

# One year of airline bailouts: what have we learned?

How can recovery finally rhyme with sustainability

March 2021

## Summary

European airlines – some of the European Union’s biggest polluters – have so far received an unprecedented €37 billion in government bailouts since the beginning of the COVID-19 crisis,

nearly entirely without binding environmental conditions.

**Europe's top 10 Covid airline bailouts recipients<sup>1</sup>**

Rank	Country	Airline	Covid bailout received (€ million)
1	France	Air France	7000 (plus 3000 under discussion)
2	Germany	Lufthansa	6840*
3	Germany	TUI Group	3526
4	Netherlands	KLM	3400 (plus 1000 under discussion)
5	UK	British Airways	2553
6	UK	EasyJet UK	2240
7	Switzerland	Swiss	1420
8	Portugal	TAP	1200
9	Sweden	SAS	1130
10	Spain	Iberia	750

With the crisis far from over, and industry pleading for at least €7 billion more aid for airlines alone, it is high time that aviation’s recovery finally rhymes with sustainability. If new State aid is granted, it shouldn’t hinder our climate fight and must therefore be fully aligned with the European Green Deal.

For that to happen, regulators need to ensure that State aid guidelines are reformed to require green and social conditionality as necessary

preconditions to bailouts. Furthermore, regulators also need to be much more aggressive in putting forward measures which will reduce the climate impact of flying: no new bailout should be awarded without EU member states first agreeing to an aviation decarbonisation plan including a better pricing of flying and the development of new fuels such as e-kerosene.

A full list of recommendations can be found at the end of the document.

<sup>1</sup> T&E analysis of Covid bailouts. Source: publicly available bailouts information. Full tracker: <https://www.transportenvironment.org/what-we-do/flying-and-climate-change/bailout-tracker>

\*To calculate Lufthansa's bailout, we have removed the funds that it provided to its subsidiary airlines within Lufthansa Group

# 1. How can the aviation industry's recovery rhyme with sustainability

Society can no longer afford to write blank cheques to the aviation industry. In exchange for taxpayers' support, the industry must finally get serious on sustainability. For this to happen, regulators must make green conditionality the necessary precondition of any State aid and come up with binding aviation decarbonisation plans in which to integrate these commitments into.

## 1.1. A €37 billion “wave” of bailouts with no green strings attached

**The aviation industry has been, and still is, heavily affected by the COVID-19 crisis.** Dozens of airlines are threatened with bankruptcy and according to the International Air Transport Association (IATA), loss-making airlines are facing a bleak future and nearly 25 million direct jobs in air transport are under threat globally<sup>2</sup>. An immediate recovery is unlikely, especially as well-paying corporate flyers reconsider their travel needs<sup>3</sup>.

All over Europe, airlines have been asking governments for help and the first series of received bailouts has risen to **over €37 billion**<sup>4</sup>, mainly during the spring of 2020. After a temporary demand improvement last summer, the second and third waves of COVID-19 in the autumn and winter have led aviation to plunge again to record-low passenger loads, thus fueling new demands for bailouts amounting to **about €7 billion**<sup>5</sup> for airlines alone, including from already rescued companies<sup>6</sup>. It is important to note that Europe's competition enforcer, the European Commission, **introduced a “Temporary Framework”** specifically to enable member states to assist companies in the COVID-19 context. The Temporary Framework has been broadly used since it has been adopted.

Only France and Austria attempted to introduce climate conditions, but our analysis for both [Air France](#) and [Austrian Airlines](#) found these conditions to be insufficient to meaningfully reduce emissions.

