

DÁIL ÉIREANN

AN COMHCHOISTE UM IOMPAR AGUS CUMARSÁID

JOINT COMMITTEE ON TRANSPORT AND COMMUNICATIONS

Déardaoin, 2 Aibreán 2015

Thursday, 2 April 2015

The Joint Committee met at 10.30 a.m.

MEMBERS PRESENT:

Deputy Timmy Dooley,	Senator Paschal Mooney.
Deputy Dessie Ellis,	
Deputy Michael Fitzmaurice,	
Deputy Tom Fleming,	
Deputy Seán Kenny,	
Deputy Patrick O'Donovan,	

DEPUTY JOHN O'MAHONY IN THE CHAIR.

Proposed Sale of Aer Lingus: (Resumed) Virgin Atlantic Airlines

Chairman: We are now in public session. I remind everybody to switch off mobile phones. Apologies have been received from Deputy Helen McEntee. The item on the agenda is a discussion with two representatives from Virgin Atlantic Airlines: Mr. Joe Thompson, director of network and alliances and Mr. Dave Hodges. The purpose of the meeting is to engage with Mr. Thompson and Mr. Hodges regarding Virgin Atlantic's views on the likely impact of the possible takeover of Aer Lingus by IAG on connectivity for Irish airline passengers. On behalf of the committee, I welcome both of them.

I wish to draw attention to the fact by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if witnesses are directed by the Chairman to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of their evidence. Witnesses are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons, or entity by name or in such a way as to make him or her identifiable. I also wish to advise them that any submission or opening statement they have submitted to the committee will be published on the committee website following the meeting. Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

I invite Mr. Thompson to make his presentation.

Mr. Joe Thompson: I thank committee members for the opportunity, following our correspondence, to discuss our concerns with them in person. I am director of network and alliances at Virgin Atlantic, which means that I am responsible for the airline's network decisions and relationships with key partner airlines, including that with Aer Lingus. Before setting out our concerns and perspective, it is important to clarify that Virgin Atlantic neither supports nor opposes the proposed acquisition of Aer Lingus by IAG. What we oppose and have concerns about is this acquisition going through unchecked. There needs to be proper consideration of, and a clear and effective plan to remedy, the inevitable diminishing competition in air travel for Ireland and the harmful effects this will have for consumers travelling to and from Ireland.

Each year, more than 500,000 passengers travel between Ireland and long-haul destinations, connecting at a UK airport. The predominant choice for Irish consumers, when travelling long-haul to many destinations not directly served from an Irish city, is to fly via the UK with Virgin Atlantic, British Airways or another long-haul carrier carrying them on their onward long-haul sector to their final destination. Virgin Atlantic is proud to serve approximately 100,000 of these passengers on itineraries to and from Ireland annually. Good air connectivity between Ireland and the UK enables this traffic to flow, in combination with an interline agreement between Aer Lingus and Virgin Atlantic, which allows customers to connect between our services. The interline agreement enables competitive fares, good onward connection times and baggage transfer between our respective flights. This means that customers can check in at their point

of origin, be it Dublin, Cork, Shannon or Knock, and collect their baggage from the luggage carousel in Barbados, Hong Kong, Los Angeles or wherever on our network they are flying to. Ireland is an important market for Virgin Atlantic, and more important, the competition we and others provide through long-haul connections at Heathrow, Gatwick, and Manchester airports is important to Irish consumers.

Virgin Atlantic is unashamedly pro-competition and it is the reason we were founded. We have fought since that date in 1984 to give customers a real choice when it comes to long-haul air travel. Competition drives down prices and improves service levels and that is why it matters so much to Irish consumers. We want to be sure that they are protected from any adverse impacts of IAG's acquisition of Aer Lingus, and that the hard won benefits of competition earned over many years are maintained. If an Irish family travelling on holiday to the Caribbean, or a businessperson travelling to a meeting in Hong Kong, wishes to fly with Virgin Atlantic, right now, it works. In the same way, if they want to fly British Airways, they can. That is choice, which is something this deal should not deny the Irish consumer in the future. If IAG's proposed acquisition of Aer Lingus is allowed to progress unchecked, this choice is at risk. IAG will have a monopoly on flights between Ireland and the UK that enable the vast majority of these connections and it will be able to withdraw from interline agreements with airlines that provide competition for connecting passengers.

