



**KEY ELEMENTS ON ECONOMIC MATTERS FOR SUPPORTING
THE AVIATION SECTOR IN THE COVID-19 CRISIS**
(version 4, 6 April 2021)

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A - INTRODUCTION

The COVID-19 pandemic has a significant economic impact on the air transport sector, and all operators in the supply chain are directly or indirectly impacted by the crisis. It will take considerable efforts from all stakeholders to re-start and re-vitalise the sector. This note aims to catalyse a dialogue between ECAC DGCA's, about the measures necessary to help restart the system and support actions by States. This document does not represent an agreed policy or "lines to take".

To the extent possible, ECAC Member States should embrace a common approach to the adoption of economic relief measures to avoid asymmetries in our national interventions and any distortion of competition. In addition, there should be a balance between the economic needs of all actors in the aviation system. Member States should ensure that such measures adhere to key principles such as those set out in the ICAO guidance¹ and included in ICAO CART recommendation 10.

The overall objective should be to maintain a vibrant, competitive market in air travel which is safe, delivers business opportunities for airlines, provides a fair and equal opportunity to compete, and provides strategic connectivity, employment and economic added value for states as well as quality and affordability of air services for consumers and citizens.

B - GENERAL PRINCIPLES

- 1) **Objectives of economic relief measures:** Economic relief measures should have as an objective to retain a healthy and diverse aviation market after the crisis, and to safeguard essential connectivity and competition, without compromising safety requirements. Keeping connectivity and routes should be part of the priorities. For that purpose, they should consider costs and burdens on the industry which could be waived, deferred or reduced to ease cash flow and liquidity challenges. Member States should adopt measures for an efficient, swift but also balanced recovery without creating competition distortion.
- 2) **Defining economic relief measures:** Economic relief measures should be efficient, effective and non-discriminatory, and not create overlaps within the supply chain. In this regard, it is essential to identify priority areas for intervention, considering that, due to the interdependence of the various players, there can be a 'multiplication' effect from any single relief measure. This effect could, inevitably, reverberate further, with positive cascade effects for some players, whilst others might not benefit, directly, from the measure. The economic relief measures must aim at the financial solidity of all aviation stakeholders.
- 3) **Coordination of measures between Member States:** it is important to have a common European approach to economic relief measures, where relief measures for the sector are found and can be delivered by all EU and ECAC Member States in a concerted way. The principles of reasonableness, non-discrimination, transparency, proportionality and fair competition should guide the definition and implementation of relief measures necessary to support all aviation stakeholders in need, during the crisis and the re-start of operations. *Note that Member States that are parties to the Agreement on the European Economic Area, which contains strict internal market rules on state aid, should implement any measures in compliance with these rules.*

To avoid a delay in the restart of operations and an extension of the economic crisis

¹ <https://www.icao.int/sustainability/Pages/Economic-and-financial-measures.aspx>

of the sector, measures and rules beyond economic ones, such as health-related ones, should also be harmonised to the extent possible among Member States, following, where appropriate, guidelines from ICAO, EASA and ECDC.

- 4) **Comprehensive recovery plans:** Given the impact of the crisis on all actors in the sector (airlines, airports, ANSPs, ground handlers, manufacturing, training and certification institutions, security companies, etc.), all should also be included in integrated recovery plans, aviation restart/recovery or exit strategies developed by organisations and States. EU Member States could consider making use of National Recovery and Resilience Plans to include aviation stakeholders insofar as they are eligible for reform and investments funding through the EU's RRF funds – i.e. for decarbonisation and/or digitalisation investments, subject to compliance with state aid rules and the 'do no significant harm' principle.
- 5) **Government support to industry:** Member States should have great flexibility when providing incentives and/or public contributions to the sector within their own territory that are non-discriminatory to all aviation stakeholders. In certain circumstances, this may require some form of derogation from current legislation (national, EU or supranational law), and temporary adjustments to existing rules. As regards EU regulations and domains which are under EU competency, this would require amendments to be adopted in line with existing EU procedures, in a timely manner that provided the needed flexibility but also predictability.

It is important that, at all times, the principles of transparency, reasonableness and non-discrimination be rigorously maintained. Consideration should also be given to incentivising environmental sustainability, e.g. by linking it to governmental support. Measures to support employment and the retention of personnel should be given particular consideration.