## 1.2. Aviation's negative externalities

Despite this growing trend in aviation bailouts, it is worth remembering that channeling public money to prevent the sector from stalling does not come without a significant set of negative consequences for the environment and society at large. **Indeed, the aviation sector generates substantial external costs for society** (e.g. air pollution and noise pollution which affect citizens living near airports<sup>7</sup>). European aviation CO<sub>2</sub> emissions increased over the six years leading to the

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<sup>2</sup> <https://www.iata.org/en/pressroom/pr/2020-04-07-02/>

<sup>3</sup> <https://www.wsj.com/articles/the-covid-pandemic-could-cut-business-travel-by-36permanently-11606830490>

<sup>4</sup> <https://www.transportenvironment.org/what-we-do/flying-and-climate-change/bailout-tracker>

<sup>5</sup> *Ibid.*

<sup>6</sup>

<https://www.bloomberg.com/news/articles/2021-02-18/air-france-klm-expects-bailout-within-weeks-as-cash-burn-mounts>

<sup>7</sup> <https://ec.europa.eu/transport/sites/transport/files/2019-aviation-environmental-report.pdf>

crisis by 27.6%<sup>8</sup>, excluding non-CO<sub>2</sub> effects which account for two third of aviation's total climate impact<sup>9</sup>. **Globally, aviation is one of the fastest growing causes of global warming, with greenhouse gas emissions expected to double or triple by 2050<sup>10</sup>**. Finally, recent research has shown that 1% of people cause half of global aviation's emissions<sup>11</sup>, which begs the question of the societal fairness of bailouts: **society's poorest are essentially subsidising the world's richest to travel and pollute unimpeded**. Therefore, bailing out the aviation sector and enabling it to return to pre-COVID-19 emission levels **threatens to undermine the climate efforts being made by the rest of society**.

Furthermore, as many small businesses, the care sector, shop owners and other transportation modes are equally impacted by the COVID-19 crisis, it is worth asking whether the aviation sector is not actually receiving undue preferential treatment. This must also be judged against the fact that **the aviation sector hardly pays any taxes**, with exemptions currently valued at €39.9bn for VAT not levied and €26.9bn for kerosene tax not levied<sup>12</sup>. Finally, some of the airlines and airports that have received bailouts, such as Alitalia, were already in financial difficulties even before COVID-19 started. **Using the pandemic as an excuse to prolong governmental life-support is not only economically ineffective, it also goes against the basic rules that govern competition policy in Europe<sup>13</sup>**, i.e. that State aid is generally prohibited unless it is justified to achieve specific recognized goals and provided that certain limiting conditions are met.

### **1.3. To bailout or not to bailout? The necessary checklist for governments**

Governments are entrusted with spending taxpayers money on effective causes and the key question that they should ask themselves when pondering on whether to save an airline or airport: **is it worth using public money on this bailout?** Indeed, no company should be presumed to be too important to fail. And, more importantly, the concern isn't just for the company, but more for the services it provides and the people it employs. Once we take that perspective, we can look at bailouts differently. Here are three key questions that should pave the way towards only agreeing to necessary and sustainable bailouts.

**First essential question: is supporting this airline or airport the best way to continue vital services or to help its workers? Are there any other alternatives?** To summarise, if State aid is granted, it shouldn't hinder our climate fight and primarily serve to **protect impacted workers, to**

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[s://www.transportenvironment.org/press/ryanair-europe%E2%80%99s-7th-biggest-carbon-polluter-last-year-aviation-emissions-continued-grow](https://www.transportenvironment.org/press/ryanair-europe%E2%80%99s-7th-biggest-carbon-polluter-last-year-aviation-emissions-continued-grow) [http](http://ec.europa.eu/clima/news/updated-analysis-non-co2-effects-aviation_en)

<sup>9</sup> [https://ec.europa.eu/clima/news/updated-analysis-non-co2-effects-aviation\\_en](https://ec.europa.eu/clima/news/updated-analysis-non-co2-effects-aviation_en)

<sup>10</sup> [https://www.icao.int/environmental-protection/Pages/ClimateChange\\_Trends.aspx](https://www.icao.int/environmental-protection/Pages/ClimateChange_Trends.aspx)

