

# COELUM.

COVID 19: Alternative Approaches taken by Governments to assist the Aviation Industry.  
by Juan Manuel Estrada.



## OCTOBER NEWS on Mexican Aviation

COELUM: Pronunciation: 'che-l&m, is Latin for airspace or sky. The Romans began questioning the rights they had in the space above the land they owned and to how high above did that right extended to. Ad coelum et ad inferos, they discussed, meaning that their right of property would extend as high up to the heavens and down to hell.

## COVID 19: Alternative Approaches taken by Governments to assist the Aviation Industry.

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Without a doubt, the outburst and alarming spread of the *Severe Acute Respiratory Syndrome Coronavirus* ("COVID-19")<sup>1</sup> pandemic has struck the aviation industry to its core.<sup>2</sup> The continuing sharp decline in flight demand as well as the effects of nationwide lockdowns and travel restraints has led to the substantial deterioration of revenues and has required airlines to implement adapted operational procedures and seek alternative sources of income in order to mitigate the ongoing health and economic consequences of this phenomenon.<sup>3</sup> Regrettably, the sight of the scars left behind by the pandemic will most likely be long-lasting. As a consequence of this unprecedented events, governments around the globe have been required to step-in and adopt measures to prevent the aviation sector from collapsing.<sup>4</sup>

In this article, we will review the different actions taken by governments around the world in order to palliate the effects of the pandemic as well as the different aeropolitical approach taken in order to support the industry. Particular emphasis will be given to the actions taken by the Mexican government and positive recoup of our aviation industry.<sup>5</sup>

### The Global Dilemma

Despite the global nature of the aviation industry and its constant facedown with worldwide challenges, the COVID-19 pandemic "brought the industry to its knees".<sup>6</sup> This has ultimately lead to the adoption and implementation of a wide-ranging and uneven governmental measures

aiming to achieve the same ultimate goal: protect the aviation industry. The lack of international uniformity to address this situation can be explained by the different realities faced by each State. This came as a surprise, particularly given that the International Civil Aviation Organization ("ICAO") did in fact publish within the 2020 Report of the Council Aviation Recovery Taskforce ("CART Report")<sup>7</sup> certain uniform guidelines that States could follow to face the COVID-19 crisis.<sup>8</sup>

***"...companies that have been bailed out could also feel disincentivized from coming up with future crisis strategies."***

Governmental measures and financial aid adopted over the past few months come in the form of the gradual ease out of travelling restrictions, the granting of subsidies, bailout or relief packages, and even in domestic nationalization and takeovers, all just to keep airlines afloat through the crisis.<sup>9</sup>

Some of the more relevant examples are the following:

#### a) U.S. Relief Package

On April 14, 2020 Trump's administration approved the terms for the granting of a federal bailout package on the sum of USD \$25 billion dollars.<sup>10</sup> The amount was latter

1.- World Health Organization, Naming the coronavirus disease (COVID-19) and the virus that causes it, available at [https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/naming-the-coronavirus-disease-\(covid-2019\)-and-the-virus-that-causes-it](https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/naming-the-coronavirus-disease-(covid-2019)-and-the-virus-that-causes-it).

2.- World Health Organization, "WHO Director-General's opening remarks at the media briefing on COVID-19 - 11 March 2020", available at <https://www.who.int/westernpacific/emergencies/covid-19>.

3.- International Air Transport Association, "The worst may be yet to come" - Impacts of COVID-19 on European Aviation and Economy Increasing" <https://www.iata.org/en/pressroom/pr/2020-06-18-01/>.

4.- Adele Berti, "Covid-19: how governments are stepping in to rescue airports and Airlines", available at <https://www.airport-technology.com/features/covid-19-aviation-bailout/>

5.- "Positiva la recuperación en México, dice IATA", available at <https://a21.com.mx/index.php/aerolineas/2020/10/21/positiva-la-recuperacion-en-mexico-dice-iata>.

6.- Adele Berti, "COVID-19: How Governments are Stepping in to Rescue Airports and Airlines", available at [https://airport.nridigital.com/air\\_jun20/covid-19\\_airport\\_government](https://airport.nridigital.com/air_jun20/covid-19_airport_government).

7.- CART Report, available at <https://www.icao.int/covid/cart/Pages/default.aspx>.

