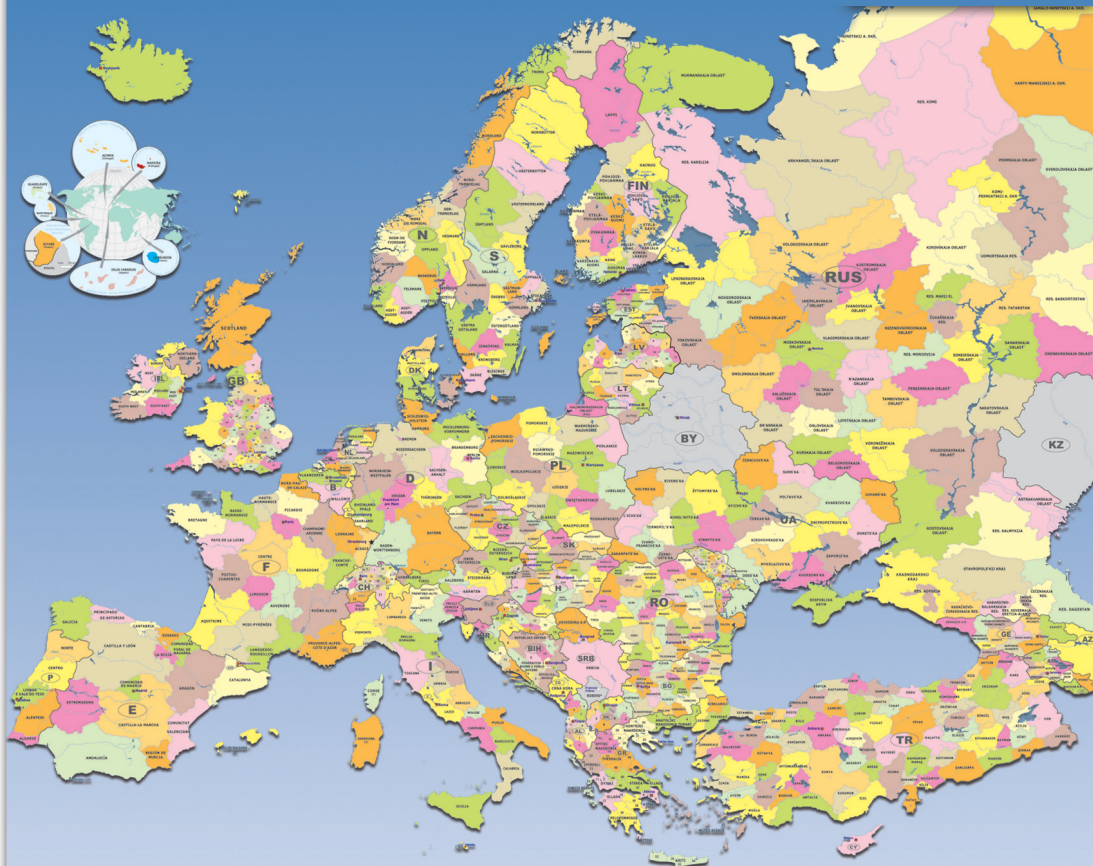


Assembly of European Regions

Position paper

Regional Airports and the territories they serve:

*Growth, jobs and competition,
a key balancing act for the future of Europe's
Regions*



September 2013

AER Response to the consultation on the revised
'EU Guidelines on State Aid to Airports and Airlines'





The **Assembly of European Regions** is the largest independent network of regional authorities in wider Europe, bringing together nearly 230 regions from 35 countries along with 15 interregional organisations.

Established in 1985 as the **political voice of the Regions**, AER is a forum for interregional co-operation and a lobbyist for regional interests on the European stage. AER's policies are driven by an Executive Board and Bureau consisting of regional presidents and high-level politicians. Those policies are implemented within three working Committees and two transversal issues, which are chaired by regional politicians and co-ordinated by staff within AER's General Secretariat in Strasbourg and Brussels. The committees are pragmatic, non-bureaucratic structures that continuously evolve and respond to the diverse needs of AER members.

