IALPA Opening Statement to Joint Oireachtas Committee on Transport and Communication Networks

09 February 2021

The Irish Air Line Pilots Association (IALPA) welcomes this opportunity to appear before the Oireachtas Transport and Communications Networks Committee on behalf of over 1,200 professional pilot members in Ireland. Mindful of the short time available to us today, this Opening Statement is short and focused on one or two key issues identified by IALPA members as significant for the continued survival of the aviation sector in Ireland.

We refer to recent news coverage, and reported comments from the Tánaiste (Irish Times, 26th of January) that 'international travel was unlikely to reopen until sometime in the future, certainly not for the summer.' It appears that there is now a prevailing narrative that international travel is preventing Ireland from becoming a COVID-free island 'like New Zealand.' Clearly, the Government now shares this view, and are preparing to further close Ireland to international travel for the foreseeable future.

Regardless of whether an international travel ban will suppress virus transmission in Ireland, we are fully supportive of any measures aimed at protecting public health and reducing the prevalence of this virus. Irish airlines, however, rely on Summer bookings to make enough money to tide them over the loss-making Winter season. The loss of a second consecutive Summer season – coming after an entire year of practically zero revenue - will prove fatal for airlines that have already depleted their cash reserves.

The €80 million support package for the Aviation Sector announced in November was essentially a grant for Ireland's airports, the majority of which are state-owned. The funds left over for the airlines may have, at best, covered a few days-worth of losses. Our airlines are intrinsic to the success of an island nation like Ireland, and their role supplies economic lifeblood, bringing, amongst other things, FDI and an estimated €10 billion into the Irish economy annually. Every aircraft that leaves Ireland will represent lost jobs and lost GDP. It is an economic fact that if our airlines are allowed to go out of business, the consequences for the Irish economy will be devastating.

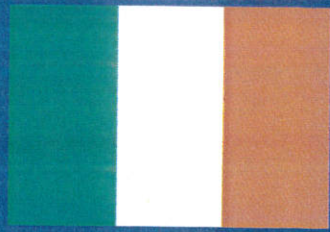
Most Governments have recognised such dangers and have accepted that, if they are to intervene to prevent airline operations for the sake of virus suppression, then they must ensure that those airlines do not go out of business as a result. New Zealand - so often our favoured COVID comparator - moved quickly to extend supports worth $900 million to Air New Zealand. Much closer to home, the list includes Lufthansa €10 billion, Air France €7 billion, BA €2.5 billion, Air Portugal €1.2 billion. The UK Government provided a loan worth €670 million to Ryanair, an Irish airline, such was the value they placed on their contribution to the UK economy. We have attached recent media coverage detailing the state aid approved by the European Commission for dozens of European airlines from their respective governments. Why does Ireland remain an outlier as the only European country to not provide meaningful financial aid to its indigenous airlines?

The window remaining for decisive action is fast closing. Airlines plan and budget for their vitally important Summer schedules at this time of year and they will soon have to make hard decisions based on expected market conditions. Our Government needs to understand that creditors and airline owners will not allow for yet another lost Summer. They will cut their losses and move their money and assets to other countries that support aviation. The market will not save Ireland's airlines.

If international travel must be suppressed into the future, then significant financial aid for Irish airlines is the only option available to avert sectoral collapse. If the Government acts to suppress travel, then the Government must also act to save our airlines from the destruction that such interventions cause. They cannot have it both ways. We implore that you lobby the Government to provide meaningful financial aid to Ireland's airlines before it is too late.

