UNITE’S BLUEPRINT FOR THE AVIATION INDUSTRY IN A POST-COVID19 WORLD
UK aviation
flying into the future

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INTRODUCTION
Unite the union, which represents over 60,000 aviation workers, has developed a radical blueprint to allow the sector to continue to operate and meet new demands in the wake of coronavirus and the transition to a green economy.

International Air Transport Association (IATA) calculations show that global airlines losses from Covid19 have reached $314 billion so far this year – 25 per cent more than it had previously estimated. Industry bodies estimate that the aviation sector may not return to anything like normal until the second half of 2021.

A decline in such numbers could in that period make many flights and carriers uneconomic under the current aviation model – threatening 25 million jobs worldwide.

In a report on the impact of Covid19 upon the aviation industry across Europe, the Syndex consultancy firm warns that the ‘airline industry is entering the biggest crisis ever experienced’ and will require substantive support by governments to recover.

The dire consequences of the pandemic upon the aviation industry in the UK are already in full effect. Whilst some are using the crisis opportunistically to shed jobs and reduce terms and conditions, there is a very real reduction in schedules and need for staff.

The impact of the coronavirus on civil air transport, which on top of business and leisure travel is vital for the supply of medicines, mail and other freight, will also inevitably hit the UK’s aerospace sector as well as hundreds of thousands of jobs across the wider economy.

Without immediate and significant intervention by the government, the consequences for Britain’s airlines and airports, and the communities and businesses that rely on them, will be devastating. As an island, aviation is crucial to the UK for trade, business and maintaining social and family networks.

Other governments have already intervened to protect their aviation industries, most notably in the US with a $55 billion cash injection but also across Europe and Asia. As an island nation, it is imperative that the UK government does the same.

(A country by country list of aviation industry interventions can found [here](#).)
EXECUTIVE SUMMARY

The UK aviation industry supports more than 230,000 jobs directly and more than a million indirectly. Generating annual revenues of more than £100 billion, the sector contributes £22 billion gross value added (GVA) to Britain’s economy every year.

Over 40 per cent of the UK’s trade with economies outside the European Union by value is transported by air; the total value of tradable goods carried through UK airports exceeded £140 billion in 2019.

The UK’s aerospace industry also makes major contributions to growth and prosperity in every part of the country. Turning over £35.9 billion in 2018, the aerospace sector directly employs 110,000 people in the UK.

These industries and many others will be irrevocably damaged without government support for civil air transport in the UK.

The crucial sections of the sector, which form the basic infrastructure of the industry and need to be protected to ensure that UK aviation has a viable future, are airports, airlines and air traffic control. To guarantee that the sector remains viable in the UK, Unite has set out the following steps:

• The government needs to provide loans and/or take a financial stake in companies. All loans and stakes to be fully repayable
• Companies who participate in such a scheme are prohibited from paying dividends, undertaking share buybacks or capital contributions, until 12 months after the loan is fully repaid
• All elements of executive pay will be capped
• Employment and employee terms and conditions to be protected, with any reduction in workforce restricted to 10 per cent or less
• Companies eligible for such support would either be suffering losses, acting to consolidate the sector, or to rescue or replace a part of the sector that no longer exists
• All financial support and loans should be provided on the condition that recipients have a clear programme of transition to more efficient and greener travel operations
• Smaller airports and air traffic control, as well as specific routes within the UK’s aviation network, should be publicly financed in order to retain much needed and vital connectivity.
THE IMPACT ON AIRLINES

The projected impact of the coronavirus for the UK economy is unprecedented, both in scale and intensity and the economic consequences will dwarf any previous economic shock in history. To state that the demand for air travel is expected to drop in the coming weeks would be an understatement of equal magnitude.

This health crisis has already rapidly evolved into an economic crisis, which has hit the aviation sector at a time in which passenger numbers have substantially dropped and the sector was only a few months away from its busiest, and therefore most profitable, period of the year.

The significance of Covid19 for the UK aviation industry cannot be overstated and there is the real possibility that some carriers will fail. The pandemic will have a major impact on UK-registered airlines, including BA, Easyjet, Jet2, Ryanair, TUI, and Virgin, as well as overseas airlines that have British bases of operations.

For example, Norwegian airlines, which will not resume flying to the UK until April 2021 and will not return to a full schedule until 2022, has announced the cancellation of 85 per cent of its flights, leading to the temporary lay-off of 7,300 of its workforce.

Companies have grounded more than 80 per cent of their fleets, equating to losses of £283m a week for British Airways, which has already announced plans to sack a quarter of its workforce, and £40m per week for Easyjet.

Across the globe air passenger demand is down 80 per cent. Airlines are facing a liquidity crisis which threatens the viability of 25 million jobs directly and indirectly dependent upon aviation, including jobs in the tourism and hospitality sectors.