8.- OACI tenía la solución vs covid; nadie la siguió, available at <https://a21.com.mx/aerolineas/2020/10/14/oaci-tenia-la-solucion-vs-covid-nadie-la-siguio>.

9.- Thomas Pallini, "Italy just took full ownership of its national airline Alitalia to save it from collapse amid the coronavirus crisis. Here's the carrier's full troubled history", available at <https://www.businessinsider.com/alitalia-nationalized-by-italy-history-20203?r=MX&IR=T#:~:text=Italy%20just%20took%20full%20ownership,the%20carrier's%20full%20troubled%20history.&text=Alitalia%20was%20re%2Dnationalized%20by,by%20Etihad%20Airways%20largely%20failed>

10.- Alan Rappeport and Niraj Chokshi, "Crippled Airline Industry to Get \$25 Billion Bailout, Part of It as Loans", available at <https://www.nytimes.com/2020/04/14/business/coronavirus-airlines-bailout-treasury-department.html>.

doubled to USD \$50 billion dollars, distributed evenly in the form of payroll grants and loans.<sup>11</sup> It is said that the relief package will benefit more than 200 carriers within the United States, all of which will be entitled to benefit from this package should they comply with the only condition of keeping at least 90% of their work force in place.

While the adoption of the Relief Package was widely celebrated across the U.S. domestic aviation sector, its enactment came not without its concerns. Particular opposition has been raised by Veronique de Rugy of the Mercatus Centre,<sup>12</sup> who questions if “there are more effective ways to resolve a company’s financial problems than a taxpayer-funded bailout?” and further raises the concern that “companies that have been bailed out could also feel disincentivized from coming up with future crisis strategies”.<sup>13</sup> Likewise, the Relief Package has brought competition concerns, particularly arising from the size and its uneven distribution which could lead to unfair competition and could distort the playing field of both the national and international air transport market in the future.<sup>14</sup>

## b) European Union

In order to help ease the impact of the COVID-19 outbreak, the European Commission agreed to put forward what was referred to as “targeted legislation” enacted to temporarily alleviate airlines during this time of crisis. The objective of such targeted legislation is to temporarily suspend airport slot usage obligations under EU law, which will allow airlines to adjust their capacity to meet actual demand levels, while preserving the historical rights obtained to this date.<sup>15</sup>

In addition to the enactment of the “targeted legislation”, the European Commission has emphasized the applicability of the EU State aid rules which enable Member States to support companies affected by the outbreak.<sup>16</sup> Through

the EU State aid rules, Member States can justify public intervention in the transport sector in order “to safeguard and restore the connectivity underpinning the free movement of people and goods.”<sup>17</sup> The ability to fall upon State aid rules, is however limited, as such must be granted in such a way that undue distortions of competition during and after the crisis are avoided in order to preserve efficient transport ecosystems.

The way and conditions in which Member States have granted public support to their national airlines has varied considerably. Some relevant exemplifier examples are the following:

- **Germany**

On June 25, 2020, the European Commission approved German plans to contribute €6 billion to the recapitalization of Deutsche Lufthansa AG (DLH), the parent company of Lufthansa Group. However, such capitalization came “with strings attached, including to ensure the State is sufficiently remunerated, and further measures to limit distortions of competition. In particular, Lufthansa has committed to make available slots and additional assets at its Frankfurt and Munich hub airports, where Lufthansa has significant market power.”<sup>18</sup> The idea behind this commitment is that through the divestiture of slots, other competitors will have the chance to enter into such markets usually controlled by Lufthansa.

- **France**

A different approach was taken by the Government of France who agreed to provide a state-backed loan of €4 billion to Air France, in addition to a direct shareholder’s loan of €3 billion. The condition that the French government imposed to Air France is to have the airline cut in half its overall carbon-dioxide emissions per

11.- James Politi and Claire Bushey, “Nancy Pelosi raises prospect of new airline bailout” available at <https://www.ft.com/content/973a46be-f47f-4f56-a602-22813682e91c>

12.- The Mercatus Center at George Mason University is an American non-profit free-market-oriented research, education, and outreach think tank directed by Tyler Cowen, for more reference please see <https://www.mercatus.org/>.

13.- Veronique de Rugy, “The Case against Bailing Out the Airline Industry”, March 25, 2020, available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3571441](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3571441).

