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PROTECTING EU COMPETITIVENESS

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"Reforming "Ownership and Control" rules for EU airlines would facilitate the sector's improved access to capital and produce significant benefits for the EU economy, without any cost to EU citizens. Had these rules been modernised prior to the Covid-19 pandemic, over 15,000 jobs within the aviation industry would have been preserved. Improved access to capital is critical for the competitiveness of EU airlines and their decarbonisation efforts. Controlled non-EU investment in EU airlines can eliminate the need for public bailouts of inefficient airlines (which amounted to €40bn during the Covid pandemic, or almost €100 per EU citizen), freeing up resources for alternative purposes."

Juliusz Komorek, Group CLO

ALLOW EU AIRLINES TO THRIVE

EU airlines have **difficulties in accessing global capital markets** due to the restraining WW2-era Ownership and Control ('O&C') rules. This **makes the whole air transport value chain less competitive**, which in turn restricts connectivity, competition and choice for EU consumers.

Had EU carriers had access to global capital markets during Covid, without the current restrictions, **15,000 jobs would have been saved**, while connectivity would have been preserved.

THE CONTEXT

Air transport is a **capital-intensive activity**. Aircraft and engines are multi-million euro assets requiring constant expensive maintenance. Airports are very costly infrastructure projects, while Air Traffic Control relies on expensive hardware and software. In addition, before scheduling a single flight, an airline must ensure an aircraft is fuelled and equipped appropriately, pilots and cabin crew are rostered for duty, services of ground personnel performing airport and handling tasks are in place, supported by an administrative structure capable of managing the human and physical capital, in strict observation of the highest safety standards. All these essential parts of our business require significant upfront investments.

Equally, any operational improvement, for example to **reduce the carbon footprint** of the sector, **requires significant upfront costs**. Airlines have little option but to **seek capital in the financial markets**.

Today, **EU Regulation 1008/2008** requires **EU airlines** to be more than **50% owned and controlled by EU nationals or Member States**. These **rules** were originally designed in the 1940's, to support a WW2-era vision of aviation as a service provided by States.

