

Air Discount Scheme – Public Service Obligations for Air Services

Air Discount Scheme (ADS)

Aim of the Scheme

1. To make air services more affordable for remote communities in the Highlands and Islands of Scotland and facilitate accessibility and social inclusion by providing a discount of 50% on the core air fare (i.e. excluding taxes and charges) on eligible routes.

Background

2. High air fares in the Highlands and Islands of Scotland has been a longstanding issue. Higher fares are a result of the economics of the services provided. Passenger numbers are relatively low and the aircraft used are small. The fixed costs for the aircraft are high and operators are unable to achieve the economies of scale that larger operators, especially Low Cost Carriers (LCCs), can. In addition, given the population levels, there is limited scope for market expansion. The aircraft used are generally older and less efficient. Airports in the Highlands and Islands are subsidised with the aim of keeping airport charges at a level that enables the provision of commercial air services. Despite this, air fares across the region have remained relatively high.
3. The issue of high air fares in the Highlands and Islands of Scotland has been exacerbated by the wider shift to mass air travel which has been facilitated by the development of LCCs. This shift has so lowered fares within the wider market that a much greater proportion of the population have become regular air travellers and the internet now ensures that they are very well informed of the availability of low fares. For example, it is widely known that it is now possible to fly from Edinburgh to New York for less than £200 which equates to around £0.06 per mile. In contrast, on island routes, charges that equate to £1.20 per mile are not uncommon – a multiple of 20x. Few passengers understand why this disparity exists. Given the business models of LCCs, it is unlikely that they will operate to the Scottish islands even if the infrastructure was there to support the size of planes they use. Services to these areas are therefore unable to achieve the economies of scale that would enable materially lower fares. In addition, the passenger levels on the majority of routes are insufficient to support multiple operators meaning that there is no competitive pressure to drive down prices.
4. The ADS was introduced in 2006 to help address the issue of high air fares. The scheme is notified to the European Commission and runs for limited time periods. The scheme has been renewed on a number of occasions – most recently in 2015. The current scheme runs until 31 March 2019. The scheme was initially notified under the European Union’s ‘Aid of a Social Character’ mechanism but the most recent renewal was notified under the 2014 General Block Exemption Regulation (GBER).
5. Since its inception, the scheme has been notified as a scheme which provides “social support to individual consumers.” The scheme discount was increased from 40% to 50% from 1 January 2016 – the maximum allowed under the notification.

Eligibility

6. The scheme is open to anyone whose main residence is in Colonsay, Orkney, Shetland, the Western Isles, Islay, Jura, Caithness and North West Sutherland. It also includes students from these areas who are studying away from home. The discount applies to both single and return journeys and there are no restrictions on the number of trips per eligible person. Eligible routes include those within the eligible area as well as services from the eligible area to any airport within the EEA – currently Inverness, Aberdeen, Glasgow, Edinburgh, Manchester and Bergen. Onward connections from these airports are not eligible even if part of a through ticket.
7. The scheme excludes:
 - People whose main residence is not in the eligible area;
 - People travelling on Public Service Obligation (PSO) flights;
 - People travelling for the purpose of business – considered any journey where there is a business component, regardless of whether there is also a leisure related component; and
 - People whose travel is funded by the NHS or any other third party.
8. Travel by people working for Third Sector¹ organisations has also been eligible for discounted travel since July 2012. Technically, the Third Sector is not part of the Air Discount Scheme but rather they receive an equivalent discount which is provided under EU de minimis powers. De minimis powers allow (from a State Aid perspective) the provision of up to €200,000 over a rolling three year period to any organisation for any reason. For presentational reasons, however, we have always described the Third Sector as being in the scheme. From a user perspective, the discount is provided in the same way.

How the Scheme Works

9. Individuals register with the scheme and receive a membership card and PIN. Airline web sites have a section for ADS members where they need to insert the membership number and PIN. They then purchase a ticket as normal and the discount is automatically applied to the ticket price at the point of purchase. Members can also purchase tickets through travel agents and through airlines' call centres. The discount applies to the core ticket price i.e. excluding taxes and charges.
10. Airlines and travel agents are required to register with the scheme if they want to take part but there is no obligation on them to do so. Each airline and travel agent is required to sign a Memorandum of Understanding (MoU) to join the scheme. This commits them to complying with the terms and conditions of the scheme. Specifically, the MoU sets out the terms and conditions of the scheme with regards to eligibility, the discount to be provided and how it will be provided. It sets out who is responsible for what i.e. Scottish

¹ A sector which is distinct from the public or private spheres, comprising social enterprises, voluntary organisations, charities, co-operatives and mutuals. The third sector is value driven, reinvests its surpluses to promote social, environmental and cultural aims and is non-statutory and independent of government. Examples of the third sector in Scotland would range from charities, sports associations, community groups and residents associations to credit unions, wildlife trusts, housing associations, churches and other religious bodies.

