ACI EUROPE POSITION

STATE AID FOR AVIATION IN RESPONSE TO COVID-19

From Temporary Framework to Recovery Framework

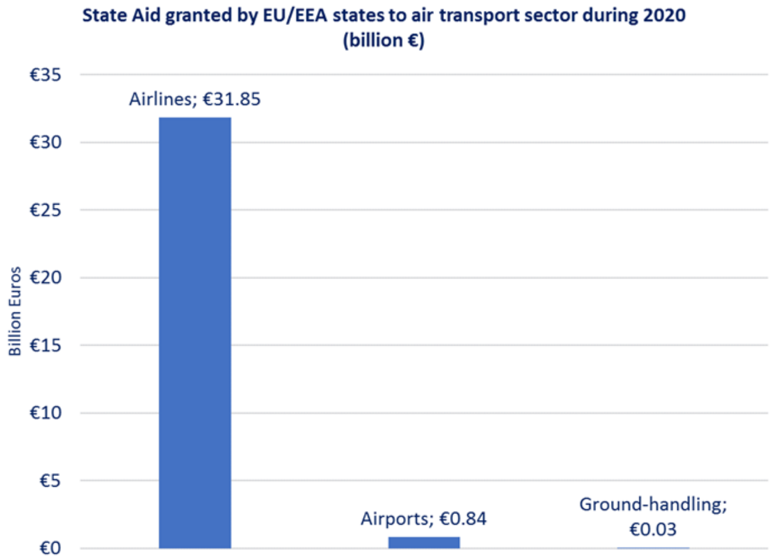
November 2020

1. Background: uneven State support & no recovery in sight

European aviation is amongst the hardest hit sectors by the COVID-19 pandemic, with airports experiencing an unprecedented fall in traffic and revenues.

Since the start of the year and as of 30 September 2020, travel restrictions imposed by governments and the limited capacity deployed by airlines have resulted in passenger traffic falling by -68% (compared to 2019). ACI EUROPE's most recent forecast[1] to year end indicates that Europe's airports will lose approximately 1.69 billion passengers (-69%) in 2020. This is 17 times the volume of passengers lost in the wake of the Global financial crisis. As nearly 80% of airport revenue is directly linked to traffic volumes, revenues will decrease by -64.2%, resulting in -€32.4 billion lost airport revenues.

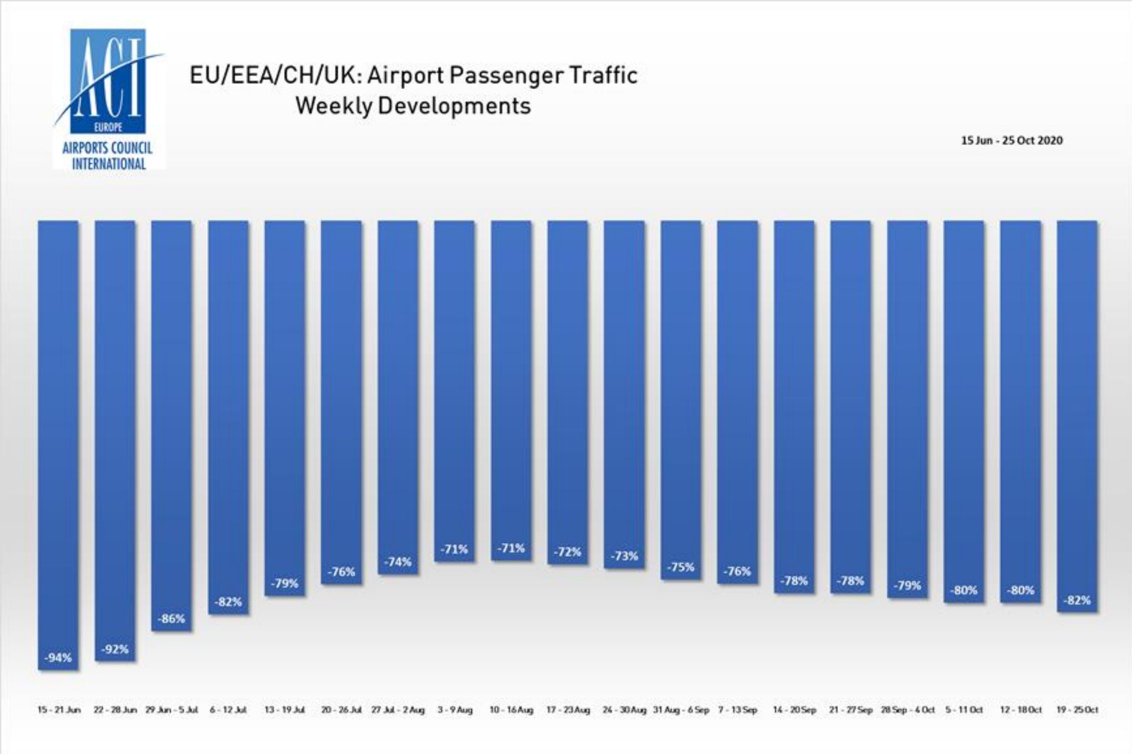
The European Commission has swiftly provided flexibility under State aid rules at the start of the pandemic in March 2020 to support the economy, by accepting Compensation for Damages (article 107(2)b of the EU Treaty) and providing a Temporary Framework. But aid measures adopted on that basis by Member States specifically for aviation have focused on selected network airlines, while airports and other service providers have largely been left behind.



