POLICY SUBMISSION

SCDI RESPONSE TO THE EU CONSULTATION ON THE DRAFT GUIDELINES ON STATE AID TO AIRPORTS AND AIRLINES
POLICY SUBMISSION

SCDI is an independent and inclusive economic development network which seeks to influence and inspire government and key stakeholders with our ambitious vision to create shared sustainable economic prosperity for Scotland.

For more information on this response please contact Fraser Grieve at:

Policy Team
Scottish Council for Development & Industry
Ballantyne House
84 Academy Street
Inverness
IV1 1LU

e  fraser.grieve@scdi.org.uk
Introduction

1. The Scottish Council for Development & Industry (SCDI) is an independent membership network that strengthens Scotland’s competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI’s membership includes businesses, trade unions, local authorities, educational institutions, the voluntary sector and faith groups.

2. SCDI welcomes the opportunity to contribute to this consultation on EU Guidelines on State Aid to airports and airlines as we recognise the important role air transport plays in connecting Scotland’s businesses with the global marketplace.

3. SCDI whilst welcoming attempts to simplify the rules around state aid is concerned that some of the measured proposed do not reflect the challenges that some regional airports can face in maintaining connectivity given lower passenger volumes and the higher risk and cost for airlines.

4. Across Scotland the economic recovery is strengthening, but output is still well below pre-recession levels and growing exports is key. It is vital that businesses have the air links they need across the UK, Europe and internationally in order to grow and develop new markets. Businesses must have confidence that air connections can be maintained to remain competitive in the face of improving surface alternatives in other parts of Europe, recognising that air plays an even more critical role for an island nation without the same level of surface connectivity as mainland Europe. A one-size-fits-all policy is inappropriate. This is not just an issue for businesses wishing to operate across Europe and internationally, but is of huge importance in attracting visitors.

5. The north of Scotland plays the leading role in the Energy industry with it not only being home to the European energy capital of Aberdeen but with 25% of Europe’s renewable energy potential around its shores. With over 1,000 companies involved in the oil and gas industry working from Aberdeen in over 100 countries and generating 50% of their revenue from exports air connectivity is of the utmost importance. The north of Scotland also leads the way in the food and drink sector with Scotland’s two largest exports whisky and salmon both produced here. These are all key exports for Europe and play an important role in Scotland’s economy. However whilst these sectors help to make the economy a success there is a real reliance on air connectivity to support them to flourish given the distance and lack of transport alternatives from key markets.

6. Competition for new routes and slots at major airports is not confined to Europe and if peripheral regions are to remain economically competitive, then support for improved connectivity into hubs and through point-to-point services is needed to share the inherent risk in the start-up of new routes.

7. SCDI recognises that both focal and point-to-point airports are important and would argue that without meaningful state aid being available regional access from smaller
or more distant locations into focal airports will be squeezed out in favour of more long-haul services. Point-to-point has real benefits for locations with sufficient patronage for viable routes but access must also be maintained into focal airports.

8. SCDI would like to highlight two recent papers we have produced in relation to Scotland’s aviation. The first is a report on air connectivity between Inverness and London\(^1\) and the second our submission to the UK Airports Commission\(^2\). We hope that these are helpful in outlining the importance of air connectivity to Scotland.

Section 1 – Introduction

The availability of fast, convenient transport options is key to attracting inward investment to a region and every area of the EU should have access, either directly or through a focal airport, connections that make trade possible both within the EEA and around the world.

As is rightly pointed out in the consultation air transport plays a vital role in the integration and the competitiveness of Europe, and as is highlighted the air transport industry has expanded as never before since its liberalisation. Whilst the liberalisation of the air transport industry has resulted in increased passenger numbers growth, it has also resulted in increased capacity constraints at hub airports like Heathrow, who have not been able to expand, and difficulties for routes with lower more marginal passenger numbers gaining access.

When the global financial crisis hit passenger numbers on many airlines reduced and routes became unviable as a result. This was compounded by the loss of the Scottish Route Development Fund in 2007 at a time when it could have been of most assistance to the aviation industry. Some of the services previously supported through this fund continue to provide important links, others however have unfortunately not been able to continue. Whilst expenditure on the fund was thought to be some £22.1 million the total GVA impact for all RDF services combined has been estimated at between £47 million and £52 million. In the final year of the fund some 7.6% of passengers on Scottish air services were carried on RDF supported services.

With airlines looking to increase passenger numbers, and key airports seeing more demand for routes to emerging markets, routes to regional airports with lower passenger volumes, and more marginal load factors or seasonal demand, will find it increasingly difficult to access key airports. This will have a detrimental impact on regional competitiveness and restrict the potential for sustainable economic growth, particularly for communities without competitive transport alternatives to air.

