



Colombian taxpayers are bailing out Avianca

by Andrew Thompson

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What happened?

Avianca chief executive Anko van der Wer on 2 September responded to criticism of a government funded US\$570mn loan to help rescue the airline.

The details

Heavily impacted by the coronavirus pandemic, Colombia-based Avianca, Latin America's second largest airline, has been in Chapter 11 bankruptcy proceedings since May. Under the supervision of a US bankruptcy court it is seeking to put together a financial rescue package. It is thought to need around US\$2bn, so receiving a US\$570mn loan from the Colombian government is a big help. Van der Wer says the airline is beginning the long road to recovery. After five months in lockdown domestic flights recommenced during the first week of September, at roughly 10% of pre-pandemic capacity. International flights are expected to re-start towards the end of this month. Still, the chief executive says there is a very long way to go. The company is only operating 46 flights a day, compared to over 750 before the pandemic started. He has acknowledged that getting back to pre-pandemic levels of demand is a process that will take various years.

The US\$570mn government loan, offered over 18 months, has been highly controversial. It has raised many of the questions that are normally posed by state aid to a struggling company, including questions of fair competition. There is a risk that if Avianca



Source: [Alan Wilson from Stilton, Peterborough, Cambs, UK](#) – [Boeing 787-8 'N783AV' Avianca](#) under [CC BY-SA 2.0](#)

fails to come out of Chapter 11, taxpayers' money will be lost. Many Colombians – some of whose businesses were hurt by the shut-down in air travel and freight – think the funding could be better used elsewhere, for example to support jobs in small and medium-sized enterprises (SMEs). Fernando Carrillo, Colombia's public prosecutor, asked the government to answer 18 questions about the transaction, including how it has assessed the commercial risk and what it has done to ensure its funding is not used to pay off commercial creditors outside Colombia.

President Iván Duque and a range of officials sought to respond. They say Avianca has a 45% share of Colombia's air passenger market, and a 31% share of the airfreight market, serving 75 destinations and contributing nearly US\$4bn or 1.4% of GDP, to the Colombian economy. In other words, its collapse would have a major negative impact on employment and business activity and is worth avoiding. It has also been pointed out that the assets of Lifemiles, an Avianca-owned subsidiary that is not part of Chapter 11 proceedings, are being used as collateral for the loan. Officials add that the loan had three main conditions: first, that Avianca should continue to use Colombia as its main operational hub; second that the interest rate be higher than the rate currently paid by the Colombian government on its sovereign debt; and third, that state loan funds can only be used for day-to-day operations, and not to pay-off pre-existing debts.

What does it mean?

Part-funding Avianca's financial rescue is clearly a calculated risk. If the airline comes out of Chapter 11 in 2021 or 2022 Duque will be seen as a wise investor. But renewed difficulties (including a possible Covid-19 second wave) might seriously complicate matters and embarrass the government in an election year

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.



These stories are also available on Andrew's blog site, [La Rambla Research](#).