

Public funding of airports: EU guidelines, future regulation (for regional airports) and case law

Anna Masutti

18-19 January 2017

E-mail: a.masutti@lslex.com

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Growth expectation

Growth expectation for European airports: average deal multiples have increased with EV/EBITDA multiples of 14-16 for **regional airports** and 10-14 for **larger airports***.

Therefore, for the moment there are no expectations for a sustained return of EV/EBITDA transaction multiples to pre-crisis levels, in excess of EV/EBITDA multiples of 25.

*Source: *PWC report on airport investment 2015*

Growth expectation

Nevertheless, regional airports are currently having dynamic growth in passenger traffic: **+8.9%** in Q1 2016 for airports with less than 5 million passengers per annum and **+7.6%** for non-capital city airports within that same group*.

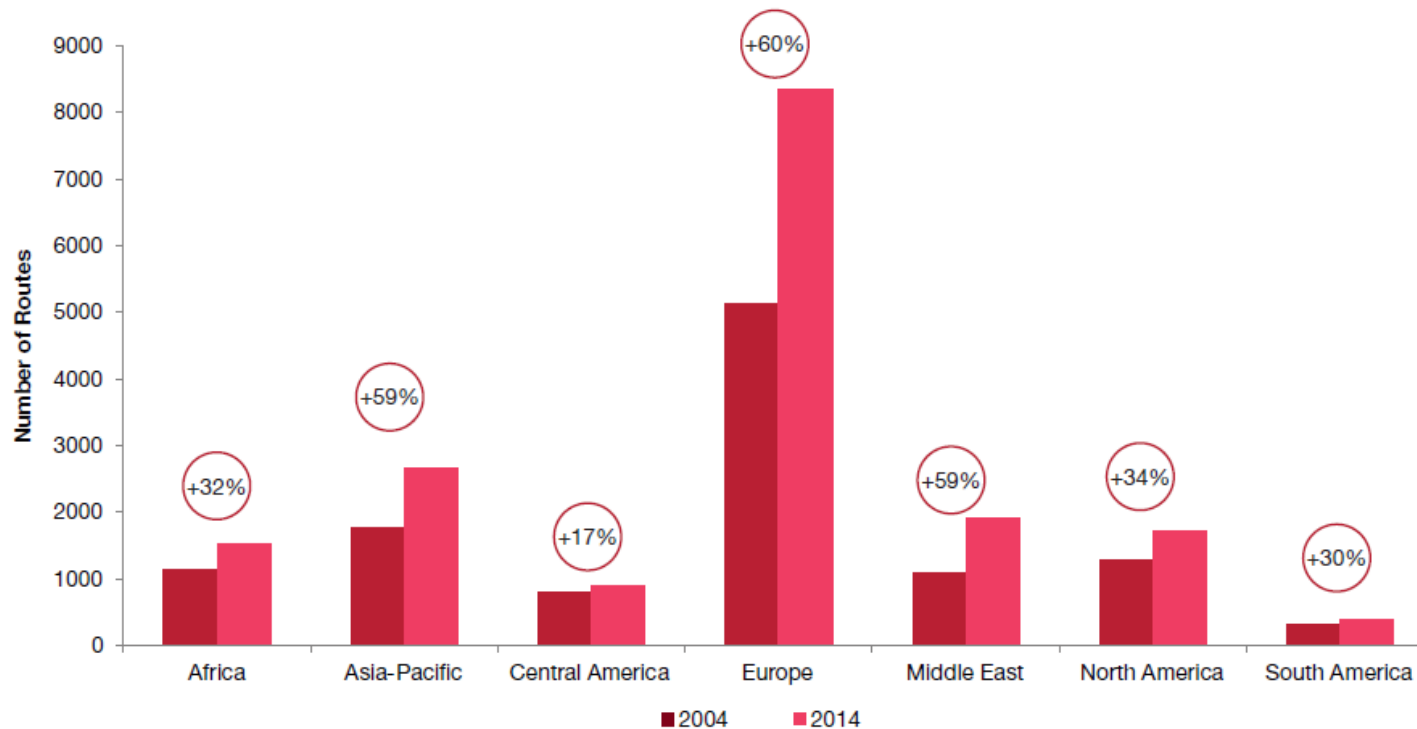
This means that **regional airports** are performing in line with the **industry average**.



*Source ACI Europe 2016.