This situation is creating significant imbalances in the air transport eco-system and threatens the integrity of the Single Aviation Market.

Moreover, despite EC-led efforts to coordinate the lifting of travel restrictions between Member States, governments continue to unilaterally impose such restrictions and in particular quarantine measures. These measures have stalled the nascent recovery in passenger traffic as of Mid-August 2020, and have subsequently resulted in volumes decreasing again.

[1] https://www.aci-europe.org/component/attachments/attachments.html?id=1171



With no prospect for a swift recovery in passenger traffic – all forecasts are pointing to a return to 2019 volumes by 2024/2025[2] - Europe's airports are facing business continuity issues.

2. The need to address business continuity risks

This situation is simply unsustainable for Europe's airports, which provide essential connectivity to Europe's regions and connect Europe to the World.

While airports have taken far reaching steps to reduce their costs whenever possible[3], the imperative to keep their core facilities up and running means that the limited revenues they are able to generate remain well below what is needed to cover operational costs – without even considering capital costs (interest expense).

In other words, more than 8 months into this unprecedented crisis, **all of Europe's airports continue to burn cash at an alarming rate**. While some airports are still able to rely on accumulated cash reserves, most have tapped into financial markets.

[2] ACI EUROPE: https://www.aci-europe.org/component/attachments/attachments.html?id=1171
IATA: https://www.iata.org/en/pressroom/pr/2020-07-28-02/

[3] Notably by putting staff on furlough, reducing headcounts, suspending or cancelling investments and closing down facilities not needed.

The **business continuity issues** Europe's airports are thus facing involve:

- The risk of being unable to keep operating (airport closure).
- The risk of losing critical staff with high qualifications (security, safety) and technical skills, which are essential to enable the recovery of traffic.
- The risk of having to resort to operational constraints if being unable to carry out essential maintenance work at airports, as well as regulatory driven investments - in particular as regards security and safety.
- The risk of being unable to carry out long-term strategic investments – in particular as regards sustainability, digitalisation and capacity. This will in particular endanger the ability of airports to contribute to the EU Climate objectives.

These business continuity issues have become **systemic** as:

- An estimated **193 European airports are facing insolvency** in the coming months if passenger traffic does not start recovering by the end of the current year.

  Most of these airports are regional airports, which are key enabler of employment and economic activity in their communities and wider regions. Between them, they facilitate **277,000 jobs** and **€12.4 billion of European GDP**.

  Europe is thus facing the potential collapse of a significant part of its air transport system.
- The **top 20 European airports** have seen their **debt increasing by €16 billion over a few months** – the equivalent of more than **60%** of their total revenues in a normal year.

  This, along with the fact that these airports had to make thousands of staff redundant, clearly jeopardises their future.

Addressing and effectively countering these business continuity issues is **crucial for the stability and recovery of the European aviation network** – and beyond for the entire tourism and travel sectors, as well as regional and national economies.

In this regard, the recent extension of the **Temporary Framework** to 30 June 2021 is a positive step in that direction. **But more needs to be done**.

3. A Recovery Framework for Aviation

The following elements should guide the European Commission and EU States in addressing the current situation of European aviation:

- aviation was first hit by the crisis and will be the last to recover;
- the above mentioned airport business continuity risks and their impacts;
- aviation is a strategic sector for Europe given its role as a key enabler of economic activity ensuring cohesion;

- airports are essential transport infrastructure and enable the air connectivity needed as a basis for wider economic recovery;

it is indeed essential to **align the support to aviation and related State aid rules with its current situation as well as its highly uncertain and longer recovery ahead**.

