TRANSPORT & ENVIRONMENT

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Briefing

State aid for airports & airlines: Money for nothing and your runways for free

Context

In mid April 2014, the European Commission opened a consultation on disputed aid to 23 regional airports in relation to the newly revised state aid guidelines for airports and airlines which came into effect at the beginning of the month. The new rules are said to be stricter than the old ones, even though for the first time they allow operating aid to airports – previously ruled illegal because of its serious distortion of the market. The Commission also claims the new rules will be enforced, yet this remains to be seen as the previous rules were not. This first 'batch' of 23 old cases is the first opportunity for the Commission to apply its "tightened" approach..

In contrast to claims made by the Commission, T&E believes that decisions that will be taken on state aid under the new guidelines risk further distorting competition in an already heavily subsidised sector, wasting scarce public resources and expanding billions of euros in climate harmful subsidies that will generate more CO2 than the original emissions trading system intended to save. Transport & Environment believes that state aid can only be justified for select small airports in remote areas for which other transport is not a viable option.

State aid to airports - fraught history, messy result

State aid rules for aviation were first introduced in the mid-1990s to govern attempts by member states to bail-out their national carriers struggling to survive in a fully liberalised market. Provisions were also made to ensure that otherwise unprofitable air services were maintained to isolated regions.

A different set of rules was created in 2005 to address the issue of low-cost carriers, like Ryanair, receiving preferential treatment from regional airports in exchange for establishing new services. These rules set limits on infrastructure aid, allowed start-up aid to airlines operating new routes under certain conditions, but crucially maintained the fundamental principle governing all state aid programs that operating aid as the most distortive of all forms of state aid should remain illegal.

Responsibility for administering and enforcing the rules rested with DG MOVE, the transport department of the Commission, which never effectively enforced them. In the ensuing period a slew of regional airports and low-cost carriers experienced extraordinary growth rates – 4 to 5 times the industry average. All on the back of (largely illegal) subsidies granted not by central governments but by regional savings banks, governments, City Councils, Chambers of Commerce etc. This not only wasted taxpayer money and essentially required those who do not fly to pay for those who do, but it also contributed significantly to the doubling of EU aviation emissions between 1990 and 2005.

DG Competition was finally assigned ownership of competition rules in 2010 and faced the task of reining in levels of state aid to airports which had by that time assumed significant political and economic importance in many regions, although the exact amounts are very often largely unknown (as they were granted illegally).

For the low-cost carriers which now account for nearly 45% of all intra-EU traffic, a lot is at stake. Whether the new Guidelines enable DG Competition to reduce aid levels – as they claim will be the case – or whether operating aid will now skyrocket, remains to be seen.

The Commission justifies the fact that the 2005 rules were not enforced by arguing that they included no provision for gradual adjustments to market conditions and that had they been enforced, many airports would have ceased operating. Instead, illegal operating aid was made available across the sector resulting in the "vast majority of regional airports {being} subsidised by public authorities on a regular basis" – something the aviation industry will rarely admit given its argument that, unlike rail, the aviation sector ostensibly pays for its infrastructure. The vast majority of those regional airports also remain lossmaking.

Regional airports and 'growth'

The Commission's Impact Assessment does not demonstrate that aid to small regional airports would really promote regional growth. There is simply a presumption that this is the case because of better 'connectivity' which itself is not credibly defined. In the USA, for example, aid -all of it is financed by passenger taxes- can be provided to carriers to link an isolated airport to a hub airport. In Europe on the other hand, connectivity is often defined in practice as linking one Ryanair airport with another.

The most comprehensive review of studies on the relationship between aviation and regional economic growth, by consultancy CE Delft, failed to find a causal relationship between the connectivity provided by regional airports and economic growth.[1] The Commission argues (while relying mainly on studies commissioned by the aviation industry) that aviation plays a fundamental role in the European economy, and that "improvements in connectivity contribute to the economic performance of the wider economy". Yet if improved connectivity were reason enough for state aid, any transport activity or business could be subsidised at any rate – requiring higher taxation on other sectors. Clearly, the connectivity criterion is insufficient justification.

Environmental impact

We estimate that around €3 billion of state aid is flowing to the airports/aviation sector each year. Figures for actual approved aid are lower but there is a huge backlog of cases, and many cases are simply not reported or notified. In addition to approved state aid, there is an additional 20-30% per annum in public monies spent on the attendant safety, security and air traffic control costs which are treated as a public authority responsibility rather than state aid.

