State Aid and Regional Airports

Vincent Verouden
Deputy Chief Economist
DG Competition, European Commission

Disclaimer (EN): the views expressed cannot be regarded as stating an official position of the European Commission

Air transport in the EU – some figures

- More than 450 airports
- 150 scheduled airlines
- 822 million passengers transported to and from EU airports
- 60 air navigation providers
- Sector contributes approx. EUR 140 bln to EU GDP
- 2.3 million employees in the aviation sector

(2011 figures)

Sources: Eurostat, AEA, IATA Steer Davies Gleave (2012)
Emergence of new market players

Per seat market share of carriers (in volume), 2004-2012

Source: OAG summer schedules, EU27

Regional airports

- ~270 regional airports with less than 1m passengers
- Majority of small airports is lossmaking
- Considerable excess capacity
Low profitability of airports

Proportion of loss making airports below 5 million PAX (2011)

Source: ACI Europe Economics Report 2012

Low profitability of airports (cont'd)

Per passenger operating financial performance

Source: ACI (2013)
Rationale for state support to airports

- Infrastructure is a complement for many other activities
  - Externalities on other activities not captured by market investor
  - Coordination effect for economic activity

- Cohesion perspective

  ♦ Potential justifications for state intervention (incl. state aid)

Distortions of competition and trade

- Effects on competition in infrastructure investment: state aid may cause distortions
  - Rent shifting
  - Overcapacity
  - Impact on dynamic incentives

- Subsidy races between airports/regions in attracting airlines
  - Low cost carrier (LCC) induced airport competition has turned excessive, cf. systematic operating losses airports
  - Soft budget constraints exacerbate the problem and lead to overly generous contracts

- Effects on competition between airlines (plus other forms of transport)
Draft Guidelines – main proposals

1. Investment aid to airports

2. Operating aid to airports

3. Aid to airlines

Investment aid to airports

- Additional capacity is to meet medium-term demand in the catchment area and should not lead to duplication of unprofitable infrastructure
  - Negative presumption when in catchment area of other airport
- Need for aid to be demonstrated on the basis of a "funding gap" calculation (business plan)
- Proportionality of aid: aid capped by maximum aid intensities

<table>
<thead>
<tr>
<th>Size of the airport</th>
<th>Max. aid intensity</th>
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<tbody>
<tr>
<td>&gt; 5 million</td>
<td>0%</td>
</tr>
<tr>
<td>3-5 million</td>
<td>up to 25%</td>
</tr>
<tr>
<td>1-3 million</td>
<td>up to 50%</td>
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<tr>
<td>&lt; 1 million</td>
<td>Up to 75%</td>
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Operating aid to airports

- Allow smaller airports (< 3 million passengers/year) a transition period of up to 10 years to reach operational cost coverage
  - Forward looking approach, taking capital costs as given (sunk)
- Ensure the tightening of soft budget constraints by using fixed lump sum subsidy
  - To limit excessive competition between airports/regions, avoiding unnecessary losses
  - Amount to be determined on the basis of an ex ante business plan showing the way towards full operating cost coverage (not taking into account capital costs) during a transitional period
- Operating aid prohibited after the end of the transitional period

When is there aid to airlines?

- Airport charges to cover incremental costs or total costs?
  - Ex ante vs. ex post perspective
  - How to distribute common costs
  - What about the Ramsey Principle
  - Cost to the airport vs. advantage to the airline
Proposed approach in Draft Guidelines

• There is no aid to airlines if:

1. The price charged for the airport services corresponds to the market price
   - Benchmarking (difficult at present)

2. The airport/airline contract is profitable on an incremental basis
   - Context: requirement on airport to cover operational costs after transitional period (and lump sum approach during transitional period)

Thank you for your attention
Annex

Draft Guidelines on State aid to airports and airlines – available at