Since 2001, when it published a report on regional aviation, AER has committed itself to defend and promote the role of Regional Airports as a tool for regional economic development and citizen mobility. Under the leadership of the **Working Group on Regional Airports**, the AER is closely following the European Commission's decisions regarding the revised guidelines on state aid for the aviation sector, as these have a direct impact on Europe's regions.

While AER supports the European Commission's aim of promoting fair competition, efficiency in public financing and attracting more private investment, we are concerned about the negative impact the new rules will have not only on Regional Airports, but also European regions. Should the guidelines be published according to the European Commission's current proposal, the new rules may seriously infringe the ability of Europe's regions to organise their transport services and therefore **define coherent territorial development strategies**.

The following paper is thus a response to the consultation on the revised '*EU Guidelines on State Aid to Airports and Airlines*'.

The revised 'EU Guidelines on State Aid to Airports and Airlines'

■ Main objectives

On 3 July 2013, the European Commission published the revised State aid guidelines on how the public funding of airports and airlines within the EU will be treated within the context of EU treaty rules on state aid. These guidelines, are currently subject to public consultation, with the EC expected to adopt the final guidelines in early 2014.

The guidelines are part of the modernisation agenda of the EC's State aid policy and aim at refocusing State aid policy towards the promotion of:

- A more competitive European economy & better functioning markets.
- A sounder use of public resources for growth-oriented policies.

This implies a more strict control of State aid, whereby aid should be authorised only to meet well defined objectives of common interest and when there is a clear indication of market failure (such objectives cannot be met without aid).

AER supports the European Commission in its objective of promoting fair competition, efficiency in public financing and attracting more private investment, however these must go hand in hand with incentives to promote growth and jobs at the regional level.

■ What is at stake for Regional Airports?

It is of the opinion of the AER member regions that the stricter rules within the revised guidelines will affect Regional Airports in particular. Following a 10 year transitional period, Regional Airports will no longer be able to receive public **operating aid** (with the exception public service compensation, which will be submitted to strict conditions by the EC).

Exemption to this general principle is that some airports can continue to receive operating aid. This assumes that the airport is declared as a **SGEI Airport** (Services of General Economic Interest), i.e. it produces a service of general economic interest. In order to receive this status, strict conditions need to be met. Compensations for public service granted to airports above the 200.000 passengers threshold will have to be notified by the Member State concerned and approved by the EC. In its draft Guidelines, the EC considers that "it is possible for the overall management of an airport, in well-justified cases, to be considered an SGEI (...), this can only be the case if part of the area potentially served by the airport would be, without the airport, isolated from the rest of the EU to an extent that would prejudice its social and economic development. Such an assessment should take due account of other modes of transport, and in particular of high-speed rail services or maritime links served by ferries".

→ Europe's Air Service Network



Source: EUROCONTROL

Airports will as such be required to hike the fees they charge to passengers and airlines so as to fully cover their costs. This ignores the blunt economic reality of the airport business, where full cost recovery through user charges is simply unachievable due to extremely high capital intensity and fixed costs. This is particularly the case at smaller airports, where these costs need to be borne by fewer airlines and a much smaller number of passengers. The result will be a loss of air services and decreasing connectivity, and even airport closure – with harsh consequences for the regional communities they are serving.

The proposal from the EC aims to ensure the system prevents abuse, however more incentives and margins are needed to allow for airports to grow beyond the 200.000 passengers threshold (considering that break-even point for airports is around 1 million passengers).

