



Trudeau Government to Air Canada (TSX:AC): Cough Up the Refunds or No Aid!

Description

On Sunday, we got more news on the ongoing **Air Canada** ([TSX:AC](#)) refund debacle. The federal government won't provide it (or any other airline) with any financial aid until it issues refunds to its COVID-19-impacted customers.

In March, Air Canada abruptly cancelled countless international flights, as the COVID-19 pandemic swept the globe. Initially, it refused to offer refunds to those affected. Later, it offered refunds in limited circumstances, along with vouchers for everyone it couldn't give refunds to.

Recently, Air Canada claimed that it was giving its customers the refunds it initially refused to. In a comment on a [Twitter post by WestJet](#), the airline said that full refunds had been its policy all along. The responses to Air Canada's comments told a different story. Immediately after Air Canada trashed WestJet, customers filled up its feed, claiming they had never received their refunds — nor their re-usable vouchers.

A prolonged refund soap opera

The Air Canada refund drama is an old story. Since March, it has gone through many phases, with lawsuits, social media battles and piles of bad press being recurring features. Shortly after Air Canada's initial refusal to grant refunds, the law firm EvoLink launched a lawsuit. Later, a very public Twitter spat with WestJet generated a mountain of bad press.

Now we've got the federal government stepping up to plate. Finance Minister [Bill Morneau](#) said in a recent statement: "Before we spend one penny of taxpayer money on airlines, we will ensure Canadians get their refunds." It's a tall order, but a welcome development. While Morneau will have to work hard to make refunds a reality, the fact that he has committed to it provides hope for many Canadians. And as you're about to see, it may even be good news for Air Canada itself.

Where all this is coming from

If Air Canada has been a little hesitant to give refunds this year, it's not hard to see where it's coming from.

The company has been an unmitigated financial disaster in 2020, losing over \$3 billion to date. Just recently, the company released a third-quarter report that showed a \$685 million loss and an 88% passenger decline. That loss was huge, but actually pretty small compared to the first and second quarters, when it lost \$1.05 and \$1.7 billion, respectively. Add them all together and you've got about \$3.4 billion in year-to-date losses.

It's been a gruesome picture. But to an extent, it has been unavoidable. Airlines are financed by heavy amounts of debt and have massive recurring costs that don't go away when they shut down their routes. Just last quarter, AC had \$149 million in *interest* expenses alone! That's a lot of cash for just one fixed cost. Throw pension obligations and airport-related fees on top of that, and it's nearly impossible for an airline with an 88% passenger decline to make money.

Perhaps this partially explains why Air Canada has been slow to process its refunds. Running out of cash, it seems to be struggling to come up with the funds. However, the story isn't over. Air Canada has long been asking the federal government for help. Now, it looks like it will have to cough up the refunds in order to get it. Perhaps now we're ready to move on from one of the longest, most drawn out financial soap operas of 2020.

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andrewbutton

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