

Report to Partnership Meeting 23 August 2013

CONSULTATION

EU Guidelines on State Aid to Airports and Airlines

Purpose of Report

This report advises Members of the draft proposals on state aid rules for airports and airlines published by the European Commission in July 2013.

Context

In April 2011, European authorities announced a review of the Guidelines on state aid rules for airports and airlines. Following a public consultation, new draft proposals were published by the European Commission (EC) in July 2013. The new proposals have been designed to reflect major changes in the market environment of the aviation industry (including the global financial crisis, consolidation in the sector, the collapse of several smaller flag carriers and the expansion of low cost carriers) and will come into force in 2014.

Launching the draft provisions, Joaquin Almunia, Vice President of the European Commission responsible for Competition Policy, outlined the philosophy behind the EC's new approach:

“state aid control carried out by the Commission should encourage aid that boosts economic growth and furthers other objectives of common European interest, while it should discourage harmful aid that does not bring real value added and introduces distortions to competition in the Single Market...to maintain a dynamic and competitive European aviation industry we need to ensure that public money is spent where it is actually needed; that is, where the market alone does not supply the necessary services or infrastructure.”

The main provisions of the new guidelines are:

- Investment aid for new infrastructure can be granted to airports if there is a genuine transport need and public money is needed to ensure accessibility to a region. State aid should only be used to create additional transport capacity where demand for it exists. If an area is already well connected by other modes of transport – such as high-speed trains, – public money would be wasted. Support is weighted towards smaller airports (with maximum support for airports under 1 million passengers).
- Operating aid for a period of 10 years, for airports with fewer than 3 million passengers. The EC's view is that airports should recover their operating costs from those who use their services eg airlines and passengers. However, it recognises that this is not always the case for smaller regional airports and is prepared to support such airports over a 10 years transitional period to the point where they will no longer require public subsidies.
- Start-up aid to airlines to launch a new route (or a new schedule involving increased frequencies) for airports with fewer than 3 million passengers. The expectation is that

a new route becomes profitable after two years. Aid for routes to/from airports with more than 3 million passengers will also be considered where one of the airports is located in a remote region. Aid may cover 50% of start up costs for a maximum period of 24 months. The guidelines also allow for aid of a social character eg for remote communities, people on low incomes and people with disabilities.

On the face of it, the draft guidelines are broadly good news for airports in the Highlands and Islands operated with support from the Scottish Government (All 11 HIAL airports would qualify for the maximum level of support under the proposals) and Local Authorities (Argyll and Bute Council and OIC). However, these proposals presuppose that funding will be made available and that there is a political will among Member States to support the aviation sector in this manner, neither of which is certain. These proposals do not compel Government to provide support; they merely establish a new set of guidelines in respect of state aid.

Responding to the Proposals

HITRANS officers are in dialogue with HIAL to ensure any response we make to the proposals is in line with the case HIAL make. HIAL have advised that we should welcome the general principles of the new proposals, which are very much designed to support smaller, regional airports, but the Highlands and Islands response should seek clarity on a number of points, including:

- Will state aid apply to surface access improvements eg. The STPR / HLOS proposal for a rail halt for Inverness Airport? The proposals specifically rule out state aid for parking, offices, shops, hotels etc but make no reference to surface access.
- Are there qualifying criteria for new routes (around frequency of service, for example) or will that be for Member States to determine? The previous Scottish Government Route Development Fund only applied to routes that were year round, were not served by nearby airports and operated on or more than 5 times per week.
- In addition, we should question the decision to restrict funding to 24 months. Again the previous Scottish Government fund applied to new routes over a three year period. In the current climate, it is difficult to see a new route becoming profitable within 2 years.
- We should challenge the assertion that regional airports should become profitable after a 10 year period, and that no further aid will be provided after this period. This change could have significant impacts on charging and impact on the competitiveness of our lifeline air services.
- We should highlight the significant, ongoing state aid support for other transport sectors in the context of the lifeline nature of air services particularly within and to the Islands.

HIAL have agreed to share their response to the proposal with HITRANS and officers should look to amend this to take account of the local authority operated airfields and services before submitting a HITRANS version of the response.

Recommendations

Members are asked to:-

1. Note the report.

2. Approve officers to submit a response to the Proposals based on the response developed by HIAL.

Risk	Impact	Comment
RTS delivery	√	This work supports RTS objectives.
Policy	√	This work is designed to support delivery of our Aviation policy.
Financial	√	There are no financial implications of responding to the consultation.
Equality	-	No impact on Equalities issues.

Report by: Ranald Robertson
Designation: Partnership Director
Date: 5th August 2013