



**Consultation on the
Review of the
Community Guidelines on Financing of Airports and Start-up
Aid to Airlines Departing from Regional Airports**

Submission from the
Western Development Commission

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Western Development Commission
Dillon House
Ballaghaderreen
Co Roscommon

Phone: 094 986 1441

Web: www.wdc.ie; www.lookwest.ie

e-mail: deirdrefrost@wdc.ie

**REVIEW OF THE
COMMUNITY GUIDELINES ON FINANCING OF AIRPORTS AND
START-UP AID TO AIRLINES DEPARTING FROM REGIONAL
AIRPORTS¹**

A. INTRODUCTION

In 2005, the Commission adopted the Community guidelines on financing of airports and start-up aid to airlines departing from regional airports (hereafter “[2005 Aviation Guidelines](#)”) in order to lay down rules for the approval of public financing of airports and airlines under EU State aid law.

The 2005 Aviation Guidelines were preceded by Guidelines on the application of Articles 92 and 93 of the EC Treaty and Article 61 of the EEA Agreement to State aids in the aviation sector² (hereafter: "1994 Aviation Guidelines"). These Guidelines were adopted by the Commission in 1994 in the context of the liberalisation of the market for air transport services in order to provide for level playing field for air carriers.

The purpose of the present consultation is, thus, to invite Member States, other institutions and stakeholders to provide feedback on the application of the 1994 and 2005 Aviation Guidelines as well as any comments and proposals regarding the public financing of airports and airlines.

The present consultation gives the Member States, other Institutions and stakeholders the opportunity to express their views on the various issues at stake. The Commission will carefully analyse the outcome of the consultation before deciding to what extent changes to the current rules are necessary and, if appropriate, come forward with a proposal for revised Aviation Guidelines.

This consultation is in principle limited to the current scope of the 1994 and 2005 Aviation Guidelines. Nevertheless, the Commission services are prepared to look at any other issues that may be relevant for State aid to the aviation sector.

B. GENERAL REMARKS REGARDING THE CONSULTATION

Member States and other interested parties are invited to respond to the questionnaire. Replies can be submitted in all official languages. Given the possible delays in translating comments submitted in certain languages, translations of the replies in English, French or German would enable the Commission to process them more speedily. Certain questions are intended specifically for public authorities or certain stakeholders and respondents are, thus, not required to address every

¹ OJ C 312, 9 December 2005, p. 1.

² OJ C 350, 10 December 1994, p. 5.

question. If you are not concerned by a particular question please reply "not applicable". Any comments and information submitted beyond the scope of the questionnaire will be welcome, in particular other documents, reports, studies, etc which may be relevant.

The deadline for replies is 6 June 2011. The replies should be sent to the European Commission, DG COMP, Unit F-2, B-1049 Brussels, preferably via e-mail to Stateaidgreffe@ec.europa.eu indicating the consultation reference "***HT-2635 Revision of Aviation Guidelines***".

QUESTIONNAIRE

NOTE: The following questionnaire follows the structure of the [Community guidelines on financing of airports and start-up aid to airlines departing from regional airports](#). You are requested to follow the order of the questions, even though you are not required to reply to all questions. You can also submit additional information that you consider relevant and which does not fit the questions in this questionnaire.

A. ABOUT YOU

Please describe the main activities of your company/organisation/association. Please provide your contact details below.

<i>Name</i>	Deirdre Frost
<i>Organisation represented</i>	Western Development Commission (www.wdc.ie)
<i>Location (Country)</i>	Ireland
<i>E-mail address</i>	deirdrefrost@wdc.ie

Introduction and Background

The Western Development Commission (WDC) welcomes the opportunity to make a submission to the EC Consultation on the Review of the Community Guidelines on Financing of Airports and Start-up Aid to Airlines Departing from Regional Airports (hereafter referred to as the Review).

The WDC is a statutory body established by the Irish government to promote, foster and encourage economic and social development in the Western Region¹, a seven county region located on the West coast of Ireland. One of the functions of the WDC is regional policy development. The WDC seeks to ensure that policy reflects the needs of the region across such areas as infrastructure, natural resources, industrial and regional development. It also tracks the implementation of policies and recommends adjustments as appropriate. The WDC works to highlight transport and infrastructural development issues as they affect the Western Region.

The WDC regards international air access as an important element of the infrastructure required to underpin the economic development of the region. Hence the WDC monitors and comments on policies for investment in regional airports in the Western Region. This submission draws on the recent WDC Policy Briefing No.3, *Air Access and the Western Region, A Regional Perspective*, (a copy of which is attached),

¹ Counties Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare.

and an earlier submission to the Irish Department of Transport on the role and benefit of regional airports in the West of Ireland.

In this submission we make comments on the benefits of regional airports and the importance of efficient international air access particularly to support economic growth and tourism development of the regions in which they are located.

For the sake of transparency, the Commission intends to make accessible the replies to this questionnaire on its website. In the absence of reply to the following questions, the Commission will assume that the response contains no confidential elements and can be divulged in its entirety.

For rules on data protection on the EUROPA website, please see: http://ec.europa.eu/geninfo/legal_notices_en.htm#personaldata

A.1. Do you object to the disclosure of your identity? No

A.2. Does any of the exceptions foreseen in Article 4 of Regulation 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents² apply to your response? If so, please indicate clearly which parts should not be divulged, justify the need for such confidential treatment and provide also a non-confidential version of your response for publication on our website.

