



Publication Alert August 2009 -

Theory of two-sided platforms gives better understanding of ‘state aid’ for regional airports

With its landmark ruling of December 17th, 2008, in a lawsuit filed by Ryanair the European Union’s Court of First Instance (CFI) unexpectedly declared the European Commission’s famous Charleroi decision of early 2004 nil and void. Though essentially based on legalistic technicalities, the verdict, in the view of the German researchers Heinemann and Knorr, has opened a rare window of opportunity for embarking on a much-needed more economic approach in the assessment of airport-related state aid cases.

By applying the theory of two-sided markets and the theory of interjurisdictional competition to the Charleroi case, the authors argue in this paper that the EU’s current legal framework for the control of state aids is fundamentally flawed. The authors conclude that a more economic approach, including key insights provided by these two theories, is required for improved decision-making in state aid cases.

Ryanair decided to set up its first basis on the European continent at Charleroi airport in the year 2000. It concluded two separate agreements with the Walloon government and the airport operation company BSCA. The airline agreed on substantial discounts over published groundhandling fees and passenger charges as well as some forms of financial support. In 2004 the European Commission declared substantial parts of this agreement to be illegal state aid and therefore incompatible with the single market. The Walloon government was forced to claim back the financial support they gave to Ryanair. In 2009 the CFI overruled the Commission’s decision and declared it nil. The application of the private market investor principle of the Commission was not applied properly to the Charleroi case which was seen as a substantial error in its law. The nullification of the Commission’s decision by the CFI, makes it possible to apply other more economic based theories to justify CFI’s decision.

The theory of two-sided markets (see also Airneth Column April 2009 D. Gillen) suggests that a platform provider (for example an airport) needs two distinct sets of customers (for example an airline and passengers) to run a commercially successful operation. Furthermore, there is a demand that the two products work complementary (in contrast with a multi-product firm!) and there exists a strong network externality. According to this theory the agreement between Ryanair and the Walloon government/BSCA may not be considered as state aid, but rather a perfectly sensible business decision which would have also been taken by a comparable rational private investor.

Interjurisdictional competition is another theory that can be used to explain CFI’s call. Competition between political entities (interjurisdictions) or institutional, locational or systems competition, especially in the case of the EU, is very true. While the EU has an objective to harmonize all rules within the EU, interjurisdictional competition is may not be easy to regulate. If all policies are harmonized on a supranational basis, state aid on regional

level may be a tool for these regions to compete with other regions on a commercially basis. By attracting an airline to a regional airport there are external benefits created which serve the entire region. These external benefits are then compensated by providing state aid to the respective airline. If these subsidies would have been banned, accordingly a counterproductive wave will be started which could destroy the welfare in the region.

The authors conclude that the EU's existing rules on the legality of state aids fail to reflect the economic complexity of airport-airline relationships. This could mislead competition authorities in their analysis of these aviation related cases. The insights of the introduced two theories can be integrated in the decision-making process to be able to make sound decisions.

Source:

Title: Regional airport subsidies in the EU – the case for a more economic approach in the application of the EU's state aid rules

Authors: André Heinemann (University of Bremen Germany) and Andreas Knorr (German University of Administrative Sciences Speyer)

Source: Proceedings 13th Air Transport Research Society Conference, Abu Dhabi, 2009

More information: [info@airneth *dot* nl](mailto:info@airneth.nl)