



EUROPEAN COMMISSION

DG Competition

Case M.6447 – IAG / BMI

Only the English text is available and authentic.

REGULATION (EC) No 139/2004

MERGER PROCEDURE

Decision on the implementation of remedies
Assessment of viability

Date: 17/11/2020



EUROPEAN COMMISSION

Brussels, 17.11.2020
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PUBLIC VERSION

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 Where possible the information omitted has been replaced by ranges of figures or a general description.

INTERNATIONAL AIRLINES
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Dear Sir/Madam,

Subject: Case 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 2021 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 139/2004,¹ the Commission declared the concentration by which the undertaking International Consolidated Airlines Group ("IAG", United Kingdom) acquired sole control of the undertaking

¹ 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.

British Midlands Limited ("bmi", United Kingdom) compatible with the internal market subject to conditions and obligations (the "Commitments").²

- (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)³ to operate or increase their services on the following city 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:⁴ 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.⁵
- (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 slot pairs provided by IAG to Transaero were returned to IAG at the end of Summer 2015 IATA Season. Therefore, at the beginning of the 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 (the "Applicant") to operate seven weekly Frequencies (one daily Frequency) on the

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

³ 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).

⁴ 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.

⁵ 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 of 14 daily slot pairs for London-Aberdeen and London-Edinburgh and seven daily slot pairs for London-Nice, London-Cairo, London-Moscow and London-Riyadh.

London-Moscow route.⁶ For Summer 2017 IATA Season, slot pairs were granted to Flybe Group Plc ("Flybe") 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.⁷ For Summer 2018 IATA Season, additional slot pairs were granted to Flybe for the operation of one additional weekly Frequency on the London-Aberdeen route (on Sunday) and two additional weekly Frequencies on the London-Edinburgh 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.⁸ For Summer 2019 IATA Season, additional slot pairs were granted to Flybe for the operation of seven (7) weekly Frequencies (i.e. one daily Frequency) on the London-Edinburgh route.⁹ For Summer 2020 IATA Season, the remaining slot pairs were granted to Flybe for the operation of: four (4) additional daily Frequencies on weekdays and on Sunday on the London-Edinburgh route and five (5) additional Frequencies on Saturday on the London-Edinburgh route; and two (2) additional Frequencies on Saturday on the London-Aberdeen route.¹⁰

- (6) Therefore, following the Summer 2020 Slot Award Decision, no Slots remained available under Clause 1.1.1(b) of the Commitments.
- (7) Following Flybe's entry into administration on 5 March 2020, IAG (via British Airways) served notices to terminate its slot release agreements with Flybe on 5 March 2020 and clawed back the Slots that had been made available and were operated by Flybe pursuant to the Commitments. The administrators of Flybe contest the legality of the termination of the slot release agreements and the claw back of Slots by IAG. They served a Notice to the International Chamber of Commerce requesting arbitration pursuant to Clause 7.4 of the Commitments. The arbitration proceedings are on-going at the time this decision is adopted.
- (8) On 4 August 2020, the Commission adopted a decision pursuant to Clause 1.3.3 of the Commitments granting Grandfathering rights to Flybe with respect to the Slots

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

⁷ 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.

⁸ Decision of 18 December 2017 relating to the slots granted to Flybe (the "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").

⁹ Decision of 21 December 2018 relating to the slots granted to Flybe (the "Summer 2019 Slot Award Decision"). In Summer 2019, Flybe also applied for three daily slots under Clause 1.1.3 of the Commitments to operate services on the London-Newquay route. Given that Flybe had 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 was 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 continued to operate the Frequencies that it was operating on the two Identified City Pairs during the Utilisation Period. That application was not subject to the procedure set out in Clause 1.4 of the Commitments.