<sup>11</sup>

<https://www.theguardian.com/business/2020/nov/17/people-cause-global-aviation-emissions-study-covid-19>

<sup>12</sup> <https://op.europa.eu/en/publication-detail/-/publication/0b1c6cdd-88d3-11e9-9369-01aa75ed71a1>

<sup>13</sup> <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:12008E107>

**avoid major negative effects on the economy and to continue strategically important services.** Rescue operations for airlines or airports which were struggling financially before the crisis are questionable. Support for companies that want to use aid to introduce cheaper tickets<sup>14</sup> or to increase management salaries or the proceeds for shareholders is also a no-go. At this stage, alternatives to bailouts should be considered. These include retraining workers towards jobs in the green and digital economy and reducing fleets.

**Second key question: does the proposed bailout come with effective green conditions attached?** The aid should be **temporary, repayable and allow for a possible reduction in aviation activities** if public demand for travel reduces as a result of the coronavirus crisis. The aviation industry must commit to **deliver a science-based contribution to tackling the climate crisis**, both in its investment choices and its lobbying activities as well as to net-zero climate impact by 2050 that also covers non-CO<sub>2</sub> emissions. The sector must also agree to **finally pay a fair amount of taxes**.

**Thirdly, is there a wider aviation decarbonisation plan to secure these commitments?** It is important to note that industry pledges are only effective when they are tightly secured by binding policies. Before they write cheques, governments should therefore come up with an **aviation decarbonisation plan**, in which to integrate and secure these industry commitments. The plan should include: the establishment of sustainable advanced fuels (SAFs) mandates (focusing on e-kerosene), ETS reform, the inclusion of all aviation emissions in the national climate plans, the introduction of kerosene taxation, the implementation of a national ticket tax.

#### **1.4. Reforming State aid guidelines is a precondition for a green recovery**

In the COVID-19 context, it is far too easy for airlines to get public money while escaping their climate responsibilities. It is therefore crucial for State aid guidelines to be amended, to avoid public money being used to fuel further aviation climate-unconscious growth.

In particular, State aid guidelines should make it compulsory for bailouts to come with green conditionality. **For this to happen, the Commission should restrict the “state of exception” that still enables unconditioned bailouts in the context of COVID-19.** First, this pandemic should no longer constitute an “exceptional occurrence” under Article 107(2)(b) TFEU. Second, the Temporary Framework should not extend beyond December 2021.

When it comes to airports, the Commission should not extend the transition period (2014 – 2024) provided for the phasing out of operating aid to airports in the 2014 Aviation Guidelines, as it remains one of the most distortive types of aid.

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<sup>14</sup>

<https://www.bloomberg.com/news/articles/2021-03-09/dirt-cheap-flights-offered-as-airlines-rebuild-battered-networks>

Finally, more transparency is needed for civil society and other stakeholders to properly monitor the awarding of State aid, for which the Commission should adopt a single harmonised text on transparency for State aid.

## 1.5. Conclusion

When faced with any immediate request for taxpayer's money on the part of the aviation sector, policymakers should therefore make smart choices for the future and conduct an economic recovery that is in line with the European Green Deal. More importantly, governments should remember that no company in the aviation industry is ever too important to fail and that alternatives to bailing them out always exist. At an unprecedented time that has proven how important advance planning is to avoid disaster, citizens have the right to expect exceptional foresight from their governments.

## 2. Recommendations

### 2.1 Recommendations to regulators on establishing an aviation decarbonisation plan as a necessary precondition for bailouts