- 6) **Conditions for public support:** Consideration should be given to setting proportional and reasonable conditions and requirements and public interests to be met by the sector (e.g. how to build financial buffers in the future; supporting aviation's firm commitment to environmental sustainability requirements, employment possibilities, noise reduction).
- 7) **Market access:** Air carriers are globally important "strategic assets", that deliver essential international connectivity. To ensure such connectivity and the provision of air transport as an essential service, Member States should consider relaxing, temporarily, for a clearly determined period and on a reciprocal basis, existing restrictions on market access and traffic rights typically defined by bilateral, EU-level and multilateral agreements.
- 8) **Approval of charter flights:** A pragmatic approval of charter flights during the crisis, however, helps to deal with constraints of traffic rights in air transport agreements. While it is necessary to respect international agreements, formal amendments to international agreements may not provide the necessary flexibility, as lengthy procedures may be required.
- 9) **Airports:** Airports are "strategic assets", in addition to being critical infrastructure for the economy of Member States. In this context the role and contribution to the sector of airport operators and slot coordinators should be recognised. Member States should take necessary measures to alleviate financial pressure on airports to ensure the maintenance of basic operations and continuous provision of services by airports in any phase of the crisis.

- 10) **ANSPs:** ANSPs are "strategic assets" in the sense of providing essential services to the air transport sector. Their situation is specific, as their monopoly nature is regulated by the performance scheme at the EU level. ANSPs have among the highest ratios of critical fixed costs to total costs in the sector and their services must be maintained continuously. Member States should follow the principles and measures as set out in the EUROCONTROL European Network Operations Plan 2021 Rolling Seasonal Plan.
- 11) **Amendment to regulatory frameworks:** Existing regulatory frameworks (e.g. airport charges, performance and charging, air services, PSOs, temporary licenses, etc) need to have flexibility, and should be adapted where needed. They should take into account the extraordinary COVID-19 impact on the sector and should support a sustainable and smart recovery, and stimulate future investments, consistent with the maintenance of the safety and security of aviation.
- 12) **Public Service Obligation (PSO):** Extensive application of what the EU calls the "Public Service Obligation" may be necessary to justify State provision of economic compensation, to aid the rapid restart of both national and international air connectivity (e.g. domestic and international routes) and to help encourage recovery of the air transport sector. PSOs can play an important role in the recovery and provide essential connectivity: but application of the PSO rules must be compatible with competition law, in particular state aid. PSO rules should also be, as a short-term measure, as simple as possible, with short procedural rules for imposing the obligations, without detailed justification, and with the possibility of immediate direct subsidisation. They should be clearly operated on an exceptional basis, and only for a limited period of time until the route is viable again.
- 13) **Reduction of administrative burdens:** Bureaucratic and administrative requirements relating to international air transport can be a considerable additional burden for the sector already struggling to cope during the crisis. Member States and organisations should therefore consider options for easing, simplifying and/or streamlining such procedures and requirements.
- 14) **Strengthening passenger confidence:** A significant factor in the restart of operations and in the recovery phase will be the strengthening consumer confidence and demand, which will greatly depend on their confidence in the industry (e.g. safe to fly, healthy to fly, secure to fly) and on the quality of the commercial offer from airlines and airport operators (e.g. prices of tickets, maximum certainly that planned flights will actually take place, avoiding where possible the risk of losing money by booking flights when travelling is still restricted or might be impeded). Acknowledging that aviation is a driver of overall economic recovery, passenger confidence and demand will be a decisive point in the pace of recovery of the sector.

C - POTENTIAL MEASURES

Note: as demonstrated by the most recent ECAC survey on economic relief measures, some measures apply to the whole economy (e.g. tax deferrals, loan guarantees, income supports, grants, a scheme for COVID-19 short-time labour). These are general economic support measures which States can make available to businesses in general including aviation. Other measures are aviation-specific (e.g. taxes and charges in air transport, PSOs, ground handling, parking fees, voucher and rebooking solutions). There are differences between ECAC Member States.

It is important to underline the need to maintain a healthy, diverse and competitive market in Europe and beyond, in the interest of the travelling public, and to evaluate the competitive environment in the European market following the various national and Europe-wide relief measures at a later stage.

