Proposal of targeted review of the General Block Exemption Regulation (State aid): extension to ports and airports

Assaeroporti contribution

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Introduction

- Assaeroporti is the trade association of Italian airports. It represents 34 airport managing bodies and 41 airports and its core mission includes representing the interest of the industry to Italian and European institutions, in order to promote the growth of the aviation sector.
- We thank the European Commission for the opportunity to participate in this consultation on the proposed extension of the General Block Exemption Regulation (hereinafter, GBER) to airports and ports.
- From Assaeroporti's perspective, this consultation is a key opportunity to illustrate the importance of the State aid issue for the entire European aviation sector, as well as for Italian airports.
- Two years after the approval of the Commission Communication on "Guidelines on State aid to airports and airlines" (2014/C 99/03), we believe it is necessary to simplify the State aid implementing rules, in order to reduce administrative burden and costs and speed up the implementation of airport projects.
- The development of the airport infrastructure is indeed a milestone to achieve goals of common interest, since airports are a key driver of the economic and social growth of the territory, also in terms of connectivity.
- During the recent *Annual ACI EUROPE Regional Airports Conference & Exhibition* held on May 12-13 in Vilnius, the ACI Europe General Director, Olivier Jankovec, underlined the key role of airports for the territorial cohesion and said that "*The positive externalities and the value the smaller regional airports bring as a lifeline between their communities and the wider world need more recognition and support. If we are to maintain a socially-inclusive society in Europe, regional airports are a vital part of the puzzle*".[1]

[1] ACI Europe Press Release, 12 May 2016, *Improving trading conditions at regional airports but shadows remain.*

Aid categories for which we propose the exemption from the notification obligation

- In the last years, the global economy has been increasingly characterized by market globalization and integration of national economies. Given this scenario, the aviation sector is, and will be, further a driving force of the entire economy. Airport, in particular, is a key element of the industry's supply chain, because it is able to provide a significant contribution to the country in terms of Gross Domestic Product, employment and productivity. Therefore, airport becomes a key factor for the economic and social development at national, regional and local level.
- The European Commission has recently stressed the central role of the aviation sector in the global economy. In the *Aviation Strategy for Europe* adopted on December 7, 2015, the Commission outlined the following: "*Aviation is a strong driver of economic growth, jobs, trade and mobility for the European Union […]. The EU aviation sector directly employs between 1.41 million and 22 million people and overall supports between 4.83 million and to 5.54 million jobs. The direct contribution of aviation to EU GDP is €110 billion, while the overall impact, including tourism, is as large as €510 billion through the multiplier effect*." [2]
- For the above reasons, we recommend that at European level appropriate measures are adopted. These rules should reflect and support the market dynamics and ensure a correct level playing field in the market, which is an essential condition for the fair development of the sector.

