

Alitalia bailout brings big choices for Italy

Blog post by Policy Intern Giuseppe Costanzo, 24 April 2020

The covid-19 crisis has been difficult for the aviation sector, forcing airlines to cancel flights, lay off staff and ground their fleets. With the medium-term trajectory for passenger demand also far less certain, European airlines are poised to be the most prominent recipients of government support to businesses. Meanwhile, calls for funds to include conditionalities emerge both at EU and national level - see French MEP and ENVI Committee president, Pascal Canfin, and Austrian environment minister, Leonore Gewessler, both advocating for bailouts to be linked to the pursuit of climate neutrality targets.

The most significant government support so far has been the Italian government's nationalisation of Alitalia. It is particularly interesting from a political perspective, as it is seen by some as providing an opportunity for the Italian government to finally address a chronic industrial crisis that has persisted for decades. Advocates of nationalisation often pointed to the strategic stasis imposed on Alitalia during its period in administration from 2017. However, it also now exposes Giuseppe Conte's coalition government - and their appointees in the company - with a series of significant policy choices that will impact beyond Italy and beyond the aviation sector.

The first policy choice relates to the consumer interest. From a public finances perspective, the bankruptcy of Alitalia's rival, Air Italy, earlier this year should reduce competition in the market, particularly for more remunerative long-haul routes, and could contribute to a return to profitability. However, politicians and regulators will also face pressure to protect customers, even if many will not be Italians.

The second is the extent to which government can take risks with global commodity prices. The current low oil price may present an opportunity to lock in historically attractive long term contracts, but managers and their political stakeholders will be more cautious than their private-sector competitors about public opinion in the event of getting high profile calls wrong in this area.

The third is making judgements about the future profile of aviation demand in light of steps to tackle climate change. Two-thirds of Alitalia's aircraft are leased, and the 'special commissioners' who oversaw the administration focussed ruthlessly on driving down the cost of those contracts. When a quarter of those are renewed in 2020-2021, management will need to make judgements about the balance between long- and short-haul aircraft and their emissions performance. With the current government strongly committed to the EU Green Deal, there will be significant pressure to align those commercial choices with climate change targets. On the same matter, Gewessler asked that any taxpayer-financed bailout for Austrian Airlines will need to include a pledge from the airline to reduce its short-haul operations, increase cooperation with the rail sector, make heftier use of sustainable aviation fuels, and greater tax contributions. Similarly, Canfin is urging the French government to tie aids to Air-France to a climate-sustainable business model.

Overall, the nationalisation of Alitalia has been a relative success for the government during a highly challenging period, including in securing approval from Brussels with skill that eluded previous Italian administrations seeking to intervene with failing companies. Those failures included two investigations

into government loans to Alitalia itself, in marked contrast to Margrethe Vestager’s commitment to ‘be neutral’ on the nationalisation plan. However, with no obvious route back into private ownership, the Italian government has yet another set of difficult choices as it tries to align the interests of its new asset with those of Italy as a whole.

Austria, France, and Italy to rescue national airlines

