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PORTUGUESE OPPORTUNITIES

TAP PRIVATISATION: THE OUTSIDER OPPORTUNITY

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The Portuguese government has recently launched the privatisation of TAP – Transportes Aéreos Portugueses, SA (TAP), Portugal's flag carrier, with the publication of Decree-Law No. 92/2025 ("Privatisation Decree") and the approval of the tender documents (*caderno de encargos*).

The privatisation involves the sale of a minority stake of up to 49.9% of TAP's share capital, of which up to 5% must be offered to employees. The State will retain the majority stake.

According to media reports Lufthansa, Air France-KLM, and the IAG Group have are frontrunners for winning the privatisation. All three are headquartered in Europe, have the required expertise for managing TAP and can explore many synergies for the development of TAPs business.

The possibility of non-EU airline companies, including consortia with other investors, has been downplayed by most commentators because of the perception that only an European airliner could meet the Portuguese Government's requirements.

However, European companies may not be able to present credible bids that satisfy the selection criteria of the Privatisation Decree.

The Privatisation Decree requires bidders to comply with certain requirements, such as fit and proper status, financial capacity, size (*e.g.* minimum of €5,000 million in revenues in one of the last three years) and certified air operator status.

The proposals will be evaluated according to the following criteria:

- **Financial proposal**: including, among other required elements, the price offered for the TAP shares;
- **Technical proposal**: including an industrial plan and strategic project aligned with the reprivatisation objectives, in particular ensuring that TAP's headquarters and main establishment remain in Portugal, and that strategic routes are maintained;

- **Legal and financial standing**: absence of any legal or financial constraints that could hinder completion of the transaction within the required timeframe, affect the payment terms, or compromise conditions safeguarding the State's interests; and

- **Labour commitments**: compliance with workers' rights and existing collective bargaining agreements.

Clearly, Lufthansa, Air France-KLM, and the IAG Group fulfil the requirements of the Privatisation Decree and are capable of submitting proposals that align with the aforementioned criteria, though some (if not all) of these criteria may pose substantial challenges for any European operator seeking to adopt a long-term perspective on TAP's business, as envisioned by the Government.

Coincidentally, Lufthansa has announced an investment of €227 million in the construction of a new industrial facility for engine and aircraft component repair in Portugal, aiming to generate over 500 specialised jobs.

In contrast, Lufthansa has recently unveiled a strategic restructuring initiative, named "Matrix Next Level," aimed at centralising key functions such as network planning and financial management across its airlines. The move is expected to further consolidate the group's various airlines. This centralisation strategy appears to conflict with the Portuguese Government's stance on maintaining a more balanced control over TAP. Although the Portuguese Government is prepared to give operational control to its new partner, it wishes to retain certain functions in Portugal and to safeguard the Portuguese workforce, objectives that seem at odds with Lufthansa's plans.

Similarly, IAG and Air France-KLM are pursuing the airline industry's prevailing trend of centralising functions and cutting costs, which may also clash with the Portuguese Government's priorities. All leading contenders in TAP's privatisation process are likely to face challenges in restoring profitability to TAP without significantly reducing its cost structure.

The constraints posed by the privatisation evaluation criteria will put extreme pressure on the financial proposal and lead to difficult negotiations of the price terms, the investments conditions and the employee protections to be given by the entering shareholder(s). Aligning the costs of meeting the Portuguese government's desired commitments and the investor's expected return on investment may prove difficult.

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This creates an opportunity for a non-European airline to submit a successful bid. Decree-Law No. 92/2025 does not exclude non-EU airline companies, as only a minority stake is to be privatised, meeting the Regulation (EC) No. 1008/2008's requirement that EU airline companies must be controlled by EU/EEA/Swiss states or nationals to retain their operating licenses and traffic rights within the EU.

Non-EU players could potentially offer more advantageous conditions (financial, industrial, and labour-related) if they have a longer term perspective of the transaction, instead of wanting TAP to fill in the gaps in their offering as the now frontrunner bidders seem to intend. TAP's European and American routes could be more important for non-European airlines and opening up the middle east and Asian markets could offer new business avenues for investors with a long term perspective. The past examples of the privatisation of the Portuguese energy companies EDP (Portugal's largest energy producer) and REN (which operates the national power grid), which proved extremely successful investments for non-European buyers show that it is possible for Asian and Middle East investors to have a chance to out-bid IAG, Lufthansa and Air France-KLM.

An intriguing possibility mentioned in the media in the context of TAP's privatisation is the potential involvement of Carlos Tavares, the former CEO of Stellantis. Carlos Tavares, a Portuguese national with a proven track record in leading complex turnarounds and strategic restructurings in the automotive industry, could leverage his expertise and network to put together a competitive bid.

In conclusion, while European frontrunners such as Lufthansa, Air France-KLM, and IAG Group currently dominate the narrative surrounding TAP's privatisation, the constraints imposed by the Privatisation Decree and the Portuguese Government's strategic objectives may create significant hurdles for these contenders. Their centralisation strategies and cost-cutting priorities could conflict with the Government's emphasis on maintaining TAP's national identity and workforce protections. This opens a window for non-EU bidders, who, unbound by such operational constraints and potentially driven by a longer-term vision, could present competitive bids. The historical success of non-European investments in Portuguese strategic assets underscores this possibility, suggesting that the outcome of TAP's privatisation remains far from certain.

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IMPORTANT NOTICES