



State aid to airlines in Spain: An assessment of regional and local government support from 1996 to 2014



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ABSTRACT

State aid to increase air traffic at airports has been wide-spread in Spain since the 1990s. Its monetary value and distribution among the various airports and carriers are little known aspects, as different formulas have been used for the transfer of funds and little research has been conducted. The use of a wide range of secondary sources has led to the creation of a database that permits an accurate description to be made of the true circumstances of state aid over these years. This paper estimates, for the first time, the amount of subsidies paid from 1996 to 2014, analysing their design and objectives and assessing their level of compliance with current EU legislation.

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1. Introduction

Over the past two decades, different programmes designed by airports and governments to favour the opening of new air routes or increase their current supply have multiplied all over the world. This interest is based on the notion that the economy of the region in which an airport is located may benefit from an improvement in the opportunities for interaction associated with an increase in air connections. This greater interaction is linked to a higher potential for increasing competitiveness, and therefore to an increase in the region's ability to attract business activities, which include both those related to high valued-added sectors (Brueckner, 2003) and those involving tourism (Echevarne, 2008). Although there are studies that relate the enhancement and diversification of air connections to demographic and economic impacts (Percoco, 2010; Sellner and Nagl, 2010), other studies qualify these results, indicating that the impact may vary significantly from one airport to another depending on the prevailing traffic pattern (Allroggen and Malina, 2014).

Such route development strategies include conventional marketing approaches to create awareness about the airport but also more complex procedures to demonstrate to airlines the profitability associated with new routes or increased capacity (Halpern and Graham, 2015). While feasibility analysis using different data sources is the main way to prove route potentials, economic incentives are commonly used to share the risk of new untested

routes among airlines and airports, thereby incentivizing airlines to open new routes. Discounts on airport charges or payments by passenger arrivals or frequencies supplied are the main formulas applied.

Within this context, from about halfway through the last decade, EU legislation itself has been institutionalizing economic incentives for airlines that increase their supply from certain airports (OJEU, 2005). They are still subject to a series of requirements to ensure that they do not violate the EU directive concerning state aid. Nowadays, these requirements include the fulfilment of seven cumulative conditions for the payment of state aid oriented towards the start-up of new routes compatible with the internal market (OJEU, 2014):

- (i) contribution to a well-defined objective of common interest (e.g. increases the connectivity of the regions by opening new routes);
- (ii) a real need for state intervention (i.e. airports with less than three million passengers per year with difficulties when developing air services);
- (iii) the suitability of state aid as a policy instrument (i.e. a business plan with prospects of profitability within three years);
- (iv) an incentive effect (e.g. in the absence of aid, the new route would not have been launched);
- (v) proportionality (maximum discount of 50% in airport charges for three years);
- (vi) avoidance of undue negative effects on competition (e.g. where a connection is already operated by a high-speed rail

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service, an air route will not be eligible for start-up aid); and (vii) transparency (i.e. notification requirements for aid schemes).

The literature addressing this phenomenon has focused on analysis of what is known as ‘airport marketing’ strategies (Halpern and Graham, 2013); on case studies relating to a given airport or group of airports (Barbot, 2006; Fichert and Klophaus, 2011; Laurino and Beria, 2014); and on the assessment of factors impacting on incentives for route and traffic development (Allroggen et al., 2013).

Of particular importance is the seminal contribution of Malina et al. (2012) because they address the issue at EU level in sufficient detail to be able to determine the form acquired by such state aid in practice. From a sample of 200 EU airports – those with the greatest air traffic – the authors detected the existence of economic incentives at 120, although only in 66 cases was the EU norm concerning state aid met. That is, in at least 45% of the cases the incentives were on the border of legality.

The cases that did not comply with the legislation corresponded to two types of bilateral agreement: (i) those signed by the airlines with airport managers, and (ii) those signed with regional and local governments. The latter affected 13% of the airports studied, although the authors reported that this figure could be much higher. No less relevant is the fact that 17 of the 26 airports were Spanish airports. This singularity was confirmed at the end of 2011 in a report by the Spanish National Competition Authority (CNC, 2011), which assessed the state aid provided during 2007–2011. Despite the above, the CNC report not only has temporal limitations but, additionally, does not allow an analysis aimed at calculating the value of the aid per airport and company.

