



EUROPEAN COMMISSION

DG Competition

*Case M.6447 – IAG/BMI*

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004**  
**MERGER PROCEDURE**

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Decision on the implementation of remedies - Art. 6(1)(b)  
in conjunction with 6(2) - Assessment of viability

Date: 12.11.2018



Brussels, 12.11.2018  
C(2018) 7626 final

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

**To the notifying party:**

Dear Sir or Madam,

**Subject: Case No COMP/M.6447 – IAG/bmi**

**Assessment of the viability of the Applicant and evaluation of its formal bid pursuant to Clause 1.4.9 of the Commitments attached to the Decision in the above-mentioned case – Summer 2019 IATA Season**

## **1. FACTS AND PROCEDURE**

- (1) By decision of 30 March 2012 (the "Clearance Decision") based on Article 6(1)(b) in conjunction with Article 6(2) of Council Regulation No 139/2004,<sup>1</sup> the Commission declared the concentration by which the undertaking International Consolidated Airlines Group ("IAG", United Kingdom) acquired sole control of the undertaking British Midlands Limited ("bmi", United Kingdom) compatible with the internal market subject to conditions and obligations (the "Commitments").<sup>2</sup>
- (2) Pursuant to the Commitments, IAG undertakes *inter alia* to procure that slots are made available at London Heathrow airport in order to allow one or more Prospective Entrant(s)<sup>3</sup> to operate or increase their services on the following city

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<sup>1</sup> OJ L 24, 29.1.2004, p. 1 ("the Merger Regulation"). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ("TFEU") has introduced certain changes, such as the replacement of "Community" by "Union" and "common market" by "internal market". The terminology of the TFEU will be used throughout this Decision.

<sup>2</sup> Capitalised terms not explicitly defined in this Decision are to be understood as defined in the Clearance Decision and the Commitments.

<sup>3</sup> Defined in the Commitments as "Any Applicant that is not a member of the *oneworld Alliance* or affiliated with any member of that alliance, able to offer a *Competitive Air Service* individually or collectively by codeshare and needing a Slot or Slots to be made available by IAG in accordance with the Commitments in order to operate a *Competitive Air Service*" (i.e. a non-stop scheduled passenger air transport service on one or more of the city pairs identified as routes of concern in the Clearance Decision).

pairs ("Relevant City Pairs") identified as routes of concern in the Clearance Decision:

- (a) the Identified UK City Pairs: London-Aberdeen and London-Edinburgh; and
  - (b) the Identified City Pairs:<sup>4</sup> London-Aberdeen, London-Edinburgh, London-Nice, London-Cairo, London-Moscow and London-Riyadh.
- (3) The number of slots made available under the Commitments allow one or more Prospective Entrant(s) to operate up to a total of seven Frequencies per day in total on the Identified UK City Pairs and in addition, up to five Frequencies per day in total on the Identified City Pairs (including the Identified UK City Pairs). The Commitments do not foresee a maximum number of slots for each individual route of concern. Instead, it results from the Commitments that there are only overall limits applying to the two categories of Relevant City Pairs, allowing for some flexibility in the way in which slots can be allocated to the various routes of concern. Accordingly, a maximum of 12 daily slot pairs (i.e. the corresponding departure and arrival slots) are available for all the Relevant City Pairs considered together, and within that overall limit, a maximum of five daily slot pairs are available for the Identified Long-haul City Pairs and for the London-Nice city pair.<sup>5</sup>
- (4) Pursuant to Clause 1.1.2 of the Commitments, the number of daily Frequencies available to operate a service on the Identified City Pairs was increased from the original five daily Frequencies to seven daily Frequencies as the two slots provided by IAG to Transaero were returned to IAG at the end of Summer 2015 IATA Season. Therefore, at the beginning of Winter 2016/2017 IATA Season, 14 daily slot pairs were available, including seven daily slot pairs for the Identified City Pairs.
- (5) For Winter 2016/2017 IATA Season, slot pairs were granted to Aeroflot to operate seven weekly Frequencies (one daily Frequency) on the London-Moscow route.<sup>6</sup> For Summer 2017 IATA Season, slot pairs were granted to Flybe Group Plc ("Flybe" or the "Applicant") for the operation of 25 weekly Frequencies (up to four daily Frequencies) on the London-Edinburgh route and 18 weekly Frequencies (up to three daily Frequencies) on the London-Aberdeen route.<sup>7</sup> For Summer 2018 IATA Season, additional slot pairs were granted to Flybe for the operation

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<sup>4</sup> The Identified City Pairs include the Identified UK City Pairs, the Identified Long-haul City Pairs (i.e. London-Cairo, London-Moscow and London/Riyadh) as well as London-Nice.

<sup>5</sup> As explained in paragraph (4) below, the number of maximum slot pairs available as of Winter 2016/2017 IATA Season is 14 slots per day, with a maximum seven daily slots for London-Aberdeen, London-Edinburgh, London-Nice, London-Cairo, London-Moscow and London-Riyadh.

<sup>6</sup> Decision of 29 July 2016 relating to the slots granted to Aeroflot (the "Winter 2016/2017 Slot Award Decision").

<sup>7</sup> Decision of 20 December 2016 relating to the slots granted to Flybe (the "Summer 2017 Slot Award Decision"). More specifically, (i) on the London-Edinburgh route, Flybe would operate four daily Frequencies on Monday to Friday, two Frequencies on Saturday and three Frequencies on Sunday; (ii) on the London-Aberdeen route, Flybe would operate three daily Frequencies on Monday to Friday, one Frequency on Saturday and two Frequencies on Sunday.

of one additional weekly Frequency on the London-Aberdeen route (on Sunday) and two additional weekly Frequencies on the London-Edinburg route (one on Saturday and one on Sunday). Besides, for Summer 2018 IATA Season, Aeroflot was awarded additional slot pairs to operate seven additional weekly Frequencies (one additional daily Frequency) on the London-Moscow route.<sup>8</sup>

- (6) Therefore, for Summer 2019 IATA Season, slot pairs remain available to operate up to five daily Frequencies on the Identified City Pairs (London-Aberdeen, London-Edinburgh, London-Nice, London-Cairo, London-Moscow and London-Riyadh) under Clause 1.1.1(b) of the Commitments.
- (7) Flybe informed the Monitoring Trustee of a proposed slot request under the Commitments for Summer 2019 IATA Season in accordance with Clause 1.4.1 of the Commitments by the set deadline of 16 August 2018.<sup>9</sup>
- (8) By 4 October 2018, i.e. the Slot Request Submission Deadline for Summer 2019 IATA Season, the Monitoring Trustee received a formal bid for slots from the Applicant pursuant to Clause 1.4.7 of the Commitments.
- (9) Flybe has applied for slots to operate seven additional weekly Frequencies (one additional daily Frequency) on the London-Edinburgh route, in order to increase the number of daily Frequencies offered from four to five on weekdays and on Sunday and from three to four on Saturday throughout the year from Summer 2019 IATA Season (the "Application").<sup>10</sup>

## **2. REPORTS OF THE MONITORING TRUSTEE ON THE APPLICATION FOR SUMMER 2019 IATA SEASON**

### **2.1. Eligibility, slot portfolio and independence of the Applicant**

- (10) On 31 August 2018, the Monitoring Trustee provided the Commission with a report containing the Monitoring Trustee's assessment of the eligibility of Flybe, its independence and the question of whether it has exhausted its own slot portfolio at London Heathrow airport.

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<sup>8</sup> Decision of 18 December 2017 relating to the slots granted to Flybe (the "Flybe Summer 2018 Slot Award Decision") and Decision of 18 December 2017 relating to the slots granted to Aeroflot (the "Aeroflot Summer 2018 Slot Award Decision").

<sup>9</sup> Flybe's proposed slot request initially contained an application, pursuant to Clause 1.1.3 of the Commitments, for other slots than those to be used on the London-Edinburgh route. Indeed, given that Flybe has operated a Competitive Air Service on two Identified City Pairs (i.e. London-Edinburgh and London-Aberdeen) using Slots in accordance with the Commitments for more than two consecutive IATA Seasons, Flybe is entitled, in accordance with Clause 1.1.3 of the Commitments, to apply for any slots still available under Clause 1.1.1(b) to operate Frequencies on any European Short-haul City Pair, provided that it also continues to operate the Frequencies it is operating on the two Identified City Pairs during the Utilisation Period. Considering that such application for slots under Clause 1.1.3 of the Commitments is not subject to the procedure set out in Clause 1.4 of the Commitments, Flybe's application for slots pursuant to Clause 1.1.3 of the Commitments will not be further considered in this Decision.

<sup>10</sup> Flybe has thus submitted the same request for Winter 2019/2020 IATA Season.

- (11) The Monitoring Trustee notes that Flybe has a limited number of commercial arrangements with IAG but considers that these commercial arrangements do not breach the independence requirement set out in the Commitments as they do not affect operations on the Relevant City Pair (London-Edinburgh) for which Flybe requests slots pursuant to Clause 1.1.1 of the Commitments.<sup>11</sup>
- (12) In addition, the Monitoring Trustee considers that Flybe has exhausted its own portfolio of slots at London Heathrow airport, as set out in Clause 1.2.2 of the Commitments.
- (13) As a consequence of the Monitoring Trustee's assessment in relation to the issues of eligibility, exhaustion of own slot portfolio and independence, the Monitoring Trustee concludes that the Application is eligible and valid.

## **2.2. Assessment of the Applicant as a viable competitor**

- (14) On 18 October 2018, the Monitoring Trustee provided the Commission with a report (the "Report") in which the Monitoring Trustee assesses (pursuant to Clause 1.4.9(a) of the Commitments) whether Flybe is a viable existing or potential competitor with the ability, resources and commitment to operate the proposed services in the long term as a viable and active competitive force. To this end, the Monitoring Trustee looked at a number of criteria, including:
  - (a) Financial health & regulatory approvals:
    - i. The financial health and robustness of the airline – through evaluation of the financial statements, current and planned access to capital;
    - ii. The airline's regulatory approvals to operate in the territories relevant to the routes requested; and
    - iii. Any key risks to long term viability;
  - (b) Operations and on-board offers:
    - i. Whether the slot times in the business plan are consistent with those offered by IAG and are operationally robust;
    - ii. Whether the business plan demonstrates that sufficient aircraft and crew are available to the Applicant, or that it has a credible plan to obtain the aircraft and crew within the timescale indicated;
    - iii. Whether the business plan demonstrates that sufficient ground handling, catering and engineering support are available, and appropriate check-in and lounge facilities; and

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<sup>11</sup> Flybe has a codeshare agreement with British Airways on the London Gatwick-Newquay route. Aer Lingus has an arm's length codeshare agreement with Flybe pursuant to which Aer Lingus places the Aer Lingus code on certain Flybe operated flights as part of a connecting journey on Aer Lingus' flights (i.e. not on point-to-point).

- iv. Whether the proposed on-board product is competitive with that offered by IAG, and whether it is consistent with achieving similar yields to those achieved by IAG.

***Financial health, regulatory approvals and key risks***

- (15) Concerning Flybe's financial health, the Monitoring Trustee considers that there are significant concerns about the worsening financial position of Flybe, but that, nevertheless, Flybe's current operational and financial position is strong enough for the airline to continue to operate as a going concern under reasonable assumptions.
- (16) The main risks identified by the Monitoring Trustee relates [...].
- (17) The Monitoring Trustee notes that Flybe is one of Europe's major regional carriers and therefore appears to have all the necessary regulatory licences and approvals to operate on the London-Edinburgh route.

