

## Airline Competition in Ireland – back to monopoly?

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*We include data and references supporting the evidence in a detailed Note at the end of the paper.*

### Introduction

For any country, easy and efficient access to others is an important contributor to its economy and quality of life. It is particularly so when the country is an island with no land or rail links to major trading partners or potential tourists. In Ireland, this was recognised by earlier governments, who established and supported the establishment of State airline and shipping companies to ensure that such access was available. But these became State protected monopolies, with high costs and at times indifferent services. Some of us recall being frequent users of the Dublin to Brussels service offered by Aer Lingus in the 1970s and 80s, where flight availability was limited, and costs for a restricted economy ticket often fell in the range of 600-800 Euro or even more. But then came the competition revolution.

At its best, competition gives consumers choice, drives down prices, and encourages innovation. This has proved true of air travel. Ireland was one of the first movers in Europe to move from protection of a monopoly - the traditional ‘legacy’ airline which was shielded from competition by government – to allowing new entrants. The payoff was dramatic, and was extended to the rest of Europe with the implementation of full deregulation from 1997 at EU level.

The outcome has been documented by Barrett (1997, p.67)<sup>1</sup>.

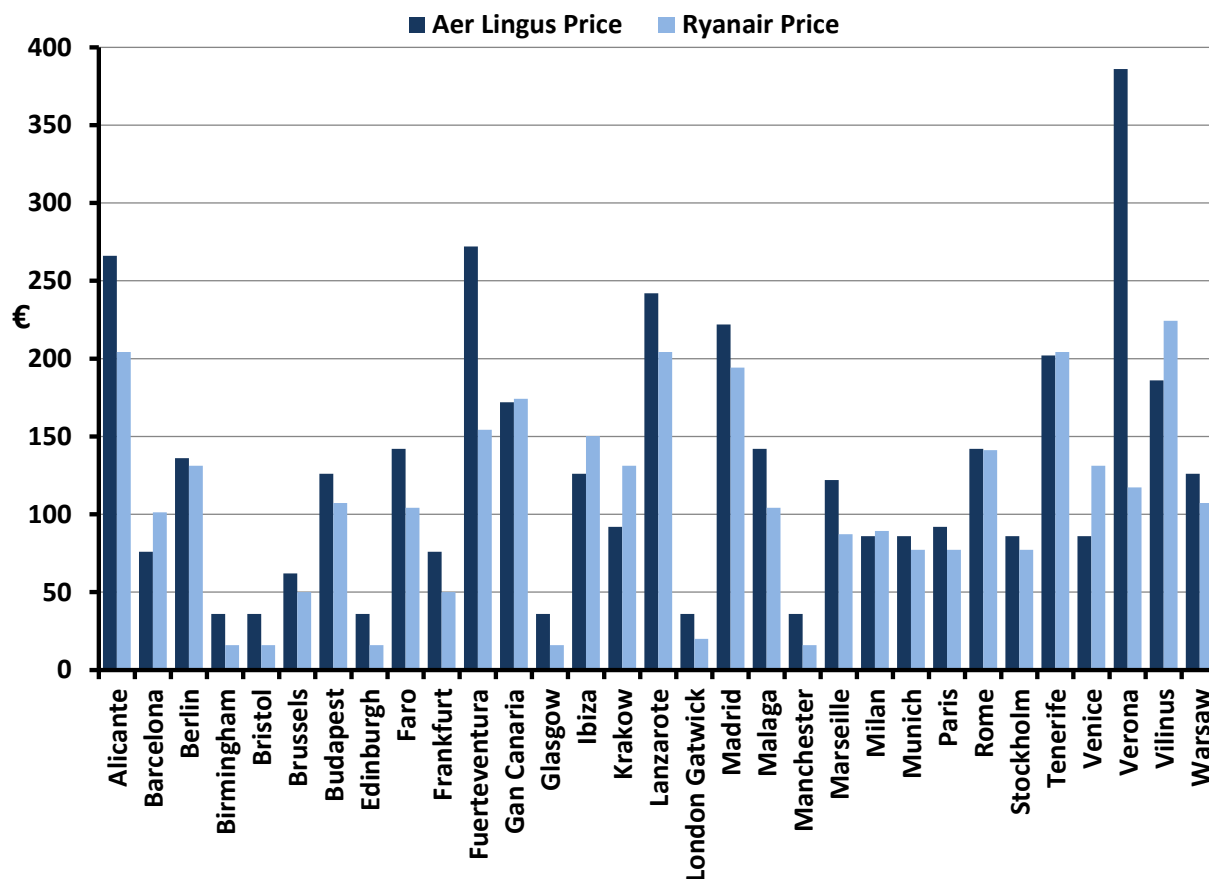
*The deregulation of air transport between Britain and Ireland in 1986 brought reductions in fares of over 50% and a doubling of passenger numbers in contrast to high fare increases and market stagnation before deregulation.*

