ACI EUROPE Response to the European Commission's consultation on

Guidelines on State aid for climate, environmental protection and energy 2022

Brussels, 30 July 2021

ACI EUROPE, "The Voice of Europe's airports" (representing more than 520 airports in 55 countries) hereby submits its response and comments to the targeted consultation of the European Commission for the revision of the 2014 '*Guidelines on State aid for climate, environmental protection and energy*'.

Key messages:

- ➔ *ACI EUROPE welcomes the proposed guidelines, as they provide a much-needed state aid framework to facilitate green airport investments.*
- ➔ *It is essential that the new guidelines are fully coherent with the 2014 Aviation Guidelines as well as the General Block Exemption Regulation (GBER).*
- ➔ *State aid rules must be tailored to the need to decarbonize the European aviation sector – especially regarding eligible costs & aid intensities as well as scope & timing.*
- ➔ *The delayed revision of the Aviation Guidelines must be reflected in the upcoming changes to the GBER.*

1. Introduction: the need for a State aid Framework facilitating Green Airport Investments

ACI EUROPE welcomes the proposal as it provides a much-needed state aid framework for green airport investments. It should be recalled that airports are excluded from the scope of the 2014 Environmental State aid guidelines and that the 2014 Aviation State aid Guidelines do not contain any specific provisions regarding environmental protection, decarbonisation and sustainability.

This shortcoming appears to be remedied by the inclusion of the financing of **environmental protection measures relating to airport infrastructure (i.e. terminals)**, which is explicitly "*prevailing*" over the prohibition of investment aid for airport infrastructure with more than 5 million passengers per annum (mppa) in the 2014 Aviation State aid Guidelines (para. 11).

The enlarged scope of the proposal includes several new aid categories that are relevant and of particular interest to airports – in particular aid for the energy and environmental performance of buildings (e.g. **airport terminals**), renewable energy (e.g. **aviation biofuels & hydrogen**), clean mobility (e.g. **clean aircraft, ground handling & terminal equipment**), the deployment of recharging or refuelling infrastructure, the prevention or reduction of pollution other than from greenhouse gases (e.g. **noise abatement**), as well as the remediation of contaminated sites (e.g. **airport soil and water**). Even with this enlarged scope, the success of the proposed guidelines will ultimately depend on whether they can give the right incentives for green investment – which requires adequate definitions of eligible costs, aid intensities and timelines.

Europe's airports have reaffirmed their commitment to climate action and achieving Net Zero CO_2 emissions - notwithstanding the devastating impact of the COVID-19 pandemic. Thus, within the EU/EEA/Switzerland:

- Already 223 airports (accounting for 84% of EU/EEA/Switzerland passenger traffic in 2019) have committed to reach Net Zero CO_2 emissions by 2050.
- 84 airports are set to deliver on their commitment by 2030, and 10 have already reached the target in 2020 (Swedavia airports).
- Furthermore, 144 airports are part of the ACI *Airport Carbon Accreditation* programme, the global standard for airport carbon management launched in 2009.

However, the participation of smaller regional airports in decarbonization efforts is mostly limited to those that are part of wider airport groups (such as VINCI Airports) or national airport networks (such as Swedavia). Thus, in the EU/EEA/Switzerland, of the 86 airports that have less than 5 million passengers per annum and participate in *Airport Carbon Accreditation*, only 17 are <u>not</u> part of an airport group.

Smaller regional airports have been facing significant economic sustainability challenges. These have been documented in reports on the role of regional airports[1] and airports profitability.[2]

Prior to the COVID-19 pandemic, smaller regional airports generally did not have the resources to engage in decarbonization. This situation is now made worse by the COVID-19 pandemic. This is particularly problematic in the broader context of air transport decarbonization, where the role of airports as enablers of emissions reductions by airlines will be increasingly important – this relates to the need for dedicated infrastructure to service electrified and hydrogen powered aircraft operations. As these new technologies are likely to be used mostly on smaller aircraft and short-haul routes, the role of regional airports will be critical in their deployment. As such, supporting airports in the related investments is a key factor in implementing "*Destination 2050*"[3], the roadmap to Net Zero CO_2 European aviation.

Beyond small regional airports, the airports industry is now and for the coming years facing a considerable financial challenge when it comes to financing decarbonization and increased sustainability.

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[1] ACI EUROPE, ' European Regional Airports – Connecting People, Places and Products', available on: https://www.aci-europe.org/component/attachments/attachments.html?id=1182&task=download

[2] Oxera, 'The European Commission's consultation on the 2014 Aviation State Aid Guidelines - an economic analysis of airports profitability', available on: https://www.aci-europe.org/component/attachments/attachments.html?id=328&task=download

[3] www.destination2050.eu

ACI EUROPE estimates that achieving Net Zero terminal buildings for only the Top 50 European airportswould require €26 billion of investment[4]. The investments to accommodate the above mentioned infrastructure requirements and adaptation involved with the deployment of new aircraft technologies have not been quantified yet. These relate to provisions of hydrogen and electricity at airports to enable zero direct emissions aircraft operations (whereas the provision of sustainable aviation fuels does not require new airport infrastructure).