No

B. GENERAL

B.1. Assessment of the market developments and the necessity to modify the 1994 and 2005 Aviation Guidelines

B.1.1 *What are, in your view, the main developments, in particular with regard to*

(a) Economic and social matters;

Introduction

The WDC is a statutory body with a remit to promote, foster and encourage economic and social development in the Western Region, a seven county region located on the West coast of Ireland. This region extends from the North West of the Island down the west coast as far as and including County Clare. All of these counties (except Clare) are also part of the Border Midlands and West (BMW) region, which had been an EU Objective 1 region and since 2006 has been designated a 'phasing-in' region.

² OJ L 145, 31 May 2001, p. 43.

Excellent transport links are extremely important to the Western Region, a peripheral region, located on the west coast of Ireland, which itself is the western most country in Europe. International air transport links are particularly important for a peripheral small open economy without a landbridge to its key markets and trading partners.

Ireland has three State-owned airports, Dublin, Cork and Shannon located in the East and South of the country and six regional airports, located in the South-East (Waterford), South (Kerry), West (Galway, Ireland West Airport Knock) and North West (Sligo, Donegal) of the country.

Air travel in Europe has grown at a sustained pace over the last fifteen years, though there has been a decline in the last couple of years due to economic recession. Within Ireland each of the airports has recorded significant increases in passenger numbers up to the last few years. The trends between 2003 and 2008 are shown in Table 1 below. The highlighted rows refer to those airports located in the Western Region for which the WDC has a remit.

Table 1 Passenger Numbers 2003-2008

Airport	2003	2004	2005	2006	2007	2008	% Change 2003-08
Dublin	15,856,084	17,138,373	18,450,439	21,265,887	23,307,333	23,507,205	48.2%
Cork	2,182,157	2,254,251	2,729,906	3,023,527	3,183,146	3,259,109	49.3%
Shannon	2,400,677	2,395,116	3,302,424	3,690,889	3,524,450	2,956,951	23.2%
Knock	244,103	368,977	506,407	608,296	544,042	629,712	157.9%
Kerry	289,262	378,654	385,372	392,576	391,138	426,115	47.3%
Galway	137,165	225,430	252,897	245,918	309,320	266,473	94.3%
Waterford	34,919	60,875	74,357	80,792	116,392	144,253	313.1%
Donegal	24,156	42,675	47,793	46,731	61,410	65,539	171.3%
Sligo	30,329	41,053	39,593	34,292	44,533	42,493	40.1%

Source: CSO, Transport 2008. This includes all passengers both national and international. State totals cannot be computed due to double reporting of arrivals and departures of national traffic.

These data show the relative size of each of the airports in terms of passengers and the rate of passenger growth between 2003 and 2008. Table 1 includes all passengers, both domestic and international. All airports experienced significant passenger increases and Ireland West Airport Knock, Donegal Airport and Waterford Airport experienced the largest growth rates. This growth was much higher than that of the State airports, demonstrating the strong demand and the airports' capacity and potential to serve their catchments.

In Ireland, air access is vital to ensure regional enterprise growth and retention. Forfás, Ireland's national policy advisory body for enterprise and science, in its examination of national competitiveness, has identified that *External connections, such as airports...are vital*³. In the recently published Regional Competitiveness Agendas, Forfás notes that *Air access is of immense importance to the [Border] region and notes the need to maximise the impact of regional airports, four of which serve the region at present (at Sligo, Donegal, Derry and Knock)*⁴.

The WDC believes that to regionally balance development throughout the country, international capacity and route development needs to be enhanced at the airports serving the Western Region. Regional airports need to be supported to serve the air access needs of their regions, supporting economic and tourism development there and ensuring that remoteness is not a barrier to regional economic growth.

Current downturn and Impact on Air Passenger Numbers

Recent figures⁵ shown in Table 2 below show the impact of the recession at national and regional levels. These figures only measure international traffic and so the passenger numbers between the regional airports and Dublin are not included. Between 2008 and 2009, all airports experienced a decline in international traffic, with an average decline of 12.1%. Ireland West Airport Knock experienced the smallest decline 3.6% and of the State airports, which account for most of the international traffic, Cork Airport experienced the largest decline of 13.6%.

Table 2 International Airport Passengers 2008-2009

Airport	2008	2009	Change 2008-2009	% Change 2008-2009
Dublin	22,543,475	19,849,405	-2,694,070	-11.9
Cork	2,806,369	2,425,921	-380,448	-13.6
Shannon	2,697,734	2,391,032	-306,702	-11.4
Knock	617,499	595,285	-22,214	-3.6
Kerry	297,862	254,269	-43,593	-14.6
Galway	183,740	131,804	-51,936	-28.3
Waterford	139,312	110,312	-29,000	-20.8
Donegal	17,141	11,902	-5,239	-30.6
Sligo	9,406	0	-9,406	-100.0
Total	29,312,538	25,769,930	-3,542,608	-12.1

Source: CSO, *Airport Pairings Data, CSO 2010. Transport 2008*. (This excludes domestic journeys originating at regional airports and arriving in Dublin).

³ Forfás, *Our Cities: Drivers of National Competitiveness*, April 2009, p.6

⁴ Forfás *Regional Competitiveness Agenda: Realising Potential, Border*. 2009, p.7

⁵ CSO *Airport Pairings Data, 2010*.