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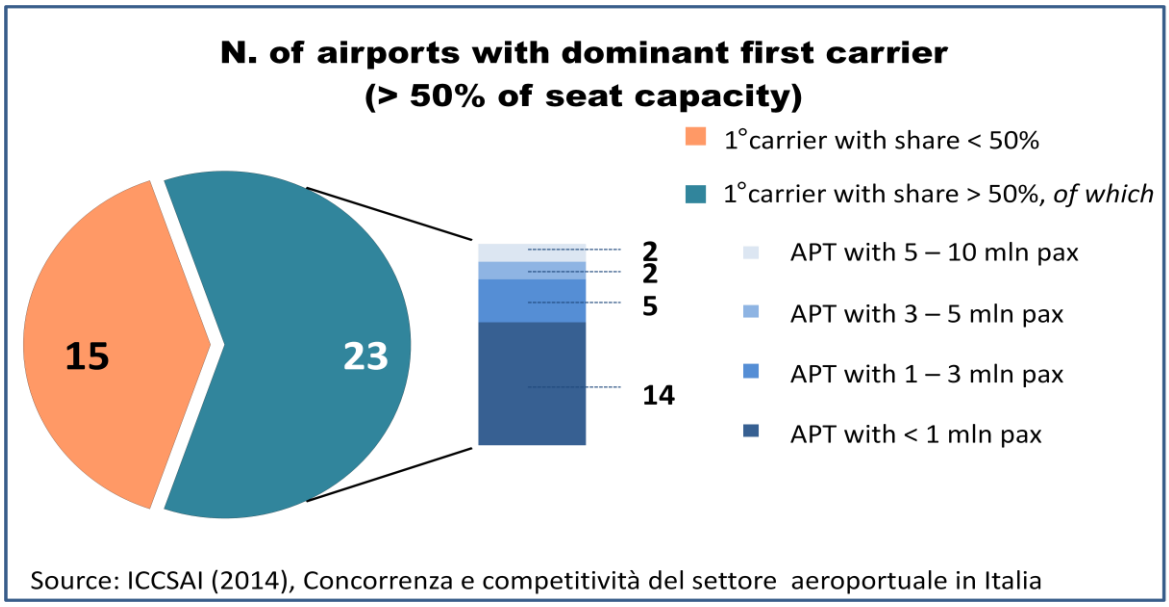
- Assaeroporti very much welcomes the Commission's proposal of extension of the GBER to airports.
- The obligation for the Member States to notify State aid granted to airports (in form of aid schemes or individual aid measures) to the European Commission has caused high administrative burden and costs, which do not appear justified within a framework where airports compete with each other for both passengers and airlines.
- As far as Italy is concerned, no aid scheme has been notified to the Commission so far.
  The consequent notification of individual aid measures has caused onerous administrative procedures for both the applicant(s) and the Commission.
- However, the proposal of extension of the GBER to airports seems to be exclusively limited to <u>investment aid</u> granted to:
  - airports that are not located within 100 kilometres distance or 60 minutes travelling time by car, bus, train or high-speed train from an existing airport;
  - airports with average annual passenger traffic of less than three million passengers during the two financial years preceding the year in which aid is actually granted;

[2] European Commission (2015), *An Aviation Strategy for Europe*.

- airports with average annual freight traffic below 200 000 tonnes during the two financial years preceding the year in which aid is actually granted.

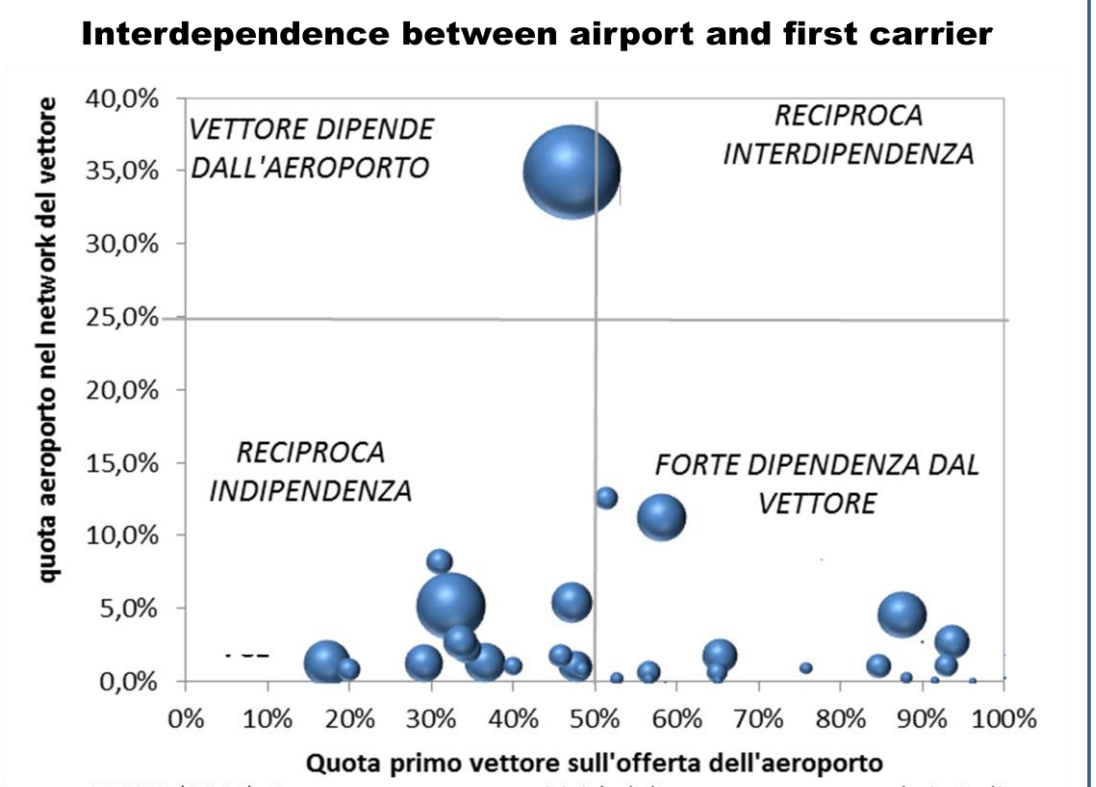
- Assaeroporti recommends that, in the above cases, also operating aid measures are exempted from the notification obligation as per Article 108(3) of the Treaty and not only investment aid, because we reckon the operating aid measures may not significantly distort competition and produce any effect on trade.
- In this regard, we would like to mention the ICAO Working Paper on Airport competition, which states the following: "*Airports used to be considered as natural monopolies. Before deregulation and liberalization of the air transport industry, airports operated in an environment where, with few exceptions, national and State-owned airlines were strictly regulated, with limited freedom to compete across borders. Much has changed in the last twenty years, with the progressive liberalization of aviation markets worldwide. Fierce airline competition for passengers also has implications for airports. Airports must now compete with each other for both passengers and airlines, which have significantly more choice than in the past. Airports have had to become more commercially focused. The result is a more competitive and dynamic airport market. However, airports are still too often regarded as monopoly infrastructure providers when the commercial reality is very different*."[3, 4]
- The following figure shows that in 23 Italian airports (within a sample of 38 airports) a single carrier has a dominant share of total traffic (> 50% of total seat capacity). This situation is frequent especially in small airports (i.e. airports with less than three million passengers), in which the share of the first carrier is, on average, equal to about 70% of the total seat capacity.



