RYANAIR/AER LINGUS MERGER INQUIRY

Summary of hearing with Aer Arann held on 22 March 2013

Background

1. Aer Arann operates flights from Dublin, Shannon and Cork in the Republic of Ireland under the Aer Lingus Regional brand. It is 45 per cent owned by the Stobart Group plc; 40 per cent by Invesco Perpetual Fund; 10 per cent by Cenkos fund managers; and 5 per cent by Padraig O'Ceidigh who was the previous owner of Aer Arann.

2. Aer Arann said that its overall aims were to grow as a regional partner with Aer Lingus and to develop further the regional concept, which had proved very successful. It also had plans to open further routes between major UK cities and the Republic of Ireland based on a commuter shuttle model.

Aer Arann's franchise agreement with Aer Lingus

3. Under its franchise agreement with Aer Lingus, Aer Arann was branded as Aer Lingus Regional. Aer Arann considered that this branding gave it a distinct competitive advantage.

4. Since being branded as Aer Lingus Regional, Aer Arann had enjoyed an increase in growth due to reduction of costs and access to a global franchise partner. It had experienced an increase in ticket sales on rebranding its services and advertising them on the Aer Lingus website and was able to offer the consumer both frequency and value for money.

5. Being branded as Aer Lingus Regional had enabled Aer Arann to gain a wider reputation and stronger brand awareness that would otherwise have been prohibitively expensive to achieve particularly in the UK. The branding had also led to the safeguard of 320 jobs.

6. A significant and growing piece of the Aer Lingus Regional business model was the connection of UK provincial cities to Aer Lingus's transatlantic network, via seamless connectivity at Dublin Airport.

7. Aer Arann's future plans included ordering new aircraft and introducing services beyond cities which it currently served. In particular, Aer Arann would introduce added frequency this summer on the Dublin–Manchester and Dublin–Birmingham routes.

Consolidation and its effects

8. Aer Arann acknowledged the recent trends of consolidation in the US and European airline industry.

9. Aer Arann acknowledged the situation in the USA where six carriers had become three and further consolidation was likely across the global industry. The industry would be unlikely to be able to support chronic unsustainable loss-making airlines. However, it would be completely unacceptable if consolidation were to remove competition from the Irish market.

10. From an airline’s perspective, consolidation would be expected to achieve synergies in terms of costs and joint purchasing, and in some instances cooperation at various airports.

11. Some (if not all) of these synergies could also be achieved via other forms of cooperation, such as alliances, joint ventures and codeshares; however, a full merger would allow the elimination of multiple back-office overheads and fixed costs.

Aer Lingus as an acquisition target

12. Aer Arann acknowledged that Aer Lingus’s financial strength, its brand, its Heathrow slots and its broad route network could be perceived as attractive assets for a potential investment partner.

13. Aer Lingus was a successful brand with over 75 years’ tradition. It enjoyed a profitable route network and successful transatlantic operations. It had radically overhauled its cost base and its unit costs were now in line with some of the leanest European low-cost carriers.

14. A potential partner would have to share Aer Lingus’s vision for the company. It was imperative that choice was maintained for Irish and UK consumers.

15. It also acknowledged the diverse Aer Lingus share register with a range of shareholders from a primary competitor, to the Republic of Ireland Government, Employee groupings and more recently Etihad Airways. Having a competitor as the largest shareholder would raise some concerns for potential suitors.

16. Aer Arann did not consider the pension issues affecting Aer Lingus to be any different to those affecting any other company that was previously state-held.

Competition against Ryanair

17. Aer Arann had carefully considered its decisions to enter new routes and compete with Ryanair, as Ryanair in the past had displayed aggressive competitive tactics on specific routes. Aer Arann gave an example of the Cork–Dublin route, where Aer Arann had profitably operated five or six turbo-prop services a day. Ryanair entered the route, adding significant jet capacity, coupled with extremely low fares and ultimately forced Aer Arann to exit the market. Ryanair then exited the market shortly after and Dublin to Cork had not been served by air since. Aer Arann acknowledged that a new motorway between Cork and Dublin had opened around this time, but thought the Ryanair competitive actions were very aggressive in relation to the low strategic importance of the route to Ryanair’s expansive European network.

Dublin Airport

18. From 6.20am to 7.30am local time, Dublin Airport was slot-constrained and this was primarily due to a lack of runway capacity. The timings for its new Dublin–Birmingham and Dublin–Manchester services were not scheduled for this early morning period. Dublin-based aircraft, which departed after this peak morning wave, generally recorded reduced daily utilization.

19. A key issue for Aer Arann was ensuring that the first flights of the day to the UK from Dublin could return to Dublin in time to allow connecting passengers for the first Aer Lingus USA departures.

20. Contact stands were constrained during the morning peak. Because it had smaller aircraft, it used remote stands and its customers were being bussed from the terminal. Bussing gates at Dublin, however, were limited. It was unaware of any immediate plans to extend contact stand space at Dublin Airport, but Pier B was currently being refurbished.

21. Aer Arann worked closely with Dublin Airport Authority to optimize slot limitations and capacity constraints, but it had to tailor its schedule around slot constraints.