¹⁰ Decision of 20 December 2019 related to the slots granted to Flybe (the "Summer 2020 Slot Award Decision"). Flybe has thus submitted the same request for Winter 2020/2021 IATA Season.

granted to it in the Summer 2017 Slot Award Decision (“the Flybe 2017 Slots”; concerning 43 weekly Frequencies).¹¹ In light of Flybe’s situation at the time of the granting of Grandfathering rights,¹² the Commission’s approval was conditional upon Flybe remaining an airline under the meaning of Regulation (EU) No 1008/2008 and complying with its commitment pursuant to Clause 1.3.3 of the Commitments that, if Flybe or its successor ceases to use the Flybe 2017 Slots in question for the purposes described in Clause 1.3.2 of the Commitments, it will return the Flybe 2017 Slots in question to IAG or, if IAG does not want the return of the 2017 Slots, to the slot coordinator.¹³

- (9) Therefore, for Summer 2021 IATA Season, considering that Flybe has been granted Grandfathering rights with respect to 43 weekly Frequencies, and out of all the Frequencies available under Clause 1.1.1., 41 weekly Frequencies¹⁴ might be available under that Clause depending on the outcome of the ongoing dispute between IAG and the administrators of Flybe. Should the claw back by IAG be found illegal, these 41 weekly Frequencies will have to be transferred back to Flybe and will not therefore be available to the Applicant. On the contrary, in the event that the claw-back were to be found legal, these 41 weekly Frequencies would be available to current and future applicants under Clause 1.1.1.
- (10) By the set deadline of 10 September 2020, Aeroflot and Saudia informed the Monitoring Trustee of a proposed Slot request under the Commitments for Summer 2021 IATA Season in accordance with Clause 1.4.1 of the Commitments.
- (11) On 28 September 2020, Saudia [...].
- (12) By 3 October 2020, i.e. the Slot Request Submission Deadline for the Summer 2021 IATA Season, the Monitoring Trustee received a formal bid for Slots from Aeroflot pursuant to Clause 1.4.7 of the Commitments.
- (13) Aeroflot has applied for seven (7) weekly Frequencies on the London-Moscow route (one daily Frequency on days 1-7) throughout the year from Summer 2021 IATA Season.¹⁵

¹¹ Decision of 4 August 2020 granting Grandfathering rights to Flybe (“the Grandfathering Decision”).

¹² On 5 March 2020, following financial difficulties, Flybe became insolvent and entered into administration. On the day on which Flybe entered into administration, Flybe’s Air Operator’s Certificate (“AOC”) and Operating Licence were first suspended voluntarily by Flybe. On the same day, the UK Civil Aviation Authority (“CAA”) then formally suspended Flybe’s AOC and Operating Licence. On 16 April 2020 the CAA issued a decision to revoke the AOC and Operating Licence of Flybe. On 30 April, Flybe – through its Administrators – appealed this decision to the Secretary of State for Transport (“SoS”). On 28 May 2020, Flybe asked the CAA to reconsider its decision of 16 April 2020 based on the amendments to Regulation (EU) No 1008/2008 on common rules for the operation of air services in the Community in view of the COVID-19 pandemic introduced by Regulation (EU) 2020/696 of the European Parliament and of the Council of 25 May 2020. On 2 July 2020, pending the appeal by Flybe of the CAA’s decision before the SoS, the CAA indicated that it would reconsider its decision to revoke Flybe’s AOC and Operating Licence. At the time of this decision, Flybe has a valid AOC and Operating Licence, although with restrictions.

¹³ The Grandfathering Decision, paragraph 149.

¹⁴ Out of a total available of 84 weekly Frequencies (i.e. 12 daily Frequencies), the following remain: 5 daily Frequencies and an additional 4 Frequencies on Saturday and 2 Frequencies on Sunday.

¹⁵ As mentioned in the Monitoring Trustee report of 22 October 2020, [...].