The largest percentage declines in international traffic - Donegal, Sligo and Galway - (all regional airports in the Western Region) are also those airports most reliant on domestic traffic (Donegal 73.8%, Sligo 77.8%, Galway 33.6%).

Though passenger numbers show a decline across all airports over the last few years due to the economic environment, growth is expected to recover in tandem with economic growth. The growth of air traffic has led to a 'capacity crunch' at many of the larger EU airports (for example, new terminals being developed at Dublin and Heathrow). There is also recognition by the EC that the larger carriers have concentrated their services at congested hub airports where investment in facilities has also been focussed over the years. In this context, it is important to recognise that smaller airports are important in both helping to overcome capacity issues at larger airports (particularly in urban areas where it is difficult to expand) and are important access points in connecting remote and peripheral areas to mainland Europe⁶.

The Tourism Sector

Air is the preferred form of travel for most tourists, particularly tourism to island and long haul destinations.⁷ Air access is particularly relevant in the case of the 'short-break' market where travel time needs to be minimised. In order to grow tourism in the West and North West, as envisaged in various national policy documents (the National Spatial Strategy (NSS) and more recently the Forfás Regional Competitiveness Agendas⁸), much improved direct international air access from key target markets, particularly across mainland Europe (and the US) is required.

The global recession has impacted strongly on the tourism sector in Ireland. Overseas tourist visits to Ireland have declined from 7.44 million in 2008 to 6.55 million in 2009, a reduction of 881,000 visits, or 11.8%. This decline in tourist visits will have impacted on the revenue generated across all regions⁹. Nationally, overseas tourism revenue has declined from €3.849 billion in 2008 to €3.114 billion in 2009, a drop of €735 million or 19% suggesting that the recession has had a greater negative impact on revenue generated than the decline in tourist visits (-11.8%).

At a regional level some regions have suffered more than others. Though the national decline in visitor numbers was 11.8% between 2008 and 2009, the North West region experienced a decline of nearly one fifth (19.7%) and the West region suffered a decline of 18.3%, both peripheral regions on the Western seaboard.

The increasing prevalence of short break tourism, where several short breaks are preferred to one long annual break places an extra premium on efficient and speedy direct international access. Regions lacking this access become less attractive holiday destinations.

To-date the tourism sector in the Region has been underperforming. In 2009, the North West region (Donegal, Sligo, Leitrim, Monaghan, Cavan) accounted for just 4.9%

⁶ Community Guidelines on Financing of Airports and Start-up Aid to Airlines Departing from Regional Airports, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2005:312:0001:0014:EN:PDF>.

⁷ Forsyth, P., 2008, Tourism and Aviation Policy: Exploring the Links in Graham, A., Papatheodorou, A., Forsyth, P, (eds) Aviation and Tourism, Implications for Leisure Travel

⁸ Forfás (2010), Regional Competitiveness Agenda: Volume 2: Realising Potential West, and Forfás (2010), Regional Competitiveness Agenda: Volume 2: Realising Potential Border.

⁹ Regional revenue data for 2009 is not yet available.

(€139.7m) of total national overseas tourism revenue¹⁰. This region (plus Co. Louth and termed the Border region) accounts for 7.8% of national Gross Value Added (GVA),¹¹ 11.1% of the State's population and 17.5% of Ireland's land mass.

In the Western Region, tourism is particularly important, employing nearly one in five (19.2% or 23,700 people) of all those working in the accommodation and food service sector in Ireland.¹² The tourism industry is particularly important to the economy of the West region. Though the West's regional share of total tourism revenue is much lower than that of the Dublin region (12.0% and 39.7% respectively in 2009, shown in Table 3), the relative impact of the tourism sector on the economy of the West is greater. For example, total tourist expenditure is 7.6% of GVA in the West region compared to just 2.8% of GVA in the Dublin region, while total employment related to tourist activities is 5.4% of the total working population of the West region, compared to 3.0% of the working population in the Dublin region¹³. This makes it all the more concerning that the West's share of national overseas revenue declined from 13.5% to 12.0% between 2003 and 2009, while the North West, which has the lowest regional share of tourism revenue, found its share declining from 5.7% to 4.9%.

Table 3 Overseas tourism revenue (€m) generated in Ireland's regions 2003-2009

	2003#	2004#	2005	2006	2007	2008	2009
	%	%	%	%	%	%	%
Dublin	34.5	36.0	36.8	36.1	36.8	36.8	39.7
East & Midlands	8.6	7.7	8.5	8.4	7.4	8.1	8.3
South East	8.1	8.3	7.2	7.9	7.6	7.0	7.3
South West#	19.8	20.2	21.0	23.2	21.4	20.4	20.2
Shannon#	9.8	8.7	8.4	8.3	9.3	10.3	8.0
West	13.5	14.2	12.7	12.3	13.1	12.4	12.0
North West	5.7	5.0	5.5	3.8	4.4	4.9	4.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: *Region Fact Sheets, Fáilte Ireland*. # The figures for 2003 and 2004 for the South West and Shannon regions are not directly comparable with later years due to a change in the composition of those two regions.

The importance of international air access in growing regional tourism is evident from the growth of tourism in the Dublin region. In the last decade there has been a large increase in the capacity on and range of routes to Dublin airport, in part fuelled by the growth LCCs and short-break tourism. For example, between 2003 and 2008 there was a significant increase in passenger numbers through Dublin Airport (+48.2%, see

¹⁰ Fáilte Ireland. 2008 data is the latest year for which regional revenue data is available. In 2007 the North West accounted for 4.4% of total national overseas tourism revenue.

