

Solakonferansen 2021 – Norwegian aviation after the pandemic, what now?

Torbjørn Lothe, Director General, Federation of Norwegian Aviation Industries

22. September 2021

Pandemic – enormous traffic- and market failure

2020 domestic: -52% -> 8 mill pax

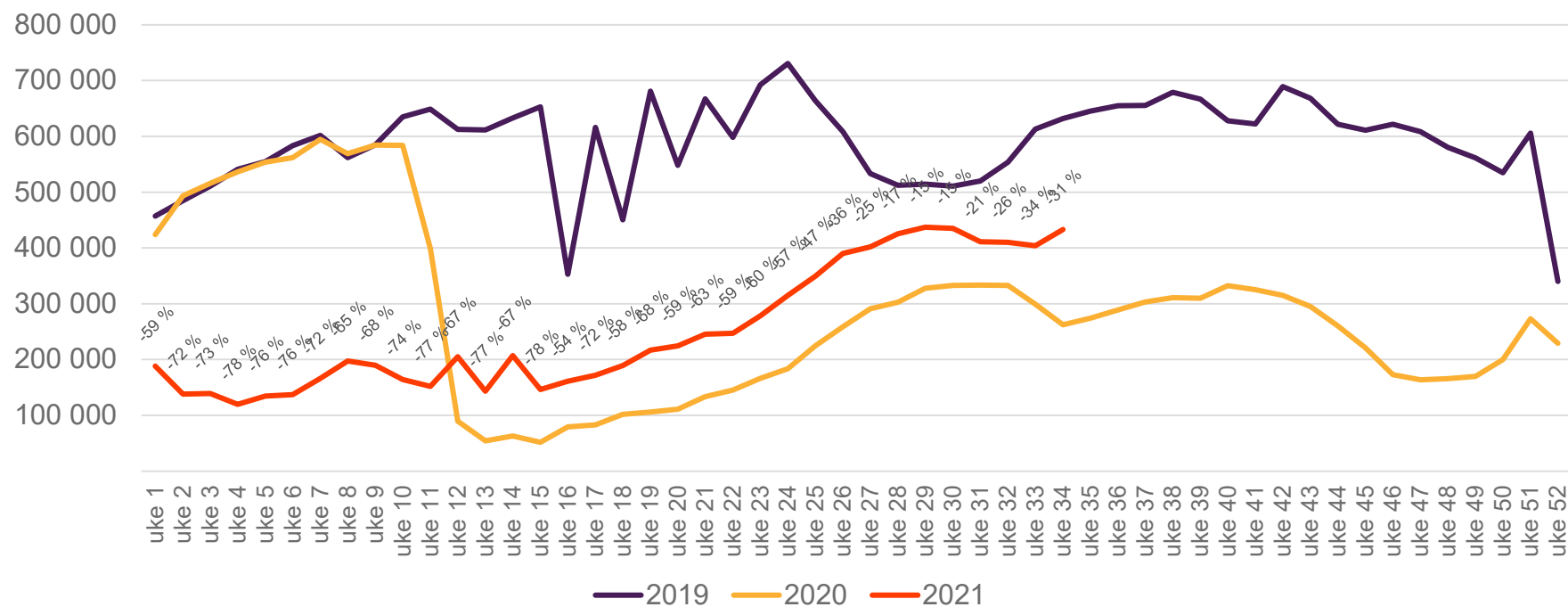
2020 international: -77% -> 16 mill pax

2020: - 66% -> 24 mill pax

2020: Turnover loss = 24 billion NOK

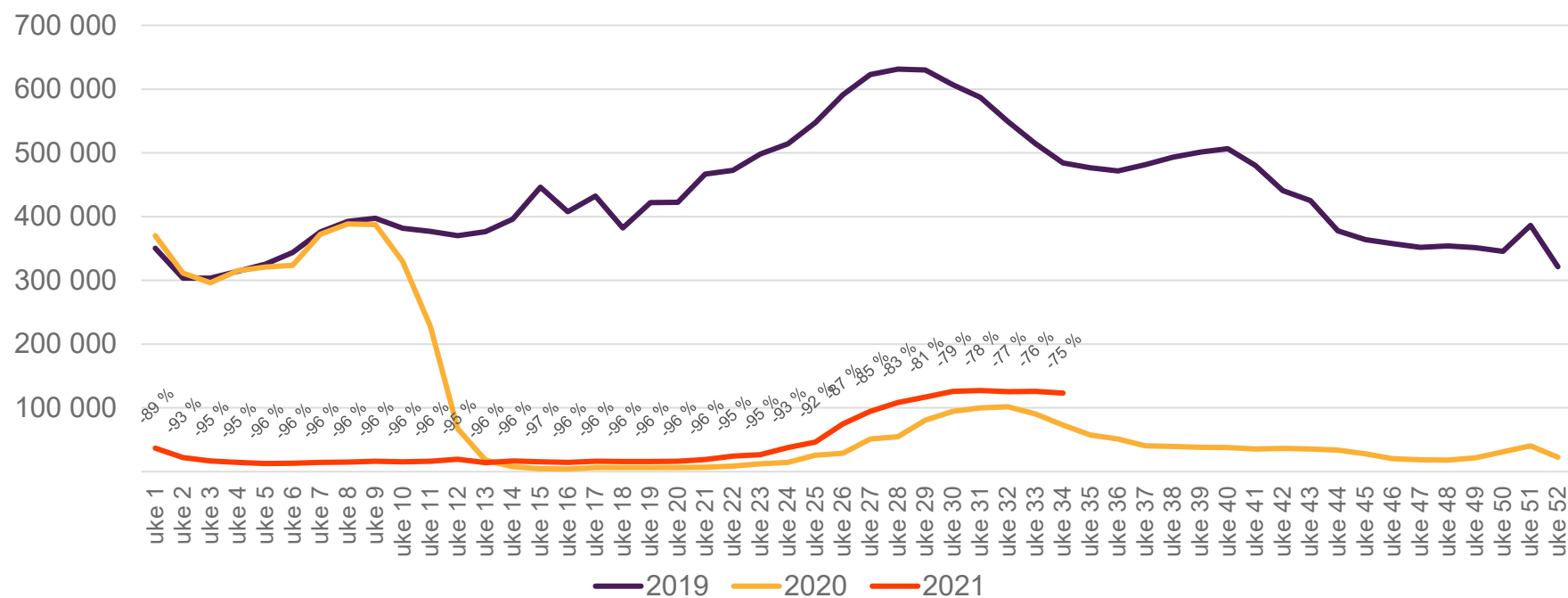
2021-2019: - 62-63%??? – further 22-23 billion
NOK???

Passasjerer Avinor innland per uke



* Uke 1 2019 er 31/12-18 – 6/1-19. Uke 1 2020 er 30/12-19 – 5/1-20

Passasjerer Avinor utland per uke



* Uke 1 2019 er 31/12-18 – 6/1-19. Uke 1 2020 er 30/12-19 – 5/1-20

The Government responded with relevant compensatory measures early in the pandemic

- Covid-19 aviation aid measures
 - Exemption from Air Passenger Duty (from 1th. Jan 2020 to 31.th Oct)
 - Exemption airport charges (until end of Jun/Oct)
 - Loan guarantee scheme (6 bill NOK)
 - PSO - purchase of air routes
 - Some reliefs in renting conditions at airports
 - Exemption slot regulation
- General aid measures
 - Cash compensation scheme (excl airlines)
 - State guarantee scheme for small and medium-sized enterprises
 - Reduced VAT on passenger transport
 - Extended redundancy scheme and reduced employer period
 - Deferred payment of employer's contribution
 - Change in the sickness absence rules
 - Wage compensation scheme

Further measures were discussed

The measures from spring 2020 were not sufficient - the crisis persists

- *Compensation - the authorities' infection control- and travel restrictions objective is to fight Covid-19. Consequently, people are restricted from travelling by air. The state should compensate for more of the financial losses.*
 - The principle of compensation was generally approved by the Government
 - EU Commission has approved a 2 bill NOK compensation scheme to Alitalia
 - Must ensure/reestablish equal competition
 - Ensure a competitive Norwegian aviation industry
 - Secure jobs & skills
- *How to stimulate rebuilding of the aviation market*
 - Norway is dependent on a well-functioning air transportation system
 - Contributes to restarting of the business community
 - Regional impact on the society

What kind of further measures were proposed?