2. REPORTS OF THE MONITORING TRUSTEE ON THE APPLICATION FOR SUMMER 2021 IATA SEASON

2.1. Eligibility, independence and Slot portfolio of the Applicant

- (14) On 24 September 2020, the Monitoring Trustee provided the Commission with a report containing the Monitoring Trustee's assessment of the eligibility of Aeroflot, its independence and the question of whether it has exhausted its own Slot portfolio at London Heathrow airport.
- (15) The Monitoring Trustee notes that Aeroflot has only a standard industry interline agreement with IAG (British Airways). This does not however breach the independence requirement set out in the Commitments as the standard interline agreement with Aeroflot does not specifically cover London-Moscow.
- (16) In addition, the Monitoring Trustee considers that Aeroflot has exhausted its own portfolio of Slots at London Heathrow airport, as set out in Clause 1.2.2 of the Commitments.
- (17) As a consequence of the Monitoring Trustee's assessment in relation to the issues of eligibility, independence and exhaustion of own Slot portfolio, the Monitoring Trustee concludes that the Applicant is eligible.

2.2. Assessment of the Applicant as a viable competitor

- (18) On 22 October 2020, 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 Aeroflot 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

- 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

- (19) Concerning Aeroflot's financial health, the Monitoring Trustee considers that there are fundamental concerns about the ongoing financial stability of Aeroflot. [...]. The Monitoring Trustee observes that it will not be easy for Aeroflot to be financially viable over the next few years without significant government support. In that respect, [...].
- (20) The Monitoring Trustee further observes that, according to the government data, domestic traffic in August 2020 recovered up to 70% of 2019's volumes and that [...]. It points however to the fact that the length and depth of the impact of the COVID-19 pandemic remains very uncertain and therefore, the financial position of airlines in general will need to be assessed on a regular basis until more "normal" industry conditions prevail.
- (21) As far as regulatory approvals are concerned, the Monitoring Trustee notes that Aeroflot is currently operating services between London Heathrow and Moscow, and therefore has the requisite regulatory approvals with the UK authorities.¹⁶
- (22) The main risks identified by the Monitoring Trustee relate to the fact that the COVID-19 crisis has had a significant impact on airline companies due to travel restrictions and decreasing demand. [...]. Due to the depreciation of the Russian rouble against the U.S. Dollar in 2020, maintenance costs for Aeroflot have increased. Ratings agency Fitch has also recently downgraded the Long-Term Issuer Default Rating (IDR) of Aeroflot to "BB-" from "BB".

Operations and on-board offers

- (23) The Monitoring Trustee does not have any significant concerns about the viability of Aeroflot as a competitor in terms of its ability to operate on the London-Moscow route.
- (24) The slot times that IAG has offered are in accordance with IAG's obligations to offer times within the time window of +/- 60 minutes for an Identified Long Haul City Pair. In terms of availability of aircraft and crew, since Aeroflot currently operates services from London Heathrow, the Monitoring Trustee has confidence in the suggested availability of aircraft and crew. As far as ground facilities are concerned, the Monitoring Trustee notes that Aeroflot has been operating for a number of years at London Heathrow and has recently demonstrated its ability to add services under the Commitments. At Moscow Sheremetyevo, Aeroflot conducts its own ground handling, and aircraft maintenance operations.
- (25) Concerning the competitiveness of Aeroflot's on-board service offering, the Monitoring Trustee is of the view that there is sufficient evidence of a credible potential competitive operation.

¹⁶ [...].

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

- (26) Pursuant to Clause 6.2.1 of the Commitments, the Monitoring Trustee has assessed in the Report whether the services to be operated by Aeroflot on the London-Moscow route will offer a viable and effective level of competition on that route.
- (27) For that purpose, the Monitoring Trustee has assessed Aeroflot's business plan for the entire services proposed on London-Moscow, including the existing operations and the additional daily Frequencies proposed, as, according to the Monitoring Trustee, it is not meaningful to analyse the competitive impact of the incremental service on its own.
- (28) 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 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.

2.3.1. Assessment of the Applicant's proposed service on London-Moscow

- (29) The Monitoring Trustee considers that Aeroflot demonstrates being a viable and effective competitor on the London-Moscow route with respect to slot use, frequency, capacity, pricing and service level of its proposed offering, the cost projections of its business plan and profitability. With regard to the network and long-haul feed, loadings, yield and revenue projections, as well as sensitivity and robustness, the Monitoring Trustee considers that Aeroflot demonstrates its viability and effectiveness only weakly.

