COMPETITION COMMISSION

RYANAIR/AER LINGUS MERGER INQUIRY

Summary of hearing with Flybe on 20 March 2013

Background

1. Flybe is based in the UK and operates two routes to Dublin Airport from Southampton and Exeter airports.

2. The Southampton to Dublin route serves mostly business passengers whilst the route between Exeter to Dublin serves more leisure passengers.

3. Flybe operates from Pier A in Terminal 1 at Dublin Airport.

Mergers in the airline industry

4. Flybe said that there was a general desire for consolidation between European airlines. This was driven by the opportunity to realize efficiencies such as economies of scale at airports, reduction of overheads, increased fleet flexibility and the sharing of business models. Its acquisition of BA Connect, for example, had allowed it to substitute more efficient aircraft on to routes, reduce staff costs, and reduce duplication of maintenance, repair and overhaul facilities.

5. Typically the greatest synergies would be achieved through an acquisition and the least synergies derived from a small minority shareholding without a code-sharing arrangement.

6. The attractiveness of an airline as an acquisition target would depend on its scope for synergies. Relevant factors would include the airline's costs, its business model, its fleet, its network (from the perspective of route complementarity) and its market presence. Poorer performing airlines could be more attractive because of the greater scope for synergies.

Aer Lingus as an acquisition target

7. Flybe would expect airlines to consider Aer Lingus to be an attractive acquisition target, as it would allow a geographical extension for the potential acquirer and could offer the possibility of further cost efficiencies.

8. Flybe highlighted BA as a potential acquirer. The geography of Aer Lingus's network would make it less attractive to the other large European network carriers. It also highlighted Middle or Far Eastern carriers as potential acquirers, although this would be subject to ownership constraints.

9. Flybe considered that the relatively small size of the Irish market and Aer Lingus's long-haul strategy would detract from its attractiveness as an acquisition target.

10. It was not impossible that another airline could own a significant stake in Aer Lingus at the same time as Ryanair—referring to the example of Etihad. However, it could not imagine that dynamic lasting for long.

Pricing practices

11. Flybe considered that Exeter and Bristol airports were substitutable under certain circumstances. Connections between the airports were quite good, and some passengers would be equidistant between the two airports. However, it did not think that there was a huge volume of traffic that wanted to go to Bristol but would drive all the way from Exeter.

12. Flybe monitored the prices of Ryanair and Aer Lingus Regional services operating from Bristol, to check that its like-for-like prices were competitive.

13. Flybe shared a similar customer base with Aer Lingus, comprising of a mix of business and leisure passengers. This was why the products and services that it offered were similar to those of Aer Lingus—for example, airport lounges and pre-assigned seating. In contrast, there was a general view that Ryanair's focus was to consistently have the lowest average fares in the marketplace.

Entry

14. In Flybe's view the brand value of Aer Lingus was significantly greater in the Republic of Ireland than in the UK due to its well-established presence.

15. Success in accessing the Dublin Airport market would be dependent on the brand value of the new entrant competitor airline. This was due to the high brand value of both Ryanair and Aer Lingus as recognized established carriers in the Republic of Ireland. However, due to the small geographical area and population size of the Republic of Ireland a high level of brand value could be achieved in a short period of time.

16. Most of Flybe's routes were anchor routes. These were routes between key airports that enjoyed high passenger volumes. Flybe also operated filler routes which had lower passenger volumes to increase crew and aircraft utilization and contribute to the fixed costs of operation.

17. New routes usually began operation within 12 to 16 weeks of going on sale. However, Flybe could implement new routes in less time if a mature route became available; for example, following the exit of a carrier operating a route for some time.

18. Routes between Ireland and the UK were already well served by Ryanair and Aer Lingus, so there were few profitable entry opportunities. Currently, Flybe did not share many routes with Ryanair. Flybe would consider entering routes to compete with Ryanair, but this was not a question that regularly occurred.

Dublin Airport

19. Prior to 2007 it was more difficult to obtain slots at Dublin Airport. However, the market had significantly reduced since then with Dublin seeing around 20 per cent reduction in activity. Flybe had a small presence at Dublin so had not investigated the scope for adding additional flights. Flybe had had problems in the past trying to obtain an 8am slot, but had fewer problems with a 6pm departure.

20. Looking forward, Flybe believed that it would be possible to add additional frequencies at Dublin. Hypothetically, if Flybe were to enter with substantial capacity and target business passengers, it would prefer to fly from Terminal 2.

21. The non-segregation issue at Pier A was not a problem for flights between the UK and Ireland as Flybe operated from Pier A.

22. The attractiveness of contact stands depended on their costs. It was possible to tow an aircraft on to a stand after the first wave had departed, but this would mean a later departure for the aircraft. This would reduce the working day of the aircraft, reducing utilization. Flybe also noted that a later departure would be less attractive for business passengers.

23. Flybe thought it unlikely that an operator like easyJet or Ryanair would accept later departures as this would reduce utilization. To avoid these problems, these airlines often undertook bussing operations when contact stands were unavailable.

24. Dublin airport charges were about 15 per cent more expensive than the average airport charges it incurred.

25. Flybe did not see the need to have a base at Dublin Airport in order to be successful as a competitor. As an example Flybe had a successful operation at London Gatwick airport without having a base there.

26. However, greater efficiencies could be realized by having a base at an airport, particularly with regard to maintenance and flight staff. If one was going to enter with around ten aircraft then the economies of scale associated with flying from bases would make it profitable for an airline to establish a base in Dublin.

27. Currently there was space at Dublin Airport should Flybe wish to overnight aircraft. However, Flybe expected that there could be problems trying to obtain early morning slots. Obtaining slots during the remainder of the day would be easier.