14.- Megersa Abate, Panayotis Christidis, and Alloysius Joko Purwanto “Government support to airlines in the aftermath of the COVID-19 pandemic”, September 04, 2020, available at <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7489892/>

15.- Commission proposes measures to ease impact of the COVID-19 outbreak on the aviation industry and the environment, March 10, 2020, available at [https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT\\_20\\_431](https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_20_431).

16.- Overview of the State aid rules and public service obligations rules applicable to the air transport sector during the COVID-19 outbreak, available at [https://ec.europa.eu/competition/state\\_aid/what\\_is\\_new/air\\_transport\\_overview\\_sa\\_rules\\_during\\_coronavirus.pdf](https://ec.europa.eu/competition/state_aid/what_is_new/air_transport_overview_sa_rules_during_coronavirus.pdf)

17.- Idem.

18.- State aid: Commission approves €6 billion German measure to recapitalise Lufthansa, June 25, 2020, available at [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_1179](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1179).

passenger-kilometer by 2030, compared with 2005 levels.<sup>19</sup>

- **Italy**

A more controversial approach was taken by the government of Italy with its long-time struggling flag carrier Alitalia. In this case, the government extended €199.45 millions in support claiming that this amount is granted as a compensation to the airline for the damages suffered due to the coronavirus outbreak. In addition to the compensatory damages granted to the carrier, in June, 2020, the Italian Government decided to take full ownership of the airline through a €650 million investment, effectively nationalizing the carrier.<sup>20</sup>

**c) Latin America**

Much like with the European Union, the adoption of measures within Latin America has been asymmetrical. In addition to the lack of monetary rescues, the norm in this part of the world has been the broad closures of borders and the imposition of travel restrictions. All of this has severely impacted aviation industry and has led to what is expected as a long road prior to the recoup of the market.<sup>21</sup> This has led to a generalized callout by the International Air Transport Association (“IATA”) who has stated that “the Latin American and Caribbean governments remain the least supportive of aviation”.<sup>22</sup>

**d) Aeropolitical Measures Taken by Mexico and its outcome**

From the inception of the pandemic, and to the date in which this article is written, the Federal Government has not unveiled any support measures or economic relief plans to assist the aviation industry and has rather publicly stated that the it will not rescue private undertakings.<sup>23</sup>

Despite of this and to the surprise of many, the lack of action of the Mexican Government has actually resulted in a more prolific scenario which has allowed a slow but steady recovery of the industry. The much-criticized lack of implementation of travel restrictions and closure of borders in the aftermath of the pandemic as well as the null

intervention of the government has allowed the market to operate fluidly and has set the basis for a prompt recoup of our internal market. This has been recognized by Cuitláhuac Gutiérrez, Country Manager of the IATA during the webinar “Mexico: Ready to take off”, in which he declared that our aviation industry has “had a very good rebound”.<sup>24</sup>

As published by ICF International, “the reduction shown by Mexico will be smaller than the impact on published seats in Brazil, the European Union and even the United States, and considering that Mexican airlines have not had financial aid from the government”.<sup>25</sup> The reasons behind this positive scenario has been resumed in three particular points, a) the prompt recovery of the leisure domestic travel, b) the lack of significant travelling restriction within the U.S.-Mexico market, and c) the business model and recoup strategy adopted by its domestic carriers.

**Concluding Remarks**

Amongst the many lessons that we have learned from the COVID-19 outburst is that the aviation sector, although global, remains very much a matter of national policy. Experience has showed us that there is no one size fits all policy that will palliate the effects of the pandemic and the results of the actions taken today by each State will have an echoing impact in the years to come. Regardless of this, we believe that that continuance issuance of guidance and recommendations from ICAO are desirable to enable the safe return to high-volume domestic and international air travel for passengers and cargo.

From a local standpoint, we have witnessed the strong resilience of our internal market and its stakeholders, who far from been disincentivized by the lack of government support, have raised to the challenged the have successfully implemented crisis strategies that are being used as a discussion point around the globe. There are many chapters yet to be written, however, it seems that the course taken by our internal market will take us to port.

19.- French government sets green conditions for Air France bailout, April 2020, available at <https://www.flightglobal.com/strategy/french-government-sets-green-conditions-for-air-france-bailout/138160.article>.

20.- State aid: Commission approves €199.45 million Italian support to compensate Alitalia for damages suffered due to coronavirus outbreak, September 04, 2020 [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_1538](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1538).