This requires continued support for aviation while at the same time protecting the integrity of the Single Aviation Market. Closing the door to further aid measures at the end of the year would exacerbate the uneven distribution of financial support so far.

Accordingly:

i) **The Temporary Framework must be extended for aviation at least until 31 December 2021** - i.e. 6 months beyond the current new time limit of 30 June 2021.

ii) **The Temporary Framework must be complemented by an ad hoc *Recovery Framework for Aviation.***

In parallel, Member States should include aviation as a strategic element in their National Recovery and Resilience Plans under the EU Recovery and Resilience Facility.

ACI EUROPE is calling for the ***Recovery Framework for Aviation*** to be based on **<u>6 key pillars</u>**:

i) **Immediate adjustments to the 2014 Aviation State Aid Guidelines as regards both operating and investment aid to airports**.

ii) **Compensation for Damages must remain available to airports** (and airlines) beyond the first period of travel restrictions (March-June 2020) **–** and **as long as continued travel restrictions imposed by governments are preventing any meaningful recovery in demand for air transport**, while airports and airlines are required to implement a wide range of health/sanitary measures impacting their cost base and efficiency.

iii) **Non-Aid Measures such as Emergency PSOs must remain available into 2021 –** to avoid that essential regional connectivity disappears.

iv) **Ad hoc *Air Connectivity Re-Start Schemes* must be provided** – to support the re-start and rebuilding of air connectivity in ways that preserve fair competition.

This would allow to reduce the exceptional commercial and financial risks involved for airlines in resuming services on air routes suspended during the crisis as well as in starting new air routes. Clearly, the economic situation of airlines requires non discriminative support specifically targeted at rebuilding air connectivity. Such schemes should be allowed until 2023.

v) **New conditions as regards Start-up aid for new air routes under the 2014 Aviation State Aid Guidelines.**

   These should become immediately applicable (to be used in cases States do not avail themselves of the opportunity to establish the above mentioned more flexible and wider *Air Connectivity Re-Start Schemes*) - and also be part of the revised Aviation Guidelines beyond 2024.

vi) **The further review of the 2014 Aviation State aid Guidelines by 2024 will need to take stock and reflect the new economic reality that airports will face in the post COVID-19 environment, as well as the long-term challenge of sustainability.**

Proposals for each of the above mentioned pillars of the *Recovery Framework for Aviation* are further detailed in the remainder of this document.

ACI EUROPE Proposal:

The Temporary Framework must swiftly be prolonged until at least 31 December 2021 and supplemented by an ad hoc Recovery Framework for Aviation.

3.1. Immediate adjustments to current State aid rules: operating & investment aid

The *Recovery Framework for Aviation* should provide the necessary temporary flexibility until 2024 by way of adjustments to the derogations from the 2014 Aviation State Aid Guidelines to allow:

i) Operating Aid and Investment Aid with a 100% aid intensity for Airports up to 1mppa, by increasing the threshold of the General Block Exemption.

ii) Operating Aid for Airports up to 3mppa (100% aid intensity) or 5mppa (50% aid intensity) which can be duly justified by the economic hardship and the need to mitigate the steep fall in passenger numbers (-64% in 2020) and high fixed airport costs (80%).

   The same levels are envisaged for duly justified cases (i.e. unsustainable deficits and debt levels) & environmental sustainability in our proposal for the Aviation Guidelines post 2024.

iii) Investment Aid for Airports up to 3mppa (100% aid intensity) or 5mppa (75% aid intensity) or more than 5mppa (50% aid intensity) can be duly justified by the current situation of economic hardship and unsustainable deficits and debt levels, also reflecting the need to adapt airports to the challenges of environmental sustainability.

ACI EUROPE Proposal:

The 2014 Aviation State Aid Guidelines must be swiftly adjusted so as to widen the scope and intensity of both operating and investment aid to airports. These temporary adjustment should remain in place until the recovery of air traffic (which is not expected before 2024/2025).

3.2 Compensation for Damages: prolongation and expansion

Compensation for Damages was presented as the most effective way to support the aviation sector, without the risk of overcompensation. The European Commission has only accepted compensation measures for the first period of the pandemic until mid-June 2020, when travel restrictions initially started to be lifted based on its coordinating efforts. However, Governments have since re-imposed travel restrictions in an unpredictable and unilateral way, with catastrophic effects for the recovery of aviation.

Given the current situation, the European Commission must accept further compensation of damages until travel restrictions are effectively lifted on a permanent basis.

