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**REPLIES OF THE COMMISSION TO THE SPECIAL REPORT OF THE
EUROPEAN COURT OF AUDITORS**

"EU-FUNDED AIRPORT INFRASTRUCTURES: POOR VALUE FOR MONEY"

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EXECUTIVE SUMMARY

III. The Commission acknowledges the Court's conclusions for the audited projects of the 2000-2006 and 2007-2013 periods and accepts that in these programming periods support from cohesion funding for airport infrastructure did not in certain cases represent an effective use of EU funds. It wishes to underline that lessons have already been learned from this experience, and as a result there is a radically different approach in the legislation for the programming period 2014-2020.

The new regulatory framework has been made stricter when it comes to investing in airport infrastructures, limiting the possible options to improving the environmental performance or safety features of the infrastructures. On top of that, the Commission services are following a more limited line in the negotiations, focusing in particular on airports belonging to the core TEN-T network.

As far as strategic planning is concerned, the new framework requires the existence of transport plans at regional or national level as a specific *ex ante* conditionality, which set out a comprehensive transport strategy per sector, the contribution to the completion of the TEN-T and which include a list of projects to be implemented (a "*mature and realistic project pipeline*"). The Commission takes these plans fully into account before approving any operational programme which provides for investments in the transport sector.

Concerning major projects, the Commission has adopted delegated and implementing acts that will define the quality review process and the quality elements of the CBA to be respected by all major projects, such as the main benefits and costs by sector, list of risks to be considered, precise reference periods by sector etc. In addition, CBA guidance will be soon issued including practical recommendations for specific sectors and case studies to allow the beneficiaries to modulate their projects towards the best EU added value.

All major projects will have to go through a quality review, either by the Commission or by independent experts (Jaspers or other entities nominated by Member States and agreed by the Commission) before approval by the Commission.

IV. The Commission notes that regional airports may often serve communication purposes for a region or community and the public authorities may wish to maintain their functioning for other than simply financial reasons. That is why public transport infrastructures which are not profitable and require state support are kept in functioning.

The fact that the Commission does not have full detailed knowledge of all EU-funded projects throughout the EU and throughout sectors does not mean that it fails to fulfil its regulatory supervisory role. On the contrary, the Commission exercises its supervisory role – often beyond its regulatory prerogatives – through annual reporting and monitoring also at project-by-project level if needed, ad hoc treatment of problematic issues and specific audits. What is more, the Commission has in the past refused co-financing to regional airports for which the business case was not evident and which did not seem justified from the cohesion point of view.

The Commission also notes that Cohesion Fund projects were directly approved by it in the 2000-2006 period, while in the 2007-2013 period they were included in the programmes and approved individually only if they were major projects. The Commission took steps in 2007-2013 period to improve the assessment of major projects, through the establishment of the Jaspers initiative, which provides technical assistance to Member States, the preparation of a comprehensive CBA guide and the use of outside expertise if needed.

In the 2007-2013 period, the Commission received 17 major projects applications for airports. During the appraisal, the Commission pays significant attention to the issue of overall cost of the project, their benefits and added value for the society. This resulted in specific cases such as the reduction of scope of projects (e.g. Iasi airport and Wroclaw airport) or the inclusion of conditions in the approval decision (for Gdansk airport due to construction plans for adjacent airport in Gdynia). The Commission always carefully verified the demand analysis. In some cases, the Commission urged national authorities to abandon projects (e.g. airports in Kielce, and in Bialystok) due to insufficient demand and the Commission's concerns linked with the financial sustainability of those airports.

V.

(i) The Commission accepts the recommendation and will implement it during the negotiations on operational programmes for the period 2014-2020. The approach of the Commission's services in the negotiations is that EU funding to airport infrastructure is focused in particular to airports belonging to the core TEN-T network. The Commission also requires that the Comprehensive Transport Master Plans should serve as a basis for the choice of transport investment priorities. All investments should contribute to delivering the objectives for the priority axis concerned and investments in any airport would in particular need to be subject to a prior detailed assessment of economic viability and competition (e.g. whether private operators could finance the investment). Finally, investments should be underpinned by plausible results of the required feasibility study and a positive Cost Benefit Analysis.

(ii) The Commission agrees with the importance of coherent airport strategic planning as a means to avoid misplaced capacity in the future.

The Commission agrees with the recommendation which is addressed to the Member States (coherent regional, national and where appropriate and possible supranational plans for airport development). On its side, it will verify the implementation during the negotiations on operational programmes for the period 2014-2020 through the assessment of transport plans in the framework of the fulfilment of ex ante conditionalities. See also reply to §§68-71.

At another level, the Commission will intensify the monitoring and assessment of the ability of the EU air transport market to meet future challenges and opportunities.

INTRODUCTION

1. The latest Eurocontrol Challenges of Growth 2013 study confirms and reiterates the capacity challenge identified in previous studies.

In the most-likely (capacity constrained) scenario, there will be 50% more flights in 2035 than in 2012. Nearly two million flights will not be accommodated (12% of total demand for travel) because of reduced airport expansion plans. That is equivalent to an estimated 120 million passengers unable to make their return flights (in total, 240 million passengers per year).

