European Commission's review of EU state aid rules on the public financing of airports and start-up aid to airlines.

Comments by Skellefteå City Airport AB

Skellefteå City Airport welcomes this opportunity to comment on The European Commission's review of EU state aid rules on the public financing of airports and start-up aid to airlines.

Cohesion

Skellefteå municipality is located in the northern part of Sweden close to the Arctic Circle. The municipalities around Skellefteå Airport has an area of 7 217 Km² which is 1,7% of the area of Sweden. With the municipality’s in Skellefteå Airports catchment area the area increases to 10 568 Km². The population in this region is 79 387 inhabitants which gives a population of 7,5 inhabitants per square km. The catchment area for domestic air traffic is very large due to the geographic location. The region has no railway transportation to the capital of Sweden.

The distance by car is 770 km and the time to drive to Stockholm is about 8,5 hours. Skellefteå was owned by the Swedish government from 1961 to 2010. 2010 the ownership was overtaken by Skellefteå municipality due to a government decision. Skellefteå Airport has the last year been one of the fastest growing airports in Sweden and has increased the passengers from 200 000 to 300 000. The airport has predominantly domestic traffic to Stockholm in order to uphold vital connections with Stockholm and the rest of the world. In consideration hereof Skellefteå municipality will file a request with the Swedish Government in order to have Skellefteå Airport declared as Services of General Economic Interest.
Business and Industry

In Skellefteå municipality there is over 10 000 companies who are in strong need of air transportation. The region has many large companies. Boliden, Alimak and Skellefteå Kraft are some examples. Sweden is by far the largest producer of iron ore and also number one for lead in the EU, the second largest silver, gold and zinc producer, and the third largest copper producer. Some of the most important ore deposits and interesting geological regions are found in the Skellefteå district in Västerbotten. Ever since the 1920’s, the mining and smelting company Boliden has been the major force behind the development of the mining industry in the mineral rich Skellefteå field. Today, Boliden is the third largest copper supplier and the third largest zinc producer in Europe. The processing plant Rönnskär is one of the most efficient copper and zinc smelters in the world. Rönnskär is also a specialist in the recovery of base and precious metals from electronic scrap.

Skellefteå Kraft is a municipality-owned power company in. The company is Sweden’s second largest power company next to Vattenfall. It operates 20 hydroelectric power stations and is also one of Sweden’s largest investor on renewable energy sources due to the wind-power park in Blaiken that is under construction.

Industry investment is and has been high in northern Sweden. To maintain the development and future investments the transportation to and from this region by air is essential.

The new guidelines

Accessibility by air is a matter of survival for Skellefteå, Norsjö and Malå municipalities. Skellefteå Airport ensures that people and companies can meet, work, invest and study far away from the bigger cities. The airport is necessary to maintain and develop regional and national economy, welfare and general well being in the whole of our country and not only in our larger cities.

Since Skellefteå Airport is a part of an overall designed national airport model, planned by the government and local authorities jointly to cater for life and prosperity in the entire country, our airports do not compete.

Mentioned facts were thoroughly recognized by the European Union at the time of Sweden’s accession to the Union in 1995. The following passage is from Council Regulation (EG) nr 1083/2006, Preamble point 11;

"The problems of accessibility and remoteness from large markets confronting areas with an extremely low population density, as referred to in Protocol 6 on special provisions for Objective 6 in the framework of the Structural Funds in Finland and Sweden to the 1994 Act of Accession, require appropriate financial treatment to offset the effects of these handicaps."
Cohesion has been an equally strong objective for the Union since its creation as competition and free movements. Council Decision of 6 October 2006 Community strategic guidelines on cohesion, Annex point 1.1

"1.1. Guideline: Making Europe and its regions more attractive places in which to invest and work

One of the preconditions for growth and jobs is to ensure that the necessary infrastructure (e.g. transport, environment, energy) is available to businesses. A modern and secure infrastructure is an important factor in the performance of many enterprises, affecting the economic and social attractiveness of regions and cities."

And further in point 1.1.1.

"In order to guarantee the optimum efficiency of transport infrastructures for promoting regional development, attention should be paid to improving the connectivity of landlocked, insular or outermost territories to the TEN-T projects. In this respect, the development of secondary links, with a focus on inter-modality and sustainable transport, will help. In particular, harbours and airports should be connected to their hinterland."

