

HOW AIR LANKA LOST THE BEST DEAL

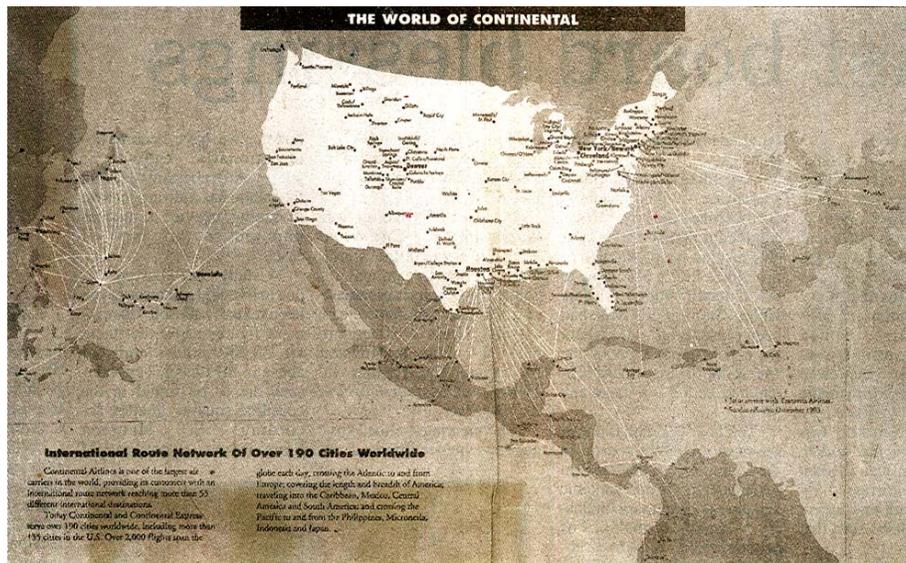
The Sunday Leader last week dealt with the 10-year Business Plan for Air Lanka Ltd., based upon which the Public Enterprise Reform Commission [PERC] had privatised Air Lanka Ltd., which Business Plan had been submitted by Emirates Airlines, to whom PERC had negotiated the sale of 40% shareholding of Air Lanka Ltd., and upon whom, powers, control and responsibilities had been conferred, to manage and operate Air Lanka Ltd., without reference for approvals to the Board of Directors and/or the shareholders of Air Lanka Ltd., even notwithstanding Emirates Airlines being a minority shareholder, at present owning only 26% shareholding of Air Lanka Ltd. Such rights included, the negotiation and execution of contractual agreements and even the purchase of Aircrafts.

PERC had also acquiesced, to the condition, that the Government of Sri Lanka's shareholding in Air Lanka Ltd., would be a minimum shareholding of 21% after December 31, 2000, regardless of Air Lanka Ltd., being the national carrier of this sovereign country, whereas the Emirates Airlines minimum shareholding in Air Lanka Ltd. has been stipulated as 30%.

Such contractual arrangements had been entered into with Emirates Airlines, notwithstanding Emirates Airlines being one of the major competitors of Air Lanka Ltd. in this very region itself. Emirates Airlines themselves have clearly so admitted in the 10-year Business Plan that they had formulated and submitted for Air Lanka Ltd.'s business operations for the next 10-year period. – viz: "As Emirates is a major player in Air Lanka's markets, commercial strategies will be harmonised between the two partners, including distribution. This will be particularly in the European and Pacific rim markets. The Airlines would thus complement each other's activities in all geographical spheres of operation. Sales offices will be coordinated in common stations to enhance the cross-selling of Air Lanka and Emirates and to achieve cost savings through economies of scale".

Such harmonisation of commercial strategies, complementing each other's activities in all geographical spheres, with common stations for cross-selling Air Lanka and Emirates, to achieve cost savings through economies of scale, are not strategies that spell out growth for Air Lanka Ltd., the national carrier of this country, but on the contrary, these strategies clearly spell out to any business mind, knowledgeable in the airline industry, that the growth of Air Lanka Ltd., is to be contained. Proof of this is quite evident by the fact, that the present Aircraft fleet of Air Lanka Ltd., of 9 Aircrafts is to be the same fleet of 9 Aircrafts, even after 10-years in 2008, as borne out by the 10-year Business Plan for Air Lanka Ltd.

CONTINENTAL OPTION SHUNNED?