¹¹ CSO, *County Incomes and Regional GDP 2007*, 7 January 2010

¹² CSO, *Quarterly National Household Survey, Q1 2010, Table 2, Special Run*

¹³ *Understanding the Economic Contribution of Tourism to Economic Development, The Case of Ireland West*. Professor Jim Deegan, UL & Dr. Richard Moloney, NUI Cork, 2005.

Table 1) and this was reflected in an increase in overseas visits to the Dublin region (up by 25%) and an increase in revenue generated (up by 27%) over the same period¹⁴. In 2009, Dublin's share of total overseas visitor revenue was 39.7%, up from 34.5% in 2003 (Table 3).

The relative weakness of the tourism sector in the West and North West is linked to poor international air access. Improved direct access into the North West and West will allow these regions to attract new tourists on short breaks into the region and thereby increase total tourism revenue. Unless regional airports are supported to serve the international air access needs of their regions, then tourist activity will not grow and will become increasingly concentrated in those regions with stronger international connectivity.

Growth of LCCs

Apart from ensuring competitive international air access to an island economy, there are other policy considerations in supporting air access to the regions. A European wide concern is the continuing growth of low cost carriers (LCCs) and their relatively powerful position compared to smaller airports which has led to increasing concerns of 'subsidy shopping', essentially where airlines can pitch airports against each other in order to secure the lowest cost of access¹⁵.

Due to the ease with which airlines can change routes and bases, there is a concern that this may give rise to a displacement of routes with market development occurring at alternative locations rather than increasing total capacity and tourism growth. The WDC is concerned that such an argument may be used against supporting international air access to and from peripheral areas such as the Western Region. There is no evidence to show that within Ireland, the tourism sector has reached its full capacity, both at national and regional levels. Increasing capacity for international inbound tourism will increase the total tourism sector, especially if access is improved so as to serve all regions.

All the factors discussed above; economic downturn, decline in tourism generally and the growth of short break tourism, and the strong position of LCCs all combine to inhibit the commercial benefits of flying to smaller, more peripheral airports. This highlights the importance of effective policy and economic instruments to ensure that regional airports, as critical elements of their regions transport infrastructure (particularly in more peripheral areas), are enabled to help drive regional economic growth.

(b) Environmental and climate change issues;

Alternative, more environmentally friendly transport modes

The WDC recognises the importance of promoting more sustainable travel modes, particularly high speed rail, however rail services in Ireland are not as extensive as elsewhere, particularly in mainland Europe.

The Western Region of Ireland is relatively remote with relatively poor transport links both to other parts of Ireland and to the EU. There are no high speed rail services in

¹⁴ Fáilte Ireland. Dublin Factsheet.

¹⁵ E.g. *The subsidies that keep Ryanair profits airborne*, Gerry Byrne, The Irish Times, 1 May 2010

Ireland and rail services to the West and North West are not as extensive as those from the East to the South. There are no rail links serving Donegal and the rail services to the North West such as County Mayo and the NSS hub centres of Ballina/Castlebar, with just four daily services, is one of the weakest of all intercity services.

Within Ireland most rail services are radial in nature, emanating from Dublin to the region with few interregional services. The WDC, recognising the need for more sustainable transport, has campaigned effectively for the re-introduction of services from Galway to Limerick (the third and fourth largest urban centres in Ireland). The WDC is also seeking to have this service extended northwards to connect to other urban centres in the West and North West of Ireland.

The road network in the Western Region is also relatively poor. North of Galway city there are no motorways serving the West and North West and there are very few roads of dual carriageway standard (discussed further below).

(c) Regulatory changes, such as passenger rights, security standards, airport charges, transport and competition with other modes of transport, tourism, tax policies, successive EU enlargements in 2004 and 2007 and extension of the Schengen zone; and

Passenger rights, security standards, airport charges

Greater passenger rights, more onerous security standards and increased airport charges all have a greater impact on smaller airports with fewer resources to comply with minimum standards. Regional airports in Ireland have increasingly had to rely on Government support to comply with these regulations, increasing the cost to the national exchequer.

Transport and competition with other transport modes

In Ireland there have been significant improvements to the national road network, particularly the inter-urban road network. This has proved a competitive alternative to domestic air travel from some but not all regional airports in Ireland. The interurban motorways do not serve the North West of the country and travel times from some urban centres in parts of the West and North West remain relatively lengthy and some are in excess of three hours. As discussed there are no high speed rail services in Ireland and rail services to the North West have journey times in excess of three hours and are relatively infrequent.

In Ireland, improved rail and road travel have led to the view that there should be less support for domestic air travel services (PSOs) and reduced support for some regional airports. The WDC is concerned that regions such as parts of the West and North West which remain peripheral, will be unduly disadvantaged by any withdrawal of funding, particularly as these regions have not benefited to the same extent as other regions with reduced journey times on alternative surface travel modes.

