Aviation Interventions Continue Internationally

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Original post here.

Governments around the world have committed many billions of dollars to help the aviation sector survive the COVID-19 crisis. This aid comes in the form of grants, loans, loan guarantees, tax relief, and other subsidies. Some programs are targeted at specific firms and others provide broad-based support. The US is implementing what it expects to be the largest targeted package for the industry. Singapore’s program appears to be the second most generous.

COVID-19 has buffeted the international and domestic aviation industries. On April 20, the International Civil Aviation Organization (ICAO) predicted airlines will lose at least $160 billion on international air travel over the first nine months of 2020. The suppliers for these airlines are also suffering. Some are shuttering manufacturing facilities to conserve funds.

The U.S. CARES Act provides the industry with up to $78 billion in loans, loan guarantees, and cash grants. Other countries have also begun to financially support their aviation industries (see the earlier YPFS blog). Few other countries took a comprehensive approach like the US; most offer one or two narrow facilities to their airlines instead of aiding the entire sector.

The United Kingdom has largely encouraged airlines to utilize the broader Covid Corporate Financing Facility (CCFF), which provides credit by buying commercial paper issued by businesses needing aid due to COVID-19 disruptions. Through the CCFF, the UK has awarded £600 million to the British budget airline group, EasyJet. The CCFF offers standardized terms on commercial paper purchases for any company requiring aid. In particular, all commercial paper purchases require that the commercial paper matures within a year and have at least an A- rating or the equivalent from a ratings agency as of March 1, 2020.

Nigeria has set up a Targeted Credit Facility, which aims to support companies especially impacted by COVID-19, including airlines.

Not all airlines requesting state aid have received it. Virgin Atlantic requested £500 million in the form of grants and loans from the UK government, but has yet to receive aid. Sir Richard Branson, the head of Virgin Atlantic, is a tax resident of the British Virgin Islands and pays no UK income tax. This has made the government hesitant to rescue Virgin Atlantic. UK manufacturers Rolls Royce and Airbus UK have supported the aid to Virgin Atlantic. They argued that the Virgin Atlantic plays an integral role in the UK’s manufacturing supply chain. Virgin Atlantic is a major customer for Rolls Royce parts and the Airbus A330 (whose wings are designed and manufactured in the UK).

A request for aid from Air France-KLM has hit a similar roadblock, resulting from a conflict between its two government shareholders; the government of France has a 14.3% stake and the government of the Netherlands has a 14% stake. The company appears to be nearing an agreement with the French government. The rescue is reportedly an EUR 10 billion ($10.9 billion) deal under which the French government will guarantee 90% of bank loans to Air France-KLM and provide some loans to the airline through a government emergency fund.

Norway used a NOK 6 billion loan guarantee program to support its airlines. It provides a 90% government guarantee on lending to participants. Troubled carrier Norwegian Air Shuttle can
receive up to **NOK 3 billion** under the program. The program also guarantees NOK 1.5 billion in loans for multinational airline SAS and NOK 1.5 billion for Wideroe and other airlines. In Norway, a private-sector analyst argued that the aid provided to Norwegian Air Shuttle is likely not large enough; he said it would only pay for 1.5 months of Norwegian Air Shuttle grounding its aircraft.

Similarly, Sweden has provided a **credit guarantee** framework for its airlines, with a maximum of SEK 5 billion ($500 million) to any airline. Finland has provided a **€600 million state guarantee** for Finnair, a state-owned airline.

Some multinational airlines have coordinated aid from multiple governments. One example is **SAS**, which is 14.82% owned by the Swedish government and 14.24% owned by the Danish government. SAS received an **EUR 137 million guarantee** on a revolving credit facility from the Danish government; a **90% credit guarantee** worth **NOK 1.5 billion** from the Norwegian government; and **credit guarantees worth SEK 1.5 billion** (about $142 million) from the Swedish government (from its SEK 5 billion program).

Italy has chosen to **re-nationalise Alitalia** after the airline requested aid. The government plans to downsize the airline to a quarter of its current size. The government had attempted to turn around Alitalia and privatize it after a bankruptcy in 2009. That effort stalled until Etihad Airways took a 49% stake in Alitalia in 2014. The company briefly improved, but lapsed back into bankruptcy proceedings in 2017. The Italian government recently injected EUR 500 million into a state-owned company it plans to use to execute the nationalization in June.

Singapore has offered a large amount of aid to its aviation industry. The government plans to spend S$15.1 billion ($10.6 billion) on a program paying 75% of all employee wages in the industry up to S$4,600 ($3,200) per month. Singapore’s state-owned investment company, Temasek, said that it would underwrite the sale of S$15 billion worth of Singapore International Airlines shares and convertible bonds. Singapore’s biggest bank, DBS, will provide the airline with a bridge loan of S$4 billion ($2.8 billion). Temasek currently has a 56% stake in the airline. The government also said it would provide S$350 million (~$246 million) in relief from aviation taxes and fees.

Other governments have chosen to aid their airlines and aviation industries through their tax code. The Republic of Korea offered **tax measures** supplementing **300 billion won of liquidity support** for budget carriers from the state development bank. Australia initially offered its ailing airlines **A$715 million in tax relief** ($457 million). The **Australian government** eventually offered A$160 million ($102 million) in other aid to its two biggest airlines (Qantas and Virgin Australia) in exchange for the airlines maintaining a core set of regional flights. This was not enough to save **Virgin Australia**, which entered voluntary bankruptcy after the Australian government did not respond to its A$1.4 billion ($894 million) bailout request.

Around the world, governments and suppliers are still negotiating terms of any potential direct aid to suppliers and airports. Officials from Airbus have **asked for funding** from the French government, as the company **cuts production** by one third. So far, France has not allocated aid to Airbus. The Hong Kong Airport Authority (HKAA) allocated **HK$50 million** ($6.5 million) to fund retraining for up to 25,000 airport staff on unpaid leave. The HKAA also reduced rents by 50-70% for shops within airports in a HK$630 million program ($81 million).