ERA response to the Call for evidence on the revision of the 2014 Guidelines on State aid to airports and airlines

european regions airline association

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ERA welcomes the opportunity to comment on the European Commission's Call for evidence on the revision of the 2014 Guidelines on State aid to airports and airlines.

The 2014 Guidelines on State aid to airports and airlines (the "2014 Aviation Guidelines") set out the general principles and compatibility conditions for State aid to airports and airlines in the European Union. These guidelines notably aim at ensuring good connections between European regions and the mobility of EU citizens, while minimising distortions of competition in the EU Single Market. Since their adoption, the aviation sector has however evolved, hence justifying the need to amend them in the medium term. This has been acknowledged by the European Commission in its Fitness Check of the 2012 State aid modernisation package conducted in 2019-2020.

ERA will address the following questions which have been identified by the European Commission in its Call for evidence:

- Can the current objective of the 2014 Aviation Guidelines (i.e. ensuring sufficient connectivity) be satisfactorily addressed by other existing instruments (e.g. the SGEI package, the General Block Exemption Regulation, the CEEAG, and the rescue and restructuring guidelines)?
- Being connectivity key for EU citizens and with many regions' development being dependant on air transport, why is current start up aid to airlines and investment aid for airports rarely used?
- Should therefore the conditions attached to these types of aid be adjusted and how?

Inadequacy of other policy instruments

Air transport is crucial for connecting people and regions, playing a key role in the EU's integration, competitiveness and global interactions. Regional aviation - for its part - plays a social role for communities in several mainland regions, outermost regions and islands, and contributes to the economic development of those regions, increasing tourism, investment and employment.

However, in a liberalised Single Market, where market forces drive demand and supply, there is a significant risk that some remote or underdeveloped regions are left behind, as can be witnessed in the US aviation domestic market. To avoid this and with the aim of developing Europe's regions and connectivity to/ from the regions, it is therefore essential to ensure that remedial and supportive measures are in place.

In this respect, Public Service Obligations (PSO) are a critical tool to ensure essential connectivity across Europe but are not a strategic solution for long-term regional development.

In particular:

- PSO - as an exception to liberalised market economies - are not intended to develop markets and commercial routes from a pure business perspective but are essential to fulfil a specific public need, such as providing basic connectivity across territories. Indeed, many of these essential routes are not commercially viable on a stand-alone basis but are justified by their socio-economic role and are therefore supported by the Member States under the PSO framework.
- Decisions on PSO routes are taken centrally by Member State authorities and the European Commission. According to ERA's experience, regional authorities, local communities or even private investors / stakeholders are not involved in the decision-making process, which is an essential condition for an effective concept of route development that takes account of specific regional and local interests.
- Experience shows that PSO decisions are driven by political and budget considerations in the Member States, rather than by commercial needs. The processes take far too long for final decisions or adaptation, and are therefore very unattractive to commercial actors, as the complicated and lengthy processes create legal and planning uncertainties.
- There are almost no cross-border PSO routes at present (except for the case of Strasbourg) because of different interpretations of the PSO rules by the Member States concerned (which enjoy a margin of discretion in this respect), political considerations and differences as well as budgetary and linguistic incompatibilities. However, thin cross-border connections are essential to improve European regional connectivity.

Therefore, ERA considers that - in addition of providing essential public funding to ensure essential connectivity to remote and outermost regions via the PSO rules - Europe needs more effective tools to improve regional connectivity which can stimulate local and regional economic growth, strengthen social ties and promote regional development.

Appropriateness of the 2014 Aviation Guidelines to support regional connectivity

The European Commission has already recognised the need for commercial support to develop regional connectivity, the principles being mainly set out in the 2014 Aviation Guidelines. These Guidelines indeed emphasise that:

- Certain regions are hampered by poor accessibility from the rest of the Union, and major hubs are facing increasing levels of congestion.
- State aid policy should focus on facilitating well-designed aid targeted at market failures and objectives of common interest of the Union and avoiding waste of public resources. State aid measures can indeed, under certain conditions, correct market failures, thereby contributing to the efficient functioning of markets and enhancing competitiveness. Furthermore, where markets provide efficient outcomes, but these are deemed unsatisfactory from a cohesion policy point of view, State aid may be used to obtain a more desirable, equitable market outcome.
- Development of new air traffic should, in principle, be based on a sound business case. However, without appropriate incentives, airlines are not always prepared to run the risk of opening new routes from unknown and untested small airports.