In Ireland, Ryanair, established in 1985, took first mover advantage of deregulation, to the extent that it is now ranked as the largest airline in Europe judged in terms of passenger numbers – carrying over 76 million passengers in 2011, offering over 1,500 flights daily serving 170 airports across Europe with 294 Boeing 737-800 aircraft; it is now the seventh largest in the world.<sup>2</sup> The incumbent monopoly airline in 1985 (Aer Lingus) continues to operate, and carried 9.8 million passengers in 2011, of whom 8.9 million are short haul (Europe)<sup>3</sup>.

Together, the two airlines dominate Europe-based traffic into and out of Ireland. They account for over 80% of traffic out of Dublin. On July 24, 2012, out of 66 routes by Aer

Lingus from Dublin, 31 are also contested by Ryanair; the average price for a contested flight is €125.75, compared to €145.76 for an uncontested flight<sup>4</sup>.

Figure 1: Price Comparison on Contested Routes



The data are shown graphically in Figure 1 (all numbers are shown in the Annex). On six of the contested routes – Gran Canarias, Ibiza, Krakow, Tenerife, Venice, and Vilnius - the fare charged by Ryanair exceeds that of Aer Lingus; for the remaining 25 flights, the converse is the case. In both cases, where flights are uncontested, fares tend to be higher (Figures 2 and 3)

