CONSULTATION ON THE 2013 DRAFT EU GUIDELINES ON STATE AID TO AIRPORTS AND AIRLINES

COMHAIRLE NAN EILEAN SIAR’S RESPONSE TO THE CONSULTATION

Background

This response is submitted by Comhairle nan Eilean Siar, the local authority for the Outer Hebrides, located to the north–west mainland of Scotland and one of three distinct islands authorities in Scotland. The Outer Hebrides’ location and geography present major social and economic challenges, particularly in terms of transport infrastructure, facilities and air and ferry services.

The region relies greatly on air transport for inter-island travel and connections with Scottish and UK mainland destinations, although the costs are often prohibitive, certainly in comparison with mainland air travel. The Scottish Government operates an Air Discount Scheme which provides a 40% discount against high travel costs for residents in the remoter regions of the Highlands and Islands, but this is for domestic travel only and does not apply to in-bound visitors. Neither does it apply to commercial travel so it does not benefit local businesses in terms of mitigating the impact of distance from markets in Scotland, UK and further afield, in terms of costs or communication.

Given the importance of air transport to the Outer Hebrides, one of the most peripheral areas in Europe, the Comhairle welcomes the opportunity to respond to the draft EU Guidelines on state aid to airports and airlines. The Comhairle is a constituent member of the Highlands and Islands Transport Partnership (HITRANS) and also provides its secretariat.

Overall, the Comhairle broadly supports and endorses the views expressed by HITRANS and the Highlands and Islands Airports Group (HIAL) in their respective responses to this consultation.

Section 1 - Introduction

The Comhairle would support the view that the EU categorisation of airports based on passenger numbers does not reflect the experience and issues faced by regional airports in Scotland. The guidelines continue to be a one-size-fits-all framework which are competitively disadvantageous to the more peripheral regions of the EU. The risks inherent in establishing and maintaining a level of international connectivity in outlying regions compatible with territorial cohesion are not fully reflected in the revised guidelines, particularly in relation to the revised guidelines on start-up aid.

The guidelines do not adequately explain why the definition of a regional airport has changed from 5m to 3m passengers per annum. The Comhairle’s view, consistent with HITRANS, is that domestic air traffic (within the UK), and certainly not regional air traffic, does not distort competition in the wider EU context and therefore the definitions of regional and large airports should be net of domestic passenger numbers.
Regional Services.

The peripheral regions of the EU such as the Highlands and Islands of Scotland, with little or no high speed surface transport options, are more reliant on air travel to access existing and developing markets, albeit the costs to and from islands are in the most part prohibitive. Catchment area markets are smaller and the risk inherent in starting up new air services is therefore correspondingly greater. The Islands are particularly poorly served by alternative surface transport modes for access to the Scottish and UK mainland and the increasing cost of monopolistic commercial ferry transport and freight means that a more flexible approach is required to recognise the situation of islands in the context of promoting social and economic cohesion with the rest of the EU. While the Commission recognise this, there appears to be little in the current guidelines which reflect adequately or address the problem.

The draft guidelines do not give adequate consideration to the promotion of social and economic cohesion, particularly in those parts of the EU that do not have major hub airports or high-speed rail connectivity.

Section 4 – Definition of Service of General Economic Interest (SGEI)

The Comhairle is encouraged that in paragraph 65 “the Commission notes…..that certain airports have an important role to play in terms of regional connectivity of isolated, remote or peripheral regions of the EU ....” and makes specific mention of islands in this context, albeit on a case by case basis.

However, the Comhairle endorses the view expressed by HITRANS that it would be useful if the guidelines could clarify which airport activities would be eligible under an SGEI as there is no reference to these within the SGEI guidelines or Regulation 1008/2008, as did the 2005 guidelines at Section 4. 53 (iv). This would offer greater clarity in terms of future implementation of provisions.

Section 5 Compatibility of aid under Article 107(3) TFEU

Start-up aid

The Comhairle would agree with HITRANS’ view that the provision for start-up aid for airlines remains of limited value as it fails to recognise the commercial realities and true level of risk inherent in new route development in peripheral regions.

Eligible costs

The Comhairle would reiterate the HITRANS position that the retention of an overly restrictive view of what constitutes eligible costs for Start-up Aid, by excluding standard operating costs, airport charges, etc., limits the potential for new routes/frequencies to be assisted under the Guidelines, and would not take cognisance of the commercial realities of developing new air routes to smaller airports on the periphery.
Reduction in duration of support

The Comhairle supports HITRANS’ view that all Start-up Aid should not be limited to a maximum of two years duration, and that the dispensation for "disadvantaged regions" (including sparsely populated regions) for a duration of up to 5 years with higher levels of aid intensity should not be removed. Limiting Aid to maximum 2 years restricts the potential for development of commercial air routes to remote/sparsely populated regions, such as the Highlands and Islands of Scotland, which would take 3-5 years to mature and/or present a more significant commercial risk to an airline. The Commission needs to reconsider this position and should revert to the current dispensation for the Highlands and Islands region and other similarly "disadvantaged regions".

There are also no special (higher) aid intensities or longer support periods for disadvantaged regions or sparsely-populated regions such as the Highlands and Islands area of Scotland. This change is not explained and would be particularly disadvantageous to such areas where it always takes longer to establish new routes.

The limits on airport size, aid duration and eligible costs for Start-up Aid provide little scope for a compliant scheme to be of much value either to airlines, or in terms of promoting accessibility and economic development of remote or sparsely populated regions.

Aid for routes outwith the EAA

The Comhairle notes that the draft guidelines are silent on connectivity outwith the EAA. This requires further clarification. Such links are increasingly important for the maintenance and development of connections with existing and emerging markets and the direct economic benefits these can deliver. If peripheral regions are to remain/be economically competitive, support for improved connectivity is needed to share the inherent risk in the start-up of new routes.

Section 6. Aid of a Social Character

The Comhairle supports the continuation of Social Aid, although a wider interpretation of its provisions, certainly at Scottish Government level, would make a significant difference, socially and economically, in the peripheral areas.

Conclusion

In summary, the Comhairle supports the view expressed by other Scottish stakeholders, including the Scottish Government, that in instances where there is no displacement of services or distortion of competition, strong sustainable economic growth and increased connectivity across Europe and beyond, the annual volume of an airport’s passengers should be immaterial to the consideration of public support.

By imposing this arbitrary categorisation, the maximisation of route development potential is constrained. Together with the limits on aid duration and eligible costs for Start-up Aid, the guidelines provide little scope for a compliant scheme to be of much value to airlines or to the promotion or success of Scotland’s air connectivity,
which of course would have a disproportionately adverse effect on the islands and more peripheral areas.

Comhairle nan Eilean Siar
25 September 2013