How can competition be maintained? We have outlined three key questions that we believe need to be asked and then answered on behalf of Irish consumers. First, what legal guarantees have been sought from IAG that the frequency of flights and seat capacity offered by both Aer Lingus and British Airways between Ireland and the UK will be retained? We have seen what happens when competition and capacity falls away on routes. Typically, reductions in frequency or seat capacity leads to negative impacts on the service level provided and inflated fares, leading to higher prices for customers. IAG has made public offers of commitments on Aer Lingus frequencies, which the committee has discussed with its representatives, but, importantly, it has made no promises about BA's services, leaving it free to reduce BA frequencies following the transaction. Any commitments should be extended to cover British Airways as well as Aer Lingus in order that the current level of frequencies across the combined BA-Aer Lingus partnership is maintained. There must also be consideration of how seat capacity can be maintained in order that IAG does not simply downgrade the size of aircraft deployed on these routes.

Second, has the Government sought assurances from IAG that it will carry on working with Aer Lingus's existing partner airlines, preserving the competition that Irish consumers benefit from today? It would be lovely to hear that IAG had recognised this and was discussing this with the committee but in reality the value of competition to consumers in this case is probably not at the forefront of IAG's thinking. When BA merged with BMI a few years ago, the opposite happened. Shortly after the transaction concluded, pre-existing BMI interline arrangements were switched off, depriving consumers across the former BMI network of choice when it came to making connections. Only regulatory intervention after some time restored that choice to a limited extent. Commercially, it is perfectly rational for IAG to want to keep connecting passengers on its own network. It would have no reason to offer access to its customers to its long-haul competitors. Unchecked, this deal gives IAG the opportunity to do that and to squeeze airlines such as Virgin Atlantic out of the Irish market and funnel consumers onto its own services. The Government and Parliament have a strong voice in this deal. The Aer Lingus shareholding and Ireland's membership of the EU enables them to ask IAG for commitments in any proposed deal. The EU will review the proposed transaction from a competition

perspective to which they and the committee can have an input. If interline agreements are genuinely and fully protected, consumers can be protected.

Third, what measures have the Government identified as necessary under a European Commission remedy to ensure competition is maintained for Irish consumers in the event that the transaction proceeds? In answering this, it is important to go back to the two enablers of competition today. The first is the preservation of effective competition and air connectivity between the UK and Ireland for all consumer types, including those who are time sensitive and connecting, and the second is to maintain effective interline partnerships for connecting passengers. The first of these is partially addressed in discussing frequency or capacity commitments. The Commission typically has applied a slot remedy in these scenarios in an attempt to encourage new competition on the routes where competitive harm has been identified. We support that but the track record of uptake of such slots is poor and, therefore, meaningful capacity and frequency commitments from IAG as a backstop to a slot remedy are needed. Second, to address the needs of connecting customers, there should be a requirement on IAG to enter into effective interline agreements with Aer Lingus's existing partners. These agreements must include a special prorated agreement in order that airlines other than IAG can offer competitive fares with attractive connecting times and smooth transfers. The Government and the European Commission must consider these important impacts on competition in its evaluation of IAG's proposed acquisition of Aer Lingus. We urge the committee and the Government to act on behalf of Irish consumers in pursuing these remedies. If they believe in maintaining a competitive environment to benefit the consumer, then they will believe in these remedies to protect them.

Virgin Atlantic has been serving Irish consumers since we launched in 1984. We work hard with Aer Lingus to provide the best service to it. I am here today to champion consumers regardless of whoever they choose to fly with. We at Virgin Atlantic love competition; it is the reason we exist. If the Irish consumer loses this choice, the competition that drives all airlines to keep prices low and service levels high will be lost, to the great detriment of Ireland, its businesses and its people.

Chairman: I thank Mr. Thompson for his presentation. The committee has heard from many stakeholders and interested parties and that is the reason we invited Virgin Atlantic to appear before us this morning. Our role is to feed into the ongoing debate between Government and IAG regarding this proposal. As Chairman, I can speak for all members when I state that our objective is to ensure the outcome of the debate will deliver the correct decision in Ireland's best interests.

