

STATE AIDS IN THE AIRLINE SECTOR:  
A COMPARATIVE ANALYSIS OF IBERIA  
AND AER LINGUS

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# STATE AIDS IN THE AIRLINE SECTOR: A COMPARATIVE ANALYSIS OF IBERIA AND AER LINGUS

Raj S. Chari

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## Abbreviations

AA	American Airlines
BA	British Airways
BBVA	Banco Bilbao Vizcaya Argentaria
BOE	Boletín Oficial del Estado (Official State Bulletin in Spain, equivalent to Hansard)
CCOO	Comisiones Obreras (Spanish trade union historically associated with the Communist Party)
DG COMP	Directorate General Competition, European Commission
DG TREN	Directorate General Transport and Energy, European Commission
EEC	European Economic Community
ECJ	European Court of Justice
EU	European Union
EI	Aer Lingus
EP	European Parliament
INI	Instituto Nacional de Industria
MEH	Ministerio de Economía y Hacienda (Ministry of Economy and Finance)
PP	Partido Popular (Popular Party)
PSOE	Partido Socialista Obrero Español (Socialist Workers' Party of Spain)
SEPI	Sociedad Estatal de Participaciones Industriales
UGT	Union General de los Trabajadores (Spanish trade union historically associated with the Socialist Party)



# Executive summary

## Research objectives

The primary objective of this paper is to undertake a comparative analysis of key policy issues arising from the provision of state aids to European airlines using two case studies namely Iberia Airlines (Spain) and Aer Lingus (Ireland). This objective may be divided into three sub-objectives.

First, to examine the policy process in what this paper defines as ‘overlap issues’ in European governance with specific reference to state aids towards airlines in Spain and Ireland and their regulation by the European Commission. In particular, the paper explores the process during the 1990s by which state aids were approved for Iberia Airlines and Aer Lingus. It is important to note that in the case of Iberia some of these aids were linked to the privatisation of the airline. The paper also examines the process by which such aids were regulated at EU level. A key aim is the clarification of the involvement, role and relationship between the various actors involved in the domestic and Brussels decision-making processes, including the European Commission, domestic economic and political actors as well as other social interests, and the motivation and rationale for the actions of each of these actors.

Second, to characterise the domestic and supranational levels’ policy-making process in terms of larger theoretical models of policy making of value to students of comparative politics, namely pluralism, corporatism, instrumental Marxism or ‘policy-communities’. Bearing these models in mind, the paper seeks to identify which of these best characterises developments at both domestic and supranational level when airline aids are in question.

Finally, to evaluate the process in terms of three key public policy concepts, namely efficiency, transparency and accountability, and to present policy recommendations that may be of value to the debate on the possible future privatisation of Aer Lingus (EI). The paper specifically evaluates the advantages and disadvantages of concepts such as transparency, accountability and effectiveness when dealing with public enterprises as well as considering what lessons can be drawn from the Iberia case study that may be useful for actors involved with Aer Lingus.

### **Research findings**

With regard to the first objective, which analyses the policy process with a focus on the actors involved, the examination of both levels of governance suggests that, with regard to the domestic level developments in Spain (including both aids and privatisation), members of the SEPI state-holding company (to which Iberia belonged) played a leading role, as did members of the Ministry of Economy and Finance (MEH) and the economic actors who purchased part of the company in 1999. It appears that there was little or no role for either workers of Iberia or the Spanish Parliament, or even the Spanish core-executive, in decision-making. This contrasts with the greater 'inclusiveness' found in the negotiation of the 1993 aids for Aer Lingus. This process was distinguished by the participation of several actors in the negotiations (with no one main player) including representatives of EI management (who originally requested the aid), EI workers, representatives from the Departments of Transport and Finance and the Irish cabinet itself.

Supranational approval of aids in both states witnessed a similar dynamic. Both saw the participation of representatives of the domestic-level policy community – in the case of Spain this included members of the SEPI delegation as well as representatives from MEH, and for Ireland it included permanent representatives in Brussels as well as members of the Departments of Finance and Transport – who negotiated alongside officials from the relevant European Commission Directorates General, namely Transport and Competition.

With regard to the second objective, which attempts to theoretically classify developments, the findings for both levels of governance suggest that with regard to the domestic level in Spain, the policy-community model is salient, while for Ireland elements of the corporatist model are of value. The examination of the Spanish case study clearly shows that all four of the policy-community model's main criteria were fulfilled: there was a limited number of political, bureaucratic and economic actors involved; there was informal consensus between all actors; this consensus was achieved by informal bargaining; and each actor was motivated by symbiotic self-interest. However, to understand domestic-level developments in Ireland, elements of the corporatist model are of value. The paper shows that a wide variety of 'social partners'

including political, bureaucratic, managerial (EI) interests and other 'social' actors with an interest in EI were consulted during the negotiations for the 1993 EI aid. This clearly contrasts with the policy-community model found in Spain where membership was highly restrictive and outcomes were based on an informal bargaining process guided by the self-interests of specific actors.

Despite theoretical differences between the two countries in understanding domestic-level aid developments, it is contended that the supranational approval of aids for both airlines can be best theoretically described as constituting an informal policy-community because generally

- there was a limited number of actors involved in the process
- there was consensus based on informal bargaining
- outside 'third party' participation had a limited impact on the final decision
- actors were motivated by their own goals.

### **Policy recommendations**

Drawing on the above analysis, the paper makes two main policy recommendations in relation to

- a) efficiency, transparency and accountability in public policy-making
- b) useful lessons that may be drawn from the privatisation of Iberia for the potential future privatisation of Aer Lingus.

With regard to efficiency, transparency and accountability in public policy-making, the paper argues that if one can assume that it is possible to attain a 'positive sum' game where all three concepts are maximised then the recommendation, for students and practitioners in both states as well as the supranational level, is that more of an effort has to be made to approximate an ideal and try to maximise all three values. However, if one assumes that there is a 'zero sum' game at play then one must consider a 'trade-off' when granting aids towards public enterprises. It is contended that the best combination ultimately depends on the 'normative' values that may be relatively important to each scholar or practitioner and how one views the concept of 'public enterprise' itself.

The second recommendation relates to lessons that may be taken for the potential sale of Aer Lingus based on Iberia's experience. In

such a scenario this paper recommends the sale of the company to both solid financial and industrial partners; it considers the possibility of granting an aid injection based on the Iberia experience; and it suggests that if efficiency is the main goal, then the future privatisation decision-making process should be centralised around a number of key players.

## Acknowledgements

This research was undertaken while I held a TCD Business, Economic and Social Studies Faculty Visiting Research Fellowship at The Policy Institute. I am indebted to several scholars and practitioners who were supportive during the research and writing phases of the project. I am particularly indebted to Sinead Riordan at The Policy Institute for her sharp eye and wonderful insights during the final stages of the project. The advice and guidance of Bob Holton, Frances Ruane and Orla Lane from The Policy Institute have been essential since the beginning of this project. Michael Laver, Michael Marsh and Michael Gallagher from the Department of Political Science, TCD, have offered valuable insights on both the theoretical and empirical aspects of the paper. I am grateful to Arantza Gómez, from the Institute of International Integration Studies (IIIS), TCD, who contributed excellent research assistance on developments at Iberia, to David Dusseault, who made the final copy-editing changes, and to Philip Lane, the Director of the IIIS, for supporting my broad research agenda (pursued at both the IIIS and The Policy Institute) on privatisations and aids in the EU. I also acknowledge the constructive comments and criticisms of those attending The Policy Institute seminar on 13 May 2003 when an earlier version of this paper was presented, as well as the extremely valuable insights of the two anonymous referees. Above all I am indebted to several high-ranking officials in Madrid, Brussels and Dublin who enabled access to documents and were kind enough to be interviewed in confidence during this project.

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DG COMP	Directorate General Competition, European Commission
DG TREN	Directorate General Transport and Energy, European Commission
EEC	European Economic Community
ECJ	European Court of Justice
EU	European Union
EI	Aer Lingus
EP	European Parliament
INI	Instituto Nacional de Industria
MEH	Ministerio de Economía y Hacienda (Ministry of Economy and Finance)
PP	Partido Popular (Popular Party)
PSOE	Partido Socialista Obrero Español (Socialist Workers' Party of Spain)
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UGT	Union General de los Trabajadores (Spanish trade union historically associated with the Socialist Party)

# Executive summary

## Research objectives

The primary objective of this paper is to undertake a comparative analysis of key policy issues arising from the provision of state aids to European airlines using two case studies namely Iberia Airlines (Spain) and Aer Lingus (Ireland). This objective may be divided into three sub-objectives.

First, to examine the policy process in what this paper defines as ‘overlap issues’ in European governance with specific reference to state aids towards airlines in Spain and Ireland and their regulation by the European Commission. In particular, the paper explores the process during the 1990s by which state aids were approved for Iberia Airlines and Aer Lingus. It is important to note that in the case of Iberia some of these aids were linked to the privatisation of the airline. The paper also examines the process by which such aids were regulated at EU level. A key aim is the clarification of the involvement, role and relationship between the various actors involved in the domestic and Brussels decision-making processes, including the European Commission, domestic economic and political actors as well as other social interests, and the motivation and rationale for the actions of each of these actors.

Second, to characterise the domestic and supranational levels’ policy-making process in terms of larger theoretical models of policy making of value to students of comparative politics, namely pluralism, corporatism, instrumental Marxism or ‘policy-communities’. Bearing these models in mind, the paper seeks to identify which of these best characterises developments at both domestic and supranational level when airline aids are in question.

Finally, to evaluate the process in terms of three key public policy concepts, namely efficiency, transparency and accountability, and to present policy recommendations that may be of value to the debate on the possible future privatisation of Aer Lingus (EI). The paper specifically evaluates the advantages and disadvantages of concepts such as transparency, accountability and effectiveness when dealing with public enterprises as well as considering what lessons can be drawn from the Iberia case study that may be useful for actors involved with Aer Lingus.

