

FORMS OF GOVERNMENT ASSISTANCE TO THE AVIATION INDUSTRY

The global aviation industry has seen global passenger traffic plunge by an average of 67 per cent in the week of 27 April 2020 compared to a year ago due to the COVID-19 pandemic. The shockwaves resulting from the plunge in passenger traffic has resulted in airlines, airport operators and ground handling players experiencing significant declines in revenues and incoming cashflows. Governments around the world have increasingly stepped in to provide relief through various forms of instruments. In this paper, the Malaysian Aviation Commission reviews the different types of relief instruments, the merits and challenges of each approach, as well as highlighting good governance principles of government assistance.

- **Governments' relief efforts highlight the importance and strategic nature of aviation.** In 2020, the global aviation industry is forecasted to incur a loss of USD411.0 billion in revenue due to the COVID-19 pandemic. Impact to the sector has triggered government intervention in the form of provision of relief, which reflects the critical role of the aviation sector in enabling connectivity and essential economic activities. Government assistance came mainly in the form of waivers or deferment of fees, subsidies, equity, debt, and route support.
- **Fee waivers and deferments are short-to-medium measures provided to alleviate airlines' cashflow problems.** While waivers or deferment of fees, as well as imposition of subsidies are useful immediate steps, the operators' and governments' cashflow may be disrupted if these types of assistance are maintained in the long-term. The Commission is in favour of employee-focused subsidies, as it is targeted to safeguard employees. In this case, it is important to ensure that the funds would be deployed to its intended recipients.
- **Equity or equity-related instruments allow for capital raising on commercial terms, though some governments institute conditions.** Several airlines have announced rights issues and private placements, drawing new capital from shareholders as well as governments. Apart from this, hybrid instruments, options, or warrants, which would enable the government to recoup its capital in the future, have been used in some packages. Equity-related measures instituted by some governments typically come with conditions, such as the requirement to maintain employment levels without pay and benefits reductions, as well as limits on stock buybacks, dividend payments and executive compensation.
- **Equity stakes may risk public funds and moral hazard.** Direct financial assistance to corporations are commonly regarded as a bailout by a government. If distributed without a clear framework, it may reduce competition or risk moral hazard, if given to industry players that were already in difficulty or would have inevitably faced declines in the business. Public funds may be put at risk, unnecessarily burdening taxpayers and potentially directing funds away from critical areas such as healthcare and education.

- **Governments may provide partial or full guarantees on loans to airlines.** Alternatively, governments may provide guarantee on loans or lend directly to airlines. This is commonly provided in government relief plans as the borrower has a commitment to repay the funds with interest. Similar to equity funding, government-assisted lending should not be given out carte-blanche and should be provided within a clear framework with predetermined principles.
- **Route support is vital to ensure the preservation of essential routes to maintain connectivity.** In terms of route support, such assistance could be driven primarily by socioeconomic needs rather than profitability, particularly in geographically diverse and remote areas. In Malaysia, the GoM has continued its support for the Rural Air Services (RAS) operations in Sabah and Sarawak throughout the Movement Control Order (MCO) period to provide essential transport for remote communities.
- **Some governments may refuse to provide specific aid to aviation players.** Essentially, some governments, including Malaysia, have refused, to date to provide specific aid to aviation industry players and instead have focused on providing aid to all sectors. This is likely to minimise risk of taxpayer losses and ensure that no sector is short-changed.
- **Any government financial assistance predicated on a clear framework with specific principles and well-targeted objectives would be good practice.** Governments can ensure that any financial assistance provided is based on a clear framework, which should not only be non-discriminatory and provide clear objectives but must also be premised on accountability and transparency. The existence of such a framework of rules in Malaysia governing government financial assistance will facilitate this objective.