Swissair faces battle with government over Sabena

The Swissair Group is experiencing a deteriorating situation in France where it wants to back out of the deal, strapped Swissair Group to provide a recovery plan. The threat follows the government's rejection, last week, of Swissair's bid to extricate itself from a deal to increase its stake in the Belgian flag-carrier from 49.5% to 85% by paying for a portion of a recovery plan.

The two shareholders are continuing talks to seek agreement on how to save Sabena from possible collapse. Government estimates are said to put the cost of saving the airline at €1 billion ($880 million) and it is looking to the cash-strapped Swissair Group to provide around 50%. A Sabena recovery plan is on hold until new funding can be found.

While declining to confirm that it wants to back out of the deal, Swissair says: "The airline has not yet filed for bankruptcy and they are still in a sort of observation period - there is no court involvement as yet."

Trouble for Air Littoral

The Swissair Group is experiencing a deteriorating situation in France where Air Littoral is facing imminent bankruptcy proceedings ahead of last-minute meetings intended to thrash out a rescue strategy.

Montpellier-based Air Littoral, in which Swissair has a 49.5% stake, is holding a series of works council meetings involving unions and management at which potential takeover contenders are presenting their plans. Ex-chairman Marc Dufour is the only declared bidder, although there are believed to be others. His preferred method of salvaging the company involves the loss of 20-30% of the workforce and various other conditions.

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Meanwhile, just days before the massive French summer holiday rush, Swissair's other French airline, AOM-Air Liberte, has still to announce a rescue package that will save it from almost certain liquidation.

The Tribunal de Commerce de Creteil, which is handling the carrier's bankruptcy affairs, has only permitted the airline until 2 July to come up with new investment plans before it is potentially wound up with the loss of 5,100 jobs. Passengers booked onto AOM-Air Liberte flights are besieging travel agents - and the airline - with requests for reimbursement or re-booking onto alternative carriers.

Yet another rescue hat has been tossed into the takeover ring, however, with the addition of Toulouse-based wet-lease operator Aeris (formerly Air Toulouse) expressing its interest in taking part of the AOM-Air Liberte.

Corti says: "We are going to organise an ordered withdrawal from all loss-making foreign airline participation. Our role is, unfortunately, not to finance the operating losses of companies of which we are a shareholder."

Belgian prime minister Guy Verhofstadt has already warned that the government would sue Swissair if a settlement is not found. Lawyers for the government believe that they could bring two cases against Swissair in addition to one for breach of contract were Swissair to refuse the further acquisition of shares.

Lawyers argue that Swissair seriously damaged Sabena in forcing it to acquire 37 Airbus aircraft in 1997. They allege that, in a desire for fleet commonality across the group, Swissair stepped outside the original terms of their contract and breached common law. The government also hopes to prove that Swissair has not met its obligation to ensure profitability of Sabena as part of its €350 million Blue Sky cost-cutting programme.

The unions, fearing the loss of up to 13,000 jobs across the airline and Brussels international airport, have called for further state intervention to support Sabena. Under European Commission rules, the Belgian Government can only bail out Sabena if it can find a commercial partner to match its offer.