

Webinar on Distressed Airlines: Navigating Stormy Skies and Rough Landing

1. Introduction

The webinar, **Distressed Airlines: Navigating Stormy Skies and Rough Landing**, was the third session in the INSOL Asia Hub series exploring distressed airlines. The session examined the challenges faced by airlines experiencing financial distress and the mechanisms available to support restructuring and recovery.

Panelists discussed the legal, financial, and operational realities of airline restructurings across multiple jurisdictions, drawing on practical experience from cases including Scandinavian Airlines (SAS), Aeromexico, Air Vanuatu, Jet Airways, Azul.

The discussion was structured around three central themes:

1. The importance of a robust legal framework and available restructuring tools;
2. Financing dynamics in airline restructurings; and
3. The role of communication in distressed airline scenarios.

The focus throughout was on practical lessons and key takeaways from these restructuring experiences.

2. Key Themes and Discussions

1: Robust Legal Frameworks and Restructuring Tools

The panel began the discussion with a discussion on the main advantages of utilizing the US Chapter 11 process for corporate reorganization. A key reason for using US Chapter 11 regime for international airlines in particular is the ability to address aircraft fleet reconfiguration. Rather than merely achieving a simple balance sheet restructuring, airline cases in the US often require a complete operational restructuring to effectuate a holistic restructuring of a distressed airline. A critical tool is the ability to assume or reject aircraft leases. This allows an airline to negotiate better terms or exit unprofitable leases to fit a new business plan. It was noted that Section 1110 of the US Bankruptcy Code provides the most significant "holistic change" by generating massive EBITDA savings through lease restructuring. The automatic stay granted upon filing a Chapter 11

petition prevents creditors from acting against the business. While it ostensibly applies worldwide, it is practically enforceable against any party that needs access to the US financial system or uses dollar-denominated accounting, effectively bringing diverse global constituents into a single forum.

In contrast to the US debtor-in-possession model, India employs a creditor-in-possession model because, historically, debtors took undue advantage of "debtor-in-possession" systems to strip assets. As Vanuatuan restructuring regime lack a formal restructuring moratorium, liquidators may have to execute a restructuring through a "creditor compromise" while the airline is grounded, which requires rapid communication and consensus building without legal protection from creditors. The choice between restructuring locally or in a foreign jurisdiction (like the US) depends on the scale of the business, predictable outcomes, and the location of major creditors.

2: Financing in Restructuring

Debtor-in-Possession (DIP) financing is the critical lifeline that provides liquidity for case administration and "buys time" for a proper reorganization. A large "headline" DIP financing figure is a vital signal of stability. It communicates to the market, and specifically to customers, that the airline is stable enough to continue operations.

A sizable DIP financing figure, such as in the case of Aeromexico's a \$1 billion DIP financing figure, during the height of COVID-19, provided a "runway" for a two-year reorganization, which was vital to its successful restructuring.

DIP lenders are often sophisticated investors (such as Apollo) who structure their financing to potentially become the eventual owners of the airline upon emergence. This ensures that a major stakeholder is incentivized to prevent liquidation. Airlines must "scrounge" for collateral to attract lenders, often packaging intellectual property, frequent flyer programs, spare engines, hangars, and route slots. In some cases, the only true value is the Airline Operating Certificate (AOC), which only has value if the business remains an operating concern.

In regions with fewer tools, financing may instead come from existing stakeholders with "skin in the game" who are shown that a restructuring will yield a higher recovery compared to a piecemeal liquidation.

3: Communication Protocols

Communication can "make or break" a restructuring. It is essential to combat the misconception that "bankruptcy" means an airline is ceasing operations or is unsafe. To avoid a "death spiral" of cancellations, airlines must be transparent and frequent in their updates to customers and the public. Professionals often use terms like "voluntary reorganization" rather than "bankruptcy" to manage international perception.

Clear communication is equally important for employees and regulators. Employees need to know their jobs are secure to maintain operational safety, while regulators need confidence in the airline's future. Key Employee Retention Plans (KERPs) and incentive programs (KEIPs) are used to keep rank-and-file staff and senior management focused on the restructuring goals.

3. Highlights and Insights

Beyond the three core themes, panelists identified broader structural challenges affecting airline viability:

- Persistent post-COVID supply chain disruptions, including shortages of aircraft parts and components, leading to prolonged groundings, increased costs, and liquidity strain.
- Ongoing talent shortages, particularly pilots and maintenance personnel, with projections indicating substantial future gaps.
- Geopolitical restrictions, sanctions, and airspace limitations affecting route economics and profitability.
- Exposure to fuel price volatility, particularly for unhedged airlines, and jurisdiction-specific labour laws influencing restructuring flexibility.
- In India, strong sector growth combined with market concentration and the dominance of a small number of carriers, placing continued pressure on smaller airlines.

The panelists emphasised that these structural and external factors continue to shape the risk profile of airlines, even where restructuring tools and financing are available.

4. Conclusion

The panel concluded that successful airline restructurings depend on three interrelated factors: the strength and flexibility of the legal framework, the availability and scale of financing, and disciplined, strategic communication. Robust restructuring tools create the platform for reorganisation. Meaningful financing signals market confidence and enables operational stability. Clear and carefully managed communication preserves stakeholder trust and commercial momentum.

At the same time, structural realities including asset composition, regulatory obligations, and broader market pressures remain decisive. While the tools for a smooth landing exist ranging from Cape Town Treaty protocols to Key Employee Retention Plans, their success depends on the predictability of the legal forum and the ability of management to project stability to a price-sensitive public.