### **Research findings**

With regard to the first objective, which analyses the policy process with a focus on the actors involved, the examination of both levels of governance suggests that, with regard to the domestic level developments in Spain (including both aids and privatisation), members of the SEPI state-holding company (to which Iberia belonged) played a leading role, as did members of the Ministry of Economy and Finance (MEH) and the economic actors who purchased part of the company in 1999. It appears that there was little or no role for either workers of Iberia or the Spanish Parliament, or even the Spanish core-executive, in decision-making. This contrasts with the greater 'inclusiveness' found in the negotiation of the 1993 aids for Aer Lingus. This process was distinguished by the participation of several actors in the negotiations (with no one main player) including representatives of EI management (who originally requested the aid), EI workers, representatives from the Departments of Transport and Finance and the Irish cabinet itself.

Supranational approval of aids in both states witnessed a similar dynamic. Both saw the participation of representatives of the domestic-level policy community – in the case of Spain this included members of the SEPI delegation as well as representatives from MEH, and for Ireland it included permanent representatives in Brussels as well as members of the Departments of Finance and Transport – who negotiated alongside officials from the relevant European Commission Directorates General, namely Transport and Competition.

With regard to the second objective, which attempts to theoretically classify developments, the findings for both levels of governance suggest that with regard to the domestic level in Spain, the policy-community model is salient, while for Ireland elements of the corporatist model are of value. The examination of the Spanish case study clearly shows that all four of the policy-community model's main criteria were fulfilled: there was a limited number of political, bureaucratic and economic actors involved; there was informal consensus between all actors; this consensus was achieved by informal bargaining; and each actor was motivated by symbiotic self-interest. However, to understand domestic-level developments in Ireland, elements of the corporatist model are of value. The paper shows that a wide variety of 'social partners'

including political, bureaucratic, managerial (EI) interests and other 'social' actors with an interest in EI were consulted during the negotiations for the 1993 EI aid. This clearly contrasts with the policy-community model found in Spain where membership was highly restrictive and outcomes were based on an informal bargaining process guided by the self-interests of specific actors.

Despite theoretical differences between the two countries in understanding domestic-level aid developments, it is contended that the supranational approval of aids for both airlines can be best theoretically described as constituting an informal policy-community because generally

- there was a limited number of actors involved in the process
- there was consensus based on informal bargaining
- outside 'third party' participation had a limited impact on the final decision
- actors were motivated by their own goals.

### **Policy recommendations**

Drawing on the above analysis, the paper makes two main policy recommendations in relation to

- a) efficiency, transparency and accountability in public policy-making
- b) useful lessons that may be drawn from the privatisation of Iberia for the potential future privatisation of Aer Lingus.

With regard to efficiency, transparency and accountability in public policy-making, the paper argues that if one can assume that it is possible to attain a 'positive sum' game where all three concepts are maximised then the recommendation, for students and practitioners in both states as well as the supranational level, is that more of an effort has to be made to approximate an ideal and try to maximise all three values. However, if one assumes that there is a 'zero sum' game at play then one must consider a 'trade-off' when granting aids towards public enterprises. It is contended that the best combination ultimately depends on the 'normative' values that may be relatively important to each scholar or practitioner and how one views the concept of 'public enterprise' itself.

The second recommendation relates to lessons that may be taken for the potential sale of Aer Lingus based on Iberia's experience. In



such a scenario this paper recommends the sale of the company to both solid financial and industrial partners; it considers the possibility of granting an aid injection based on the Iberia experience; and it suggests that if efficiency is the main goal, then the future privatisation decision-making process should be centralised around a number of key players.

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# Introduction and research outline

## 1.1 Introduction

State aid regulation is significant for two reasons. Firstly, it addresses both producer and consumer concerns in the free market. Market-distorting subsidies act as a barrier to entry for other producers and in turn prevent optimal prices and restrict the variety of products for freely choosing consumers.<sup>1</sup> Secondly, unlike other policies within the competition domain such as merger policy, monopoly policy and restrictive practices, the objects of its regulation are governments, not firms (Cini and McGowan, 1998:136). Under Articles 87 and 88 of the European Economic Community Treaty (ex 92 and 93), supranational regulatory authorities in the Directorate General (DG) Competition of the European Commission must be notified of, and eventually approve, subsidies given by member state governments to either public or private industries (Hix, 1999:219). These subsidies may be used for a variety of purposes including the writing-off of debts, recapitalisations and the improvement of company infrastructure.

State aids to European airline companies have, in recent years, been a particularly hot topic of debate. From the perspective of those airlines, such as Sabena and Olympic, who have recently sought state capital injections, aid has been considered necessary in order to prevent the complete closure of the airlines. The competitors of these airlines, whose financial circumstances are more secure, obviously do not favour allowing such state aids because they enable the recipients to continue operating long after market forces would have otherwise caused the companies to fold.

Regardless of the arguments presented by those in favour and those against the granting of state aids to airlines, Table 1 shows that most major European airlines (whether belonging to the state or not) have received state aids within the last fifteen years.

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<sup>1</sup> See M.P. Smith (19978). For an excellent discussion of the 'taxonomy of state aids' see J. Fingelton, F. Ruane and V. Ryan (1997).

*Table 1: European airlines and capital injections*

<i>Year</i>	<i>Airline</i>	<i>Amount (US \$ million)</i>
1991	Sabena	1,800
1991	Air France	338
1992	Iberia	830
1992	Finnair*	175
1993	Aer Lingus	240
1993	British Airways*	690
1994	TAP	1,965
1994	Air France	3,300
1994	Olympic	2,245
1994	Lufthansa*	710
1994	KLM*	620
1996/1999	Iberia	613
1995	Sabena	267
1995	AOM	49
1995	Lufthansa*	400
1997	Alitalia	1,708

Note: \* denotes private sector company

Sources: Doganis, R (2001), *The Airline Business in the 21st Century*, London: Routledge, and the author's own research.

The Table illustrates that even 'big players' such as British Airways and Air France who have historically opposed aid measures to smaller airlines such as Olympic and Aer Lingus have, in fact, received considerable assistance over the years from the state.

Despite the plethora of aids given to European airlines, there is surprisingly little academic analysis from a political science perspective of the policy process wherein state aids to airlines are granted. In particular, little attention has been given to the actors involved in the process when aids are given at the domestic level and those involved when supranational level decisions are taken regarding the compatibility of such aids with the EEC Treaty. Analysis of these developments allows us to gain a better understanding of the policy-making process in what can be referred to as 'overlap issues' of European governance. Overlap issues are those where two separate, but related, domestic and supranational

decisions must be taken because they fall within each level's jurisdiction (Chari and Cavatorta, 2002). Such issues can be found when coupling certain domestic-level initiatives with supranational ones, particularly those falling within the 'competition' rubric. They include, for example, the privatisation of a state company receiving subsidies (domestic-level initiative), which has to be approved by the Directorate General Competition of the European Commission (supranational-level initiative). From a theoretical point of view, 'overlap issues' may offer a somewhat different dynamic to areas studied by other scholars of policy-making such as Coen (1998) and Young and Wallace (2000), which have analysed different regulatory, redistributive, economic and monetary, internal security and foreign policies at both the domestic and supranational levels. As analyses of this type generally tend to focus on the separate domestic or supranational-level policies, they have failed to fully capture or analyse the issues that encapsulate the two formal decisions that must be made at the domestic and supranational level.

## **1.2 Research objectives**

Why undertake a comparative analysis of the granting of state aids to the national airline carriers of Spain and Ireland? Firstly, the countries selected for the comparative aspect of the paper were chosen based on a detailed consideration of the similarities and differences between each state. Both states share the following similarities, namely geographic location, i.e. both are located on the 'periphery' of Europe; both are pro-European integration; and their respective national airline carriers experienced severe financial difficulties during the 1990s, ultimately resulting in both states choosing to give state aid to their national carrier. However, the states differ with respect to their economic strength in the European Union and the route they have chosen to follow in relation to the privatisation of their national airline carriers.

In addition, an analysis of the experience and lessons arising from the privatisation of the Spanish state airline, Iberia, can serve to provide a number of useful policy suggestions and recommendations for consideration by Irish actors involved in the potential future privatisation of Aer Lingus.

### 1.2.1 Policy objectives

This paper has three main policy objectives.

Firstly, *to examine the policy process in what this paper defines as 'overlap issues' in European governance with respect of the granting of state aids to 'national' airlines in Spain and Ireland and the regulation of this aid process by the European Union.*<sup>2</sup> Relying on multiple primary and secondary sources, including elite interviews, company reports, newspaper archives and official (domestic and supranational) decisions, this paper examines and explains the process by which state aids were granted to Spanish and Irish airlines during the 1990s. It also examines and explains the decisions made at EU level by the European Commission with regard to these aids. Each of these questions is specifically concerned with identifying and analysing the actions of the actors involved in the domestic and supranational-level decision-making processes – actors that may include the European Commission and domestic economic and political actors as well as other social interests.

Beyond contributing to the larger policy-making literature, which is largely void of political science analysis of the actors involved (and their motivations) in the policy-making process in this specific overlap issue, examination of this first objective can also contribute to the specific Irish literature focusing on competition policy. Significant examples of this domestic-level analysis includes Vickers (1997) who outlined the overall broad effects of EU competition rules on the Irish government since the 1980s, as well as Fingleton (1997) who offered a cogent analysis on the Irish Competition Authority. Although such work offers valuable insights on the effects of EU membership as well as the dynamics of Irish competition policy, it has not offered a specific comparative focus on airline aids and how the Irish case can be better understood and informed through comparative analysis.

In general, the policy-making process whether at domestic or supranational level can be characterised with reference to a number of large theoretical models, specifically pluralism, corporatism, instrumental Marxism or 'policy communities. Bearing these models in mind, the second objective of the paper is: *to see which of the four identified theoretical models of policy-making helps*

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<sup>2</sup> The term 'overlap issues' is taken from Chari and Cavatorta (2002). They define such issues as those 'where decisions must be made at both levels of European governance'.

