

Turbulent times for the EU aviation industry

In many European countries the government owns a sizeable or a controlling stake in one or more airlines. These are known as flagship **carriers** and are regarded as having strategic significance even if many suffer heavy losses. State-ownership (as a % of total capital) in airlines includes:

- Austrian Airlines 40%
- Belgium - Sabena 34%
- Czech Re - Czech Airlines 94%
- Denmark – Scan Airlines 50%
- Finland - Finnair 60%
- France - Air France 18%
- Greece - Olympic Airlines 100%
- Ireland - Aer Lingus 25%
- Italy - Alitalia 50%
- Netherlands- KLM Royal Dutch 6%
- Poland - LOT Polish Airlines 68%

The **global financial crisis** and the **recession** hit the aviation industry hard. Globally, airlines were expected to make losses of \$9bn in 2009 due to falling revenues and rising costs including expensive **aviation fuel prices**. In Europe, a fall in passenger and cargo demand resulted in losses for many carriers. A decline in average fares, passenger numbers and freight has put the issue of **state support** for European airlines into the spotlight. The region's airlines are also struggling with industrial relations problems, including cabin crew strikes at British Airways and pilot walk-outs at Lufthansa in the spring of 2010. To make matters worse, in April 2010, volcanic ash cloud paralysed air traffic in Europe causing a steep fall in oil revenues in an industry where **profit margins** are already small.

National laws in many EU countries make it difficult for airlines to merge fully so the restructuring of the industry has largely taken the form of **horizontal cooperation** within airline alliances including **joint venture agreements** covering transatlantic routes. There have also been some **mergers** involving large network carriers such as Delta/Lufthansa and [British Airlines joining up with Iberia](#) (Spain). In May 2010, in the USA, United Airlines and Continental Airlines sealed a \$3.2 billion merger to become the world's biggest carrier.

An association of (largely profitable) **low-cost airlines** in Europe such as FlyBe, easyJet, Jet2 and RyanAir has complained to the EU Competition Commission that **financial support** to established airlines is in breach of EU competition laws on **state aid**. The low cost airlines complain that **state owned and subsidised airlines** are a form of **indirect protectionism** in the aviation industry.

Emergency support is allowed under EU rules for the rescue and restructuring of firms in difficulty. But repeated flows of funding are not allowed - indeed state aid can only be granted once over a 10-year period. Financial aid from governments to selected national companies is generally prohibited as anticompetitive, because it may distort competition by favouring certain companies over their competitors. However, exceptions to the rule exist, including Article 107 2(b), which permits aid to make good the damage caused by natural disasters or exceptional occurrences

Adapted from news reports and the Tutor2u European Study Companion, March 2011

QUESTIONS

1. Explain what is meant by “**state aid**” (5)
2. Using a cost and revenue diagram explain why many airlines have suffered losses in recent years (10)
3. To what extent is state-ownership of many of Europe’s major airlines justified in protecting and improving the welfare of European consumers and producers? (25)