

Anticipated acquisition by Korean Air Lines Co., Ltd of Asiana Airlines Inc.

ME/6924/21

SUMMARY

1. On 17 November 2020 Korean Air Lines Co. (**Korean Air**) and Asiana Airlines Inc. (**Asiana**) entered into a binding Share Subscription Agreement, pursuant to which Korean Air will subscribe for, and purchase from, Asiana shares representing 63.88% of the total issued and outstanding stock of Asiana (**the Merger**). Korean Air and Asiana are together referred to as the **Parties**, and for statements referring to the future, as the **Merged Entity**.
2. The Parties both supply scheduled air passenger transport services (**air passenger services**) and air cargo transport services (**air cargo services**) internationally, including between the UK and South Korea.
3. The Competition and Markets Authority (**CMA**) has assessed whether it is or may be the case that the Merger may be expected to result in a substantial lessening of competition (**SLC**) as a result of:
 - (a) horizontal unilateral effects in the supply of air passenger services on the London-Seoul route; and
 - (b) horizontal unilateral effects in the supply of air cargo services on (i) the Europe to South Korea route for customers transporting cargo from the UK to South Korea; and (ii) the South Korea to Europe route for customers transporting cargo from South Korea to the UK.

Horizontal unilateral effects in the supply of air passenger services on the London-Seoul route

4. Both Parties supply air passenger services between London Heathrow Airport (**LHR**) and Seoul's Incheon International Airport (**ICN**).
5. The Parties are the only suppliers of direct air passenger services between London and Seoul. British Airways – the only other supplier of direct air passenger services on the route prior to the COVID-19 pandemic – exited the route in 2020.

6. Even when indirect flights are taken into account, the Parties are the largest suppliers on the route and would hold a very significant market position post-Merger. According to the Parties' estimates, on any IATA season from Summer 2019 to Winter 2021/2022, the Parties' combined share of supply of air passenger services between LHR and ICN – including direct and indirect (one-stop) flights – was around 50%. Moreover, the CMA believes that this share does not fully reflect the strength of the Parties' market position, given that the evidence received by the CMA indicates that indirect air passenger services do not provide a strong constraint on direct services on the London-Seoul route.
7. The evidence received by the CMA indicates that the Parties are competing closely on the London-Seoul route. The Parties are the only providers of direct flights and both operate out of LHR and ICN with similar schedules (with arrival and departure times within an hour and a half of each other – the closest alternatives available to customers). The Parties are both South Korean-based airlines (so provide a similar in-flight offering). The majority of third-party respondents to the CMA's investigation indicated that the Parties were strong or the strongest competitors on the route.
8. Based on share of supply data and third-party feedback, the CMA found that carriers such as Lufthansa, Finnair, Air France-KLM, Etihad and Emirates – all of which operate indirect flights on the London-Seoul route – exert a weak to moderate competitive constraint on the Merged Entity. The CMA does not consider there are any other carriers that exert a material competitive constraint on the Merged Entity on the route. The CMA therefore considers that there is insufficient constraint from alternative suppliers to constrain the Merged Entity post-Merger.
9. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of air passenger services on the London-Seoul route.

Horizontal unilateral effects in the supply of air cargo services

10. Both Parties offer direct air cargo services between the UK and South Korea via dedicated freight aircraft and passenger aircraft (using space in the luggage hold, referred to as **belly-hold cargo**).
11. The evidence received by the CMA indicates that, in contrast to air passenger services, customers for air cargo services often purchase services in only one direction. The CMA also found that competitive conditions in the supply of air cargo services differ depending on the direction of travel. The CMA has therefore considered competition in each direction of the route separately (rather than using 'paired' approach applied in its assessment of passenger services).

