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<p>In the published version of this decision, some information has been omitted, pursuant to articles 30 and 31 of Council Regulation (EU) 2015/1589 of 13 July 2015 laying down detailed rules for the application of Article 108 of the Treaty on the Functioning of the European Union, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus [...]</p>		<p>PUBLIC VERSION</p> <p>This document is made available for information purposes only.</p>
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Subject: State aid SA.58101 (2020/C) and SA.62043 (2021/C) – Portugal - Rescue aid and Restructuring aid to SATA Group

Excellency,

The European Commission ("the Commission") wishes to inform the Portuguese Republic that, having examined the information supplied by your authorities regarding the planned restructuring aid in favour of SATA Air Açores - Sociedade Açoriana de Transportes Aéreos S.A. ("SATA" or "the beneficiary"), it has decided to extend the procedure laid down in Article 108(2) of the Treaty on the Functioning of the European Union ("TFEU"), which it initiated on 18 August 2020, in relation to the new measures notified to it as restructuring aid to SATA, namely: a capital increase of EUR [180-250] million and a public guarantee on loans of up to EUR [140-200] million.

The Commission also wishes to inform the Portuguese Republic that it has decided not to raise any objections to the individual aid to SATA related to the provision of public service obligations or services of general economic interest related to air transport to the Azores Region and to the management of the airports in the same Region, on the grounds that it is compatible with the internal market pursuant to Article 107(3)(c) and Article 106 (2) of the TFEU.

S. Ex.^a o Ministro dos Negócios Estrangeiros

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The Commission has based its decision on the following considerations:

1. PROCEDURE

- (1) By letter dated 18 August 2020, the Commission informed Portugal that it had decided to initiate the procedure laid down in Article 108(2) of the TFEU in respect of public financing of past capital increases of SATA and of planned rescue aid (the "Opening Decision"). The Opening Decision was published in the Official Journal of the European Union¹. The Commission invited interested parties to submit their comments on the aid.
- (2) By the same letter dated 18 August 2020, the Commission informed Portugal that it had decided not to raise objections to individual aid to SATA in the form of public guarantees or loans in an amount not exceeding EUR 133 million of liquidity needs related to the provision of public service obligations related to air transport to the Azores Region and to the operation of services of general interest in the airports in the same Region, on the grounds that it was compatible with the internal market pursuant to Article 107(3)(c) and Article 106(2) TFEU.
- (3) On 17 February 2021, Portugal submitted a restructuring plan for SATA, which was updated on 10 March 2021. On 14 April 2021, Portugal notified its intention to grant restructuring aid supporting the restructuring plan.
- (4) By letters dated 29 March 2021 and 16 April 2021, the Regional Government of Azores requested that the guarantees on loans that the Commission authorised on 18 August 2020 continue until 18 November 2021 and that more guarantees up to an additional amount of EUR 122.5 million be authorised for a seven-month period, pending the assessment of the restructuring plan.
- (5) Portugal agreed exceptionally to waive the rights deriving from Article 342 TFEU in conjunction with Article 3 of the EC Regulation 1/1958² and to have the decision adopted and notified pursuant to Article 297 TFEU in English.

2. DESCRIPTION

2.1. The beneficiary: activities and operating subsidiaries

- (6) SATA is a *Sociedade Anónima* (limited liability company)³ and holding of other companies based in the Azores Autonomous Region of Portugal (the "Region"). SATA employs 1.400 persons, of which 1150 locally in the Region and 250 in

¹ OJ C 294, 4.9.2020, p.41.

² Council Regulation No 1 of 15 April 1958 determining the languages to be used by the European Economic Community (OJ 17, 6.10.1958, p. 385, p. 58).

³ *Sociedade Anónima* is listed in Annex I (Types of undertaking referred to in point (a) of Article 1(1)) to Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, OJ L 182, 29.6.2013, p. 19.

Lisbon. SATA was incorporated in 1941 and is fully owned by the Government of the Region. SATA controls SATA Internacional - Azores Airlines, S.A. (“Azores Airlines”), SATA – Gestão de Aeródromos, S.A. (“SATA Gestão de Aeródromos” or “SGA”), as well as Azores Vacations America and Azores Vacations Canada (now closed).

- (7) SATA provides air transport passenger and cargo services on routes under public service obligations (“PSO”)⁴, or on a commercial basis. SATA serves the nine islands of the Region through inter-island air transport of the Azores Archipelago, for a total of 14 routes, under a PSO entrusted exclusively to SATA by means of a 5-year public service contract including compensation. SATA was the only airline that submitted a bid for these routes in 2015. The contract has been prolonged several times⁵ and expires on 30 September 2021⁶. In 2019, SATA operated more than 15 000 flights, with six Dash Bombardier planes which carried around 766 000 passengers.
- (8) Azores Airlines was incorporated in December 1990 and has an administrative hub in Ponta Delgada and one operational base in Lisbon. Azores Airlines operates i) three PSO routes connecting to mainland Portugal the five gateways of the Azores (São Miguel, Terceira, Santa Maria, Horta and Pico islands)⁷, ii) a PSO route linking Ponta Delgada to Funchal (Madeira island)⁸ and iii) international flights for regular routes in the North Atlantic to Boston, Oakland, Toronto and Montreal. Azores Airlines also operates niche tourist markets and charter services. In 2019, Azores Airlines operated around 7 000 flights, through eight medium course Airbus 320 planes –two in ACMI agreement- and one Airbus 330 serving around 946 000 passengers.
- (9) Even if the abovementioned four PSO routes are open to all operators willing to comply with the obligations imposed⁹, Azores Airlines is the only airline fulfilling

⁴ See list of 176 PSO routes reported to the Commission (DG Transport and Mobility), including SATA https://ec.europa.eu/transport/sites/transport/files/ps_inventory_table.pdf

⁵ See ultimately notice with the invitation to tender published at OJ C 29, 28.1.2020, p. 9.