Figure 2: Price of Flying with Aer Lingus on Uncontested Routes

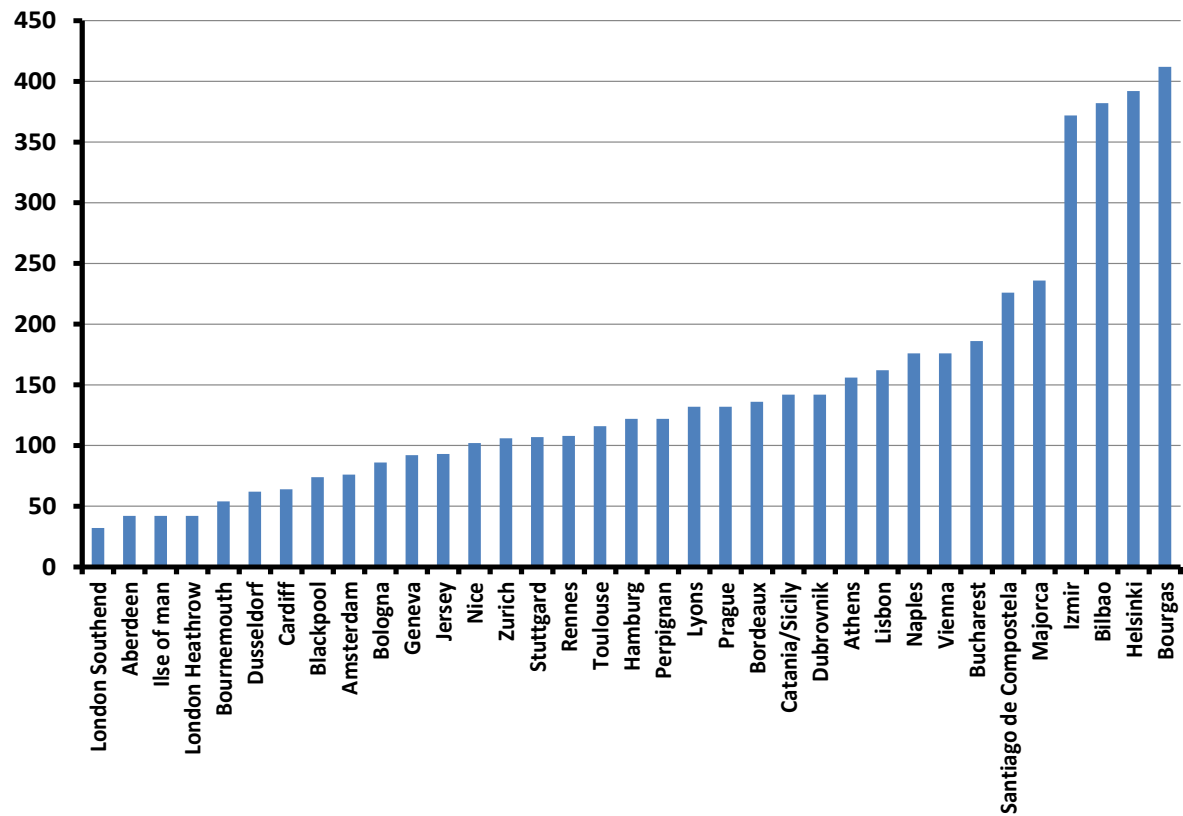
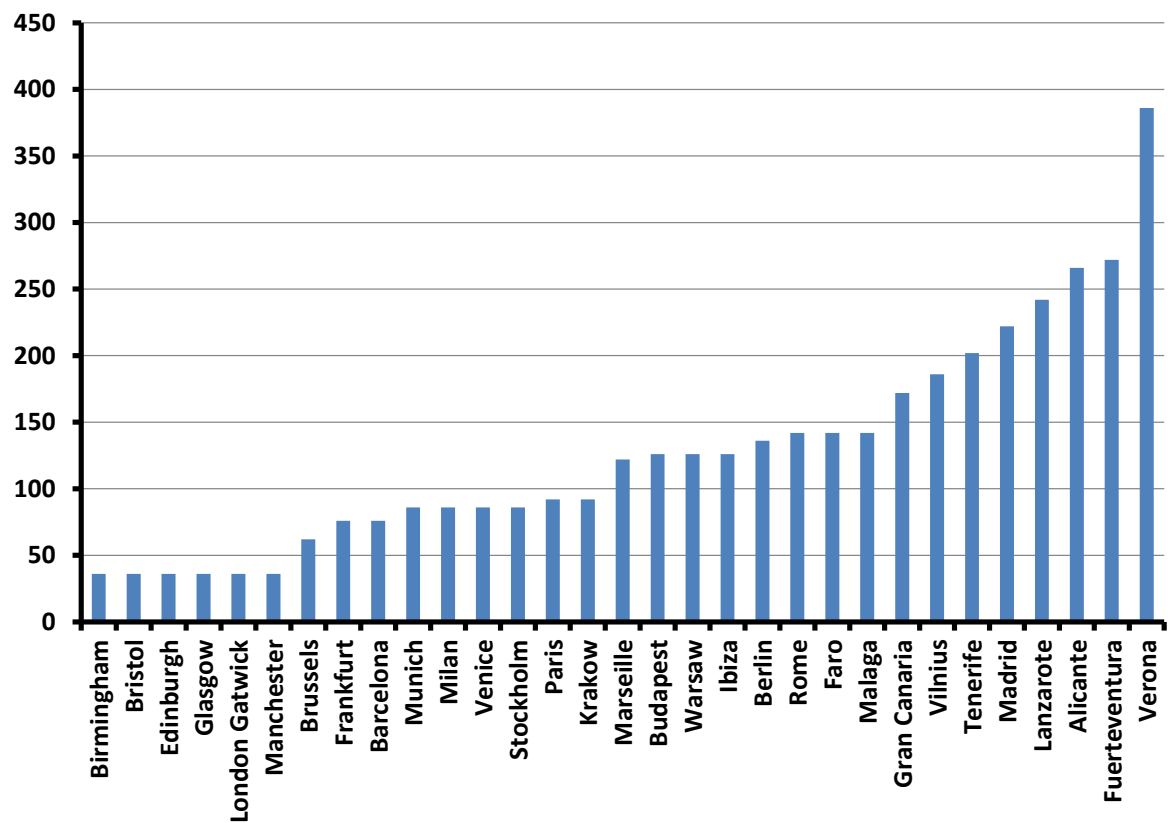


Figure 3: Price of Flying with Aer Lingus on Contested Routes



Ryanair has purchased shares in Aer Lingus, now amounting to 29.8% of the total, and has made successive efforts to buy the airline outright, the latest announced on June 19, 2012. In this commentary, we review the earlier refusal by the European Commission to allow the earlier bid to proceed, and then examine the latest proposal. The stakes here for Ireland are very high; any decision that results in increasing cost or reduction in quality of access would have hugely negative effects on economic performance and quality of life.

