Options for traffic growth at smaller European airports under the European Commission’s Guideline on State Aid

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Smaller airports face many challenges to recover costs, e.g.:
- High fixed costs
- Low passenger potentials
- Limited attractiveness for carriers
- Strong bargaining power of Low Cost Carriers

**Result:** operational losses and the need for public support

(Usually public) owners have various interests to support regional airports directly and/or indirectly by supporting airlines offering scheduled services, e.g.:
- The airport as a “job machine”
- Incoming tourism effects
- Justification of past infrastructure investments (sunk costs)

**However, the European Commission plans to put stronger limitations on providing state aid to airports and airlines by 2024.**
Research Questions and Objectives

- Understanding the impacts of the European Commission‘s guidelines on state aid for regional airports
- Identifying feasible ways for airport management and (regional) governments to cope with the legal framework
- Finding shortcomings and loopholes in the legal framework

**Methodology**: quantitative literature review and case study analysis
What is state aid?

“State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities”


The question: does state aid distort competition or correct market failure?

The answer: it depends...

The problem:
• Legal uncertainty and unclear definitions (i.e. on „general or common interest“)
• Controversial cases (i.e. Charleroi Airport and Ryanair for over 13 years)

The solution: new guidelines on state aid for airports and airlines (2014)
### EC Guidelines on state aid to airports and airlines (2014)

**Criteria**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Investment aid to airports</th>
<th>Operating aid to airports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a) Contribution to a well-defined objective of common interest</strong></td>
<td></td>
<td>Increasing intra-EU mobility; Facilitating regional development</td>
</tr>
<tr>
<td><strong>b) Need for state intervention</strong></td>
<td>Airports with less than 3 million annual passengers (pax) (help to larger airports only in case of case-specific or exceptional circumstances)</td>
<td></td>
</tr>
<tr>
<td><strong>c) Appropriateness of the aid measure</strong></td>
<td>Address the common interest</td>
<td></td>
</tr>
<tr>
<td><strong>d) Incentive effect</strong></td>
<td>Analysis based on ex ante business plan</td>
<td>Present, if the level of economic activity of the airport would be significantly reduced in its absence</td>
</tr>
<tr>
<td><strong>e) Proportionality of the aid</strong></td>
<td>&lt; 25% (3 - 5m pax)</td>
<td>&lt; 50% (0.7 - 3m pax)</td>
</tr>
<tr>
<td></td>
<td>&lt; 50% (1 – 3m pax)</td>
<td>&lt; 80% (&lt; 0.7m pax)</td>
</tr>
<tr>
<td></td>
<td>&lt; 75% (&lt; 1m pax)</td>
<td>&lt; 100% (&lt; 0.2m pax)*</td>
</tr>
</tbody>
</table>

*) A revised EU Block Exemption Regulation from 2017 now also covers airports <200,000 pax (EC, 2017b).

Rules apply for a transitional period of 10 years – after 2024 restrictions on investment or operating aid for airports > 200,000 passengers per year.

Source: own figure based on the Guidelines
### EC Guidelines on state aid to airports and airlines (2014) cont.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Start-up aid to airlines</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a) Contribution to a well-defined objective of common interest</strong></td>
<td>No duplication of existing comparable connection (high-speed rail, another airport)</td>
</tr>
<tr>
<td><strong>b) Need for state intervention</strong></td>
<td>Airports with less than 3 million annual passengers (pax)</td>
</tr>
<tr>
<td></td>
<td>(help to larger airports only in case of case-specific or exceptional circumstances)</td>
</tr>
<tr>
<td><strong>c) Appropriateness of the aid measure</strong></td>
<td>Airports in remote regions</td>
</tr>
<tr>
<td></td>
<td>Address the common interest</td>
</tr>
<tr>
<td><strong>d) Incentive effect</strong></td>
<td>Ex ante business plan showing profitability at least after 3 years</td>
</tr>
<tr>
<td></td>
<td>If the new route would not have been launched without aid; start new route after submitting the application form for aid!</td>
</tr>
<tr>
<td><strong>e) Proportionality of the aid</strong></td>
<td>50% of airport charges for max. 3 years</td>
</tr>
<tr>
<td><strong>f) Avoidance of undue negative effects on competition and trade</strong></td>
<td>Public authorities must make plans public; no accumulation with other state aid on the route</td>
</tr>
</tbody>
</table>
How many airports are affected by the new regulations?

Number of airports with scheduled services by annual passengers (2017)

<table>
<thead>
<tr>
<th>EU Member State</th>
<th>No. of airports &lt; 200,000 passengers</th>
<th>No. of airports &gt; 200,000 and &lt; 3 million passengers</th>
<th>No. of airports &gt; 3 million passengers</th>
<th>Total number of airports</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>37</td>
<td>14</td>
<td>7</td>
<td>58</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>27</td>
<td>17</td>
<td>9</td>
<td>53</td>
</tr>
<tr>
<td>Spain</td>
<td>14</td>
<td>18</td>
<td>10</td>
<td>42</td>
</tr>
<tr>
<td>Greece</td>
<td>28</td>
<td>10</td>
<td>1</td>
<td>39</td>
</tr>
<tr>
<td>Sweden</td>
<td>28</td>
<td>8</td>
<td>2</td>
<td>38</td>
</tr>
<tr>
<td>Italy</td>
<td>10</td>
<td>18</td>
<td>8</td>
<td>36</td>
</tr>
<tr>
<td>Germany</td>
<td>10</td>
<td>15</td>
<td>8</td>
<td>33</td>
</tr>
<tr>
<td>Portugal</td>
<td>13</td>
<td>3</td>
<td>3</td>
<td>19</td>
</tr>
<tr>
<td>Austria</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Sabre MI
Possibilities for public support to regional airports and airlines

The European Commission follows the aim to prohibit anti-competitive state aid.

Airports and airlines have however three ways to benefit from state aid:

A) Subsidy of non-economic activities,
B) Publicly funded incentive schemes to air operators, and
C) Application of Public Service Obligations
A) Subsidy of non-economic activities

The Guidelines define areas which do not fall under the state aid regulations allowing government bodies to take over costs from the airport operator:

- air traffic control, police, customs, firefighting, safety activities, and
- investments into the concerning infrastructure and equipment.

“(…) when it is normal under a given legal order that civil airports have to bear certain costs inherent to their operation, whereas other civil airports do not, the latter might be granted an advantage, regardless of whether or not those costs relate to an activity which in general is considered to be of a non-economic nature” (EC, 2014a)

Thus, while regional airports in Germany have to cover the above costs, the state pays i.e. for security screening at the airports in Belgium, Greece, Luxembourg and Switzerland.

Is there a competitive disadvantage for German regional airports?
B) Publicly funded incentive schemes to air operators

**Not critical**, as long they are designed as
- non-discriminatory, declining and
- with an absolute time limit

**Case study**: Macedonian incentive scheme
- 40,000 € for each new destination and an additional
- 11-13 € per passenger

- Any airline wanting to benefit from the scheme:
  - Must have a profit of more than 25 million € and
  - Must have carried more than 10 million passengers

⇒ Is the incentive scheme non-discriminatory?
⇒ Problem has a relevance for the whole European Common Aviation Area (ECAA) and not only for EU Member States
C) Application of Public Service Obligations (PSOs)

Provide commercially not viable services from “general economic interest”:
- To keep up a minimum level of quality of life in
- Sparsely populated, outermost, ultra-peripheral or island regions

The SGEI Package (EC, 2012) and the Articles 16 to 18 of the Air Services Regulation 1008/2008 describe the conditions for allowing an air route as PSO:

- The task for a SGEI (Services of General Economic Interest) must be imposed by a public authority
- The SGEI must encompass a single route or a group of routes to be defined ex ante
- SGEI should exhibit "special characteristics, as compared with ordinary economic activities"
- SGEI must fulfil transport needs which cannot be met by existing air routes or other means of transport
- Access to a route can be limited for a time of up to four years
- An invitation to tender containing objective and transparent parameters concerning the compensation payment has to be published

178 intra-EU PSOs are currently in place, of which 174 are domestic (EC, 2017a)
C) Application of Public Service Obligations (PSOs) cont.

This instrument can be (mis)used in a legally compatible way:

 Valid form of compensation under EU rules

<table>
<thead>
<tr>
<th>PSO Tender with compensation</th>
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<tbody>
<tr>
<td>Payment of break-even airport charges</td>
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</table>

Invalid form of state aid under EU rules

<table>
<thead>
<tr>
<th>Direct payment of operating aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of insufficiently low airport charges</td>
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</tbody>
</table>

Financial flow between public authority and airport operator under a PSO scheme, Source: own figure
Conclusion

The *effectiveness* of the Guidelines to prohibit investment and operating aid to loss-making airports and to regulate start-up aid to airlines is *doubtful*.

The *main problems* are:

- The definition of essential cost drivers of (regional) airports as non-economic activities
- The wide scope of freedom to define routes in „general economic interest“
- The conflicting interest of (local) governments to subsidize aviation

As a *consequence*, competitive distortions may continue even after the end of the transitional period of 2024 as we identified in this paper.
Thank you for your attention!

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