⁶ The routes defined as inter-island PSOs, being operated by SATA, include 14 routes, which are essentially organized in three clusters of main urban centres that correspond to Ponta Delgada, Terceira e Horta: a) Ponta Delgada-Santa Maria-Ponta Delgada (PDL-SMA-PDL), b) Ponta Delgada-Terceira-Ponta Delgada (PDL-TER-PDL), c) Ponta Delgada-Horta-Ponta Delgada (PDL-HOR-PDL), d) Ponta Delgada-Pico-Ponta Delgada (PDL-PIX-PDL), e) Ponta Delgada-São Jorge-Ponta Delgada (PDL-SJZ-PDL), f) Ponta Delgada-Flores-Ponta Delgada (PDL-FLW-PDL), g) Terceira-Graciosa-Terceira (TER-GRW-TER), h) Terceira-São Jorge-Terceira (TER-SJZ-TER), i) Terceira-Pico-Terceira (TER-PIX-TER), j) Terceira-Horta-Terceira (TER-HOR-TER), k) Terceira-Flores-Terceira (TER-FLW-TER), l) Horta-Flores-Horta (HOR-FLW-HOR), m) Horta-Corvo-Horta (HOR-CVU-HOR) and n) Flores-Corvo-Flores (FLW-CVU-FLW).

⁷ See ultimately information notice published at: OJ C 27, 27.1.2015, p. 5.

⁸ See ultimately information notice published at: OJ C 27, 27.1.2015, p. 4.

⁹ Namely continuity and punctuality of services; number of minimum frequencies; seat capacity and minimum cargo offered per IATA station; flight schedules; flight commercialization; aircraft category; the setting of maximum tariffs for resident passengers and students, as well as for cargo.

them. Portugal explains that the decision to fulfil the PSOs on these routes is not based on economic profitability, but rather on the sole shareholder's interest in ensuring the continuity of such routes for reasons of public interest. Although Azores Airlines has been experiencing operational deficits in these four PSO routes, it continues to operate these routes without compensation. At present, the Portuguese Republic, together with the Region, is assessing the situation of these four PSO routes and their possible modifications in the future whilst ensuring compliance with Regulation 1008/2008¹⁰. In addition, on 27 March 2021, an emergency COVID PSO was imposed on two routes (Lisbon – Horta - Lisbon and Lisbon - Santa Maria – Lisbon) for 2021 the IATA summer season.

- (10) SATA Gestão de Aeródromos, incorporated in 2005, manages the airports of Pico, Graciosa, Corvo and São Jorge, as well as the Flores island terminal. Portugal alleges that the management of these airports is not economically attractive for private parties, contrary to the airports in Azores that the Vinci Group operates. The concession awarded to SGA in relation to the services of operation and management of the airfields of Graciosa, Pico, São Jorge and Corvo, sets forth a compensation for its service of general economic interest ('SGEI') to be paid to SGA for each year of duration of the contract. The compensation for the period from 2020 until 2025 has been set at EUR 17 million.
- (11) SATA also owns two tour operators in North America since 1985: Azores Vacations America and Azores Vacations Canada –now closed-. Their business focus is on connecting North America, mainland Portugal and the Region throughout the year.
- (12) In addition to SATA, Transportes Aéreos Portugueses S.A. and Ryanair serve commercial routes between the Azores archipelago and the rest of the territory of the Union, whilst Arkefly and Jetairfly operate seasonal charter flights. As to direct routes, Ryanair connects the Azores with Lisbon, London, Manchester and Frankfurt. Jetairfly has a route connecting Azores with Brussels. Arkefly connects Azores with Amsterdam and Tenerife in the Canary Islands (Kingdom of Spain).

2.2. Financial situation of the beneficiary and immediate liquidity prospects

- (13) In the opening decision, the Commission concluded that SATA presented a total negative equity amount of EUR 230 million in 2019, decreasing every year from EUR 55.8 million negative equity in 2014. This showed that at least half of its subscribed share capital had disappeared []. The Commission also concluded that SATA fulfilled the criteria []. The opening decision thus concluded that at the time of its adoption and since [], the beneficiary qualified as an undertaking in difficulty pursuant to points 20(a) and (c) of the R&R Guidelines¹¹. The equity position and financial situation of SATA has further deteriorated since August 2020. Revenues in 2020 [] compared to 2019 and SATA's equity as at end 2020

¹⁰ Regulation (EC) No 1008/2008 of the European Parliament and of the Council of 24 September 2008, on common rules for the operation of air services in the Community, OJ L 293, 31.10.2008, p. 3.

¹¹ Opening decision, recitals 62 and 63.

is expected to have amounted to EUR -[] million. Likewise, Portugal confirms that SATA continues to fulfil [].

- (14) SATA's financial situation is at present characterised by []. In that context, the Portuguese authorities requested that the guarantees on EUR 133 million loans authorised in the opening decision continue until 18 November 2021 and that more guarantees up to an amount of EUR 122.5 million be authorised, pending the assessment of the restructuring plan. This covers the projected liquidity needs that are critical to maintain the essential functions of connectivity provided by the beneficiary, namely intra-islands PSOs, PSOs routes with mainland¹² and the SGEI provided by SGA in managing the airports¹³. This amount excludes the costs of commercial routes of SATA and of the Azores Airlines, as well as the liquidity needs of Azores Vacations America and Azores Vacations Canada –now closed-.

2.3. Description of the restructuring plan and restructuring aid

- (15) The restructuring aid supports the implementation of a restructuring plan that is already being implemented, coming to an end in 2025. The plan is premised on market recovery of pre-COVID levels by 2023 (Western Europe, regional and international) and the Azores being an increasingly attractive destination for tourism, with boosted demand from the Portuguese diaspora in North America.

2.3.1. The restructuring of operations

- (16) In terms of fleet capacity and use, SATA would phase out legacy planes and reduce the number of aircrafts []. By 2025, the SATA group would be operating [] (through Azores Airlines) [] and [] (through SATA) []. The plan mentions however that the regional fleet of SATA []. Azores Airlines will []. Azores Airlines would [], improving connectivity within the network in the archipelago responding to a steady increase in demand. In the shorter term until demands recovers, SATA would [].
- (17) Complementary to improved operations and schedules, the restructuring plan rests on four pillars that would contribute to reducing the operating cost base: []. These measures combined would lead to []. The aggregate cost reductions expected to be realised by 2025 from restructuring measures are quantified at recital (21).

