

Letter of 24 April 2020 to the House of Representatives from Minister of Finance Wopke Hoekstra and Minister of Infrastructure and Water Management Cora van Nieuwenhuizen on possible support measures for Air France-KLM

In common with many other airlines, Air France-KLM, with its carriers Air France and KLM, has been hit hard by the travel restrictions imposed due to COVID-19. The airlines' operations have largely come to a standstill. This has entailed a sharp reduction in their income, while their costs have remained largely the same. There has therefore been intensive contact in recent weeks with KLM, the parent company Air France-KLM and the French state about the financial support the company requires to withstand the impact of COVID-19. On Thursday 9 April 2020 the Minister of Finance gave a confidential briefing to the spokespersons on state-owned enterprises on the Permanent Committee on Finance of the House of Representatives about the consequences of COVID-19 for Air France-KLM and the possibility of the Dutch state providing support to the company. On 22 April the members of the Permanent Committee also received a confidential letter on this subject from the Minister of Finance and the Minister of Infrastructure and Water Management. In addition, the spokespersons on state-owned enterprises on the Permanent Committee were given an update by the Minister of Finance on 24 April. In the present letter we wish to inform the House about the government's intention to provide financial support to KLM.

The network of intercontinental destinations served by Schiphol is of immense importance to the Dutch economy and employment. Many companies opt to locate in the Netherlands because of its good accessibility. Schiphol is one of the best-connected airports in Europe. This is vital to a very open economy like that of the Netherlands. A financially sound Air France-KLM with an extensive network centred on its Schiphol hub is essential to safeguard this connectivity going forward. That was why the Dutch state acquired a 14% stake in Air France-KLM last year. Besides offering connectivity, Schiphol and the surrounding area are an important engine for job growth in the Netherlands. And on top of this, high-value employment is created in the Netherlands by companies attracted to this country by Schiphol's good accessibility. In addition, this extensive network serves a broader public interest.

In light of this interest, the government intends to provide financial support to the company. The Dutch state is as far as possible acting in concert with the French state in this regard. The assistance that the Dutch state plans to provide is intended for KLM, while the assistance from the French state is intended for Air France. The Dutch state is considering a support package worth between €2bn and €4bn. Its exact size is still being discussed with external lenders and the company. It is expected to consist of government guarantees of loans made by external lenders and probably a direct (shareholder) loan issued by the state itself. In this way the financing will be facilitated by the market to the maximum extent and the Dutch state will assume only those risks that the market cannot. The French state today announced that it would provide financial support amounting to €7bn to Air France / Air France-KLM, likewise in the form of guarantees of external financing and a direct (shareholder) loan from the French state. The support from the two states will help Air France-KLM get through the COVID-19 crisis. The company will then have to improve its debt position. It cannot therefore be ruled out that the company's existing shareholders will be requested at some point to make a capital contribution.

The precise form of assistance that the government will opt for depends, among other things, on the talks it is holding with the company itself, external lenders, the French state, the European Commission and other stakeholders. These talks are largely taking place concurrently and are ultimately very interdependent. The company and the state are discussing the options for external financing, which could be guaranteed by the state. In addition, the state is examining whether it could also help solve the company's liquidity problems in some other way, for instance by issuing a direct (shareholder) loan. Talks are currently in progress between the various parties involved and the Dutch state on the exact financing conditions, such as the allocation of risk among the parties and the pricing and seniority of any instruments. Close contact is also being maintained with the French state to ensure the support measures are as well aligned as possible.

At the same time, the Dutch state is holding talks with the European Commission in order to obtain the necessary approval for the support measures. In response to the COVID-19 crisis, the European Commission has adopted temporary rules on state aid measures. Member states can provide such aid if they can show that they are experiencing a serious disturbance in their

economy. If this is the case, the European Commission allows member states to help resolve companies' liquidity problems and facilitate access to financing. The European Commission attaches certain conditions to these temporary state aid measures regarding, for example, the level of support, the risk assumed by the state and what it receives in return. In the case of aid for an individual company, the member state must also demonstrate that the measure is necessary, appropriate and proportionate in terms of remedying the serious economic disturbance in its economy. Once talks between the company and external lenders have reached an advanced stage, formal notification of the support measure can be sent to the European Commission.

The government is also holding talks with the company on the conditions it wishes to attach to the aid. The government will impose certain demands on the company, and considers this to be reasonable given that taxpayers' money is involved. This is also designed to maximise the financial support's effectiveness, secure the airline's long-term financial health, and ensure the airline contributes optimally to the public interest. The government also expects KLM's management and personnel to contribute to reviving the company's fortunes and improving its efficiency. In the coming period, the precise conditions will be agreed with the company, for example regarding profit appropriation, employment conditions, nuisance reduction, sustainability and network quality.

For instance, in return for any assistance, the government will insist that the company does not pay any bonuses or dividends until it has repaid the amount in full. The same applies to the profit-sharing scheme. The government will also ask KLM staff to make sacrifices, with the broadest shoulders bearing the greatest burden. This means that management staff and pilots are expected to make a greater sacrifice. The government will also ask KLM to make a contribution in terms of nuisance reduction and sustainability, for example by reducing the number of night flights and cutting CO2 emissions. The government will ask the company to draw up a restructuring plan so that it will again be able to compete in a highly competitive market. Concrete agreements can be made with the company in the near future on some of the conditions that will apply. Other elements will take longer to finalise and will have to be incorporated in the restructuring plan.

We will endeavour to complete the processes described above as soon as possible. In light of the large number of parties involved, the importance and complexity of the subject matter and the need for a careful and thorough approach, we assume that this will take at least another few weeks.

The government regards this letter as the start of the preliminary parliamentary scrutiny procedure, which gives parliament the opportunity to ask questions about the assistance. As the Minister of Finance indicated during his confidential briefing to the spokespersons on state-owned enterprises on the Permanent Committee on Finance of the House of Representatives, they can subsequently be provided with more detailed confidential information about the possible aid from the Dutch and French states to Air France-KLM. For this purpose, we will follow the procedures for confidential briefings on government measures that apply in situations like this, as agreed with the Permanent Committee on Finance of the House of Representatives. Once the support measures have been finalised, parliament will be informed and an incidental supplementary budget will be presented for authorisation, accompanied if necessary by a risk guarantee framework. At the same time, the government will respond to any written questions that have been submitted.