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Government steps in to help Flybe

With Britain's biggest regional airline, Flybe, reported to be at the verge of collapse this week, news outlets reported that the carrier was trying to secure additional funding and that the accountancy firm Ernst & Young was on standby to handle the possible administration of the Flybe Group if the funding talks were unsuccessful. Normal operations continued and the airline stated that Flybe would continue to provide great service and connectivity for customers to ensure that they could continue to travel as planned.¹

The reasons² for the possible collapse of this regional airline stems, to a great extent, from the uncertainty of Brexit which hurt its demand. Moreover, the value of the pound slumped drastically after the referendum in 2016 dealing with the U.K.'s exit from the European Union. Additionally, Flybe's size and its competition with other bigger airlines has contributed to its struggles to a great extent. Whenever a Flybe route becomes successful, bigger airlines with larger aircraft move into the market and sweep up. Flybe has almost been driven out of Bristol, with easyJet now having a monopoly in Belfast, Edinburgh, Glasgow and Newcastle. Flybe is also in competition with rail and road as an air passenger duty of £26 on a round-trip within the U.K. may put people off flying. Demands for air travel remain low as competing rail links are improving, for example new rail timetables introduced on GWR dramatically improved services from Devon to London, damaging the appeal of the Flybe link from Exeter to the Capital. Moreover, regional airlines are arguably the most difficult to operate, due to the relatively short duration of many flights and correspondingly low revenues and profits.

Businesses, unions and MPs urged action to help preserve vital air links between cities around the U.K.

¹ <https://www.independent.co.uk/travel/news-and-advice/flybe-collapse-bust-administration-atol-flight-virgin-atlantic-stobart-a9280941.html>

² <https://www.independent.co.uk/travel/news-and-advice/flybe-collapse-bust-administration-atol-flight-virgin-atlantic-stobart-a9280941.html>

On 15 January 2020, the government agreed a deal with Flybe to implement a re-payment plan for Flybe's tax bill of around £100 million. Flybe chief executive Mark Anderson welcomed the deal as a "positive outcome for the U.K." which "will allow us to focus on delivering for our customers and planning for the future."³ Prime Minister, Boris Johnson stated that there are limits to what a government can do to rescue a business, but that the government has an obligation to ensure that the country has the regional connectivity it needs.⁴ The government insisted that Flybe had not been given "any sort of special treatment" given that HM Revenue & Customs will allow companies of many different types to spread payments under a "Time to Pay" arrangement.⁵ According to the most recent Reuters Report, the EU is willing to enter discussions with Britain regarding its rescue of regional airline Flybe, noting that any state aid should be designed to avoid distortion of competition and to ensure a level playing field continues.⁶

The news of the government intervention has angered some in the aviation industry. British Airways' owner IAG filed a complaint to the EU arguing Flybe's rescue breaches state aid rules. The BBC⁷ reported that Willie Walsh, the outgoing chief executive of IAG, wrote to Transport Secretary Grant Shapps, criticising the government's involvement in its rescue.

In a letter, Mr Walsh said: "Prior to the acquisition of Flybe by the consortium which includes Virgin/Delta, Flybe argued for taxpayers to fund its operations by subsidising regional routes. Virgin/Delta now want the taxpayer to pick up the tab for their mismanagement of the airline. This is a blatant misuse of public funds."

In the same article, the BBC quoted easyJet chief executive Johan Lundgren as saying: "Taxpayers should not be used to bail out individual companies, especially when they are backed by well-funded businesses" and that Ryanair had called for "more robust and frequent stress tests on financially weak airlines and tour operators so the taxpayer does not have to bail them out". The news also angered environmental groups and rail companies.

³ <https://www.msn.com/en-gb/news/newslondon/british-airways-owner-files-complaint-over-governments-decision-to-rescue-flybe-from-collapse/ar-BBYJWc?ocid=spartanntp>

⁴ <https://www.theguardian.com/business/2020/jan/14/flybe-government-talks-airline-tax-bill-sajid-javid>

⁵ <https://www.ft.com/content/961f87ca-3766-11ea-a6d3-9a26f8c3cba4>

⁶ <https://uk.reuters.com/article/us-flybe-funding-eu/eu-ready-to-discuss-with-uk-state-aid-for-flybe-airline-idUKKBN1ZE1K>

⁷ <https://www.bbc.co.uk/news/business-51117885>

The British Airline Pilots Association General Secretary Brian Strutton however welcomed the news and stated that "This is good news for 2,400 Flybe staff whose jobs are secured and regional communities who would have lost their air connectivity without Flybe."

When Head of Chambers, Lawrence Power and Head of Legal Operations, Robert Pidgeon visited the Flybe facility in Exeter, they were impressed with the high-quality infrastructure and training programmes in Flybe's training academy. The Academy is a modern international facility that includes a flight simulator complex, Cabin Door trainer, purpose-built classrooms and an integrated Apprentice workshop allowing Flybe to offer an increased range of training. The employees, ranging from pilots to cabin crew are committed and well trained and shutting down Flybe would mean devastating job losses for Flybe's loyal employees.

Whilst the arguments and criticisms continue, fortunately so do the flights which is a big relief for the Flybe employees and the 8 million people a year who currently depend on Flybe's service.

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