



Airline Industry Insight: Why AA/BA Antitrust Immunity Makes Sense

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When American Airlines (AA) and British Airways (BA) filed for antitrust immunity in 2002 there was little hope that an agreement could be reached with the US and EU Regulatory authorities. New entrants into the EU-US market were prohibited, and AA and BA were opposing businesses nearing an effective monopoly hold on daily departures between Heathrow and the US.

In 2007, the first phase of the new EU-US Open Skies accord was reached. Since then several new entrants have started flights in this lucrative market. This agreement has allowed these new market entrants to fundamentally change the competitive landscape at Heathrow and other airports throughout the EU. Ultimately the passengers now have a wider choice of carriers, service levels, and new non-stop destinations than ever before. As a result, consumers on both sides of the Atlantic should urge their lawmakers to approve the AA/BA application for immunity.

In spite of these competitive changes some consumer groups, and competitors such as Virgin Atlantic (VS), vehemently oppose the proposal. Virgin Atlantic claim that if the deal were to be approved that AA/BA would have a “stranglehold on London Heathrow-US services, and be able to coordinate schedules enough to inflate demand, and as a result also inflate fares. While the anti-trust immunity would arguably have some impact on frequency and schedule as the two carriers coordinate, in the end consumer demand and pressure from new competitors will keep fares in check and provide passengers an alternative choice of carriers on a scale not previously available.

Since the implementation of the Open Skies agreement, we have seen many carriers such as Air France, Delta, and US Airways, and Northwest begin to challenge the established carriers in the Heathrow-US market. While the economic downturn has temporarily scaled down the expansion efforts of some like Air France, these are an example of the healthy competition that comes from open markets.

There is also a serious potential contender in the London-US market. BMI (BD) have been raising their profile to business travelers over the past few months. As Heathrow’s second largest airline could direct links to US be far off? Lufthansa’s recent increase in its BMI stake is further evidence of the emerging strength and competition in the Heathrow market by the Star Alliance, who already operate with antitrust immunity.

The past few years have also seen some important experimentation with trans-Atlantic links between other London airports, such as Stansted and Luton, with mixed results. Fairly radical change came at Gatwick as a near mass exodus of carriers shifted their Gatwick operations to Heathrow soon after the final agreement on Open Skies was in place. Virgin Atlantic also has a unique opportunity to redefine the overall London-US airport experience as it leads a consortium proposing the purchase of Gatwick Airport from the British Aviation Authority (BAA). If it succeeds in its bid, they will have the opportunity to potentially shift consumer preference away from Heathrow with a superior airport experience.

Overall, we feel that there is no cogent argument for opposing the AA/BA request for the same immunity that has been granted many other alliances in the EU and US already. We believe that its approval will level the playing field between the airline alliances, increase competitive pressures, and ultimately benefit consumers as a result.