



**KEY ELEMENTS ON ECONOMIC MATTERS FOR SUPPORTING  
THE AVIATION SECTOR FOLLOWING THE COVID-19 CRISIS**  
(version 3, 18 May 2020)

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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 establish a dialogue between ECAC DGCA's, about the measures necessary to help restart the system, support actions by states. They do not represent "lines to take".

To the extent possible ECAC Member States should adopt a common approach to the adoption of economic relief measures to avoid asymmetries in our national interventions and distortion of competition. In addition, there should be a balance between the economic needs of all actors of the aviation system.

The overall objective should be to maintain a vibrant, competitive market in air travel which delivers business opportunities for airlines, 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. Keeping connectivity and routes should be part of the priorities. For that purpose, they should look at further costs and burdens on the industry which could be deferred 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 they should not create overlaps. Within the supply chain, it is essential to identify priority areas for intervention, considering that, due to the interdependence of the various players, there is a 'multiplication' effect from any single relief measure, which will, inevitably, reverberate further - with positive cascade effects for some players, whilst others might not benefit, directly, from the measure.
- 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 and proportionality should guide the definition and implementation of relief measures necessary to support the industry during the crisis and the re-start of operations. *Noting that Member States which are parties to the Agreement on the European Economic Area, which contains the 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 of the sector, measures and rules beyond economic ones, such as health related ones, should also be harmonised to an extent possible among Member States.

- 4) **Comprehensive recovery plans:** Given the impact of the crisis on all actors in the sector (ANSPs, ground handling, manufacturing, training and certification institutions, security companies, aviation catering and cleaning services, maintenance, etc.), all should also be included in the recovery plans developed by organisations and states.

- 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. 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.

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.

- 6) **Conditions for public support:** Consideration should be given to setting conditions and requirements and public interests to be met by the sector (e.g. how to build financial buffers in the future; 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. 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 one of 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 recovery plan.
- 11) **Amendment to regulatory frameworks:** Existing regulatory frameworks (e.g. airport charges, air services, PSOs, temporary licenses, etc) need to have flexibility, and should be adapted where needed, to take into account the extraordinary COVID-19 impact on the sector and should support a sustainable and smart recovery, and stimulate future investments.
- 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. PSO 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 vital again.

- 13) **Reduction of administrative burden:** 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 restart of operations and in the recovery phase will be to strengthen consumer behaviour and demand, which will greatly depend on their confidence in industry (e.g. safe to fly, healthy to fly, secure to fly) and on the quality of the commercial offer from airlines, airport operators (e.g. prices of tickets, no risk to lose money by booking flights in summer/autumn 2020). 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.*

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) To 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, 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.

Overall it is important to underline the need to maintain a healthy, diverse and competitive airline and airport market in Europe and beyond, in the interest of the travelling public, and to review at a later stage the competitive environment in the European market following the various relief measures.

- 2) To 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) To consider postponing the introduction of new taxes and/or charges for the air transport sector.
- 4) To consider reducing the overall tax burdens on the air transport industry.
- 5) To encourage concerned parties to extend or to defer - whenever 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) To encourage interested parties (i.e. airports and airlines) to find agreements to reduce aircraft parking fees (taking account of the number of aircraft that have been grounded during the crisis and existing flight restrictions). It is essential that any such temporary modulation or reduction on airport charges is transparent and non-discriminatory.

- 7) To 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 (see art.11-1 of directive (EC) 96/67) and to make use of the temporarily amended Regulation (EC) No. 1008/2008, allowing more efficient awarding of ground handling contracts and prolongation until 31 December 2021 of such contracts.

### **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:*

- 8) To 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. This could include non-discriminatory measures to mitigate the direct liquidity problems of private sectors, companies, employers and employees.

### **Measures to support employment and income**

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

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

### **Measures to avoid regulatory burden**

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

- 11) To explore at an appropriate time whether relaxation of ownership and control rules might be appropriate and feasible to secure a more economical resilient aviation sector. When potentially considering relaxation of ownership and control rules Member States will need to balance the interest of opening for investments with the need to protect the strategic European interests and prevent hostile takeovers from third countries.
- 12) To 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);
- 13) To 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.

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

## D - LONG TERM CONSIDERATIONS AND MEASURES

*Assuming that air transport operations will restart as of May-June 2020 and the sector will enter into a recovery phase, due anticipation 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 sustained 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.*

*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 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 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) 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:** The Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on "Tourism and transport in 2020 and beyond" (13.5.2020 COM(2020) 550 final) 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.*"

In the future, due consideration should be given to continuously assessing Regulation (EC) No 261/2004, to allow airlines, in case of cancellation of a flight due to the current crisis, to propose a rebooking or a refund voucher, instead of immediate repayment of the ticket, to preserve airlines liquidity. A temporary amendment to Regulation (EC) No 261/2004, might also be needed, which would balance the legitimate cash flow needs of airlines while still protecting consumer rights. A possible amendment could be strictly limited in time and consumers should retain the right to a refund after the fixed period. In the ECAC region a harmonised approach is needed to secure a level playing field for European air carriers.

- 4) **Environmental sustainability and multimodal transport:** 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 meet pre-crisis level for an extended period of time.

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