2.3.2. Funding of the restructuring plan and own contribution

- (18) The implementation of the restructuring plan triggers total net costs of EUR [] million until 2028 including repayment of bank loans, operating costs and capital expenditure for parts of aircraft. The projections show an aggregated amount of shortage of operational net cash flow in the amount of EUR [].

¹² The scope of liquidity needs related to the routes operated by the group includes: (i) the 14 PSO routes serviced by SATA (see footnote 6) and (ii) the four PSO routes of SATA Azores Airlines (PDL-FNC-PDL / PDL-LIS-SMA / LIS-PIX-LIS / LIS-HOR-LIS).

¹³ Airports managed by SGA in Pico, Graciosa, Corvo and São Jorge, as well as the Flores island terminal, see recital (10).

- (19) Portugal stresses that due to the deteriorated financial situation and the severe impact of the COVID-19 outbreak in the sector and in the economy, SATA is unable to proceed to any debt reorganisation and private capital raising without support from the State. However, Portugal considers that, [].
- (20) The funding of the restructuring aid will be provided by the Azores Region from its budget to finance the restructuring plan, and requires the necessary acts of implementation, including corporate approval of modifications to share capital and loan and guarantee agreements to be concluded. The funding consists of a total capital increase of EUR [180-250] million, to be provided in 2021 and 2022 and public guarantees on EUR [140-200] million loans with [].
- (21) According to the restructuring plan, the contribution of SATA to the restructuring costs will consist of EUR [] million spread over the period from 2020 to 2028 and integrating the following:
- a) Increased operating efficiency, including [];
 - b) suppliers negotiation, including [];
 - c) fleet restructuring, renegotiations with lessors, extension of contacts with lower rents, negotiation of new aircraft and delivery [];
 - d) staff salary reductions [];
 - e) other savings, [].
 - f) proceeds from [];
 - g) proceeds from [].
- (22) The Portuguese authorities take the view that any requirement of absorption of losses by subordinated creditors, SATA bond holders, via a debt write-down or a debt-to-equity conversion, would send a negative signal to the market, especially considering the situation stemming from the COVID-19 outbreak. Even if SATA were able to negotiate and implement such measures, this would likely impact the prospects of raising financing on its own by the end of the restructuring period.
- (23) On that basis, Portugal estimated the own contribution corresponding to []. Portugal submits that the level of own contribution is significant as it corresponds to the maximum level that the beneficiary is able to undertake, in view of the particular circumstances related to the COVID-19 pandemic, the specificity of SATA as a wholly publicly-owned regional company and the conditions of Azores as an outermost region of the EU.

2.3.3. *Solvency and liquidity needs: prospective return to viability*

- (24) The restructuring plan evidences that both liquidity and solvency issues need to be addressed to resolve the financial problems of SATA. In the short term, the SATA

group companies are not able to ensure the continued provision of essential air transport and comply with financial obligations. In the long term, given the sheer negative equity of SATA, which will continue for a prolonged period, the Group is also unable to fulfil its financial obligations.

- (25) The projections provided by Portugal in the baseline scenario of the restructuring plan show that earnings before interest and tax (EBIT) would []. It is only after the restructuring period, [].

Table 1 : Financial projections of the restructuring plan (baseline scenario)

SATA GROUP	Restructuring period						post-Restructuring*			
	EUR million	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenues	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
EBIT	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Net income	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Financial debt (ex.leases)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Equity	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

Source : Notification "SATA Funding requirements" IMAP April 2021 (* assumes [])

- (26) In an adverse scenario in which revenues []. In the adverse scenario, [].
- (27) Portugal considers that the financial and operational measures supporting the restructuring plan are devised to allow the SATA group to achieve by []. Portugal submits that other combinations of aid instruments or amounts would compromise the objectives or imply an unbearable financial cost, hampering the long-term viability of SATA [].

2.3.4. Measures limiting distortion of competition

- (28) In terms of divestments of assets, reduction of capacity or market presence committed to be undertaken, Portugal puts forward []. SATA will also decrease the number of aircraft [] during the restructuring period. SATA will also discontinue [].
- (29) Moreover, the beneficiary agrees to refrain from publicising State support as a competitive advantage when marketing its products and services. Likewise, the beneficiary will refrain from acquiring shares in any company during the restructuring period, except where indispensable to ensure its long-term viability and subject to Commission approval.

3. ASSESSMENT OF THE MEASURES

- (30) The Commission first assesses whether the notified capital increase of EUR [180-250] million and the public guarantee on loans (as mentioned in recital (20)) to be provided in support of SATA's restructuring plan entail State aid to the beneficiary under Article 107(1) TFEU, and if so, whether such aid is lawful and compatible with the internal market.

3.1. Existence of State aid

- (31) According to Article 107(1) TFEU, "[s]ave as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market".
- (32) The qualification of a measure as aid within the meaning Article 107(1) TFEU requires the following cumulative conditions to be met: (i) the measure must be imputable to the State and financed through State resources; (ii) it must distort or threaten to distort competition and affect trade between Member States; (iii) the measure must confer an advantage on its recipient; and (iv) that advantage must be selective. It is therefore appropriate to examine separately whether the guaranteed rescue loan and the capital increases qualify as aid.

3.1.1. *Measures imputable to the State financed through State resources*

- (33) The capital increase and the guarantee on loans are to be granted by the government of the Autonomous Region of Azores, with resources from its budget (recital (20)). For the purposes of Article 107(1) TFEU, resources of local authorities such as regions are State resources and decisions of such authorities should be regarded as imputable to the State¹⁴. The capital increase and the guarantee on loans are thus imputable to the State and financed through State resources.