### **The European Commission decision in 2007<sup>5</sup>**

In rejecting the earlier bid in 2007, the European Commission argued that the acquisition would have eliminated Ryanair's main competitor in Ireland<sup>6</sup>.

To address the EU's antitrust concerns, Ryanair offered to sell as many as two-thirds of Aer Lingus's landing slots at Heathrow and provide space for new entrants at the London airport, Europe's busiest. It also offered slots at London's Stansted Airport and airports serving Frankfurt, Paris, Milan, Rome, Barcelona and Bratislava, Slovakia. The Commission rejected the offers.

Nelli Kroes the Commissioner for Competition argued that "The slots were not enough. The airline would have about 80% of the market at Dublin's airport. That is such a dominant position that a newcomer is not interested in joining that play." The Commission said the Ryanair case was the first time the regulator reviewed a proposed merger of two primary airlines operating from the same airport in one country.

"The number of overlapping routes is unprecedented compared with previous airline cases". The Commissioner pointed out that the combined airline would have had a near monopoly at Dublin, with no competition on 22 out of 35 routes. "Ryanair has provided customers with more competition and more choice. But it cannot now take away that choice."

### **The 2012 Bid**

The Ryanair case for acquisition is based on the following propositions<sup>7</sup>:

1. In an era when airlines are merging and becoming bigger, Aer Lingus, as a small stand-alone airline –the Ryanair CEO Michael O'Leary calls it 'a small regional airline' and in the Ryanair bid document it is called 'a sub-scale peripheral EU flag carrier which has been bypassed by ongoing EU-wide flag carrier consolidation' – will not be able to compete. He highlights industry consolidation that is leaving Europe with five big airline groups – Air France-KLM, Easyjet, International Airlines Group, Lufthansa, and Ryanair.

The Financial Times notes<sup>8</sup>:

*Apart from Ryanair, it is difficult to see who would pursue a takeover of Aer Lingus. Air France-KLM, IAG and Lufthansa are seen as unlikely suitors. Etihad, the fast-growing Abu Dhabi-based carrier that announced last month it had bought a 3 per cent stake in Aer*

*Lingus, has held talks about buying the Irish government's shareholding. But foreign ownership rules are likely to prevent Etihad from having a controlling stake in Aer Lingus.*

2. Since their last failed bid, the World has changed in terms of competition – “The most significant of these consolidations is the recent IAG (BA and Iberia) takeover of BMI, where the No.1 airline at Heathrow was allowed to acquire the No.2” and there are no barriers to new entrants at Dublin airport, which is operating at only 50% capacity.
3. Ryanair would keep the two airlines separate and competing subsidiaries of Ryanair Holdings.
4. By lowering Aer Lingus unit costs and fares, growing its fleet and traffic at some of Europe's major airports, and competing with high fare incumbents, Ryanair can significantly increase Aer Lingus profitability, and boost Aer Lingus passenger numbers from 9.5 million to 14 million over the next 5 years.
5. Sale to a non-Irish investor would ‘lead to the inevitable break up of Aer Lingus’ on the basis that they are only interested in the Heathrow slots and the profitable US routes.
6. Competition concerns can be addressed

Ryanair believes that “any competition concerns which the European Commission may have can be addressed by Ryanair making appropriate remedies prior to the completion of this Offer and by significant synergies and cost efficiencies resulting from this combination.”

### **Issues and Conclusions**

Since the late eighties, consumers in Ireland, and especially in Dublin, have been experiencing a golden age of air travel, with expanding services and low prices, attributable mainly to competition.

Maintaining this competitive environment is critically important, and we should not take it for granted. (Access costs by air do not feature in the National Competitiveness Council's otherwise very comprehensive *Ireland's Competitiveness Scorecard 2011*.)

No definitive conclusions can be drawn from the data on all flights out of Dublin on one day. But it does not allow us to reject the hypothesis that competition is good for consumers, and reduced competition would be bad.

There are some issues arising from the most recent bid by Ryanair for Aer Lingus which require clarity and verification.

- As mentioned by the Financial Times, “foreign ownership rules are likely to prevent Etihad from having a controlling stake in Aer Lingus”. These rules are based on European regulations and are a hindrance to competition. That the

airline business should be run on the basis of nationality runs contra to its international nature.

