

Strings attached? Environmental conditionalities and state aid

Blog post by Policy Intern Giuseppe Costanzo, 19 June 2020

As many European states have mobilised to inject financial support into struggling companies, some European politicians have pointedly asked whether such support should come with environmental conditions attached.

On May 8th, the European Commission issued a written communication clarifying that, while it will not be making it mandatory for member states to tie their state aids to environmental targets, it also will not oppose it. And to the contrary - it welcomes the idea. With airlines and car manufacturers at the front of the queue for support, each sector provides an insight into the way such linkages might work - or not.

Environmental conditionalities for airlines present a particular practical problem. As part of its proposed support for Air France-KLM, the French government has requested that Air France withdraws some domestic short-haul routes. However, in the absence of a significant shift in demand or other disincentives to do so, this simply leaves competitors that are not subject to the same conditions free to fill the slots vacated by the carrier. A similar outcome can be expected if airlines that benefit from state aids are asked to commit to environmental conditionalities at EU level.

With no commercial advantage emerging from the decarbonisation effort in the short term, the conditionality simply risks having the firm displaced by others. Airline passengers have limited power to favour 'greener' airlines and the Airbus and Boeing duopoly in commercial aviation means that passengers are likely to fly the same aircraft type, no matter the airline they choose. Environmental conditions on the likes of those imposed on Air France are unlikely to influence the overall demand for flying or spur that of more climate-friendly alternatives.

Conditionalities may, in theory, be more feasible elsewhere, particularly in the automotive industry. Consumers are increasingly drawn to hybrid or zero-emission vehicles and have much greater scope to apply environmental criteria when buying, leasing, or renting a car. Pushing automotive firms into investing in the transition could plausibly contribute to their long term viability. It is hard to see how this can be the case in aviation.

However, it is notable that both the Italian and the French government are in the process of granting loan guarantees to the automotive industry with a focus on maintaining employment over driving a greener industry. Italian Minister of Economy and Finances Roberto Gualtieri included no specific environmental conditions in its bailout to Fiat Chrysler Automobiles' Italy. Instead, the loan was provided on the condition of the company maintaining employees' salaries, and payments to suppliers based in Italy. While France has pushed Renault to comply with EU targets for emissions reductions in the automotive sector, the main conditionality provided was the company providing guaranteed employment levels beyond 2023.

The European Commission communication of May 8th may have ruled out formal EU-wide green conditionalities for state aid, but it seems inevitable that linkages will continue to be a potential feature of national bailouts. For companies and investors, the way in which firms are pushed into strategic choices by such conditionalities is clearly important. It does not have to be a negative feature of support - but its impact will be a question of how such linkages are designed and applied.