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## **Commission opens in-depth investigation into proposed acquisition of Air Europa by IAG**

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The European Commission has opened an in-depth investigation to assess the proposed acquisition of Air Europa by IAG, under the EU Merger Regulation. The Commission is concerned that the proposed transaction may reduce competition in the markets for passenger air transport services on Spanish domestic routes and on international routes to and from Spain.

Executive Vice-President Margrethe Vestager, responsible for competition policy, said: “IAG, which flies with Iberia and Vueling among others, and Air Europa are leading airlines in Spain. They are also key providers of connectivity between Spain, the rest of Europe and Latin America. We will carefully assess whether the proposed transaction would negatively affect competition on domestic, short-haul and long-haul routes to and from Spain, possibly leading to higher prices and reduced quality for travellers. Although the financial situation of many airlines is still fragile, there are signs that demand for air transport services is recovering from the coronavirus crisis. It is important to ensure that the recovery of the sector takes place in a competitive environment preserving sufficient choice for travellers.”

IAG and Air Europa are respectively the first and third largest providers of scheduled passenger air transport services in Spain. They both operate a network of Spanish domestic routes, as well as short-haul routes between Spain and other countries in the European Economic Area (EEA) or outside the EU, and long-haul routes between Spain and the Americas.

### **The Commission’s preliminary competition concerns**

The Commission’s preliminary market investigation revealed that IAG and Air Europa compete head-to-head for passenger air transport services in Spain, in particular on several routes from Madrid to the US and Latin America, and on several domestic and short-haul routes, including feeder traffic routes bringing passengers to Madrid to continue their journey on long-haul flights to the US and Latin America.

At this stage, the Commission is concerned that the proposed transaction could significantly reduce competition on 70 origin and destination (O&D) city pairs within and to/from Spain, on which both airlines offer direct services. On some routes, IAG and Air Europa have been the only two airlines operating.

The Commission is also concerned about the effect of the proposed transaction on routes on which other airlines rely on Air Europa's domestic and short-haul network for their own operations at the Madrid airport and a number of other EU airports. Without Air Europa's feeder traffic, some airlines may decide to terminate their services to international destinations also served by IAG, reducing choice for travellers.

At this stage, the Commission found that competition from other airlines, including from European low-cost carriers would likely not provide a sufficient constraint on the merged entity on the routes where it would hold high market shares. Similarly, the competitive pressure of European network airlines or Latin American airlines appears insufficient.

The proposed transaction was notified to the Commission at a point in time where the recovery of the aviation sector from the consequences of the coronavirus outbreak is still uncertain. The Commission investigated the extent to which the coronavirus crisis would impact IAG, Air Europa and their competitors' operations and hence the competitive landscape in the mid- and long-term.

The Commission was not in a position to determine whether in the long-run the companies would continue to compete on each and every route on which they used to compete before the crisis, based on the information available during the first phase investigation. However, the Commission takes the preliminary position that IAG and Air Europa remain the closest actual or potential competitors on the relevant O&D city-pairs investigated by the Commission.

IAG and Air Europa have entered into Memoranda of Understanding with two Spanish airlines as potential remedy takers but they decided not to submit remedies during the initial investigation. The Commission will now carry out an in-depth investigation into the effects of the proposed transaction to determine whether it is likely to significantly reduce effective competition.

The proposed transaction was notified to the Commission on 25 May 2020. IAG and Air Europa have decided not to submit commitments. The Commission has now 90 working days, until 5 November 2021, to take a decision. The opening of an in-depth investigation does not prejudge the outcome of the investigation.

## **Companies and products**

**IAG**, based in Spain and the UK, is the holding company of the Spanish flag carrier Iberia and the Spanish low-cost carrier Vueling, as well as the UK flag carrier British Airways, Level and the Irish flag carrier Aer Lingus. IAG is the third largest airline group in Europe, after Ryanair and Lufthansa, and the largest airline group in Spain. Iberia is a member of the Oneworld alliance.

**Air Europa**, which currently belongs to Globalia, a Spanish tourism group, is the third largest airline in Spain (after IAG and Ryanair) and the only other network carrier having hub-and-spoke operations at the Madrid airport. Before the coronavirus crisis, Air Europa served 62 destinations, primarily in Europe and South America. Air Europa is a member of the SkyTeam alliance.

### **Merger control and procedure**

The Commission has the duty to assess mergers and acquisitions involving companies with a turnover above certain thresholds (see Article 1 of the Merger Regulation) and to prevent concentrations that would significantly impede effective competition in the EEA or any substantial part of it.

The vast majority of notified mergers do not pose competition problems and are cleared after a routine review. From the moment a transaction is notified, the Commission generally has 25 working days to decide whether to grant approval (Phase I) or to start an in-depth investigation (Phase II).