- It is argued that there are now large economies of scale in airlines, hence the emergence of the 'big 5'. What has changed since Ryanair started out with one plane in 1985? In what elements of the cost base – costs of capital, planes, fuel, people, marketing, access – are there significant disadvantages, and is the only solution mergers? This has now become part of the conventional wisdom, but Ryanair has demonstrated that the conventional wisdom is often wrong. Are there other means of driving down costs in some or all of these areas that would retain autonomy?
- Michael O'Leary argues that the European routes flown by Aer Lingus are unprofitable, that the main interest by prospective purchasers is the Heathrow slots and the US routes, and that the airline would be broken up by any purchaser. Evidence?
- If Ryanair take over Aer Lingus, will contestability problems arise? In her 2007 judgment, Nelli Kroes thinks so: "That (80% of the Dublin market) is such a dominant position that a newcomer is not interested in joining that play".

Whatever the choice that is made, it must not return us to the monopoly that prevailed before 1986. To quote Commission Kroes again: "Ryanair has provided customers with more competition and more choice. But it cannot now take away that choice."

## Notes

1. Barrett, Sean, 1997. The Implications of Ireland/UK Airline Deregulation for an EU Internal Market, *Journal of Air Transport Management*, Vol. 3, No.2, 1997.

2. [http://en.wikipedia.org/wiki/World's\\_largest\\_airlines](http://en.wikipedia.org/wiki/World's_largest_airlines)

3.

[http://www.aerlingus.com/media/aerlinguscom/content/pdfs/corporate/1211\\_traffic\\_stats.pdf](http://www.aerlingus.com/media/aerlinguscom/content/pdfs/corporate/1211_traffic_stats.pdf)

4. The prices used here refer to the cost of a one-way ticket from Dublin airport on Tuesday the 24th of July or the closest available flight if there were no flights on the 24th. Where there were multiple flights on the same day, the cheapest flight was chosen. The price data was taken from <http://www.aerlingus.com> and <http://www.ryanair.com> on Monday the 2nd and Tuesday the 3rd of July. Prices are inclusive of taxes but do not include opt-in fees such as charges for luggage. The routes were deemed to be competing if they serviced the same area e.g. Aer Lingus flights to Brussels National Airport compete with Ryanair flights to Charleroi Airfield.

5.

<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aj.h6B3VQAQU&refer=europe>

6. The discussion of the EU Decision in 2007 draws from:

<http://www.guardian.co.uk/business/2007/jun/27/theairlineindustry.europeanunion>

7. [http://www.ryanair.com/doc/news/2012/aerlingus\\_20120619.pdf](http://www.ryanair.com/doc/news/2012/aerlingus_20120619.pdf)

8. 'Ryanair's Air Lingus bid faces turbulence,' by Anthony Parker, Alex Barker and Jamie Smyth, *Financial Times*, June 20, 2012, available at: <http://www.ft.com/cms/s/0/b9d71226-bac0-11e1-81e0-00144feabdc0.html#axzz1zYrIVsQr>

### **Air Travel and Managing Climate Change:**

With the rapid expansion of air travel, flying has accounted for an increasing share of greenhouse gas emissions. However, since 2012, air transport has been included in the European Union Emissions Trading Scheme, which sets a declining cap on emissions up to 2020 and thereafter. This produces a price for CO<sub>2</sub> which will be passed through to travelers, with the extent of the pass through depending on the cost of CO<sub>2</sub> allowances, the load factor, and the efficiency of planes and how they are flown. This will penalize those airlines that use relatively fuel inefficient planes, fly them inefficiently, and have low load factors.

### **Annex 1 – Aer Lingus prices**

<b>Country</b>	<b>Airport</b>	<b>Contested</b>	<b>€ price</b>
Austria	Vienna	No	175.99
Belgium	Brussels	Yes	61.99
Bulgaria	Bourgas	No	411.99
Croatia	Dubrovnik	No	141.99
Czech Republic	Prague	No	131.99
Finland	Helsinki	No	391.99
France	Nice	No	101.99
France	Rennes	No	107.98
France	Toulouse	No	115.99
France	Perpignan	No	121.99
France	Lyons	No	131.99
France	Bordeaux	No	135.99
France	Paris	Yes	91.99
France	Marseille	Yes	121.99
Germany	Dusseldorf	No	61.99
Germany	Stuttgart	No	106.99
Germany	Hamburg	No	121.99
Germany	Frankfurt	Yes	75.99
Germany	Munich	Yes	85.99
Germany	Berlin	Yes	135.99
Greece	Athens	No	155.99