Accessibility is considered a prerequisite for economic development and accessibility by air is particularly important for an island economy such as Ireland. Due to the relatively poor surface transport links to parts of the West and North West good international air links to the Region become more important. A recent EU report measuring potential accessibility by air (using an index where EU 27 = 100), found that

Dublin was the only region within Ireland above the EU average, measuring 135.¹⁶ The Border region¹⁷ (60.2), West region¹⁸ (66.5) and Mid-West region¹⁹ (80.6) all recorded accessibility scores considerably below the EU average. The report underlines the role of airports in improving accessibility for remoter regions, noting the role of regional airports in the Nordic countries, which despite their remote location, record better than expected accessibility scores.²⁰

Tourism, Tax policies

In order to boost job creation there have been some recently announced initiatives aimed at supporting the Irish tourism industry.²¹ These include a change in VAT rates that will focus on the tourism sector and a reduction in the Air Travel Tax to zero. These are welcome initiatives to support job creation in the tourism sector.

In addition there is to be a Tourism Marketing Fund to promote visitor traffic from destinations served by additional routes and services, through cooperative marketing with carriers. However, this fund appears to be focused exclusively on the three State airports, none of which are located in the North West of the country. The regional airports in the West and North West also need support if they are to actively drive tourism in their regions.

(d) Competition and State aid issues

that have recently taken place in the aviation sector and what are their impacts on the sector? Where available, please provide data or studies showing such evolutions. Where protected by copyright or contractual restrictions, please provide the references of the study. Not applicable

B.1.2 *How have airport / airline business models evolved since the adoption of the 2005 Aviation Guidelines? Please describe the main differences between the business models of airports providing examples (e. g. regional v. national, large v. small, passenger v. cargo, etc.)? Not applicable*

B.1.3 *Do you consider that the 1994 and 2005 Aviation Guidelines laid down the basis for a satisfactory State aid policy in the aviation sector today? Please justify your answer*

The 2005 Guidelines aim to allow start-up aid provided to airlines in the form of incentives to share the risk of starting new routes from regional airports. However, in practice most of the financial risk rests with the airlines. Since the application of the EC Guidelines in 2005, only two schemes and approximately

¹⁶ www.espon.eu/export/sites/default/Documents/Publications/TerritorialObservations/TrendsInAccessibility/accessibility_data.xls

¹⁷ Donegal, Sligo, Leitrim, Cavan, Monaghan and Louth

¹⁸ Galway, Mayo and Roscommon

¹⁹ Clare, Limerick and North Tipperary

²⁰ ESPON, 2009, Territorial Dynamics in Europe: Trends in Accessibility, Territorial Observation No. 2, November 2009, p9

²¹ <http://www.finance.gov.ie/documents/publications/reports/2011/Jobinitiative.pdf>

6 route approval decisions have been granted approval by the EC. The most notable approvals concerned the 2006 Malta and 2009 Cyprus schemes.

While trying to prevent market distortions, the EC guidelines have progressively reduced the flexibility for public sector financial support for air route development.

The 2004 Charleroi decision and 2005 EC Guidelines have seemingly effectively curtailed the type and levels of public sector support available to support air route development.

The relatively small number of notifications of compliant schemes illustrates that the Guidelines have restricted (rather than encouraged) development of new air services from regional airports.

B.1.4 How would you describe the current competitive situation of the various stakeholders in the aviation sector? Where available, please provide the relevant data on, for instance, leading players, market shares, market share evolution in relevant markets, etc. To what extent did the 1994 and 2005 Aviation Guidelines contribute to / hamper this evolution? Not applicable

B.1.5 Which are, in your view, the likely developments, past or future, and where do you see the major challenges for the aviation sector in the short (during the next year) and medium term (in the next 3 years) future (airlines and airports)?

The WDC believes that in addition to the general economic climate, trends in tourism are a key factor in the aviation sector. The increasing importance of short break tourism, where several short breaks are preferred to one long annual break places an extra premium on efficient and speedy direct international access. Regions lacking this access become less attractive holiday destinations. As already noted in answer B.1.1, though the tourism sector is regarded as a key economic growth sector for the Western Region of Ireland, the region has been losing share of national tourism revenue over the past few years. This is compounded by the decline in national tourism revenue in the recent past. The WDC considers that the relative weakness of the tourism sector in the West and North West is linked to poor direct international air access. Improved direct access into the North West and West will allow these regions to attract new tourists on short breaks into the region and thereby increase total tourism revenue. Unless regional airports are supported to serve the international air access needs of their regions, then tourist activity will not grow and will become increasingly concentrated in those regions with stronger international connectivity.

B.1.6 Do you consider that the 1994 and 2005 Aviation Guidelines should be revised in light of these developments? Alternatively, do you consider that these developments do not justify the adoption of a new text? Which other actions do you consider appropriate? Please explain what changes should be introduced and why?

The WDC believes that if, as stated, a purpose of the Guidelines is to ‘take a positive approach to developing regional airports’²² then (1) the Guidelines need to be amended to help attract an increase in submissions/applications (2) the Guidelines need to be applied with the aim of recognising more fully the wider economic benefit which regional airports provide and the importance of international air access to remote regions particularly those which are relatively remote and do not have efficient alternative transport modes.

Possible areas of amendment could include:

(1) Simplification - part of the reason for relatively few submissions for EC approval since the Guidelines were launched in 2005, may have been a perception that the Guidelines were overly complicated.

(2) Recognition of specific circumstances. Notwithstanding the need for simplification (point 1 above), in examining State aid cases it would be important that the specifics of each case are examined. A “one size fits all” would not be the right approach. It is important to recognise the range of factors which affect airport viability and route development. Of particular importance is the need to recognise the geographic location of airports, the extent to which they serve peripheral communities and the transport alternatives that are available. In the absence of quality surface modes in peripheral areas, air transport links become increasingly important.

