

## **Report to Partnership Pre-Meeting 12 April 2012**

### **Partnership**

#### **European Commission Decision on IAG Acquisition of bmi**

##### **Purpose of Report**

To advise Members on the approval by the European Commission of the acquisition by IAG (International Airlines Group) of British Midland International (bmi) from Lufthansa and the remedies that have been agreed to clear competition concerns at the impact of this merger.

##### **European Commission Decision on IAG Acquisition of bmi**

The European Commission has cleared under the EU Merger Regulation the proposed acquisition of the British Midlands Limited (bmi), by the International Consolidated Airlines Group (IAG), the holding company of British Airways and Iberia. The decision is conditional upon the release of 14 daily slot pairs at London Heathrow in order to facilitate new entry, and upon IAG's commitment to carry connecting passengers to feed the long-haul flights of competing airlines out of London Heathrow. In light of these commitments, the Commission concluded that the transaction would not raise competition concerns.

The Commission's investigation found that the transaction, as initially notified, would have led to high market shares and even monopolies on a number of domestic, European and international routes out of London Heathrow airport. The Commission also analysed whether there was a risk that IAG would prevent passengers from connecting on long-haul flights operated by competing airlines out of London Heathrow.

During the first-phase review, IAG submitted commitments to release 12 daily slot pairs at London Heathrow which could be used on the specific routes of concern, including the UK domestic routes, as well as on other European routes. In addition, two Heathrow daily slot pairs will be leased to Transaero for use on flights to Moscow. These slots and other incentives such as the acquisition of grandfathering rights after a certain period of time should facilitate new entry. Furthermore, IAG committed to entering into special agreements with competing airlines which operate long haul flights out of London Heathrow to provide these airlines with connecting passengers, including from UK domestic routes and other European routes. Passengers will therefore continue to have a choice to use other airlines than IAG when connecting at London Heathrow.

The EC believe these commitments adequately address all competition concerns identified by the Commission. The Commission therefore concluded that the proposed transaction would not significantly impede effective competition in the European Economic Area (EEA) or a substantial part of it.

## **Disposal of Slots at Heathrow**

The latest information in the public domain suggests that the EC has split the 14 slots into three separate groups: seven pairs that have to be used between Heathrow and Scotland; the two Transaero slots; and five further daily slots with various destination restrictions.

The assumption would be that the slots will be distributed to existing UK regions with BA and bmi services to London Heathrow. However there may be an opportunity for an approach to be made to those Airlines that express an interest in these slots to consider using some of the slots to provide links to other UK regions.

HITRANS is currently developing a North of Scotland Air Issues Evidence Note on behalf of HITRANS and Nestrans. This project aims to promote the need for the North of Scotland to have better access to global markets. It has long been our belief that the best opportunity to connect the Highlands with the world is through a service from Inverness to London Heathrow.

The draft version of the Air Issues Evidence Note has identified that while a significant number of passengers use Inverness Airport for travel to Airports in the London area the majority of passengers travel point to point. Data available from the CAA for Inverness Passenger Traffic in 2009 shows that 311,451 passengers travelled between Inverness and London airports (Gatwick and Luton) with only 51,792 connecting for onward air travel. Significantly in the same year 60,000 journeys were made by passengers from the Inverness Airport catchment area using other Scottish Airports as the means of travel to reach London Heathrow. This highlights the significant level of demand that exists for travel from the region to Heathrow, and the extent to which passengers are effectively paying a premium for such journeys both in terms of time and cost through having to travel to other Scottish Airports before commencing their air travel.

HITRANS should seek to engage with Highlands and Islands Airports Limited (HIAL) and other key stakeholders within the region including Highlands and Islands Enterprise and business representatives on developing a case for supporting the provision of a route linking Inverness with London Heathrow, reinstating the one lost in the last decade when slots at Heathrow previously used were effectively transferred to long-haul operations. The case for the Inverness link to be included in any package proposal should be made to potential bidders for the 7 slot pairs being released for UK regional access to London Heathrow. Virgin and Aer Lingus have already publicly expressed an interest in these slots. Virgin in particular have advocated that all the Heathrow slots should go to one bidder to increase competition to IAG airlines at London Heathrow.

The case for the establishment of a London Heathrow link from Inverness should consider the feasibility of a number of options including single or twice daily service. The possible impact of the service on existing routes from Inverness (particularly those to London Gatwick and Amsterdam) should also be considered. The potential economic benefit a service linking Inverness to London Heathrow would bring to the Highlands and Islands as a gateway to significantly enhanced international connectivity cannot be understated.

## **Budget Implications**

There may not be any specific requirement for budget to be allocated to support the case for an Inverness to London Heathrow service to be established utilising slots released through the IAG acquisition of bmi, although there may be a need to seek the services of airline industry experts to help put together the most robust case. The content of Air Issues Evidence Note work is at an advanced stage and can be used as a base for making the case in what will be a very short window of opportunity.

The draft 2012/13 Business Plan includes an allocation of £10,000 to help promote the Inverness – Amsterdam route. Before this funding can be used for this purpose it will be necessary to confirm whether such additional funding to that project will break State Aids regulations associated with the original funding committed to help develop this route. If the funding cannot be used for promotion of Inverness – Amsterdam the Partnership is asked to consider allocating an element of this budget to help develop the case for a new Inverness – London Heathrow service, should funding additional work be considered beneficial in making the case.

**Recommendation**

1. Members are asked to note the report.
2. Members are asked to approve engagement by HITRANS officers with colleagues at HIAL to support the case for an Inverness to London Heathrow service to be established utilising slots released through the IAG acquisition of bmi.
3. Approve the allocation of up to £10,000 to support the case for the Inverness – London Heathrow service from the 2012/13 Business Plan (this may become available if the additional actions to promote the Inverness – Amsterdam service is unable to progress).

<b>Risk</b>	<b>Impact</b>	<b>Comment</b>
RTS delivery	√	Supports delivery of RTS aviation objectives.
Policy	√	Supports Economic Development of the Highlands and Islands through supporting the improvement of access to world markets and opportunities for inward investment.
Financial	-	There may not be a budgetary requirement for this item, which can be accommodated within the 2012/13 Research and Strategy Development budget.
Equality	-	No impact on equalities issues.

**Report by:** Ranald Robertson  
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**Date:** 11<sup>th</sup> April 2012