3.1.2. *Measures must confer an advantage on its recipient*

- (34) The Commission has to examine whether the capital increase and the guarantee on loans qualify as aid in that they confer an economic advantage on the beneficiary. The presence of such an advantage can be inferred and established from the fact that the beneficiary cannot obtain capital or raise debt finance at market conditions without a public guarantee (recitals (13), (14) and (19)) and is at present expected to access such finance only by 2028 (recitals (19) and (26)).
- (35) Moreover, the capital increase and the guarantee on loans provide an economic advantage to the beneficiary if a market operator in a situation as close as possible to that of the Region would not grant them in the same circumstances. The market operator in question ought to leave aside any benefits expected in its situation as public authority.¹⁵
- (36) The assessment of whether a market operator in a situation as close as possible to that of the Region would provide the same funding ("market economy operator test") shows that the public funding in question provides an advantage with regard to market conditions.

¹⁴ Joined Cases T-267/08 and T-279/08 *Région Nord-Pas-de-Calais v Commission*, EU:T:2011:209, paragraph 110.

¹⁵ Case C-300/16 P *Commission v Frucona Košice*, EU:C:2017:706, paragraph 59; and Case C-124/10 P *Commission v EDF*, EU:C:2012:318, paragraphs 78, 79 and 103.

- a) First, there is no *prima facie* evidence that the funding can be ascribed to behaviour and decisions which a market shareholder would take. The funding is premised on reasons of public policy to guarantee air transport connectivity of the Region which, however pertinent for a public authority, would not be relevant for a market shareholder (recitals (7) to (10)). Therefore, the market economy operator test appears not to be applicable.
 - b) Second, the funding cannot be assessed as being necessary to preserve or increase the value of the shareholding of the Region, or as being capable to provide a shareholder return commensurate with the risk taken. The market value of the shareholding of the Region in SATA is likely []. If the market economy operator test was applicable, *-quod non-*, the application of the test appears to evidence that no market operator would provide the funding without any expectation of positive return on the investment in the long term.
- (37) Therefore, the capital increase and the guarantee on loans provide funding that the beneficiary cannot and could not obtain on the market. A market operator in a situation as close as possible to that of the Region would not provide similar funding. Therefore, the capital increase and the guarantee on loans appear to confer an economic advantage on the beneficiary.

3.1.3. *Selective measures*

- (38) The capital increase and the guarantee on loans are to be granted through the exercise of discretion for an *ad hoc* amount determined by reference to the specific needs of the beneficiary's restructuring plan. The public funding is, either by instruments or amount, not part of a broader, general, economic policy measure to provide support to undertakings in a comparable legal and economic situation that are active in the air transport or other economic sectors. As the Court has stated, where individual aid is at issue, the identification of the economic advantage is, in principle, sufficient to support the presumption that a measure is selective¹⁶. This is so regardless of whether there are operators on the relevant markets that are in a comparable factual and legal situation. Therefore, the capital increase and the guarantee on loans are selective.

3.1.4. *Measures distorting or threatening to distort competition and affect trade between Member States*

- (39) The air passenger transport and cargo services sector in which the beneficiary is active is open to competition and trade between Member States. Other airlines licensed in the European Union such as Ryanair, Jetairfly (seasonal charter flights), and Arkefly (seasonal charter flights) operate provide air transport services connecting the Azores Region with a few cities of the Union (recital (12)). Therefore, by sustaining the continued operation of the air transport services that the beneficiary provides, the capital increase and the guarantee on loans are liable to affect trade between Member States.

¹⁶ See Case C-15/14 P *Commission v MOL*, EU:C:2015:362, paragraph 60.

- (40) By granting access to funding at conditions which it would not otherwise obtain on the market, the public funding is liable to improve the position of the beneficiary in relation to actual competing undertakings or potential ones, that have not access to similar State support from Portugal or that have to finance operations at market conditions. The capital increase and the guarantee on loans consequently distort or threaten to distort competition.

3.2. Conclusion on the existence of aid

- (41) In light of the above, the Commission preliminarily concludes that the capital increase and the guarantee on loans in favour of SATA involves State aid under Article 107(1) TFEU.
- (42) The Commission will therefore assess their lawfulness and compatibility with the internal market.

3.3. Lawfulness of the aid

- (43) Portugal has not put into effect the capital increase or the guarantee on loans notified as restructuring aid by granting them to the beneficiary. The provision of the capital increase and of the guarantee on loans requires the adoption of executive and corporate acts and agreements with financial institutions which are not yet in place (recital (20)). Likewise, the temporary prolongation of individual aid to SATA in the form of public guarantees or loans in an amount not exceeding EUR 133 million of liquidity needs, and the increase up to an additional amount of EUR 122.5 million have not been put into effect and are notified in conjunction with the submission of the restructuring plan within six months of the Commission authorisation (recitals (2) to (4)). Portugal has thus observed the standstill obligation laid down in Article 108(3) TFEU. Therefore, the restructuring aid is lawful.

3.4. Compatibility of the aid with the internal market

- (44) Under Article 107(3)(c) TFEU, the Commission can authorise aid if it is granted to promote the development of certain economic sectors and if that aid does not adversely affect trading conditions to an extent contrary to the common interest.
- (45) Thus, in order to be capable of being considered compatible with the internal market under that provision, State aid must meet two conditions, the first being that it must be intended to facilitate the development of certain economic activities or of certain economic areas and the second, expressed in negative terms, being that it must not adversely affect trading conditions to an extent contrary to the common interest¹⁷.
- (46) In the Guidelines on State aid for rescuing and restructuring non-financial undertakings in difficulty ('R&R Guidelines')¹⁸, the Commission sets out the

¹⁷ Judgement of the Court of Justice of 22 September 2020, *Austria/Commission (Hinkley Point C)*, C-594/18 P, ECLI:EU:C:2020:742, paragraphs 18-19.

¹⁸ OJ C 249, 31.7.2014, p. 1.

conditions under which State aid for rescuing and restructuring non-financial undertakings in difficulty may be considered to be compatible with the internal market on the basis of Article 107(3)(c) TFEU.

