Ireland’s Response to the European Commission on its Draft EU Guidelines on State aid to airports and airlines

(EC Ref: HT-2635 Revision of Aviation Guidelines)

General comments

Ireland welcomes the European Commission’s initiative in updating and revising the previous Guidelines on financing of airports and start-up aid to airlines departing from regional airports and expresses its thanks for the opportunity to comment on the new draft Guidelines.

Ireland supports the aim of the draft guidelines as identified by the Commission in terms of making best use of public resources for growth-oriented policies, while limiting distortions that would undermine a level playing field in the internal market.

The Commissions’ approach is broadly in line with Ireland’s evolving policy regarding regional airports and other airports. Because of improved road and rail links and the need to make best use of assets and scarce resources, Ireland has already consolidated the number of airports which it supports through its Regional Airports Programme. The overall objective of Ireland’s current airport policy is to maintain the level of connectivity necessary to underpin economic recovery and sustainable development into the future.

Given Ireland’s geographic location, the acknowledgement by the Commission of the role that regional airports can play in facilitating balanced regional development and that State aid for capital investment and operational expenditure may be necessary to develop new services and contribute to local accessibility and economic development, is particularly welcome.

Ireland agrees with the Commission that regional airports can have a positive effect on regional development and employment and can have a catalyst effect in terms of increased regional investment and competitiveness.

Regional Airports in Ireland

For a number of years, Ireland has provided financial support to six regional airports (Donegal, Sligo, Ireland West Airport Knock, Galway, Kerry and Waterford) and for PSO air services under a Regional Airports Programme, under three separate schemes as follows:
• A Regional Airports Capital Expenditure Grant (Capex) Scheme
• A Core Airport Management Operational Expenditure Subvention (OPEX) Scheme
• A Public Service Obligation (PSO) air services scheme.

Following the completion of a Value for Money (VFM) Study on Ireland’s Regional Airports Programme in 2010, the Irish Government decided to discontinue Exchequer support from January 2012 for two of the six regional airports (Sligo and Galway) whose catchments overlapped those of other airports with jet capability - Ireland West Airport Knock (IWAK) and Shannon - and whose viability and rationale had been undermined by improved rail and road connections.

From 2011 onwards, the Minister for Transport, Tourism and Sport has made clear to the four remaining regional airports still in receipt of support under the Regional Airports Programme (Donegal, IWAK, Kerry and Waterford) the importance of working towards achieving financial viability in the medium term.

**Change in Structure of Irish State Airports**

The Government has also reviewed the structure of the three State airports (Dublin, Cork, and Shannon) and decided in 2012 to separate Shannon airport from the other two airports and to form a new entity (‘NewCo’) in public ownership with a commercial mandate comprising Shannon Airport with a restructured Shannon Development (also a State company) in order to make best use of its assets and resources. Separation took place on 31st December 2012 and work on the drafting of the legislation to establish NewCo is progressing.

**Aviation Policy Review 2012-2014**

In December 2012, the Minister for Transport, Tourism and Sport launched a process of engagement with the aviation sector with a view to developing a new integrated Irish Aviation Policy.

The Irish Aviation Policy Issues Paper recognises that regional airports in Ireland were developed in the 1980s to provide for improved connectivity both nationally and internationally. There was a perception at the time that regional airports could deliver significant social and economic benefits to the regions that they serviced at a time when rail and road connections were poor. The development of the major inter-urban roads programme and improvements to the rail network has reduced the importance of regional airports for connectivity within Ireland. Today, some regional
airports are viewed as important because of a level of international connectivity that they bring to a region for tourism and business. Other airports such as Galway and Sligo have transformed their business models to focus on providing air services, other than scheduled services, e.g., general aviation, recreational aircraft and accident and emergency cover, etc. It is also the clear that the outlook for those and other regional airports is challenging.

It is envisaged that, following a further public consultation on a draft policy statement, Ireland’s Aviation Policy will be adopted in 2014. This document will set out, inter alia, Ireland’s future policy regarding its regional airports and the supports to be provided in the medium to long term. This Policy will obviously take into account the European Commission’s Guidelines on State aid to airports and airlines.

Specific comments on the draft EU Guidelines of July 2013 on State Aid to airports and airlines

Services of General Economic Interest (SGEI)

Ireland welcomes the reference in paragraph 15 that the “provision of compensation for uncovered operating costs of services of general economic interest (SGEI) would remain possible for small airports to allow for connectivity of all regions ....”. It also welcomes the references in paragraph 61 that certain economic activities carried out by airport managers or airlines may be defined by public authorities as an SGEI and in paragraph 65 about the justification to define SGEI in particular airports to take account of the important role played in terms of regional connectivity of isolated, remote or peripheral regional of the EU. This is particularly important for Ireland given its island status and peripheral location in Europe.

Maximum intervention rate for investment aid

The 75% maximum intervention rate for investment aid for airports with less than 1 million passengers as set out at point 92 will most likely put some regional airports under greater pressure to fund the balance of 25%. For example, essential safety and security investment projects to ensure compliance with safety and security regulations are currently funded 90% by the Irish Exchequer. It is suggested that Member States should be allowed to provide a higher maximum intervention rate (90%) for safety and security related projects for all airports but at a minimum for smaller airports with less than one million passengers.
Transitional period for operating aid

Ireland welcomes the acknowledgement by the Commission that there are exceptions where operating aid may be justified under certain conditions.

The requirement at point 106 of the draft Guidelines that airports shall progressively increase their initial operating cost coverage by at least an average of 10% per annum until full operating cost coverage is reached might appear to be somewhat arbitrary and would be very challenging for many regional airports to achieve. It may be possible for some regional airports to achieve full operational cost coverage over a somewhat longer period than that envisaged (taking the example given in point 106, in some cases an airport at 60% coverage of operating costs could, for example, take six years rather than four to achieve full operating cost coverage). This is particularly so, given the current overall stagnant/depressed state of the European economy, particularly in many of the more peripheral EU countries like Ireland. It is suggested, therefore, that there should be more flexibility in terms of the annual reduction in the operating cost coverage to take account of individual airport’s circumstances and their ability to cover full operating costs over a longer period within the 10 year timeline.

Transparency

Ireland welcomes the Commission view that further measures are necessary to improve the transparency of State aid in the Union. However, Ireland suggests that the information on approved aid schemes and on individual aid granting decisions be made available on a central Commission website rather than on the multiplicity of websites in Member States that seem to be envisaged at points 119 and 120. The guidelines should also set the timeline for publication of this information (e.g. within three months) after the granting decision has been taken. These measures would ensure consistency of information and reporting.

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