1. Some kind of compensation for loss of revenue



- Cover a proportion of the loss in turnover
 - $K = (\text{Loss in turnover} - \text{Reduced costs}) \times 0,8$
 - $K = \text{Loss in turnover due to travel restrictions etc}$
 - $K = \text{Percentage loss in turnover} \times (\text{Fixed costs} - \text{deductible}) \times 0,8$
 - $K = \text{????}$

2. Tax adjustments that stimulate rebuilding

- Cancel Air Passenger Duty in 2021 
- Prolong the low VAT (6%) for air transport 
- Airport charges kept nominal unchanged for 2021 
- Take off- and/or security charges financed over the State budget 2021 
- And - extend purchase of basic domestic air routes for W20/21 

What are the lessons learned?

Some insights/reflections:

- Aviation is a financially vulnerable industry - weak financial solidity and complicated value chains/logistics
- A crisis can (rapidly) alter the market structure
- The aviation industry's access to qualified staff can be seriously affected
- The ability to uphold a Norwegian aviation industry is not a given

There is a need to ensure:

- Sufficient crisis preparedness - access to aircraft and basic maintenance services
- The ability to maintain a minimum of scheduled air services on vital routes
- That critical society functions can adequately be upheld/safeguarded
- That Norwegians abroad will be able to return back safely to Norway
- That "contingency agreements" with aircraft and helicopter operators are pertinent and appropriate in these types of crisis

Despite the effects of the pandemic – good prospects for Norwegian aviation

- A well-functioning aviation market will remain (people will travel, but maybe somewhat reduced business traffic)
- Aviation is strategically and critically important in Norway
 - Imperative to uphold a basic route network
 - People living in many parts of Norway are dependant on air travel
 - Critical for export industries and tourism
 - Provides jobs & competence – directly and indirectly
- We have some competitive advantages ⁹
 - Considerable domestic market
 - High skills – highly qualified in complicated logistics
 - Wealthy and well-organized country
 - A good infrastructure
 - We can be (very) good at commercial solutions & providing good services
 - Innovative & lean organizations
- But we also some disadvantages
 - High cost level
 - Some tax disadvantages
- A crisis provides opportunities - we must be able to adapt...

To take "a step back": NOU 2019:22 (Luftfartsutvalget) – our recommendations

- **Competition in the Norwegian market**

- Well functioning market
- Framework conditions for domestic air carriers should be strengthened
- The level of taxation should be reduced
- The "Avinor model" should be assessed and evaluated
- Avinor - need for an independent economic regulator
- PSO tendered routes - challenging to stimulate more competition for market access
- Need for a comprehensive and predictable national aviation policy

- **Aviation safety**

- High level of safety within Norwegian aviation
- Norwegian airlines have a solid safety culture
- Basic working conditions within Norwegian aviation have not changed much after EU's de-regulation
- There are no indications that new business models are affecting flight safety in Norway
- EASA should assess this on a European level

NOU 2019:22

- **Environment**

- An effective and rational environmental policy
- Behavioral changes must take place internationally - not only in Norway
- National measures must reinforce international climate regulations
- Need for a financial incentive scheme in Norway to introduce new technology

- **Labor Conditions**

- Labor conditions in Norway are generally exceptionally good
- Social dialogue important and well-functioning
- Should work internationally to remove schemes that may undermine good working conditions (in international aviation) – pay to fly etc.

A (new) strategy for Norwegian Aviation

- Proposed by «Luftfartsutvalget» in 2019
- Decision in Parliament January 2021 to proceed...
- The Government has announced that a “White Paper” will be presented spring 2022
- Public hearing on the scope of the strategy – deadline to submit comments: 15. September 2021

1. Long term effects of the pandemic on the Norwegian aviation market

Market conditions have been irrevocably changed

- Reduced traffic demand
- Traffic growth rates down
- The business travel segment will most likely not recover to pre-pandemic levels
 - Pool of profit-generating passengers will shrink
- The post-pandemic effects may vary for different destinations/routes
- Negative effect on international travel due to continued border- and entry restrictions to/from Norway – makes it more burdensome to travel

2. The airlines have been affected differently by the pandemic - greater disparity of performance among airlines

- The airlines find themselves in an overall weakened financial position
- Many airlines have had to borrow huge sums of money to stay "afloat"
- Differences between network companies versus low-cost companies
- Various support schemes/level of received state aid
- Different levels of entry- and travel restrictions in Europe - affected the airlines differently
- The airlines' ability to respond to the pandemic by restructuring etc. has been very diverse
- Some low-cost companies have been able to exploit "market collapse"
- Some newcomers see opportunities in new markets