- (47) It does not result from the notification that the restructuring aid or the conditions attached to it, or the economic activities facilitated by the aid, could entail a violation of a relevant provision of Union law. In particular, the Commission has not sent a reasoned opinion to Portugal on a possible infringement of Union law that would bear a relation to this case and the Commission has not received any complaints or information that might suggest that the State aid, the conditions attached to it or the economic activities facilitated by the aid might be contrary to relevant provisions of Union law.
- (48) Portugal considers that the restructuring aid can be declared compatible with the internal market pursuant to the R&R Guidelines.
- (49) In view of the nature and aims of the State aid at stake and the claims of the Portuguese authorities, the Commission will assess whether the planned funding supporting the restructuring aid complies with the relevant provisions laid down in the R&R Guidelines.

3.4.1. Aid facilitates the development of an economic activity or an economic area

3.4.1.1. Eligibility

- (50) In order to be eligible for restructuring aid, a beneficiary must qualify as being an undertaking in difficulty for the purposes of section 2.2 of the R&R Guidelines. In particular, point 20 of the R&R Guidelines explains that an undertaking is considered to be in difficulty when, without intervention by the State, it will almost certainly be condemned to going out of business in the short or medium term. This would be the case when at least one of the circumstances described in letters a) to d) of point 20 of the R&R Guidelines occurs.
- (51) As explained in recitals (6) and (13), SATA is a limited liability company that presented a negative total equity amount of EUR 230 million in 2019 and is expected to reach –[] million for 2020, which shows that []. Likewise, as explained in recital (13), SATA [].
- (52) It follows that the beneficiary continues to qualify as an undertaking in difficulty pursuant to points 20(a) and (c) of the R&R Guidelines.
- (53) According to point 21 of the R&R Guidelines, a newly created undertaking is not eligible for rescue aid. The beneficiary is not a newly created undertaking for the purposes of the R&R Guidelines since it was established in 1941, so more than three years ago (see recital (6)).
- (54) According to point 22 of the R&R Guidelines, a company belonging to or being taken over by a larger business group is not normally eligible for restructuring aid. The beneficiary is not part of a larger business group, as it is fully owned by the Azorean regional government (see recital (6)).

3.4.1.2. Prevention of social hardship or market failure contributing to the development of economic activity

- (55) Under point 38(a) of the R&R Guidelines, in assessing whether the restructuring aid can be declared compatible with the internal market, the Commission examines whether the State aid is conditional on implementation of a restructuring plan that would restore the viability of the beneficiary and that it aims to prevent social hardship or address a market failure. Under point 44 of the R&R Guidelines, this can be demonstrated in particular by showing that one of the circumstances listed from points (a) to (g) are met.
- (56) In that regard, Portugal refers to circumstances mentioned under point 44(b), (c) and (d) of the R&R Guidelines, namely that there is a risk of disruption to an important service which is hard to replicate and where it would be difficult for any competitor simply to step in, that the exit of SATA would have potential negative consequences given its important systemic role in the Azores Region and that such exit would risk interrupting the SGEI that SATA provides.
- (57) In the opening decision, the Commission considered that the PSO flights operated by SATA and Azores Airlines are SGEIs provided to the Region and Portugal. A potential failure of SATA would thus interrupt the continuity of provision of the SGEIs¹⁹. The Commission also considered that the activity of management of the island airports which SATA carries out through SGA appears to provide a SGEI that is indispensable for the continuous provision of essential services of connectivity to the Region²⁰.
- (58) The situation regarding the air connectivity of the Region has not fundamentally changed since the opening decision. In particular, the Commission has no indication that any additional airport or new airlines have started providing air transport services from or to other destinations that are alternative to or complementary with the services that SATA provides. It follows that in the short to medium term, in the uncertain situation and outlook created by the COVID-19 outbreak, the restructuring aid is essential to avert a serious and imminent risk of disruption to PSOs and SGEIs provided by SATA, whose role may not be fully replicated by alternative providers.
- (59) Portugal informs that the PSOs regarding connection with mainland Portugal and Madeira are being re-examined, whilst those concerning inter-island flights within the Azores are being prolonged temporarily. Likewise, the current concession contract with SGA expires in 2025. Based on the information provided, the Commission has doubts as to how the PSOs of SATA and Azores Airlines and the SGEIs of SGA will be defined, imposed and entrusted in compliance with the relevant Union law for the duration of implementation of the restructuring plan.

¹⁹ Opening decision, recitals 69 to 71.

²⁰ Opening decision, recitals 72 to 74.

- (60) In the opening decision, the Commission also considered that the bankruptcy of SATA would lead to severe social and economic hardship for the Region and significant negative spill-over effects on important segments of the economy concerning tourism-related activities. The bankruptcy of SATA would also cause a situation of severe hardship to the economy of Azores, which is an outermost region of the EU, aggravating challenges imposed by its geographic distance from the Portuguese mainland and its socio-economic gap in relation to Portugal and the EU²¹.
- (61) The Commission notes that the restructuring aid is conditional on the implementation of the restructuring plan and concludes, subject to the clarifications to be provided as to future plans on SGEIs and PSOs, that the information provided by Portugal demonstrates that, by allowing the beneficiary to continue and restructure operations whilst meeting its payment obligations in the next years, the aid contributes to a well-defined objective of common interest as provided by points 44(b), (c) and (d) and 46 of the R&R Guidelines, whilst contributing to developing the economic activity at hand.

3.4.2. Aid does not unduly affect competition and trading conditions to an extent contrary to the common interest

- (62) In order to assess whether the aid does not unduly affect the competition and trading conditions it is necessary to examine the necessity of the aid, its appropriateness and proportionality. It is also necessary to examine the effects of the aid on competition and trade and weight the positive effects of the aid on the development of activities that the aid intends to support against its negative effects of it on the internal market.

