Jet Airways Rescue Plan

Why in news?

SBI led consortium of 26 banks took the Jet Airways to the NCLT to recover their dues of over Rs 8,500 crore.

How Jet Airways rolled into crisis?

- Jet Airways was founded in the early 1990s after India ended a state monopoly on aviation.
- As a slew of budget carriers started flooding the market in the mid 2000s, offering no-frills, yet on-time flights, Jet Airways began dropping fares, to low cost.
- On top of that, provincial taxes of as much as 30 per cent on jet fuel added to its expenses, while price-conscious Indian travellers refused to pay a premium for on-board meals and entertainment.
- Unlike budget operators, full-service airlines such as Jet Airways offer such amenities mostly for free. Jet Airways lost money in all such services.

What is the current status?

- Jet and its lenders have been searching for new investors, but have failed to agree a proposal..
- Also the lenders have been trying to sell the airline for the past five months, but have failed to find a buyer.
- So the Lenders have decided to seek resolution under the IBC.
- This process will allow Jet's lenders, led by State Bank of India, to sell the company as a whole or sell its assets piecemeal to maximize recovery for creditors and bring to an end weeks of uncertainty over the airline's future.

- It would surely have been instructive for the creditors to revisit the Chapter 11 bankruptcies that a clutch of U.S.

What needs to be done?

- The government must take a closer look at IBC and examine the viability of a framework akin to Chapter 11 that may ultimately more suited to industries like Aviation.
- For the health of India’s aviation industry, it will be crucial for policy makers to review several issues that affect the viability, from the way aviation turbine fuel is taxed, to the charges airport levy.
- The carriers too need to reappraise their pricing strategies and ensure that in the quest for market share they don’t end up in a race to the bottom.

Quick Fact

Chapter 11 of bankruptcy in US

- Chapter 11 of the bankruptcy of the United States is designed to allow struggling businesses to restructure their finances and maximize the return to their creditors and owners.
- A Chapter 11 plan is in effect a contract, the debtor and its creditors as to how it will operate and pay its obligations in the future.
- This plan helped Delta and United to not only survive the crisis of confidence in aviation triggered by the terrorist attacks of September 11, 2001, the surge in jet fuel and labor costs and the intense competition from low-cost carriers.
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Source: The Hindu