Núñez-Sánchez (2015) has presented the sole scholarly work so far addressing the bilateral agreements between regional authorities and airlines in Spain. Focusing on 2007–2011, it considers only the data from the CNC report. It therefore provides a partial snapshot of the process, which moreover does not permit an analysis broken down by routes and carriers, as the author himself readily acknowledges. His aim is to design a theoretical model that explains the reasons behind regional government decisions to boost public subsidies for air transport.

There is no empirical analysis of these bilateral agreements that spans a longer period of time than the CNC report, providing a detailed view by routes and carriers of the system of agreements, and permits discussion of some of their effects. This paper addresses these gaps thanks to the creation of our own database for 1996–2014.

The plan for the rest of the paper is as follows. In the next section we describe the methodology used, including the database construction process and its reliability. We then present the empirical results of the analysis, considering the main trends found; the contract design and objectives and a more detailed data breakdown at airport and airline level; the level of subsidy per passenger; and the relationship between state aid and the development of air traffic. Finally, we provide concluding remarks and suggest future research.

2. Methodology

An exhaustive identification of the bilateral agreements between regional governments and airlines is a very complex task, not only because most of them are not announced publicly, but also because of confidentiality clauses (DSPN, 2008). Therefore the use of secondary sources is crucial for the construction of a database of bilateral agreements that is as reliable as possible. The publications of Malina et al. (2012) and of Laurino and Beria (2014) are clear examples of the relevance of the sources used here to

study that phenomenon.

In the case of Spain, the most relevant sources are as follows:

- (i) the local press, which is very useful for obtaining a foretaste of the spatial spread of this aid and of the formulas employed for air route development;
- (ii) the official gazettes or bulletins of the autonomous communities for cases in which public tenders are published;
- (iii) the session minutes and official bulletins of the regional parliaments, which provide information about parliamentary interventions and replies to questions formulated by parliamentarians to the regional governments; and
- (iv) periodical reports from the regional courts of auditors, which sometimes uncover irregularities in certain agreements with airlines.

Systematic tracking of this set of sources allowed us to discover 151 bilateral agreements and the annual distribution of the aid to airports and companies thus derived, generating a total of 435 records for 1996–2014.

The search has involved browsing websites where the aforementioned sources are posted, using a keyword (mainly the name of the carrier, air transport, airport and route) or a combination of these. The appearance of a news item in the local or regional press provided the basic starting point, focusing on the beneficiary carrier and the autonomous government. The next step involved checking all the official sources to find confirmation of the aid, calculating its amount and, if possible, viewing the rules of tender or the agreement reached.

One issue of considerable relevance is the reliability of the database created. Since an official report about the state aid given to airlines at Spanish airports between 2007 and 2011 is available (CNC, 2011), we compared this to the values in our database to assess the quality of our data. The mismatch between the total figures provided by both sources is small, 34.1 million Euros for the period considered, which points to the validity of the sources used and the method employed to overcome the difficulties deriving from the opacity that characterizes many of the agreements. The difference is in favour of our own database (13.8% over CNC data, see Appendix Table A1) for two main reasons. Firstly, the CNC report covers only the subsidies paid until April 2011, while our computation covers the entire year; and secondly, although the CNC report allowed subsidies that were unknown until then to be brought to light, it failed to identify the state aid given to airlines in airports such as Fuerteventura, Granada, Huesca, A Coruña, Pamplona, Vigo and Vitoria.

An individual comparison of the subsidies paid at each airport reveals that the greatest doubts over our database's reliability involve Girona, Reus and Lleida. In the first two cases, we understand that the CNC undervalues the total volume of incentives. This is even more readily apparent in Girona, if we take into account the European Commission's recent report investigating possible state aid there (EC, 2013), the official data for 2012 (GMS, 2013) or the figures for Reus, an airport that followed a similar strategy to Girona. In Lleida's case, in addition to the causes mentioned, there are subsidies that the CNC attributes to 2007–2011 that we have been unable to confirm, which means that the figure in our database is lower.

Other indications of our database's reliability can be found in the coincidences observed in the case of Air Nostrum, one of the airlines that most benefited in the programme. In its annual report for 2003, it declared an income of 9.9 million Euros deriving from ‘support for air transport operations from regional and local governments’ (Clemente, 2004). In our database for the same year we recorded 9.8 million Euros.

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