



# Air Travel is Broken

by Andrew Thompson

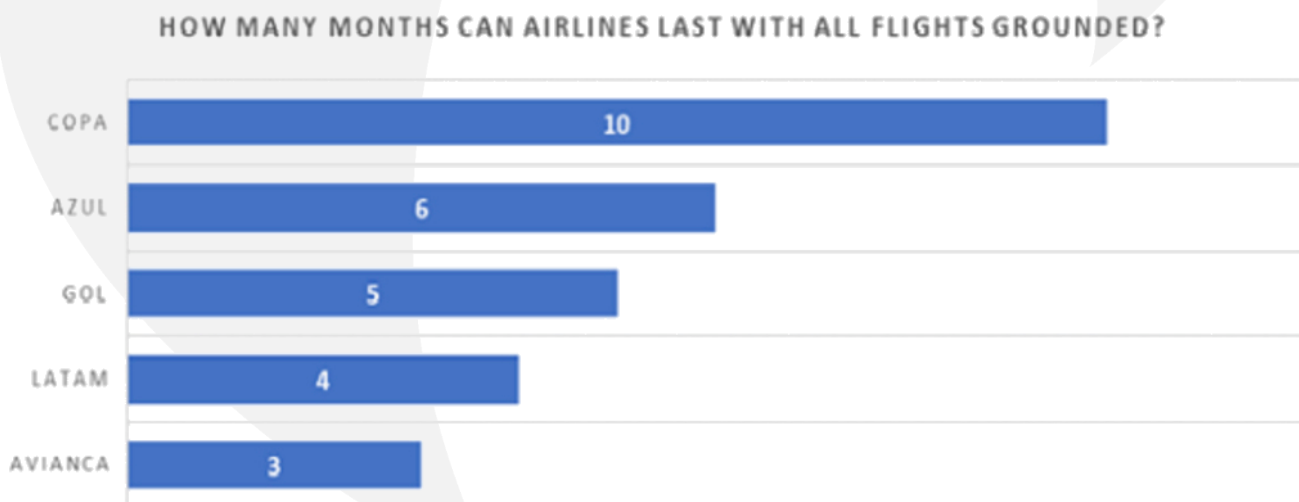
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## What happened?

Latam Airlines, Latin America's largest airline with annual revenues of around US\$10.4bn and 41,000 employees filed for US Chapter 11 bankruptcy protection on 25 May.

## The details

The COVID-19 pandemic has grounded more than half of the world's aircraft and broken the current business model for commercial passenger travel. Latin America has been hit hard. IATA estimates global losses of US\$314bn of which US\$18bn will burden Latin American companies. Latam's filing was the third of three blows in quick succession. On 28 April Boeing had walked away from a US\$4.2bn deal to buy the commercial aviation business of Brazilian aerospace manufacturer Embraer. On 10 May Avianca, the region's Bogotá based number two airline, with US\$4.9bn in annual revenue, also filed for Chapter 11 bankruptcy. Both Latam (part-owned by Delta Airlines of the US and the Chilean and Brazilian Cueto and Amaro families) and Avianca (part owned by United Airlines) hope to use Chapter 11 to lower debt levels and reorganise their business. Others face similar challenges. A report by



Source: JP Morgan, Wilson Centre

JP Morgan earlier this year suggested that after Avianca and Latam, airlines like Gol, Azul, and Copa will burn through cash rapidly if their aircraft remain grounded.

Clearly, a fundamental re-think of international travel is needed. The problem is that no-one has yet come up with an alternative and commercially viable model. Leaving empty middle-row seats for social distancing requirements will reduce occupancy rates to unprofitable levels.

Being socially distanced on the plane may be of little use if public transport and airports themselves are insalubriously overcrowded. Innovative solutions may emerge, but in the meantime uncertainty remains high. Latin American governments will face pressure to bail out more airlines. And until the business model is “fixed” the crisis will have a major impact on tourism, which represents around 3.9% of the region’s GDP



## What does it mean?

2020 will be a terrible year for air travel in Latin America. Things will begin to improve in 2021, but the future shape of the airline business is uncertain.

### About the Author

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As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC’s Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.