Case study : Iasi Airport, Iasi (RO)

Located in the North – East of Romania, today the easternmost EU airport, Iasi Airport is one of the most ancient accredited airports in Romania. From 1997 to 2012, Iasi Airport has registered a constant and permanent increase of the number of aircraft movements and processed passengers (almost 200.000 pax in 2012). Iasi County Council approved in 2012 the project "Development and modernisation of Iasi International Airport", an investment of about 120 million euros. All strategic, social and commercial trends show that Iasi Airport will continue the increase of number of aircraft movements and processed passengers, especially in light of future development. In 2013 the airport will surpass 200.000 pax a year – all with the existing infrastructure.

As per the JASPERS Study 2013, (Jaspers Unit of the European Investment Bank, Luxembourg, 2013) IASI Airport is the only airport from Moldova region which has development potential in terms of number of passengers – in a catchment area with 2 more airports, one with a low-cost profile and one with internal flights only. So competition is good, the market settles itself and the Region (North-East Development Region of Romania) wins. For the airport to compete, first it needs to grow. It is at the beginning of this expected and awaited growth – which can only be achieved with local, regional and governmental support. Regional development must be a priority especially when the potential is proven and the market supports the competition.

Beyond Regional Airports, the European Commission is also looking at prohibiting **investment aid** at larger airports. While these airports are usually able to self-finance their development, public aid can still be required for once-off landmark airport projects involving massive investment. The Commission proposal is in sharp contrast to the way airport development is being financed outside Europe in both developed and emerging economies. Public financing is an essential part of airport infrastructure development not only in the Gulf and Asia, but also in the United States.

The guidelines also aim to streamline the compatibility conditions for **start-up aid to airlines** and adapt them to recent market developments.

■ What is at stake for European Regions?

Connectivity is of paramount importance to the EU growth and jobs agenda: At a time when Europe is opening up to global markets, it is undeniable that Regional Airports play a key role **driving the economic agenda** of countless local communities. They provide greater accessibility, enhance social cohesion and development, and also boost economic competitiveness throughout Europe – in a way that is simply unmatched by any other mode of transport.

The European Commission recognises that transport and its infrastructure is fundamental to the European economy and society. Regions (and particularly peripheral regions) benefit from airline networks offered from their Regional Airports. Air links create regional accessibility and social inclusion, improve the business location of the area, facilitate trade and in particular allow for the attraction of inward investment. Regional Airports enhance the local business climate and scope for further economic development. Hence, the accommodation of a regional airport is often **part of regional strategy**.

They can stimulate **incoming tourism** and lead to **increasing employment**. It is estimated that Regional Airports alone allow 500.000 local airport jobs and 1.000.000 regional jobs (ACI Europe figures). While indicative, these figures show that measured public involvement in air transport is a highly efficient means of delivering positive externalities to EU citizens.

Finally, one of the obvious benefits is the increase of consumer welfare if the number of travel options increases. This is more than just a luxury, and is particularly important for those many regions across Europe, which have few efficient alternatives to air travel, due to a combination of factors including distance, low population density, geographic and/or climatic constraints. Airports in these regions have traditionally provided access to essential services such as health (e.g. air ambulances) and education for the local population. They also support economic and social integration, allowing businesses to be connected and citizens to travel for work but also leisure (e.g. take part in cultural and sporting activities). Regional Airports and the air services they facilitate are thus extremely relevant when looking at local development and the retention of residents, especially where the risk of outward migration might be important.

Case study: Europaforum Northern Sweden, (S)

Each one of the airports in the area covered by Europaforum Northern Sweden contributes to the creation of improved regional connectivity and increased opportunities to reduce the distance to other parts of Sweden and to the rest of the world. The region covers more than half of Sweden's area but only about 10 percent of the population. Transport comprises a survival factor for the industry in areas with large distance to markets and expertise and it is also important for citizens to have access to long-distance travel without undue sacrifice.

Europaforum Northern Sweden understands that the proposed guidelines are based on the Commission experiences that there are examples of distortion of competition between airports in the EU, due to the fact that certain airports receive public funds. This may be a fact in those parts of Europe that have much shorter distance and much larger passenger base. In Northern Sweden, the situation is quite different, which requires special consideration.

