



European Low Fares Airline Association

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OPEN LETTER TO THE MEMBERS OF THE EUROPEAN COMMISSION REGARDING THE ITALIAN GOVERNMENT'S PROPOSALS FOR FURTHER STATE AID TO ALITALIA

ELFAA has submitted detailed comments to DG Transport in this case following the Commission's Article 88(2) Notice.¹ ELFAA's comments noted that the Italian Government's proposals for restructuring Alitalia constitute a blatant breach of the state aid rules and the so-called "one time, last time" principle. However, in its Notice announcing the investigation, DG Transport failed to even find that the proposals raised "serious doubts". DG Transport were reported to have commented that the proposals were based on a "sound business plan". According to recent reports, it appears that DG Transport have already internally approved the proposals, with a vote of the full Commission on the issue expected in early June. This is extremely concerning and the approval of these proposals would amount to a clear reversal of the Commission's firm stance on state aid. Such approval would also set a dangerous precedent as other national airlines struggling to compete in the liberalised market will expect to receive equal treatment.

Meanwhile, independent airlines, and in particular airlines in the low fares sector, who have been instrumental in bringing competition and choice to consumers, are being placed at a serious competitive disadvantage as a result of this ongoing state support. In fact, ELFAA has also submitted a separate complaint to DG Transport (to which we have had no reply) regarding a Decree recently passed by the Italian Parliament, which forces airlines operating in the Italian market to fund the redundancies and retraining of Alitalia employees. Our members and other airlines competing in the Italian market are now being forced to pay for Alitalia's failure to adapt to the liberalised market. This is in complete contradiction to the principles of competition espoused in the Lisbon Agenda and supported by the current Commission.

We summarise below our comments to DG Transport and attach a full version of our comments for your information:

- ELFAA members currently serve over 150 routes into and out of Italy and have suffered from the serious distortion of competition in the Italian market due to the ongoing state support of Alitalia.
- The current proposals by the Italian government for restructuring Alitalia are a blatant infringement of the state aid rules as no private investor operating in a market economy would invest what amounts to over €3 billion² in a terminally ill national airline that has failed to restructure itself after previous multi-billion state aid payments.

¹ State aid No C 2/2005 (ex N 501/2004)-Alitalia: Industrial restructuring plan invitation to submit comments pursuant to Article 88(2) of the EC Treaty.

² This amount includes the €1.6million debt write-off for AZ Fly, the recapitalization of €1.2 billion and approximately €450 million in redundancy payments.

- The proposed restructuring does not satisfy the Market Economy Investor Principle (MEIP) for the following reasons:
 - 1) Separation of Alitalia into AZ Fly and AZ Services. The separation of these two companies is a blatant attempt to shift over €1.6 billion in debt from AZ Fly to AZ Services. This massive write-off of the airline's accumulated debt is illegal state aid by any measure and must be prohibited.
 - 2) 3,679 redundancies from AZ Fly. DG Transport failed to even question the 'Cassa Integrazione' that the Italian Government has '*extended to cover the aviation industry in order to limit the social repercussions of these measures*'. This is completely unacceptable and constitutes direct aid to Alitalia. An airline operating in the market economy would not have recourse to such support and the measure is therefore illegal state aid.
 - 3) Recapitalisation of AZ Fly and AZ Service. The Notice is completely unclear on this aspect of the restructuring and third parties have not had the opportunity to properly comment on it. The Notice states that "*However, in view of the fact that this notification has been made in advance, the bank's letters of intent announcing their willingness to guarantee the successful conclusion of the operation in terms of the involvement of private investors are not yet available.*" The Notice also states that "*Other details of the operation, such as reducing the capital prior to recapitalisation to cover past losses, still have to be defined.*" Similarly, with regard to the recapitalisation of AZ Services, the Notice states that "*certain aspects of the operation still have to be negotiated between the parties.*"
- Alitalia has also breached the conditions of its bridging loan. Rather than using the bridging loan to "*enable the company's financial needs to be covered until March 2005,*" Alitalia instead announced plans to expand its fleet and also proceeded to open further routes. This is in clear violation of the conditions of the bridging loan and a further distortion of competition. As a result, Alitalia should be forced to immediately repay this loan and to submit a liquidation plan to the Commission.

ELFAA is therefore calling on the Commission as a collegiate body to reject the Italian Government's restructuring plans as they constitute a clear violation of the state aid rules and the "one time, last time" principle. Approval of this proposed restructuring would create a highly damaging precedent and undermine the successful liberalisation of the air transport industry. It would also confirm fears that the Commission is subject to political pressure from the Member States in the application of the State aid rules, thus placing the future of the new breed of independent, highly efficient and competitive low fares airlines at risk.

The Commission must not only follow the objectives of the Lisbon Agenda but must also let the market determine the fate of failing national carriers, without state intervention.

Jan Skeels
Secretary General
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