

Covid support in the transport sector – working paper.

LACC

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FINAL REPORT

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COVID SUPPORT IN THE TRANSPORT SECTOR

1. SUMMARY

- The transport sector has been particularly adversely affected by the impacts of Covid 19 on passenger numbers and consequently revenues.
- In the UK government support to industry has tended to be general rather than sector specific.
- Several large aviation businesses including Gatwick Airport, BA, EasyJet and Ryanair have accessed government Coronavirus loan facilities which offer preferential rates.
- Others such as Virgin have been ineligible (not listed) and required to look to shareholders to recapitalise the business and create scope for third party investment.
- There has been only very limited specific intervention into the aviation sector.
- European and US governments have provided a greater level of sector support in the form of grants and loans, primarily provided to airlines rather than airports.
- This support has not been free. Governments have imposed restrictions e.g. on distributions, introduced additional governance (board membership) and in some cases imposed specific conditions e.g. slot redistribution or changes to schedule to limit competition with other modes (rail).
- The UK government has provided greater support to other transport modes; largely where there has been a requirement to maintain service levels to support essential travel with social distancing.
- Transport for London (TfL) and UK train operating companies (TOCs) and wider ‘essential’ transport services have been the beneficiaries of tailored support.
- TfL has received a mix of grants and loans and for the TOCs, franchise agreements have been largely suspended and replaced by management contracts with Government taking on volume/revenue risk that was previously allocated to the TOCs.
- In return TfL has had to accept a substantial loss of autonomy and a suite of conditions. The TOCs have taken a substantial reduction in income.
- Some firms have so far been excluded from support e.g. Virgin (discussed above) and Eurostar which has a material interest in the UK and may be eligible for UK support but government expects SNCF the French owned majority shareholder to share in any support package.
- Outside of transport some sector regulators are acknowledging the potential impact of bad debt arising from the pandemic and are beginning to address that or consider its treatment within the regulatory regime.

2. CONTEXT

State support to industry as a whole has become common during the Covid 19 pandemic. The UK government has supported the furlough scheme, provided tax payment holidays etc., as well as providing specific support to certain sectors of the transport industry – national rail, TfL, and regional bus and light rail systems being particular examples. Such sector specific support has tended to be restricted to services that are considered ‘essential’ and for which demand has been insufficient to justify the service levels required by Government to maintain social distancing.

In the UK there has been only limited specific support to aviation. At the end of January 2021 Government introduced the Airport and Ground Operations Support Scheme which provides small scale support of up to £8 million to support with fixed costs while travel restrictions remain in place. The scheme is intended to help airports and ground handlers to cover losses on costs including airfield operations, contracted services such as airfield and runway maintenance, and business rate bills. Beyond this, UK Airports and Airlines are restricted to accessing more general Covid support schemes that are on offer.

This working paper provides a discussion of specific support mechanism offered in the UK to other modes and internationally to aviation. It highlights that governmental support to industry has not always been ‘free’.

Governments have placed restrictions on those receiving support, which ranges from the imposition of additional governance arrangements and restrictions on distributions through to specific requirements being placed on the bodies receiving support and on their returns.

3. COVID SUPPORT IN THE AVIATION SECTOR

The aviation sector has been particularly heavily hit by the pandemic. Governments have provided support for the industry to a greater or lesser extent, recognising that the nature of the pandemic necessarily means this sector will be severely impacted over the short term and emphasising the importance of protecting workers and maintaining connectivity. The support to airlines has been substantial with certain conditions attached, reflecting the severity of the crisis for these companies. In contrast, airports have received much less attention and funding to date.

In the UK, Virgin Atlantic was one of the first groups to request government assistance as a result of the pandemic, seeking a £500m commercial loan from Government.¹ The chancellor wrote a letter to the major airlines acknowledging their importance to the economy but underlining that they could already benefit through other support schemes and so there would be no sector-wide bailout and that additional support to individual companies “would only be possible if all commercial avenues have been fully explored, including raising further capital from existing investors and discussing arrangements with financial stakeholders”.² This was reiterated by the Transport Secretary who insisted that current shareholders “must be part of the solution”.³

At this time Virgin’s founder Richard Branson came under significant pressure given his personal wealth, and provided \$250m in support for employees,⁴ as well as offering to sell his stake in his space company and mortgage his private island to raise more funds.⁵ In the end the £500m loan request was rejected by the Treasury, who did not consider that the airline had exhausted its private sector options. Virgin ultimately secured a \$1.2 billion private “solvent recapitalisation” consisting of \$200m from Branson and the Virgin Group, the postponement of \$450m to creditors and the rest as funding from a hedge fund.⁶ At this stage the airline had already cut 3,500 of its 10,000 staff and closed its hub in Gatwick.