*explain/characterise developments at both levels in respect of the granting of state airline aids* (which in the case of Spain are linked to its privatisation). A more detailed discussion outlining the key characteristics of each of these models is provided in Section 1.2.2.

Following the analysis (Objective 1) and theoretical characterisation (Objective 2) of the policy-making process at both domestic and supranational level, the third and final objective of the paper is: *to evaluate the policy-making process in terms of three key public policy concepts, namely efficiency, transparency and accountability*. It is useful to outline how these terms are conceptualised for the purpose of this research:

- **efficiency** in process refers to a process where something is done efficiently or competently finalised with the least waste of effort (and without facing, or intentionally avoiding, potential obstacles)
- **transparency** in policy-making refers to a process that is easy to see through and understand
- **accountability** refers to the idea that actors in the policy-making process have to be ultimately responsible (and answerable) to someone and for their actions.

Bearing the above in mind, a key question for consideration in the paper is what lessons can be drawn from a case study of the privatisation of Spain's national airline for Ireland's national airline, especially in the context of the potential privatisation of Aer Lingus? Drawing on this, the paper considers ways in which both the domestic and supranational policy process can become more inclusive of different actors, as well as more transparent, accountable and effective. It is hoped that its recommendations may be of potential value not only to academics, but also practitioners including EI management, state officials and other social actors.

### *1.2.2 Overview of selected theoretical models of policy-making*

As stated previously, a key objective of the paper is to characterise the domestic and supranational-levels' policy-making process in terms of a number of the larger theoretical models, namely pluralism, corporatism, instrumental Marxism or 'policy communities'. This section describes the key characteristics of each of these models.

The first model, *pluralism*, points to the idea that many freely emerging organised interests have access to a policy-making

process which can be best characterised as 'open'. The principal idea underpinning pluralism is that there are several interests, each of which has equal access to the policy-making process, none of which suffers resource constraints and all of which can freely influence the development of any policy at any time given the openness of the political system. Scholars focusing on developments in Ireland, such as Murphy (1999) and those focusing on developments in the EU, such as Mazey and Richardson (1993) and Pedlar and van Schendelen (1994), have argued that non-state actors have sought to influence the nature of public policy pursued by political leaders in Europe.<sup>3</sup> However, a main criticism of this school is its lack of detailed elaboration of both the constraints faced by some actors and/or avenues through which others have gained an advantage in this process.

Greenwood et al (1992) offered a second larger model by alluding to a mixed *corporatist/pluralist* system to explain public policy development. Clearly guided by the wider corporatist literature as per the work of Schmitter and Lembruch (1979), Greenwood et al contended that specific interests, particularly capital and labour, which enjoy a monopoly of representation, have fixed positions along with the state when policy is made. Some authors have used the above-described model in their work to characterise elements of Irish public policy-making. Both Hardiman (2002) and Taylor (2002) for example, demonstrate the importance of 'competitive corporatism' in macro-economic management, specifically paying attention to the evolution since 1987 of Irish national social 'partnership' agreements. Hardiman (2002:7) argues that social partnership since the late 1980s 'refers to a process of consultation between government and the principal organisations representing employers, trade unions and the farmers'. In this process, all partners involved arrived at national agreements that eventually served as a basis for the economic growth, employment expansion and increased living standards as witnessed throughout the 1990s in Ireland.

Transcending these 'pluralist' and 'corporatist' models, a third public policy-making school of thought points to the disproportionate influence of economic actors in the policy-making process (Coen, 1997). Reflective of ideas raised by *instrumental Marxists* such as

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<sup>3</sup> The work of each of these scholars is heavily influenced by the work of Dahl (1961).



Miliband (1969), analyses within this tradition suggest that economic actors demanded a privileged EU policy-making position given the increased regulatory competences from the state level to the supranational level (i.e. Brussels).<sup>4</sup> In turn, these demands were 'met with concomitant supply of access to the policy process by political actors in EU institutions' (Hix, 1999:201) seeking policy expertise. Examining developments in Ireland, particularly with reference to the sale of state companies such as Irish Sugar, Irish Steel and Telecom Eireann, Chari and McMahon (2003) characterised these developments as representative of an instrumental Marxist model, wherein investors who purchased these companies exercised a disproportionate influence to the exclusion of other social interests during the privatisation negotiation.

A fourth model, as discussed by Rhodes (1997) and Peterson (1995) is the '*policy-community*' approach. This was developed as an alternative to pluralist and corporatist analyses and is enjoying ever-increasing popularity among public policy scholars in Europe. While informed by different ideas raised in the other models, this approach is clearly distinguishable from them on three grounds:

- i) unlike pluralism, it is assumed that equal access to the policy-making process (theoretically open) is not available for an unlimited number of actors
- ii) unlike corporatism, there is no fixed, tripartite power consisting of the state, labour and capital that rules when public policy is made
- iii) unlike instrumental Marxism, it is argued that there is no exclusive and privileged position for private (economic) actors who can unilaterally impose decisions.

Throughout the 1970s and early 1980s, the policy-community/network approach evolved into different typologies and was applied to a variety of policy areas. As a response to criticisms of the weaknesses of the approach's theoretical base, Benson (1982) defined networks as organisations connected by resource dependencies. Guided by Benson's analysis, Jordan and

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<sup>4</sup> Several works have been influenced by this school of thought, attempting to understand the influence of business on EU policy-making given the new centre of European governance. For example, see Cowles (1996, 1998) and Bennet (1997).

Richardson (1982) and Rhodes (1986, 1988) further clarified characteristics of communities, emphasising the interdependencies and the endurance of the relationship between the actors. However, these works raised some confusion given their synonymous usage of the concept of 'network' and 'community.' As a remedy, although perhaps confounding the issue even more, Wilks and Wright (1987) differentiated between the types of actors involved in the different levels of the policy process, referring to a policy 'universe' (existing at the larger policy area), 'community' (at the policy sector level) and 'network' (at the policy sub-sector level).<sup>5</sup>

Despite much heated debate, one may argue that Marsh and Rhodes (1992), in building on the work of Grant et al (1988) and Rhodes (1988), offered a definitive, albeit not final, clarification of the relevant terms. The Marsh-Rhodes typology suggests that four main characteristics are inherent in a 'policy-community' model.<sup>6</sup>

1. There is a limited number of participants that operate in a largely insulated fashion while others are consciously excluded, pointing to a highly restrictive membership.
2. There is interaction between members when an issue is discussed, each of them possessing their own goals.
3. There is a consensus between actors as well as a consistency in values, membership and policy outcomes shared by them, pointing to a 'policy paradigm', or a view of the world which consists of the most urgent problems that need to be dealt with (Benson, 1982).
4. Finally, the interaction between members, which is hierarchical in nature, is based on bargaining with resources between members, where the outcomes reflect a positive sum game which suggests that all members will derive some benefit from the policy output (although all members may not equally benefit).

### 1.3 Research structure

Chapter 2 provides a case study of the history of Iberia Airlines (Spain) and the process by which the airline was privatised during the 1990s. Chapter 3 provides a case study of the history and current experience of Aer Lingus (Ireland) with respect to the granting and

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<sup>5</sup> See also Wilks (1989) and Wright (1991) for further insights.

<sup>6</sup> As also discussed in Rhodes (1997).

receipt of state aids on a number of specific occasions during the 1990s. Each case study is divided into six main sub-sections as outlined below:

- i) a brief history of airline and state aid developments (the paper also discusses how aids to Iberia Airlines were linked to the broad strategy of privatising the company)
- ii) identification of the policy-makers involved at domestic level (Objective 1)
- iii) characterisation of the policy-making process at the domestic level (Objective 2)
- iv) identification of the actors involved in the supranational level at the time when aids were approved (Objective 1)
- v) characterisation of the policy-making process at supranational level (Objective 2)
- vi) consideration of how each of the above mentioned at both levels of governance can be characterised in terms of efficiency, transparency and accountability (Objective 3).

Chapter 4 summarises the research findings in relation to the dynamics of policy-making at both levels of governance for each state, offers a comparative theoretical classification of the processes of policy-making and considers potential lessons for policy-makers which may be drawn from this research. In particular, the paper offers a number of proposals for consideration by those involved in the potential privatisation of Aer Lingus.

## Iberia Airlines: a case study

### 2.1 History of airline, state aids and privatisation

#### 2.1.1 History of airline and state aid developments

Iberia Airlines of Spain was founded in 1933 and quickly developed three main flight routes, namely the domestic routes (with the important Madrid-Barcelona 'puente-areo'), routes to continental Europe (to all EU capitals and other main cities); and routes to Central and South America, where Spain has traditionally served as the hub for flights to/from the rest of Europe.

Despite the multiplicity of its routes, the national airline had a history of low profits, high debt to equity ratios and an aging fleet that necessitated two large capital injections by the state of 120 billion pesetas and 87 billion pesetas in 1992 and 1996 respectively (Cini and McGowan, 1998:151). Beyond improving the company's financial structure and renewing the fleet, the injections paid for the redundancy of 3,300 of the original 30,000 workers during the early 1990s.

In the wake of these injections and following its restructuring, the company began to experience a turnaround: before-tax profits reached over 20 billion pesetas in 1997 and increased to over 65 billion in 1998 (*El Pais*, 3 October, 1999). In the wake of the turnaround, and in order to cement the company's future growth potential, the Partido Popular (the Christian Democratic party which held power between 1996 and 2004) sought to sell forty per cent of the company. This led to a final call for aids of twenty billion pesetas to recapitalise the company in order to prime it for its privatisation.