2.4. Conclusion

- (30) Overall, the Monitoring Trustee finds that Aeroflot is eligible and gives relatively good scores to the Application in respect to Aeroflot's financial health and as regards whether Aeroflot will be a viable and effective competitor on the London-Moscow route, considering overall that Aeroflot demonstrates being a viable competitor.
- (31) Nonetheless, the Monitoring Trustee suggests to regularly monitor Aeroflot's financial position to protect the integrity of the Slots.

3. THE COMMISSION'S ASSESSMENT

3.1. Analytical framework under the Commitments

- (32) 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"*.
- (33) 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"*.
- (34) 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"*.
- (35) 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 received¹⁷ for any of the Slots that might be available depending on the outcome of the dispute between IAG and Flybe, as mentioned in paragraph (9), it is not necessary for the Commission to provide for the ranking referred to in Clause 1.4.9(b) of the Commitments.
- (36) The Commission will thus assess whether (i) Aeroflot complies with the requirements set out in the Commitments in terms of eligibility, Slot portfolio and independence (section 3.2 below); (ii) Aeroflot is a viable existing or potential competitor (section 3.3 below); and (iii) Aeroflot will be a viable and competitive force on London-Moscow 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

3.2.1. Eligibility

- (37) As described in paragraph (12) above, Aeroflot intends to increase its operations on the London-Moscow route, which is a Relevant City Pair
- (38) In line with the Monitoring Trustee's assessment, the Commission considers that Aeroflot has the intention to increase the operation of a Competitive Air Service on one of the Relevant City Pair (namely London-Moscow) and therefore fulfils the

¹⁷ As explained in paragraph 11 of this Decision, [...].

eligibility requirement, as set out in Section 0 of the Commitments (under point (b) of the definition of a Prospective Entrant).

3.2.2. Slot portfolio

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

3.2.3. Independence

- (40) Aeroflot is not an associated carrier belonging to the same group as IAG. Aeroflot has only a standard industry interline agreement with IAG (British Airways). This does not however breach the independence requirement set out in the Commitments as the standard interline agreement with Aeroflot does not specifically cover London-Moscow.
- (41) In line with the Monitoring Trustee's assessment, the Commission considers that Aeroflot meets the independence criterion set out in Section 0 of the Commitments (under point (a) of the definition of a Prospective Entrant).

3.2.4. Conclusion

- (42) In light of the above, Aeroflot is a Prospective Entrant for the purposes of the Commitments on the London-Moscow route.

3.3. Assessment of the Applicant as a viable competitor

Viability

- (43) Under the current ASA,¹⁸ Aeroflot is the first designated carrier for Russia, with a leading and very strong market position on the London-Moscow route.
- (44) The Commission acknowledges the concerns about Aeroflot's financial viability over the next few years and its need for significant government support. [...].
- (45) Aeroflot is indeed of strategic importance to the Russian State and the level of state support given during 2020 is evidence of that. In June 2020, the Russian government approved the issuance of a state guarantee in the amount of RUB 70 billion (€0.8 billion). Aeroflot has signed two credit line agreements with Sberbank up to a limit of RUB 70 billion, which are supported by the state guarantee. In the second quarter of 2020, the Aeroflot Group received a subsidy of RUB 7.9 billion from the Russian government as additional liquidity support.
- (46) The Commission further notes that lower earnings in 2020 have principally been driven by the unprecedented decline in demand for travel caused by the COVID-19 pandemic, which contributed to the decrease in operating cash flows. In order to reduce the overall cash spend, Aeroflot's management made a number of decisions, including reorienting aircraft for cargo flights, reducing costs, negotiating with lessors about deferring leasing payments, identifying additional opportunities to

¹⁸ See footnote 15 of this Decision.

increase liquidity and postponing a number of planned internal projects to reduce the level of current liabilities.