Other Airlines have been able to access UK Government loans. EasyJet secured £600m in low-interest loans through the Bank of England’s Covid Corporate Financing Facility (CCFF) which was put in place “to relieve cash flow pressures on firms that make a material contribution to the UK economy”.⁷ In order to be eligible to access the scheme companies must normally be UK-incorporated (or foreign-incorporated with genuine UK presence), have significant UK employment and be headquartered in the UK, with consideration also given to revenues, size of customer base and number of operating sites. There is a requirement for “sound financial health” prior to the pandemic, which is usually proven by a credit rating achieved prior to March 1st, 2020, and which the interest rate, ranging from 0.2% - 0.6%, is ultimately based on (note that Virgin Atlantic does not have a credit rating and so was ineligible on technical grounds).⁸ There are no other substantial conditions on this assistance. Ryanair has utilised

¹ “Branson’s Virgin Atlantic in virus bailout talks” (April 2020), accessed via [BBC website](#) March 2021.

² “Chancellor tells airlines UK bailout ‘only as last resort’” (March 2020), accessed via [Sky News website](#) March 2021.

³ “Virgin Atlantic to seek bailout in coming days” (March 2020), accessed via [BBC website](#) March 2021.

⁴ “Billionaire Branson Dips Deep To Save ‘Incredible Employees’ With \$250 Million Joint Package To Fight Coronavirus Shock” (March 2020) accessed via [Forbes website](#) March 2021

⁵ “Branson to mortgage Caribbean island as he seeks Virgin bailout” (April 2020), accessed via [Guardian website](#) March 2021

⁶ “Virgin Atlantic finalises £1.2bn rescue deal” (July 2020), accessed via [BBC website](#) March 2021.

⁷ “HM Treasury and the Bank of England launch a Covid Corporate Financing Facility (CCFF)” (March 2020), [BoE website](#)

⁸ “Bank of England launches Covid Corporate Financing Facility” (April 2020), accessed via [NRB website](#) March 2021

the fund obtaining £600m⁹ as have BA and Wizz, for £300m each.¹⁰ Gatwick Airport has also accessed the CCFF, initially in August 2020 as a contingency measure, though it has since drawn on the facility given the ongoing impacts of the pandemic.

At the onset of the pandemic, the European Union relaxed its stringent State Aid rules, enabling member states to provide support to industries and companies particularly affected by the crisis. The aviation sector has been a major recipient of this aid, with €35 billion agreed and a further €8 billion under discussion as of January 2021.¹¹ There are three main channels through which airlines have received this aid, which determine the conditions, if any, attached to it.¹²

The 'Temporary Framework for State Aid' set conditions which member states could provide support to SMEs and larger businesses, which was recently extended to the end of 2021. The Framework has enabled member states to provide recapitalisation support in any form – including equity and/or hybrid instruments, which may result in the state having a stake in the firm, as well as subordinated debt.¹³ Other than certain minimum financial parameters, the conditions attached to aid from this channel include:

- Bans on dividends and share buybacks while the state holds a stake in the company,
- Caps on management pay and bans on bonuses while the state holds a stake in the company,
- No acquisitions of more than a 10% stake until the company buys out at least 75% of the state's stake (to prevent potential hostile takeovers by foreign actors of strategic firms) and
- A restructuring plan if the state continues to hold a stake after 6 years (listed companies) or 7 years (unlisted).¹⁴

Large companies are also obliged to report on how the aid is supporting them in meeting obligations under the EU's green and digital transformations objectives, with the Commission emphasising "[m]ember states are free to design national measures in line with additional policy objectives."¹⁵ The Commission can also impose further conditions on a case by case basis. Examples of airlines accessing funding through this channel, and additional conditions imposed on them are:

- The German government provided stabilisation support to Lufthansa totalling €9 billion in May 2020 and imposed a restriction on itself to only appoint experts to its board, in an attempt to avoid the issue of political patronage seen in the past era of state-owned national carriers. The European Commission also imposed further 'commitments to preserve effective competition' namely the divestment of up to 24 slots per day at its hub airports in Berlin and Munich, despite the board initially refusing and threatening to walk out of the talks.¹⁶ For the first 18 months these slots, which will be allocated through a competitive bidding process, will only be available to new entrants. After this, existing competitors can bid for them.¹⁷

⁹ "Ryanair won't 'request or receive' state aid as passenger numbers set to halve" (May 2020), accessed via [Yahoo News website](#) March 2021.

¹⁰ "Airlines among businesses given Bank of England bailouts" (June 2020), accessed via [Sky News website](#) March 2021.

¹¹ "Bailout tracker" (January 2021), accessed via [Transport & Environment website](#) February 2021.

¹² "A practical guide to the state aid rules to tackle the impact of COVID-19" (April 2020), accessed via [Oxera website](#) February 2021.

¹³ "Re-capitalisation measures in the Temporary Framework for State Aid" (May 2020), accessed via the [Covington website](#) March 2021

¹⁴ "Ban on dividends, share buybacks for bailed-out EU firms" (May 2020), accessed via [Reuters website](#) February 2021.

¹⁵ "EU Will Not Impose Green Conditions On Airline Bailouts" (May 2020), accessed via [Forbes website](#) February 2021.

¹⁶ "State aid: Commission approves €6 billion German measure to recapitalise Lufthansa" (June 2020), [European Commission](#)

¹⁷ "Lufthansa giving up slots in bailout package" (June 2020), accessed via [MarketWatch website](#) February 2021.

- Austrian Airlines, a subsidiary of Lufthansa, received a package of €600m, with carbon performance targets which require the airline to reduce its domestic emissions by 50% by 2030, reduce its total emissions by 30% by 2030 compared to 2005 levels, improve fuel efficiency by 1.5% per year to achieve an average carbon footprint per 100 passenger kilometre of 8.5kg by 2030 compared to a current footprint of 9.6kg, and encourage passengers to shift from short distance flight to rail where train connections below 3 hours are available.¹⁸
- Air France – KLM has received tranches of support from both the French and Dutch governments. In the first round, the French government imposed similar climate conditions as imposed on Austrian– a 50% improvement in fleet efficiency in 2030 compared to 2005, a 50% reduction in emissions from domestic flights by promoting rail for journeys under 2.5 hours and a requirement of minimum use of 2% alternative fuels used by 2025.¹⁹ The Dutch government added conditions of cutting costs by 15% and reducing evening flights by 20%, also in an effort to boost train journeys.²⁰ The latest round of negotiations has seen protests in France against the Commission’s proposals that Air France give up 24 Orly airport slots.²¹

Another channel for aid is through a modified version of the EU’s ‘Rescuing and restructuring’ guidelines which enables government to provide loans for companies struggling under exceptional circumstances, to be repaid in a period up to 18 months (or to submit a restructuring plan to ensure future viability).²² This seems to have been widely used across the EU with few if any conditions attached (e.g. the €1.2 billion in relief to Portugal’s TAP²³).

Much less emphasis seems to have been placed on airports, with an Airports Council International report claiming that as (as of November 2021), European airports had received €840m in state support compared to €32 billion for airlines.²⁴ Airport funding has also generally been accessed through the temporary framework, often to regional airports and of orders of magnitude less than support provided to the airlines e.g. €32 million in grants to Polish airports,²⁵ €22m in soft loans to Hermes Airports Limited in Cyprus²⁶ and an €18.2m grant to Saarbrücken airport in Germany.²⁷

The government in Germany is reported to be discussing a state aid-for-equity deal for five of its major airports worth up to €1 billion (with half provided by regional governments and the other half provided by the federal government), though it is unclear how and if this will interact with the various mechanisms at the EU level. This would reportedly not include three major airports that the government already has stakes in, or smaller regional airports. While the German airports association ADV is resistant to aid being linked to equity stakes, the finance ministry sees unconditional grants as inappropriate.²⁸

In the US there have been two major rounds of pandemic stimulus, which has seen airlines receive \$40 billion so far on the conditions that they continue to keep its employees on payroll until the 31st of March 2021 (with another round currently being negotiated to provide support beyond that date), maintain certain minimum flight

¹⁸ “Austrian Airlines Receives Financial Aid from the Federal Government and Lufthansa” (June 2020), accessed via [CAPA website](#) February 2021.