Continental Airlines has an international route network of over 190 cities worldwide

It is in the aforesaid circumstances, that *The Sunday Leader*, not only in the public interest, but also in the national interest of this country, poses the cogent question, as to why, other options were not considered strategically for the future growth of Air Lanka Ltd., the national carrier of this country? This is particularly moreso, in that, there in fact had been another option, that ought to have been considered strategically, by those knowledgeable in the airline industry. This option had been the offer to negotiate for the privatisation of Air Lanka Ltd., by an American airline giant, Continental Airlines. Without encouraging Continental Airlines to pursue with strategic discussions and negotiations, it is admittedly evident, that PERC, for some unfathomable reasons, had deliberately blunted and/or thwarted the approach made by Continental Airlines, as clearly borne out by the correspondence exchanged by and between PERC and representatives of Continental Airlines.

The Sunday Leader exposures have clearly revealed, that Continental Airlines had been put off by PERC, by PERC not considering and/or negotiating on initial terms that had been put forward by Continental Airlines, whereas PERC on the contrary had hastily concluded negotiations with Emirates Airlines, agreeing to such very terms and conceding even greater concessions to Emirates Airlines, than what Continental Airlines had requested for, in its opening gambit for negotiations. Notwithstanding the representatives of Continental Airlines having intimated to PERC by their Letter dated June 6, 1997 that – "Of course, should the government's position change along the lines, we believe appropriate, we would be pleased to revisit the situation", PERC, however, questionably, contrary to established norms in business negotiations, had not communicated to Continental Airlines, the shift in the government's positions, to have also pursued strategic negotiations with Continental Airlines in competition with Emirates Airlines, to have strategised the best deal for Air Lanka Ltd., and this country. Why?

BANKRUPTCY OF WHOM ?

Ironically, Simat, Halliesen & Eichner, Inc. New York, a constituent partner of the Financial Advisory Group, that assisted PERC with the privatisation of Air Lanka Ltd., by their Letter dated November 8, 1996 had clearly confirmed to the representatives of Continental Airlines that – "The Government of Sri Lanka, through PERC, is very interested in your participation in the Air Lanka privatisation". Unable to rationally explain, as to why Continental Airlines had not been offered the same terms, that had been offered to Emirates Airlines, PERC in its official statement published in *The Sunday Observer* of May 24, 1998 under the caption "Air Lanka; Allegations Refuted" had stated – "Continental Airlines was in bankruptcy until its merger with the Bonderman Group and it was operating under Chapter 11 bankruptcy protection for many years". If this had been so, why were Continental Airlines, in the very first instance, invited to participate in the privatisation of Air Lanka Ltd., stating that the Government of Sri Lanka was very interested in their participation, as aforesaid?

The "bankruptcy" appears to be that of PERC, as borne out by the privatisation of Air Lanka Ltd. Going through the phase of Chapter 11 in America, is a process of financial restructuring, which many a American companies have gone through, to financially restructure to facilitate future growth, quite unlike in the local scenario, where politicians, openly decry on political platforms, the productive business sector, unethically publicly talking about bank loans to such business sector, without considering the enactment of laws, such as Chapter 11, to protect the productive business sector in this country and ensure its growth and development.

BOEING OPTION CONSIDERED ?

The basic strategy of the 10-year Air Lanka Business Plan has been to re-fleet, 6 out of the 9 Aircrafts of Air Lanka Ltd. Why was the alternative strategy of acquiring Boeing Aircrafts not explored, at all to strategically and rationally have evaluated the competitiveness? Surely, an option could have been, the acquisition of 9 Boeing Aircrafts and also selling and/or leasing the balance 3 Airbus Aircrafts, if one were to focus on the objective of having a fleet of the same Aircraft make?