12. In keeping with its duty to consider whether competition concerns arise in any markets within the UK, the CMA considered the options available to customers transporting cargo by air from the UK to South Korea (and vice versa). The evidence available to the CMA indicates that the use of transshipment by land and sea between the UK and European airports is common. The CMA also has found that there may be some important UK-specific aspect of competition that affect the strength of alternative suppliers available for some customers of these services. The CMA has therefore considered the competitive effects of the Merger within frame of references (in each direction) that include (direct and indirect) flights between Europe and South Korea, while taking into account UK to South Korea (and South Korea to UK) aspects of competition.

The Europe to South Korea route for customers transporting cargo from the UK to South Korea

13. The Parties have high combined shares of supply and the Merged Entity will be, by some distance, the largest player in the supply of air cargo services on both the Europe to South Korea and UK to South Korea routes. Customs data on volumes of cargo transported from the UK to South Korea and its (direct and indirect) routing indicate that direct flights account for significant proportion of cargo transported from the UK to South Korea.
14. Other evidence received by the CMA also indicates that the Parties are competing closely and that the constraint from alternative suppliers on the Merged Entity will be limited post-Merger.
- (a) The Parties are currently the two main suppliers of direct air cargo services from the UK to South Korea, being the only providers of scheduled direct cargo flights other than IAG/British Airways (who currently competes only pursuant to a codeshare arrangement with Korean Air). While there are also some unscheduled direct flights, these appear to be most a weak constraint on the Parties. The Parties are therefore particularly close competitors for customers with a preference for direct flights.
 - (b) Several customers of the Parties' services from the UK to South Korea expressed a strong preference for direct flights. The majority of customers that responded to the CMA's investigation raised concerns about the impact of the Merger, primarily on the basis that the Parties are the main suppliers of direct air cargo services between the UK and South Korea.
 - (c) All other competitors are far smaller than the Parties (eg the next largest competitor is half the size of Air Asiana) and do not offer direct scheduled

services. Some customers identified limited or no alternatives to the Parties, while ranking the Parties as the strongest providers. A small number of customers listed alternatives to the Parties but identified those alternatives as weaker than the Parties.

15. While the CMA found some evidence on recent capacity expansion on the route, the suppliers that have expanded remain small compared to the Parties and do not offer direct scheduled services (so are generally weaker competitors to the Parties than the Parties are to each other). There is no indication that any spare global capacity could be reallocated to expand the capacity of direct flights between the UK and South Korea.
16. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of air cargo services on the Europe to South Korea route for customers transporting cargo from the UK to South Korea.

The South Korea to Europe route for customers transporting cargo from South Korea to the UK

17. The Parties have high combined shares of supply and are among the largest players in the supply of air cargo services on the South Korea to Europe or UK routes. Customs data on volumes of cargo transported from South Korea to the UK and its (direct and indirect) routing indicate that direct flights account for significant proportion of cargo transported from South Korea to the UK.
18. Other evidence received by the CMA also indicates that the Parties are competing closely and that the constraint from alternative suppliers on the Merged Entity will be limited post-Merger.
 - (a) The Parties are currently the two main suppliers of direct air cargo services from South Korea to the UK. The Parties are therefore particularly close competitors for customers with a preference for direct flights.
 - (b) Several customers of the Parties' services from South Korea to the UK expressed a strong preference for direct flights. The majority of customers that responded to the CMA's investigation raised concerns about the impact of the Merger, primarily on the basis that the Parties are the main suppliers of direct air cargo services between South Korea and the UK.
 - (c) All other competitors would be significantly smaller than the Merged Entity and do not offer direct scheduled services. Some customers identified limited

alternatives to the Parties, but generally ranked the Parties as the strongest providers.

19. As with the Europe to South Korea route, there is some evidence on recent capacity, but no indication that any spare global capacity could be reallocated to expand the capacity of scheduled direct flights between South Korea and the UK.
20. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the supply of air cargo services on the South Korea to Europe route for customers transporting cargo from South Korea to the UK.

Conclusion

21. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (the **Act**). The Parties have until 21 November 2022 to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 33(1) and 34ZA(2) of the Act.