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ETF CIVIL AVIATION SECTION STRATEGY ON COVID-19

Introduction

The ETF Civil Aviation Section (CAS) has been following the COVID-19 crisis since the very beginning. Already in early March 2020, we warned in our statement that we are heading towards a Europe-wide crisis and decisive action needs to be taken to keep Europe moving. To prevent a complete collapse of the air transport networks in the immediate future, we called upon the EU, European countries and other key authorities such as EASA to come up with a detailed, clear and effective contingency plan.
In a follow-up call, we have insisted on a number of coordinated EU-wide aviation-specific measures that need to be taken in terms of:

- health and safety and protection of workers' and passengers' health imminently
- protection of salary and jobs in medium term
- and keeping a coherent aviation ecosystem to enable a quick restart after the crisis

The next document adopted shortly thereafter elaborates on some of the above claims more in detail, e. g. on the need to extend the short-term and salary protection schemes to precarious workers or concrete proposals to uphold the aviation value chain. We also called on other social partners, stakeholders and EU institutions to join us in our efforts to develop social and market solutions that benefit the workers, the travelling public and the employers alike.

As a tool to achieve the goals we have set up, we have consequently proposed a European aviation rescue plan consisting of a direct support for workers as well as financial aid to companies from the aviation sector. We also insisted that any aid must be conditional upon two prerequisites:

- respecting concrete job retention and income protection measures (as per the national legislation[1] and taking into account the proposed EU-wide SURE reinsurance schemes)
- banning the pay-out of dividends and stock buybacks[2]

These measures are necessary in order to ensure that companies live up to their social responsibility and a possible state intervention does not contribute to the restructuring costs but also benefits the workforce and the travelling public. A similar scheme has recently been adopted

[1] E. g. *Cassa Integrazione Guadagni* in Italy,"*ERTE*" in Spain or *Kurzarbeitgeld* in Germany
[2] This was also publicly supported by some MS (e. g. France) and Competition Commissioner Vestager

in the United States under the so-called *CARES Act*[3] and despite initial reluctance, all the big US carriers have requested state support under those conditions.

Last but not least, the air traffic management specific paper comments on the aspects of workers' safety, regulatory flexibility and economic aid for air navigation service providers so that the burden is simply not shifted from one part of the industry to another.

All of the above statements have two main guiding principles:

1. Social dialogue has a key role at company, national and EU level during the crisis, in line with the respective industrial relation practice and tradition – be it information and consultation obligations in case of European Works Councils, simple negotiations in the Anglo-Saxon system or a fully- fledged co-determination in Germany
2. COVID-19 is not only a crisis but also an opportunity to rectify mistakes from the past. We need to reconsider the free market approach and make sure that aviation is not left to market forces only but rather perceived as a strategic part of European economy. This is why the governments must retain a say in case of state intervention.

Based on the statements above, the ETF Civil Aviation Section elaborated the following concrete proposals to support the restart of European aviation:

Initial primary support for the industry

This would be through government equity or debt participation which would be available to eligible aviation businesses (airlines, airports, service providers, etc.) utilising loans or a loan guarantee programs. Such a programme should include:

- Any debt should not be not be reduced through loan write offs (in other words, eligible businesses must exchange warrants, options, an equity interest or debt in their companies to take advantage of the loan or loan guarantee programs, and the loans cannot be written off)

- The state may receive warrants, options, preferred stock, debt securities, notes, or other financial instruments issued by recipients of financial assistance, which, in the sole determination of the state, provide appropriate compensation to the government

- Participating eligible businesses are prohibited from share buybacks, paying dividends or making capital contributions from the date of the loan until 12 months after the direct loan is repaid in full.

[3] Coronavirus Aid, Relief, and Economic Security Act (CARES): the bill allocates $25 billion for passenger air carriers, $4 billion for cargo air carriers, and $3 billion for contractors. Those funds must be used to pay employee wages, salaries, and benefits. The amount that each carrier receives specifically is based on the amount they paid employees from April 1 to September 30, 2019.

- Recipients' executive pay will be capped, including limiting pay increases and severance pay or other benefits upon terminations.

