COMPETITION COMMISSION

RYANAIR/AER LINGUS MERGER INQUIRY

Summary of third party hearing with Dublin Airport Authority held on 26 March 2013

Competition between Ryanair and Aer Lingus

1. Dublin Airport Authority (DAA) considered Ryanair and Aer Lingus to be each other's closest competitor and very actively competing with each other in the short-haul market, although the two airlines did not operate the same model, in the sense that Ryanair was a European network-wide carrier with many bases across Europe. Ryanair and Aer Lingus accounted for approaching 90 per cent of the market between the UK and the Republic of Ireland (RoI) and operated a number of overlapping routes.

2. Since 2007, which had seen a peak of activity at the airport, there had been a recession in the Irish market which had intensified competition between Ryanair and Aer Lingus—while total capacity had fallen, directly overlapping capacity had increased. In addition, Aer Lingus Regional—previously Aer Arann—had come within the Aer Lingus umbrella as a franchised operation and was operating essentially as a component of the Aer Lingus network. It said that other airlines, such as BA and Air France, had relatively small market shares in the RoI–UK market.

3. Specifically, the Ryanair/Aer Lingus combined share between the UK and the RoI had risen from 86 per cent in 2007 to 90 per cent in 2012. The number of overlapping routes had remained constant over that period at six routes. The number of overlapping routes to the UK in which Ryanair and Aer Lingus had a combined market share of 100 per cent had increased from three in 2007 to five in 2012 and the proportion of total market capacity accounted for by the overlapping routes had increased from three-quarters of the market in 2007 to 85 per cent in 2012.

4. One factor driving this trend was the recession, which had caused overall capacity to decrease, with other airlines dropping more capacity than Aer Lingus or Ryanair.

5. Both Ryanair and Aer Lingus had shown network-wide increases in their yields in double digit percentages over the last two or three years.

6. DAA said that the taxes and charges published by the airlines on selected routes ex-Dublin did not reflect the actual taxes and charges they incurred at Dublin Airport. Based on charges observed at various dates it appeared that the airlines were earning margins of between 30 and 50 per cent on what were presented to customers as taxes and charges.

7. It had also observed a matching pattern in the taxes and charges imposed by Ryanair and Aer Lingus, whereby often one of the airlines would increase its charges and the other would then match it. At times the airlines had charged exactly the same rate, although this was not always the case. For example, published charges had dropped markedly after a reduction in government tax, but had subsequently increased again. It was not always the same airline that went first. The pattern demonstrated the possibility of cooperation between the airlines, although this was not necessarily evidence that Aer Lingus and Ryanair were coordinating.

8. The underlying airport services and facilities provided to the airlines were quite different reflecting the differences in business models and related airline

preferences—at a cost-per-passenger level there was probably a 10 per cent difference in terms of the input costs.

Entry

9. DAA said that the current runway situation was one of constrained capacity in the first wave of departures. Over the course of the day, there was generally more capacity available. Delay criteria in particular (90 seconds between departing aircraft) constrained the runway as well as a constrained number of flight paths and a lot of aircraft going in the same direction. DAA was currently exploring how the capacity of the runway could be increased, with regard to, for example, access and exit routes to the runway and aircraft queuing.

10. Against the backdrop of a fairly significant drop in demand over the last few years, DAA was evaluating its forward strategy. It had planning permission for a second parallel runway, which would alleviate the runway constraint. However, it wanted to examine thoroughly the scope to obtain the maximum use of existing capacity before proceeding. The current Irish government would be cautious about building new assets.

11. DAA generally would be keen to have more connectivity and more infrastructure at the airport as this enhanced the potential for new entry and the potential for delivery of improved choice and value for consumers. But neither of the incumbent airlines—Ryanair or Aer Lingus—were supportive of a further runway in the near future. The economic regulation of the airport was carried out by the Irish equivalent of the CAA and that authority would take account of the airlines' views in examining proposals for new infrastructure.

12. Ryanair's treatment of attempts at new market entry was fearsome. It had recently targeted a new entrant on a route in terms of capacity scheduling, choice of routes and very aggressive pricing. Its competition had been very direct (ie on the same day at more or less the same time). This competitor was now exiting these routes. Ryanair also had greater leverage than many local competitors in its ability to take on the same competitor across all of Europe.

13. The RoI was a fairly small market and was fortunate to have two Irish airlines which were financially strong and had performed well over the last number of years. It was important that the airlines had a base in Dublin, partly because the time difference with Europe meant that it was vital for business travellers to be able to get out of Dublin in the morning. Aircraft wanted to have the maximum number of rotations during the day but the morning peak was the limiting factor. Stand capacity was also a constraining factor.

14. From an airline's point of view, the most profitable customers were business customers. This was why morning and evening departures were critical. Business customers were the most high-yield-generating customer base.

Capacity constraints

15. DAA would be re-evaluating past expansion plans to expand Piers A and B at Terminal 1, in the context of discussions that were about to start on capital spend for the years 2015–2019.

16. With regard to the allocation of stands between various airlines, DAA had a set of stand allocation rules giving priority on the basis of objective criteria which were

consulted upon with users. In addition the allocation of stands had to take account of details such as the fact that not all stands could accommodate all aircraft sizes and not all stands were served by air bridges.

17. There were difficulties about providing sufficient stand capacity for early morning flights. Airlines needed to be encouraged to show flexibility in this situation, eg on departure times. Coordination with the slot coordinator, who was independent, was also essential. 'Grandfathering' of slots was an accepted provision within slot coordination. EU slot legislation contained rules about the definitions of new entrants and the percentages of new slots that could be allocated to them.

18. The result of these constraints was that it would be very difficult for a new entrant to obtain sufficient slots at appropriate times to enable it to make a bid for a large share of the RoI–UK market.

Consolidation in the airline industry

19. DAA said that in some cases consolidation in the airline sector had been due to the very challenging market conditions in a number of economies, which had meant that many airlines had found it difficult to make a solid return on a consistent basis. Some ailing carriers had been taken over.

20. Two diverging models had emerged in the European market. The first model was that of the large carriers, which were primarily focused on long-haul business. Examples were BA, Lufthansa, Air France/KLM. These airlines saw their future and their profitability in carrying passengers long haul, consolidating their operations in one or two locations and feeding those locations from multiple points.

21. The second model was that of the low-cost carrier, which covered the intra-European market.

22. The size of an airline's operations at its bases would allow it to achieve economies to scale. Aer Lingus had managed to compete effectively despite being small because of its significant base in the RoI.

23. In addition, larger airlines also had a significant amount of buyer power. For example, they were better resourced to make their voices heard by slot coordinators and regulators.

24. There were also airline operating committees operating at local level and the larger airlines tended to be very vociferous in these. For example, airlines had threatened to reduce services if their requirements were not delivered.

Ryanair's shareholding in Aer Lingus

25. DAA could not see direct effects of Ryanair's behaviour as a shareholder. It was aware, for example, of public calls for extraordinary general meetings. However, as a supplier, DAA dealt with the aftermath of shareholders' decisions, but it did not have visibility of the interaction between the shareholders leading up to that decision.

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