Hungary	Budapest	Yes	125.99
Italy	Bologna	No	85.99
Italy	Catania/Sicily	No	141.99
Italy	Naples	No	175.99
Italy	Milan	Yes	85.99
Italy	Venice	Yes	85.99
Italy	Rome	Yes	141.99
Italy	Verona	Yes	385.99
Lithuania	Vilnius	Yes	185.99
Netherlands	Amsterdam	No	75.99
Poland	Krakow	Yes	91.99
Poland	Warsaw	Yes	125.99
Portugal	Lisbon	No	161.99
Portugal	Faro	Yes	141.99
Romania	Bucharest	No	185.99
Spain	Santiago de Compostela	No	225.99
Spain	Majorca	No	235.99
Spain	Bilbao	No	381.99
Spain	Barcelona	Yes	75.99
Spain	Ibiza	Yes	125.99
Spain	Malaga	Yes	141.99
Spain	Gran Canaria	Yes	171.99
Spain	Tenerife	Yes	201.99
Spain	Madrid	Yes	221.99
Spain	Lanzarote	Yes	241.99
Spain	Alicante	Yes	265.99
Spain	Fuerteventura	Yes	271.99
Sweden	Stockholm	Yes	85.99
Switzerland	Geneva	No	91.99
Switzerland	Zurich	No	105.99
Turkey	Izmir	No	371.99
UK	London Southend	No	31.99
UK	Aberdeen	No	41.99
UK	Ilse of man	No	41.99
UK	London Heathrow	No	41.99
UK	Bournemouth	No	53.99
UK	Cardiff	No	63.99
UK	Blackpool	No	73.99
UK	Jersey	No	92.99
UK	Birmingham	Yes	35.99
UK	Bristol	Yes	35.99
UK	Edinburgh	Yes	35.99
UK	Glasgow	Yes	35.99
UK	London Gatwick	Yes	35.99
UK	Manchester	Yes	35.99



**Annex 2 – Ryanair prices**

<b>Country</b>	<b>Airport</b>	<b>Contested</b>	<b>€ price</b>
Belgium	Brussels Charleroi	Yes	49.99
Estonia	Tallinn	No	131.24
France	Biarritz	No	141.24
France	Carcassonne	No	117.24
France	La Rochelle	No	101.24
France	Nantes	No	58.99
France	Rodez	No	41.99
France	Tours	No	131.24
France	Marseille	Yes	87.24
France	Paris	Yes	77.24
Germany	Berlin	Yes	131.24
Germany	Frankfurt	Yes	49.99
Germany	Munich	Yes	77.24
Hungary	Budapest	Yes	107.24
Italy	Alghero	No	142.24
Italy	Palermo	No	150.24
Italy	Pisa	No	117.24
Italy	Milan	Yes	89.24
Italy	Rome	Yes	141.24
Italy	Venice	Yes	131.24
Italy	Verona	Yes	117.24
Latvia	Riga	No	194.24
Lithuania	Kaunas	No	169.24
Lithuania	Vilnius	Yes	224.24
Malta	Malta	No	154.24
Netherlands	Eindhoven	No	49.99
Norway	Oslo	No	45.99
Poland	Gdansk	No	131.24
Poland	Krakow	Yes	131.24
Poland	Warsaw	Yes	107.24
Portugal	Porto	No	107.24
Portugal	Faro	Yes	104.24
Slovakia	Bratislava	No	131.24
Spain	Murcia	No	104.24
Spain	Palma	No	154.24
Spain	Santander	No	175.24
Spain	Seville	No	176.24
Spain	Valencia	No	154.24
Spain	Alicante	Yes	204.24
Spain	Barcelona	Yes	101.24
Spain	Fuerteventura	Yes	154.24
Spain	Gan Canaria	Yes	174.24

Spain	Ibiza	Yes	150.24
Spain	Lanzarote	Yes	204.24
Spain	Madrid	Yes	194.24
Spain	Malaga	Yes	104.24
Spain	Tenerife	Yes	204.24
Sweden	Stockholm	Yes	77.24
UK	Birmingham	Yes	15.99
UK	Bristol	Yes	15.99
UK	East Midlands	No	15.99
UK	Edinburgh	Yes	15.99
UK	Glasgow	Yes	15.99
UK	Leeds Bradford	No	15.99
UK	Liverpool	No	15.99
UK	London Gatwick	Yes	19.99
UK	London Luton	No	15.99
UK	London Stansted	No	15.99
UK	Manchester	Yes	15.99
UK	Newcastle	No	15.99