The Impact Assessment notes that "the prohibition and reduction of operating aid amounts to airports might reduce air traffic and activities of airports and thereby reduce noise and GHG emissions (e.g. air transport is the highest pollutant CO2 mode of transport).

We estimate that state aid to the airport/aviation sector increases aviation CO_2 emissions by 3-5 Mtonnes.[2] This is the same order of magnitude as reductions flowing from the sector's complete inclusion in the EU Emissions Trading System (with the full scope, i.e. all flights to, from and between EU airports).

[1] http://www.cedelft.eu/publicatie/the_economics_of_airport_expansion/1363. *'Many studies find a positive correlation between aviation and economic growth, but no causal relationship between connectivity and economic growth was found.'*

[2] The climate intensity of low-fare aviation is around 4kg CO2eq/€ (http://www.transportenvironment.org/sites/te/files/media/2006-06_aviation_clearing_the_air_myths_reality_0.pdf) which is around 1.5kg CO2/€. There is currently (at least) €3bn of State aid given a year which leads to >€3bn x 1.5kg = 5MT CO2. An alternative way of estimating the impact is via turnover. €3bn State aid works out at around 2% of €140bn turnover for the EU airlines, which is equal to around a 2% subsidy. This means that fares are around 2% lower than they would be without State aid. With an elasticity of -1 this means 2% higher EU aviation emissions due to the subsidies, which works out at around 3MT of CO2.

Thus sanctioning operating aid to the sector conflicts directly with the Commission's White Paper target to reduce transport greenhouse gas emissions by 60% in 2050 relative to 1990 levels; a 70% reduction from today. There are no grounds for the Commission's Impact Assessment to conclude that the impact of the revised guidelines on the environment will be 'low'.

Airports and Passengers in latest Consultation

There are 460 airports open for commercial aviation in the EU. 60% serve less than 1m passengers a year. 77% are publicly owned. Regional airports affected by the revised Guidelines (limiting infrastructure aid to facilities handling less than 5 million passengers annually and for operating aid limited to below 3 million passengers) represent respectively 86% and 80% of the total number of EU airports while accounting for only 22% and 14% of total passengers.

The state aid rules as presented in the definitive guidelines make a distinction based on the size of the airport. Airports over 3 million pax/year (red in the table below) would be barred from receiving operating aid. Airports between 700,000 and 3 million pax/year (orange) would have to phase out such aid over 10 years. Aid to airports below 200,000 (green) does not have to be notified.

The table below sorts the airports and their passenger volumes.

Airport	Country	Pax		Airport	Country	Pax
Charleroi	Belgium	6,516,000	14	Pau	France	609,535
Beauvais	France	3,862,562	15	Stretto	Italy	571,694
Cagliari *	Italy	3,700,000	16	Lübeck	Germany	537,835
Girona/Reus	Spain	2,844,682	17	Saarbrücken	Germany	425,429
Frankfurt-Hahn	Germany	2,790,961	18	Carcassonne	France	395,733
Leipzig-Halle	Germany	2,279,221	19	Klagenfurt	Austria	370,000
Niederrhein Weeze	Germany	2,208,429	20	La Rochelle	France	236,736
Västerås	Sweden	2,165,040	21	Nîmes	France	184,850
Dortmund	Germany	1,902,133	22	Zweibrücken	Germany	<200,000
Olbia*	Italy	1,800,000	23	Angoulême	France	0
Alghero *	Italy	1,518,870	24	Altenburg Nobitz	Germany	0
Timisoara	Romania	757,096				

Charleroi and Beauvais both handle over 3 million passengers per year so they should not be eligible for any operating aid under the new Guidelines. Such aid was previously illegal so what the Commission decides in these cases will be a real test of its credibility. Charleroi, with 6 million passengers, is not in fact eligible for any type of aid under the new rules.
At the other end of the scale, Angouleme and Altenburg Nobitz airports apparently handled no scheduled flights in 2013 so can there be any justification for subsidising these airports? Additionally, Girona, Reus and Nimes airports are located less than 100km from another airport. The Commission has promised to address the inconsistency of granting aid to competing nearby loss-making airports which merely cannibalises traffic and "constitutes a complete waste of public money" as stated before.