Mr. Thompson's presentation focused on current Aer Lingus passengers who travel to the United Kingdom and connect to Virgin Atlantic flights. In that context I understand that Delta Air Lines, Inc. owns 49% of Virgin Atlantic, which I presume gives Virgin Atlantic certain advantages. Does Mr. Thompson see that a deal between IAG and Aer Lingus would give Aer Lingus similar advantages in that Aer Lingus would retain its identity but would leverage the benefits of an international airline group? Are there positives for Aer Lingus in this arrangement?

Mr. Thompson made the point that low cost carriers, such as Ryanair, are not suitable for people seeking to make connecting flights. I was puzzled by that assertion. I understand from figures that more than 1 million Ryanair passengers made the decision to self-connect to other flights last year. We are seeing more people making personal arrangements to use a carrier from the United Kingdom. People from within the United Kingdom, Edinburgh, Glasgow Belfast and Jersey are making these arrangements as well as those flying from Dublin. In light of that,

does Mr. Thompson's assertion sound elitist?

Mr. Thompson has expressed concern for Irish passengers if there was a reduction in the number of Aer Lingus and BA flights between the UK and Ireland following the proposed sale. The point made is that British Airways, BA, fly into Ireland. Has Virgin Atlantic considered operating a service between the United Kingdom and Ireland? Given his concern for Irish passengers connecting to Virgin Atlantic flights, would this be one way of protecting those passengers?

Has Virgin Atlantic or Delta Air Lines, Inc. considered making a bid for Aer Lingus? If not, why not? The reason that IAG was the first group to be invited to appear before the committee to engage in this series of debates was that it had made a proposal to bid for Aer Lingus. Would a link up between Aer Lingus and IAG make Aer Lingus a greater threat to Virgin Atlantic on the transatlantic route?

I am not sure how the different international aviation companies object to each other but has Virgin Atlantic complained before about deals in which IAG was involved or, similarly, did IAG object to deals that Virgin Atlantic proposed?

I have confined myself to putting questions, and I have more, but to be fair to members, they will have the opportunity to put their questions following Mr. Thompson's response to mine.

Mr. Joe Thompson: I will try to address the Chairman's questions one at a time. The first question related to Delta Air Lines, Inc. and Virgin Atlantic. It is important to realise there are many different types of relationships between airlines. Delta Air Lines, Inc.'s relationship with Virgin Atlantic is twofold. Delta Air Lines, Inc. has a minority shareholding in Virgin Atlantic and they both have a transatlantic joint venture partnership which is applicable to flights between the UK and north America. That is a very different scenario from what is being proposed by IAG, which is the 100% acquisition of Aer Lingus. Delta Air Lines, Inc. does not have management control of Virgin Atlantic. Virgin Atlantic remains an independent carrier, governed by its board with Delta Air Lines, Inc.'s representatives forming the minority representation on that board and with control sitting with the Virgin group in the United Kingdom. In terms of my role today, I am representing Virgin Atlantic on behalf of its board.

The second question related to Ryanair and low cost carriers and self-connecting business. It is true that some customers make connections via the self-connect method, buying separate tickets on low cost carriers and connecting on to long-haul carriers. In terms of both the prevalence of the uptake of that form of travel and the customer experience, it is not comparable to the more traditional model of full service carriers interlining with each other and allowing smooth connections to be made.

Chairman: Passengers are obviously making those decisions themselves.

Mr. Joe Thompson: However, large numbers of passengers continue to make connections between interlining carriers. There are important considerations that customers have to bear in mind when they make that decision. In buying a through ticket that is enabled by an interline agreement, the carriers have obligations to one another in the event of a delay or a lost bag, which do not apply in the instance where a customer buys two separate tickets. There is also the implication for through travel time. If a customer buys two separate tickets, he or she must collect the bag at the connecting point and that means it will be very difficult to make an onward connection between airlines in less than approximately three hours. In an interline agreement,

the airline is able to offer connections between carriers with a connecting time of 60 to 70 minutes. It enables a much more customer-friendly proposition which is valued by many customers. It is the predominant way in which consumers buy connecting itineraries.

On the question of whether Virgin Atlantic has considered flying short-haul to Ireland, the best analogy to cite is Virgin Atlantic's experience of flying short-haul in the United Kingdom. As a consequence of IAG acquisition of British Midland International, BMI, a few years ago, a competitive remedy was applied which made available short-haul slots for airlines to compete on routes that became a monopoly as a result of that acquisition. As a result Virgin Atlantic started operating between Heathrow and Aberdeen and Edinburgh using these remedy slots. We are very proud of what we achieved with that operation, including fantastic customer service and some of the best punctuality of any airline at Heathrow, but unfortunately competing with a monopoly provider is very difficult and we could not make those services economic. We have learned from that experience and the prospect of flying short-haul services between two hubs that both belong to the competing airline is not a very attractive commercial prospect.

In response to the question on whether Virgin Atlantic had considered bidding for Aer Lingus, all I will say is that we are not participating in this process as a potential partner nor are we considering the acquisition of Aer Lingus.

The final question was whether Virgin Atlantic raised objections to previous deals. First, let me point out that we are not objecting to this proposed transaction. We are agnostic as to whether the transaction goes ahead, but what is important to us is that the relevant consumer interests are taken into account by the process. We have participated most recently in the IAG acquisition of British Midland International and I have described one of the significant outcomes of that process.

Chairman: I thank Mr. Thompson. I now call Deputy Dooley.

Deputy Timmy Dooley: I thank Mr. Thompson for his presentation, which has made very clear the issues relating to the Irish consumer in the event of the IAG-Aer Lingus deal going ahead. That is what I want to stick to because my only interest is ensuring that the air-travelling public in this country have access to the best competition for long-haul flights if this deal goes ahead. Clearly, I am on record as stating that it is not in the best interests of Irish consumers for the deal to go ahead. Obviously, we are keen to take into consideration the potential for inbound tourism as well. Given the Virgin Atlantic connections with Delta Air Lines and its recognised brand throughout the world, it provides access to Ireland via the Aer Lingus network at the moment. This provides a significant benefit from our tourism perspective.

Can Mr. Thompson flesh out a little more the nature or character of any legal agreement that would protect the Irish consumer and ensure that these interline arrangements are maintained? Does From Mr. Thompson believe this is something the European Commission could require as part of the deal going ahead? Would something like this have to be agreed in advance by the selling party, that is, the Government? Would it be required by the Commission or would it require the clearance of the Commission for the overall deal to go ahead? The only area I wish to concentrate on is how to put in place an appropriate structure to ensure that a combined entity would have to maintain a relationship with other carriers, such as Virgin.

Mr. Joe Thompson: I believe the main precedent to look back on and learn from is the experience with the International Airlines Group acquisition of British Midland International. As part of the competitive remedy the European Commission applied certain requirements. One

condition for the approval of the transaction was that British Airways, as the acquirer of British Midland International, had to engage in interline agreements with the legacy partners of British Midland International to ensure that consumers who had been able to make use of those connecting routings were able to continue to do so in future. Therefore, there is a precedent in this regard that was applied by the European Commission.

I believe some lessons have been learned from that experience with regard to the extent of those interline agreements and the number of routings on which they should apply to ensure that consumer interests are protected across the breadth of destinations to which customers wish to travel. Several factors are in place to enable connections between carriers, including commitments on minimum connecting times through to check-in of bags and passengers in order that customers can receive their onward boarding passes at their point of origin and competitive fare rates to deal with the remuneration of funds between the two parties in order to ensure competitive fares can be offered. All of these need to be considered. There is a precedent of sorts from the BA BMI deal, albeit one which we believe should be enhanced to ensure it is more effective. That precedent could be learned from and the lessons applied in the case of IAG and Aer Lingus.

Deputy Timmy Dooley: That would be principally decided by the Commission and forced upon British Airways. Is that the case?