- All eligible businesses participating in the program must also maintain employment and are prohibited from reducing their employment levels by more than 10% and must commit to maintain collectively agreed terms and conditions or amend them through renegotiation with trade unions

- Information and consultation obligations must be respected throughout this process

- Eligible business participating in the program must have incurred or be expected to incur losses such that the continued operations of the business are jeopardised.

- Alternatively any such participation can be on the basis of a business acting as a consolidator, or stepping in as a service provider for a business or part of a business that ceases to exit. Put simply this could also be used to favour and incentivise the consolidation and stabilisation of the industry post-COVID19 crisis measures.

- Such 'consolidators' should be those of sufficient size, capitalisation and capacity to undertake such consolidation, and to abide by the terms of any support package.

Measures post lockdown

- Articulation of subsidy with social distancing and 'seat free' restricted passenger loads. Any subsidy would be based on routes and either directly provided to airlines or through PSO's

- Subsidy for airlines, airports and aviation service providers to cover other mitigation measures such as testing pre-boarding, health 'passports' and immunisation should be developed to ensure suppression of demand does not result in critical commercial failures within the sector

- Continued sectoral specific support for labour costs where significant restriction on travel / and or conditions of travel are maintained for all aviation businesses including airlines, airports, service providers, etc. A planned tapered approach to the end of such support which would offer the flexibility to save as many jobs as returning revenues can sustain, with employers being required to top up payments for such support and government would reduce its funding accordingly

- Suspension of provisions of Directive 96/67/EC on ground handling with the provision that where a single service provider exists within an airport, then appropriate regulation of pricing occurs

- Provision of European wide insurance cover specific to COVID-19 where such cover is not provided by the insurance industry

Air Navigation Service Providers

- Member State Governments should, where needed, provide financial support for ANSPs.

- This could take the form of grants, advance of future charges (following the principles of the Eurocontrol initiative) loans etc.

- Where ANSPs operate in a private market, Government funding should be made available in some form to aid in ensuring continuity of service, and to retain staff in order to enable sufficient capacity for recovery.

- If the recovery of the industry is slow or partial, this support should continue to be underwritten by governments pending a better understanding of the likely restructuring of the industry.

- The ATM Performance Scheme should be urgently amended to support ANSPs and RP3 performance plans and targets need to be revisited.

Regional airports

These vary in both size and scale, and in importance to the local community and economy as well as for connectivity of a region.

- The size and scale capitalisation of airports handling above the 3 million per annum passenger numbers is such that a scheme for loans or government support could be utilised. Those airports below such a size could potentially be transitioned to either public ownership or partnership, as access to financial markets - both currently and in the future – is severely restricted due to their smaller scale economics.

- These airports should also able to utilise an enhanced Public Service Obligation provision in order to maintain flights and routes, and ensure connectivity. Such PSO funding should be part of a wider framework of structured provision

Focus on environmental concerns and a more sustainable future

- Drive for sustainable low carbon growth by investing in next generation low emission Aerospace and Aviation technologies. Commit to uplift to funding allowing the sector to continue focussing on development of such technologies with more attractive gearing from governments.

- Seek commitments from airlines to invest in newer more environmentally friendly aircraft and ramp up in sustainable aviation fuel SAF usage by airlines over the next decade as a condition of Government support packages. Increase and accelerate investment in the development of Sustainable Aviation Fuels and intensify support to emerging industries.

- Position the EU as the world leader by launching a fully funded programme to study and assess the technical and industrial potential for a zero emission regional aircraft. Ensure PSO funding is linked to the future utilisation of such aircraft.

- Accelerate pace of progress on European policy making in relation to net-zero by implementing market-based measures, regulating up carbon price in the next 10 years, increasing emissions taxes and incentivising low-carbon technologies. Hard link emissions pricing revenue to investment in low emissions.

- Seek commitments from airlines to invest in newer more environmentally friendly aircraft and ramp up in sustainable aviation fuel SAF (including agricultural sustainability) usage by airlines over the next decade as a condition of Government support package. Increase and accelerate investments in the development of SAF and intensify support to emerging industries

Note: The above proposals only apply to companies that are registered and based in Europe