Closures or rationalisation

In its Impact Assessment underpinning the new rules, the Commission acknowledges that "there are many unprofitable airports with unused capacity and poor commercial prospects in the EU – indeed 'the vast majority' of regional airports do not generate sufficient revenue to cover their costs" Nearly 43% of Europe's airports were loss-making in 2011. It also argues once again that the immediate prohibition at this time of operating aid could result in the closure of as many as 238 unprofitable regional airports – i.e. half of all Europe's airports.

In the same document it argues nevertheless that putting in place a structured program of legal operating aid over the next 10 years will produce a different result; the airports in question will become profitable and operating aid can again be declared illegal.

By limiting the period to 10 years and only to airports handling 3 million passengers or less, the Commission claims it will reduce by 50% the amount of operating aid granted over the next 10 years. At the same time the Commission acknowledges in its Impact Assessment that it has no real idea how much aid money is at stake and that many Member States failed to notify the Commission of public support for many investment projects".

We fail to identify a credible economic underpinning of these proposals for continued state aid in the Impact Assessment. The Commission itself acknowledges that operating aid destroys the level playing field.

The employment figures used in the Impact Assessment in section 3.1.1 are those of the industry itself and not independent figures. Also it is well known that the low-cost carriers provide a much lower number of direct jobs than do the legacy carriers, but these are the airlines that mainly operate at the airports for which this consultation is open. This does not seem to have been taken into account.

Regrettably the Commission has avoided a proper discussion of airport closures and rationalising the sector. All eligible regional airports can receive operating aid for up to 10 years provided they produce a 'convincing' business plan. Will these details be made available before the aid is granted to enable public scrutiny?

Tackling duplication

The Commission has now stalled on the issue of duplication. Can state aid be justified to any loss-making airport if it is located within the catchment area (100km) of a viable airport which is not full? Apparently yes – although the Commission will {merely} "have doubts" as to the whether an unprofitable airport will achieve full operating cost coverage at the end of the transitional period, if another airport is located in the same catchment area.

The Commission was in fact scathing in its Impact Assessment about duplication of state aid to neighbouring airports, including instances involving cross border airports: "any investment which deteriorates the medium term prospects for use of infrastructure in the same catchment area ---cannot be justified and would simply be a waste of public money". "It will not be possible to subsidize more than one unprofitable airport located in the same catchment area".

Sadly, in the final rules the Commission lost its nerve: "Regional airports, which are within the same catchment area may suffer from a cannibalisation effect, i.e. a split of traffic among several underutilized airports, which prevents all of them from growing to become more attractive, and results in higher costs as density/scale economies are not realized." Barely a week after approving the new Guidelines, the Commission inexplicably approved state aid to the company operating the airports of Brescia and Verona – located barely 40 km apart. The €12.7 million of approved infrastructure aid – including to Brescia which handles about 29 passengers per day – is a perfect example of the complete waste of public money granted to proximate airports that the Commission in its Impact Assessment so squarely condemns.

Level playing field

The guidelines argue that a level playing field among EU airports and airlines is paramount to improving the competitiveness and growth potential of the EU airport and airline industry, yet legacy carriers largely oppose state aid, and certainly operating aid. To a large extent the Commission appears to have championed the growth of the low-cost sector and regional airports over flag carriers and hub airports, all at the expense of public spending and the environment.

There is no real discussion of regional airports offering below-cost landing rates. Banning state aid will diminish the disparity in per-passenger fee paid by airlines at airports like Charleroi and Zaventem (roughly €1.50 to €20). The levelling of the playing field will also likely mean that Charleroi's current 15%-a-year growth rate will start to adjust and look more like Zaventem's 2%. In fact, state aid should be out of the question so long as there are such disparities in airline charges between similarly located airports.

Conclusion – phase out state aid, with very few exceptions

Only in very limited circumstances might there be social and equity reasons for state aid to the aviation industry. There may well be a case for state aid to support services to remote islands in Greece for example or to the northern regions of Scandinavia. However, such services, which can genuinely benefit the public good, can be provided under a Public Service Obligation (PSO). This allows aid where: "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 prejudge its social and economic development." The Commission notes that if operating aid was effectively banned, then some regional airports might quite properly continue to operate under PSO conditions. Regrettably this sensible option was not pursued.