Ministers are responsible for the ADS but airlines are responsible for services. The Conditions of Carriage on an airline are the same regardless of whether a passenger has received an ADS discount or not. The MoU requires an airline to maintain complete records of each ADS transaction and to provide those records on demand to enable the auditing of the scheme.

11. Once they've signed the MoU they are given access to the scheme's membership database. When, for example, a scheme member buys a ticket through an airline's web site, the airline's system automatically checks the scheme membership database to confirm that the passenger is an eligible scheme member.
12. Airlines submit monthly claims in arrears to be reimbursed for the discounts they have provided to scheme members. Their claims are audited by the ADS Admin Team. In addition, the Admin Team maintains the membership database and are the point of contact for scheme members. This includes a Freephone helpline.

Issues to consider in relation to addressing the Highlands and Islands APD exemption

13. The ADS is demand led and as such the cost of the scheme has increased over time. We expect this trend to continue. The increased cost is a result of higher passenger numbers and ticket price inflation. We have no control over ticket prices which are entirely a matter for the airlines. The discount also applies regardless of the class of the ticket i.e. economy, business etc.
14. The ADS is for residents of the eligible area only. There is no scope within the Regulations under which the ADS receives State Aid approval for providing a benefit for non-residents.
15. Under GBER the maximum discount permissible is 100% including taxes and charges.
16. Our auditing of the scheme, both from an airline and scheme member perspective, has developed over time. Unfortunately, when the scheme first started journeys that were not eligible under the scheme received discounts. In particular, a lot of business travel received discounts in the early days. When we tightened up our audit procedures to exclude ineligible journeys this was portrayed by some as us making changes to the scheme to make it less generous. This wasn't the case. We simply introduced more active audit procedures to ensure that journeys that were not eligible for discounts didn't receive them.
17. There is no scope within the Regulations under which the ADS receives State Aid approval for providing a discount for business travel. An equivalent benefit could be introduced using de minimis powers though, in the same way as is done for the Third Sector. At present, however, this is unaffordable.

Facts about the Scheme

- The scheme has approximately 76,000 members.
- In 2017-18 the total cost of the scheme, both reimbursement of discounts and admin costs, was £8.6 million.

Public Service Obligations (PSOs) on Air Services

18. A PSO can be imposed on a scheduled air service under EU Regulation 1008/2008 on common rules for the operation of air services in the Community. The PSO can be imposed only to the extent necessary to ensure the minimum provision of service in terms of:
- Continuity;
 - Regularity;
 - Pricing; or
 - Minimum capacity.
19. Before imposing a PSO on an air service, a Member State must assess the necessity and adequacy of the specification of the service in terms of:
- The proportionality between the envisaged obligation and the economic development needs of the region concerned – i.e. can the specification be justified based upon what is trying to be achieved;
 - The possibility of having recourse to other modes of transport and the ability of such modes to meet the transport needs under consideration, in particular when existing rail services serve the envisaged route with a travel time of less than three hours and with sufficient frequencies, connection and suitable timings – i.e. are the alternative travel options adequate (note, not necessarily ideal);
 - The air fares and conditions which can be quoted to users; and
 - The combined effect of all air carriers operating or intending to operate on the route – i.e. is there an existing commercial service or is there one that is about to start.
20. If no operator is willing to provide the specified service on a commercial basis then a Member State may limit access to the service to one operator for up to four years and may pay subsidy for the provision of the specified service. If the specified service is limited to one operator, that operator must be selected through an open tender procedure.
21. A notice of tender must be published in the Official Journal of the European Union. The tender period must last for a minimum of two months and the tender period for an existing PSO must start a minimum of six months before the contract start date.
22. The following PSOs are currently in place in Scotland:

Transport Scotland

Glasgow – Campbeltown

Glasgow – Tiree

Glasgow – Barra

Shetland Islands Council

Tingwall – Foula

Tingwall – Papa Stour

Tingwall – Out Skerries

Tingwall / Sumburgh – Fair Isle

Orkney Islands Council

Kirkwall – Papa Westray

Kirkwall – North Ronaldsay

Kirkwall – Westray

Kirkwall – Sanday

Kirkwall – Stronsay

Kirkwall – Eday

Argyll & Bute Council

Oban – Coll

Oban – Colonsay

Oban – Tiree

Coll – Tiree

CNES

Benbecula – Stornoway

Dundee City Council

Dundee – London Stansted

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