CODA (Operations) Ltd is a private company wholly owned by Derry City Council in Derry/Londonderry in Northern Ireland. Derry City Council is a publicly financed local authority and it established CODA (Operations) Ltd for the sole purpose of operating City of Derry Airport. In 2010 Derry City Council and CoDA Operations Ltd appointed Regional & City Airports Management Ltd under a ten year contract to operate the airport on their behalf with the aim of transforming the airport to be more commercial and to ensure an improvement in its financial performance.

The commission indicates in Paragraph 11 of the Draft Guidelines that the main outcomes from the 2011 consultation was that the 2005 regulations required clarity around the state aid rules; transparency around the financing of airports; and simplification of the rules concerning start-up aid to airlines.

There is little doubt that these draft guidelines have provided more clarity, better transparency and some simplification of state aid rules, however there is absolutely no evidence to suggest that these guidelines will facilitate a fairer market for passengers.

Operational Aid for Small Regional Airports

The guidelines acknowledge that airports with less than 1 million passengers struggle to cover their operating costs and therefore the vast majority of regional airports are subsidised by public authorities (para 5). However, we suggest that experience in the UK where more commercial operating practices have been adopted is that breakeven should be at passenger numbers substantially less than 1 million. Indeed it is estimated that CoDA could achieve breakeven at approximately 500,000. Therefore we consider that any guidelines or legislation should aim to improve the commercial operation of Europe’s airports by the adoption of private sector processes and procedures as adopted in the UK.

The document also acknowledges the views of stakeholders that ‘…that most regional airports cannot be profitable and should benefit from special State aid rules.’ (Paragraph 11).

Paragraph 53 goes on to confirm that a large majority of EU airports can only remain in the market with public support.

We consider that most Regional Airports in the UK are profitable businesses, but that a small number, that have a significant role in providing an economic lifeline to more
isolated regions will find breakeven more difficult to achieve. Despite the clear confirmation of the ongoing need for the public financing of smaller regional airports the guidelines go on to impose a transition period to allow smaller regional airports to adjust to new market conditions and to reduce their subsidies to zero by increasing airport charges to airlines or by attracting new airlines etc.

This position clearly takes no account of the market as it currently exists. Most of these smaller regional airports have air services provided by low cost carriers (LCCs) and in many cases the airport has a single predominant LCC. The commission completely misunderstands the relationship between small airports and carriers if it believes that airports will be able to unilaterally increase fees to reduce subsidies.

Airlines will not accept these increases, especially given the fact that many contracts with airlines are long term, and an attempt to increase their costs unilaterally may lead to termination and/or damages claims. Airlines are likely to leave an airport under these circumstances, leaving the airport less likely to be able to cover its operating costs. The Commission does not seem to understand that airlines’ assets, their aircraft are moveable and that airlines will move their capacity to routes that offer the ability for an airline to maximise yield. Consequently an increase in fees and charges at smaller regional airports could result in airlines simply ceasing services and moving their capacity to elsewhere in Europe. This appears counter to the principles of supporting less accessible areas of Europe to create a single competitive market. The Commission’s proposed transitional period may lead to closures of airports that are viable in the long-term and that currently serve local communities in terms of regional connectivity, tourism and regional development.

The notion that small airports can just go out and bring in new carriers is simply not true. In the current market place airlines are extremely risk averse and they are not prepared to put on additional services without start-up incentives which would in most cases be significantly higher than the incentives permissible through these regulations. It should also be noted that where airports have a dominant LCC as the airport’s main customer this in itself limits the ability of the airport to attract other carriers – even other LCCs, as they do not want to compete on relatively small markets.

We are concerned that the aviation taxation adopted by a number of European countries through Airport Departure Duty (APD) suppresses demand and will make it difficult to develop new routes and carriers. Indeed our current experience is that airlines consistently state that they will not introduce new routes because of the effect of APD on increasing ticket price and reducing demand.
The only logical outcome of removing operational aid, even over a maximum transition period of 10 years, is that many smaller regional airports will close. This will lead to the loss of jobs, loss of regional connectivity, increased road use and will significantly impact the economic development of peripheral regions.

We would welcome some clarification on the precise definition of breakeven and operating costs. The cost base in airports across Europe tends to differ. For instance; in the UK airports are responsible for ALL costs including air traffic, security and safety, whereas, in other countries these are costs that are bourn directly by the State. The consultation document seems to recognise that the cost base can discount costs of some activities, but we would welcome confirmation to ensure that there is compatibility of cost base structure.

Investment Aid for Small Regional Airports

The Commission is proposing to limit capital investment support for airports with fewer than 1 million passengers to 75% of investment costs. In light of the previous acknowledgements by the Commission that most smaller airports do not make a profit how is it proposed that they fund the remaining 25% of capital costs? They cannot fund it from reserves as they won’t have any and access to private finance will be limited and/or costly given that these are not profit making businesses. These additional investment costs will only serve to make the businesses even more dependant of public funding.

Additionally the guidelines do not mention investment aid for ‘safety and security’ related capital projects. In the past these were always exempt from state aid concerns. Will that still be the case and is there any clear definition of what is covered as ‘activities…not of an economic nature’, as outlined in paragraphs 32 and 33 of the draft guidelines?

Clarity around these permissible costs will have an impact on both operational and investment aid.

Aviation Taxation

Although not covered in the guidelines there is an apparent policy dichotomy/disconnect that exists in the EU, and for airlines and airports operating in the UK in particular, where air travel taxation (i.e. Air Passenger Duty) is not subject to harmonisation but where operating costs aid and investment aid are. The EU policy reflected in these guidelines recognises the fact that the Low Cost Carriers (LCCs) operate on a trans EU basis. The high level of APD charged in the UK
compared to other parts of the EU has created a significant distortion in the UK market that is not evident in other parts of the EU and has (not surprisingly) driven investment by LCCs in new route development to those parts of the EU where APD is much lower or zero. Of course this is particularly relevant in Northern Ireland as we have a land border with another EU state that has a much lower taxation regime. This in itself creates a significant market distortion which is not addressed by these guidelines. Therefore the imposition of a common European wide policy on state aid is incompatible with differing aviation taxation regimes adopted across Europe.

Regional Economic Impacts

Paragraph 9 of the draft guidelines accepts that ‘...regional airports can prove important both for local development and for the accessibility of certain regions, in particular against the backdrop of positive traffic forecasts for EU air transport.’ However apart from the transition period these guidelines allow no account to be taken of the contribution to local economic development or of the concept of Gross Value Added (GVA).

A regional public body with responsibility for economic development that decides to fund an airport operation to improve the region’s economic prospects must surely be able to take account of the overall economic benefits to the region of that investment. Given that the remoteness of some regions and their smaller catchments, we consider that there will always be a number of airports that whilst they cannot breakeven, provide a significant lifeline to the European market and generate a considerable benefit to the local economy. Whilst this principle appears to be recognised in section 4.2 of the documents, we note that this is prescriptive to islands or SGEI’s. We consider that this may be too limiting and that a higher threshold must be applied to enable all regions of Europe to benefit from air connectivity.