- (47) On the basis of the above, despite concerns about Aeroflot's financial performance and [...], the Commission considers that the current operational and financial position of Aeroflot is strong enough for the airline to continue to operate as a viable competitor.

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

- (48) The Commission considers that Aeroflot has overall the ability, resources and commitment to operate on the London-Moscow route in the long term as viable competitive force.
- (49) First, Aeroflot holds a valid operating certificate. Second, Aeroflot has sufficient resources to operate, including aircraft and crew.¹⁹ Third, Aeroflot already provides services on the London-Moscow route, hence it already has access to the relevant ground facilities at London Heathrow's and Sheremetyevo's airports. Finally, Aeroflot intends to operate on the route throughout the year and on a long-term basis.²⁰
- (50) [...]. The Commission acknowledges that, at the time of this Decision, [...].²¹ Therefore, the viability of Aeroflot as a competitor on the London-Moscow route, within the meaning of Clause 1.4.9 of the Commitments, [...].
- (51) In line with the Monitoring Trustee's assessment, the Commission considers that Aeroflot has the operational ability and resources necessary to operate the additional Frequencies on the London-Moscow route that it has committed to offer in the long term, [...].

Conclusion

- (52) In light of the above, the Commission concludes that Aeroflot is a viable competitor, with the ability, resources and commitment to operate service on the Relevant City Pair in the long term, [...].

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

3.4.1. Frequency and capacity

- (53) Aeroflot currently operates 35 Frequencies in Summer and 32 frequencies in Winter on the London-Moscow route.
- (54) The Application relates to one additional daily Frequency from London Heathrow to Moscow. Aeroflot therefore plans to increase its existing service on the London Heathrow–Moscow route from Summer 2021 IATA Season. It intends to continue operating this Frequency beyond this period.

¹⁹ [...].

²⁰ Flybe's Business Plan for IATA Summer Season 2021.

²¹ The Commission acknowledges that, in the past, Aeroflot [...]. At the time, the Commission decided to award slots to Aeroflot by decision of 29 July 2016.

- (55) As a result, Aeroflot will offer 42 weekly Frequencies in the Summer and 39 weekly frequencies in the Winter seasons on the London-Moscow route. Aeroflot will have a very strong market position on the route, although British Airways has the right to increase operations and offer up to 35 weekly frequencies as the first designated carrier of the United Kingdom under the current ASA.
- (56) In light of the above, the Commission considers that Aeroflot will have the ability to act as a material competitive force on the London-Moscow route in terms of capacity and frequency.

3.4.2. Pricing and service offering

- (57) [...]. By operating wide-body aircraft on the route, Aeroflot is able to offer slightly more comfort than the level provided by BA.²²
- (58) With regard to fares, the lead-in round trip fare without baggage offered by Aeroflot is slightly [...] than the corresponding BA lead-in fares. Aeroflot's lowest fare including 1 piece of baggage per roundtrip is slightly [...] than its BA equivalent. The Commission observes that, overall, the differences in fares are not significant.
- (59) In light of the above, the Commission considers that Aeroflot will have the ability to act as a material competitive force on the London-Moscow route in terms of pricing and service offering.

3.4.3. Network and long-haul feed

- (60) The additional Frequencies provide an opportunity for Aeroflot to connect London to [...] of the new traffic flows to be generated by Aeroflot on the London-Moscow route.
- (61) In addition to that, the additional Frequencies should generate, beyond London Heathrow, some traffic to [...].
- (62) In light of the above, and in spite of the relatively low level of connectivity offered by Aeroflot's partners at London Heathrow, the Commission considers that Aeroflot will have the ability to act as a competitive force on the London-Moscow route in terms of network characteristics and long-haul feed.

3.4.4. Load factor, yield and revenue projections

- (63) In terms of projected performance on the route, Aeroflot expects an average load factor [...]. These load factors appear achievable, given that the overall load factors were 73% for all airlines in 2019 and [...] for Aeroflot in 2019/20.
- (64) Aeroflot projects an average ticket yield [...]. In light of the fact that in 2019/20 the achieved yields was [...], the Commission agrees with the Monitoring Trustee that a decrease in yield to [...] in year 1 seems a reasonable assumption and could help stimulate traffic back to pre-COVID-19 levels.