¹⁹ “Air France must cut emissions, domestic flights for aid: minister” (April 2020), accessed via [Reuters website](#) February 2021.

²⁰ “Dutch government unveils KLM rescue plan” (June 2020), accessed via [Euractiv website](#) February 2021.

²¹ “Air France, unions rail against EU bailout conditions” (February 2021), accessed via [Reuters website](#) February 2021.

²² “The impact of COVID-19: Navigating EU State aid” (October 2020), accessed via [Ashurst website](#) February 2021.

²³ “State aid: Commission approves €1.2 billion Portuguese urgent liquidity support to TAP” (June 2020), [European Commission](#)

²⁴ “ACI Europe position: State aid for Aviation in response to Covid-19” (November 2020), [ACI](#)

²⁵ “Aid scheme for Polish airports” (September 2020), [European Commission](#)

²⁶ “Loan provided to Hermes Airports Limited” (November 2020), [European Commission](#)

²⁷ “Operating aid for Saarbrücken airport 2019 – 2024” (May 2020), [European Commission](#)

²⁸ “Germany looks at state aid-for-equity deal to help airports – sources” (February 2021), accessed via [Reuters website](#) February 2021.

requirements and some salary, financial and expense limits.²⁹ Airports have received \$12 billion in grants aimed at reimbursing operating expenses, debt service payments, Covid-specific costs (such as new hygiene measures) and rent relief to airport concessions.³⁰ These grants have been channelled through the pre-existing “Airport Improvement Program” which comes with boilerplate financial and operating obligations but no additional conditions appear to have been attached via the stimulus bills.³¹

4. COVID BAILOUTS IN THE WIDER TRANSPORT SECTOR

In the UK certain transport sectors have been given greater support. The rationale here is that operations have had to be maintained at a high level to permit essential travel. This could not have been sustained had government not stepped in to cover the cost of operation. In these sectors government has imposed restrictions in return for aid.

Transport for London

TfL has received two tranches of aid under emergency support arrangements which provided a mix of additional grant and access to further Public Works Loan Board facilities.^{32 33} The government is also monitoring the funding/financing of key projects such as the Northern Line extension and Crossrail.

In return for Government support, a substantial list of requirements has been placed on TfL including:

- Requirements on the level of service to be operated and on active traffic management to maintain social distancing.
- Use of provided funds to invest in active modes – walking and cycling.
- Temporary suspension of concessionary travel which exceeds that offered by other local authorities outside of London.
- A requirement to actively manage staff absence levels, identify a specified level of efficiencies and review driverless trains.
- The reintroduction of the Congestion and ULEZ charges (which were suspended at the start of the pandemic) and latterly a commitment to expand the ULEZ zone.
- Fares increase of RPI plus 1% (reversing the Mayor’s election commitment).
- Board attendance (and in the second funding agreement, selected board committee attendance) by two government officials who may ask questions and require the provision of information on behalf of the Secretary of State.
- A requirements to submit to government review, a long term review of financial sustainability.

In effect in return for bailout funding TfL has given up a substantial degree of autonomy and is now subject to substantial scrutiny from Government.

²⁹ “U.S. Lawmakers Back \$15 Billion in Airline Payroll Assistance” (December 2020), accessed via [US News website](#) February 2021.

³⁰ “U.S. Department of Transportation Announces Nearly \$2 Billion Grant Program for COVID Relief to Airports” (February 2021), accessed via [AviationPros website](#) February 2021.

³¹ “Overview: What is AIP?”, [FAA website](#)

³² “Transport for London – Extraordinary funding and financing agreement support letter” (May 2020), [TfL Website](#)

³³ “Transport for London Settlement Letter” (October 2020), [TfL Website](#)

Other local transport operators

Local bus companies in England sought support of £1bn early in the pandemic and were awarded initial support of £400m in April 2020³⁴. £167m in grant funding was provided to support the companies for 3 months given that service levels were required to be maintained to support essential workers and essential travel. In August 2020, the support was extended and Government gave a commitment to maintain monthly support payments until they are no longer needed. In April 2020³⁵ the Government also committed £200m to support planned investment in the bus network. Similar grant based support has been provided the tram and light rail networks in Manchester, Tyne and Wear, Sheffield, Nottingham and the West Midlands.