3.4.2.1. Appropriateness

- (63) Under points 38(c) and 54 of the R&R Guidelines, the Commission will not consider restructuring aid to be compatible with the internal market if other, less distortive, measures allow the same objective to be achieved. Restructuring aid must fulfil the conditions laid down in point 58 of the R&R Guidelines, so that the instruments chosen must be appropriate to the solvency or the liquidity issue that it is intended to address.
- (64) SATA faces problems of solvency and liquidity which the restructuring aid needs to address adequately to be considered as appropriate. The blending of fresh capital and guaranteed debt provided as restructuring aid address in parallel a situation of extreme deterioration of the equity of SATA, []. After the provision of restructuring aid, by 2026-2028, []. The restructuring plan would then significantly reduce [].
- (65) The Commission therefore concludes that by adequately addressing solvency and liquidity issues, the restructuring aid is appropriate.

²¹ Opening decision, recitals 75 and 76.

3.4.2.2. Proportionality of the aid / aid limited to the minimum

- (66) Under point 38(e) of the R&R Guidelines, aid must not exceed the minimum needed to achieve the objective of common interest. The amount and intensity of restructuring aid must be limited to the strict minimum necessary to enable restructuring to be undertaken, in the light of the existing financial resources of the beneficiary, its shareholders or the business group to which it belongs (point 61 of the R&R Guidelines). In particular, a sufficient level of own contribution to the costs of the restructuring and, where State support is given in a form that enhances the beneficiary's equity position, burden sharing must be ensured. The assessment of those requirements will take account of any rescue aid granted beforehand.
- (67) Regarding burden sharing, the enhancement of the beneficiary's equity position and any potential upsides envisaged from a successful restructuring supported by the aid provided by the Regional Government will fully accrue to the aid grantor in its capacity of sole shareholder. Burden sharing by existing shareholders is therefore irrelevant in the present case.
- (68) However, the same is not true with regard to existing creditors. The [] combined with additional State guarantees have the effect of adding new debt guaranteed by the Region whilst securing []. Yet, the situation of difficulty of the beneficiary is characterised, []. The amount of []. In the circumstances of SATA, the absence of burden sharing results in a significant amount of State aid in relation to the costs of the restructuring plan.
- (69) To explain the absence of any burden sharing reducing the amount of aid, Portugal refers to the inability of the beneficiary to access market finance in the future. However, Portugal fails to give reasons and justify why any partial reduction of debt borne by current creditors that would be concomitant to the aid would, as a matter of principle not be adequate. Subject to concrete and detailed explanations from Portugal on this purported impossibility, it is doubtful that proper and satisfactory burden sharing accompanies the restructuring aid.
- (70) The own contribution of the beneficiary to the restructuring plan must be real and actual and should normally be comparable to the aid granted in terms of effect on the solvency or liquidity position of the beneficiary. Pursuant to point 63 of the R&R Guidelines, the Commission needs to assess whether the various sources of own contribution are actual and aid-free. According to point 64 of the R&R Guidelines, the Commission normally considers the own contribution to be adequate if it amounts to more than 50% of the restructuring costs.
- (71) On the nature of the own contribution to the expected restructuring costs from SATA, the Commission notes that all the measures envisaged for the five year duration of the restructuring plan have the common feature of freeing resources by reducing the beneficiary's operating costs but do not involve fresh finance at market terms. Portugal envisages proceeds from [] (recital (19)). In the current circumstances, with an uncertain outlook in which the air transport industry is and will remain heavily impacted by the direct and indirect effects of the COVID-19 outbreak, the Commission does not assess the absence of fresh finance provided at

market terms supporting the restructuring plan of SATA as evidence of insurmountable unviability of SATA.

- (72) In effect, cost reductions borne by stakeholders such as those that SATA provides may amount to real and actual sources of own contribution to the restructuring plan in the particular circumstances, provided they are effective, lasting and not reversible. Therefore, Portugal should establish without doubt that [] (points a) to e) of recital (21)) are committed in binding agreements with the respective parties or internal instructions that will produce lasting effects throughout the duration of the restructuring plan. Likewise, in the uncertain outlook until 2025, Portugal should commit to maintaining these measures and not withdrawing them if the operating results of the beneficiary improved faster or more than anticipated in the projections of the business plan, set out in Table 1.
- (73) With regard to [] that would allow considering them as real and actual sources of own contribution, the amounts [].
- (74) At this stage, Portugal has not produced []. Only this type of evidence would allow concluding that the expected proceeds for an amount of EUR [] are real and actual sources of own contribution to the costs of the restructuring plan. [] of the costs of the restructuring plan. [].
- (75) Finally, Portugal does not single out and breakdown the expected compensations of the costs of provision of PSOs or SGEIs that SATA will be receiving during the restructuring plan. Whilst for the purposes of determination of the amount of own contribution the Commission will disregard any lawful public service compensation pursuant to the Aviation Guidelines and/or Regulation 1008/2008, the Commission needs to take into account all State aid received by SATA during the restructuring plan (R&R Guidelines, point 101).
- (76) The Commission therefore has doubts that the notified restructuring aid is restricted to a minimum amount, in line with point 60 of the R&R Guidelines, and is consequently proportional.

3.4.2.3. Negative effects

- (77) Pursuant to point 38 f) of the R&R Guidelines, when restructuring aid is granted, measures must be taken to limit distortions of competition, so that adverse effects on trading conditions are minimised as much as possible and positive effects outweigh any adverse ones. To that effect, recipients of rescue or restructuring aid should in principle not have received similar aid in the past ten years. Moreover, when restructuring is granted, measures must be taken to limit distortions of competition, preferably structural in the form of divestments of self-standing activities favouring expansion of small competitors or cross-border activity.

(a) One time last time principle

- (78) Under points 70 and 71 of the R&R Guidelines, aid can be granted to undertakings in difficulty in respect of only one rescue or restructuring operation. Therefore, where less than ten years have elapsed since rescue aid, restructuring aid or temporary restructuring support were granted to the beneficiary in the past,

including any such aid granted before the entry into force of the R&R Guidelines and any non-notified aid, the Commission will not allow further aid (the 'one time, last time' principle).