***Operations and on-board offers***

- (18) The Monitoring Trustee does not have any significant concerns about the viability of Flybe as a competitor with regard to its ability to operate on the London-Edinburgh route. More specifically, the Monitoring Trustee notes that the slot times requested in the business plan are consistent with those offered by IAG.<sup>12</sup> In addition, in terms of availability of aircraft and crew, the additional rotations applied for under the Commitments will be operated by aircraft available through existing commitments for new deliveries and some transfer of capacity from other parts of the Flybe network. Furthermore, the Monitoring Trustee notes that Flybe has already access to ground facilities at both London Heathrow and Edinburgh airports.
- (19) Concerning the competitiveness of Flybe's on-board service offering, the Monitoring Trustee is of the view that there is sufficient evidence of a credible potential competitive operation. Flybe's service offer is comparable to British Airways' economy offer. However, the Monitoring Trustee notes that Flybe operates a single cabin strategy, while British Airways has reintroduced a business class on domestic services. As a result, Flybe does not have an equivalent product to compete for this passenger market.

**2.3. Assessment of the Applicant's proposed service on London-Edinburgh**

- (20) Pursuant to Clause 6.2.1 of the Commitments, the Monitoring Trustee has assessed in the Report whether the service to be operated by Flybe on the London-Edinburgh route will offer a viable and effective level of competition on the route.
- (21) For that purpose, the Monitoring Trustee has assessed Flybe's business plan for the entire service proposed on London-Edinburgh, including the existing opera-

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<sup>12</sup> IAG has offered arrival and departure slot times that are 20 minutes later than requested, but within the Time Window allowed under the Commitments. Furthermore, the Monitoring Trustee notes that the turnaround times are unchanged from the requested slot times, hence should be feasible for Flybe to operate.

tions and the additional daily Frequency proposed, as, according to the Monitoring Trustee, it is not meaningful to analyse the competitive impact of the incremental service on its own.

- (22) In particular, the Monitoring Trustee has assessed for the Application:
- (a) The promise of a year round service and the intended use of the slots in future years, as well as the total number of services/frequencies and total additional capacity proposed over the summer and winter seasons combined;
  - (b) The pricing structure proposed, taking account of the expected service offering;
  - (c) The network characteristics offered by the Applicant, including feed onto Relevant Long-haul Destination/Origin cities;
  - (d) Passenger loadings, yield and revenue projections;
  - (e) Cost projections;
  - (f) Net profit projections; and
  - (g) Sensitivity analysis.
- (23) The Monitoring Trustee considers that Flybe weakly demonstrates being a viable and effective competitor on the London-Edinburgh route. In particular, according to the Monitoring Trustee, the proposed incremental daily Frequency makes the overall service offering marginally more attractive, but do not have a material impact on the assessment of the strength of Flybe as a viable and effective competitor on the London-Edinburgh route.<sup>13</sup>

## **2.4. Conclusion**

- (24) Overall, the Monitoring Trustee gives [...].
- (25) In that context, the Monitoring Trustee suggests [...].<sup>14</sup>

## **3. THE COMMISSION'S ASSESSMENT**

### **3.1. Analytical framework under the Commitments**

- (26) Pursuant to Clause 1.1.1 of the Commitments, IAG undertakes to make slots available at London Heathrow airport *"to allow one or more Prospective Entrant(s) to operate or increase the (...) number of new or additional Frequencies (...) on the Identified City Pairs"*.

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<sup>13</sup> The score given by the Monitoring Trustee for the Application is identical to the one granted for Flybe's application for Summer 2018 IATA Season.

<sup>14</sup> [...].

- (27) According to the definition of a Prospective Entrant under the Commitments (Section 0, "*Definitions*"), "*the Prospective Entrant shall comply with the following requirements:*
- (a) *it must be independent of and unconnected with IAG (...);*
  - (b) *it must have the intention to begin or increase regular operations on one or more of the Relevant City Pairs; and*
  - (c) *to that effect, it needs a Slot or several Slots for the operation of a Competitive Air Service which competes with those of IAG".*
- (28) In addition, pursuant to Clause 1.4.9(a) of the Commitments, the Commission shall "*assess whether each Applicant is a viable existing or potential competitor, with the ability, resources and commitment to operate services on the Relevant City Pair(s) in the long term as a viable and active competitive force*".
- (29) Pursuant to Clause 1.4.9(b) of the Commitments, the Commission shall rank the applicants that meet the criteria set out in Clause 1.4.9(a) of the Commitments in order of preference. Given that no competing request has been received for any of the available slots, it is not necessary for the Commission to provide for the ranking referred to in Clause 1.4.9(b) of the Commitments.
- (30) The Commission will thus assess whether (i) Flybe complies with the requirements set out in the Commitments in terms of eligibility, slot portfolio and independence (section 3.2 below); (ii) Flybe is a viable existing or potential competitor (section 3.3 below); and (iii) Flybe will be a viable and competitive force on London-Edinburgh in the long term, in accordance with Clause 1.4.9(a) of the Commitments (section 3.4 below).

## **3.2. Eligibility, slot portfolio and independence of the Applicant**

### ***Eligibility***

- (31) As described in paragraph (9) above, Flybe intends to increase its operations on the London-Edinburgh route, which is one of the Relevant City Pairs.
- (32) In line with the Monitoring Trustee's assessment, the Commission considers that Flybe will be increasing regular operations on one of the Relevant City Pairs (i.e. London-Edinburgh) and therefore fulfils the eligibility requirement, as set out in Section 0 of the Commitments (under point (b) of the definition of a Prospective Entrant).

### ***Slot portfolio***

- (33) In line with the Monitoring Trustee's assessment, the Commission considers that Flybe has exhausted its own slot portfolio at London Heathrow airport and therefore fulfils the criterion set out in Section 0 of the Commitments (under point (c) of the definition of a Prospective Entrant).

### ***Independence***

- (34) Flybe is not an associated carrier belonging to the same group as IAG. It does not have common ownership with British Airways (or IAG) and it does not belong to the oneworld Alliance. On the London-Edinburgh route, Flybe does neither have



a codeshare agreement with IAG nor cooperate with IAG in the provision of passenger air transport services.<sup>15</sup>

- (35) In line with the Monitoring Trustee's assessment, the Commission considers that Flybe meets the independence criterion set out in Section 0 of the Commitments (under point (a) of the definition of a Prospective Entrant).

### ***Conclusion***

- (36) In light of the above, Flybe is a Prospective Entrant for the purposes of the Commitments on the London-Edinburgh route.

### **3.3. Assessment of the Applicant as a viable competitor**

#### ***Viability***

- (37) Flybe is one of Europe's major regional carriers and has a long track record of operating regional services throughout Europe and in particular in the United Kingdom.
- (38) The Commission acknowledges Flybe's negative operational results in three of the last four financial years, leading to reduction in its cash balances, deterioration in its solvency levels and decline in its liquidity position over the last four years. In particular, the Commission observes that Flybe issued a full-year profit warning on fuel costs and weak pound on 17 October 2018,<sup>16</sup> leading some of its major shareholders to reduce their stakes.<sup>17</sup>
- (39) Nevertheless, the Commission notes that Flybe has improved its operational performance over the last four financial years, carrying more passengers, increasing its frequencies and maintaining reasonable passenger load factors. As to the cash reserves, they have declined but they are still higher than the short-term debt commitments.
- (40) In its latest annual report, Flybe's directors state that it is a viable company based on their three-year business plan and that they will secure Flybe's profitability, notably "*through the reduction in capacity and the revised aircraft mix, [and] Flybe will focus on a more profitable route network with higher load factors at the same time as managing some challenging headwinds such as economic uncertainty, increasing fuel prices and the legacy commitment to acquire four E175 aircraft, all scheduled for the second half of the calendar year 2019*".
- (41) In line with the Monitoring Trustee's assessment, and despite concerns about Flybe's financial performance, the Commission considers that the current operational and financial position of Flybe is strong enough for the airline to continue to operate as a viable competitor.

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<sup>15</sup> The commercial arrangements described in the Monitoring Trustee's report of 31 August 2018 are not relevant to the London-Edinburgh route.

<sup>16</sup> See <https://otp.investis.com/clients/uk/flybel/rns/regulatory-story.aspx?cid=59&newsid=1200212>

<sup>17</sup> See <https://on.ft.com/2PWBY7Z>

*Ability, resources and commitment to operate on the Relevant City Pair*

- (42) The Commission considers that Flybe shows that it has the ability, resources and commitment to operate on the London-Edinburgh route in the long term as viable competitive force.
- (43) First, Flybe holds a valid operating certificate. Second, Flybe has sufficient resources to operate, including aircraft and crew.<sup>18</sup> Third, Flybe already provides services on the London-Edinburgh route, hence having access to the relevant ground facilities at both London Heathrow and Edinburgh airports. Finally, Flybe intends to operate on the route throughout the year and to continue the service indefinitely.
- (44) In line with the Monitoring Trustee's assessment, the Commission considers that Flybe has the operational ability and resources necessary to the service on the London-Edinburgh route that it has committed to offer in the long term.

*Conclusion*

- (45) In light of the above, in particular in view of Flybe's proven operations on the London-Edinburgh route, the Commission concludes that Flybe is a viable competitor, with the ability, resources and commitment to operate service on this Relevant City Pair in the long term.

**3.4. Assessment of the Applicant's proposed service on London-Edinburgh**

*Frequency and capacity*

- (46) Flybe currently operates four daily Frequencies on the London-Edinburgh route on Monday, Tuesday, Wednesday, Thursday, Friday and Sunday. In addition, Flybe currently operates three Frequencies on Saturday. The Application relates to one additional Frequency on each day of the week. Therefore, Flybe would operate five daily Frequencies a day on Monday, Tuesday, Wednesday, Thursday, Friday and Sunday, as well as four Frequencies on Saturday from Summer 2019 IATA Season using [...].<sup>19</sup> In comparison, IAG advertises up to 12 daily Frequencies using Airbus A320 aircraft for Summer 2019 IATA. In terms of capacity, Flybe would offer [...] flights and [...] seats per year on this route.
- (47) While Flybe would offer fewer daily Frequencies than those operated by IAG, based on data provided by the Monitoring Trustee, the capacity offered by Flybe would reach [...] of seats in Summer 2019 IATA Season, compared to the total London Heathrow-Edinburgh capacity operated by British Airways in Summer 2019. In addition, the incremental frequencies may contribute to [...].
- (48) In light of the above, the Commission considers that Flybe will have the ability to act as a material competitive force on the London-Edinburgh route in terms of capacity and frequency.

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<sup>18</sup> [...]. [...].

<sup>19</sup> The same increases have been requested by Flybe for Winter 2019/2020 IATA Season.

### ***Pricing and service offering***

- (49) Concerning the pricing structure, the Commission notes that Flybe [...]. [...]. [...].
- (50) Flybe's service offering is [...] and the seat pitch [...] that offered by IAG ([...]). Nevertheless, these differences do not appear significant in terms of attractiveness.
- (51) In light of the above, the Commission considers that Flybe will have the ability to act as a material competitive force on the London-Edinburgh route in terms of pricing and service offering.<sup>20</sup>

### ***Network and long-haul feed***

- (52) Flybe currently operates a mix of point-to-point and long-haul feeder services on the London-Edinburgh route. In particular, Flybe relies on a number of alliances, codeshares and other commercial agreements including special prorate agreements.
- (53) In its new business plan, Flybe proposes [...].<sup>21</sup>
- (54) The Commission considers that Flybe, with up to five daily Frequencies per day, has the ability to connect to a range of partners' long-haul flights at London Heathrow airport.
- (55) In light of the above, the Commission considers that Flybe will have the ability to act as a material competitive force on the London-Edinburgh route in terms of network characteristics and long-haul feed.