Bearing this in mind, it is important to highlight that all the aids given to Iberia since 1996 were part of a larger strategy led by the state, the ultimate aim of which was the 'selling off' of Iberia. There were three broad components to this strategy:

- a) '*sanear*': to make the company 'healthy' by way of recaps, restructuring and placing the company in a good financial position through the use of state funds. This was partly achieved in 1992 and 1996 when state aids were given for this purpose
- b) '*consolidar*': to make the company competitive, including increasing its involvement in strategic alliances (Oneworld, September 1999)
- c) '*privatizar*': to pursue a two-pronged strategy of privatising the airline once a) and b) were successfully completed, which consisted of:
  - i in 1999, selling forty per cent of the company to industrial (e.g. airlines) and institutional (e.g. banks) partners
  - ii in 2001, floating the remainder of the company.

### 2.1.2 *The nature of the privatisation*

Of particular interest to this paper is the 'industrial and institutional' partners' thesis regarding the forty per cent sale of the company in 1999.<sup>7</sup> Indeed, since 1996, when it was clear that the company would be sold off, much attention was focused on finding both industrial partners (who had a proven track record in the airlines' industry in USA and Europe) as well as institutional partners (who would serve to establish a solid financial base for the company).

It is crucial to ask the question 'why was there a need to choose such partners to take over a large minority stake of the company before an eventual flotation, and not just simply to sell the company by way of a full public offering?' According to interviews with Spanish government officials involved in the sale, there were three main reasons for pursuing this strategy.<sup>8</sup>

- i) The first reason related to the desired 'equilibrium' that this mixture of investors represented. A key objective was to achieve a mixture of industrial and financial partners, both with a proven track record in private enterprise. It was deemed crucial that no single interest

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<sup>7</sup> The author is indebted to high-level officials from the SEPI for their insights in explaining this thesis. The interviews for this element of the research were held in January-February 2003.

<sup>8</sup> Interviews with high-level SEPI officials, March 2003.

was allowed to gain control of Iberia because it was believed that the combination of both types of investor would offer a solid base for the future progression and development of the airline.

- ii) The second reason related to the future 'management' of the airline. Given its track record and potential for the future, the company had to attain a strong management structure. However, it was believed that if it were privatised outright through the sale of the company's entire stock to one investor, Iberia would not have as solid a base or direction as was deemed necessary. It was strongly believed that both elements were necessary to ensure a solid foundation for the future competitive performance of Iberia.
- iii) The third reason was 'stability'. The principal idea guiding this was that if reliable partners took over forty per cent of the company, this would create a solid base from which to develop future commercial plans for Iberia (the major contribution stemming from the involvement of the industrial partners) as well as increasing its financial stability in case of potential market shocks (the major contribution stemming from the involvement of strong financial partners).

The process to secure such partners could be best described as one that was closed, informal and led by the state. In particular, when considering the process of negotiation with 'industrial' partners, one sees that leaders of the SEPI (the holding company to which Iberia belonged) informally placed themselves in contact with different potential industrial partners in the two main markets that would serve as a complement to Iberia's, with a view to such partners taking over ten per cent of the share capital of the company. The first market included potential investors in the USA, where SEPI informally talked with American Airlines (AA), TWA Airlines, United Alliance, Northwest Airlines and Delta Airlines. In Europe, SEPI considered investors such as British Airways (BA), Alitalia, KLM and Air France.

The final decision was to choose both AA and BA as 'industrial' partners. This decision was made on four grounds:

- i) both companies offered more money than the other possible investors for their shares in Iberia
- ii) both companies had a relationship with Iberia since September 1999 as members of the 'Oneworld' alliance
- iii) these companies truly represented a 'complementary' market to Iberia. For example, AA offered Iberia a strategic link to the USA market given that Iberia had hubs only in Miami and New York, while at the same time offering AA the opportunity to expand its own operations in South America
- iv) other companies placed too many conditions on their participation in Iberia. This was the case with KLM who wished by itself to buy forty per cent of Iberia, with the possibility of selling twenty per cent whenever it so decided. SEPI officials were against the offer because it meant that too much of Iberia would go to one competitor and because it gave too much autonomy to KLM to do what it desired with Iberia in the future.<sup>9</sup>

In focusing on the process of negotiation with financial (institutional) partners, one also sees a similar, informal, dynamic at play. Following contact by the interested parties with SEPI (following the latter's publication of an advertisement in Spanish newspapers regarding the potential investment opportunity in Iberia) individual talks were held between SEPI and the interested parties.<sup>10</sup> Although the interested parties initially stated their offering price, it is important to note that at this stage of the negotiations, the SEPI outlined three main conditions for the sale:

- i) the minimum price to be paid (for the shares)
- ii) the minimum length of time for which each investor must stay involved with Iberia – this was set at three years
- iii) the maximum number of shares that any one company could hold – this was set at no more than ten per cent.

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<sup>9</sup> In fact, the officials interviewed for this research suggested that a ten per cent cap (limit) of Iberia for any partner was the desired number.

<sup>10</sup> The call was announced in the main Spanish papers, *El País* and *El Mundo*.

The final decision was to sell 10% of Iberia to Caja Madrid, 7.3% to Banco Bilbao Vizcaya Argentaria (BBVA), 6.7% to Logista Corporacion, 3% to the major department store el Corte Ingles, and 3% to Ahorro Corporacion Financiera. No real explanation was given as to why those five investors were chosen, although comments made in a number of the interviews conducted for this study suggested that some investors were chosen due to the share-prices they offered, while others were not chosen because of potential conflicts of interest.<sup>11</sup>

## 2.2 Policy-makers involved at domestic-level aid negotiations and privatisation of Iberia

Analysis of the three different injections in 1992, 1996 and 1999, as well as the negotiations surrounding the privatisation, suggests that there were three main actors involved in the domestic-level processes. The first were leading members of the Ministry of Economy and Finance (or Ministerio de Economía y Hacienda, MEH). Heywood (1998) and Chari (1998) have noted the historical strength of MEH, which along with the prime minister comprised a tightly-knit Spanish core-executive controlled by these two key players. The origins of this leading role for MEH in economic policy-making largely derives from earlier Socialist governments when the MEH minister, Solchaga, who was leader of the *renovador* (neo-liberal) elements within the Socialist party, was literally given a *carte blanche* to pursue economic reforms between 1985 and 1993. Such a strong position for the minister, one may argue, became 'institutionalised' when Pedro Solbes was minister between 1993-1996 and later, when Rodrigo Rato became the PP MEH minister in 1996. In terms of aid developments, the Ministry of Finance was pivotal in securing public (Treasury) funds for the operations and, according to interviews conducted during this study, had to give the preliminary and final '*visto-bueno*' (or, go ahead) for any of the injections that were envisaged by the second main actor in the domestic-level process, namely the SEPI.<sup>12</sup>

<sup>11</sup> For example, one (un-named) bank, which was not chosen, stated as a condition that it must be the global co-ordinator of the IPO (when stocks floated in the second round) and the officials of the SEPI believed this to be a 'conflict of interest'. Another – a construction holding company – stipulated that it would invest in the company only if it was given the public contract to construct the 'third runway' in Barajas.

<sup>12</sup> Interviews with high-level SEPI officials, March 2003.



Leaders of the SEPI were crucial in deciding the overall ‘broad strategy’ of the airline, namely to ‘sanear’, and later they were involved in the layout of the plans for the privatisation of the company. As Chari (1998) argues, many members of the INI/SEPI were in fact related to those of MEH. For example, leaders of the board of administration of the former, had at one time in their career served as high-level members of the latter. This overlap between agencies allowed for an informal bargaining process when, for example, ideas regarding the financial restructuring of the company were first tabled in the early 1990s when the first injections to Iberia were made. This informal mechanism was manifest during other stages, such as the 20 billion pesetas injection in 1999. This strong informal relationship between MEH and the SEPI leaders may have strengthened the latter’s powers during the privatisation of Iberia particularly in relation to the selection of the institutional and financial partners. The SEPI leaders knew they had the implicit support of the leading members of MEH who, as previously stated, largely controlled the Spanish core-executive.

The third key players at the domestic level, most particularly with regard to demanding and receiving the 1999 aids, were the industrial and institutional investors. Clearly, the cash injection would strengthen the future of Iberia and it was in their interest to secure such a deal in order to maximise the value of their investment. Hence, once the informal process of choosing the various investors was completed, the chosen investors could informally begin to bargain, in a closed manner, with both SEPI and MEH officials for the desired quantity of aids.

What is perhaps more interesting than the actors that were involved in the process, were those that were *not* involved. None of the aids was at any time actually discussed or approved by the Spanish parliament. Nor were any representatives of the main trade unions such as Union General de los Trabajadores (UGT) and Comisiones Obreras (CCOO) or the trade unions specifically associated with Iberia (such as the pilot’s union, SEPLA) included during either the aid negotiation or privatisation process.

### **2.3 Characterisation of the policy-making process at the domestic level**

Considering the four larger theoretical models discussed in Section 1.2.2, this paper suggests that the Spanish domestic-level policy-

process most closely resembles the 'policy-community' model. This model is felt to be the most relevant because the pluralist model is insufficient given that not all organised interests had free access to the process, corporatism is inadequate because there was not a tripartite or 'social partnership' negotiation process in which labour was given a fixed policy-making position, and ideas posed by instrumental Marxists are insufficient because they fail to consider the large policy-making input from actors beyond capitalist interests. In other words, the policy-community model best describes domestic-level developments in Spain precisely because all four of the model's main criteria were fulfilled. There was a limited number of political, bureaucratic and economic actors involved in the different aid negotiation phases; there was informal consensus between all actors; such a consensus was achieved by informal bargaining; and the actors were motivated by their own, yet self-supporting, self-interest.

