Introduction
Aberdeen International Airport (AIA) welcomes the opportunity to contribute to the European Commission’s consultation paper on State aid to airports and airlines. Given the enormous contribution that aviation makes to the economy of Scotland and the UK, we broadly welcome the Commission’s aim of creating a more sustainable platform for aviation growth.

AIA is Scotland’s third busiest airport, handling 3.3 million passengers in 2012, including 525,000 helicopter passengers. Aberdeen is Europe’s busiest commercial heliport and has one of the highest proportion of business passengers (circa 60%) among UK airports.

The airport is owned by LHR Airports Ltd, a private company which also owns London Heathrow, Southampton and Glasgow airports.

Connecting the north of Scotland
AIA links the north east of Scotland to more than 50 UK and international destinations, of which almost half are major UK cities, including London, Manchester, Leeds, Bristol, Cardiff and Belfast, as well as the Scottish Highlands and Islands.

The airport has a rapidly growing international route network, offering scheduled services to destinations such as Amsterdam, Bergen, Copenhagen, Dublin, Frankfurt, Oslo, Paris and Riga (from summer 2014).

AIA has also introduced a number of new charter/holiday services in recent years and now provides a range of leisure flights to destinations across Spain, Italy, Portugal, Croatia and Turkey.

Table 1 shows the number and type of destinations served by AIA.

<table>
<thead>
<tr>
<th>Table 1. Number of destinations available from AIA</th>
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</thead>
<tbody>
<tr>
<td>UK destinations</td>
</tr>
<tr>
<td>23</td>
</tr>
</tbody>
</table>
AIA is served by around 20 airlines and holiday operators, including a mix of low cost airlines (easyJet and flybe), business airlines (bmi regional and Eastern Airways), flagship carriers (BA, Virgin Atlantic, Air France/KLM and Lufthansa), and holiday operators (Thomas Cook, Thomson, First Choice).

**Importance of hubs**
AIA has significantly increased the range of direct international services available from the north east of Scotland, including new flights to Dublin, Frankfurt, Kristiansund, Oslo and Riga. This provides greater choice, ensures a more convenient journey for passengers, and supports economic growth by creating new trading opportunities.

However, given our relatively small population base, and our distance from many of the most popular leisure and business destinations, we rely more than most airports on our ability to connect to hub airports, here in the UK and in Europe.

For relatively remote regions such as the north east of Scotland, hub airports provide access to vital markets, both for point to point and connecting business, and provide a means for leisure passengers to explore destinations they could never reach direct from Aberdeen.

Aberdeen currently enjoys access to a number of international hubs, including London Heathrow, Paris CDG, Amsterdam, Copenhagen, Dublin and Frankfurt. However, as the table below shows, the Heathrow route accounts for more passengers than the other major international hubs combined.

**Table 2. Hub passenger numbers**

<table>
<thead>
<tr>
<th>Airport</th>
<th>2012 pax nos.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heathrow</td>
<td>663,298</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>281,349</td>
</tr>
<tr>
<td>Gatwick</td>
<td>233,921</td>
</tr>
<tr>
<td>Paris CDG</td>
<td>107,261</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>134,160</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>55,803</td>
</tr>
<tr>
<td>Dublin</td>
<td>37,114</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,560,334</strong></td>
</tr>
</tbody>
</table>

Source: AIA, CAA

In 2012, AIA handled 3,330,126 passengers. As Table 2 shows, major hub airports accounted for 1,560,334 passengers, more than 55% of all passengers (excluding helicopter passengers).

The ability to connect to a range of hub airports is therefore vital to the ongoing success of AIA.
AIA as an economic driver
With more than 1,000 companies operating wholly or predominantly in the energy sector, Aberdeen is regarded as Europe’s energy capital. The North Sea oil and gas industry generates some £40 billion a year for the UK economy and supports some 137,000 jobs locally, accounting for almost 60% of the region’s overall employment and 6% of Scotland’s overall employment.

AIA plays a major role in supporting this important industry. As the busiest commercial heliport in Europe, it serves as the major hub for North Sea oil and gas installations and provides links to a range of UK and international destinations associated with the energy sector, including Wick John O’ Groats, Scatsta, Sumburgh, Bergen, Kristiansund and Stavanger.

The Aberdeen city and shire area has one of the most successful economies in Scotland. Average gross weekly earnings are significantly higher than the Scottish and UK average. Indeed at £716.70 per week, average wages in the city of Aberdeen are amongst the highest in the UK. Aberdeenshire has the lowest rate of unemployment in Scotland, and Aberdeen city the fourth lowest.