Source: ICCSAI (2014), Concorrenza e competitività del settore aeroportuale in Italia

[3] ICAO (2013), Airport Competition. Working Paper (ATConf/6-WP/90).
[4] For more details, please see the study commissioned by ACI Europe: ACI Europe (2012), Airport Competition in Europe.

- The following figure illustrates the strong interdependence between airport and the first carrier. In Italy, in fact, there are quite a few airports in which the negotiation power is decidedly unbalanced in favour of the main airline, especially in small airports (bottom right corner of the below figure). The medium airports tend to have a more diversified offer, but they seldom have a key role for the main carrier operating at the airport.



Source: ICCSAI (2014), Concorrenza e competitività del settore aeroportuale in Italia

- The development of alternative means of transport within the national transport market – such as high-speed train – has further increased competition in the market.
- In this new framework, there is effective and growing competition among national and European airports. This fact is also confirmed by the European Commission, which, on this point, has affirmed the following: "*Now, there is effective and growing competition among European airports, brought about by route liberalisation and airport privatization. The major European airports compete with each other for point-to-point and transfer traffic in order to expand both their route/airline portfolio and reduce their dependence on the established hub carriers*".[5]
- For these reasons, we believe that, in a competitive market such as the airport sector, the provision of compensations to small airports – in form of investment aid or operating aid - does not adversely affect trading conditions and it is compatible with the internal market.

[5] EC Competition Policy Brief (Issue 2, 2014), http://ec.europa.eu/competition/publications/cpb/2014/002_en.pdf

Therefore, we think the advance notification obligation appears onerous and without effective and concrete benefits.

Further conditions for which we propose the exemption from the notification obligation

Insularity

- The particular geography of the Italian peninsula - which is characterised by remote and peripheral regions with poor accessibility, implies that airports located in these areas have an important role in terms of regional connectivity.
- In particular, in Italy there are some regions, such as the insular ones, for which the travelling time of alternative means of transport makes the air transport the only feasible option in most cases (for example, business travels and travels for health reasons). Consequently, airport is the main player in attracting carriers to ensure territorial continuity flights.
- For the above reasons, we believe it is necessary to set more flexible criteria for State aid granted to airports located in peripheral regions, characterised by poor accessibility, scarce infrastructures and low substitutability.

Amending proposal about eligible costs calculation

In relation to the amending proposal of article 7 of the GBER (on "Aid intensity and eligible costs"), we believe it is important that the amounts of eligible costs could be calculated in compliance with the simplified cost options also in case of operations financed through a national fund (for example, the *Fondo per lo sviluppo e la coesione (FSC)* or regional fund), and not only in case of operations that are partly financed through an EU fund (as currently proposed by the Commission).