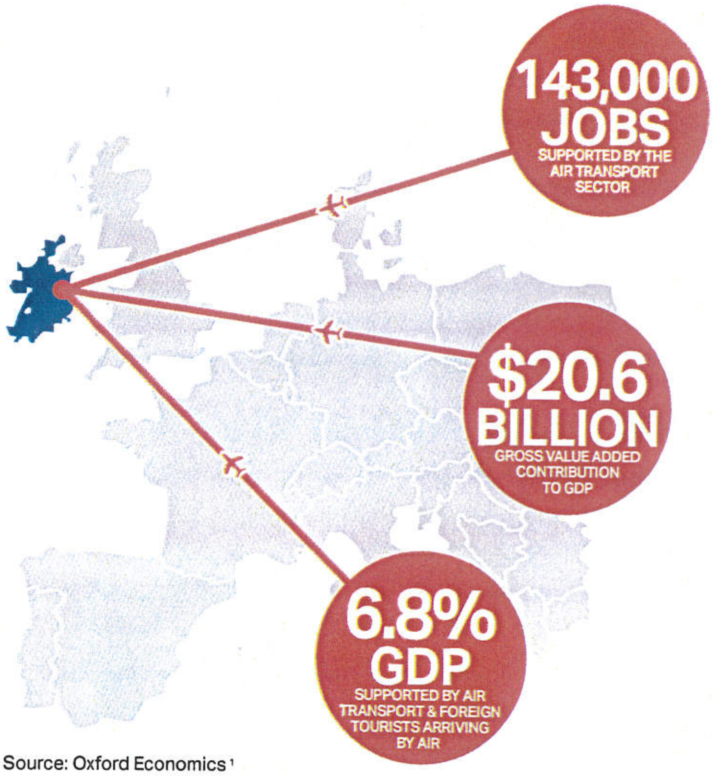
ENDS

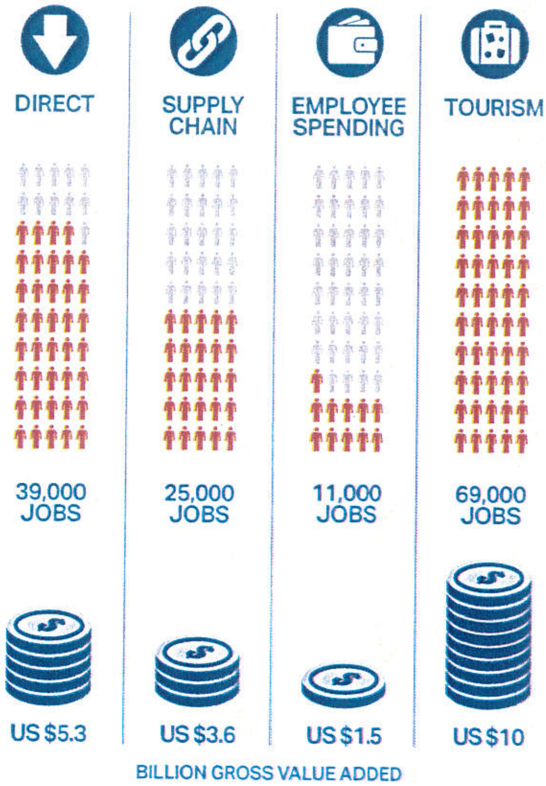
THE IMPORTANCE OF AIR TRANSPORT TO **IRELAND**



The air transport sector makes a major contribution to Ireland's economy

There are different ways of measuring air transport's impact on an economy. We look at three: the jobs and spending generated by airlines and their supply chain, the flows of trade, tourism and investment resulting from users of all airlines serving the country, and the city pair connections that make these flows possible. All provide a different but illuminating perspective on the importance of air transport.





Source: Oxford Economics [1]

The air transport sector supports...

Airlines, airport operators, airport on-site enterprises (restaurants and retail), aircraft manufacturers, and air navigation service providers employ 39,000 people in Ireland. In addition, by buying goods and services from local suppliers the sector supported another 25,000 jobs. On top of this, the sector is estimated to support a further 11,000 jobs through the wages it pays its employees, some or all of which are subsequently spent on consumer goods and services. Foreign tourists arriving by air to Ireland, who spend their money in the local economy, are estimated to support an additional 69,000 jobs. In total 143,000 jobs are supported by air transport and tourists arriving by air.

...and spending

The air transport industry, including airlines and its supply chain, are estimated to support US $10.4 billion of GDP in Ireland. Spending by foreign tourists supports a further US $10.2 billion of the country's GDP, totaling to US $20.6 billion. In total, 6.8 percent of the country's GDP is supported by inputs to the air transport sector and foreign tourists arriving by air.

For forecasts of the industry's GDP and jobs contribution over the next 20 years see page 4

Air transport facilitates flows of goods, investment and people

Note: Data relate to all modes of transport / Source: UNWTO, UNCTAD and World Bank[2]

The most important benefits from air transport go to passengers and shippers and the spillover impacts on their businesses. The value to passengers, shippers and the economy can be seen from the spending of foreign tourists and the value of exports (though note these figures include all modes of transport). A key economic flow, stimulated by good air transport connections, is foreign direct investment, creating productive assets that will generate a long-term flow of GDP.