In addition, by 2035, more than 20 airports will be running at or close to capacity, compared to just three in 2012 (hotspots - including airports in Spain and Greece).

This study shows that misplaced capacity is an issue for further discussion and that based on the recently reported airport expansion plans, capacity shortages will occur in Europe in the next 20 years.

Source: Challenges of Growth 2013 study, available at <https://www.eurocontrol.int/articles/challenges-growth>

6. In its 2011 White Paper on Transport Policy, the Commission considered congestion as a major concern. It went on affirming that "airport capacity needs to be optimised and, where necessary,

increased to face growing demand for travel". [Insert footnote: The 2011 White Paper Road Map to a Single European Transport Area (§28), available at http://eur-lex.europa.eu/legal-content/EN/ALL/;ELX_SESSIONID=HjP8JnxMmKkbg0nMHrxTqR3DX1042Lqfy2gdgLbQLf5rnTVZwSq6!1996567712?uri=CELEX:52011DC0144]

In its subsequent 2011 Communication accompanying the Airport package, the Commission confirmed that congestion at airports is an issue for Europe. Besides, if capacity on the ground is lacking, the success of the Single European Sky project as a whole will be threatened. At the same time, Europe's aviation sector faces increased competition and a shift in the global aviation market towards regions such as Asia Pacific, the Middle East and Latin America, which threaten Europe's privileged position as a crossroad of the global aviation network and the benefits in terms of connectivity that this position provides. [Insert footnote: 2011 Communication on Airport policy in the EU, available at http://ec.europa.eu/transport/modes/air/airports/index_en.htm]

AUDIT SCOPE AND APPROACH

21.

First alinea: While air transport picked up in EU27 since 2010 the Commission considers that there has been no general recovery in the air transport in the years 2007-2013. The average EU-wide figures alone cannot reflect the different developments in air transport in different Member States which vary considerably from each other. In 2010, 21 Member States faced an increase and 6 a decrease in passenger volumes; in 2011, 25 an increase and 2 a decrease; in 2012, 18 an increase and 9 a decrease; in 2013, 21 an increase, 6 a decrease. The fluctuation between increase and decrease during the last few years was significant in Spain, Italy and Greece – the economic woes of all three being well documented.. Eurostat data for 2013 confirm that air passenger numbers have not reached the pre-crisis level for Greece and Spain.

Second alinea: The Commission considers that there is no clear trend in air passenger transport development in the audited Member States. For the years 2007-2013, air transport in Greece decreased by 3,3% and in Spain by 3,5%. In Spain, air passenger transport decreased in 2008, 2009, 2012 and 2013, in Greece it decreased in 2008, 2009, 2010 and 2012 and in Italy, it decreased in 2008, 2009, 2012 and 2013.

Third alinea: The Commission notes that the economy of EU-27 is either in stagnation or in recession since 2007, with the only exception of 2010 and 2011. Some of the audited Member States experience dramatic GDP drops: Greece is in its sixth consecutive year of recession, Italy and Spain were in recession in four out of six years. Therefore, the Commission considers that the crisis has a serious and continuous impact in air transport.

OBSERVATIONS

Common reply to §§ 28 and 30.

Airports are infrastructures which have a long lifetime. The Commission considers that the utilisation rate of the airport should be verified over the lifetime of the investments made in order to assess whether they have reached fully their operational usage. In addition, building airport infrastructure in phases to keep close or just above the benchmark, while ideal, would in practice mean that works would have to be constantly carried out in the airport, requiring particular arrangements and disturbance in the functioning and services offered by the airport.

37. The Commission considers it difficult to identify a trend in passenger traffic figures for the years 2007-2013, on which the Court bases itself for the re-calculation of the cost per additional passenger. The Commission therefore considers that an assessment on the basis of milestones and mid-term reviews would provide a suitable basis for the assessment of cost effectiveness of projects. See also the Commission's reply to § 21.

Common reply to §§ 40 to 43.

For the purposes of assessing major projects in cohesion policy, financial sustainability is understood by the Commission as the capacity of a project to generate enough revenues to cover the operating costs in every year of its operation, and not the capacity to generate profits. Though indeed EU support should ideally be provided to profitable infrastructures, it happens that some transport infrastructures are loss-generating, despite the existence of revenues and in such cases the decision to provide EU support is based on whether the project is socio-economically desirable (i.e. brings more benefits than costs).

45. Regional airports may serve communication purposes for a region or community and the public authorities may wish to maintain their functioning for other than simply financial reasons. That is why public transport infrastructures which are not profitable and require state support are kept in functioning.

50. Air passenger transport in Spain decreased between 2007 and 2013 by some 3,5% and in Greece by 3,3% . The Commission considers that the audited airports followed this trend and noted also a decrease in traffic, which follows the course of the Spanish and Greek economies, which is in recession almost without interruption since 2007.

See also the Commission's reply to § 21.