With regard to the latter point, what were the self-supporting goals of each of the actors that motivated their participation? Starting with the political actors, one could argue that (the neo-liberal minded) MEH, in particular, saw the granting of aids that would prime the company for its sale as a way of increasing the overall competitiveness of the economy through state retreat. Because the airline had a history of financial losses, it was believed that a short period of large-scale financial injections into the company by the state was potentially less costly than maintaining an indefinite state (financial) participation with Iberia. The latter approach left the possibility open that more Treasury Funds would be necessary in the future and thereby posed an even larger long-term budgetary burden.<sup>13</sup> The relevant public sector officials, particularly senior officials from the SEPI, believed that regardless of the short-term costs associated with each deal, giving aids towards what would be an eventual privatisation catered to their long-term goal of overall rationalisation of the public sector. Finally, with regard to the goals of the private industrialists purchasing the company, one may argue that gaining aids for their purchases allowed economic actors the opportunity to enter new markets (or,

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<sup>13</sup> The goal to increase the competitiveness of the market can be seen as being directly related to the EU's Single Market policies of the 1990s, while the goal to pursue means to reduce deficits and debts can be seen as consistent with EMU policies.

potentially, to expand into pre-existing ones) by getting companies recently financially restructured in line with their desired terms.

## **2.4 Actors involved at supranational level: the case of the 1996 and 1999 aids to Iberia**

### *2.4.1 Actors involved in the approval of aids at supranational level*

Drawing on the specific instances when aid was approved (1992, 1996, 1999), it is possible to identify three main aspects to the general process whereby aid was approved, reflecting the manner in which the European Commission's Directorate-General for Competition (DG COMP) and the Directorate-General for Energy and Transport (DG TREN) negotiated this process with MEH and SEPI.<sup>14</sup>

Firstly, in all cases, once the Spanish state notified the European Commission of the pending aid development, officials from DG TREN and DG COMP were placed in charge of the investigation. The SEPI and members of MEH then 'lobbied' the Commission, explaining the rationale for the injection of state aid. Spanish officials also mentioned that, on occasion, the state availed of the services of a number of consultancy companies apparently for the purpose of lobbying the Commission on their behalf during this period. Secondly, even though DG TREN led the investigation, the Spanish state still had to gain approval from *both* DG COMP (which at the time was led by Commissioner van Miert) and DG TREN (which at the time was led by Commissioner Kinnock) with whom informal negotiations continued for approximately four weeks. Finally, following the completion of the negotiations between the state and both DGs, the latter had to arrive at a common opinion in support of the aid. However, Spanish officials noted that DG COMP potentially offered more 'resistance' to the aid, (because of its historical neo-liberal stance to free the market without favouritism) than DG TREN (which has historically promoted national 'champions' regardless of the aid given to these).

The following sections consider the dynamics of the specific aid approvals in 1996 and 1999.

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<sup>14</sup> This is based on interviews with Commission Officials, February and April 2003.

#### 2.4.2. Rationale for approval of the 1996 state aid

Firstly, it is crucial to note that when the 1992 aid was approved by the Commission, the Spanish government was informed by the Commission that such aid could only be given to the airline on a once-off basis and, as such, it represented a 'one time, last time' aid (Cini and McGowan, 1998:151). Bearing this apparent restriction in mind, how then did the Spanish state gain the approval of the Commission for a further injection of state aids in 1996? In order to understand what occurred, it is useful to consider the words of Doganis (2001:196) who highlights the controversial nature of the decision:

... in implementing its viability plan in 1994-1996, Iberia first restructured its finances by reducing its debt burden from US 1,366 million to US 476 million by 1997. It was helped in this by a capital injection of nearly US 600 million in 1996, though, in a controversial decision, this was deemed *not* to be 'state aid' by the European Commission on the grounds that it met the commercial requirements of a private investor.

In other words, the 1996 aids were approved because they were actually not considered to be aids according to Article 92 of the EEC Treaty. Rather, they were considered to be a capital injection that would have been made by any reasonable market investor. The MEIP (Market Economy Investor Principle) allows a public shareholder to provide a capital injection providing that this injection is justified by commercial considerations similar to those that a private market investor would use to justify such an injection of financial aid. As the European Commission stated:

In determining whether State aid is involved the Commission bases its assessment on the market economy investment principle. According to this principle, no state aid is involved when fresh capital is contributed in circumstances that would be acceptable to a private investor operating under normal market economy positions.<sup>15</sup>

In January 1996, following this line of thinking, namely that such an injection was an investment made under market conditions, the Commission allowed Iberia to receive a capital increase of 87 billion pesetas paid in two stages in April and June 1996.<sup>16</sup> As such, it was

<sup>15</sup> As taken from the *Official Journal*, L 054 25/02/1994, 8.

<sup>16</sup> For a full account of the official decisions, please see the *Official Journal*, L 104 27/4/1996.

not treated as a state subsidy, unlike most other previous state interventions in the EU airline industry. Commissioner Neil Kinnock stated that the decision was

... firmly based on a rigorous professional examination of the commercial and financial situation of Iberia and of its restructuring plan. Using that analysis through a lengthy period of negotiation, the Commission has been able to persuade an airline that the route to future profitability lies in taking tough commercial decisions – in selling off core business, in sticking to cost-cutting targets, and in attracting a private investor.<sup>17</sup>

There were three main conditions related to Iberia's commercial future to which the aid approval was subject. The first was the rationalisation of Iberia's operations in Latin America. To this end, Iberia was forced to sell part of its shareholding in Aerolíneas Argentinas, an airline in which it had participated since the early 1990s but which had a history of heavy financial losses. The second condition was the write-off of Iberia's accumulated debt in order to reduce excessive gearing (which refers to the debt to equity ratio).<sup>18</sup> The third condition imposed by the Commission was a restructuring of the company to encourage early staff retirement. The Commission argued that a market investor would reasonably provide such an injection of capital, as long as these conditions were followed. Notwithstanding several third-party complaints about the decision, especially in the light of the 1992 decision that no more aids would ever be approved by the Commission, the injection was given by the Spanish state to Iberia immediately after the formal Commission decision.

#### *2.4.3 Rationale for approval of the 1999 state aid*

The 1999 aids to Iberia were approved following much the same logic used to justify the granting of the 1996 state aids. Under the MEIP, an injection of 20 billion pesetas could be justified on commercial grounds. However, the key difference this time was that

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<sup>17</sup> Comments found in the article entitled 'European Commission Authorises Capital Increase for Iberia', *European Union in the US*, 31 January 1996, No. 6/96, accessed on the web at <http://www.eurunion.org/news/press/1996-1/pr06-96.htm>

<sup>18</sup> This is effectively normal procedure when any aid is approved in order to allow the company to be in a financial position to attract future financing.

the aids were not subject to any conditions by the Commission. Rather, the Commission argued, the 20 billion pesetas injection was neither an aid nor subject to conditions, because the two industrial investors about to take over the company – AA and BA – stated in informal negotiations with the Commission that if the injection was not approved, they would perform it themselves.<sup>19</sup> This convinced the Commission that the action was something that a rational investor would take and hence the 20 billion could not be considered a ‘state aid’ per se. One might argue that this may have been a ‘sleight of hand’, considering that we do not know if either AA or BA would have actually effected the injection if the Commission had refused to allow the aid to go through. However, in order to fully understand why the aids were allowed to go through, it is important to consider the reasoning of the EU ‘deregulatory’ paradox as discussed in the literature (Chari and Cavatorta, 2002). On the one hand the Commission could pursue EU state aid control, guided by short-term goals of preventing potentially unfair subsidies; on the other, the aids could be approved in accordance with long-term larger Single Market goals concerned with free movement of capital and increasing market competitiveness, one method of achieving which was to take the state out of the economy. The EU deregulatory policy paradox that the Commission was faced with is as follows: EU deregulation stresses the movement towards a competitive market wherein the state plays a limited role and private capital can thrive, while it also allows the theoretical penalisation of states implementing means consistent with such ends if unfair state aid is granted. Aware of this paradox, the Commission officials realised that regardless of the aids previously given to Iberia, the overall goal of giving aids to a company that would be privatised *was* consistent with the general thrust of Single Market goals encouraging economic liberalisation, increasing industrial competitiveness, and free movement of capital in the EU.<sup>20</sup> By not having to place itself in a position where aids had to be reviewed and potentially stopped – in other words, by allowing the aids through simply based on the MEIP – the Commission did

<sup>19</sup> Letter from Karel Van Miert to Sr. D. Abel Matutes regarding ‘la ayuda de Estado no. N. 368/99’, 03/09/1999. For the official decision, see the *Official Journal* C241 26/8/1999.

<sup>20</sup> These goals were first articulated in 1985 as a means to making the European capitalist market competitive vis-à-vis larger ones such as Japan and the United States. See European Commission (1985).

not have to either discourage states retreating from the economy or hinder the expansion of European capital into the single market.

## **2.5 Characterising the overall 'aid approval' policy-making process at the supranational level**

As discussed in the preceding section, the main policy-makers involved at the supranational level included Commission officials from DG COMP and DG TREN in particular, as well as representatives of the domestic level policy-community (as discussed in Section 2.3), specifically members of the SEPI Delegation plus (at times) private consultants working on their behalf. Neither other European institutions such as the European Parliament (EP) nor social interests (such as transnational or national trade union organisations) were consulted.

How can such supranational developments be theoretically characterised? On the one hand, much like the domestic level, the supranational level can be best described as an 'informal policy-community'. As at the domestic level, there was a limited number of actors involved in the aid approval; there was informal consensus based on informal bargaining; and the actors were motivated by their own self-supporting goals. The self-supporting goals of the SEPI actors who represented the domestic level policy-community were to seek aid approval that would allow for the sale to eventually go through, while Commission actors sought long-term liberalisation of the single market wherein the state would play a limited role. On the other hand, and different to domestic-level developments, one may argue that there was a significant amount of 'opaqueness' characterising the 'informal policy-community' that one might not necessarily have expected from the Commission. This was particularly apparent when one considers that the 1996 and 1999 aids were approved based on the MEIP despite complaints from third parties, even though Iberia was told in 1992 that the aids allowed at that time constituted a 'one-time, last-time' injection.