At the same time, airports of all sizes find themselves in a situation of financial distress as a result of the COVID-19 pandemic. The systemic financial weakness of the airport industry results from historic financial losses in 2020, limited direct financial support from States (especially compared to airlines) and acute financial challenges ahead in the recovery and beyond.

18 months into the pandemic, debt is still what keeps financing current operations – with Europe's airports having taken more than €20 billion in additional debt compared to the pre-pandemic situation. While the improvement in passenger traffic resulting from the easing of travel restrictions is welcome, it is still cash-intensive and revenue-weak – meaning Europe's airports financial distress will remain a reality in 2021 and at least parts of 2022. Looking beyond that horizon, the prospect of seeing airports' earnings being restored to pre-pandemic levels will remain elusive - due to the combination of slower traffic growth, increased pressures from airlines on airport charges and regulatory uncertainty over the ability of airports to recoup at least part of their losses.

Under these circumstances, airports are facing an inescapable investment crunch, which will see them unable to keep investing in decarbonisation, let alone contemplate new investments. In fact, airport revenues are set to remain insufficient to meet capital expenditure and capital costs at least until 2032.[5]

It is also worth noting that as a result of inadequate state aid rules (like the 5mppa cap mentioned above), airports have been left out of national plans under the EU Recovery and Resilience Facility.

Therefore, as already warned by ACI EUROPE, the renewed and stepped-up climate ambitions of European airports must be matched by aligned regulatory and financial support – starting with a revision of State aid rules. In this context, we submit a number of comments on the proposal for further consideration.

2. Consistency with the 2014 Aviation Guidelines must be ensured

Paragraph 11 states that the proposed new Environmental State aid Guidelines "*prevail*" over point 17(b) of the 2014 Aviation State aid Guidelines with regard to environmental aid measures for large airports with more than 5 million passengers per annum, "*without prejudice to future amendments of those Guidelines*". The proposal does not mention investment aid for the categories of airports with less than 5 million passengers per annum as specified in the Aviation Guidelines. We welcome the

[4] https://www.aci-europe.org/press-release/209-airports-license-to-invest-is-a-prerequisite-for-decarbonisation.html

[5] Alix Partners, '*Turnaround time: Airport Financial Restart and Recovery Following COVID 19*' available on: https://www.aci-europe.org/component/attachments/attachments.html?id=1506&task=download

fact that environmental support may be granted to all airports, regardless of their size, which may be clarified further.

On the other hand, the 2014 Aviation State aid Guidelines consider that the need for public funding to finance infrastructure investments will, due to their high fixed cost, vary according to the size of an airport and will normally be greater for smaller airports. The Commission has identified 5 categories of airports based on their relative financial viability (para 89 of the 2014 State aid Aviation Guidelines). To ensure consistency with the 2014 State aid Aviation Guidelines, where the proposed Environmental State aid Guidelines provide limited eligible costs & aid intensities, they should provide increased aid intensities for all green investments of smaller airports – up to 100% for airports with no more than 3 million passengers per annum.

ACI EUROPE has previously called upon the Commission to issue guidance on when green airport investments may qualify as 'non-economic' – as such investments do not increase airport capacity - and therefore remain outside the scope of state aid rules.

3. **State aid rules must be tailored to the need to decarbonize European aviation; eligible costs & aid intensities, scope and timing**

Although the proposed Environmental State aid Guidelines aim to incentivize green investments, there are several limitations on eligible costs and aid intensities that reduce incentives for such investments to be made.

ACI EUROPE believes the Commission should reconsider such *ex ante* restrictions and grant as much flexibility as possible instead – notably regarding eligible costs and aid intensities in the chapters on aid for clean mobility and aid for the environmental and energy performance of buildings.

The chapter on 'Aid for clean mobility' allows aid for the acquisition and leasing of clean service equipment (i.e. ground handling equipment and terminal equipment) which is directly relevant for airports. The eligible costs are defined as the 'net extra costs' (para. 152) – i.e. the additional cost for achieving a higher level of environmental protection. The maximum aid intensity is in principle set at 40% (para. 158) – although in exceptional cases Member States may consider higher aid intensities.

This combination of narrow eligible costs and limited aid intensities will fail to effectively incentivize the transition to clean equipment, especially before the end of the (long) economic lifetime of current equipment. Smaller regional airports which usually have no choice but to provide ground handling services themselves will generally not have the resources to make such investments (as may be the case for ground handling companies providing services at larger airports, given their precarious financial position).