3. Airport and ANS providers are struggling to adapt to a weakened market

- High level of fixed costs
- Both airports and ANSPs are dependent of «volume»
- There is an urgent need for a significant downscaling of operations
- Avinor particularly vulnerable - due to the importance of high commercial revenues (which has more or less disappeared over night)
- Important than superfluous costs (due to the lacking ability to implement restructuring measures) are not transferred to the airlines through increased charges
- ANSPs, according to the revised EU SES III regulation, can transfer their costs to the airspace users...

Key issue for the strategy: What role should aviation serve in Norway?

Aviation is of great importance to the Norwegian society:

- Contributes to economic growth and high welfare
- Creates jobs and high competence (ripple effects)
- Ensures air services on routes which are vital for the economic development of the regional they serve/throughout the country
- Provides contingency and security

Do we need a strong and competitive Norwegian national aviation industry that ensures consistent, comprehensive and effective air services or is it sufficient to have air services solely based on competition with low prices and a market-driven route scheduling?

Important (post-pandemic) areas of priority

i) The way out of the pandemic:

- a. How to safeguard an essential air transport standard in a new crisis/pandemic?
- b. Potential additional compensatory measures to “survive” the pandemic
- c. How to ensure a level playing field for competition nationally and internationally
- d. How to ensure efficient and socio-economically sensible taxation

Areas of priority

ii) Priorities regarding international cooperation :

- a. Which areas within the EU's regulatory framework should Norway prioritize?
 - i. Consumer rights
 - ii. Safety regulations (EASA)
 - iii. Competition and state aid
 - iv. SES
 - v. Labor law and social dialogue
 - vi. Airport & infrastructure
 - vii. Other
- b. Norwegian aviation policy outside the EU/EEA - "third country policy"

Areas of priority

iii) Climate

- a. Framework conditions that promote conversion towards carbon-free aviation
- b. "Balance" an effective climate policy within competitive terms
- c. How to ensure sufficient investment capacity in Norwegian aviation?

Areas of priority

iv) Labour rights and social dialogue :

- a. Which norms/rules should apply to foreign companies located/operating in Norway?
- b. Which norms/rules should apply to Norwegian companies located/operating in the EU/EEA
- c. How should we relate to (different) framework conditions outside the EU/EEA?

Areas of priority

v) An effective aviation infrastructure:

- a. Airport structure – airport network
- b. Must maintain a stable and predictable financing mechanism of the infrastructure (ref decrease in commercial revenues/cross-subsidization, "single till", social responsibilities, etc.)
- c. Organization and management of public infrastructure (including “in house” operations versus tendering)
- d. Economic regulation (ref. Avinor's market power) - aviation charges
- e. Automation & technology

AVIATION – «FIT FOR 55»

- Blend in requirement for sustainable aviation fuel
- Possiblity for establishing a carbon tax for civil aviation
- Reinforced EU ETS



NORWEGIAN SAF PROGRAM

- Increased production; strengthening Enova's role in establishing and developing production facilities for sustainable fuels, and risk relief in the early phase such as differential contracts.
- Phase-in stimulus by means of a fund solution that also safeguards finances of airlines is proposed as the main instrument for increased use of sustainable aviation fuel. In such a model, some of the fees that aviation currently pays to the state (the CO2 fee is best suited) can be allocated to the early phasing-in of sustainable aviation fuel.
- Public service travel, Commitment to Public Service routes (FOT-ruter) and a voluntary admixture can also play an important role. The public sector can take on an early role as an early customer.
- Accounting and reporting are a challenge. The industry calls for clear regulations for accounting and the documentation of the effects the use of sustainable fuels have on the climate. The regulations should reward companies that phase in sustainable fuels.
- Incentives that can strengthen the competitiveness of new types of fuel (based on by-products from forests or from algae) and fuels with a particularly good benefit for the climate should be considered.
- Norwegian Aviation wants an Aviation 21 process that can ensure a knowledge-based and broad acceptance of a realistic, cost-effective and predictable path towards fossil-free aviation in 2050.

Thank you!



NHO
LUFTFART