(3) Financing of loss making airports; indicating a public subsidy should only be used for operating expenses and should not be used for significant route incentives. This is a problematic argument as some airports, especially those in more peripheral regions, may need proactive help and state support in developing new routes and growing new markets, particularly those which can support specific targeted economic sectors such as tourism for example. In the absence of support to develop new routes and grow passenger traffic, passenger volumes may never grow to the point where the airport can break even.

(4) There should be reduced frequency requirements applied to routes from smaller regional airports. This would recognise the economic context in which the airport operates, for example a less populous region with lower demand.

B.1.7 In case you consider that the 2005 Aviation Guidelines should be revised, do you think that a substantial revision is necessary or, alternatively, that only minor points should be amended, leaving the structure and main substantive points unchanged?
As above B.1.6

B.1.8 Do you consider that sectoral State aid rules for the aviation sector are still necessary? What characteristics are making the aviation sector unique from the perspective of State aid control? What sectoral rules do you consider as being necessary in view of these characteristics? If so, please clarify why horizontal State aid rules are, in your view, not sufficient or appropriate for the sector. Please be as specific as possible in your reply indicating also the expected economic, social and environmental impact of the sectoral rules and of a potential application of the horizontal rules. Not applicable

²² EC Guidelines, Section 2, paragraph (21)

B.2. Information on business models by airport operators and airlines Not applicable

B.3. Definition of relevant markets for airports and airlines

In the aviation industry there are currently several different levels of competition between the different types of airports and between airlines. Therefore, the definition of relevant markets for airports and airlines is a key factor when investigating State aid, and makes it necessary to examine the extent to which competition could be distorted and the internal market affected.

B.3.1 Do you consider that the categories of airports and passenger thresholds referred to in Section 1.2.1. of the 2005 Aviation Guidelines are appropriate in view of the evolution of the sector? Otherwise, what changes would you consider appropriate to this categorisation? In your view is it sufficient to take into account for the categorisation of airports only passenger numbers? Which other indicators (for example tonnes of air cargo, number of aircraft movements or other indicators) should replace or also be taken into account in order to address sufficiently the impact of the different business models on the competition and trade between Member States? Please be as detailed as possible, providing data and narrative explanations.

The WDC is concerned with airports and air services in the Western Region of Ireland. All regional airports located there are in Category D and the State airport of Shannon is in category C. These categories, based on passenger throughput are useful in an Irish context.

B.3.2 Are you of the opinion that the Commission should examine aid granted to all airports irrespectively of its size or do you consider that a Block exemption for small airports would be appropriate? If you are of the opinion that a Block exemption²³ rule is appropriate, for which size of the airports should it be established? Or, do you consider that other criteria than size should be taken into account? If so, what are in your opinion these criteria? Please provide justification of your opinion and possible criteria for a Block exemption. Please be as specific as possible, providing data and narrative explanations.

Yes, the WDC agrees that a block exemption for small regional airports would be appropriate. This should be for the smallest airports, possibly for airports with an annual passenger throughput of less than 750,000 per annum.

In addition to airport size, geographic remoteness is also an important factor. Peripherality is a key aspect if aid is granted in the grounds of supporting

²³ Such Block exemption could, for instance, provide for exemption from notification of State aids to certain categories of airports and set up conditions under which such aids can be considered compatible with the internal market. Alternatively, it could exempt from notification certain types or amounts of State aid, independently of the category of airports.

regional economic growth. Some measure of peripherality and available alternative transport modes would be useful.

B.3.3 *How do you consider should the relevant geographic and product markets be defined for airports and airlines? In particular, under which condition do you consider that a connection to one airport is part of the same geographic and product market as a connection to another airport located in vicinity respectively to a high-speed train linking the same urban areas? You are invited to answer to these questions for passenger and for freight transport.*

There is no high speed rail in Ireland and though there are some rail services, these are mostly radial lines connecting the West and South regions to Dublin.

There is a relatively poor road network connecting urban areas from the North West to the east coast, from where most international air and sea connections depart.

Within the region there are relatively poor inter-regional transport links, the road network is relatively weak and due for upgrade but the timescales have been deferred. There are limited interregional rail services to the south of the Region, from Galway to Limerick. This poor road network has limited the extent to which there are competing airport catchments. In addition, some airports provide European connections whereas others provide domestic and UK services only.

B.3.4 *What are in your view the minimal legal and economic conditions under which an airport can be operated on a profitable basis and without financial assistance from the public authorities? In this respect, do you consider that the results of the study carried out by Cranfield University for the Commission in preparation of the 2005 Aviation Guidelines, which concludes that this figure varies according to the country and the business model, but is generally between 500 000 and 1 000 000 passengers, are still valid today? (A copy of the study can be found under http://ec.europa.eu/competition/sectors/transport/reports/airports_competition_1.pdf and http://ec.europa.eu/competition/sectors/transport/reports/airports_competition_2.pdf; please provide reasons in case you disagree with that study.)*

Not Applicable

C. FACTUAL INFORMATION ON THE REGULATORY AND ECONOMIC ENVIRONMENT

C.1. Airport's economic activity and activities falling within the public policy remit

Section 3.2.1 of the 2005 Aviation Guidelines distinguishes between economic activities of an airport and activities which normally fall under State responsibility in the exercise of its official powers as a public authority.