- (79) In the opening decision, the Commission raised doubts whether EUR 72.6 million of increases of SATA's capital provided by the Azores Region since 2017 amounted to unlawful rescue or restructuring aid in breach of the one last time principle²². The Commission was not in a position to conclude whether an exception to the one time last time principle in exceptional and unforeseeable circumstances for which the beneficiary is not responsible was justified (point 72 c) of the R&R Guidelines).²³
- (80) Portugal is planning to support a single rescue and restructuring operation of SATA with the already granted rescue aid, on which the Commission raised doubts, which is now followed by the notified restructuring aid. Therefore, the Commission doubts that the restructuring aid meets the one time last time principle.

(b) Measures limiting distortions of competition

- (81) As explained further in points 87 to 93 of the R&R Guidelines, compensatory measures should be set out in proportion to the distortive effects of the aid, and in particular: (i) to the size and the nature of the aid and the conditions and circumstances under which it is granted; (ii) to the size and relative importance of the beneficiary in the market and the characteristics of the market concerned and (iii) to the extent to which moral hazard concerns remain following the application of the own contribution and burden-sharing measures.
- (82) The structural measures might include divestment of assets, reducing capacity or market presence. They should favour the entry of new competitors, the expansion of existing small competitors or cross-border activity, taking into account the market or markets where the beneficiary will have a significant market position after the restructuring, in particular those with excess capacity. Behavioural measures should ensure that aid finances only the restoration of long-term viability.
- (83) After the implementation of the restructuring plan, SATA will be active in the management of small airports in the Azores in the provision of air transport services between the islands and with Madeira and mainland Portugal. Portugal commits that SATA will refrain from publicising State support when marketing its products and services. SATA will also refrain from acquiring shares in any company during the restructuring period, unless necessary to ensure its viability. No such acquisitions are notified at this stage.
- (84) The beneficiary has a relatively small size and a limited scope of operations predominantly consisting of discharging PSOs and providing genuine SGEIs in the Azores Region. The restructuring plan does not envisage diversification to

²² Opening decision, recitals 90 and 91.

²³ Opening decision, recitals 92 to 98.

new activities and is premised on a reduction of SATA's aircraft fleet. Likewise, the restructuring plan does not include specification of plans to open new routes between the Azores and mainland Europe that would compete with other airlines.

- (85) Also, Portugal alleges the crucial role of Azores Airlines in discharging essential PSO and more generally contributing to the economic development of the Region. The notification provides for structural measures in the form of [].
- (86) Provided that [] is implemented within the duration of the restructuring plan, the measure appears []. However, [].
- (87) []. Portugal points at the present difficulties of Azores Airlines being partly due to an insufficiently clear delineation of objectives of Azores Airlines' operation as PSO provider and its intrinsic commercial interest. In the meantime, some of the difficulties of SATA result from this unclear delineation between commercial operation and public interest missions. This situation of tension between conflicting objectives needs to be addressed to avoid similar difficulties in the future, [].
- (88) Therefore, in addition to clarifying whether [], Portugal should explain how [].
- (89) Accordingly, the Commission doubts that the [] and within the duration of the restructuring plan. Moreover, it is also doubtful that sufficiently clear governance conditions and agreements will be in place [].

3.4.2.4. Application of section V of the R&R Guidelines regarding SGEIs

- (90) In assessing State aid to SGEI providers in difficulty under the R&R Guidelines, the Commission considers that the specific application of the principles therein should be adapted where necessary to take account of the specific nature of SGEI and, in particular, of the need to ensure continuity of service provision in accordance with Article 106(2) TFEU (R&R Guidelines, point 14). In that respect, where the Commission finds that rescue or restructuring aid cannot be found compatible, the Commission may authorise the payment of such aid and for a limited duration as is necessary to ensure continuity of the SGEI until a new provider is entrusted (points 99 and 103 of the R&R Guidelines).
- (91) While at this stage there is no definitive finding that the restructuring aid is incompatible with the internal market, it is established that SATA manages five airports which provide a SGEI in the Region and also operates a SGEI for PSO routes that are essential for air transport connectivity (recitals (7) to (10)). Therefore point 103 of the R&R Guidelines calls for the performance of these particular tasks and services assigned to SATA is not obstructed until the Commission takes a final view on the compatibility of the restructuring aid with the internal market.
- (92) Indeed, point 103 of the R&R Guidelines may apply where the Commission has already concluded that the unlawful aid under scrutiny cannot be found compatible with the internal market and it is sufficient condition for its application that there is

a risk that the Commission may find that an SGEI provider is not able to comply with the conditions of these guidelines²⁴.

- (93) In the present case, the Commission has doubts on compatibility, which *a fortiori* calls for the performance of the tasks and provision of the essential services in question is preserved during the formal investigation. For otherwise, on the one hand, without the indispensable liquidity, the beneficiary could be put in an irreversible situation and be obstructed from ensuring the performance of the SGEI. On the other hand, users could be irremediably deprived of all or some of the SGEI in question. And this could likely happen soon given the liquidity situation of SATA (recitals (13) and (14)) when there is strong likelihood that no alternative provider would, at this point in time, minimally provide, let alone replicate, the services, thus risking a serious threat to the connectivity of the islands of an outermost region.
- (94) The Commission therefore applies point 103 of the R&R Guidelines so as to avoid an irreversible situation of discontinuation of essential air transport connectivity SGEI in the Azores Region during the conduct of formal proceedings, since there is there is a risk that the Commission may find that SATA is not able to comply with the conditions of these guidelines.
- (95) In the present case, the Commission takes into account the submission of Portugal regarding the PSOs that SATA discharges and which ensure essential air transport connectivity between the Azores islands. The Commission also notes the evidence that Portugal submitted to the effect that the PSOs discharged by Azores Airlines on the four PSO routes open to all airlines have not so far attracted any alternative service providers; that only an extremely limited number of routes connecting Azores with the rest of the Union are being served by four other airlines licensed in the Union (recital (12)). Continuous service provision in those PSO routes provide indispensable air transport connectivity.
- (96) The air transport services under PSOs are combined in this case with the SGEI provided through the five airports which SATA guarantees in an outermost Region, which is *a fortiori* especially sensitive and even vital in the context of the COVID-19 outbreak and its induced effects on essential passenger and cargo transport.