The workforce is also amongst the best educated in the country. Aberdeen city and shire has a higher representation of employment in Professional, Skilled Trades, Elementary and Process, Plant & Machine Operatives occupations than the Scottish or UK average. The region also has the second highest Gross Value Added per head in the UK (after London). 1

An economy this diverse, and this important to the UK’s economic success, requires a dynamic and growing route network that allows businesses and people to connect across the globe. AIA has been instrumental in cementing the region’s economic success and plays an important role in supporting business growth, particularly in respect of the energy sector.

This accounts for the large number of business passengers flying to/from Aberdeen – currently around 60% of our passenger throughput, one of the highest rates in the UK.

It is widely recognised that airports provide a powerful economic stimulus for the regions they serve. In 2010, Aberdeen Airport commissioned research to examine the impact of future airport growth on the region’s economic performance. The report found that Aberdeen Airport contributes more than £110 million a year to the local economy and supports almost 3,400 jobs in the region. In recent years, a series of major commercial developments have been given the go ahead close to Aberdeen Airport, including a number of new hotel developments and two new business parks. These projects are likely to enhance the already significant contribution AIA makes to the regional economy.

The close proximity of an international airport ensures that new commercial, hotel and leisure developments are able to attract major international

1 http://www.acsef.co.uk/reportGroups.cfm?pageID=6
investors, enhancing the profile of the airport as a place to work, shop, meet, do business and be entertained, and also delivering a substantial economic dividend for the city and region.

At Aberdeen Airport, our ambition is to create Scotland’s first Airport City, a modern transport hub that serves as an enabler for future social and economic development, creating more quality jobs, providing enhanced facilities for local residents and visitors, and ensuring local businesses are better connected with the rest of the world.

**Connectivity challenges**
Although AIA is the third largest airport in Scotland, it faces a number of distinct challenges.

First, it serves one of the most peripheral regions in the UK. The city of Aberdeen is more than 500 miles from London, a journey of almost nine hours by road. With a journey time of approximately seven hours from Aberdeen to London Kings Cross, the rail network is not a practical alternative for time pressured business travellers, or indeed for leisure visitors travelling between the two cities. Air travel is therefore the most convenient means of travelling from Aberdeen to London and other major cities in the south of England, such as Southampton and Bristol.

Second, although the economy of Aberdeen and the north east is amongst the most vibrant in the UK, the area’s population is relatively modest. The estimated combined population of the Aberdeen city and shire area is 467,000, in contrast to West Yorkshire with a county population of 2.2 million people, and 4.5 million in the East Midlands.²

Aberdeen’s distance from the key business and leisure destinations of the UK and Europe, the lack of available transport options, and the region’s relatively small population, mean that passengers face longer and comparatively more expensive journeys than those flying from other UK cities. It also makes Aberdeen a more expensive proposition for airlines because of the limited number of daily rotations they can offer – particularly to international destinations – and the higher fuel costs they incur.

These higher costs place additional financial burdens on businesses across Aberdeen-shire, as well as on leisure travellers, and make the region a less attractive inbound tourist destination.

The problem is compounded by the impact of Air Passenger Duty (APD).

A number of studies have confirmed that the UK has the highest rates of APD in the world. APD has a disproportionate affect on smaller peripheral airports such as Aberdeen. We continue to express our concern about the impact of this damaging tax, which threatens to stifle future growth and undermine our ability to attract new air services.

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² Source ONS, Population and Migration, 1 March 2013
The importance of route development funding

Given these distinct challenges, Aberdeen International Airport welcomes the decision by the European Commission to consult on new guidelines on state aid for airports and airlines, particularly in the wake of the significant downturn in the industry, from which it is only now recovering.

This downturn, which began in 2008 following the global credit crisis, resulted in the loss of almost 650,000 passengers at AIA, as Table 3 below shows.

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
</table>

Source: CAA, UK Airport Statistics

Significantly, it also coincided with the withdrawal of the Scottish Executive’s route development fund (RDF), which was wound up in 2007.

Between 2002 and 2007, some 63 services were offered RDF investment, of which 55 services went ahead. As Table 4 shows, the following Aberdeen services received RDF support, three of which are still operating:

<table>
<thead>
<tr>
<th>Service</th>
<th>Airline</th>
<th>Date started</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Groningen</td>
<td>bmi regional</td>
<td>April 2004</td>
<td>Discontinued</td>
</tr>
<tr>
<td>Copenhagen</td>
<td>SAS</td>
<td>Oct 2004</td>
<td>Operating</td>
</tr>
<tr>
<td>Bristol</td>
<td>Eastern</td>
<td>Nov 2004</td>
<td>Discontinued</td>
</tr>
<tr>
<td>Oslo</td>
<td>CityStar *</td>
<td>Jan 2005</td>
<td>Discontinued</td>
</tr>
<tr>
<td>Southampton</td>
<td>Eastern</td>
<td>March 2005</td>
<td>Operating</td>
</tr>
<tr>
<td>Blackpool</td>
<td>CityStar *</td>
<td>July 2005</td>
<td>Discontinued</td>
</tr>
<tr>
<td>Stornoway</td>
<td>Eastern</td>
<td>Nov 2005</td>
<td>Operating</td>
</tr>
<tr>
<td>Liverpool</td>
<td>Ryanair</td>
<td>Oct 2006</td>
<td>Stopped</td>
</tr>
<tr>
<td>Kristiansand</td>
<td>bmi regional</td>
<td>March 2007</td>
<td>Stopped</td>
</tr>
</tbody>
</table>

* Airline ceased operations in January 2008

A number of flagship long haul routes also received RDF funding, including Edinburgh to New York and Glasgow to Dubai, both of which have proved hugely successful.

RDF funding was limited to the first three years of a new route, after which the route was expected to be self-supporting.

The RDF was closed to new routes on 31 May 2007. However, it is estimated that the total expenditure on RDF during the life of the fund was some £22.1 million. The total GVA impact for all RDF services combined has been estimated at between £47 million and £52 million.
RDF is also credited with supporting a significant increase in passenger levels on Scottish air services. In 2007/2008, some 1.9 million passengers travelled on RDF supported services – around 7.6% of the Scottish total.

The demise of the RDF – a year before the global downturn - came at the worst possible time for the aviation industry in Scotland. As a result of the financial collapse, a number of Scottish based airlines, including flyglobespan and City Star Airlines, ceased operations, as did several UK wide carriers, including MaxJet, Silverjet, Euromanx, XL, Astraeus and Zoom Airlines.

Arguably, when the industry needed state aid support most, it was not available.
**AIA response to EC proposals**

As stated above, AIA welcomes the European Commission’s proposals to revise its guidelines on state aid for airports and airlines to reflect the significant changes that have taken place in the industry, some of which we have discussed above.

In respect of the EC’s proposals for **state aid to airports**, we do not support the use of passenger numbers as a means of determining which airports should qualify for such aid. We would suggest that there are other, more relevant, determining factors, including the geographic location of airports, transport links to/from airports, and their significance in economic terms.

For example, Aberdeen International Airport is one of the most peripheral in the UK. The city’s distance from major UK and European cities means that there is a heavy reliance on air travel, particularly among time pressured business travellers. With no prospect of the north east of Scotland benefitting from high speed rail, the region will continue to rely on air travel.

UK airports such as Cardiff, Leeds Bradford, Prestwick and Southampton may be smaller than Aberdeen in passenger terms, but all have significantly better transport connections than the north east of Scotland. Prestwick, for example, is directly linked to the mainline rail network and is close to the M77 motorway, while Cardiff, Leeds Bradford and Southampton are all within relatively easy reach of London, either by road or rail.

In preparing this submission, AIA sought a response to the EC consultation from Aberdeen and Grampian Chamber of Commerce, the region’s largest business organisation. The Chamber is similarly concerned that the current proposals fail to consider the wider challenges facing airports such as Aberdeen:

> “Our transport infrastructure is regularly reported as one of our region’s main constraints to growth. A survey of regional businesses in 2013 reported that 58%³ considered transport links to be a major constraint to growth. This is a concerning statistic for a region which has the highest performance in GVA growth across 151 European Metropolitan regions when comparing this measure to national performance⁴.

> “By limiting the maximum support to airports below one million passengers this artificially impacts on a peripheral location like Aberdeen which has not benefited from public sector infrastructure support but relies heavily on links to global destinations via air travel.”

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³ North East Business Week, delivered by AGCC in partnership with ENET, FSB, SCDI
⁴ European metromonitor
In respect of **start up aid to airlines**, we have a number of concerns about the proposals which, we believe, could seriously undermine our ability to attract new airlines to Aberdeen.

First, we would welcome clarity surrounding the compatibility conditions. Under the current proposals, with some exceptions, start up aid is limited to airports handling less than three million passengers. AIA handled 3.3 million passengers in 2012; however, more than 500,000 of these were helicopter passengers travelling to and from North Sea oil and gas installations. We do not believe that helicopter passengers should be considered in the context of route development given that helicopter operations are specifically industry related and not open to the wider travelling public. On this basis, AIA’s passenger throughput in 2012 would stand at 2.84 million, below the qualifying threshold.

In any case, we do not believe it is sensible to base decisions on route development on an arbitrary figure of 3 million passengers. To do so ignores the very distinct challenges that we have outlined earlier, including peripherality and the choice of transport options available to the travelling public.