As long as a vaccine is not available for Covid19, fear will be a key element in a post lockdown aviation world. In order to support customers to fly again, the industry will have to work to new standards and operational models. One of the key elements will be social distancing.

Most of the airlines still flying are already implementing:

- Middle seats free
- Sequenced boarding
- Limited onboard services

Projected initial low demand for flights will facilitate the implementation of new measures but if they have to last they will constitute a significant ongoing financial burden. As a result, many flights will become non-profitable at current ticket prices.
THE IMPACT ON AIRPORTS

It is unclear if the financial health of many of the UK’s airports will ensure their survival and the number of airports that notched up huge losses a decade ago are still yet to recover from the 2008 financial crisis.

Of the group of airports above, the majority are financially weak – some perhaps will cease to exist by the end of the year, as is the case for a number of other smaller airports. For large international airports, such as Heathrow, Gatwick, Manchester and Birmingham, government loans will most probably be needed to help them weather the crisis. For many regional airports, public private partnerships or nationalisation will be needed to keep them afloat.

This is necessary because regional airports provide significant connectivity for the UK’s larger airports as well as bases for airlines. This enables passengers to travel throughout the UK, and to and from mainland Europe, supporting regional economies and their local communities along the supply chain.

UK regional airports also connect regions and communities and provide links between millions of people across the UK. Regional connectivity, particularly at airports such as Newquay, Exeter and Southampton, was already dealt a savage blow when Flybe went into administration earlier this year. Without government intervention the situation will be become significantly worse over a longer time frame.
Belfast City, Blackpool, Bournemouth, Coventry, Doncaster/ Sheffield, Dundee, Durham Tees Valley, Exeter, Liverpool, Newquay, Preswick, Scilly Isles, Southampton and Southend are airports considered at immediate risk through either big reductions in passenger numbers or significant financial losses.
THE IMPACT ON THE AEROSPACE SECTOR

Airbus chief executive Guillaume Faury has warned that the pandemic is “the gravest crisis the aerospace industry has even known”.

The current and continuing restrictions are impacting the long-term prospects of the aerospace sector. Airlines are beginning to cancel and defer aircraft orders, affecting production rates.

These rate reductions are affecting the entire supply chain, impacting revenues, causing cashflow issues and underutilisation of significant capital investments.

The aftermarket and maintenance, repair and operations sectors have also been substantially impacted due to low utilisation rates and inability of airlines to pay. Manufacturers have also been hit by supply issues for parts sourced from other countries around the world, due to border closures. Several smaller businesses are facing bankruptcy in a matter of days.

Sector recovery is also expected to take much longer due to the impending recession, triggered by the pandemic. The sector is unlikely to rebound as quickly as it did during prior crises like 9/11, SARS or the 2009 financial crisis. Several companies have announced substantive measures to tackle the near-term impact of the crisis and to maintain liquidity, including rate cuts, pay cuts and cancelling investments.

If, as anticipated, restrictions continue into this summer, the industry faces significant further losses which might result in a substantially scaled back industry footprint in the UK, with companies scaling back workforce, operations, investments, and slowing down plans for derivatives and new aircraft programmes.

There is an inevitable threat to business continuity of these sectors in the near term with substantial loss of competitiveness in the longer term, and a likelihood of irreversible collapse in many UK businesses, and the inevitable migration of supply chains overseas.

With the likely scenario of a U shaped recovery to customer demand the impact on aerospace in terms manufacturing of airframes, engines and maintenance, repair and overall will be devastating without state intervention and support.
The overall impact from this on aerospace, including the manufacturing of airframes, engines and maintenance and repair, will be devastating without state intervention and support.

We urgently need a taskforce involving the UK government with key stakeholders such as Unite, aerospace manufacturers and ADS, the industry employers’ federation, to build an urgent survival and recovery strategy.

The UK is a world leader in aerospace, building state of the art aircraft, wings and engines, with a pre-pandemic turnover of £36 billion a year and directly employing 110,000 people and indirectly 450,000 people in high value, highly skilled jobs.

Without intervention, the UK risks losing its world leading place in aerospace, which will be replaced by other countries whose governments have stepped in to support the sector, jobs and skills.

Early retirements of older aircraft must be accelerated by the UK government, which should create and support an ‘aircraft scrappage scheme’ so that older planes are replaced with new more efficient and environmentally friendly aircraft.

The mistakes of past economic downturns must also be learned so that apprenticeships that result in the closure of skills gaps and the replacement of ageing workforces are not just jettisoned.

Additional government support and investment for research and development is also needed so that new technologies can be brought to market more quickly. This includes the wings of tomorrow, new engines and electrification.
BLUEPRINT FOR UK GOVERNMENT SUPPORT

Initial primary support for the industry

This would be through government equity or debt participation which would be available to eligible aviation businesses utilising loans or a loan guarantee programme. Such a programme should include:

• Any debt should not be reduced through loan write offs. In other words, eligible businesses must exchange warrants, options, an equity interest or debt in their companies to take advantage of the loan or loan guarantee programmes, and the loans cannot be written off.

