to Pandiani, the power of the labor unions within the airlines 'is a question that urgently needs to be resolved. Under the leadership of Marsans, labor protests were a constant obstacle to the normal supply of service. As a result, one of the tasks of the Argentine government will be to leave the company in good working order and improve labor conditions in order to make it attractive in the eyes of the private sector. Julio De Vido, the minister of planning, told the press that the most immediate goal will be to calculate the value of the company. Although I believe that Argentina will wind up with a share of the flagship airline, I believe that this will leave room for private-sector partners.'

Déntice also supports a mixed future for the airline. 'I believe that the best thing now would be a joint operation between the Argentine government and private-sector operators, under conditions that involve equality, including the six labor unions, so that the business can move forward. The entire process of concessions during the 1990s has left society with the impression that private-sector operators make services worse and that the government has no other alternative but to act.'

In contrast, Oscar Oszlak believes that it will not be easy to bring in private-sector partners. 'Some 35 or 40 years ago, it was very common for the government to come to the rescue of private companies that were in trouble, such as in the case of the industrial company Siam Di Tella and in the Compañía Italo-Argentina de Electricidad, the Italian-Argentine electricity company. In those days, the government's strategy involved 'restructuring such companies' by putting them in a 'hospital' under the control of the government, so that they could later be returned to the private sector. I don't believe that this can happen in the case of Aerolíneas Argentinas because it is much larger than the companies that were rescued [then], and because of current condition in the air transportation market, which is in crisis almost everywhere.'

This much is certain, says Oszlak: In order to restore the lost prestige of Aerolíneas Argentinas and Austral, once a source of pride for Argentines, 'The government will have to undertake profound changes in its relationship with labor unions, suppliers and customers, as well as with the political institutions of the federal government. It will also have to draw up a strategic plan that consolidates and expands its routes, modernizes its fleet, and places really professional managers at the head of the company.'

In her speech that officially announced the takeover of the airlines by the government, Cristina Kirchner stated, 'This is a service, and the goal must be to bring back users, to bring back customers ... by providing airplanes that depart and arrive on time.' It remains to be seen if this goal can be achieved during the coming months.

This article is reprinted with permission from [Knowledge@Wharton](#).

This article comes from Hotel News Resource

<http://www.hotelnewsresource.com>

The URL for this story is:

<http://www.hotelnewsresource.com/article33953.html>

© 1998 - 2008 Nevistas and the author.

Brought to you by Hotel News Resource

Distribute your news on our Network

See what all the buzz is about at:

http://www.hotelnewsresource.com/Info-news_account_info.html