## **2.6. Characterising developments in Spain in terms of efficiency, accountability, and transparency**

How would one characterise the Iberia aid developments in terms of the efficiency, transparency and accountability of the overall process? Were each of these values maximised at both the domestic and supranational levels of analysis? Or, was there a trade-off,

pointing to the idea that there is a zero-sum game when considering all three concepts?

An examination of the domestic level enables one to argue that the process was *very efficient*. In fact, the SEPI exercised a large amount of autonomy in the decision-process with the implicit support of the MEH and the Spanish core-executive. In part this efficiency can be explained by the lack of involvement of other institutions (such as the Spanish parliament) and other social actors (such as trade unions) who remained mostly sidelined from the process. However, one may argue that the process suffered from *low accountability* at the domestic level. This is precisely because the major aid and privatisation decisions were not put before parliament, nor announced in the Spanish Hansard equivalent (the BOE, or *Boletín Oficial del Estado*). In the end, the Spanish state was not answerable to anyone for its actions. Consequently, one may further argue that there was *minimal transparency*. Owing to the fact that involvement in both the aids and privatisation process was limited to the SEPI and MEH only, unions, other social actors and citizens in general were kept in the dark throughout the process.

Turning to the supranational level, one may argue that the same dynamics as those found at the domestic level were also at play. Aid approval, particularly in 1996 and 1999, proved *very efficient*. Only the Commission and the SEPI delegation were involved in the process of decision-making regarding the proposed aids and the limited involvement of third-party officials enabled decisions to be made speedily and effectively. By the same token, there was *little accountability*. Although the College of Commissioners officially 'rubber-stamped' what had been negotiated between DG TREN, COMP and the SEPI delegation, little other EU institutional involvement was manifest (such as approval by the EP or even potential adjudication by the European Court of Justice (ECJ)). Nor were third parties (such as potential competitors) given a significant role (or explanation) in the decision-making process. In fact, it can be argued that the MEIP position that neither the 1996 nor the 1999 injections constituted an aid should have been verified by an independent body. As such, the decision-making process *lacked transparency*, especially in terms of either clearly outlining or justifying the rationale for the decisions taken by the policy-community.



## Aer Lingus: a case study

### 3.1 History of airline and state aid developments

Aer Lingus (EI) is the Irish state airline company and was founded in April 1936. Although airlines such as Iberia have stronger international overseas routes, Aer Lingus increased the number of its routes within the Irish Republic, the UK, Continental Europe and the United States throughout the 1980s and 1990s. By 1992, after a period of sustained losses throughout the 1980s and early 1990s (much like Iberia), the airline was in severe financial difficulties – for example, Aer Lingus incurred losses of £50 million during 1992/1993 (Aer Lingus, 1993:2) with an average loss of £1 million per week. As a consequence of extremely high debts, the airline's banks began to express acute concern regarding the viability of the company and, more seriously, to restrict credit facilities.

In the wake of these financial difficulties and faced with the dramatic possibility of having to close down the airline, a document entitled 'Strategy for the Future' (more informally known as the 'Cahill Plan') was developed by the executive of Aer Lingus in July 1993. It should be noted that, unlike the 1996 and 1999 aids in Iberia, the request for aid in the plan was not drawn up with the vision of priming the company for its eventual privatisation. Rather, the aid was simply seen as a means of keeping the company financially viable and afloat. The Cahill Plan was presented to the government and included four main objectives underlying the requested injection of state aids (Aer Lingus, 1993) which the airline wished to achieve:

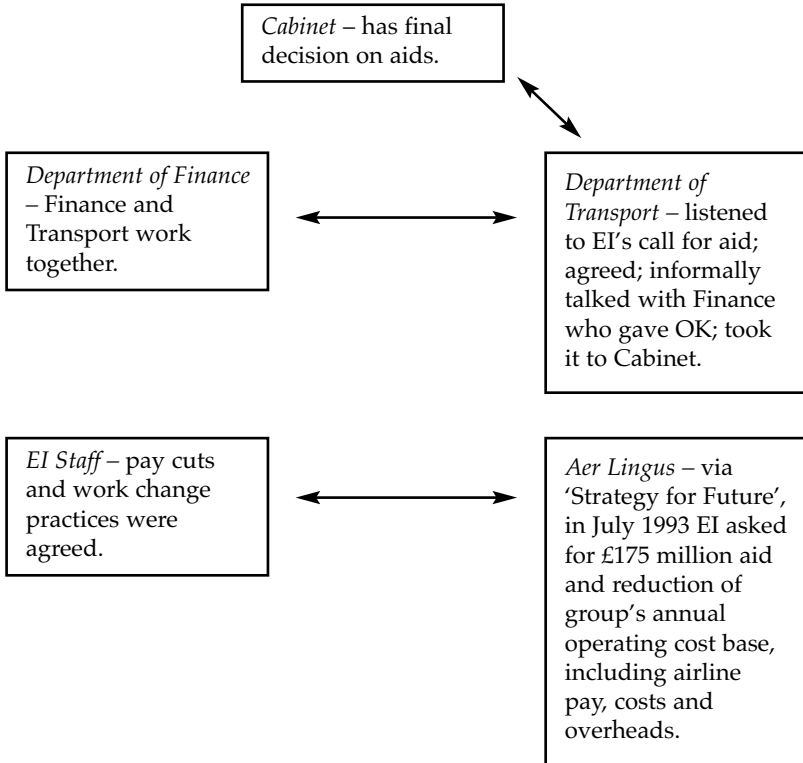
- 1) to perform an equity injection of £175 million
- 2) to reduce operating costs
- 3) to dispose of non-core assets
- 4) to perform a debt reduction of £250 million.

Following the plan's initial drafting by the executive of EI, several other actors were consulted before it was approved.

### 3.2 Policy-makers involved at the domestic level during aid negotiations

In order to identify the main actors involved when the domestic-level aid was negotiated, it is necessary to consider events after the Cahill Plan was drawn up.

*Diagram 1: Policy actors in Aer Lingus aid approval*



As seen in Diagram 1, in July 1993, the Cahill Plan was taken to the Department of Transport who informally talked with the Department of Finance who gave approval to the aid elements of the plan. Following this, the Department of Transport took the proposed plan to the Irish Cabinet who approved it, after which EU approval was sought. The active involvement of the Irish Cabinet during the aid negotiation is in direct contrast to the Spanish

experience, where the senior members of MEH were the only members of the core-executive involved in the negotiations for aid, to the virtual exclusion of the Spanish *Consejo de Ministros*.

However, it is important to note two main related points. Firstly, the 1993 package heralded the beginning of major changes in EI. As a consequence of both the second and fourth points of the Cahill Plan in particular, half of the senior management left the company at this time and EI staff agreed to measures such as 1,200 redundancies, pay freezes and major work practice changes to be pursued between October 1993 and July 1995.<sup>21</sup> Secondly, given the significance of the 1993 package, it is not surprising that the negotiation process was quite complicated. For example, EI staff voted several times on the package finally agreed – this was largely due to the significant part which the staff had to play in the changes and restructuring required by the Plan. In addition, there was a high level of involvement of governmental representatives (such as the then Minister for Transport, Brian Cowen) who sought to ensure the ‘buy-in’ or agreement by all members involved in the negotiation (particularly EI staff) to the final package.<sup>22</sup> All of these activities are in sharp contrast to the Iberia experience, in which minimal consultation was undertaken with workers when the company was similarly pursuing workplace changes.

### 3.3 Characterisation of the policy-making process at domestic level

How can one characterise the policy-making process at the domestic level? If one considers the four models previously discussed, the 1993 EI aid seems to incorporate many characteristics of the ‘social partnership’ model which authors such as Hardiman (2002) have argued is closely related to the corporatist model. In short, a wide range of ‘social partners, including political, bureaucratic, managerial (EI) interests, and other ‘social’ actors with an interest in these proceedings, was consulted. This is in sharp contrast to the ‘policy-community’ model exhibited in the Spanish case study, in which membership was highly restrictive and the outcomes resulted from an informal bargaining process based on the self-interests of

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<sup>21</sup> Similar wholesale changes occurred in 2001, as is discussed later when an analysis of EI’s turnaround after 9/11 is made (Section 3.7).

<sup>22</sup> The author is grateful to the anonymous reviewer who helped clarify this point.

specific actors to the necessary exclusion of other potential interests. The most obvious difference in the Irish case study is that the airline workers were consulted throughout the early phases of the Cahill Plan.

The fact that 'social partnership' was manifest in the aids given to Aer Lingus is consistent with the idea that this model can best describe several areas of Irish macro-economic policy. The fact that social partnership was found in this rather 'micro-economic' policy area is significant because it points to the idea that characteristics of 'macro' level management can also be found in the formulation of 'micro' policies.

### **3.4 Actors involved at the supranational level during aid negotiations at EI**

The main actors involved at the supranational level when aids were approved included DG TREN and DG COMP at the European Commission together with Department of Transport officials as well as permanent representatives from the Irish government. This paper argues that there were two main phases in the aid approval process.

Phase 1 included formal notification in August 1993 by the Irish government to the European Commission of its intention to provide the aid. The justification outlined by the government for delivering such aids included the need to decrease EI's burden of debt and help restore its debt-to-equity ratio to prudent levels. In October 1993, following receipt of the notification, the Commission responded to the Irish government with a series of requests for further information such as a detailed account of the cost reductions to be pursued. It simultaneously invited comments from potential third-party participants within the airline sector (including companies such as Ryanair) who may have felt that the aid was prejudicial to their activities in the European Single Market. Phase 2 primarily consisted of informal negotiations between the Commission and Irish government officials. These negotiations, which occurred between November and December 1993, finally saw agreement by the Commission to the proposed aid injection by the Irish state subject to EI agreeing to meet four main conditions:

- 1) a reduction in costs
- 2) a commitment by EI not to use the aid to subsidise further any loss-making routes

- 3) a commitment by EI to report future progress
- 4) a commitment that the Irish state would not grant further aid to EI.