Top five international tourist arrivals (all modes of transport) by country of residence[3]

1. United Kingdom
2. United States
3. Germany
4. France
5. Spain

Top five busiest direct flights arrivals

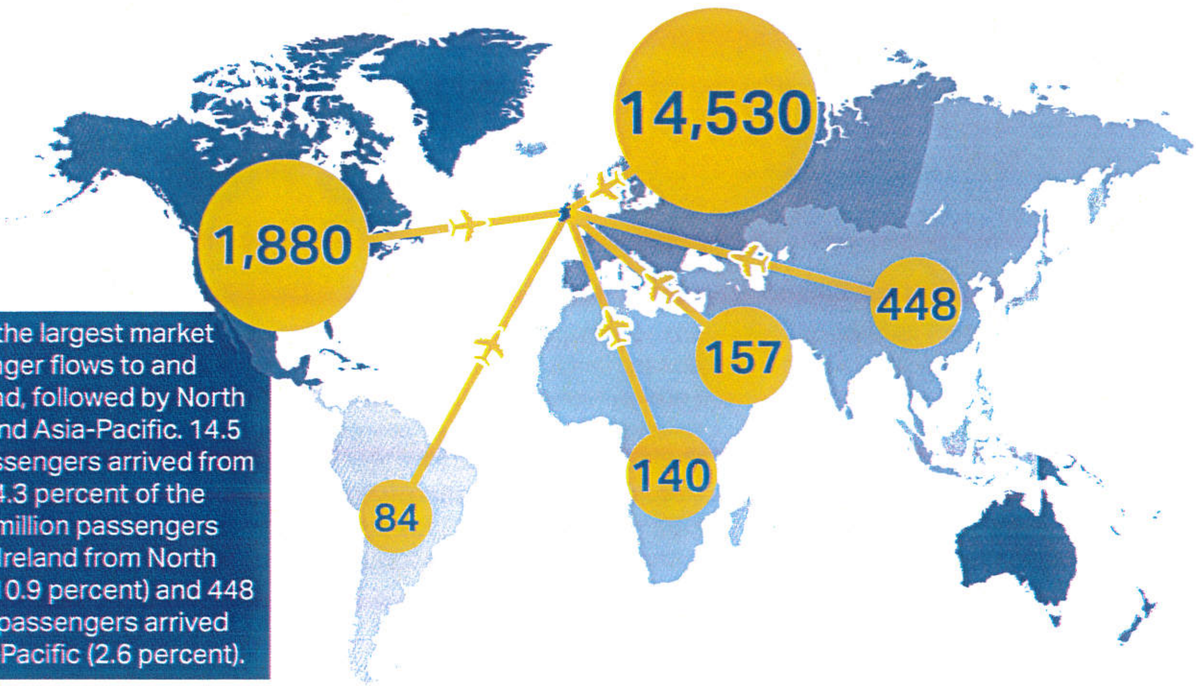
1. United Kingdom
2. Spain
3. United States
4. Germany
5. France

Top five busiest air cargo routes

1. United States
2. United Arab Emirates
3. United Kingdom
4. Canada
5. Qatar

Source: UNWTO and IATA[2]

Annual passenger flows by region (origin-destination, '000s)



Europe is the largest market for passenger flows to and from Ireland, followed by North America and Asia-Pacific. 14.5 million passengers arrived from Europe (84.3 percent of the total), 1.9 million passengers arrived to Ireland from North America (10.9 percent) and 448 thousand passengers arrived from Asia-Pacific (2.6 percent).

