

MEDIA RELEASE

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CCS RELEASES REPORT ON FINDINGS FROM AVIATION MARKET STUDY

1. The Competition Commission of Singapore (“CCS”) recently concluded a market study on the aviation industry in Singapore which was conducted by external consultant, ICF SH&E. The study was commissioned as a post-action study on two of the airline joint venture (“JV”) agreements previously notified to and cleared by CCS, to determine the scale and scope of benefits arising from the JVs. The findings of the study showed that a Net Economic Benefit (NEB) did materialise from the formation of the JVs.

Trends & issues in the aviation industry

2. Over the past few years, alliances between airlines on international markets have become a dominant feature of the airline industry. Air travel has become increasingly commonplace, with today’s passenger expecting a ‘from anywhere to anywhere’ service. This is difficult for any one airline to supply efficiently, hence resulting in the trend of merging networks to enable significant economies of density. However, cross-border mergers in the airline industry are prohibited due to national ownership restrictions.
3. As such, the result is the formation of aviation alliance partnerships for substantial cooperation and integration (better known as airline JV agreements) as a close substitute for mergers. These airline JV agreements are inherently anti-competitive, as they typically involve price fixing, market sharing and/or output limitation, resulting in a reduction in competition on routes on which the JV partners overlap. However, there is a need to carefully assess such agreements, as they can sometimes generate substantial benefits to consumers, in the form of lower airfares, greater choice in terms of

connectivity and better service. When such benefits arise, the airline JV agreement can be considered to result in a Net Economic Benefit (“NEB”), and may be granted antitrust immunity from CCS.

4. These forms of aviation agreements are expected to continue to come up, as the Asia-Pacific region is a growth area for airlines. Many Asian LCCs are expanding, global alliances continue to woo and welcome new Asian carriers as members. Air services liberalisation either bilaterally or multilaterally is set to continue. As such, ensuring fair and effective competition will grow in importance in a more liberalised air transport market.

Market study findings

5. To date, CCS has reviewed 8 airline JV agreements with the consideration that any substantial lessening of competition should be carefully weighed against the extent of consumer benefits that may result from cooperation, or NEB.
6. The study looked at two JVs which CCS had previously assessed in particular – Japan Airlines/American Airlines JV and United Airlines/Continental Airlines/All Nippon Airways JV. The findings show that there was indeed a NEB arising from both JVs, but that the magnitudes of benefits like an increase in passenger numbers and a decrease in fares were smaller than those established in western literature analysing airline JVs operating in USA / Europe. Particularly, the significant drop in passenger fares found in literature based on USA flight data were not replicated in JVs formed in, or operate in, Singapore and the Asia Pacific region. However, as the NEB test is all-encompassing and includes other measures of benefits like improved flight schedules and increased capacity, the two JVs were still determined by CCS as having resulted in NEB.

Conclusion

7. The implications of the study for CCS in assessing airline JVs in the future would be a smaller reliance on reported benefits of typical airline JVs based

on solely on western literature, as well as a lower emphasis on a NEB argument that relies heavily on fare decreases, as impact on fares have been found to differ in each JV given different strategies adopted. CCS will continue to monitor developments in the aviation market in Singapore.

Further information on the findings of the study can be found on the CCS website [here](#).

About The Competition Commission of Singapore (CCS)

CCS is a statutory board established under the Competition Act (Chapter 50B) on 1 January 2005 to administer and enforce the Act. It comes under the purview of the Ministry of Trade and Industry. The Act empowers CCS to investigate alleged anti-competitive activities, determine if such activities infringe the Act and impose suitable remedies, directions and financial penalties.

For more information, please visit www.ccs.gov.sg.

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