Unlike the case of Iberia, this second phase also saw third parties, particularly Ryanair, raising objections to the granting of the aids, some of which referred to the possibility that EI would use the aid to help it enter new routes and/or as a means of setting fares below cost price. While the Commission did investigate the claims made by third parties including Ryanair, the aid package was eventually approved in December 1993 subject to a list of conditions similar to those guiding the granting of the aid to Iberia in 1996.<sup>23</sup> The list included the achievement of £50 million in cost cuts, an assurance that no further aids would be granted by the Irish government, and the disposal by EI of non-core assets (such as Irish Helicopters and hotel chains).

### **3.5 Characterising the overall 'aid approval' policy-making process at supranational level**

How can one characterise the policy-making process at supranational level? Considering the theoretical models presented earlier, the overall policy-process at the supranational level can be best characterised as a relatively closed policy-community. The two main actors were European Commission representatives and representatives of the domestic-level policy-community. Similar to the process when the aids to Iberia were approved, the formation of the policy-community can be understood as being based on the specific interests of the various actors involved. The Commission sought to guarantee that the aid would be used for the long-term goal of making the company competitive (even though ownership would remain with the state), while representatives of the state sought to highlight some of the self-interests at the domestic level, particularly those of EI managers who sought to ensure the survival of the company. Interestingly, and dissimilar to the Spanish experience, there was slightly more input from third parties during the aid negotiation process, particularly by actors such as Ryanair who would later attempt to appeal the Commission's decision to approve the aids to the European Court of Justice.<sup>24</sup> Nevertheless, it

<sup>23</sup> See the *Official Journal* C 34/93 N 557/93.

<sup>24</sup> See the *Official Journal* No. C 340, 1998, Item 29 (1998/C 340/29).

can be argued that such third-party actors had minimal impact in terms of affecting the decisions eventually arrived at by members of the supranational policy-community, precisely because their input was virtually ignored.

### **3.6 Characterising developments in terms of efficiency, accountability and transparency**

Focusing on developments at the domestic level, one can argue that the policy-making process was much *more accountable* than was the case in the aid process to Iberia. Whereas the granting of aids to Iberia saw the SEPI exercising a large amount of autonomy (with the implicit support of MEH and the core-executive) with little or no involvement on the part of other social actors (such as trade unions), the Irish case witnessed a multitude of actors partaking in the process, each of which was answerable to the other. These actors included the airline management, EI staff, officials from the Departments of Transport and Finance and, finally, the Irish Cabinet. Despite the advantages accruing from a high level of accountability, however, one could argue that the multitude of actors involved in the process ultimately meant that it suffered from relatively *lower efficiency* at the domestic level when compared with Spain. Decisions could not be taken as quickly as in the Iberia case due to the multitude of actors involved and the necessary 'behind the scenes' negotiations that took place between the many actors, even before they sat down to officially negotiate. Nevertheless, the advantage of having several players involved meant that there was relatively *higher transparency* in the process in comparison to the Iberia case study.

Despite the differences between the Spanish and Irish aid developments at the domestic level, one could argue that each state experienced similar dynamics driving the aid process at the supranational level. Similar to the Iberia aid approval in 1996 and 1999, the 1993 EI aid approval proved *efficient*. Although there was some input by third-party officials, eventually only the Commission and the Irish state were involved in the aid decisions. As with the Iberia case study, one can argue that the EI process *lacked accountability* given that other key EU institutions such as the EP and ECJ were not heavily involved. Thus, with few actors involved in the process, coupled with the absence of a detailed and full justification as to why the Commission took the decision to allow

the aid go through, the supranational process also *lacked transparency*.

### **3.7 Recent aid and privatisation developments in Aer Lingus since 1999**

In order to better understand some of the policy recommendations at the conclusion of this paper, it is necessary to briefly consider some of the principal developments surrounding recent attempts to consider the granting of further aid to EI, as well as the main ideas currently discussed within the policy community regarding the foreseeable privatisation of EI.

It is widely acknowledged that between 1993 and 2001, EI management focused on turning the company around in order to prepare it for its sale. To this end, EI continued to pursue its cost-cutting and rationalisation strategy, as reflected in the sale of the company's hotels. These initiatives have had an obvious impact on the long-term attractiveness of EI in the market. One idea considered in-depth in 1999 was to sell EI by way of an IPO (Initial Public Offering). The plan did not eventually proceed for a number of reasons, including trade union disputes.<sup>25</sup> However, following the downturn experienced by all airlines in the aftermath of September 11, 2001, EI did consider requesting an aid injection from the Irish government.<sup>26</sup> The European Commissioner for Transport and Energy, Loyola de Palacio, clearly discouraged this on two grounds. She argued firstly that no aid from the state, even under the market investor principle, could be considered acceptable. Secondly, if aid were to be given it would have to come from investors taking over the company, but not from the state itself. Despite at one point having considered applying for aids, in the wake of its new 'Survival Plan,' which promoted new ticket pricing, new routes, a reduction in distribution costs and increased sales by way of its website, EI has witnessed a dramatic turnaround. It returned an operating profit in 2002 of €63.8 million, after having suffered losses in 2001 of €52.1 million (Aer Lingus, 2002).

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<sup>25</sup> These statements are based on comments made by one of the anonymous reviewers as well as matters raised in the report to the government by the consultancy company SalomonSmithBarney (1999).

<sup>26</sup> See statements in the Seanad regarding the Aer Lingus financial situation, 19 October 2001.

Given the apparent turnaround of the company, what are the main issues and questions surrounding EI's likely sale that should be considered in greater depth?<sup>27</sup>

- 1 Firstly, the idea of pumping in additional state financial aids before the privatisation of the airline (as occurred in Spain) may still be an issue for consideration. There are clear benefits in following this course of action, including increasing the equity of the company in order to attract strong investors. Nevertheless, according to Irish Department of Transport officials, the state will probably not give any additional aids because of financial constraints imposed by the Exchequer and because of the undoubted resistance of the European Commission to the idea of granting aids to state companies.<sup>28</sup>
- 2 A second issue surrounding the privatisation is how best to sell the company? One may argue that after the 'sting' experienced by members of the public who invested in Telecom Éireann shares the floatation of EI seems unlikely.<sup>29</sup> Yet, even if a direct/trade sale can be considered, what should its nature be? Should it be a direct sale of part or all of the company? To what industrial and financial entities should the company be

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<sup>27</sup> While at the time of writing it does not seem inevitable that EI will be privatised, it seems likely. For example, Seamus Brennan's latest speeches and answers in the Dáil, as well as comments in the press, reflect the type of 'careful' language that is being used by the government in early 2004: the government appears to be focused on EI's sale, without appearing overtly (or dogmatically) committed.

<sup>28</sup> Interview with Department of Transport officials, March 2003.

<sup>29</sup> In 1999, Telecom Éireann was floated on the stock market, at which time the public was invited to become shareholders of the company. This represented the first time that a major state company was offered to the public and the offer generated much interest from citizens who had not previously invested in the stock market. However, soon after the flotation, the share price of the company fell, and did not perform as many had hoped: over time, the share price fell below issue price. As discussed in the document entitled 'Telecommunications in Ireland' (found at <http://cwu.ie/ejournal/Dec99-6-7.pdf>) the fall in price may be attributed to the possibility that the shares were initially floated at a (inflated) high value. Over time the share-price fell sufficiently low that the company became subject to a takeover, thereby forcing people to sell at prices markedly below issue price and suffer losses.



sold? A related issue is the position of EI workers, who anticipate an increase in ownership of the company as a result of the sale in return for the 'sacrifices' made during the 'Survival Plan'.<sup>30</sup>

- 3 A final issue relates to the timing of the sale in the context of wider issues that may have a determining effect on the future of the company. For example, heightened concerns about airline safety in the context of the 'war on terror' may affect the future of airlines and potentially destroy market conditions.

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<sup>30</sup> As proposed in the Agreed Framework Document on Aer Lingus which was signed off by the government, company and unions on 12 December 2001, 'An ESOT will be established in Aer Lingus with an equity base up to 14.9% (including 4.76% currently held by the staff)'. See: <http://www.transport.ie/viewitem.asp?id=4147&lang=ENG&loc=1514>

## Conclusions

### 4.1 Introduction

In undertaking a comparative analysis of the state airlines of Spain (Iberia Airlines) and Ireland (Aer Lingus) the paper had three main objectives:

- 1 to outline the main actors in the policy-making process (as well as the privatisation process for Iberia) in relation to the injection of state financial aids to national airlines at both the domestic and supranational levels of European governance
- 2 to offer a theoretical classification of the policy-making process at both levels of governance, drawing on frameworks from comparative politics literature
- 3 to evaluate the policy-making process in terms of three key public policy concepts, namely efficiency, transparency and accountability.

An underpinning aim of the paper was to advance a number of recommendations for consideration in relation to the potential sale of Ireland's national airline carrier, Aer Lingus. The following sections consider in turn the main findings for each of the above objectives.

### 4.2 Objective 1: actors involved at domestic and supranational levels

The findings with regard to the first objective are summarised in Table 2.

*Table 2: Actors involved at domestic and supranational levels*

<i>Actors involved</i>	<i>Domestic level</i>	<i>Supranational level</i>
<b>Iberia (1996/1999 aids and privatisation)</b>	SEPI, MEH, other economic actors	European Commission representatives from DG TREN and COMP and representatives of domestic-level community.
<b>Aer Lingus (1993 aids)</b>	EI management, EI staff, officials from Departments of Transport and Finance, and the Irish Cabinet	European Commission representatives from DG TREN and COMP and representatives of domestic level.

The consideration of the domestic-level developments in Spain highlighted the leading role played by members of the SEPI state holding company (to which Iberia belonged) as well as the role played by members of the Ministry of Economy and Finance (MEH) and the economic actors who purchased part of the company in 1999. There was little or no role for the workers at Iberia or the Spanish Parliament or even the Spanish core-executive when the aid (and privatisation) decisions were taken. This contrasts with the greater inclusiveness of the process in Ireland when the 1993 aids to EI were negotiated. Rather than negotiations being led in all stages by one main player, there was a multitude of actors involved in the Irish domestic level. These included representatives of EI management (who originally requested the aid), EI workers, representatives of the Departments of Transport and Finance and, finally, the Irish Cabinet itself.