In a similar vein, the eligible costs and aid intensities in the chapter on the 'environmental and energy performance of buildings' must be reconsidered.

This is especially relevant for airports, for whom the renovation of terminals is the main avenue to achieve CO_2-emission reductions. The eligible cost corresponds exclusively to the investment cost directly linked to the achievement of a higher level of energy and environmental performance (para. 125). The basic aid intensity is set at a maximum of 30% of those eligible costs (para. 126). As already stated in the introduction, the Net Zero-premium for airport terminals ranges between 8% (new terminals) and 19% (renovations). Airports should in principle be allowed to recover that premium upon users through airport charges – but that is not always possible due to competitive pressures or rigid/inadequate price regulation, which both result in the inability of airports to price at the required level. The environmental performance of terminals does not impact the capacity of airports to handle traffic or to generate revenue. This means the right incentives need to be provided to make these investments happen.

Timing will also be crucial to incentivize green investments. The proposed Environmental State aid Guidelines allow aid for the early adoption of future EU environmental standards – until 18 months before these new standards enter into force, where the 2014 Environmental Guidelines provide for 12 months. To incentivize green investments this period should be changed to 6 months – also taking into account the proposed new environmental standards for aviation in the Fit for 55 package, such as electricity provision to stationary aircraft at all airports within the core and comprehensive TEN-T networks. With an increasing amount of environmental standards and targets, airports may find it difficult to meet them all at the same time. In particular, the Commission should avoid a situation whereby forthcoming environmental norms in areas otherwise covered by the guidelines (e.g. clean service equipment at airports) result in limiting the scope for state aid.

The Commission should adopt a more flexible approach to determine whether aid will have an incentive effect (chapter 3.1.2, especially para 28). The draft guidelines stipulate that aid does not have an incentive effect where a project or activity is already initiated before an application for state aid. The description of exceptional cases (para 30) must be adjusted to cater for green investments already initiated that are at risk of being delayed or cancelled in view of the financial impact of the pandemic – which is a real and urgent issue for airports.

The scope and definitions should furthermore reflect limitations that airports are facing in reality – notably regarding the availability of clean ground handling and terminal equipment with “zero direct (tailpipe) CO_2 emissions” (para 18(18) and (19)). For example, snow removal equipment is not available with zero emissions but may be provided with alternative (bio)fuels or biogas. Amending these definitions would be consistent with the distinction made between ‘clean transport vehicles’ (para 18(20)) and ‘zero-emission transport vehicles’ (para 18(80)). The scope of ‘clean transport vehicles’ and/or ‘service equipment’ should include multi-modal transport to/ from airports (e.g. shuttles and light rails) as well as on airports (e.g. landside and airside buses or light rail between airport terminals).

4. Proposal regarding aid for the environmental modulation of airport charges

ACI EUROPE believes it would be useful to consider how the environmental modulation of airport charges may be supported through the proposed guidelines. Article 3 of the Airport Charges Directive (2009/12/EC) allows for the modulation of airport charges for issues of public and general interest, including environmental issues. Based on the non-discriminatory treatment of airport users, criteria for such a modulation shall be relevant, objective and transparent.

A number of airports has introduced environmental modulations of charges – which should normally still allow them to recover their costs (i.e. more polluting airlines compensate for the discount granted to cleaner airlines). This means airports are careful when setting their modulated charges, to avoid the risk that costs are no longer recovered. Airports may thus not grant the maximum incentive to airlines to make green investments. Therefore, we believe there should be a possibility for Member States to grant a financial guarantee to airports that would compensate any losses resulting from the environmental modulation of airport charges.

5. The delayed revision of the 2014 Aviation Guidelines must be reflected in the GBER

While the proposed Environmental State aid Guidelines should become effective by 2022 and trigger amendments to the General Block Exemption Regulation (GBER), we understand that the revision of the 2014 Aviation State aid Guidelines is not prioritized and may thus be delayed.

Such delay would cause unacceptable uncertainty for airports about the possibility to receive operating aid & investment aid beyond 2024, while a prolongation of the regime would be unworkable (i.e. outdated reference periods).

The Commission’s fitness check report on the Aviation State aid Guidelines stipulates that operating aid would be needed beyond 2024 for airports up to 700,000 passengers per annum (or in some cases even 1mppa). ACI EUROPE has already suggested that the GBER is the optimal tool for continued state support for regional airports. To provide the needed legal certainty, the GBER amendments should enlarge the possibility to grant operating aid for airports with no more than 200,000 passengers per annum to airports with no more than 700,000 passengers per annum. We will provide more detailed input in the forthcoming consultations on the GBER.