Common Commission reply to paragraphs 53 to 55

The definition used by the Commission for issuing state aid decisions is that "catchment area of an airport in general means a geographic market boundary that is normally set at around 100 kilometres or around 60 minutes travelling time by car, bus, train or high-speed train. However, the catchment area of a given airport may be different and needs to take into account the specificities of each particular airport. The size and shape of the catchment area varies from airport to airport, and depends on various characteristics of the airport, including its business model, location and the destinations it serves." The 100km threshold (200km if a high-speed railway line exists) is equally defined in article 24 of the TEN-T Regulation setting out the criteria for air transport infrastructure components. As mentioned by the Court, in a recent study of the Commission's services on accessibility to passenger flights in Europe, the Commission's services drew conclusions on the basis of a catchment area of 90 minutes travel time to the airports. The Commission considers that the catchments areas should also take into account other elements such as business model of the airport, number and type of destinations served, availability of airport capacity at other airports, public transport links, time-sensitive travellers, whether the airport mainly serves the residents or visitors coming to the area.

Regional airports often do not serve the same destinations with the same frequency as their neighbouring airports and even more so as the main airport in the Member State.

Common reply to §§ 61 to 63.

As far as strategic planning is concerned, a radical reform has been put in place for the 2014-2020 period, whereby the legal framework provides for the fulfilment of specific ex ante conditionalities in the transport sector, which require the existence of a specific comprehensive transport plan or framework at national or regional level prior to approval of support to operational programmes. The transport plan is to set out the contribution to the Single European Transport Area, the core and comprehensive TEN-T where investment from the ERDF and the CF will be made, as well as a realistic and mature project pipeline for implementation by the operational programmes.

Operational programmes include an analysis of the situation and specific needs at the time of programming and a link with the interventions planned. As such the Commission considers them as planning documents for the purposes of EU co-financed interventions.

Common reply to §§ 66 and 67:

Under the system of shared management powers are shared between the Commission and the Member States, the latter being responsible for the day-to-day management and the former being responsible for the monitoring and overview at programme and not at project level. This means that the Commission is not supposed to and cannot base its implementation and monitoring compliance activity by reference to detailed information on every single project, given that thousands of projects are co-financed every year through cohesion policy.

CONCLUSIONS AND RECOMMENDATIONS

Common reply for §§ 68 to 71.

The Commission acknowledges the Court's conclusions for the audited projects of the 2000-2006 and 2007-2013 periods and accepts that in these programme periods support from cohesion funding for airport infrastructure did not in certain cases represent an effective use of EU funds. It wishes to underline that lessons have already been learned from this experience, and as a result there is a radically different approach in the legislation for the programme period 2014-2020.

The new regulatory framework has been made stricter when it comes to investing in airport infrastructures, limiting the possible options to improving the environmental performance or safety features of the infrastructures. On top of that, the Commission services are following a more limited line in the negotiations, focusing in particular on airports belonging to the core TEN-T network.

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70. Regional airports may serve communication purposes for a region or community and the public authorities may wish to maintain their functioning for other than simply financial reasons. That is why public transport infrastructures which are not profitable and require state support are sometimes kept in functioning.

Recommendation 1

The Commission accepts the recommendation and will implement it during the negotiations on operational programmes for the period 2014-2020. The approach of the Commission's services in

the negotiations is that EU funding to airport infrastructure is focused in particular to airports belonging to the core TEN-T network. The Commission also requires that the Comprehensive Transport Master Plans should serve as a basis for the choice of transport investment priorities. All investments should contribute to delivering the objectives for the priority axis concerned and investments in any airport would in particular need to be subject to a prior detailed assessment of economic viability and competition (e.g. whether private operators could finance the investment). Finally, investments should be underpinned by plausible results of the required feasibility study and a positive Cost Benefit Analysis.

72. The definition used by the Commission for issuing state aid decisions is that "catchment area of an airport in general means a geographic market boundary that is normally set at around 100 kilometres or around 60 minutes travelling time by car, bus, train or high-speed train. However, the catchment area of a given airport may be different and needs to take into account the specificities of each particular airport. The size and shape of the catchment area varies from airport to airport, and depends on various characteristics of the airport, including its business model, location and the destinations it serves." The 100km threshold (200km if a high-speed railway line exists) is equally defined in article 24 of the TEN-T Regulation setting out the criteria for air transport infrastructure components. As mentioned by the Court, in a recent study of the Commission's services on accessibility to passenger flights in Europe, the Commission's services drew conclusions on the basis of a catchment area of 90 minutes travel time to the airports. The Commission considers that the catchments areas should also take into account other elements such as business model of the airport, number and type of destinations served, availability of airport capacity at other airports, public transport links, time-sensitive travellers, whether the airport mainly serves the residents or visitors coming to the area.

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Recommendation 2

The Commission agrees with the importance of coherent airport strategic planning as a means to avoid misplaced capacity in the future.

The Commission agrees with the recommendation which is addressed to the Member States (coherent regional, national and where appropriate and possible supranational plans for airport development). On its side, it will verify the implementation during the negotiations on operational programmes for the period 2014-2020 through the assessment of transport plans in the framework of the fulfilment of ex ante conditionalities. See also reply to §§68-71.

At another level, the Commission will intensify the monitoring and assessment of the ability of the EU air transport market to meet future challenges and opportunities.