In view of the above, ERA considers that the 2014 Aviation Guidelines already provide a <u>solid basis</u> to support regional connectivity. They are indeed an efficient tool to tackle the loopholes of regional connectivity and ensure that isolated parts of Europe are correctly connected by regional routes, while making sure that those routes are operated with sound and efficient business principles.

Suggestions for improvement of the conditions attached to start-up aids

As acknowledged by the European Commission in its Call for evidence, *“experience has shown that some of the key provisions (such as those on operating aid for airports and start-up aid for airlines) have been rarely used in practice”*. ERA strongly agrees with this statement given that start-up aid schemes that have been cleared by the Commission have been rarely implemented in practice, because they are not reflective of the airlines business requirements when implementing new routes.

ERA members’ experience is that the conditions for the start-up aid are too strict - i.e., both the limitation to airport charges as eligible costs and the time limit of three years to reach profitability and not adequate for the sector. In particular, the limitation to airport charges as eligible costs does not constitute a sufficiently attractive incentive as most airports already offer more favourable rebates on airport charges to all the airlines operating from them that do not constitute aid (see Lubeck Airport ruling).

The main objective of the new start-up aid scheme should be **to create more flexibility and allow, on the basis of a sound business case, thin routes to be financially supported through different viable models until the route becomes profitable**.

To that end, ERA’s proposal for a new aid scheme is notably based on the following pillars:

- Funding should be able to come from different types of stakeholders, including public authorities or entities (at local, regional or national level) as well as private stakeholders with a proven interest in the operation of specific routes (for example, a private corporation needing an air connection for their staff)
- Such financial support should be laid down in a detailed and binding agreement between funding partners, airlines and airports, defining clear and measurable commercial objectives, timelines, on the basis of a business plan, support mechanisms and incentives. Such agreements to be prepared, on a case-by-case basis, would provide the stakeholders with more flexibility since they would be tailored to the specificities of each thin route;
- The financial support mechanisms (direct or indirect) could take different forms, such as direct grant or loan, reduction of airport charges, incentive payments on the number of passengers, etc. until *(i)* a route becomes profitable, *(ii)* agreed objectives have been achieved or *(iii)* a time limit for support has been reached.

- Decision and approval of the support model should be made by the authority that provides financial support or agrees with the private funding scheme, in coordination with the appropriate higher authority (Region or Member States) where relevant.
- The agreement should contain a crisis clause which would detail the applicable compensation for airlines operating a new route in case of a sudden and significant rise of the costs or decrease of the demand.

The proposed framework is intended, according to a sound business plan, to develop long-term reliable connections, to *(i)* enhance national or cross-border connectivity between regions and hubs and in-between regions, including on a seasonal basis and *(ii)* add value on both sides of the routes, boosting economic, social, and cultural development.

Overall, the framework aims to avoid situations where airlines are forced not to consider or to abandon thin routes that generate significant additional traffic per year because they are not profitable enough to cover all the costs during the ramp-up period, as was notably the case during the Covid-19 pandemic.

Compatibility with the Green Deal objectives

Thin and regional routes will have a key role to play in the deployment of the Green Deal objectives, as these routes will be the first to see the commercial operation of zero-emission aircraft such as electric, hybrid and hydrogen-powered aircraft.

As highlighted by the Alliance for Zero Emission Aircraft (AZEA) in its Vision Document, such aircraft could "abate up to 43 megatons (Mt) of CO_2 annually on intra-European routes by 2050, reducing intra-European aviation emissions by a third by 2050". In addition, the same document mentions "from the late 2020s and early 2030s, people will have the option to fly regionally in Europe on smaller electric or hydrogen aircraft. The first zero in-flight carbon routes will be operated on regional aircraft."

Starting with a lower number of passengers, these new aircraft technologies are an adequate asset for regional aviation and its operating business specificities. As regional aviation is ideally suited to be the proving ground for cutting-edge solutions, regional routes will play a pivotal role in demonstrating how sustainable innovations can align with the objectives of the Green Deal.