

Early Warning System - Case 4

Airline

Final methodological assessment - prepared by the EWS secretariat with the approval of relevant EWS network members

Based on information available in April 2019

Published March 2020

An airline from Country A established a new subsidiary in Country B

The Country B subsidiary company will operate as an airline. It will be a capacity provider to the commercial and operational services company based in Country A. The Country B company will have full operational control and financial oversight of its activities.

Both the existing Country A company and the new Country B subsidiary are part of an enterprise group that is based in Country A and also includes a company in Country C (an extra-EU country), which will be unaffected by the restructuring.

The new structure means that the airline will become a pan-European airline group with three airlines in countries A, B and C, together with a commercial and operational services company based in Country A. Each airline will be a capacity provider to the commercial and operational services company. This means that the services company will sell seats to passengers, operate the website, set the network and schedule which airlines will be responsible for operating. **The process of re-registering aircraft started in 2017 and was completed at the beginning of 2019.** Excluding from the counting the aircraft under a leasing contract, now the airline group has more registered aircraft in Country B than in Country A.

According to the airline's statements, Country A company will bear the costs and responsibilities for any maintenance/repair and for replacing the aircraft registered in Country B if necessary. Country A company will also continue to accept all or most of the operating risks (losses) related to the use (operation) of the aircraft and receives all or most of the economic benefits (profits) from the (operation) of the aircraft. The company registered in Country A will remain liable in case of accidents.

Therefore, according to ESA2010 [para 15.09] this is an indicator of 'operational lease', which, consistently with ESA2010 [para 15.10], implies that the assets remain on the balance sheet of the lessor. Country B company is 'merely a capacity provider'. It will lease the planes from the Country A company but lease back the capacity on the same lease rental plus 5% profit. The planned leasing arrangements between Country A company and its Country B subsidiary can be therefore considered as operating leasing, and the aircraft would stay on the balance sheet of Country A company.

No jobs are moved between the Country A and Country B, but new jobs are being created in Country B. The workforce assigned to the new Country B company will roughly equal the workforce across other EU countries (excluding Country A) prior to the restructuring.

Some Country A company aircraft were sold to an extra-EU entity in country D whose main activity is to own aircraft and lease them back to international airlines on 'sale and leaseback

agreements'. These aircrafts are not physically moving in the sense of where they are based or operated from and to: **the group network will remain unaffected by the setting up of the new air operator's certificate (AOC) for the airline in Country B. A mere change of the flight code (IATA/ICAO) does not indicate a shift of the actual economic ownership of the respective aircraft.** The aircraft leasing rate of this pan-European airline group is slightly above 20%.

To summarise, the company in country A retains economic ownership of the aircraft operated by the subsidiary in country B. The commercial and operational services company in country A will continue to set the network schedule and sell tickets to passengers, and will buy capacity from the new country B airline.

No significant statistical impacts on business accounts, national accounts and/or financial accounts have been identified so far in relation to this restructuring case. If some statistical impacts would emerge later on, this note will be updated accordingly.