The inherent unprofitability of such airports might not be a wider public concern, were it not for the major positive economic and social roles which these airports play in their communities. This is particularly so for more sparsely-populated areas which lack alternative transport modes – for these communities, air links are a key tool necessary to remain connected with the wider world and economy. For these Regions the issue at stake is not a matter of competition, it is about survival, given that **the future of Regions is closely interlinked with that of their airports**.

“For our Regions, there is no escaping the fact that airports are strategic public infrastructure and that they need to be treated as such. In particular for peripheral and scarcely populated regions, the connectivity they afford is essential and unparalleled”.

Per Inge BJERKNES, Chairman of the AER Working Group on Regional Airports and Vice-Chairman of the County Council of Østfold (N)

AER comments on the revised 'EU Guidelines on State Aid to Airports and Airlines'

After analysis of the revised 'EU Guidelines on State Aid to Airports and Airlines', the Assembly of European Regions calls on the European Commission to take into account the following recommendations:

- **AER calls on DG Regio to lead on a Regional Impact Assessment in order to establish the potential effects the new rules will have on the local communities served by the small Regional Airports affected by the changing regulations.**

Given the vital role that Regional Airports play in terms of economic and social cohesion within their regions, but also the complexity of the aviation industry, it is essential that the revised guidelines strike the right balance between the objectives of preventing the distortion of competition and boosting economic growth and the facilitation of objectives of common European interest.

In order to ensure this balancing act, the European Commission has in its hands the appropriate tools to perform an analysis of the externalities related to the accommodation of Regional Airports within their regional territories. Moreover, through this procedure, the Commission can ensure the coherence of the revised guidelines with the EU-wide objectives of growth and jobs, the respect the principles of subsidiarity and proportionality, and explain if the action being proposed is necessary and appropriate.

- **AER appreciates the importance of guaranteeing a framework for fair competition, however strongly advocates that these conditions should go hand in hand with economic, social and territorial cohesion as enshrined in the Lisbon Treaty.**

With their proximity to citizens and companies, Regions are best placed to fully exploit Europe's potential in all its diversity. Within the different strands of regional economic development accessibility is vital. Without good accessibility, a region cannot profit from the international division of labour to the same extent as other regions and is less attractive for companies and highly qualified workers. The accessibility of a region is determined by two factors: geographical location and infrastructure. While the geographical location cannot be changed, improving connectivity should be a key policy aim.

For economy to prosper, regions do not only depend on sound road and rail connections but also efficient air routes. Airports are therefore considered by the Regions as instruments of economic strategy. This is not only about driving tourism development, but more generally about using airports as catalysts for economic regeneration and growth. While Regional Airports have a positive impact for companies already established locally, they are essential to attracting new companies and diversifying economic activity. Regions thus have a vital interest in developing airports on their territory and supported their airports in the establishment of new infrastructure.

- **To best meet the twin-objective of protecting competition and boosting of economic growth and the facilitation of objectives of common European interest, the new EC guidelines need to be further tailored for the specificities of the market.**

The artificial thresholds put forward in the text do not take into account the dynamics of the airport industry, as requiring all airports with more than 200.000 passengers per annum to cover all their operating costs will not alter the underlying supply and demand-side forces. Moreover, the proposal put forward by the EC in order to force Regional Airports to cover their operating costs, namely the

10 year transition period, remains a transitory solution to a structural issue. For this reason, AER members identify the need for a more flexible framework than the one suggested by the European Commission in the revised guidelines. Controlled operating aid should continue to be allowed for smaller airports permanently (i.e. no 10 year transition phase) and reflect the inherent cost structures facing the market (a system whereby operating aid decreases proportionally to an airport's decreased operating cost per passenger and increased commercial revenues per passenger).

