

SHORT (& MEDIUM) TERM MEASURES - EXECUTIVE SUMMARY

MEASURE SET	Financial Incentivisation	
MEASURE TITLE	Compensation, Discounts & Subsidies	
MEASURE SUMMARY	This measure concerns financial support to be provided to start-up airlines (routes), and to promote the movement of flights from congested airports.	
MEASURE INVOLVES	<div> <input checked="" type="checkbox"/> Behavioural Change <input type="checkbox"/> Infrastructure Change </div> <div> <input checked="" type="checkbox"/> Operational Change <input checked="" type="checkbox"/> Regulatory Change </div> <div> <input type="checkbox"/> Technical Change <input checked="" type="checkbox"/> Policy Change </div>	
WHAT DOES THIS ADDRESS?		
<p>Using financial compensatory mechanisms, this measure seeks to address connectivity by encouraging airline (route) start-ups, and to encourage airlines to move flights from the most congested airports (LHR, and to a lesser extent LGW) to other airports. Route Development Funding successors are flagged as part of the incentive package, and are addressed under the Route Development template.</p>		
WHAT WOULD BE DONE?		
<p>A variety of financial incentives could be applied in order to encourage carriers to transfer from current slots and towards other airports, to develop certain routes and offer discounts on APD for start ups. Revenue neutral, differential APD is covered under that specific template. It is unclear how airline start up funding would encourage viable route development, nor how this would be done under competition rules. For details on route development, refer to that specific Financial Incentive template.</p> <p>To encourage airlines to move flights to less congested airports, a ‘flight transfer’ incentive, available to all but focused on LHR (poss. LGW), would offer a one off payment with strict conditions, for a long term (5 year minimum) transfer of a ‘significant proportion’ of an airline’s flights from LHR to an airport where they must be retained, and airline is not allowed to introduce new flights at LHR. The proposal does not cost this action, nor identify how funding would be secured.</p>		
WHAT IS THE IMPACT?		
<p>The main impacts would be expected to be:</p> <ul style="list-style-type: none"> • Improved risk management. • New route connectivity to emerging markets. • Potential to free capacity at congested airports. • Potential to add to emissions and noise. 		

MEASURE SET:	Financial Incentivisation	Short Term	<input checked="" type="checkbox"/>
MEASURE TITLE:	Compensation, Discounts & Subsidies	Medium Term	<input checked="" type="checkbox"/>

PROPOSAL SUMMARY

Proposed by:	The Air League (006); Bristol Airport (010); Chartered Institute of Logistics & Transport (013); Individual (029); Institute of Directors (039); South East LEP (064);		
Proposal: FInc-CDIS-1 FInc-CDIS-2	This measure covers: A range of mechanisms for financially supporting: <ul style="list-style-type: none"> Start-Up airlines and routes Movement of flights from congested airports 		
Approach	The approach is: <ul style="list-style-type: none"> A number of submissions identify the use of financial incentives through compensation / subsidies to carriers to move from current slots and use capacity at other airports (away from LHR and LGW), develop certain routes, or discounts on APD for (long haul) start ups One specific suggestion details a 'flight transfer' incentive, focused on LHR (poss. LGW), through offering a one off payment with strict conditions, for a long term (5 year minimum) transfer of a 'significant proportion' of an airline's flights from LHR to an airport where they must be retained, and airline is not allowed to introduce new flights at LHR. 	Stated Capital Cost: Not stated Capacity (mppa): Not stated Capacity (atm): Not stated	
Benefits	Managing initial investment costs through financial incentives has been shown to allow better risk management for a wide range of innovations (including renewable energy, waste management), and could see new routes emerge. If incentives outweigh benefits of operating at congested airport, capacity could be freed up by carriers choosing to move to other airports. Supported transfer of an airline's flights to airports other than LHR (and poss. LGW) with an inability for that airline to reintroduce flights would create capacity for new carriers and new routes at the airport vacated by any such airlines.		
Issues & Risks	The main issues and risks are that it is unclear what the various financial mechanisms referred to by most submissions are, nor where finance would be sourced to enable them. Differential APD is mentioned (for which see that template), but other compensation / inactive payment methods are not specified. Financial support for carriers could be restricted under the same EC structures that have limited RDF. APD holidays may be possible, although if not available to all carriers and all airports could be seen to be discriminatory and anti-competitive. The Edinburgh Airport RDF suggests how this might be developed outside state aid regulations. One off payments to airlines as compensation, with conditions for giving up slots in the medium term would be difficult to implement legally, and would be very expensive. The impact on the viability of the airport and the airlines concerned would be significant and likely to have unintended consequences. Artificial financial support of start ups could result in unviable route development, taking capacity temporarily from more viable routes through unfair advantage of subsidy / APD holiday.		
Mitigations	None are identified, but if successful in moving traffic to regional airports, additional local mitigation may be required.		
Dependencies	There key dependencies are: <ul style="list-style-type: none"> Competition and market access rules Non stated aid Route Development Fund approaches Air Passenger Duty approaches 		

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ASSESSMENT SUMMARY

Strategic Fit	Financial incentives and discounts fall outside the main focus of the Aviation Policy Framework, although paras 1.30 to 1.32 are generally supportive of the principle of a Route Development Fund or similar, if state aid issues can be addressed. Increased connectivity and freeing up capacity at ATM constrained airports is broadly supportive of the strategic direction for short term enhancements.
Economy	There would be benefits to the economy from enhanced connectivity, but it is unclear how sustainable / viable such routes would be if supported by subsidy initially. The level of connectivity and capacity made available by these mechanisms is not clear, so the overall benefits to the economy cannot be estimated at this time.
Surface Transport	Would have impacts that vary on an airport by airport basis, if successful in redistributing traffic.
Environment	Support for additional routes will add to emissions and noise impacts, dependent upon the exact nature of the growth stimulated. Dispersion of flights to other airports and use of freed capacity at main airports would result in net increases of environmental impacts.
People	More people would be affected by new routes, but some increased accessibility should result in benefits as identified by PWC in their review of Scottish RDF.
Cost	The costs of start-up funding support or congestion incentives have not been identified, but are likely to be considerable. It is unclear who would pay this. If any change was derived through APD application, careful consideration would be needed to maintain as revenue neutral.
Operational Viability	No obvious operational viability issues, although the long-term sustainability of new routes is uncertain, so could result in investment in operations that is then no longer needed.
Delivery	Tax regulatory change; new subsidy / compensation incentive mechanism would require careful review and may not be possible under market access rules. Risk that this may not be short term given legislative timescales.