And finally in point 2 of the Annex;

2. THE TERRITORIAL DIMENSION OF COHESION POLICY

"One of the features of cohesion policy — in contrast to sectoral policies — lies in its capacity to adapt to the particular needs and characteristics of specific geographical challenges and opportunities. Under cohesion policy, geography matters. Accordingly, when developing their programmes and concentrating resources on key priorities, States and regions should pay particular attention to these specific geographical circumstances.

Taking on board the territorial dimension will help to develop sustainable communities and to prevent uneven regional development from reducing overall growth potential. Such an approach also requires that the specific problems and opportunities of urban and rural areas may need to be addressed as well as those of particular territories such as cross-border and broader transnational areas, or regions suffering from other handicaps due to their insularity, remoteness (such as the outermost or Arctic regions), sparse population or mountainous character. The environmental demographic constraints faced by coastal areas may also need to be addressed. The successful implementation of actions to promote territorial cohesion requires implementing mechanisms that can help to guarantee fair treatment for all territories based on their individual capacities as a factor of competitiveness. Thus, good governance is important to successfully addressing the territorial dimension."
Given this background, we see no difference between airports and other parts of our national infrastructure. All are necessary to obtain the goals of the European Union as demonstrated in Funds such as the European Regional Development Fund, The European Social Fund and the Cohesion Fund.

Airports in Sweden

In Sweden, airlines compete with one another, not airports. All airports, regional as well as national hubs, are needed to keep our country together and nearly all airports are inherent loss makers. Not only investments in the repair and upgrading of terminals, runways and equipments are needed for our regional member airports, but also a running financial yearly injection by the owners are required. There is for the vast majority of our regional airports no prospect of making a profit ever. There is no sense whatsoever in appointing a small regional airport to be a separate profit centre. Our regional airports have a very low overall cost compared with roads and railways. They generate substantial benefits for their respective local communities in terms of tax revenue from the local business community itself, but foremost is the upside the income from all remaining local citizens that does not have to move to larger cities.

What multibillion investments, many through EU funding, in roads and railways have meant for Spain, Italy and France, have regional airports meant for Sweden with only a fraction of investments made. From a Swedish point of view airports are an equally essential part of our domestic infrastructure as are bridges, roads, tunnels, ferries and railways.

Skellefteå Airport is a servant for the surrounding regions and their rationale is not to try to make a futile profit. There have been no incentives for private money to enter the stage of Skellefteå Airport in order to make a profit.

In its 2003 Altmark judgement, the European Court of Justice held that public service compensation does not constitute State aid when four cumulative conditions are met:

1. the recipient undertaking must have public service obligations and the must be clearly defined;
2. the parameters for calculating the compensation must be objective, transparent and established in advance
3. The compensation cannot exceed what is necessary to cover all or part of the costs incurred in the discharge of the public service obligations, taking into account the relevant receipts and a reasonable profit.
4. Where the undertaking which is to discharge public service obligations is not chosen pursuant to a public procurement procedure which would allow for the selection of the tenderer capable of providing those services at the least cost to the community, the level of compensation needed must be determined on the basis of an analysis of the costs of a typical well-run company.
Commission’s proposed Guidelines

Skellefteå Airport is necessary for the survival of the Skellefteå region, our citizens and our companies. Skellefteå Airport does not compete with other airports due to the distances between airports in northern Sweden. Roads are Services of General Economic Interest and can therefore not be judged after a Central European yardstick, airports in low populated areas with long distances to main cities should also be declared Services of General Economic Interest. A separation in the Commission’s approach between investment aid and operating aid is of no relevance for us. Neither is the prospect of airports being able to adapt in order to break even in the future. Swedish airports are in general quite efficiently managed, but for an airport the threshold is high to handle commercial operations at all, given the fact that investments in infrastructure and daily operations are substantial even if you are small. Our dilemma lies in the fact that without public money, most of our airports would not exist.