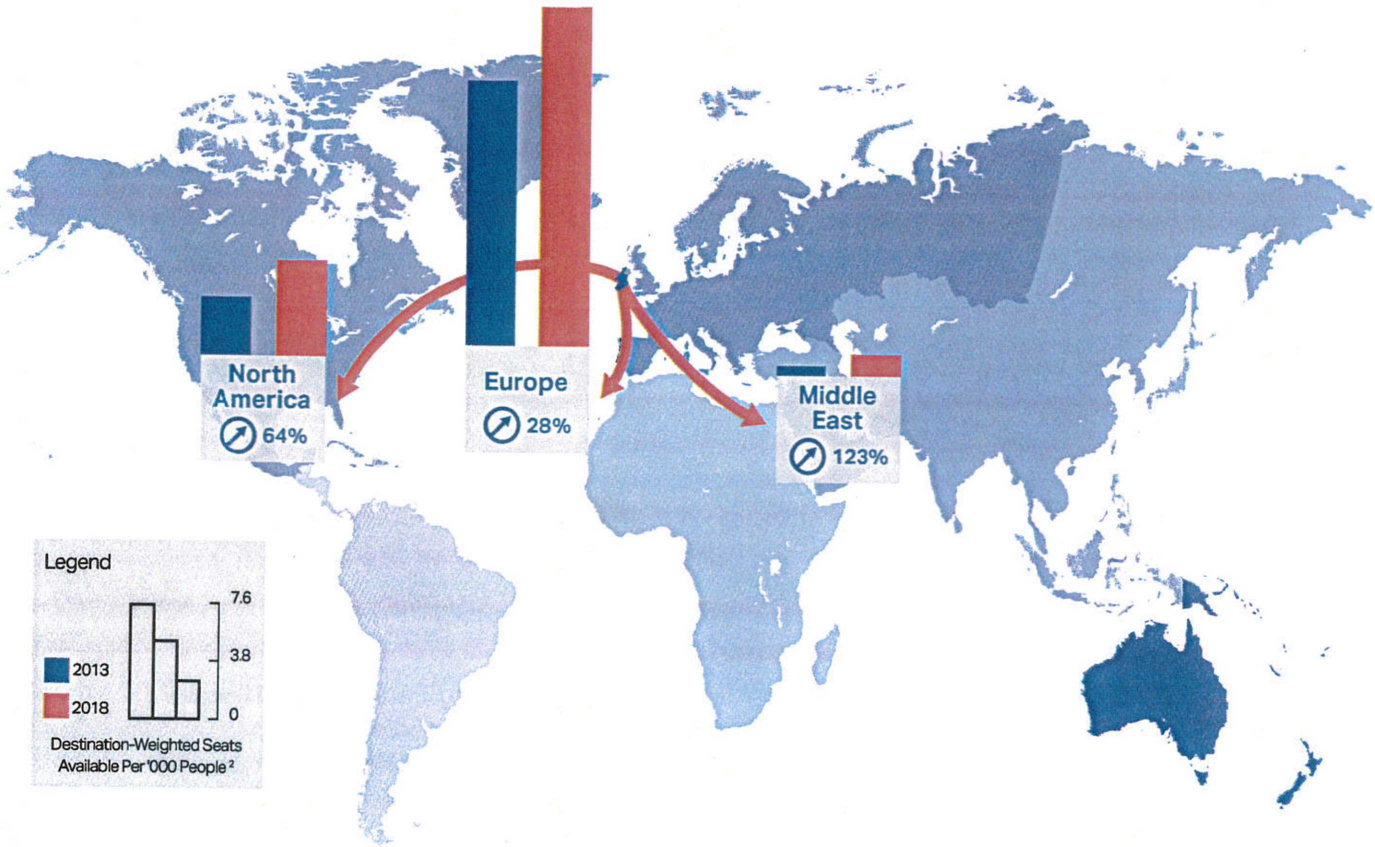
Source: IATA Direct Data Solutions

[3] Arrivals of non-resident tourists at national borders or in all types of accommodation establishments, by country of residence.

Air transport connects Ireland to cities around the world

Air transport generates benefits to consumers and the wider economy by providing speedy connections between cities. These virtual bridges in the air enable the economic flows of goods, investments, people and ideas that are the fundamental drivers of economic growth.

Map of Ireland's air connectivity, by its largest markets (segment basis)[4]



IATA's measure of how well a country is connected to economically important cities around the world is shown above. The map shows Ireland's connectivity at a regional level and how it has evolved. Ireland's connections to the Middle East have grown the fastest over the last five years.

Number of international city pairs direct service in the top ten countries by passenger numbers in the world

- 24 United States
- 1 People's Republic of China
- 0 Japan
- 58 United Kingdom
- 0 India
- 0 Indonesia
- 43 Spain
- 16 Germany
- 0 Brazil
- 28 France

Source: IATA, Aviation Benefits Beyond Borders 2018 report

[4] The air connectivity scores reported are total destination weighted seats per 1000 people. IATA developed the Air Connectivity Indicator calculated based on the total route capacity (in terms of seats available) weighted by the destination airport's relative capacity (calculated as the ratio of seats available at that airport relative to the capacity at the airport with most available seats) divided by the population size of the country with a 0.15% of connectivity threshold in 2013.