²⁴ The (2004) R&R Guidelines (Communication from the Commission — Community guidelines on State aid for rescuing and restructuring firms in difficulty, OJ C 244, 1.10.2004, p. 2-17) that predated the present R&R Guidelines, did not contain a specific section on rules applicable to providers of SGEI, such as those now set out in section V thereof. In case practice under the earlier (2004) R&R Guidelines, the Commission, whilst raising doubts on compatibility of R&R aid, authorised continuation of rescue aid during formal proceedings, in circumstances where discontinuation of the aid could have obstructed the performance of a public service, based on *prima facie* evidence of a genuine SGEI. See Commission Decision (2009)5088 final of 2.7.2009 in case No C19/2009 (ex N 64/2009)- Denmark - Restructuring aid to TV2 Denmark A/S, point 77 and conclusion, OJ C 207 02.09.2009, p. 2.

- (97) Likewise, the Commission takes into account the estimated liquidity needs which are indispensable to maintaining the connectivity of the Region without covering other liquidity needs of the beneficiary (recital (65)).
- (98) At this stage, the Commission cannot conclude on the compatibility of the restructuring aid with the internal market, because of its doubts that the aid is proportionate and that negative effects on trade and competition are mitigated to sufficient extent.
- (99) Nevertheless, pursuant to point 103 of the R&R guidelines, the Commission considers justified to provide at this stage for authorisation of the prolongation and increase of aid strictly limited to the amount up to EUR 255.5 million and for a duration of six months as it is necessary to ensure continuity of the SGEI in the air transport services and the airport management services provided at present by SATA (recitals (6) to (7), and (61)).

3.4.2.5. Transparency

- (100) According to point 38(g) of the R&R Guidelines, Member States, the Commission, economic operators and the public must have easy access to all relevant acts and pertinent information about the aid awarded. This means that Portugal must respect the provisions on transparency laid down in point 96 of the R&R Guidelines. The Commission notes that Portugal undertakes to respect those obligations. The relevant information will be made available on the website:

<https://www.portaldiplomatico.mne.gov.pt/sobre-nos/gestao-e-transparencia/documentos-legais>

3.4.2.6. Weighing up the positive effects of the aid with the negative effect on the internal market

- (101) An aid measure is adequately designed when it facilitates the development of certain economic activities or of certain economic areas without adversely affecting trading conditions to an extent contrary to the common interest.
- (102) The Commission considers that restructuring aid not meeting all the criteria set out in the R&R Guidelines affects trading conditions to an extent contrary to the common interest (points 36, 38 and 39 of the R&R Guidelines).
- (103) At this stage, the Commission doubts that the aid is proportionate and that negative effects on trade and competition in the internal market are mitigated to sufficient extent.

3.5. Conclusion on the compatibility of the notified aid

- (104) In the light of the findings above, the Commission concludes that, at this stage, the restructuring aid does not appear to meet the conditions of compatibility with the internal market pursuant to Article 107(3) c) TFEU, in particular those set out in the R&R Guidelines. Likewise, the Commission has not yet taken a final position on the proceedings opened on the rescue aid. The Commission cannot therefore consider at the present stage that those aids as notified, are compatible with the

internal market. The Commission has thus decided to extend the proceedings laid down in Article 108(2) TFEU, referred to in recital (1) in relation to the notified restructuring aid measures.

(105) However, pursuant to Article 106(2) TFEU in conjunction with points 99 and 103 of the R&R Guidelines, the Commission deems compatible with the internal market the aid that is necessary to ensure continuity of the SGEI provided by SATA and its subsidiaries, in the form of a prolongation of guaranteed loan limited to a maximum amount of EUR 133 million and, and of additional guarantees on EUR 122.5 million loans for a duration of six months from the adoption of the present decision or until the Commission adopts a decision closing the proceedings, whichever is the shortest, under the conditions and reporting set out in the opening decision²⁵.

4. CONCLUSION

In the light of the foregoing considerations, the Commission has accordingly decided:

- not to raise objections to individual aid to SATA Air Açores - Sociedade Açoriana de Transportes Aéreos S.A in an amount not exceeding EUR 255.5 million of liquidity needs of its essential activities related to the provision of public service obligations related to air transport to the Azores Region and to the management and operation of services of general interest in the airports in the same Azores Region, on the grounds that it is compatible with the internal market pursuant to Article 107(3)(c) and Article 106(2) TFEU and
- acting under the procedure laid down in Article 108(2) of the Treaty on the Functioning of the European Union, request the Portuguese Republic to submit, within one month of the date of receipt of this letter, its comments and to provide all such information as may help to assess the compatibility of the restructuring aid with all the conditions applicable.

The Commission requests your authorities to forward a copy of this letter to the potential recipient of the aid immediately and wishes to remind the Portuguese Republic that Article 108(3) of the Treaty on the Functioning of the European Union has suspensory effect, and would draw your attention to Article 16 of Council Regulation (EU) 2015/1589, which provides that all unlawful aid may be recovered from the recipient.

The Commission warns the Portuguese Republic that it will inform interested parties by publishing this letter and a meaningful summary of it in the Official Journal of the European Union. It will also inform interested parties in the EFTA countries which are signatories to the EEA Agreement, by publication of a notice in the EEA Supplement to the Official Journal of the European Union and will inform the EFTA Surveillance Authority by sending a copy of this letter. All such interested parties will be invited to submit their comments within one month of the date of such publication.

²⁵ Opening decision, recital 110.

If this letter contains confidential information which should not be published, please inform the Commission within ten working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to publication of the full text of this letter.

Your request should be sent electronically to the following address:

European Commission,
Directorate-General Competition
State Aid Greffe
B-1049 Brussels
Stateaidgreffe@ec.europa.eu

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President