By way of example, some potential measures to support the air transport sector, e.g. in the period 2020-2021, are outlined below.

Direct and indirect liquidity measures

Potential measures to introduce direct liquidity into the system (e.g. to support infrastructure investments, opening of new routes and preservation of existing ones, to the extent possible) or indirect liquidity into the system (e.g. to defer industry cash outflows or avoid taxation increases for the sector).

- 1) Make good use of existing infrastructures and capacity, and to support the use of public funding (national, EU or other resources) when required. Flexible use of state aid rules, new aid schemes (e.g. approval by the EC under the Commission's temporary framework for state aid), other forms of subsidies and/or incentives should be considered in full compliance with the principles of fairness and transparency. This could be used to support airports to meet the different measures necessary to re-open traffic (e.g. public health measures). Special consideration should be given to public airports/airports managed under a concession and air navigation service providers, as specific provisions related to investments might exist. The EU law on state aid offers possibilities for state support via Article 107 (2) b TFEU. Airports with less than 1 million passengers per year with no possibility to reach break-even point (according to Commission's analysis) should be treated differently, of course irrespectively of their ownership. Support for ANSPs should take into consideration the performance and charging scheme as amended by Implementing Regulation (EU) 2020/1627 which delays adjustments for the loss of traffic until 2023, for a period of 5 to 7 years.
- 2) Consider using State, regional or local resources for airports to maintain existing routes or open new ones (once identified traffic thresholds to be fostered and the maximum incentives payable in two years) in compliance with the principles of fairness and transparency.
- 3) Consider postponing the introduction of new taxes and/or charges for the air transport sector.
- 4) Consider reducing the overall tax burdens on the air transport industry.
- 5) Encourage concerned parties to extend or to defer - where possible - deadlines for invoice payments (e.g. for airport charges, Airspace User Charges, fees for the use of airport goods and services by handlers, caterers and refuelers).

- 6) Encourage interested parties (i.e. airports and airlines) to find agreements to reduce aviation charges and fees, It is essential that any such temporary modulation or reduction on airport charges is transparent and non-discriminatory.
- 7) Adopt dedicated measures for ground handlers, e.g. make possible to increase the maximum period of authorisation to provide ground handling services at an airport where the number of such providers is limited.
- 8) Define specific measures to finance the liquidity gap of ANSPs as they provide an essential service that cannot be interrupted or reduced e.g. access to State guarantees for loans, subsidised loan costs, EU funding for investments

Financial support measures for the aviation sector operators

Potential measures to support companies, both through easier access to credit and the action of institutions such as the European Investment Bank, with the aim of identifying:

- 9) Encourage dedicated funding, perhaps with the support of a State counter-guarantee, to cover short- and medium-term needs (e.g. interest-free loan). Financial aid schemes can be either specific to air transport or apply to all sectors to the economy. These could include non-discriminatory measures to mitigate the direct liquidity problems of private sectors, companies, employers and employees. For passenger rights (*see also dedicated point D-3 on page 10 below*), the Commission Recommendation (EU) 2020/648² of 13 May 2020 on vouchers [...] as an alternative to reimbursement [...] (pp. 6-7) has provided for supporting measures towards funding possibilities in this context.

Measures to support employment and income

Potential measures aimed at supporting the income of workers in crisis situations.

- 10) Establish social safety nets for aviation sector workers, unemployed or furloughed as a result of the current crisis.
- 11) Implement other measures in support of income and employment levels (e.g. temporary unemployment schemes).

Measures to reduce regulatory burden

It remains important to maintain a level playing field and to avoid distortions in the aviation market that would extend beyond the short-term recovery period.

Potential measures to avoid introducing further elements of uncertainty in the sector, given the extraordinary nature of the current crisis.

- 12) Aim to harmonise the requirements for international passengers (e.g., with regards to quarantine and test certificates, vaccination certificates and immunity certificates) in

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020H0648>

order to enable and facilitate passengers to travel and to acknowledge and implement common standards, such as the "COVID-19 Aviation Health Safety Protocol" issued by EASA and ECDC.