Ease of travel, cost competitiveness, and trade facilitation are vitally important

If air transport's unique contribution is the bridges it creates between cities, then the flows of goods, people, investment and ideas that stimulate economic development must flow unimpeded to maximise their contribution to consumers and the wider economy. Here we measure how freely goods and people flow across borders.

Passenger facilitation and cost competitiveness

Ireland's passenger facilitation (4.3/10) scores slightly above the European average (4.1/10). On the World Economic Forum's Travel & Tourism Competitiveness Index, the country ranks 105th for visa openness and 39th out of 136 countries for cost competitiveness. In all these scores and ranks, higher is better.

Passenger Facilitation Score[5]
4.3/10

Visa Requirements score[6]
2.3/10

Cost Competitiveness score[7]
8.2/10

Measures of air cargo trade facilitation

Ireland's facilitation of air cargo through its customs' and borders' regulations ranks 32nd out of 124 countries in terms of the Air Trade Facilitation Index (ATFI) and 50th out of 135 countries in terms of the eFreight Friendliness Index (EFFI) globally[8]. The Enabling Trade Index (ETI)[9] ranks Ireland 20th out of 136 countries globally for the facilitation of the free flow of goods over borders and to its destination.

Air Trade Facilitation Index (ATFI) score
8.6/10

eFreight Friendliness Index (EFFI)
0.3/10

Enabling Trade Index (ETI) score
5.3/7

Forecast scenarios for passenger traffic, jobs and GDP footprint[10]

Air transport market in Ireland is forecast under the "current trends" scenario to grow by 55% in the next 20 years. This would result in an additional 9.6 million passenger journeys by 2037. If met, this increased demand would support approximately US $32 billion of GDP and almost 171,000 jobs.

		PASSENGERS	US $ GDP	JOBS
2017		17.4 m	$20.6 bn	143,117
2037	Current Trends	27 m	$32 bn	170,664
2037	Upside	28.3 m	$33.5 bn	178,855
2037	Downside	23.8 m	$28.2 bn	150,512

[1] Source: Aviation Benefits Beyond Borders 2018 report (all currency is in United States dollars at 2016 prices).
[2] Data relates to 2017.
[5] Passenger facilitation, one of the Air Transport Regulatory Competitiveness Indicators developed by IATA in 2018, looks at the ease of people moving around the globe and how the governments facilitate this process. It assesses the performance of economies on implementation of open skies agreements, advance passenger information and automatic border control systems and visa requirements.
[6] Entry visa requirements for a tourism visit from worldwide source markets (10 = no visa required for visitors from all source markets, 0 = traditional visa required for visitors from every source market). Source: WEF, Travel & Tourism Competitiveness Report 2017.
[7] Based on ticket taxes, airport charges and VAT (10=low cost, 0=high cost). Source: WEF, Travel & Tourism Competitiveness Report 2017.
[8] The IATA Air Trade Facilitation index (ATFI) measures the extent to which a country facilitates air cargo through its customs and borders processes and regulations. The IATA E-freight Friendliness Index (EFFI) assesses the actual penetration of electronic transactions and documents in air cargo shipments (Value of Air Cargo 2016 report).
[9] The Enabling Trade Index (ETI), developed by the World Economic Forum, assesses the performance of 136 economies on domestic and foreign market access; border administration; transport and digital infrastructure; transport services; and operating environment. The ETI is featured in The Global Enabling Trade Report 2016.
[10] Passengers are counted as departures, including connections. The passenger forecasts are based on the IATA 20-year passenger forecast (October 2018). Data on GDP and jobs 2017 are from Oxford Economics. GDP and jobs forecasts are from IATA Economics.

* All data relates to 2018 or most recent unless stated otherwise.

How European states stepped in to support grounded airlines in 2020

By FlightGlobal | 23 December 2020

Strategy

European governments have stepped in with an unprecedented level of financial support to keep airlines in the region afloat during the pandemic, with the likelihood of further funding required in the year to come.

Airlines in Europe are far from special cases in terms of securing state support during the crisis. IATA in late November estimated that globally governments have provided $173 bilion in aid to keep airlines operating since the pandemic hit.

The US government, for example, provided $58 billion in grants and loans to the airline industry as part of its CARES Act after the pandemic struck, and efforts continue in the US Congress over a package to extend payroll support through to the end of March 2021.