Peripherality

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In point 5 of the draft guidance the Commission states “Certain regions are still hampered by poor accessibility from the rest of the EU, and major hubs are facing increasing levels of congestion.” To use two examples Aberdeen Airport handles 3.3m passengers a year, 60% of which are business travellers, and has no competitive transport alternative to connect to a hub airport other than by air. A large percentage of passengers are domestic travellers connecting to or through London, and the airport serves a population base of just 470,000. Under the proposals they would be prevented from offering meaningful state aid due to their passenger throughput. In the case of Inverness Airport, which carries 600,000 passengers, it is located within a convergence region and serves as the main airport for a population of around 230,000 across 25,000 square kilometres and is to lose half of its services into London Gatwick from next March, and concern remains over future connections to and through this key airport.

Both of these airports have small population bases, and their distance from many of the most popular leisure and business destinations, means they rely more than most on their ability to connect to hub airports, here in the UK and in Europe. Their distance also makes services a more expensive proposition for airlines because of the limited number of daily rotations they can offer and the higher fuel costs they incur.

Whilst SCDI understands the need for guidelines to be put in place that prevent market distortion it is vital that state aid can provide meaningful support for routes from airports furthest away from airport hubs that do not have competitive surface alternatives. This is vital in order to mitigate the continued erosion of services which is a result of the increasing levels of congestion at major hubs, which drives airlines to look to utilise routes with higher load factors, and which provide a less marginal and risky return.

**State Aid to Airports**

In the draft guidelines there is a move to reduce from 5m to 3m the number of passengers an airport can have in order for it to be defined as a regional airport and this could have a detrimental impact on some airports. We do not believe that passenger numbers are a reasonable measure of an airports function as they do not take into account the percentage of domestic travel, its geographic location, and in some areas the lack of a competitive surface alternative means of travel. We believe these factors are all important in defining an airports role and would suggest that a move to lower the limit from 5m to 3m serves no helpful purpose and will particularly impact on areas located furthest from a hub or focal airport.

SCDI is also concerned by the view that airports can always become profitable after a 10 year transition period. Many remote airports provide a vital lifeline to small population bases and with significant fixed operating costs they may be unable to absorb these outlays and as such will rely on continued public subsidy. The withdrawal of that aid after a 10 year period could likely result in higher airport charges which could drive airlines away and lead to the withdrawal of key routes.
Start-up Aid to Airlines
As it stands the proposal regarding start-up aid provides too limited a timescale and does not provide enough flexibility to enable meaningful support to be given in a way that can address some of the commercial risk associated with establishing a new route from a regional airport.

Establishing or expanding a route from smaller airports carries much greater risk than doing so from larger airports given the lower passenger base, and once established are more likely to be considered commercially viable than profitable making their continuation much less secure in the face of more lucrative routes emerging.

Airlines continually review the routes they operate on and smaller airports can struggle to meet the drive for additional passengers to fill larger aircraft used by major carriers or which are required to justify access into key airports such as Heathrow and Gatwick.

We would hope that the decision to limit aid to two years would be reviewed and that a more appropriate timescale which better reflects the 3-5 year period for routes to establish could be adopted. This would provide airlines with more confidence to make a decision regarding a new route and businesses more assurance over the continuation of a service in order to consider it as part of investment decision in an area.

We would also urge that flexibility should be allowed to enable support to be given where there are demonstrable ex ante operating losses during an initial start-up period. This would recognise and help address the additional risk of establishing routes from regional airports.

Whilst an ability to provide state aid in support of and to assist the establishment of new routes is important, the periods for which aid can be given should allow sufficient time for services to mature and become sustainable. Without that time there is a danger that the aid will fail to bring about the potential long term benefits.

Aid for routes out-with the EAA.
As has been highlighted earlier in this response some regions have poor alternative transport accessibility from the rest of the EU other than by air, and major hubs are increasingly congested. This, combined with the rise of low cost carriers and a drive for more point-to-point service, can make access to parts of the EU such as Scotland challenging. Given this, routes out-with the EAA are increasingly important for the maintenance and development of connections with existing and emerging markets and can play an important role in economic growth.

Key Recommendations
- Passenger numbers do not provide a full reflection of an airports function and relative importance within an economy, therefore other factors such as population base, distance from major hubs, and alternative forms of transport should be considered.
• Support for start-up costs should be granted over a longer period to enable routes to establish and should recognise that operating costs are an important factor in the risks associated with the establishment of new routes.

• Support for routes should not be limited to those within the EEA given the continuing pressures on Europe’s focal airports, and point-to-point services to outside the EEA should be able to receive support.

• More consideration needs to be given across the guidelines to the challenges of regions without competitive transport alternatives to ensure that sufficient support can be given to address the additional risks and costs of providing air services to them, and the importance of those services to the local economies.

More Information

SCDI would like to continue to engage on this issue and if you require more information on this response, or to discuss this consultation in more detail, please contact Fraser Grieve, SCDI Highlands & Islands Manager on fraser.grieve@scdi.org.uk or 01463 231878.

Scottish Council for Development and Industry

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