Regions also highlighted the need for further clarification on the definition of operating costs, given the fact that regional airports are financed, operated and organised according to different models, traditions and national principles.

With regards to the proposals on start-up aid, it is unreasonable to expect airlines to settle in an airport which serves a smaller and sometimes less affluent population, which offers less connectivity and lower airline margins. Nevertheless Regions often need a specific route or destination, because of the companies' cooperation with a certain territory. This is necessary in order to protect the jobs in the region.

■ **The guidelines are currently based on a macro view of Europe and should further recognise the considerable differences between European regions as, when it comes to our Regions, there is no 'one fits all' solution. As such, it is primordial that regions themselves are involved at the core of the decision-making processes when it comes to supporting and developing key regional infrastructure, making multilevel governance and subsidiarity concrete principles of the European Union.**

For example, for outmost regions airports are a vital tool for connectivity and an indispensable prerequisite for economic development. The combination of remoteness on the one hand and on the other the limited number of inhabitants and industries, make it difficult to if not impossible to make profit with an airport. In this case support with public money is the only way for these airports to continue their activity. In addition, these airports do not tend to compete with other airports.

Geography, demography, infrastructure and development needs, but also the potential for growth, should be further taken into consideration when forming the new guidelines, as if left as such, these could lead to unintended and unfortunate results for the regions. The Regional level has accurate knowledge of its own development needs and potential. It is thus important that regional actors have a major role in determining how to invest public funds and which airports should be declared as SGEI airports, as per the multilevel governance approach the EU is based on.

■ **AER calls on the European Commission to continue to support Regional Airports, given their nature as decentralised hubs and drivers of economic subsidiarity, or at the very least, to not stand in the way of Member States (and Regions) that want to provide this support themselves.**

Regional Airports have not only played a paramount role in the construction of the European identity through the removal of barriers to travel, but are also becoming increasingly relevant for regional development – especially since this strategic role will grow in importance as Europe becomes more dependent on external trade.

The continent's Regional Airports are a safety-net for Europe's capacity crunch and keep the four corners of Europe connected to each other and the wider world beyond. In today's globalised world, social cohesion, trade and ultimately the economic relevance of a region are dictated by its infrastructure for reaching national, international and intercontinental destinations.

The connectivity Regional Airports provide between regions themselves is also not to be underestimated. It is important that the European Commission continues to support and encourage interregional cooperation and exchange between regional authorities and the economic and social fabric of Europe. As the Regions' partner for growth, AER values very highly this notion of *economic subsidiarity*, through which businesses and regions can drive their growth potential, as well as access new markets and ideas across Europe.

Based on the experience with the present guidelines AER strongly believes there is a need for change, in favour of fair competition, efficiency in public financing and attracting more private investment. However, the revised text must also allow for sufficient flexibility and incentives to promote regional growth and jobs, as well as ensure economic, social and territorial cohesion as enshrined in the Lisbon Treaty. With the right policy and regulatory approach, Regional Airports can do more to connect their regions, serve their communities and ultimately Europe's citizens and businesses.

We encourage the European Commission to take into account our recommendations and will be available for any discussion.



The AER position has been elaborated by the Working Group on Regional Airports, in collaboration with AER's partner, ACI Europe. For more information on the activities of the AER on Regional Airports, please visit our webpage: www.aer.eu

AER Contacts

Cristina Baizán Edge
Coordinator of Committee 1 for Economy and Regional Development
Email: [c.baizan@aer.eu](mailto:c.baizan@ aer.eu) ; Tel./Fax: +33 3 88 22 74 33

Regine Kramer
Director for Lobbying & Partnerships
Email: [r.kramer@aer.eu](mailto:r.kramer@ aer.eu) ; Tel.Fax: +32 2 880 95 63

Publication Director

Pascal Goergen
Secretary General
Email: [p.goergen@aer.eu](mailto:p.goergen@ aer.eu) ; Tel./Fax: +32 2 880 95 68

