International Air Carrier Association’s (IACA) position on the European Commission’s proposal for new Guidelines on State aid to airports and airlines

Introduction

The International Air Carrier Association (IACA) represents 30 airlines that operate various business models to cater for different demands in the travel market, including low-cost, seat-only and tour operator traffic. Their common feature is efficiency in terms of fleet utilization and load factor.

Through this Paper, IACA members wish to contribute from their perspective to the public consultation on the Commission’s draft. They believe that the final guidelines should be amended to take into account the following principles.

Major infrastructure and in particular network infrastructure must be financed by public money

The proposed Commission’s guidelines basically restrict the use of public funds for investments in airport infrastructure. This policy sharply contrasts with

- current public funding practices for other types of infrastructure, such as roads, railroad tracks, tunnels, sea ports, etc.
- initiatives taken in other regions in the world that invest massively in aviation infrastructure, thereby stimulating their national economies
- attempts to find a way out of the current economic crisis through investment in infrastructure, which could be particularly instrumental for countries in southern Europe that depend heavily on tourism (and therefore aviation), but are particularly hit by the crisis.

The proposed Commission’s guidelines are also denying that all network infrastructures require public funding at all stages of their development in order to achieve economies of scale benefitting the entire economy.
**Competition between airports is marginal and monopolistic**

The proposed restriction on granting state aid to infrastructure is justified by the fact that aid is distorting competition. The Commission's assumption is indeed that there is competition between airports. IACA wishes to challenge that assumption.

In our view, the competition is between airlines and not between airports with the exception of some very limited cases where a certain type of airline will as a result of its business model put two specific airports in competition at a specific moment (e.g. before the opening of a new air route).

This competition is anyhow marginal and monopolistic and therefore cannot dictate the policy on state aid to infrastructure.

**The guidelines on state aid to airports and airlines do not address the right question and do not provide the right answer**

The funding of airport infrastructure whether through public or private money must be analyzed in conjunction with what constitutes the payment for airport services by airlines, i.e. the airport charges.

IACA considers that the Commission must widen the debate and consider the airports’ charging policy, with or without state aid.

The alternative to state aid is indeed in most cases cross-subsidies between airports through user charges as practiced, notably in Spain by AENA. In this case, the state does not bear the consequences of its past unrealistic investments decisions and forces airlines to foot the bill through higher charges at certain airports. The result is that this so-called cross-subsidy mechanism between airports, allowed by an ill-conceived EU Directive on airport charges and an abuse of the concept of “airport network” is in reality a forced cross-subsidy between airlines.

In this regard, IACA questions the absence of any reference to the airport charges Directive in the proposed Commission’s Guidelines. State aid provided to airports which in turn provide it to airlines cannot be analyzed in isolation from the present regime on airport charges. Furthermore, the provision that spells out allowed start-up aid to airlines for new routes or schedules are ambiguous.

Furthermore, the guidelines also refer to certain economic activities as being non-aeronautical activities, thereby interfering in the very relevant debate on single/dual till mechanism to calculate airport charges at a specific airport.

IACA considers that the guidelines are addressing key issues that are affecting the competition between airlines, their competitiveness, their profitability, their operations. But the Commission is unfortunately proceeding through a piecemeal approach instead of looking at the relations between States, airports and airlines in a holistic way.

The guidelines show concerns regarding the duplication of unprofitable airports and the creation of overcapacity but brings no relief to airlines that are forced to fund the existing unprofitable overcapacity.
Airports must be regulated at European level

IACA holds the opinion that airports are natural monopolies and must therefore be regulated. The existing airport charges Directive has revealed to be a very poor instrument to correct the imbalance in the relationship between the deregulated airlines and the de-facto monopolistic airports.

IACA advocates that the EU Airport Charges Directive must be replaced by a genuine economic regulation at European level. Only that instrument will provide tools to monitor the airports business plans, their investments, their charging policies and their profit margin.

***

For more information, please contact:

Koen Vermeir
Director Aeropolitical & Industry Affairs, IACA
Tel: + 32 (0) 2 546 10 64, e-mail: koen.vermeir@iaca.be

IACA members: