Permitting foreign ownership and control –

Potential effects of a further deregulation of air transport markets in Europe

Konferenz "Verkehrsökonomik und Verkehrspolitik"
Berlin, 2. Juni 2016

Prof. Dr. Frank Fichert
Worms University of Applied Sciences
Competence Center Aviation Management

Motivation and structure of the paper

- ‘Ownership and control’ less often analyzed than other areas of (de)regulation policy
- EU: foreign (= Non-EU) ownership limited to 49% and effective control must be exercised by EU nationals
- Since 2004 many Intra-European mergers and acquisitions
- Since 2011 more investment from Non-EU states
  => several investigations by authorities (effective control)
- This paper:
  - Overview on pros and cons
    (from the investor’s and the government’s perspective)
  - Effects of foreign ownership on European airlines
    (operational, financial, connectivity)

Benefits from foreign investment
Investor's perspective

- **Airlines** vs. financial investors / percentage of shareholding matters

- **Economies of scale and other cost savings**
  - Large European airline groups
    (LH + LX, OS, SN, EN / BA + IB / AF + KL)
  - Other Intra-European mergers (AB + HG)

- **Market access**
  - Legal aspects (domestic markets until 1997)
  - 'Closeness' to customers (e.g. Lufthansa Italia)
  - Slots (e.g. bmi)

- **Reducing competition** (markets between the two countries)
  Merger control matters

- **Network effects** (feeder traffic into the hub of the investing airline)

Reasons for limiting/allowing foreign investment **Government's** perspective

- **Direct effects** (and indirect and induced effects)
  - Foreign investment often due to difficult financial situation of the airline (investor as 'white knight') => protecting jobs
  - Investor might relocate activities to his home country (headquarter activities, aircraft operation) => job losses => might also be the other way round, depending on cost levels
- **Connectivity (catalytic effects)**
  - Better scheduling with regard to the investor's hub operation
  - Investor might substitute direct flights with transfer flights via its hub (reduced connectivity)
- **Other effects**
  - Keeping the 'national flag carrier'
  - Political/military (e.g. US)

Overview on foreign investment into selected European airlines (EU investors)

Investor	Airline (Country)	Share	Year
Lufthansa (DE)	Air Dolomiti (IT)	100 %	2003
	Swiss (CH)	100 %	2005
	Austrian (AT)	100 %	2009
	Brussels (BE)	45 %	2009
Air France (FR)	KLM (NL)	French majority	2004
Air Berlin (DE)	Niki (AT)	100 %	2011
BA (UK)	Iberia => IAG	UK majority	2010

Overview on foreign investment into selected European airlines (Non-EU investors)

Investor	Airline (Country)	Share	Year
Etihad	Air Berlin (DE)	29 %*	2011
	Air Serbia	49 %	2013
	Darwin (CH) (Etihad Regional)	33.3 %	2013
	Alitalia (IT)[b]	49 %*	2014
Korean Air	CSA (CZ)	44 %	2014
Delta (US)	Virgin Atlantic (UK)	49 %	2012 (from Singapore Airlines)
Qatar	IAG (BA+IB)	15.01 %[a]	2015

* Plus high share in loyalty program.

[a] 2015: 9.9%

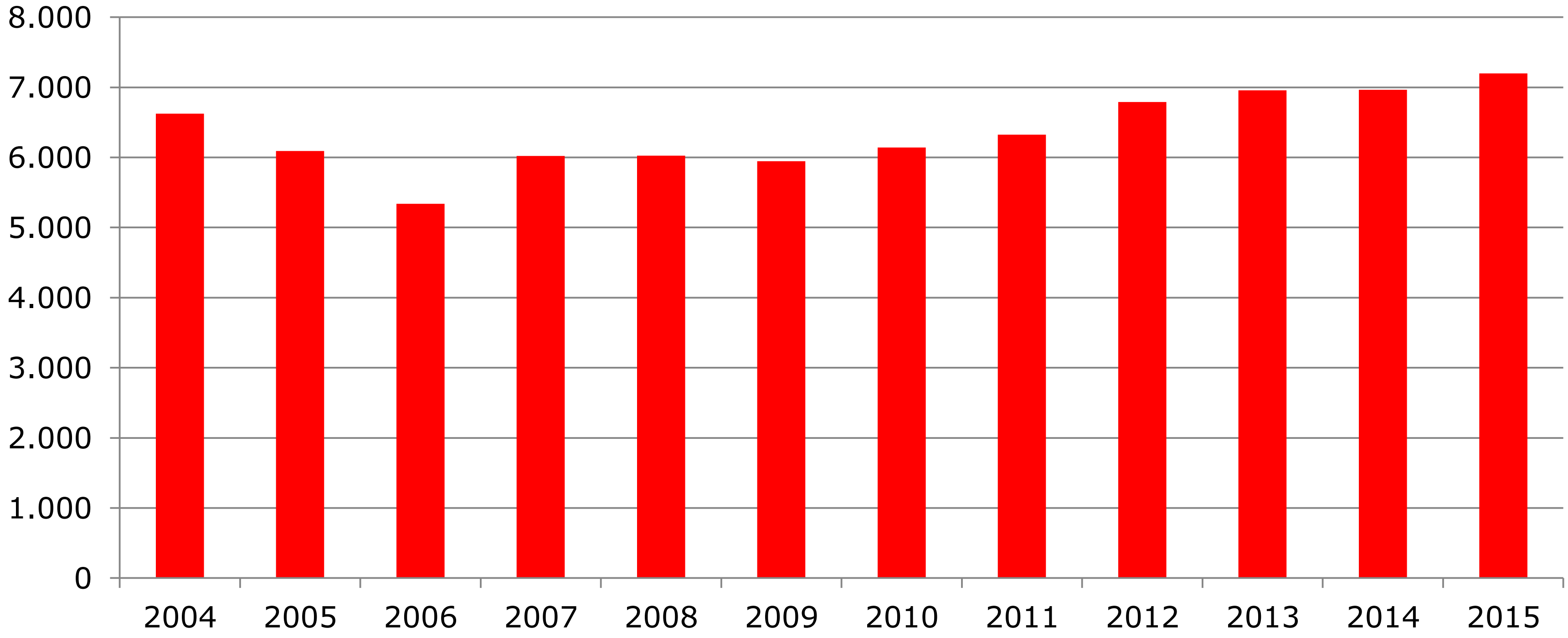
[b] Plans to acquire 49% of Air Malta

Limitations to an empirical analysis of foreign investment

- Small number of cases (and many of them rather recent)
- Limited information on economic situation
  (not published or only group data published)
- Economic difficulties prior to foreign investment
  => Counterfactual? (bankruptcy, other investor, …)
- Government influence
  esp. safeguarding hub function (e.g. AF-KLM)

Development of airlines within an airline group

- Example: Swiss – Employment/Full time equivalents



Source: Swiss Air Lines, Financial statements.

- Widebody fleet with higher growth rates than parent company (LH-LX, AF-KL)

Development of airlines with Non-EU shareholder Case study – Air Berlin

- Second largest airline in Germany with ‘hybrid’ business model
- Flights to Abu Dhabi since 2012
  (Etihad serves major hubs, AB serves other large airports – however STR will be ceased in 2016)
- AB-flights to Asia (primarily Bangkok) and Southern Africa ceased in 2013
- More AB-capacity on North Atlantic market
- Still loss making

Development of airlines with Non-EU shareholder Case studies – Alitalia, Air Serbia, Etihad Regional, CSA

- **Alitalia** flights to Abu Dhabi from Rome since 2013
  (since 2015 also direct flights from Venice and Milan)

- Slight increase of (small) number of flights to Asia
  (AZ is 'flag carrier', no other Italian airline offers these flights ≠ AB)

- **Air Serbia** and Etihad connect Belgrade to Abu Dhabi (single aisle)

- **Etihad Regional** not only operates from airports connected to Abu Dhabi to other European airports, but also offers other Intra-European flights
  (However: strong reaction by LH group – exit of Etihad Regional on several markets)

- **CSA** - Before investment: small airline without long haul operation

- Since 2013 A 330 lease from Korean Air, connecting Prague with Seoul

Conclusions and outlook

- Relatively **positive development** of (most) European airlines with foreign investor (≠ foreign investment in the 1990s) (However some of the airlines are still struggling, esp. AB)
- Airline groups claim that they have benefitted from **synergies**
- Consolidation on **Intra-European routes** with negative effects on competition
- Investment by **Non-EU airlines** leads to better connections to the investor's hub (and sometimes to ceased direct flights competing with transfer flights)
- Negative effect on large European **hub carriers**, therefore inducing lobbying activities

Thank you very much for your attention

Prof. Dr. Frank Fichert
Worms University of Applied Sciences
Competence Center Aviation Management
Erenburger Straße 19
D-67549 Worms

fichert@hs-worms.de