

RYANAIR/AER LINGUS MERGER INQUIRY

Summary of third party hearing with Air France and CityJet (a wholly-owned subsidiary of Air France) on 4 April 2013

Background

1. Air France said that it had been involved in a number of mergers or joint ventures in the past:
 - (a) a joint venture with Alitalia on the basis of routes between France and Italy;
 - (b) an acquisition of the Dutch carrier KLM in 2004;
 - (c) an acquisition of a 25 per cent interest in CityJet in 1999 which increased to 100 per cent in June 2000; and
 - (d) an acquisition of VLM (a Belgian carrier) in December 2007.
2. CityJet operated between London City Airport (London City) and Dublin Airport (Dublin). It had 5 per cent of the total London–Dublin air travel market. Its main focus was on business passengers during the working week and leisure passengers during holidays and weekends.

Consolidation in the airline industry

3. Air France said that there was less consolidation in the airline sector than in other services sectors. This was due to a number of reasons, such as airlines being traditionally state owned, ownership controls in Europe which limited non-EU stake holders to a maximum of 49 per cent and low financial returns.
4. Before the economic crisis there were some mergers between EU airlines, including the acquisition by Lufthansa of a Belgian carrier and an Austrian carrier, and Air France's own acquisition of KLM in 2004. More recently, however, there was more interest from non-EU investors; the Delta/Virgin acquisition was an example.
5. The economic crisis was a major limiting factor in preventing airlines merging or acquiring substantial interests in other airlines. This was due to the fact that there was a general need for airlines to focus internally in order to reduce costs and improve overall financial performance.

Benefits of mergers

6. Air France said that its merger with KLM in 2004 had led to a lot of synergies from complementarity of networks, procurement synergies and other cost savings. It had also led, inter alia, to a larger network for the travelling public, a single frequent flyers' programme and better conditions for corporate clients.
7. Smaller investments, such as Air France's 25 per cent interest in Alitalia, were considered to be a [redacted].

8. Air France recognized that there was a range of other forms of partnerships of airlines. Alliances could vary from a full joint venture agreement to an arm's length agreement on certain routes.
9. Air France said that CityJet was an attractive acquisition target as it filled gaps within its portfolio. It saw the need for investment in order to achieve the critical mass it needed to be a success.
10. When identifying a potential acquisition target, the network offered was an important feature. The target airline would have to offer an enhancement to Air France's existing network, such as offering routes to countries that were underserved.

Air Lingus as an acquisition target

11. Air France said that overall the attractiveness of Aer Lingus as an acquisition target would depend on who was acquiring the airline and its objectives.
12. Air Lingus's positive features as a target airline were its young fleet, a strong short-haul network, an established presence in the Irish and Irish-related market, particularly in the UK, and a strong brand identity. In addition it had strong North Atlantic connections, especially with Irish-Americans who were regular visitors to the Republic of Ireland. Aer Lingus's access rights to Terminal 2 in Dublin Airport offered a good hub structure. Air France also thought that Aer Lingus held a good cash balance sheet from its original flotation and had a relatively good cost structure.
13. Aer Lingus also had one of the biggest single pools of slots at Heathrow, although the fact that the Irish Government could prevent the transfer of these slots was a limiting factor. Despite this it was still possible that an acquirer might purchase Aer Lingus solely for its Heathrow slots due to their high level of demand and economic value.
14. In relation to Aer Lingus's weaknesses, Air France said that Aer Lingus had an overhanging pensions deficit and a limited catchment base for growth due to the Republic of Ireland's small size and population. It saw an issue with critical mass in its long-haul operations due to its small fleet size and base population of the Republic of Ireland.
15. Potential airlines, other than Ryanair, which might be interested in buying an interest were IAG, Virgin or any US or Middle-Eastern carrier. This was due to Aer Lingus's long-haul routes and Heathrow slots, although Air France realized that any non-EU-based carriers that were interested would be restricted to 49 per cent ownership.
16. Ryanair's presence as an existing shareholder in Aer Lingus was not considered a deterrent to another airline acquiring an interest in the airline. However, there would be concerns over the illiquid share block between the shares held by the Irish Government, Ryanair and employees.
17. The degree of interest might be dependent on the level of interest the acquiring shareholder would get as the greater the shareholding acquired, the greater the degree of control over Ryanair as a fellow shareholder. An example would be if the Irish Government and employees sold their shares, although it thought this event unlikely.

Competition on routes between London and Dublin

18. Air France considered Heathrow to be its biggest competitor airport to its CityJet operations out of London City. British Airways' and Aer Lingus's combined flights out of Heathrow created the largest number of daily rotations between Dublin and a London airport. This created strong competition for Air France as business travellers generally had a preference for frequency.
19. Heathrow offered the infrastructure to handle larger aircraft than London City. This meant that Air France was unable to match the same level of seat capacity as its competitors at Heathrow.
20. CityJet had a different ticket pricing structure to Aer Lingus due to operating smaller aircraft and paying different levels of airport taxes. [✂] The fares data was derived from published fares available on the Global Distribution System (GDS).
21. It was more difficult to compare Ryanair's prices as they were not published on the GDS.
22. Air France [✂].
23. Capacity constraints at Dublin during peak morning hours (6am to 8am) still existed and prevented CityJet from offering more early morning flights between Dublin and London City. This was particularly apparent between 6am and 7am where it was almost impossible to obtain a slot at Dublin.
24. The limited availability of peak morning slots at Dublin meant that an aircraft's ability to recover costs would be reduced due to a shorter working day.