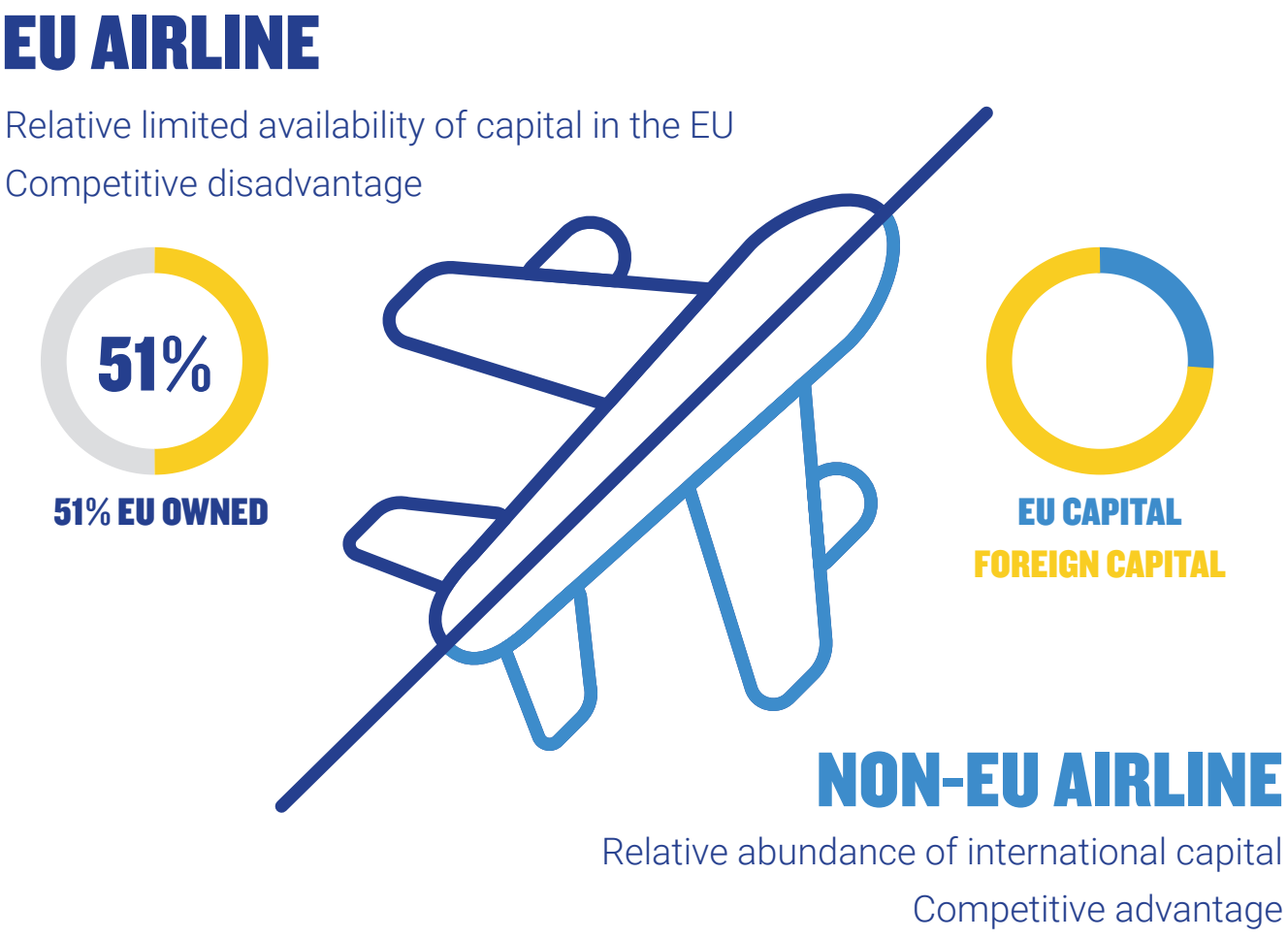
THE PROBLEM

O&C restrictions **limit the possibility for EU airlines to access capital** in global financial markets, due to the relative lack of available capital in Europe and the limited access to the US and UK capital markets. This weakens their position relative to US, Gulf and Asian airlines who have greater access to capital at a lower cost.

The **limitations** of existing ownership and control rules have been **exacerbated following Brexit**. Historically over the past 10-20 years, investment in the airline sector has been more readily available from non-EU27 capital markets, in particular the UK and US, than EU27 capital markets.

Total market cap relative to GDP (2018)	**150%**	65%
Share of total global assets under management (2020)	**44%**	19%
PE fundraising (2020)	**$300bn**	$111bn

By limiting access to capital, O&C restrictions make it **more expensive for EU carriers to undertake environmental or operational investments** and consequently have a **negative effect on the competitiveness of EU airlines**. O&C restrictions also **increase the risk of EU airline bankruptcies**.



THE SOLUTION

There is pressing need to modernise **O&C rules** in the context of the revision of EU Regulation 1008/2008 ("Air Services Regulation"). If O&C rules were reformed, EU airlines could **avoid** having to rely on expensive **public bail-outs** paid for by EU citizens (€40bn was allocated to legacy carriers during Covid).

Better access to capital and lower cost of capital would **accelerate the green transition**, increasing the resources that airlines can invest in **Sustainable Aviation Fuels ("SAF") or new, more efficient aircraft**.

Easier access to capital would also **support EU connectivity**, especially to and from **underdeveloped & peripheral EU regions**. Studies show that every million passengers supports in excess of 5,000 jobs.

According to a recent study[2], better access to non-EU capital would have allowed EU carriers to preserve 15,000 jobs during the Covid crisis. The study also estimates a **positive impact** on the market capitalisation of listed European airlines of **€4 billion**.

CURRENT O&C RESTRICTIONS

EU CARRIER	NON-EU CARRIER
DIFFICULT TO RAISE CAPITAL	EASY TO RAISE CAPITAL
LIMITED INVESTMENTS	MORE INVESTMENTS
OPERATES LESS EFFICIENT AIRCRAFT	OPERATES EFFICIENT AIRCRAFT

CONNECTIVITY

JOBS

€4BN
on listed EU airlines market capitalisation

NO COST FOR THE EU

THE REFORM OF O&C RULES WOULD COME AT NO COST FOR THE EU, BUT WOULD GENERATE SIGNIFICANT BENEFITS FOR ITS CITIZENS, CREATE EMPLOYMENT AND INCREASE THE COMPETITIVENESS OF EU CARRIERS.

2 "Analysis of ownership and control rules for European airlines", Oxera 2022

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