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HEARD ON THE STREET

Reform, not aid, for EU airline sector

Europe's ash-stricken aviation industry is looking to the European Commission for compensation. But there isn't a good reason for special treatment. Europe should use the crisis to push for a sector of fewer, stronger players, better able to cope with the industry's persistent crises.

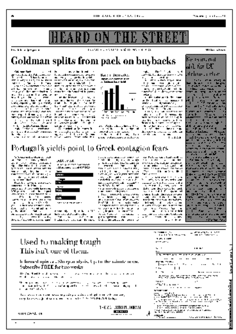
True, the EU relaxed state aid rules after the Sept. 11, 2001, terrorist attacks led to a similar, but shorter-lived, disruption of air travel. **British Airways** and **Air France** received support, but only in the tens of millions of euros. This time, costs are heavier. Eight days of disrupted travel would cost BA £136 million ($209 million) and **Deutsche Lufthansa** €296 million ($399 million), says Deutsche Bank.

But the crisis isn't life-threatening. Airlines have strong cash balances and aren't the only victims. Airports, tour companies, and importers and exporters of perishable goods also are suffering, presenting the EU with a potentially costly precedent if it helps airlines.

The ash cloud has highlighted the airlines' fragility in an era of terrorist threats, health scares and volatile fuel prices. As a whole, airlines haven't covered their cost of capital for more than two decades, according to industry body IATA.

And yet 65-year-old rules governing the global industry still impede consolidation and competition. Foreign ownership rules persist, notably the 25% limit in the U.S. The EU has only recently allowed airlines to fly local routes in another country. The U.S. hasn't yet reciprocated. Airport landing gates and slots in Europe aren't easily transferable, while air-traffic control remains fragmented. Without change, the industry will continue to stagger from one crisis to another.

—Matthew Curtin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