Editor's comment
from *City Profiles* Issue No. 23

Proposed new EU rules on regional airport aids augur well for European tourism

Last year the European Commission ruled that the special financing deal between leading European low-cost carrier (LCC) Ryanair and Brussels's Charleroi airport represented an illegal subsidy. It now seems to be having second thoughts about its decision. And it is planning new legislation to clarify what aid can be given to regional airports and airlines across Europe, with a view to helping regional airports to thrive and encouraging low-cost airline travel around Europe.

What an about face! But this is certainly welcome news – not only for regional airports and LCCs, but also for consumers and the travel and tourism industry in general.

The row with Ryanair was prompted by the fact that Charleroi is a state-owned airport. However, as the Commission now clearly recognises, an increasing number of European airports are now privately owned and the rules on state subsidies do not apply to them. The large airports and the publicly owned smaller airports complain that competition for traffic and revenues is distorted by preferential deals. So the Commission says it is trying to work out a fairer and transparent system.

No-frills airlines have stimulated demand for air travel

Compared with traditional air carriers, the market share of LCCs – or rather no-frills airlines generally – has risen from only 3% in 1998 to an estimated 15% in 2004 (12% in 2003), although the share clearly varies considerably between EU member states. More significantly, according to research from respected groups such as IPK International, the no-frills airlines have stimulated demand for air travel across all sectors – and not least among some of the less affluent residents of Europe who have never before travelled by air. This is reflected, for example, in the growth trends at many new EU member airports last year (see article in this issue of City Profiles).

The Commission says it welcomes this development and appreciates the contribution made by these industry players to the general reduction in prices of air transport in Europe, which has made air travel much more widely accessible. "As the guardian of the Treaty, it must nevertheless ensure that internal market rules are complied with, in particular competition rules, especially where state aid proves to be incompatible with these rules," says the European Commission in its consultation document.

The negotiating methods used by the LCCs to obtain aid from public authorities have raised a number of questions regarding the application of competition rules under the EU Treaty and have been the subject of several complaints made to the Commission. This is in fact what led the Commission to adopt its decision on the establishment of Ryanair at Charleroi – a decision which Ryanair is of course appealing.

The need to create a level playing field

However, to quote the consultation document, "the fact that aid of this kind is granted to LCCs in many different ways and that there is still no framework for such aid has led to expectations within the market of a clear legal framework defining the rules applicable to new players in the air industry and hence to complaints to the Commission."

The Commission's draft guidelines set out conditions under which airports may receive public financing and offer access discounts to airlines. Released for public consultation, the rules aim to ensure fair competition while letting governments use smaller airports to cut congestion and boost regional development. Only in "exceptional circumstances", such as recession, will start-up benefits be considered at airports handling over 5 million passengers a year.

The Commission aims to frame and adopt the new rules before the coming autumn.