Response from Bristol Airport to the consultation by the European Commission on draft new state aid rules for airports and airlines

Introduction

1. Bristol Airport is pleased to have the opportunity to respond to the European Commission’s consultation on the draft new state aid rules for airports and airlines.

2. Bristol Airport is the major regional airport for the South West of England and South Wales, serving a catchment area with a population of between seven and eight million people within a two hour drive time. Currently handling six million passengers per annum, Bristol Airport is the ninth largest airport in the United Kingdom and the fifth largest outside the South East of England. Flights are available from the Airport to over 100 destinations across 30 countries, including 82 destinations served by scheduled services. Bristol Airport offers a full range of leading airlines in the low cost, full service and charter sectors. It has been the fastest growing major airport in the UK over the last ten years and the only top ten airport in the UK to grow in each year since 2009. Planning permission is in place for facilities to handle 10 million passengers per annum, which will deliver an estimated £1.9-£2 billion in additional income to the region.

Overview

3. We welcome the Commission’s desire to specify clear and prescriptive conditions under which the public financing of airports and airlines may constitute State aid and, when it does constitute State aid, the conditions under which it can be declared compatible with the internal market. However, this has resulted in guidelines that are now approximately twice as long as the 2005 guidelines they replace and a document that is complex and difficult to follow. The draft falls short of delivering the clear and self policing guidelines that are required.

4. Airport ownership in the United Kingdom does not follow the EU pattern of public ownership indicated in the introduction to the draft guidelines. We estimate\(^1\) that 99% of terminal passengers reported by the CAA used an airport that is in full or partial private ownership. 55% of all UK airports and 90% of the UK’s regional airports handling more than 500,000 passengers per annum are in this category. The publicly owned airports are generally those which serve sparsely populated parts of the country with less than 600,000 annual passengers.

5. Similarly the Commission’s conclusions about the viability of airports\(^2\) do not apply in the UK where the majority of airports handling over one million passengers per annum are able to cover their operating and capital costs\(^3\). An airport with low passenger numbers may also be profitable as a result of non-passenger related revenue. The British Airways maintenance base at Cardiff Airport and the flybe maintenance base and training academy at Exeter Airport provide significant additional revenue to support the passenger operation at these airports.

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\(^1\) Using CAA Airport Statistics for 2012

\(^2\) As set out in paragraph 80 of the draft guidelines

\(^3\) Based on data in 2011/12 UK Airports Performance Indicators published by LeighFisher
6. Competition for passengers and airlines between airports is intense and there are numerous examples of airport pairs competing in overlapping catchment areas, for example:

- Bristol and Cardiff
- Manchester and Liverpool
- Newcastle and Durham Tees Valley
- Newcastle and Edinburgh
- Birmingham and East Midlands

7. Cardiff Airport is a unique example in the UK of an airport handling just over one million passengers that is in public ownership having been acquired by the Welsh Government from Abertis in 2013 for £52m, a price that appears to be well above the market price based on similar recent transactions. Bristol and Cardiff Airports are just less than 100km apart, less than one and a half hours driving time. The latest 2012 CAA Passenger Survey data shows the extent of the overlap of Cardiff Airport’s catchment area with Bristol’s. In 2012 just over one million passengers from South Wales used Bristol Airport, compared with 900,000 using Cardiff.

8. The First Minister of Wales has publicly indicated his objective for Cardiff Airport to catch up and overtake Bristol Airport through support from the Welsh Government including control of Air Passenger Duty. Bristol Airport is therefore very concerned about the potential for State aid to be used by the Welsh Government in support of Cardiff Airport. This would distort a highly competitive market that currently exists, transferring passengers from one airport to another without any net gain. Substantial damage to Bristol Airport’s business would result. We have already seen the Welsh Government using public funds in support of airline route development with £1.1m invested in a tourism marketing campaign in Catalonia linked to a new route to Barcelona operated by Vueling, and £500,000 invested in a similar campaign in Switzerland linked to a route to Zurich, operated by Helvetic Airways.

9. The level of competition that exists in the air travel industry in Europe, and in particular the UK, means that the new State aid guidelines must be absolutely clear and more prescriptive than the existing guidelines. In our experience, airports with passenger volumes much less than 1 million per annum which benefit from some level of public subsidy can have a significant impact on the market. This is particularly the case given the propensity of some airlines, such as low cost carriers, to relocate aircraft for relatively small financial gains.

10. At the very least, the guidelines must therefore contain a presumption against the use of State aid to support airports handling over one million passengers per annum and any such support should be restricted to airports serving remote regions that are hampered by poor accessibility where a limited amount of aid will provide demonstrable benefit for regional connectivity and subject to strict conditions relating to market distortion. There should be an overriding requirement that the use of aid will not result in a distortion of competition or result in the reallocation of passengers from one airline or airport to another. In doing so the specificity of each particular airport and its competitors should be considered within and beyond the 100km distance/60 minute drive time indicated in the draft guidelines.
11. We are further concerned that the application of the Market Economy Operator (MEO) Principle and the preparation of *ex ante* profitability forecasts will be highly subjective. Business plan forecasting in the present economic circumstances carries considerable risk and the Commission's proposed approach will involve it having to second guess complex financial forecasts which of their very nature will be highly uncertain. We recommend that this approach is reconsidered in conjunction with the aviation industry.

12. Particular comments on individual sections of the guidelines follow.

**Investment aid to airports**

13. Investment aid should be limited to airports handling less than one million passengers per annum subject to strict conditions to avoid competition distortion and the redistribution of passengers with no overall gain. The catchment area references should reflect the definition in Annex 1 and be based on the specificity of each particular airport.

**Operating aid to airports**

14. We are puzzled by the absence of a passenger metric in the conditions for notification in paragraph 111. Operating aid should be limited to airports handling less than 200,000 passengers. The catchment area description in 111 (2) must match the definition in Annex 1. See also paragraph 13 above.

**Start-up aid to airlines**

15. Start-up aid to airlines is the most potentially damaging and distortive use of aid in the aviation industry. It must be limited to routes from an airport with fewer than 200,000 passengers per annum and subject to an overriding condition that it does not result in a reallocation of passengers from one airport to another. The guidelines should prevent the use of indirect start-up aid such as the use of publicly funded tourism marketing campaigns as used to support routes from Cardiff Airport.