### ***Load factor, yield and revenue projections***

- (56) In terms of projected performance on the route, Flybe expects an average load factor [...] over the next three years (from Summer 2019 IATA Season to Winter 2021/2022 IATA Season). [...]. Nevertheless, the Commission notes that, based on the data provided by the Monitoring Trustee, Flybe achieved [...].<sup>22</sup>
- (57) Flybe projects an average ticket yield [...] over the next three years (from Summer 2019 IATA Season to Winter 2021/2022 IATA Season). Based on the data provided by the Monitoring Trustee, the Commission notes that the yield of [...]

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<sup>20</sup> As noted in paragraph (19) above, Flybe's offering differs slightly from that of IAG, to the extent that Flybe does not operate a business class on the London-Edinburgh route. However, in the Clearance Decision, the Commission has underlined that the attractiveness of a flight would be differentiated between time sensitive and non-time sensitive passengers on the basis of time of departure, duration, point of arrival and, for non-time sensitive passengers, price, while the availability of a particular cabin class would be a secondary feature (paragraph 39). Therefore, the Commission does not consider that the absence of a business class offering on the London-Edinburgh route significantly affects Flybe's ability to act as a material competitive force on that route.

<sup>21</sup> [...].

<sup>22</sup> [...].

for Summer 2019 and Winter 2019/2020 IATA Seasons represents [...]. Besides, [...].

- (58) In addition, the Commission notes that [...].
- (59) In light of the above, the Commission considers that, [...], the load factors, yield and revenue projections provided for in the Application are credible and sufficiently demonstrate that Flybe will have the ability to act as a material competitive force on the London-Edinburgh route.

### **Cost projections**

- (60) Flybe's cost projections [...]. [...]. [...].
- (61) In light of the above, the Commission considers that the cost projections provided for in the Application sufficiently demonstrate that Flybe will have the ability to act as a material competitive force on the London-Edinburgh route.

### ***Profitability and sensitivity analysis***

- (62) [...], Flybe is forecasting a net [...] contribution of the London-Edinburgh route of [...] over the next three years (from Summer 2019 IATA Season to Winter 2021/2022 IATA Season). Based on data provided by the Monitoring Trustee, the Commission notes that [...].
- (63) In case of adverse developments identified by the Monitoring Trustee in its sensitivity analysis (increase in USD-GBP exchange rate, increase in oil price, reduction of the passenger load factor, reduction of the revenue yield), Flybe [...].
- (64) However, based on information provided by the Monitoring Trustee, [...]. In addition, according to the assessment of the Monitoring Trustee, [...].
- (65) In light of the above, the Commission considers that, [...], the contribution projection provided for in the Application sufficiently demonstrate that Flybe will have the ability to act as a material competitive force on the London-Edinburgh route.

### **Conclusion**

- (66) In light of the above, the Commission concludes that Flybe will operate a viable and effectively competitive service on the London-Edinburgh route in the long term.
- (67) As already concluded in the Summer 2017 Slot Award Decision and Summer 2018 Slot Award Decision, to mitigate any risk that Flybe would not operate on the London-Edinburgh route as envisaged in the Application, and in particular in case of risk of Misuse, the Monitoring Trustee should closely and regularly monitor Flybe's performance on the London-Edinburgh route under the relevant provisions of the Commitments, in particular Clause 1.3.6, in order to identify any early sign of possible risk on this route.

#### 4. CONCLUSION

- (68) In light of the above, the Commission decides, in relation to the London-Edinburgh city pair, that:
- (a) Flybe qualifies as a Prospective Entrant as it is independent of and unconnected to IAG and has exhausted its own slot portfolio at London Heathrow airport; and
  - (b) Flybe is a viable competitor of IAG with the ability, resources and commitment to operate services on this route in the long term as a viable and active competitive force, within the meaning of Clause 1.4.9(a) of the Commitments.
- (69) This Decision does not constitute a confirmation that IAG has complied with the Commitments.
- (70) This Decision is adopted pursuant to Clause 1.4.9 of the Commitments.

*For the Commission,*

*(Signed)*

*Johannes LAITENBERGER  
Director-General*