- 13) Explore at an appropriate time whether relaxation of ownership and control rules might be appropriate and feasible to secure a more economically resilient aviation sector. When potentially considering relaxation of ownership and control rules Member States will need to balance the interests of opening for investments with the need to protect the strategic European interests and prevent hostile takeovers from third countries.
- 14) Relax arrangements for approving and authorising all-cargo operations by carriers which ordinarily operate passenger flights to support the industry and to help facilitate the carriage of strategically important air freight (see COM Communication and guidelines on cargo operations).
- 15) Review existing regulatory frameworks (not only airport charges but also air services, e.g., PSOs, temporary licences, etc) in order to i) to determine whether amendments to take into account the extraordinary COVID-19 impact on the sector are required and should be made to support a sustainable and smart recovery, and ii) ensure that these do not have a detrimental impact on the sector during the recovery phase.

D - LONG TERM CONSIDERATIONS AND MEASURES

Following the restart of operations, the sector will enter into a recovery phase. Forward thought should be given to measures and considerations that would need to be implemented in that phase and also changes that should be introduced in the future from the lessons learnt in this unprecedented crisis for the aviation sector.

A scenario of a long-lasting decline in demand should also be considered, which could lead to an overall reduction in capacity and in personnel, and subsequently to a period of further bankruptcies and possibly progressive consolidation of airlines and airports.

Therefore, the following points are subject to the actual level of operations in the restart phase and to reliable measurements of the overall effect of the COVID-19 pandemic on the aviation market and forecasts of the traffic evolution.

- 1) **Financial fitness:** the current crisis showed that profit margins of airlines and airports are low and airlines are vulnerable in financial terms to repeated, negative consequences from global events. Liquidity problems quickly emerged when operations decreased/stopped. Even financially sound airlines and airports were unable to counter this extraordinary situation with sufficient liquidity and to procure this liquidity on the market.

As a long-term measure, it will be necessary to consider how best the financial fitness of the sector could be ensured (e.g., new regulation), and how to make the sector more resilient to such crisis (e.g., definition of financial fitness criteria to be met by entities, capital adequacy standards). The respective responsibilities of each actor in the sector should be discussed, and the role of state authorities possibly examined (e.g. what are the expectations in case of a crisis).

- 2) **Extension of current measures:** Due consideration should be given to which measures could or should be continued and/or expanded (e.g. short-time work compensation, deferral of taxes and fees, renewed (temporary) extension of licenses and certificates). In each case these measures should be applied only where needed and reasonable for another limited period until operators perform at an economically viable level again and to retain highly qualified staff in the aviation sector.
- 3) **Passenger rights:** Passengers' free choice between a cash refund or a voucher, as recalled in the Commission Recommendation (EU) 2020/648³ of 13 May 2020 on vouchers [...] as an alternative to reimbursement [...] (paragraphs (7) and (8), p. 2), remains the general rule⁴ in line with their legal rights under EU law. In this context, in order to incentivise passengers to agree to accept a voucher instead of reimbursement, the Commission Communication COM (2020)550⁵ of 13 May 2020, on tourism and transport in 2020 and beyond, states that "*Carriers and organisers should offer travellers and passengers vouchers that present an attractive and reliable alternative to cash refund, with the characteristics as described in the Commission Recommendation. Vouchers should be protected against the insolvency of the carriers and organisers and refundable after one year if not redeemed.*" A harmonised approach in the ECAC region is desirable to ensure a level playing field for European carriers and to build passenger confidence.

³ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020H0648>

⁴ See also the "Interpretative Guidelines on EU passenger rights regulations in the context of the developing situation with Covid-19 (paragraph 2.2): "If the carrier proposes a voucher, this offer cannot affect the passenger's right to opt for reimbursement instead." - <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020XC0318%2804%29>

⁵ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0550>

- 4) **Environmental sustainability and multimodal transport:** States should use the opportunity of the post-COVID-19 recovery to 'build back better' with regard to sustainability in all of its aspects: environment; consumer protection; financial fitness, social. A revision of general transport concepts to incorporate innovative solutions for current challenges and to incentivise environmental sustainability e.g. by establishing a link between governmental support and climate goals/greener aviation, to investment in fuel efficient aircraft and biofuels as well as the development or strengthening of a multimodal transport approach.
- 5) **Stimulating passenger demand and confidence:** Measures to revitalise passenger demand and confidence, which is likely not to reach pre-crisis level before an extended period of time.

— END —