EU COMMISSION APPROVES DUTCH PLANS TO PROVIDE €3.4 BILLION IN URGENT LIQUIDITY SUPPORT TO KLM

News / Airlines, Finance

The European Commission has approved, under EU State aid rules, a €3.4 billion Dutch aid measure consisting of a State guarantee on loans and a subordinated State loan to KLM to provide urgent liquidity to the company in the context of the coronavirus outbreak. The measures were approved under the State aid Temporary Framework adopted by the Commission on 19 March 2020.

Executive Vice-President Margrethe Vestager, in charge of competition policy, said: “KLM plays a key role for the Dutch economy in terms of employment and air connectivity. The crisis has hit the aviation sector particularly hard. This €3.4 billion State guarantee and State loan will provide KLM with the liquidity that it urgently needs to withstand the impact of the coronavirus outbreak. The Netherlands imposed certain conditions on the aid measure with respect to profit allocation, working conditions and sustainability. Very good. Member States are free to design measures in line with their policy objectives and EU rules.”

The Dutch support measure to KLM

KLM is a major network airline operating in the Netherlands. It is part of the Air France-KLM group, in which the Dutch state holds a participation. KLM is the Netherlands' second-largest private employer with over 36,600 employees. KLM is also a very important company for the Dutch economy, as it ensures the connectivity of the Netherlands with many destinations in Europe, with the Dutch regions overseas and the rest of the world. Since the start of the coronavirus outbreak, KLM has also played an essential role in the repatriation of citizens and for the transport of medical equipment.

As a result of the imposition of travel restrictions introduced by the Netherlands and by many destination countries to limit the spread of the coronavirus, KLM has suffered a significant reduction of its services, which resulted in high operating losses.Since the gradual easing of restrictive measures, as of the beginning of June 2020, air passenger traffic is slowly recovering. KLM does not have sufficient liquidity in order to finance the ramp up of its activities. Therefore, the support from the Dutch State is essential to obtain vital liquidity to face this difficult period. The Netherlands has also demonstrated that all other potential means to obtain liquidity on the markets have already been explored and exhausted.

The Netherlands notified to the Commission, under EU State aid rules, an aid measure to KLM to enable the company to mitigate the negative consequences of the coronavirus outbreak. The measure, which has a total budget of €3.4 billion, will take the form of: (i) a State guarantee on loans provided by a consortium of banks, and (ii) a subordinated loan to the company by the Dutch State.

The Commission found that the State guarantee is in line with the conditions set out in the Temporary Framework: (i) the guarantee premium is in line with the conditions under the Temporary Framework, increasing over time to encourage early reimbursement, (ii) the guarantee will be granted before 31 December this year, (iii) the loan backed by the guarantee cannot exceed €2.4 billion and is below the limits of the Temporary Framework, (iv) the maximum duration of the guarantee is 6 years and will not cover more than 90% of the loan backed by such a guarantee, and (v) KLM was not in difficulty on or before 31 December 2019. Safeguards are in place to ensure that the advantage is entirely passed to the beneficiary.

With respect to the subordinated State loan, the Commission found that this measure is also in line with the Temporary Framework: (i) the remuneration is in line with the conditions under the Temporary Framework, increasing over time to encourage early reimbursement, (ii) the loan will be granted before 31 December this year, (iii) the amount of the loan is below the limits of the Temporary Framework, (iv) the maximum duration of the loan is 5.5 years, and (v) KLM was not in difficulty on or before 31 December 2019.

The Commission concluded that the Dutch measure will contribute to managing the economic impact of the coronavirus in the Netherlands. It is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State, in line with Article 107(3)(b) TFEU and the conditions set out Temporary Framework.

On this basis, the Commission approved the measure under EU State aid rules.

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