Airports must also be eligible to receive compensation for damages in relation to the additional costs involved with operational measures affecting capacity in their terminals as well as health protection and sanitary measures mandated by competent authorities as part of their response to the pandemic, insofar as these are not financed otherwise by authorities within their public remit (which remains the principle).

***ACI EUROPE Proposal*:**

The compensation for damages must be swiftly aligned with the actual duration of travel restrictions and widened to include health protection & sanitary measures which are not otherwise financed.

3.3 Non-aid measures: prolongation of Public Remit & Emergency PSOs

The European Commission published a Working Document on 19 May 2020 with guidance on the application of state aid rules for air transport.[4]

The Working Document acknowledges that airports are essential infrastructure, which can operate in the public remit when required to stay open to accommodate certain flights (i.e. sanitary, repatriation, air ambulance, SAR, police, customs, military) – in which case they are eligible for public funding. Similarly, airlines may perform these flights within the public remit.

The notion of public remit activities should be expanded, in view of new health protection and sanitary measures that airports (including capacity constraints at terminals) have been required to implement to reduce and effectively mitigate the risk of COVID-19 transmission. The additional costs involved by these measures should be borne by EU States.

The possibility for Member States to provide Emergency PSOs for routes that were operated commercially before the crisis was granted until 31 December 2020. Based on the forecasts of the recovery period until 2024/2025 this measure should be extended accordingly – in line with the prolongation of the Temporary Framework and the supplemental Recovery Framework for Aviation. To ensure the effectiveness of the measure, a prolongation should be granted well in time before

[4] https://ec.europa.eu/competition/state_aid/what_is_new/air_transport_overview_sa_rules_during_coronavirus.pdf

31 December 2020 and provide long enough certainty for operators to consider launching operations (in accordance with flight seasons).

ACI EUROPE Proposal:

The non-aid measures provided by the EC, specifically on the Public Remit and Emergency PSOs, should be prolonged until at least 2024 as part of a Recovery Framework for Aviation.

3.4 Air Connectivity Re-Start Scheme

The recovery of air traffic must be supported by a targeted *Air Connectivity Re-Start Schemes*, similar to the scheme established by Cyprus and approved by the European Commission on 2 July 2020.[5]

Such *Air Connectivity Re-Start Aid Schemes* would be framed and defined by an EU template set by the European Commission, as per the below proposals (also see Annex 1):

i) Open to all airlines (non-discriminatory).

ii) Aimed at supporting the re-launch of routes suspended during the crisis as well as the start of new routes that are in principle & under normal conditions commercially viable, but cannot be operated due to the lasting effects of the pandemic.

iii) Scope: all airports in a given country or region (not possibility to establish support Schemes covering only one of several airports within a given country or region selectively).

iv) Granted as a (capped) fee per departing passenger, decreasing over 3 years. The maximum fee per passenger is determined by the Member State, without further differentiation relating to the size of the airports concerned.

v) Applicable at all airports with less than 2.5 million passengers in the first half of 2020. This excludes large hub airports as well as other larger European airports serving capital cities or large economic centres.

   The list of airports that would **not** be eligible for the Air Connectivity Re-Start Schemes is included as Annex 2.

vi) Applicable from 2020 until 31 December 2023.

vii) The payment of the subsidy may be linked and dependent upon the achievement of a given load-factor - a minimum load factor of 40% and whereby a load factor above 70% would represent normal market circumstances.

viii) The payment of the subsidy may further be linked to sustainability criteria (environmental performance of aircraft, use of biofuel), establishing a clear link with the principles of the EU Green Deal.

ix) Airlines benefiting from the scheme have to fulfil all normal obligations regarding the payment of airport charges and taxes. The commercial fabric between airports and airlines is maintained.

[5] https://ec.europa.eu/competition/state_aid/cases1/202027/286631_2170011_94_2.pdf

x) The use and application of this scheme precludes any other start-up aid to airlines operating from the concerned airports as set by the 2014 Aviation State aid guidelines.

ACI EUROPE Proposal:

Proposals for Air Connectivity Re-Start Schemes must be included in the Aviation Recovery Framework to support the relaunch of air connectivity until 31 December 2023.

3.5 New conditions for start-up to airlines

The start-up aid regime set out by the 2014 Aviation State Aid Guidelines needs to be amended to reflect the current situation. The new regime must be immediately applicable in parallel - but not cumulatively - with *Air Connectivity Re-Start Schemes*.