National Rail

Similar to TfL, UK train operating companies (TOCs) have found themselves in a position of being unable to sustain operations during the pandemic but Government has stepped in to maintain a level of essential service³⁶. In March 2020 DfT offered emergency measures agreements (EMAs) to train operators which effectively suspended franchise operations. Initially these agreement ran from March to October 2020, since which time they have been replaced by emergency recovery measures agreements (ERMAs) which cover periods of operation from 6-18 months and effectively suspend large parts of the underlying franchise agreement. Franchise agreements technically remain in place to ensure that committed obligations (e.g. for upgrades or new rolling stock) remain in force.

Under both sets of agreements DFT takes on all volume/revenue risk and the TOCs earn a management fee. EMAs provided a fee of up to 2% of the operating costs of the franchise pre pandemic. Under ERMAs this has been reduced to 1.5%. We understand that a component of the fee is subject to operating, customer, financial and collaborative (with DfT and the industry more widely) performance so these percentages represent the maximum level of payment. These fees appear on average to be no more than half of what might have been earned under a typical franchise agreement.

ERMAs can be further extended but the expectation is that TOCs will move onto direct award contracts or new post Williams Rail Review arrangements within 2 years.

Ferry operators

In May 2020, the UK Government signed agreements with six ferry operators to provide up to £35 million in grant to maintain freight capacity and prevent disruption to the flow of goods.³⁷ It protected 16 of the most important routes covering the Channel, the Short Strait, the North Sea and routes between Great Britain and Northern Ireland which were previously at risk of closure due to a drop in demand as a result of coronavirus. Government provided additional support suspending competition rules so that commercial ferry operators could coordinate services. Separate grant support has been provided to 'essential' passenger ferry services e.g. to the Isle of Wight and Scilly Isles.

Eurostar

Even late in the pandemic the situation facing Eurostar is uncertain. At the start of 2021 it had lost as much as 95% of traffic and is operating only one service a day to each of France and Belgium. To date it has not benefitted from specific support from either the UK or French Governments. There appears to be some willingness on both sides

³⁴ "Bus firms get £400m bailout to maintain services" (April 2020), accessed via [Guardian website](#) March 2021.

³⁵ "Bus and tram operators in England get second coronavirus bailout" (August 2020), accessed via [FT website](#) March 2021.

³⁶ "Payments to passenger rail operators under emergency measures agreements EMAs March to September 2020" (November 2020), [UK Government website](#)

³⁷ Government invests £35m to protect critical freight routes" (May 2020), [UK Government website](#)

to provide some form of support. The UK government has suggested that CCFF might be available but the UK Secretary of State for Transport has said that Eurostar ‘is not our company to rescue’³⁸ referring to it being 55% owned by the French state railway company SNCF.

Other sectors

This paper deals primarily with the transport sector but we are aware that other sectors e.g. water have been considering Covid support mechanisms. Ofwat temporarily suspended charges against certain performance measures for water companies in response to activities such as meter readings becoming more challenging as premises were unoccupied as a result of people working from home etc. It is now in the process of rolling these measures back into place such that suspended measures will in back in force by the end of the current financial year at the latest. Its latest statement is available here: <https://www.ofwat.gov.uk/publication/statement-from-ofwat-and-mosl-covid-19-and-the-impact-on-the-business-retail-market/>

Ofwat has also previously indicated that it anticipates that there may be a deterioration in ability to pay and ultimately bad debt. In the first instance it expects water companies to prepare repayment plans with customers to manage the situation but it has also indicated that a degree of regulatory support will be available if bad debt exceeds 2% of turnover. Ofwat has recently published a call for inputs on bad debt in the retail sector: <https://www.ofwat.gov.uk/consultation/call-for-inputs-impact-of-covid-19-on-the-business-retail-market-late-payments/>.

³⁸ “Government ‘keen for Eurostar to survive but will not take lead in rescue’, confirms minister” (February 2021), accessed via the [New European website](#) March 2021



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