Not Applicable

C.2. Services of general economic interest Not Applicable

C.3. Factual elements to be taken into account for the application of the market economy investor principle Not Applicable

D. FINANCING OF AIRPORTS

D.1. Financing of airport infrastructure

Section 4.1. of the 2005 Aviation Guidelines sets out the Commission approach to the public funding of the construction of airport infrastructure and equipment or facilities.

D.1.1 *Do you think that the compatibility criteria (point 61 of the 2005 Aviation Guidelines) set out in Section 4.1 for the public funding of airport infrastructure are adequate, transparent and well applicable? Otherwise, please explain which criteria should be reviewed and how?*
Not Applicable

D.1.2 *Which are in your view the distortions of competition resulting from investment aid to airports depending in particular on their size and their geographical location (in particular proximity to other airports)? Do you consider that this is a valid and only criterion that should be taken into account in this respect?*
Not Applicable

D.1.3 *Which annual traffic (passenger and cargo) do you consider necessary in order to cover all investments and maintenance costs? Please justify your view also in light of the Cranfield University study referred to above in point C.3.4.*
Not Applicable

D.1.4 *Which annual traffic (passenger and cargo) do you consider necessary in order to cover all operating costs? Please justify your view also in light of the Cranfield University study referred to above in point C.3.4.*
Not Applicable

D.1.5 *Do the compatibility criteria set out in point 61 of the 2005 Aviation Guideline provide enough legal certainty and contribute to the predictability of the Commission's decisions in individual cases? Otherwise, please explain in which way these criteria could be further developed? Should there be, for example, further guidance on the maximum aid intensity that the Commission would allow for each type of infrastructure investment or for each type of airport, further indications about the eligible and non-eligible costs, and further indications on the definition of the catchment area of an airport and its degree of competition with other airports and high speed rail ?*
Not Applicable

D.1.6 *Please justify your views on this issue and also describe the impact. Please distinguish in your answer between competition / economic /*

regulatory / political / environmental and climate change / capacity and social challenges supporting your answers with data, if possible.
Not Applicable

D.1.7 *Do you consider that public financing of airport infrastructure provides for crowding-out of private investors? Please justify your opinion on this issue.* Not Applicable

D.1.8 *Do you consider that public financing of regional airports provides positive and negative externalities, for instance in terms of local development, accessibility, employment, air and noise pollution, climate change? If yes, please provide examples, indicating the economic, social and environmental impact.*

The WDC believes that airport infrastructure is a key regional economic asset and air services from these airports are important in connecting the relatively remote Western Region of Ireland to the East of the country and to international locations, particularly to the UK and Europe. Government policy has recognised the regional development role which regional airports perform and has funded PSO routes and provided capital and operational expenditure in the recent past. The WDC believes that the regional development benefit is hugely important in supporting enterprise and tourism development with positive employment effects.

In a recent paper the WDC²⁴ draws on the 2009 OECD reports *How Regions Grow*²⁵ and *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*²⁶ which analysed regional growth and regional policy. These studies consider the importance of regions and their contribution to growth as well as the factors which help regions to achieve their potential. The main argument is that all regions have growth potential and this growth should be based on making the most of their assets. This view is also reflected in the ‘smart specialisation strategies’ being promoted through EU regional policy.

They acknowledge that infrastructure is a necessary condition for regional development; though returns on investment take time (for example OECD research indicates a three year period before investment in infrastructure will positively influence growth). The OECD research also notes the need for improved access to rural areas, specifically noting the deregulation of air travel and low-cost flights to regional airports in rural areas²⁷.

This approach focuses more on regions achieving their potential, recognising that less developed regions can have greater unfulfilled potential. Persistent regional disparities can suggest unused potential for growth, lagging regions are operating below their capacity, with a direct impact on productivity and income. Evidence that some of this ‘potential’ was being tapped in the Western Region during the period of rapid economic growth was shown by the

²⁴ WDC Policy Briefing *Why care about Regions? A new approach to regional policy*, July 2010.

²⁵ OECD, 2009, *How Regions Grow Trends and Analysis*

²⁶ OECD, 2009, *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*

²⁷ OECD, 2009, *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, p. 97.

growth in air passenger numbers, both international and domestic. It is now important to ensure that the economic downturn does not reverse that process and that the region is in a position to take advantage of the upturn in global economic activity, when that occurs. The maintenance and improvement of connectivity to and from the Western Region will be critical to this.

Forfás, Ireland's national policy advisory body, cites the importance of air access to the Border region and notes "the need to maximise the impact of regional airports".²⁸ The recently announced IDA Strategy Horizon 2020, states that "the IDA will ensure that by 2014, 50% of FDI projects will be located outside of Dublin and Cork, in line with the Government's National Spatial Strategy (NSS)".²⁹ Improved international accessibility into the West and North West will be critical in helping to realise this target.

The American Chamber of Commerce, the representative body of American multinationals, cites the importance of 'regional' airports. For the North West (Donegal, Sligo and Leitrim), the importance of Sligo, Donegal, Derry and Ireland West Airport Knock are noted. For the West (Galway, Roscommon and Mayo).