Government financial intervention in Europe was made easier in part by the European Commission in March easing state aid rules in response to the coronavirus outbreak. It introduced temporary regulations enabling a number of measures, including direct loans, tax advantages and loan guarantees, to offset the financial impact of the forced grounding of flights during the pandemic.

This relaxation only applies to companies that entered difficulty this year, to ensure the support is in response to the pandemic. In October the temporary framework was extended to remain in place until 30 June 2021 and recapitalisation measures until the end of September 2021.

But the measures and scope of European government intervention has varied across the region. States have in some cases taken direct measures to support airlines through the crisis, providing large bailouts – often taking equity in the process. In other cases there has been no direct funding, though relief has been provided through wider national job protection schemes and access to credit.

Aegean Airlines The Greek government in November set out plans to provide up to €120 million ($146 million) in

State aid to airlines authorised by European Commission since pandemic

Country Airline Amount

Source: Published European Commission state aid approvals to airlines as of 23 December 2020

Austria Austrian Airlines €150m

Belgium Brussels Airlines €290m

Croatia Croatia Airlines €12m

Denmark SAS €583m

Estonia Nordica €30m

Finland Finnair €286m

France Air France €7bn

France Corsair €137m

Germany Lufthansa €9bn

Germany Condor €550m

Greece Aegean Airlines €120m

Italy Alitalia €199m

Latvia Air Baltic €250m

Netherlands KLM €3.4bn

Poland LOT Polish Airlines €650m

Portugal TAP Portugal €1.2bn

Portugal SATA €133m

Romania Blue Air €62m

Sweden SAS €486m

Aegean Airlines The Greek government in November set out plans to provide up to €120 million ($146 million) in state support for Aegean Airlines as part of a wider capital increase. Under the plan, the Greek state would receive warrants for the purchase of shares in the company. The European Commission approved the Greek investment, which is being made via a direct grant, on 23 December. Air Baltic The Latvian government's €250 million recapitalisation of Air Baltic was approved by European regulators in July. The move took the Latvian state's holding in the airline from 80% to above 96%. The state will receive an appropriate remuneration for the investment and there are additional mechanisms to incentivise Air Baltic to buy back the state's equity participation obtained as a result of the recapitalisation. Air Europa Spain's government in November approved a €475 million state-backed loan for Air Europa. The airline will be the first Spanish company to receive money from a fund set up by the country's government in July to help businesses weather the Covid-19 crisis.

Air Europa will receive a €240 million equity-backed loan and a €235 million regular loan, says the Spanish finance ministry in a 3 November statement. The carrier will have up to six years to repay the loans.

Air France-KLM High-profile environmental conditions were attached to the bailouts by the French and Dutch governments for Air France and KLM respectively.

In early May, France's plan to provide €7 billion of government-backed loans to help the FrancoDutch airline group weather the coronavirus crisis was approved by the European Commission under its temporarily relaxed state-aid rules.

The plan included a French state-backed loan of €4 billion from a syndicate of six banks to be distributed to Air France-KLM and Air France, as well as a direct four-year shareholder's loan of €3 billion from the French government to Air France-KLM.

Air France's bailout also came with conditions attached. The French government tied green strings to its contribution, calling on Air France to halve its overall carbon-dioxide emissions per passenger-kilometre by 2030, compared with 2005 levels, with an earlier target of 2024 for emissions from domestic flights. The government also asked Air France to renew its fleet with more efficient aircraft, and to commit to sourcing 2% of its fuel requirements from sustainable sources by 2025.

Reports in the French media in December suggested France was preparing a further €4-5 billion investment into the carrier, through which it would roughly double its 14% stake in Air FranceKLM.

Separately, the Dutch government is providing a €3.4 billion state-support package to KLM. It comprises a 90% state-guaranteed five-year revolving credit facility of €2.4 billion, granted by 11 banks, and a direct state loan of €1 billion. One of the conditions of the aid was that all KLM employees agree to adjust certain employment conditions for the duration of the loan, which is set to last until 2025.

Similarly, also attached to the government loan conditions was a requirement that KLM become a more sustainable operator. KLM chief executive Pieter Elbers told FlightGlobal in a wideranging interview in November that renewed government financial interest in airlines means that reducing the industry's environmental footprint has become a shared endeavour.

