

PE1472/A

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CÒMHDHAIL
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Mr Stuart Todd
Assistant Clerk to the Public Petitions Committee
Public Petitions Committee

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Your ref:

Our ref:

Date:
2 April 2013

Dear Mr Todd

Thank you for your letter of 22 March 2013 to the Scottish Government seeking our position on the issues raised in Petition PE1472 and during the discussion on it at the Committee meeting on 15 March 2013. I have been asked to reply.

Before addressing the specific points raised I would make some general points in relation to Public Service Obligations (PSOs) for air services. It is a general misconception that a PSO in aviation within the EU implies a subsidy: that is not the case. A PSO is a mechanism which can be used by a local or national government to define a minimum level of service for routes between two airports that are essential for economic or development reasons. Only if the market defaults and no carrier is willing to provide the level of service stipulated, then the relevant authority can decide to restrict the provision of the service to one carrier, with or without compensation. About one third of the PSOs currently in force within the EU are "open" (without monopoly - restriction to one carrier - or compensation). Out of the remaining "Restricted" PSOs, about one quarter are monopolies but without compensation.

In theory, there has to be first an open PSO established, and only once the market default is verified can there be a "restricted" PSO. In practice, the Commission allows local authorities or governments to present studies that prove that a given route will never be operated on a commercial basis and then can go directly to a restricted PSO. All of the PSOs in Scotland are restricted. It should be noted that even if a PSO is imposed on an air route there is no obligation on a public authority to provide subsidy and it should not be assumed that just because a PSO has been imposed that a service will operate. Indeed, there is provision within the regulations that a PSO shall be deemed to have expired if no scheduled service has been operated during a period of 12 months on the route subject to an obligation. An example of this in Scotland is where Shetland Islands Council imposed a PSO on the Shetland to Unst route in 2009 but no supported service ever operated.

There is no statutory duty for the Scottish Government or local authorities to provide internal air services. The provision of such services is a discretionary matter for the relevant body.

The petition itself raises three issues which I will take in turn.

1. For the Scottish Government to review its national policies on the provision of lifeline air services between Scotland's islands.

The Scottish Government currently supports three PSO air services from Glasgow to Campbeltown, Tiree and Barra. We have agreed to pilot a weekend service to Campbeltown from this summer, and this will be included in the new contract for the service. We have no further plans at this time to review the number and range of air services subject to PSOs in the Highlands and Islands.

2. For the Scottish Government to consider the impact on local communities by the withdrawal of subsidies which enable such air services.

The Scottish Government has not removed any subsidies from the PSO services which we support. The removal of subsidies by a local authority is entirely a matter for that local authority. It is the responsibility of each local authority to allocate the total financial resources available to it on the basis of local needs and priorities having first fulfilled its statutory obligations and the jointly agreed set of national and local priorities including the Scottish Government's key strategic objectives.

3. For the Scottish Government to develop air transport public service obligations in the Hebrides and throughout Scotland.

We recognise the desire to see an expansion of air services in the Highlands and Islands but this desire must be balanced with the cost of such an expansion. While we are willing to discuss the possibility of additional PSO air services, this would be against the current background of financial constraint and an understanding that we are not prepared to take on any new funding commitments at this time.

It should be noted that in discussions between officials and the European Commission prior to the establishment of the Air Discount Scheme (ADS), the Commission expressed the view that they were not minded to support the establishment of new PSOs or PSO networks such as the one previously mooted for the Highlands and islands, particularly when related to services which are operating commercially. In the first instance their preference was for support to be provided through the 'Aid of a Social Character' mechanism which is what the ADS is reported under.

In addition to the issues raised in the petition, a number of questions / points were raised during discussion of the petition at the Committee meeting on 15 March 2013. Again, I will take each of the main questions we picked up on in turn.

4. Cllr Manford stated that "nobody has ever considered the need to evaluate when the service should end."

This is not the case. A PSO for an air service is imposed by a public authority for a set period – up to four years. If the public authority wants to extend the PSO for a further period then they must submit a 'Reassessment of PSO Adequacy' to the European Commission. In this, the public authority must evaluate if the imposition of a PSO is still necessary and, if they want to impose a PSO for a further period, provide evidence of this necessity. As noted above, however, even if the PSO is permitted there is no obligation on the public authority to provide subsidy for the service.

5. Chic Brodie MSP asked "do the Air Passenger Duty and other such charges still apply even if local authorities have a legal PSO?"

Yes. Public authorities can, however, set maximum fares on PSO services as part of their service specification. This maximum fare would be inclusive of all applicable taxes and charges. It should be noted that Air Passenger Duty (APD) is not chargeable on flights departing from airports in the Scottish Highlands and Islands region.

6. Angus MacDonald MSP requested figures for the number of passengers who use the Benbecula to Barra air service.

Comhairle nan Eilean Siar (CNES) commissioned a 'Review of Outer Hebrides PSO Air Services' the final report for which was published in August 2012 and can be found at <http://www.cne-siar.gov.uk/techservices/documents/PSO%20Air%20Services%20-%20Refecon%20Final%20Report-August%2014.pdf> . Section 3 deals with the Benbecula to Barra service. Table 3.2 shows annual passenger carryings on the service from 2002 to 2011.

7. Angus MacDonald MSP asked if "there should be a baseline evaluation for PSOs or, in other words, a national standard?"

We do not believe that it would be appropriate to set a 'national standard' for the provision of subsidy for services on PSO air routes. The wide variety of operating environments in Scotland would make the setting of a viable 'national standard' very difficult. For example, what may be considered a reasonable subsidy per passenger in one area may be deemed to be excessive in another. The level of support required for an individual air service is dependent on a number of factors. This would include patronage, type of aircraft, availability of alternative travel modes, fare levels etc. At present a public authority assesses the level of support they can provide a service based on the needs and priorities of their own area. We believe that the current system is effective and that the centralisation of such decision making would not be appropriate.

It was stated during the discussion that the decision by CNES to remove funding for the Benbecula to Barra service has set a precedent in terms of the baseline to be used when assessing if a service should be supported. This is not the case. CNES took a decision about a specific service. This decision does not, in and of itself, have any impact on any other PSOs in Scotland or on the possibility of other PSOs being put in place in the future.

8. Chic Brodie MSP stated that "we should ask the Scottish Government to investigate the implications of state aid regulations regarding PSOs and provide us with a detailed analysis."

The imposition of a PSO on an air route is the only mechanism under which subsidy can be provided to an air service. It is an allowable State Aid. Subsidy provided to an air service without a PSO on the route would constitute illegal State Aid. The Scottish Government and local authorities have powers to provide subsidy for air services but the use of these powers is discretionary. It is entirely a matter for individual public authorities (be they the Scottish Government or local authorities) as to whether they provide subsidy to individual air services and what criteria / thresholds they use to assess whether or not to provide such subsidy in line with the provisions of EC Regulation No. 1008/2008.

Yours sincerely

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