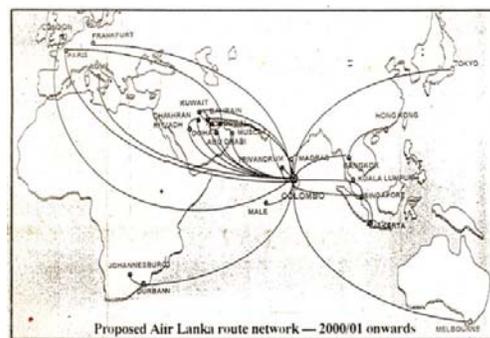
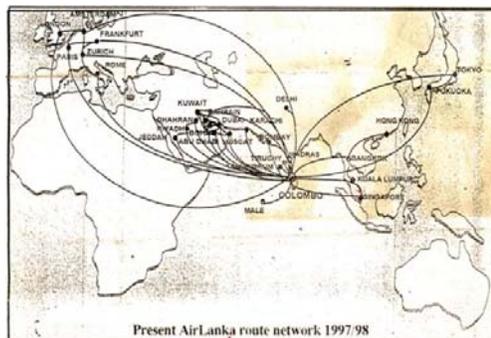
Ought not a Boeing Aircraft option have been technically, operationally and economically competitively examined and evaluated, prior to having made decision? How is it that, such major decisions having a far reaching impact on the long-term growth strategies of this country, have been made in a very prima-facie manner and on a superficial basis? Ironically, on the other hand, countermending the recommendations made by the Cabinet Appointed Tender Board, the Government by Cabinet Decision, procured GEC Alsthom French Locomotives for the Sri Lanka Government Railways, contrary to such standardisation policy, advocated and espoused for Air Lanka Ltd.



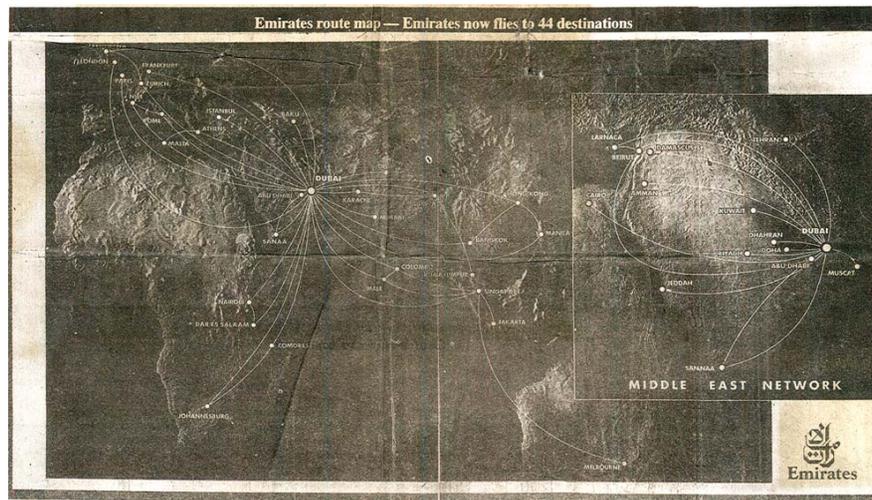
The Sunday Leader does not raise the issue of the Boeing Aircrafts option in mere isolation, but does so, in the context of the proposal that had been made and opportunity had of having negotiated for the privatisation of Air Lanka Ltd., strategically with the American Airline, Continental Airlines, to have ensured a growth strategy for Air Lanka Ltd., the national carrier of this country, in preparation for the next millenium, thereby competing with the major regional player Emirates Airlines, with whom, however, Air Lanka Ltd., have now struck a "strategic alliance", to harmonise and complement each other's activities, with common stations for cross-selling ! *The Daily News* of May 5, 1998 published - "What in store for Air Lanka in brief", as given at a media conference by Tim Clark Emirates Chief Director (Airline).

GLOBAL LINKAGE FOR GROWTH

To demonstrate the synergy for strategic growth of Air Lanka Ltd., with Continental Airlines, that PERC ought to have rationally considered, *The Sunday Leader* publishes the present route network operated by Continental Airlines and Air Lanka Ltd. Does it not visually clearly demonstrate, the global linkage opportunity by such alliance for the growth of Air Lanka Ltd., particularly in this region, in which Continental Airlines is not a competitor? Is this tragically, not a lost opportunity for the future growth of this country? If so, in the interest of the nation, who should be held accountable and responsible for the same ?



The Sunday Leader also publishes the proposed route network for Air Lanka Ltd., for the year 2000 as given in the 10-year Business Plan for Air Lanka Ltd., formulated by its own regional competitor Emirates Airlines and also the present route network operated by Emirates Airlines, themselves, and *The Sunday Leader* leaves it to the public of this country, other than those blind, to consider, how Air Lanka could grow in such circumstances, as opposed to the growth opportunities and potential presented by a global linkage with Continental Airlines? Why was such a strategy, whilst Continental Airlines was knocking on the door, not carefully examined and considered in depth, prior to hastily privatising Air Lanka Ltd., that too away from the public glare ?



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