Supranational approval of aids in both states witnessed a similar dynamic. Both saw the participation of representatives of the domestic-level policy-community who negotiated alongside European Commission officials from the Directorates General for Transport and Energy and Competition. In the case of Spain, the domestic-level policy community included members of the SEPI delegation as well as representatives from MEH, and for Ireland it included permanent representatives in Brussels as well as officials from the Departments of Finance and Transport.

### 4.3 Objective 2: theoretical classification of policy-making process at both levels

The findings with regard to this second objective are summarised in Table 3.

*Table 3: Theoretical classification of policy-making process at both levels*

<i>Theoretical characterisation of process</i>	<i>Domestic level</i>	<i>Supranational level</i>
<b>Iberia (1996/1999 aids and privatisation)</b>	Very-closed, informal policy-community	Informal policy-community
<b>Aer Lingus (1993 aids)</b>	Aspects of social partnership	Informal policy-community

Keeping in mind the four larger theoretical models previously discussed as characterising the policy-making process, namely pluralism, corporatism, instrumental Marxism, and policy-communities, the paper argues that the most appropriate model to use in order to understand domestic-level developments in Spain is that of 'policy-communities'. The pluralist model is insufficient because there was not free access to all potential organised interests; corporatism fails because there was no tri-partite, or 'social partnership', negotiation process wherein labour was offered a fixed policy-making position; and ideas raised by instrumental Marxists are not sufficient because they fail to consider the large policy-making input from actors beyond capitalist interests. The policy-community model thus seems the most cogent because all four of the model's main criteria were fulfilled, namely

- there was a limited number of political, bureaucratic, and economic actors involved
- there was an informal consensus between all actors
- this consensus was achieved by informal bargaining
- each actor was motivated by symbiotic self-interest.

In order to understand domestic-level developments in Ireland however, the corporatist model is of value. In short, 'social partners'

including political, bureaucratic, managerial (EI) interests and other 'social' actors with an interest in EI were consulted during the process of negotiating the 1993 aid to EI.

Despite theoretical differences between the two countries in terms of domestic-level aid developments, the process by which supranational approval of aids for both airlines was achieved can be best theoretically described as constituting an 'informal policy-community'. Generally, there was a limited number of actors involved in the process; there was consensus based on informal bargaining; outside 'third party' participation had limited impact on the final decision and the actors were motivated by their own goals.

#### **4.4 Objective 3: policy recommendations**

Given the above research findings, the paper offers two main types of recommendation. The first type comprises recommendations related to the policy process itself with reference to the key concepts of efficiency, accountability and transparency. The second relates to the lessons that may be drawn for the potential privatisation of Aer Lingus from the experience of the privatisation of Iberia. Before considering any recommendations however, it is appropriate to raise a word of caution. There are obviously normative values to any set of recommendations; any scholar of social science must be willing to acknowledge this from the outset.<sup>31</sup> As such, it is important to recognise potential limitations that thus inevitably 'water-down' the force of any recommendations. With these 'limiting' points in mind, we turn to the first of the recommendations.

##### *4.4.1 Recommendations on policy processes*

Developments in both levels of governance, particularly at the domestic level, demonstrate the difficulty in finding a balance between the goals of efficiency, transparency and accountability. This paper suggests that when aids (and the details of the privatisation) were negotiated at the domestic level in Spain, it was a very efficient process given the leading role played by one specific

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<sup>31</sup> Values vary from one scholar to the next, depending on background and ideas. They also vary from one country with its own political culture and values (such as Spain) to another whose political culture and values are not necessarily similar (such as Ireland). Clearly one must recognise the problems in extrapolating lessons from the experience in one country to the other.

actor who could thereby effectively lead and co-ordinate the making of public policy. Despite this efficiency however, the Spanish process cannot be characterised as being either particularly accountable or transparent. This is abundantly clear when one considers that neither the main social actors nor parliament nor even the core-executive had a firm policy-making role in the process. Nor indeed were citizens ever effectively informed of the outcomes of the policy-making process. In comparison, the domestic-level research suggests that the case of Ireland evinced a more accountable and transparent process when aids were negotiated and this resulted in a process that was thus less centrally controlled, faced more potential obstacles, was more time-consuming and therefore, inevitably, was less efficient than the Spanish case.

In an ideal world, all three concepts should be achievable when public policy is made. Based on the work of Horeth (1999), one may argue that all three concepts can be achieved, pointing to the idea of a 'positive sum game', though it can also be argued that the outcome is close to a 'zero sum' game.

*If we assume that it is possible to reach a 'positive sum' game, the recommendation for students and practitioners in both states, as well as at the supranational level, is that more of an effort has to be made to approximate an ideal and try to maximise all three values.*

However, if we assume that the outcome is a 'zero sum' game, we are left with different recommendations, where either 'A' has to be traded for a combination of 'B' and/or 'C'; 'B' for 'A' and/or 'C', etc. Which combination is best if a trade-off must exist when granting aids to public enterprises that may be eventually privatised? This research contends that there is no 'objective' answer to this question: the best combination ultimately depends on the 'normative' values that may be relatively important to each scholar or practitioner. This paper upholds the position that such normative values are found in how one views the concept of 'public enterprise' itself. For example, *if one gives prime importance to the concept of 'public' in the term 'public enterprise', which effectively means that the enterprise belongs to the people, then one must attempt to approximate a process wherein there is maximum accountability and transparency in the process, regardless of how efficient it may be, so that the 'public' and various interests within this have their input in the policy-process in order for it to be deemed legitimate. Yet, if one gives*

*primacy to the concept of an 'enterprise' that is functioning in a market environment, then one must give prime importance to the concept of efficiency when making aid and privatisation decisions, in order to ensure the survival and prosperity of the company per se regardless of how accountable and transparent the process may be.*

#### 4.4.2 Recommendations on the privatisation of Aer Lingus

The second set of recommendations proposed within this research relate to potential lessons (drawing on the experience of the privatisation of Iberia) that may be taken into consideration should the proposed sale of EI go ahead. With regard to this, it is useful to recall the questions outlined in Section 3.7 of the paper in relation to the possible future sale of EI.

##### **i) To whom do you sell the company?**

An analysis of the privatisation of Iberia suggests that one possible recommendation for the future sale of Aer Lingus is that the state sells part of the company to different institutional investors, setting a cap on the percentage of the company that can be sold to any one industrial and/or financial investor. Following the example of Iberia, the industrial partners may include other major carriers, from North America as well as from Europe, while financial investors may be reflective of different banking and commercial interests that are either native to Ireland or from within the EU. EU regulations requiring that more than 49% of a carrier cannot be sold to outside EU investors are also significant in this context.<sup>32</sup> The analysis of the Iberia case study also suggests that part of the airline could be sold by way of public offering. However, this may be more problematic for EI than one might think, given the track record of previous such undertakings in Ireland (particularly the experience arising from the sale of Telecom Éireann).<sup>33</sup> Nevertheless, providing that the shares of the company do not fall substantially in value, a floatation would have the benefit of allowing citizens to 'buy into' their national airline – a possible side effect of which might be an increase in the popularity of the government which leads the process as has been seen in several instances, particularly in Thatcher's UK.<sup>34</sup> Even if floatation of part of the company is

<sup>32</sup> On Community Regulation 2407/92, see the *Official Journal*, L 240, 24.8.1992.

<sup>33</sup> See note 29 above.

<sup>34</sup> For further information and analysis of the UK experience see the work of Veljanovski (1987).

considered however, it seems desirable given Iberia's experience that a significant percentage of EI must be sold to industrial and financial investors. As was seen in the Spanish experience, having such investors had the effect of reinforcing the three main principles deemed most important for the private company, namely 'equilibrium', 'management' and 'stability'. A testament to the strengths of this strategy lies in the fact that in 2001 and 2002 Iberia was one of Europe's most profitable airlines.<sup>35</sup>

### **ii) What about potential state aids before the sale?**

Drawing on the analysis within the paper of the lessons learned from the privatisation of Iberia, the paper recommends that if potential investors in Aer Lingus demand a cash injection into the company, the state might consider 'chancing its luck' by injecting capital into the company in such a way that it can be argued that the injection is not a state aid (as successfully argued by the Spanish government in the case of Iberia in 1999). This could be achieved by convincing the European Commission that an injection by the state is not an 'aid' *per se* because a market investor would do it. Essential to the successful implementation of such a strategy would be to secure a potential partner that would be involved in the trade sale, who would be prepared to state to the European Commission its willingness to inject aids even if the state were not allowed to do so. In an ideal scenario, the Commission might agree to this by drawing on the precedent set in its granting the go-ahead to Spain in 1999. This would also help serve the long-term goal of Commissioner de Palacio with regard to the 'consolidation of European companies'. In a worst-case scenario, the Commission would simply reject the argument.

### **iii) How should Aer Lingus be sold?**

This is a very difficult question to answer given the assumptions that there may/may not be a zero sum game between the concepts of 'efficiency', 'accountability' and 'transparency'. It is therefore difficult to make any single clear-cut recommendation. Assuming a zero sum game, if efficiency is the primary goal, then the paper recommends that the Department of Transport and Aer Lingus management should take a more autonomous role in the privatisation, similar to the SEPI in Spain, with the concurrent

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<sup>35</sup> See <http://www.flug-revue.rotor.com/Frheft/FRH0202.htm> and [www.ftnews.com/wpr213.htm](http://www.ftnews.com/wpr213.htm)



advantages of 'cutting potential red tape' and speeding up the process. If achieving a high level of either accountability or transparency in the process is a key goal, then obviously this may prove a risky strategy, especially given the importance of social-partnership in areas of macro-economic policy-making in Ireland.

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