

“Houston, we have a (big) problem!”



Financial rescue packages cost money, taxpayer money. Your money. But that money, much like a mortgage on your house, ultimately, has to be paid back by *you*, the taxpayer. It just does not feel that way when we talk about “government money” – but, rest assured, it is you and your money we are talking about.

The publicly traded airlines (Qantas, Virgin & REX) are currently in discussion with the federal government about considerable rescue packages. The deputy prime minister, McCormack, today confirmed the discussions involved “about \$1billion dollars”. It is believed however that Virgin alone will need well in excess of this amount just to survive. Even if “only” \$1billion is provided, these are taxpayer debts and deficits incurred to rescue selective publicly owned companies.

As public companies, the airlines themselves are looking out for the interests of their shareholders, not the national interest or that of the travelling public. But even if a rescue package for this industry is deemed politically or economically justifiable; as a quid pro quo, any such rescue package should come at the very least with the issue of airline equity to the federal government. In due course, the government can sell this equity and with the proceeds reduce its debts/deficits, directly benefiting the taxpayer who provided the rescue funding in the first place. During the GFC, this practice was very successful in the USA, UK and Europe (automotive industries and banking sectors in particular). By taking equity, the vast majority of rescue funds were eventually recouped by national governments (and some even made a profit; i.e. British government owned 43% of Lloyds after it injected GBP 20.3 billion and sold this at a profit in 2017).

This solution is more than fair to the airlines (and their shareholders) who, in exchange for some dilution, are able to survive the crisis by virtue of taxpayer support. It is also fair (or at least justifiable) to the rest of us who will likely be burdened with much smaller debts and deficits than would otherwise be the case.

Equity in exchange for substantial government rescue packages should be common practice.

#auspol #covid19 #qantas #VirginAust

Happy investing!

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