The new start-up aid regime would be similar to the Air Connectivity Re-Start Scheme, but provide an alternative with a more restricted scope - covering only airports with less than 5 million passengers on average in the two preceding years (the basis already used in the 2014 Aviation Guidelines).

Accordingly, the new start-up aid regime would provide the following elements (also see Annex 3):

i) Open to all airlines (non-discriminatory).

ii) Aimed at supporting the launch of new routes. Possibility to also support increased frequencies on existing routes, with a lower aid intensity (50% fee for new routes).

iii) Granted as a (capped) fee per departing passenger, decreasing over 3 years. The maximum fee per passenger may be linked to the size of the airport.

iv) Applicable at all airports in a Member State with less than 5 million passengers on average in the two preceding years.

v) Applicable from 2020 and to be further reviewed and incorporated in Aviation State Aid Guidelines applicable as of 2025.

vi) The amount of the aid may vary according to the load factor achieved on the route concerned.

vii) The payment of the subsidy may further be linked to sustainability criteria (environmental performance of aircraft, use of biofuel), establishing a clear link with the principles of the EU Green Deal.

ACI EUROPE Proposal:

An adjusted start-up aid regime must be included in the Aviation Recovery Framework to support air connectivity from regional & smaller airports until 2024 – with a further review and possible prolongation in the revised Aviation State Aid Guidelines as of 2024.

3.6 Further review of Aviation State Aid Guidelines by 2024: prolongation of operating aid & extension of investment aid to airports

The COVID-19 is no crisis as usual. It is unprecedented not just in terms of its depth and duration, but also in terms of its structural longer-term impacts on the aviation market and in particular airports. These must be swiftly reflected in state aid rules for the aviation sector, well before the end of the transition period in the current Guidelines by 2024.

Beyond the handicap of a slow and tedious recovery with lasting supply-side pressures induced by airlines generally flying fewer and smaller aircraft, what lies ahead is structurally lower demand for air transport. This will result from the combination of several factors including a societal shift towards sustainability, changing consumer behaviors, and reduced demand from corporates (business travel).

Airports will thus need to adapt to this new normal – and reconsider their own economic and business models. This will be particularly challenging for smaller regional airports, given that their financial standing and economic viability was already precarious before the COVID-19 crisis. Bigger airports have taken on debt levels that prevent future investments (sustainability, digitalization and capacity).

The review of the 2014 State aid Guidelines will need to reflect these challenges. Assumptions and studies made before the COVID-19 crisis as regards the ability of smaller regional airports to become economically viable after the end of the transition period in 2024 will need to be reconsidered. This is notably the case as regards the Support Study for the evaluation of the Guidelines which was published on 5 June 2020.[6]

At this stage, ACI EUROPE considers that to maintain and preserve regional air connectivity and the associated positive economic and social externalities, **operating aid should be allowed beyond 2024 for airports up to 1 million passengers, and in special cases & sustainability needs for airports up to 5 million passengers.**

ACI EUROPE considers the General Block Exemption Regulation the optimal tool to allow for state support to smaller airports, rather than a revision of the Guidelines. **The application of the GBER may be expanded to airports up to 1 million passengers, both for investment aid *and* operating aid.**

ACI EUROPE considers that the pandemic has a significant and lasting impact on the financial position of airports of all sizes, putting their investment capacity at risk; **investment aid intensities should therefore be increased and in special cases also be considered justified for airports above 5 million passengers.**

ACI EUROPE recalls that additional flexibility must be granted for operating aid & investment aid for the Greening of Aviation. **All airports should be eligible for investment aid relating to the Greening of Aviation, whereas operating aid should be possible for airports up to 5 million passengers.**

[6] https://ec.europa.eu/competition/state_aid/modernisation/aviation_study.zip

An overview of the proposed derogations from the 2014 Aviation Guidelines, to be applied as party of the Aviation Recovery Framework and included in the revised Aviation Guidelines beyond 2024 is attached as Annex 4.

***ACI EUROPE Proposal*:**

The 2014 Aviation State Aid Guidelines post 2024 must still allow for operating aid to airports with less than 1 million passengers and in special cases for airports with less than 5 million passengers. Investment aid intensities should also be increased and in special cases authorised also for airports with more than 5 million passengers. All airports should be eligible to investment aid for greening purposes.