"Now that governments have stepped forward so massively to support airlines, there's also a momentum whereby things such as the availability of sustainable aviation fuels... whereby cutting down some of the bureaucracy or even [implementing] the Single European Sky, which [we have been] waiting for the last two decades, maybe now finally we have the momentum of pushing forward," he says.

Alitalia In September European regulators backed an Italian support package to Alitalia in the form of a €199.45 million direct grant, which corresponds to the estimated damage directly caused to the airline between March and mid-June.

Ironically, prior to the temporary easing in state aid rules in March, the European Commission had in February opened a state aid probe into whether Italy's granting of a new loan of €400 million to Alitalia to facilitate the streamlining of the company in order to attempt to sell its assets complied with European state aid rules Blue Air The European Commission in August backed a €62 million loan from the Romanian government to Blue Air. It comprises a €28 million public guarantee to compensate the carrier for the grounding, as well as a further €34 million in rescue aid via a public guarantee on a loan intended to partly cover Blue Air's acute liquidity needs. Corsair The European Commission in December approved two French measures in favour of Corsair. This comprises €106.7 million of restructuring aid for the company and a further €30.2 million compensation for damage suffered due to emergency measures put in place by governments during the coronavirus outbreak. Condor European Commission regulators in April approved a €550 million loan from the German state to help struggling leisure carrier Condor through the coronavirus crisis. The package, granted under the federal government's Corona-Schutzschild (corona shield) programme, secured its flight operations after Polish group PGL withdrew from its planned purchase of the carrier after the crisis.

Condor was cleared to receive a loan of €294 million as coronavirus aid as well as €256 million to fully refinance the bridging loan that the leisure airline received for last winter following the insolvency of Thomas Cook. Croatia Airlines In December European regulators approved a Croatian grant of €11.7 million to state-owned Croatia Airlines, compensating losses caused during the closure of borders between 19 March and the end of June. Finnair The Finnish Government in June participated in a share offering generating net proceeds of around €501 million for Finnair. The Finnish state holds a 55.8% stake, meaning its share of support in new issue was €286 million. IAG IAG's Spanish carriers Iberia and Vueling in May secured financing of €750 million and €260 million respectively under a syndicated agreement with banks, guaranteed by Spanish state-owned Instituto de Credito Oficial.

British Airways issued commercial paper worth £298 million ($399 million) under the UK's Coronavirus Corporate Finance Facility (CCFF). LOT Polish Airlines Poland's government on 22 December secured European Commission backing for around PLN2.9 billion ($787 million) in support measures for national carrier LOT. The aid comprises PLN1.1 billion is to be allocated to increasing the company's share capital, while a further PLN1.8 billion will be allocated from the Polish Development Fund for a liquidity loan.

"With these measures, Poland will contribute approximately €650 million to help the airline weather the current coronavirus crisis," European competition commissioner Margrethe Vestage says. "The decision ensures that the state is sufficiently remunerated for the risk taxpayers assume, and that the support comes with strings attached, including a dividend ban as well as further measures to limit distortions of competition"

Lufthansa Group Pan-European airline group Lufthansa secured support from several governments for its carriers, though it was agreeing aid from Germany that was to prove the most protracted.

Germany contributed €6 billion to a recapitalisation of Lufthansa, through the country's economic stabilisation fund (WSF), as well as a providing a state guarantee for a €3 billion loan.

Approval of the package though had been in doubt after key shareholder Heinz-Hermann Thiele initially said he may vote against the plan. Thiele had criticised "a lack of transparency" in the deal, under which the WSF took a 20% stake in the group.

Elsewhere in the group Austria provided a €150 million subordinated loan that will be converted into a grant only after Austrian Airlines' financial results for 2020 confirm that the aid does not exceed the amount of damage suffered during the grounding period.

Belgium provided a €290 million aid package for Brussels Airlines. That predominantly comprised a six-year loan of up to €287.1 million with subsidised interest, not convertible into equity, as well as a recapitalisation of €2.9 million.

Switzerland's government proposed providing 85% guarantees for loans totalling Swfr1.5 billion ($1.52 billion) to Lufthansa subsidiaries Swiss and Edelweiss in May.

Nordica Estonian operator Nordica in August secured approval for a €30 million financial support package comprising a share capital increase and a loan with subsidised interest. Norwegian While cash-strapped Norwegian has benefited from some state financial support, it was neither as much as the airline was seeking nor enough to prevent the airline later filing for formal restructuring.