21.- Airlines in Latin America and Caribbean in Peril, Urgent Government Support Needed, June 05, 2020, available at <https://www.iata.org/en/pressroom/pr/2020-06-15-01/>.

22.- Idem.

23.- <https://www.economista.com.mx/empresas/Plan-de-reactivacion-economica-de-AMLO-por-contingencia-preocupa-a-la-Iniciativa-Privada--20200405-0048.html>

24.- WEBINAR: “México: Listos para despegar”, available at <https://aerolatinnews.com/destacado/industria-aerea-de-mexico-esta-lista-para-despegar/>.

25.- ICF International, “Signs of recovery in aviation in Mexico?”, October 25, 2020, available at <http://a21.com.mx/rumbo-altura-y-velocidad/2020/10/25/signs-recovery-aviation-mexico>

## **Federal Civil Aviation Agency (AFAC) to be digitalized.**

The Federal Civil Aviation Agency (AFAC) will adopt new technologies that will allow it to restructure its processes and operate in a digital way, allowing it to be more efficient. The Agency is carrying out efforts to restructure its operation from the root, and it is expected that in a period of 18 months the migration to digital processes will be completed with the help of a platform that concentrates and coordinates the information of air transport operators, airports and the whole industry in one place. [www.a21.com.mx/index.php/aeronautica/2020/10/19/afac-se-digitaliza](http://www.a21.com.mx/index.php/aeronautica/2020/10/19/afac-se-digitaliza) October 19, 2020.

## **Netflix-style subscription: future of airlines?**

A monthly subscription of the passengers can ensure a constant flow of cash for the airlines. For travelers, a monthly subscription would bring many benefits, such as lower cost, flexibility, convenience, and time savings. The interest is such that, according to a survey conducted by Caravelo, "75% of people would be interested in subscribing to an airline." However, it is important to mention that people focus on the cheapest tickets and the most convenient routes, that is, there is no loyalty with the airlines. Airlines must be generous and reasonable with the routes, destinations and flexibility they offer in their programs, and subscriptions should not be complicated to keep their customers. [www.a21.com.mx/innovacion/2020/10/22/suscripcion-al-estilo-netflix-futuro-de-las-aerolineas](http://www.a21.com.mx/innovacion/2020/10/22/suscripcion-al-estilo-netflix-futuro-de-las-aerolineas) October 22, 2020.

## **AFAC, under audit.**

The Federal Civil Aviation Agency (Agencia Federal de Aviación Civil, AFAC) has recently served the International Aviation Safety Assessment (IASA) scheme, an audit by the Federal Aviation Administration (FAA) of the United States, in which Mexico has to demonstrate that it fully complies with the proper operational, airworthiness and navigation guidelines outlined in the statutes of the International Civil Aviation Organization (ICAO). If Mexico does not demonstrate that the current operational guidelines are to be sufficient, it would have 60 days to address the FAA's observations, and further conduct a follow-up process for final evaluation. [www.a21.com.mx/organismos/2020/10/22/afac-en-auditoria](http://www.a21.com.mx/organismos/2020/10/22/afac-en-auditoria) October 22, 2020.

## **ASUR obtains ACA certification.**

Grupo Aeroportuario del Sureste (ASUR) obtained the level 1 certification of the Airport Carbon Accreditation (ACA) program from the Airports Council International (ACI). "We recognize the effort and dedication of Grupo Aeroportuario del Sureste in mitigating the impact of its activities on the environment by creating a complete inventory, independently verified, of carbon emissions and drawing up plans on how to reduce these emissions," said ACI. The certification will be valid for the nine ASUR airports, and the next step that the airport group will take will be to try to achieve level 2. The primary criterion will be the reduction of their emissions and achieving neutrality of emissions through carbon offsetting. [www.a21.com.mx/aeropuertos/2020/10/22/obtiene-asur-certificacion-aca](http://www.a21.com.mx/aeropuertos/2020/10/22/obtiene-asur-certificacion-aca) October 22, 2020.

