



28 August 2009

To: Commissioner Algirdas Šemeta,
Member of the European Commission
Directorate General for Budget
B-1049 Brussels
Belgium

CC: Mr Marco Buti, Director General, Directorate General for Economic and Financial Affairs

Mr Jos Delbeke, Deputy Director General, Directorate General for Environment; Director,
Directorate C: Climate Change and Air

Mr Philip Owen, Head of Unit, Unit C3 Clean Air and Transport, Directorate General for
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Mr Anastasios Nychas, Deputy Head of Unit, Unit D3 Cohesion Policy and Environmental Impact
Assessments, Directorate General for Environment

Mr Hakan Lucius, Head of Division, Public Information and Relations with Civil Society, European
Investment Bank

Dear Commissioner Šemeta,

Re: European Regions Airline Association request for EIB funds

It has come to our attention that the European Regions Airline Association (ERA) has approached the European Commission with a request for the European Investment Bank to make available financing for airlines in the context of the current crisis. We ask the EC to refuse this request. The questionable social value in providing such financing together with the high carbon intensity of the airline industry would constitute an unjustified bail-out for an industry which needs to be slimmed down. To accede to the request would also conflict with the welcome changes in the EIB's 2007 transport lending policy towards avoiding the financing of airlines and supporting more environmentally friendly objectives, which we strongly support.

The aviation industry has grown rapidly during recent decades but has been subject to repeated downturns in demand, resulting in overcapacity. During the current crisis several carriers have gone out of business, which is unfortunate for those affected but an inherent part of market functioning. Most carriers have had to reduce capacity and instigate other cost cutting measures. That is the approach that the ERA should adopt rather than seek public subsidies to prop up an industry already the beneficiary of many, often hidden, public subsidies. Emergency EIB funding for ERA operators would be a waste of public money by delaying the implementation of economy measures in the industry, including the possible rationalisation of operators and reducing duplication of routes, and by distorting competition with other modes of travel.

In cases where a heavily affected industry has exceptional social or environmental value, it may deserve support from public funds, whether grants or loans. However the airline industry has neither of these characteristics. The exception, recognised in the EIB lending policy (see below), may be the case of lifeline flights to remote regions, but these are a very small proportion of flights and in any case usually protected by measures such as the UK's Public Service Obligation. Such situations are not the grounds for the ERA request.

The bulk of air travel is for leisure purposes, and while this is an important economic sector regional air carriers only operate flights within the EU, and hence bring no tourists from outside the EU's borders. In a scenario of reduced regional air travel, discretionary spending on tourism will still occur, simply closer to home. As regards business travel, the EIB should be looking to invest in ways to maintain connectivity in a lower carbon way, such as improved train services or videoconferencing facilities.

The EIB, as a public bank providing a signal to private sector investors that a project or sector is deserving of investment, should finance only the most progressive sectors promoted by EU policy. CO2 emissions from EU international aviation *increased* by 86 percent between 1990 and 2004, in an era when significant CO2 *decreases* are needed. Such increases undermine the EU's attempts to tackle climate change. As it is, EU aviation will continue to enjoy its privileged exemption from paying the external costs of climate change until 2012. It should also be recalled that the ERA along with other industry bodies continues to play an influential role in frustrating progress at international level to address aviation induced climate change. During negotiations to include aviation in the EU ETS, the ERA opposed and lobbied aggressively against measures at every stage of the process. The ERA is now claiming that measures to address aviation induced climate change should be postponed or members receive subsidies to comply. It would be a complete negation of the EU's policy on aviation and climate change for the EC to accept the ERA's request for EIB financing.

It also seems that for the foreseeable future the aviation industry will continue to remain heavily subsidised by its exemption from fuel taxes and VAT. This is already an extraordinary market anomaly which any decision to allow EIB financing would only gravely compound.

Furthermore, additional financing for airlines would contradict the EIB's transport lending policy (2007), which states:

"As regards fleet purchase, the Bank has already a highly selective approach and it would seem appropriate to reinforce this in the future. Aircraft purchase will only be financed in exceptional circumstances when very strong value added can be demonstrated. Examples could occur with connections that are not only to convergence regions but where air flight is essential to secure the territorial integrity of the EU (e.g. flights to remote areas such as islands, rescue or firefighting planes, etc)."

While the financing now requested may now be for working capital rather than purchase of aircraft, the same logic should apply.

Taking into account the exceptional subsidies that the aviation industry already receives, the fact that aviation GHG emissions continue to grow, the fact that the industry itself will remain exempt from paying its external environmental costs for another two years together with the lack of justification for artificially supporting its current capacity levels, we request the EC - as the body which must approve EIB projects according to Article 21 of the EIB's statute - to refuse EIB financing for the airline industry.

Yours sincerely,



Ania Roggenbuck,
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CEE Bankwatch Network

On behalf of:

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Head of Transport Policy
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Chair
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