• The Treasury may receive warrants, options, preferred stock, debt securities, notes, or other financial instruments issued by recipients of financial assistance, which, in the sole determination of the Treasury, provide appropriate compensation to the government.

• Participating eligible businesses are prohibited from share buybacks, paying dividends or making capital contributions from the date of the loan until 12 months after the direct loan is repaid in full.

• Recipients’ executive pay will be capped, including limiting pay increases and severance pay or other benefits upon termination.

• All eligible businesses participating in the programme must also maintain employment and are prohibited from reducing their employment levels by more than ten per cent and must commit to maintain collectively agreed terms and conditions.

• Eligible business participating in the programme must have incurred or be expected to incur losses such that the continued operations of the business are jeopardised.

• Alternatively, any such participation can be on the basis of a business acting as a consolidator, or stepping in as a service provider for a business or part of a business that ceases to exit. Put simply this could also be used to favour and incentivise the consolidation and stabilisation of the industry post-Covid19 crisis measures.

• Such ‘consolidators’ should be those of sufficient size, capitalisation and capacity to undertake such consolidation, and to abide by the terms of any support package.
Measures post lockdown

• Articulation of subsidy with social distancing and ‘seat free’ restricted passenger loads. Any subsidy would be based on routes and either directly provided to airlines or through public service obligations (PSOs).

• Subsidy to cover other mitigation measures such as testing pre-boarding, health ‘passports’ and immunisation, should they be developed.

• Continued sectoral specific support for labour costs where significant restrictions on travel and/or conditions of travel are maintained. It is important for service providers such as ground handlers/caterers etc to have such support. A planned tapered approach to the end of the job retention scheme (JRS) would offer the flexibility to save as many jobs as returning revenues can sustain, with employers being required to top up payments for such support and government reducing its funding accordingly.

• Suspension of provisions of the European Ground Handling Directive, with the proviso that where a single service provider does exist within an airport or airports then appropriate regulation of pricing occurs.

• Provision of insurance cover specific to Covid19 and repatriation for UK nationals, where such cover is not provided by the insurance industry.

• Introduction of the recommendations of the Airline Insolvency Review.
Specifically for air navigation service providers (ANSPs)

- The principles of the agreed Eurocontrol initiative that has been instigated for the distribution of en-route charges to European ANSPs, including National Air Traffic Services (NATS) en-route Ltd (NERL) should be utilised at a UK level.

- Government would advance the cost of air traffic service provision at airports requiring such assistance, either through the airport itself, or direct to the NATS.

- This cost would be the amount required for immediate service provision continuity, together with ongoing costs needed to maintain staff for recovery, minus any furloughing rebates and discounting other costs such as profits, unessential overheads and development costs.

- If the recovery of the industry is slow or partial, this support should continue to be underwritten by government pending a better understanding of the likely restructuring of the industry.

- In the event that there is a full recovery the government would be expected to seek partial or full recovery of financial support. The costs could be repaid in a number of different ways over future years in a manner determined and agreed with stakeholders.

  Mechanisms to repay these costs could include:
  a) airports repays the costs over a number of years, in line with the trajectory of recovery
  b) the costs could be recovered from an element of any Air Passenger Duty
  c) the costs could be a surcharge to en-route charges, spread over a number of years.

For regional airports

These vary in both size and scale, and in importance to the local community and economy as well as for connectivity of a region.

- The size and scale capitalisation of airports handling above the 3 million per annum passenger numbers is such that a scheme for loans or government support could be utilised. Those airports below such a size could potentially be transitioned to either public ownership or partnership, as access to financial markets - both currently and in the future – is severely restricted due to their smaller scale economics.

- These airports should also able utilise an enhanced PSO provision in order to maintain flights and routes, and ensure connectivity. Such PSO funding should be part of a wider framework of structured provision.
Focus on environmental concerns and a more sustainable future

- Drive for sustainable low carbon growth by investing in next generation low emission aerospace and aviation technologies. Commit to uplift in funding allowing the sector to continue focussing on development of such technologies with more attractive gearing from governments.

- Seek commitments from airlines to invest in newer more environmentally friendly aircraft and ramp up in sustainable aviation fuel (SAF) usage by airlines over the next decade as a condition of government support packages. Increase and accelerate investment in the development of SAF and intensify support to emerging industries.

- Position the EU as the world leader by launching a fully funded programme to study and assess the technical and industrial potential for a zero emission regional aircraft. Ensure PSO funding is linked to the future utilisation of such aircraft.

- Accelerate pace of progress on European policy making in relation to net-zero by implementing market-based measures, regulating up carbon price in the next 10 years, increasing emissions taxes and incentivising low-carbon technologies. Hard link emissions pricing revenue to investment in low emissions.

Note: Proposals cover companies that are registered and based in the UK