Norwegian in June entered into a NKr2.99 billion ($344 million) state supported term facility agreement arranged by DNB Bank. It came after shareholders backed a debt-for-equity financial restructuring required to ensure its equity ratio met the criteria to unlock the state aid.

The airline though warned it would require further funding to survive the winter, but the government in November ruled out further financial support.

"Norwegian has asked for financial support in the billions, and the government has considered that in this situation there is no sound use of community funds," said Norwegian trade and industry minister Iselin Nybo. "Such support could also distort competition. The players in Norwegian aviation can also benefit from many of the other general schemes we have presented."

Norwegian cited the rejection of this support as a factor when it subsequently filed for formal protection under Irish bankruptcy law. Russia In May, Russia's government allocated Rb23.4 billion ($317 million) to the country's carriers to provide financial support as the coronavirus crisis begins to affect their operations substantially. Reuters in September reported national carrier Aeroflot could access a third of this funding, with the remainder allocated across other Russian operators. SAS In August the European Commission approved moves from Denmark and Sweden – the two state shareholders in SAS – to support an SKr11 billion (€1 billion) recapitalisation of the Scandinavian carrier. It comprises SKr2 billion equity participation through the subscription of new shares and a further SKr3 billion in a rights issue — both shared equally between Denmark and Sweden. Demark will provided a further SKr3.5 bilion and Sweden €2.5 billion in newly issued state hybrid notes.

The recapitalisation replaced revolving credit facilities – 90% underwritten by Denmark and Swdened – initiated in April.

As a result of the recapitalisation, the Danish and Swedish governments each increased their stakes in SAS to 21.8% SATA European regulators in August backed a Portuguese €133 million support package to help Azores carrier SATA Air Acores through the coronavirus crisis, but judged an earlier capital increase required repaying.

Because SATA was already facing financial difficulties prior to the pandemic, the airline was not eligible for support under the Commission's temporary relaxation of its state aide framework.

Instead, it considered the package under its existing state aid rules. It judged that a public guarantee of up to €133 million on a temporary loan strictly relates to urgent liquidity linked to the provision of essential services by SATA and was necessary to allow the company to continue operations.

But regulators opened an investigation into earlier public-support measures for the carrier – relating to a move in 2017 by the Autonomous Region of Azores, which wholly owns SATA, to approve three capital increases to partly address the company's capital shortfalls.

The Portuguese archipelago's secretary for finance, Joaquim Bastos e Silva, in December disclosed during a legislative assembly that nearly €73 million in support – put in place during 2017-20 – breached European Union rules, because prior approval was not obtained. TAP Air Portugal Portugal's government completed its acquisition of an additional 22.5% stake in TAP, clearing the way for the airline to access the rest of a state loan of €946 million. The government now holds 72.5% of TAP's share capital after acquiring the stake from David Neeleman's Atlantic Gateway consortium.

An extra €254 million may later be added to the loan, but the government is not obligated to make the additional funds available. That relates to the €1.2 bilion rescue aid that European regulators approved in June.

As TAP was already facing financial challenges before the pandemic, the rescue aid was granted under existing rules. This required TAP to repay the aid within six months or submit a restructuring plan.

In December the government submitted plans for a restructuring of TAP that would involve a reduction of fleet capacity and the cutting of 2,000 personnel. These plans envisage the airline requiring state support of €970 million in 2021 and further financing over the course of the plan. UK The UK Government has stopped short providing direct airline bailouts, though did initiate general business support measures as the crisis developed through its CCFF facility and furlough schemes.

Alongside British Airways, several other carriers - including EasyJet, Ryanair and Wizz AIr - have raised liqudity through the CCFF programme.

EasyJet, which accessed €600 million under the CCFF scheme, in November said it was planning to extend its borrowing under the programme. "Implementing the proposed extension will lead to a staggered repayment profile with £300 million repaid in March 2021 and £300 million in November 2021," the airline said.

Ryanair in April raised £600 million in unsecured debt under the programme, while Wizz Air borrowed £300 million under the programme Leisure carrier Jet2 is also eligible for £300 million liquidity under the scheme, but as of an interim financial year update in November this facility was undrawn.

Reporting by David Kaminski-Morrow, Graham Dunn and Lewis Harper.

Additional reporting by Cirium

Article updated on 23 December 2020 to reflect EC approval of Aegean Airlines state aid