Mr. Joe Thompson: There are other scenarios. If IAG were to come to Virgin Atlantic and offer us an interline agreement on commercial terms - that is how these things happen in the course of normal commercial business between carriers which can see an opportunity to complement one another's services - we would of course be perfectly happy to engage in those conversations. However, that is most unlikely given that the routes on which we would be flowing customers from Ireland onto our long-haul network are parallel to routes or services that BA operates. That is most unlikely to happen through the normal channels. BA or IAG could give a commitment to the Irish Government in its capacity as a shareholder but the backstop of this being in legislation through the European Commission is where the precedent lies and is perhaps the most likely course of action from here.

Deputy Patrick O'Donovan: I welcome the representatives of Virgin. I wish to ask some questions on the interline agreements. Is it fair to say there is nothing stopping IAG from entering into an interline agreement with Virgin tomorrow morning, for example? In that case, does this have more to do with the commercial impact on Virgin than any potential impact on the travelling Irish passenger? What is the nature of the arrangements already made? Does Virgin have interline agreements with KLM and Air France? Does Virgin have any interline agreements with Austrian Airlines, Swiss International Air Lines or Lufthansa? Has Virgin any interline agreements with other entities, such as Iberia, which is now part of IAG? If so, did they continue?

Mr. Thompson said that both of the hubs that were channelling most of the traffic through to Ireland were operated by Virgin's principal competitor. That is fair enough, but there has been nothing stopping Virgin down through the years, or since 1984, from operating out of Ireland. All of a sudden Virgin has a major interest in Ireland. Is it not remarkable that Virgin's first public interest in Ireland comes about when someone is offering to buy the minority stake in the airline? While Mr. Thompson may be agnostic with regard to whether Virgin is in favour of or against it, does it not smack of good timing that Virgin now has an interest in what the Irish travelling public might or might not want and yet over the past 30 years, Virgin has chosen not to service the island at all?

Deputy Timmy Dooley: That is not true.

Mr. Joe Thompson: I can-----

Chairman: You will get a chance to respond.

Deputy Patrick O'Donovan: I did not realise there was a Deputy speaking for Virgin.

Deputy Timmy Dooley: Through the Chair-----

Deputy Patrick O'Donovan: In relation-----

Chairman: I will come back to that.

Deputy Timmy Dooley: Can you deal with it now, Chairman?

Chairman: No. I will not deal with it now. I gave you the time to speak, Deputy Dooley.

Deputy Timmy Dooley: An allegation was made which questions my character and my reason for being here.

Chairman: You will be entitled to respond.

Deputy Timmy Dooley: I am asking for your protection.

Deputy Patrick O'Donovan: I did not make any allegation.

Chairman: Deputy O'Donovan, please do not refer any other Deputy for the remainder of your questions.

Deputy Patrick O'Donovan: An intervention was made.

Chairman: I want to run this in an orderly fashion. I am giving everyone a full chance.

Deputy Patrick O'Donovan: I asked a question and it was responded to by a Deputy. I thought that was a little unusual.

I am keen to tease out how it is that Virgin representatives have come before the committee today. Has Virgin made a submission to the Department of Transport, Tourism and Sport in Ireland? Could Mr. Thompson provide us with some insight into what engagement Virgin has had with the relevant Irish stakeholders? For example, can Mr. Thompson provide us with some detail of how Virgin believes that its position might impact on the business and tourism sector in Ireland? Can Virgin provide us with some insight on what level of engagement the company has had with stakeholders here, including political stakeholders?

Let us consider the plans of Virgin for the future. Let us suppose that this offer is not accepted and any new indicative offer, if it is lodged, is not accepted either. Does Virgin have a plan B, C or D for Aer Lingus in terms of growing a relationship with Aer Lingus in future?

Has Virgin any plans in respect of use of Dublin Airport? I know from previous engagements at the committee that there is excess capacity in Dublin Airport at the moment. Several airlines are looking at the possibility of developing a north Atlantic hub out of Dublin. Has Virgin looked at that?

Mr. Thompson said he does not want the Irish travelling public to have this issue proceed

unchecked. That is a little unfair. Mr. Thompson may or may not be aware that this committee spent weeks in advance of the Government decision engaging with everyone who had an interest in this from Irish point of view. Mr. Thompson may wish to reflect on that.