Situation until 2014

Number of international routes by region (2004 and 2014)

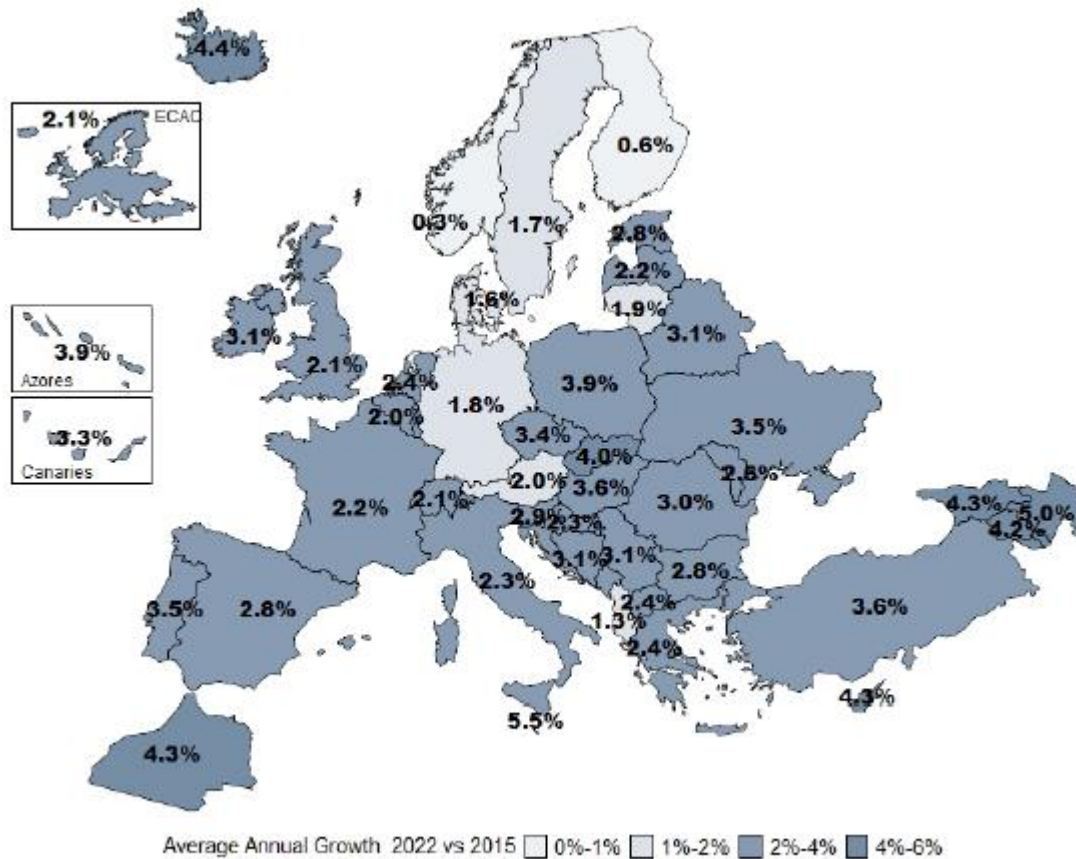


Note: International routes only, excluding domestic in-country traffic

Source: Milanamos Planet Optim Future, PwC analysis

Source: PWC report on airport investment 2015

Average Annual growth of Flights per State, 2022 v 2015



Source: EUROCONTROL SEVEN-YEAR FORECAST SEPTEMBER 2016

Number of airports per million people:

- **North America** 2.5
- **Europe** 1.0
- **Latin America** 0.81
- **CIS** 0.67
- **Middle East** 0.50
- **“Advanced Asia”** 0.51
- **“Emerging Asia”** 0.39
- **Africa** 0.28
- **China** 0.13
- **India** 0.08



Source: OAG (formerly Official Airline Guide)

Low-cost traffic forecast

Ryanair raised its forecast for full-year passenger numbers to 119m — a 12 per cent increase per year with 200m passengers annually by 2024, up from its previous forecast of 180m.

Large increase in passenger numbers is predicted in Europe for low cost airlines, with 40% going to Ryanair, 22% to easyjet, with another 30% going to other low cost airlines with the remainder going to large established airlines.

There will be a great deal of competition by airports for this new business.



The relevant number of regional airports in Italy

According to the commonly accepted measure of market concentration, the Herfindhal index, Italy appears to be the European Country with the lowest number of passengers per airport, which is caused by the large number of **regional airports** (3-5 millions of passengers).

The relevant number of regional airports in Italy

RANK	AEROPORTO	PASSEGGERI 2015
1	Roma Fiumicino	40.463.208
2	Milano Malpensa	18.582.043
3	Bergamo	10.404.625
4	Milano Linate	9.689.635
5	Venezia	8.751.028
6	Catania	7.105.487
7	Bologna	6.889.742
8	Napoli	6.163.188
9	Roma Ciampino	5.834.201
10	Palermo	4.910.791
11	Pisa	4.804.774
12	Bari	3.972.105
13	Cagliari	3.719.289
14	Torino	3.666.582
15	Verona	2.591.255

Source: Assaeroporti, the Italian Association of Airport Management Companies.

The relevant number of regional airports in Italy

The conditions that regional airports face and attracting private financing for **infrastructure investments** are less favourable than those faced by the major airports.

The ongoing delays in the transition process for airports in Italy demonstrate that **private investors remain cautious in certain markets**.

One of the few recent examples is **Alghero airport**, which this month completed privatization (72.5% of the shares is private investment, the remaining part is held by **Sardinia Region**).