## **US airlines could go bankrupt in 2021.**

Due to uncertainty about global air demand for 2021 and 2022, some U.S. airlines may file for bankruptcy next year as a measure to successfully and quickly emerge from the crisis, according to specialists. However, if the signs are positive, they would seek to get through the year without resorting to financial reorganization; if the crisis drags on, they would initiate Chapter 11 processes. [www.a21.com.mx/aerolineas/2020/10/25/aerolineas-de-eua-irian-bancarrotas-en-2021](http://www.a21.com.mx/aerolineas/2020/10/25/aerolineas-de-eua-irian-bancarrotas-en-2021) October 25, 2020.

## **Alta requests the reopening of borders.**

The Latin American and Caribbean Air Transport Association (ALTA) called on the governments of the region to reopen the borders of their countries and allow the entry of travelers of any nationality arriving by air. It also urged governments to adopt a balanced approach based on risk assessment, eliminate quarantines and establish standardized pre-flight testing requirements as a measure to support the economic recovery of airlines and countries. [www.a21.com.mx/aerolineas/2020/10/26/pide-alta-reapertura-de-fronteras](http://www.a21.com.mx/aerolineas/2020/10/26/pide-alta-reapertura-de-fronteras) October 26, 2020.

## **Progress in the construction of the "Felipe Angeles International Airport" .**

On October 26, 2020, a video was published by the Secretariat of National Defense (SEDENA) with an update on the progress of Santa Lucia's New International Airport, keeping in mind that the current Mexican Government, led by President Lopez Obrador, decided to cancel the new airport of Mexico City in Texcoco to start with the construction of a new commercial airport within the military airbase of Santa Lucia. [www.gob.mx/aifa/videos/avance-en-la-construccion-del-aeropuerto-internacional-felipe-angeles-26-oct-2020](http://www.gob.mx/aifa/videos/avance-en-la-construccion-del-aeropuerto-internacional-felipe-angeles-26-oct-2020) October 26, 2020.

## **The "covid passport" tests begin.**

Last week, tests of the "covid passport", promoted by the World Economic Forum, began among passengers in the United States and the United Kingdom. The CommonPass system is designed to create a common international standard for passengers to prove that they do not have a coronavirus. It was developed by the Swiss-based non-profit organization Commons Project and is supported by the World Economic Forum (WEF). CommonPass was launched on October 7 and aims to develop a global framework for verifying travelers' health data against the entry requirements of destination countries. [www.a21.com.mx/index.php/aeropuertos/2020/10/26/inician-las-pruebas-de-pasaporte-covid](http://www.a21.com.mx/index.php/aeropuertos/2020/10/26/inician-las-pruebas-de-pasaporte-covid) October 27, 2020.

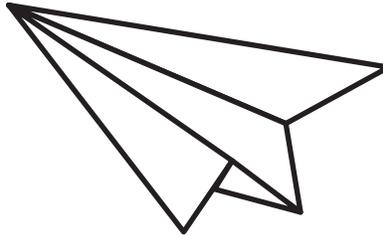
## **Mexican Aviation on the Rise.**

Mexican airlines reported stronger results in traffic and revenue from the lows of 2Q20. While the sector continues dealing with the aftermath of COVID-19, local airlines show a positive attitude through more routes and capacity. During the early months of the outbreak, border closures and shelter-in-place policies paralyzed air traffic almost completely in Mexico and abroad. While the country is still fighting the outbreak, air traffic and capacity have been rising steadily over the past three months. In their 3Q20 reports, Mexican airlines Aeroméxico, Volaris and Viva Aerobus highlighted the improvements made over the previous quarter and their expectations for the sector's turn around. [www.mexicobusiness.news/aerospace/news/mexican-aviation-rise?tag=aerospace](http://www.mexicobusiness.news/aerospace/news/mexican-aviation-rise?tag=aerospace) October 27, 2020.

## **Harvard Says Flying Is Safer Than Visiting the Grocery Store.**

A Harvard University research project has confirmed that flying is safe from a COVID-19 perspective. Obviously, passengers must wear face masks and keep practicing social distancing protocols, as airlines must properly clean planes. Besides, the Harvard's research paper established that "modern HEPA filters mitigate risk by rapid and continuous filtering and exchange of cabin air in aircraft. These filters, standard across modern jet aircraft, extract more than 99.99% of particles, including viruses. They can completely recirculate cabin air 10 to 30 times per hour with fresh air." For many airlines, passengers have a greater risk of being struck down by lightning than by COVID-19 while flying. <https://simpleflying.com/flying-safer-than-grocery-shopping/> October 28, 2020.

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