Mr. Joe Thompson: The first question related to other interline agreements that we have in place today. Virgin Atlantic has interline agreements with a number of carriers. However, what we have observed in recent years is those interline relationships becoming tighter. I am keen to emphasise the importance of those interline agreements being effective in facilitating smooth connections for customers. As I described earlier, the likelihood of IAG engaging with Virgin Atlantic to put in place an effective interline agreement between our two airlines is extremely low, given the fact that all of our long-haul services compete head-to-head with BA-operated services.

Deputy Patrick O'Donovan: Specifically, in terms of the airlines I mentioned, does Virgin Atlantic have interline agreements with those?

Mr. Joe Thompson: We have interline agreements with some of them, but for the connecting passengers that make use of those interline agreements they are much more restrictive than the nature of the interline agreement we have in place with Aer Lingus.

Deputy Patrick O'Donovan: With which airlines does the company have interline agreements?

Mr. Joe Thompson: I am not in a position to answer that question off the top of my head.

Chairman: If Mr. Thompson wishes, he can supply the information to the committee and we will circulate it.

Deputy Patrick O'Donovan: It is important to get the information, because the key premise behind the presence of the witnesses at today's meeting is concern about the interline agreements. That is my understanding of the thrust of what Mr. Thompson said. I asked about Austrian Airlines, Swiss International Air Lines, Lufthansa, KLM and Air France, which are the biggest groupings in Europe. Surely Mr. Thompson can indicate whether Virgin Atlantic has ongoing interline agreements with those airlines.

Mr. Joe Thompson: There is the ability in principle to make connections between those services and Virgin Atlantic services, but with very restricted availability of inventory and on routings that are really not very attractive to consumers. For example, the only services that are operated by Air France and KLM into our main base at Heathrow are those from Amsterdam and Paris, which are their major hubs, and pretty much every destination that we serve from Heathrow is served directly from Amsterdam or Paris, so there is much less consumer benefit in enabling those connections versus the wealth of destinations that are served out of London today. The breadth and depth of the schedule out of London and the popularity with Irish consumers of making connections via our UK airport not just at Heathrow but at Gatwick and Manchester, in partnership with an effective interline agreement with attractive rates, allow competitive fares to be offered and enable smooth transfers with good access to seats on one another's flights. The important point is that not all interline agreements are created equal. There is a big difference between an effective interline agreement and standard IATA-type interlining, which really does not enable significant passenger flows.

Deputy Patrick O'Donovan: But there is nothing to suggest out of the Austrian experience or the KLM experience that it would not happen.

Mr. Joe Thompson: That what would not happen?

Deputy Patrick O'Donovan: That there would not be an effective interline arrangement in the future. Virgin Atlantic has effective interline arrangements with other airlines at the moment operating out of Paris and Amsterdam-----

Mr. Joe Thompson: To illustrate the impact of this, today we connect approximately 50,000 customers between Aer Lingus-operated services between Ireland and Gatwick and our services from Gatwick to long-haul destinations. The equivalent figure for British Airways - it is driven in part by the need to connect between Heathrow and Gatwick in this case - is 65,000. There is a big multiple in the number of customers who connect between Aer Lingus-operated flights and Virgin Atlantic-operated flights at Heathrow relative to those who connect between British Airways-operated flights and Virgin Atlantic-operated flights today. From memory, the multiple is of the order of five or six times, and that is despite the fact that we do have a partial remedy in place to the BA-BMI transaction that allows us to make better interline connections between British Airways and Virgin Atlantic today at Heathrow than would have been the case without that remedy. It is a partial remedy and it still only delivers a fraction of the benefits to consumers that our existing partnership with Aer Lingus provides.

Some other points were made as well, specifically with regard to Virgin Atlantic's interest in the Ireland market. The reality of aviation, and specifically long-haul aviation, is that it is very difficult for an airline to operate long-haul services away from its home market and its main bases. We have had experience of that ourselves in operating flights between Hong Kong and Sydney. It is a very difficult thing to achieve, to operate those services away from the home base, but to imply that Virgin Atlantic has not had an interest in the Irish market over the last 30 years is absolutely not the case. We have sold tickets very effectively in the Irish market for many years, making use of our partnership with Aer Lingus in a relationship that has worked very well for both parties, and more importantly has worked very well for Irish consumers.