Future airport investment in Italy

- For 2030, in Italy, a passenger volume growth of 170 million passengers is estimated, which could lead to **airport congestion problems** as well as a low level of services in the **absence of an increase of airport capacity**.
- **Regional airport capacity** should be increased by rationalizing and optimizing the existing capabilities, acting as '**capacity reserve**' for major airports in the event of peak traffic.

Source: Italian National Promotional Institution Report – July 2015

Future airport investment in Italy

Are the current European Guidelines on State Aid sufficient to allow the regional airport to act as **'capacity reserve'** for major airports in the event of peak traffic, without infringing Article 107 TFEU?

EU Communication on State Aid

1. Investment aid to airports:

Airports with annual passenger traffic between 3 and 5 million **should**, under certain specific circumstances, **be public supported**.

Airports with annual passenger traffic above 5 million are usually profitable and are able to cover all of their costs, except in very exceptional circumstances.

Source: COMMUNICATION FROM THE COMMISSION Guidelines on State aid to airports and airlines (2014/C 99/03)

EU Communication on State Aid

2. Operating aid to airports:

Airports with annual passenger traffic of 1–3 million should be able to cover the majority of their operating costs and those **above 3 million are usually profitable and should be able to cover their costs** .

Therefore, in order to be eligible for **operating aid**, the airport's annual traffic should **not exceed 3 million passengers**.

Source: COMMUNICATION FROM THE COMMISSION Guidelines on State aid to airports and airlines (2014/C 99/03)

EU Communication on State Aid

3. Start-up aid to airlines

Start-up aid for routes linking an airport **with between 3 million and 5 million passengers per annum** **can be considered compatible** with the internal market only in duly substantiated exceptional cases.



Source: COMMUNICATION FROM THE COMMISSION Guidelines on State aid to airports and airlines (2014/C 99/03)

Airport State Aid

The following example clearly demonstrates that **public funding has a key role** to play in the development of regional airport projects.

Capital injection at 'Garda airport system' (C2014/2242)

The airport development plans envisage around 58 million euros of infrastructure works in ten years (2012-2021) for the forecasted growth in traffic and commercial development plans **already launched**.

Infrastructure investments of around 43.5 million euros at Verona airport and around 14.5 million euro at Brescia airport in the period 2012-2021.

The investment project is partly financed through **capital injection by public shareholders**.

* Furthermore, the planned modernisation of Verona airport has been necessary because the facilities did not meet the requirements for unhindered flow of passengers and suffered from congestion at peak times, especially during summer weekends.



Capital injection at 'Garda airport system'

EU Commission notes that:

- ▶ airports of all sizes, including relatively small airports, compete to attract airlines: as per the Guidelines, it is **not possible to exclude small airports from the scope of the application of Article 107(1) of the TFEU.**
- ▶ The financing was already put at the disposal of the airport prior Commission notification: Italy infringed Article 108(3) of the TFEU.
- ▶ The resources was frozen for months and the capital increase subscribed by the public shareholders was not used.

The EC decision:

However

the EC reached the conclusion that the measure constitutes aid **compatible** with the internal market:

- ▶ the 'Garda airport system' serves a catchment area that is one of the largest districts in Europe, i.e. one of the most populous and economically developed areas in Italy.



*Would it be possible in the future to implement public investments **as quickly as possible** without distorting competition, allowing airports to play a central role in economic growth and regional development?*

Draft Commission Regulation amending Reg. 651/2014 (General Block Exemption Regulation -GBER)

The EU released a Draft Commission Regulation amending Regulation (EU) No 651/2014 with the aim of revising exemption criteria for airport investment aid from prior Commission scrutiny under EU state aid rules.

It aims to facilitate public investments that can create jobs and growth whilst preserving competition.

- ▶ The future regulation is specifically designed for ‘regional airports’, which are defined as “airports with average annual passenger traffic of up to 3 million passengers” and
- ▶ to reduce the regulatory burden and costs for public authorities and other stakeholders the EU.

Airport State Aid: the way ahead

Draft Commission Regulation amending Regulation (EU) No 651/2014 (GBER)

Criteria:

- ▶ Aid does not exceed **50%** or **75%** of eligible costs of airports handling between **one and three million** and **fewer than one million passengers** per annum respectively during the two financial years receding the year in which aid is granted;
- ▶ there is no other airport located within 100 kilometers distance or 60 minutes travelling time by car, bus, train or high-speed train.



Conclusions: areas for improvement

Lack of coherence:

- ▶ absence of inclusion of State aid for airports with annual passenger numbers **above 3 million** as per the 2014 Airports Guidelines;
- ▶ absence of inclusion of **operating aid and start-up for regional airports** as per the 2014 Airports Guidelines;
- ▶ absence of notification exemption in the particular case of airports in the **same catchment area and managed by a single operator**: if several airports in the same catchment area are managed by the same operator, there can not be any distortion of competition.

*Thank
You!*

Anna Masutti
a.masutti@lslex.com
LS Lexjus Sinacta, Italy
www.lslex.com