Brussels, November 2020

Annex 1

Air Connectivity Re-Start Scheme

(Airports <2.5mppa in H1 2020)

	2021-2023
Objective	Re-Start Air Connectivity to support national, regional and local economies.
Need for aid	Support airlines & airports and wider tourism sector in rebuilding connectivity (**existing and new routes**).
Appropriateness	Airlines must reimburse aid if they do not operate 6 out of 12 months. Airlines must pay all airport charges and suppliers.
Incentive effect	The airline would not operate the route without aid (reduce risk of load factor below 70%).
Proportionality	Payment of a capped amount per departing passenger, at all airports in the Member State with less than **2.5 million passengers in H1/2020**. The maximum of the capped amount is to be determined by the Member State and degressive over 3 years (100% in 2021, 75% in 2022, 50% in 2023). **All airlines** are eligible on a non-discriminatory and transparent basis, for all routes. Aid is only granted for flights that achieve a **load factor between 40-70%.**

Annex 2

Air Connectivity Re-Start Scheme

Non-Eligible Airports (>2.5mppa in H1 2020)

- London (LHR)
- Paris (CDG)
- Amsterdam (AMS)
- Frankfurt (FRA)
- Madrid (MAD)
- Barcelona (BCN)
- Munich (MUC)
- London (LGW)
- Rome (FCO)
- Paris (ORY)
- Lisbon (LIS)
- Dublin (DUB)
- Vienna (VIE)
- Copenhagen (CPH)
- Manchester (MAN)
- Stockholm (ARN)
- Brussels (BRU)
- London (STN)
- Milan (MXP)
- Helsinki (HEL)
- Dusseldorf (DUS)
- Berlin (TXL)
- Athens (ATH)
- Warsaw (WAW)
- London (LTN)
- Gran Canaria (LPA)
- Budapest (BUD)
- Malaga (AGP)
- Hamburg (HAM)
- Bucharest (OTP)
- Prague (PRG)

Annex 3

Start-Up Aid

(Airports <5mppa average in 2 previous years)

	Start-Up Aid in Aviation Guidelines (2014)	Start-Up Aid (2021-2023, by 2024 in Aviation Guidelines)
Objective	Increase mobility Facilitate Regional Development	Increase mobility Facilitate Regional Development
Need for aid	Support new routes	Support **new routes** (or increase frequencies on existing route)
Appropriateness	Airline to provide business plan or commitment to operate route for 3 years	Airlines must reimburse aid if they cease operation of the route during 3 years
Incentive effect	The airline would not operate the route without aid	The airline would not operate the route without aid
Proportionality	50% of airport charges are reimbursed for the route during 3 years Airports in remote regions Other airports <3mppa Other airports with 3-5mppa in exceptional cases Not available at other airports >5mppa	Payment of a fixed amount per departing passenger, at **all smaller airports in a Member State (<5mppa)**. Amount depending on the size of the airport and regressive over 3 years. Airports with up to 700,000ppa: - 1st year: [12] EUR/pax - 2nd year: [10] EUR/pax - 3rd year: [7,50] EUR/pax Airports with 700,000 – 3mppa: - 1st year: [10] EUR/pax - 2nd: [7,50] EUR/pax - 3rd year: [5,00] EUR/pax Airports with 3 – 5mppa: - 1st year: [7,50] EUR/pax - 2nd year: [5,00] EUR/pax - 3rd year: [2,50] EUR/pax **All airlines** are eligible on a non-discriminatory and transparent basis. Aid intensity may depend per year on the **load factor** on the route, or on **environmental commitments** of the airline. If aid is provided to increase frequencies on an **existing route**, a reduction of 50% applies.

Annex 4

ADJUSTMENT TO THE 2014 AVIATION STATE AID GUIDELINES – UNTIL 2024 & BEYOND

	Operating Aid	**Investment Aid**
0-700,000ppa	100% (GBER) *(currently 80%)*	100% (GBER) *(currently 75%)*
700,000-1mppa	100% (GBER) *(currently 50%)*	100% (GBER) *(currently 75%)*
1mppa-3mppa	100% - special cases & sustainability *(currently 50%)*	90% 100% special cases & sustainability *(currently 50%)*
3mppa-5mppa	50% - special cases & sustainability *(currently n/a)*	50% 75% - special cases & sustainability *(currently 25%)*
Above 5mpp	n/a	50% - special cases & sustainability *(currently n/a)*

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ACI EUROPE is the European region of Airports Council International, the only worldwide professional association of airport operators. ACI EUROPE represents over 500 airports in 45 European countries. Member airports handle 90% of commercial air traffic in Europe, welcoming 2.3 billion passengers in 2018.