Skellefteå Airport notes the following observation by the Commission in point 5 of the Draft;

"Smaller airports display the greatest proportion of public ownership and rely on public support to finance their operations. Indeed, the profitability prospects of commercial airports remain highly dependent on the level of throughput, with airports that have fewer than 1 million passengers per annum typically struggling to cover their operating costs. Consequently the vast majority of regional airports are subsidised by public authorities on a regular basis."

Skellefteå Airport welcomes the observation and can endorse it based on our reality. We are financed with public money, we are under 1 million passengers per year and also managing airport operation in arctic climate that is quite expensive.

Encouraged by the Commissions understanding of our industry as being presented so far, we became less enthusiastic when reading the latter part of point 14

"As explained in point 5 above, available data and industry consensus point to a link between an airport’s financial situation and its traffic levels, with financing needs normally being greater for smaller airports. In light of their contribution to economic development and territorial cohesion in the EU, managers of smaller regional airports should therefore be given time to adjust, e.g. by gradually increasing airport charges to airlines, by introducing rationalisation measures, by differentiating their business models or by attracting new airlines and customers to fill their idle capacity."

Regional airports cannot endanger traffic to their regions by increasing already high fares. This would be contrary to the whole idea of why we exist and would not be accepted by our owners or by our airlines and joint consumers. But again we feel encouraged when reading the latter part of point 16, even if we still cannot encompass the word "transitional period", since it is not applicable to us.
"If a genuine transport need and positive externalities for a region can be established, investment aid to airports should nevertheless continue to be accepted after the transitional period, with maximum aid intensities ensuring a level-playing field across the EU."

Skellefteå Airports comments for Commission’s consideration to its Proposed Guidelines

Commission’s general base point for its proposal for revised Guidelines for Airports, is an ill-fit costume for Skellefteå Airport. To assume that Publicly financed Swedish Regional airports could be without public financing of the operations within 10 or 3 years is not correct for many reasons; Skellefteå Airport has never intended to be a market economy profit centre and even if we tried, our market conditions are such with meager traffic flows, that this would never happen. Since Skellefteå Airport assumes that the Commission does not wish to wipe out the transportation to large parts of Sweden and the great mining areas, it is necessary to look elsewhere.

It is clear since childhood of aviation that Sweden, i.e., governments, local authorities and courts, have judged smaller airports to be legally accepted recipients of State Aid. The practice is well established and the function is deeply rooted.

There is no discrimination between operators or airport providers and there is no distortion that effects trade between Member States. The services are all necessary to provide continued existence of social life and business in large parts of our country outside the major cities.

After Sweden’s accession to the EU in 1995, our airport model has remained and subsequently been covered by the constantly developing EU-legislation.

In point 114 of its proposed Guidelines, the Commission is in line with the Swedish position and furthermore includes our concept of aid to embrace entire groups of people.

"114. Aid of a social character in air transport services shall be considered compatible with the internal market within the meaning of Article 107(2)(a) of the TFEU, provided that the following cumulative requirements are met:

(a) The aid must effectively be for the benefit of final consumers.

(b) The aid must have a social character, that is, it must, in principle, only cover certain categories of passengers travelling on a route (for instance children, people with disabilities, people on low incomes). However, where the route concerned links remote areas, such as for example outermost regions, islands, and sparsely populated areas, the aid could cover the entire population of this region.

(c) The aid must be granted without discrimination as to the origin of the services, meaning whatever airlines are operating the services. "
Skellefteå Airport that is publically financed, should be declared as an SGEI-airport, Services of General Economic Interest, within the meaning of Article 106 (2) of the TFEU and compatible with the internal market in accordance with Article 107 (2)(a) of the TFEU. Swedish regional airports have been treated as a national asset, designed by the government and local authorities to be a self-evident part of our infrastructure since the earliest day of civil commercial aviation.

Summary
In consideration hereof Skellefteå Airport has this recommendation to the guidelines.
- Airports in low populated areas (less than ex 25 inhabitants per km²) should be excluded from the 200 000 passenger suggestion.
- Airports that have large operational costs due to operation in arctic condition excluded from the 200 000 passenger suggestion.
- Swedish airports should all be declared SGEI. It is extraordinary if harbours, roads and other infrastructure would be an economic interest but not airports.

Skellefteå Municipality shall file a request with the Swedish Government in order to have Skellefteå Airport formally declared as Services of General Economic Interest.

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