Indeed, there is a real risk that, as a result of the EC’s proposals, Aberdeen and the north east of Scotland could find itself further isolated from the rest of Europe. According to James Bream, Research and Policy Director for Aberdeen and Grampian Chamber of Commerce:

> “If implemented as proposed, based on our business / economic profile, we believe that our region will be made relatively less competitive to other destinations. Indeed it appears the proposals are more likely to benefit regions which are already relatively more connected and less remote.

> “The use of airport passenger numbers as a defining factor for support from the public sector detrims a location like Aberdeen. Over time this type of approach will mean we become relatively more remote and that our links to global partners are reduced.”

Looking at the national picture, the decision to limit funding to airports with fewer than 3 million passengers could also potentially starve Scotland of the opportunity of reaching into emerging markets such as the Gulf, Brazil, India and China. For example, Emirates’ direct service from Glasgow to Dubai, which was launched in 2004 and was increased to a double daily service in June 2012, was introduced as a direct result of Route Development Fund support. According to VisitScotland:

> “It is estimated that the twice-daily service has delivered economic benefits of around £33 million, with almost 140,000 additional inbound passengers in 2012 alone. Over the next five years the route is estimated to be worth more than £200 million,”
If the 3 million limit had applied in 2004, this economic benefit might have been lost to Scotland.

We would therefore urge the EC to adopt a more flexible approach to state aid for airlines, one which is not necessarily based on the number of passengers at individual airports, and which instead consider issues such as peripherality and the likely economic return from investment.

Additionally, we are concerned that start up aid schemes will be limited to 24 months. We do not believe that this is sufficient time to allow a new route to mature. Our own experience suggests that it requires at least 3 years, sometimes longer, for a new route to become profitable, depending on the nature and frequency of the service, aircraft size etc.

The airline industry is intensely competitive and low cost airlines, in particular, expect significant financial incentives, particularly in the context of smaller, regional airports such as Aberdeen, where their profit margin may be lower than at other, larger airports.

As a private airport operator, AIA invests heavily on route development, and with some success. Nevertheless, we would welcome any additional support that shares the risks associated with new start-ups. We would be concerned if support from the public sector was limited to two years, however.

In the current European economic climate, it is difficult to see a new route becoming profitable within such a short period. The use of public funds in this manner could therefore be counter productive. In the short term, it might result in a raft of new routes; however, if after two years a number of these routes were withdrawn because they were not yet financially sustainable, the benefit to the Scottish economy would be diminished. We believe financial support may be required over a longer period – at least three years, perhaps longer for smaller airports – in order to deliver a meaningful economic return.

We are concerned too about the impact on local businesses and potential inward investors. The prospect of funding being withdrawn after two years could shake business confidence in the region and will almost certainly result in airlines focusing their route development efforts at larger airports, where they enjoy greater certainty of success.

Our concerns are shared by local business groups, including Aberdeen and Grampian Chamber of Commerce:

“*Our business competitiveness relies on good links to locations outside the UK. Creating strong pan-European partnership takes time to achieve as businesses sectors build critical mass.*

“We do not think it is realistic that strong enough business links between two destinations can be achieved within two years, in all cases, such that air routes become commercially viable. The choice of a two year period appears arbitrary and surely it would be more appropriate to have a scaling depending on the remoteness of an airport and the individual business case for each new route.”

Finally, we would welcome clarification from the European Commission regarding the eligibility of domestic routes for start up aid. Aberdeen serves a growing network of international routes. However, as Table 1 illustrates, almost half of the routes served are domestic. In part, this reflects the airport’s importance as a business and energy gateway. It is also a reflection of the distance between Aberdeen and the key business and financial markets of the UK, and the lack of viable alternatives to air transport.

In 2012, domestic passengers accounted for 67% of AIA’s passenger throughput (excluding helicopter passengers). The domestic market is therefore of huge significant to AIA, and we would urge the EC to ensure that domestic flights are not exempt from start up aid.

This issue is of particular relevance to Aberdeen Airport given that it relies heavily on access to major UK hubs such as Gatwick and Heathrow.

**Conclusion**
AIA welcomes the opportunity to respond to the European Commission’s proposed guidelines on state aid for airports and airlines. Given the turbulence in the industry following the 2008 global crash, we welcome the Commission’s desire to create a more sustainable platform for aviation growth. However, the proposals outlined by the EC do not reflect the realities of the market; in particular, the notion that state aid should be limited to two years, after which new routes should be entirely self sufficient, is wholly unrealistic, particularly in the context of a regional airport on the periphery of northern Europe. Similarly, we believe that the proposal to limit state aid to airports with fewer than 3 million passengers is wholly arbitrary; we believe the EC should take into account other factors such as peripherality, population and alternative transport options.