- **Commit to a better pricing of aviation through the ETS and ETD:**
  - **Strengthen the EU ETS, for example ending the free allowances for aviation (currently 85%).**<sup>15</sup>
  - **End the VAT-exemption for flight tickets.**
  - **Implement a national ticket tax**
  - **Support kerosene taxation**, both for a kerosene tax on a European level (made possible by a revision of the European Energy Taxation Directive), as for a kerosene tax imposed through bilateral agreements between member states (in accordance with Article 14.2 of the Energy Taxation Directive)<sup>16</sup>.
- **Commit to include aviation (both national and international) emissions in the national climate plans**, in combination with a roadmap to achieve the imposed national targets and decarbonisation before 2050.
- **Support the development of new fuels** for aviation through the introduction of blending mandates (covering all fuel sold in the EU) for e-kerosene made with additional renewable electricity and CO<sub>2</sub> from Direct Air Capture.
- **Protect the workers:** State aid should make sure that flight attendants, pilots, ground-staff, caterers and other impacted workers are protected by strong labour and health protections. In case of layoffs, they should be supported both by an income and retraining schemes.

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<sup>15</sup> <https://www.transportenvironment.org/what-we-do/flying-and-climate-change/aviation-ets>

<sup>16</sup>

<https://www.transportenvironment.org/what-we-do/flying-and-climate-change/how-tax-airline-polluters>

## 2.2 Recommendations to regulators on reforming State aid guidelines

- **Amend State aid guidelines to require green conditions on aviation bailouts**, in line with the European Green Deal (e.g. reduction of traffic on short-haul routes, reduction of overall emissions).
- **No longer allow aid to airports and airlines in the COVID-19 context under Article 107(2)(b) TFEU.** Several of the Commission’s decisions approving State aid to airlines since the beginning of the pandemic stated that the notion of “exceptional occurrence” needs to be interpreted restrictively and requires a case-by-case approach. The decisions also refer to the established criteria that an event must meet to qualify as an exceptional occurrence under Article 107(2)(b) TFEU: the event must (i) be unforeseeable or difficult to foresee, (ii) have a significant scale/economic impact and (iii) be extraordinary. **More than a year into the pandemic, the Commission should consider that there no longer is an exceptional occurrence under Article 107(2)(b) TFEU.**
- **Do not extend the Temporary Framework beyond December 2021, or if it is further extended, narrow its scope significantly.** Introduced in March 2020, the Temporary Framework will have then been in force for more than 20 months. **It would not be reasonable to keep such a temporary tool in place for much longer as there is an obvious risk for serious distortion to the market** from the adoption of State aid support at this scale. Undertakings in the airline sector should adapt their business models according to the “new normal” created by the COVID-19 outbreak.
- **Do not extend the transition period (2014 – 2024) provided for the phasing out of operating aid to airports in the Aviation Guidelines, as it remains one of the most distortive types of aid.**
- **Adopt a single harmonised text on transparency for State aid award**, and monitor enforcement of the transparency requirements, so as to allow stakeholders and the general public to have transparent and clear information on public grants.

## 2.3 Recommendations to the aviation industry

- **Publicly announce political support to fair environmental & taxation policies at European and national level** (e.g. support for the European Green Deal, a kerosene tax on EU level and by bilateral agreements, ticket taxes and VAT on flight tickets) **and a commitment to reduce and align climate impacts with the objectives set out in the Paris Climate Agreement**, i.e. to limit global warming to well below 2°C and aim to achieve a maximum global warming of 1.5°.
- **Roadmap for full decarbonisation before 2050**, with interim steps and review at least every 5 years, including non-CO<sub>2</sub> emissions (the latter of which is not covered in the industry’s [plan](#)) and without offsetting. This plan should include:

- **Stronger commitment to innovation and targets for the usage of cleaner fuels** such as synthetic e-kerosene made with additional renewable electricity and CO<sub>2</sub> from Direct Air Capture.
- **Binding commitments to reduce emissions**, by phasing out short-haul flights, limiting the expansion of long-haul flights, better collaboration with rail services and stopping further expansion of aviation infrastructure. Commitment not to enlarge airline fleets or deploy a growth strategy by buying shares/rival companies.
- **Good working conditions**. State aid should be aimed at maintaining healthy companies that provide good working conditions and real social security for their employees, while preparing them for a carbon neutral future.

## Further information

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