



Aer Lingus, Ryanair and Competition in the Irish Aviation Industry

Submission to the European Commission, DG Competition

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Introduction

Chambers Ireland (representing Chambers of Commerce of Ireland) is the largest business organisation in the State, with 55 affiliated chambers in every major market representing business locally, regionally and nationally. In addition our views also accord with our Air Transport Users Council which has a long track record of involvement in and commenting on Air Transport Policy in Ireland and beyond.¹

We are dedicated to promoting competitiveness within the business community. In turn, this competitiveness leads to economic growth, stability and job creation and retention.

Due to the structure of the Chamber Network we are in a unique position to draw from the experience and expertise of business organisations throughout Ireland to reach policy positions that represent the interests of the broad business community.

This issue is of particular importance to the people of Ireland. As an island nation, Ireland depends on air connectivity, for business and personal travel, more than any other country in Europe.

We are pleased to submit this consultation on competition in the Irish aviation industry and the potential impact of any merger between Ryanair and Aer Lingus. Our submission is the result of a consultation with both our network and with members of our Air Transport Users

¹ For example, see “EU/US Air Transport Agreement – Potential Impact on Ireland” by Frederik Sorensen and Alan Dukes commissioned by Chambers Ireland ATUC in 2005 available for download on <http://www.chambers.ie/attachments/pdfs/EU-US%20Air%20Transport%20Agreement%20-%20Potential%20Impact%20on%20Ireland.pdf>

Council who are able to provide insights into the specific needs of the business community in their respective areas.

Chambers Ireland and the Air Transport Users Council are against any proposed merger between Aer Lingus and Ryanair. We request that the DG Competition rejects this deal.

What Irish Business Needs from the Aviation Sector

1. It is essential that Ireland is served by at least two competing airlines of scale that are committed to the delivery of broad based air services. Irish businesses must be able to choose between a range of airlines, providing frequent and reliable services from a number of internal airports to a wide range of international destinations.
2. Similarly Irish and International Business Users have a distinct need for connectivity and interlining that facilitates their travel needs and schedules in the markets in which they seek to do business.
3. On this basis, we are concerned that the proposed merger between Ryanair and Aer Lingus would be bad for Irish business. Figures from the Dublin Airport Authority in 2011 show that these two airlines account for 80% of passengers into and out of Dublin Airport and 84% of passengers into and out of Cork Airport. It follows that any merger would lead to very significant market dominance. Furthermore, this would also make the resulting airline a virtual monopsony purchaser of services at those airports in Ireland that it decides to operate from. This in turn could enable Ryanair to drive down prices to a financially unsustainable level.
4. Irish business greatly values access to other routes and airlines via our rich connectivity to Heathrow Airport. At the time of the privatisation of Aer Lingus, Chambers Ireland and our Air Transport Users Council were assured that the Heathrow slots had been secured for routes servicing Ireland. The current proposals to pass these on to other operators for a period of 156 weeks does not provide enough security and gives rise to major concerns that Ireland's connectivity to Heathrow would be permanently undermined.

Those doing business in Ireland also have a considerable reliance on the take-off and landing slots at Heathrow currently held by Aer Lingus. There is no guarantee that these would remain in place in the event of the proposed merger. While it has been suggested that this issue is less significant than it once was due to the presence of Etihad Airways and Emirates in the Irish market, much of their business is dependent on the economies of Australia, China, India, Phillipines and Irish tourism to Thailand. Our analysis is that the first four of these five markets are driven by 'friends and family' traffic that could be vulnerable in the event of a significant economic downturn in the Far East. If these markets were to suffer in the future, then essential connectivity that bypasses Heathrow could be lost. In this circumstance, Ireland's access to the major international hub airport that is Heathrow becomes ever more important for Irish business travellers and other consumers.

5. Business consumers accessing third locations via hubs in Heathrow or Dubai etc, require interlining services. This is a service option that Point to Point operators such as Ryanair do not offer. Furthermore, with on-going consolidation of European airlines into a discrete number of highly dominant airline groups in major hubs, there is little prospect of access or growth in connectivity, especially regional, to other connection rich hubs such as Frankfurt, Schiphol and Paris CDG.
6. Ireland's economic recovery is highly dependent on connectivity with our international trading partners. A merger between Aer Lingus and Ryanair could derail that which is necessary to secure this economic growth. Any merger would run counter to the country's efforts to:
 - a. Sustain the strong record on Foreign Direct Investment;
 - b. Strengthen the domestic economy; and
 - c. Stimulate the imports sector.
7. Furthermore, it is important to note that Aer Lingus also offers air cargo handling that Ryanair has no experience of delivering. The export of high-end goods is crucial to Ireland's economic recovery. To jeopardise the structures that facilitate this would further harm business in Ireland.
8. Ryanair's proposed solution, whereby it would subsidise Flybe to set up a subsidiary company to provide competition on a number of routes, is of questionable merit. Essentially this amounts to a 'weak' unprofitable company replacing a 'strong' profitable company. This would not result in the robust competition necessary for an efficient aviation sector.

Conclusion

This is a crucial time in Ireland's economic recovery. Progress is being made in a number of sectors; however, the economy remains reliant on Foreign Direct Investment and exports. For this reason Ireland's connectivity with Europe and the wider international community is essential. We are an island economy. We do not have land link connection options available to our counterparts in the UK and Continental Europe.

It is for these reasons that Chambers Ireland and the Air Transport Users Policy Council are against any proposed merger between Aer Lingus and Ryanair.

We request that the DG Competition rejects this or any other deal that features:

- a diminution of slots access from Ireland to London Heathrow Airport and that opens up the prospect of a monopsony purchaser of services at Irish Airports; and
- a virtual monopoly provider of air services into and out of Ireland in the future.

We would be pleased to discuss these points further with DG Competition in due course.