D.1.9 *Do you consider that specific conditions should be attached to the financing of regional airports, for instance to limit distortion of competition of or to avoid duplication on non-profitable airports? Which conditions (i. e. non-discrimination with regard to airport charges; certain minimum level of airport charges; necessity of aid; catchment area; avoid creation of overcapacity etc.)? How should the catchment area of an airport be defined (i. e. distance in kilometres, travelling time using public transport or car, etc.)?*

In the West of Ireland surface transport links between airports in the Western Region are relatively poor. While in some cases, transport distances are not that long, journey times are unduly long and unpredictable due to the relatively poor road network and the absence of rail services. Therefore maximum journey times are a better measure than distance.

D.1.10 *Please describe how important the access to finance is for you as airport operator and the cost of it. .* Not Applicable

D.1.11 *Please describe whether or not you deem State support necessary for having access to finance, supporting your answer with data, if possible*
Not applicable

D.2. Aid for operation of airport infrastructure

Section 4.2. of the 2005 Aviation Guidelines sets out the Commission approach to the public funding of costs of running and maintaining the airport infrastructure. Not Applicable

²⁸ Forfás, 2009, Regional Competitiveness Agenda: Realising Potential, Border, p.7

²⁹ IDA, 2010, Horizon 2020, IDA Ireland Strategy, p.13

D.3. Aid for airport services

Section 4.3. of the 2005 Aviation Guidelines sets out the Commission approach to the public funding of different airport services, such as groundhandling services.

Not Applicable

E. START-UP AID

Section 5 of the 2005 Aviation Guidelines sets out the criteria that must be fulfilled for start-up aid for new routes departing from regional airports to be considered compatible with the Treaty.

E.1.1 *Do you consider that, in general terms, the Commission approach to the compatibility of start-up aid is adequate? Otherwise, what should in your view be the approach to this type of aid?*

The WDC believes that if, as stated, the purpose of the Guidelines is to provide a mechanism to increase passenger volumes at regional airports and to improve their financial viability over the longer term, then the Guidelines need to be amended to (1) increase submissions (2) ensure submissions granted aim to support the regional airports and their respective economies, particularly those which are relatively remote and do not have efficient alternative transport modes.

E.1.2 *Do you consider that the compatibility conditions laid down in point 79 of the 2005 Aviation Guidelines are appropriate, taking into account the risk of distortion of competition of this type of aid? If no, why?*
Not Applicable

E.1.3 *Please justify your views on this issue and also describe the impact. Please distinguish in your answer between competition / economic / regulatory / political / environmental and climate change / capacity and social challenges supporting your answers with data, if possible.*
Not Applicable

E.1.4 *Do you consider that the current limitation of start-up aid to routes linking a regional airport in category C or D to another EU airport (point 79 (b)) is warranted? If not, should start-up aid be more or less restrictive in terms of airport size? Which criteria should be required?*

Yes, the current limitations recognise the greater difficulties smaller airports (categories C & D) must contend with in attracting new airlines and routes. Larger airports have a greater passenger throughput allowing them to attract more services.

E.1.5 *Do you consider that the definition of new routes is adequate? If, not which changes would you propose? Are in your view the criteria to define abuses clear, relevant and effective?* Not Applicable

E.1.6 *Is the eligible cost base set out in point 79 (e) appropriate in your view? Should it be adapted in some way? Does this criterion offer sufficient guidance on what type of costs are eligible for start-up aid or is additional clarification needed? .* Not Applicable

E.1.7 *In your view are the limits of start-up aid in terms of duration and intensity adequate? Otherwise, please explain what changes should be introduced and why? Please provide economic justifications.* .
Not Applicable

E.1.8 *In your view, which other compatibility criteria should be revised, abolished or added. Please explain.* Not Applicable

- E.1.9 *Please explain whether you regard start up aid as necessary in the current business environment? Did you set up new flight routes despite not receiving Start up aid? Please specify in your answer providing data, if possible.* Not Applicable
- E.1.10 *Did you apply and/or receive Start up aid? Please describe whether the aid was approved or not and on what grounds providing also details on the procedure.* Not Applicable
- E.1.11 *Please describe the economic / social / environmental impacts that start up aid had for you as airline / airport, if possible, with data and narrative explanations.* Not Applicable
- E.1.12 *Do you consider that the scope of the eligible costs for start-up aid is accurate? If not please justify your answer.* Not Applicable
- E.1.13 *Do you consider that the aid intensity and duration serves its purpose as investment incentive or not? Please justify your reply with data also mentioned the economic / social / environmental impact.* Not Applicable
- E.1.14 *From a transport perspective, please describe whether you regard it as justified that the 2005 Aviation Guidelines should keep the prohibition of start up aid for a connection where a high speed train link exists. Please mention also potential economic / environmental / social impacts in your answer, if possible.* Not Applicable

F. 1994 AVIATION GUIDELINES

Not Applicable

G. FURTHER INFORMATION

G.1.1 *In case you have carried out or are aware of any studies concerning the impacts of public financing of airports or air carriers, or related aspects which maybe relevant, we would be grateful if you could provide us with these studies. You should clearly identify any confidential data in these studies. Where protected by copyright or contractual restrictions, please provide the references of the study.*

The Western Development Commission recently produced a Policy Briefing ‘Air Access and the Western Region: A Regional Perspective’ in February 2011. This provides a summary perspective on the role and importance of airports in the Western Region of Ireland. The briefing highlights the relative remoteness of the Western Region and the importance of air access in promoting accessibility, particularly for the key sectors of tourism and internationally trading companies. It is attached and is also available at www.wdc.ie