²² BA, in comparison, operates Airbus 320 family aircraft on the London-Moscow route. Aeroflot's seats are pitched between 30-32 inches with an 18 inches width, while BA's seats are pitched at 30 inches with a 17 inches width.

- (65) In light of the above, the Commission considers that Aeroflot's projections in terms of load factors, yield and revenue projections provided for in the Application are credible and sufficiently demonstrate that Aeroflot will have the ability to act as a material competitive force on the London-Moscow route.

3.4.5. *Cost projections*

- (66) [...].²³ [...].
- (67) In light of the above, the Commission considers that cost projections provided for in the Application sufficiently demonstrate that Aeroflot will have the ability to act as a material competitive force on the London-Moscow route.

3.4.6. *Profitability and sensitivity analysis*

- (68) Aeroflot has forecast a [...] profitability for the period from Summer 2021 IATA Season to Winter 2025/2026 IATA Season than the one registered in Summer 2019-Winter 2019/2020. According to the Monitoring Trustee, this improved forecast profitability is due to [...]. Although the profitability figures provided by Aeroflot appear [...] than its historical profitability performance, the Monitoring Trustee has considered Aeroflot to be a viable competitor with respect to profitability.
- (69) [...].²⁴ [...].
- (70) In light of the above, the Commission considers that, in spite of [...], Aeroflot will have the ability to act as a competitive force on the London-Moscow route because it can be reasonably expected that [...].

3.4.7. *Conclusion*

In light of the above, and in spite of the concerns on the profitability and sensitivity analysis, the Commission concludes that Aeroflot will be a viable and competitive force on the London Heathrow–Moscow route in accordance with Clause 1.4.9(a) of the Commitments.

4. CONCLUSION

- (71) In light of the above, the Commission decides, in relation to Aeroflot's Application for Slots on the Relevant City Pair (namely London-Moscow), that:
- (a) Aeroflot 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) Aeroflot is a viable competitor of IAG with the ability, resources and commitment to operate services on the London-Moscow route in the long term as a viable and active competitive force, within the meaning of Clause 1.4.9(a)

²³ For instance, with respect to the fact that the Aeroflot Passenger Service Charge assumptions are [...] compared to the Monitoring Trustee's Virgin Atlantic simulation, the Monitoring Trustee has noted that the difference between wages in Russia and the UK may account for the difference on labour intensive expense items such as Handling and Flight and Cabin Crew.

²⁴ The Monitoring Trustee explains that [...].

of the Commitments, subject to Aeroflot obtaining the relevant ASA traffic rights to operate additional frequencies on the London-Moscow route.

- (72) This Decision is conditional on Aeroflot obtaining the relevant ASA rights to operate additional frequencies on the London-Moscow route. Considering that pursuant to Clause 1.4.12, each Applicant shall inform the Monitoring Trustee and IAG whether it will commit to operate the Slots offered eventually by IAG in case it has not obtained them through the General Slot Allocation Procedure within two weeks of the end of the IATA Scheduling Conference (i.e. 4 December 2020), Aeroflot must confirm and evidence that it has the requisite ASA traffic rights to operate the additional frequencies by 4 December 2020.
- (73) This Decision is also conditional on the outcome of the ongoing dispute between IAG and the administrators of Flybe. The Slots, as requested by Aeroflot, will only be available in the event that the termination of the Slot Release Agreements of 20 December 2017, 21 December 2018 and 30 December 2019 (together the SRAs) between Flybe and BA is confirmed. It is only in that case that Aeroflot will be able to obtain the requested Slots pursuant to this Decision.
- (74) This Decision does not constitute a confirmation that IAG has complied with the Commitments.
- (75) This Decision is adopted pursuant to Clause 1.4.9 of the Commitments.

For the Commission

(Signed)
Olivier GUERSENT
Director-General