Deputy Michael Fitzmaurice: I thank Mr. Thompson for his presentation. We had Aer Lingus Regional, which is Stobart Air, before the committee. Their representatives did not seem to have any concerns. The company has an eight- to ten-year agreement with Aer Lingus. In the past ten to 15 years, has Virgin Atlantic decided to provide a service to Irish people in any of the airports in Ireland in order to provide competition? I am in business myself and I know that the more people are involved in a sector, the more competition there is. If Virgin Atlantic is worried about Irish people, has it considered providing a service, for example, from Dublin Airport or Knock airport in order to introduce more competition to the market? The airport at Knock was wide open for new business. The same is true of Shannon and Cork airports. We are worried about competition.

Mr. Joe Thompson: We look at lots of things, but the reality is that we have not operated long-haul services directly from Ireland and it is not currently in our plans to do so. Our perspective is that we do provide a very valuable advantage to Irish consumers through the connections we are able to offer and the choice we are able to create for consumers by working in partnership with Aer Lingus on flights operated between the UK and Ireland. It is a long-standing relationship and significant volumes of customers use the flights. Just as we were arriving at the gate and chatting to John on the door, he described his experience of doing exactly that a few years ago to fly between Dublin and JFK in New York. He flew with Aer Lingus and then connected onto the Virgin Atlantic-operated long-haul service. It is a long-standing relationship and it is a very effective one. We are very proud to serve the Irish market in that way.

Deputy Michael Fitzmaurice: From what I understand, and from listening to the Chairman, Deputy O'Mahony, who seems to have done research on it, a lot of people do their own thing and it works effectively. Is it fair enough to say that?

Mr. Joe Thompson: Some people do their own thing, but the-----

Deputy Michael Fitzmaurice: I am going by the figures provided.

Mr. Joe Thompson: -----predominant mechanism for making a connecting journey is by buying either a through ticket on the same carrier or a through ticket involving sectors on two carriers where bags are connected and customers are through-checked and all the protection is there for the customer in the event that bags go missing or flights are delayed and connections are missed. All of that protection is in place for a customer who buys a through ticket in a way that it is not when a customer makes a through connection and journey times are shorter, because there is no requirement to collect bags and check them in again.

Deputy Michael Fitzmaurice: My analysis is that in any business, if one wants to look after one's customers or make it cheaper for them, one does not talk about it but just gets stuck in. My impression is that it is akin to the people in the stand in Croke Park who know how to win the all-Ireland but if they are asked to put on the jersey they do not want to do it. There is one way to do this in order to provide competition. Virgin Atlantic and every other airline should be prepared to put on the jersey, as that is how one makes competition. It is the same in any walk of life. If I have a shop down the road and someone else also has a shop then we are in competition. I do not know where this is coming from - perhaps it is the EU - but there is no competition in banks in this country at the moment, and I do not think the EU is overly worried about competition in airlines. We would appreciate it more if Virgin Atlantic said it would come into the Irish market and put it up to everyone else, including Aer Lingus. Virgin Atlantic should consider that, rather than pointing out things in the same way all of us can, like the hurler on the ditch. I would advise Mr. Thompson to consider getting involved in the Irish market. In case he is not aware, we have great airports in Ireland, including those in Knock, Limerick, Cork and Dublin. Virgin Atlantic's approach should be to bring competition to the market.

Mr. Joe Thompson: I understand the Deputy's point. I hope there will be more direct service to long-haul destinations for Irish consumers from Irish airports in the future, whether operated by Virgin Atlantic or by other operators, but in reviewing the transaction it is important to look at the market today and the competitive dynamics that exist and think about what action will best serve the interests of Irish consumers.

Deputy Michael Fitzmaurice: Why does Mr. Thompson think Aer Lingus Regional, or Stobart Air, is not overly concerned about the link flights?

Mr. Joe Thompson: That is a question for Stobart Air, in its capacity as a franchise operator for Aer Lingus, rather than for us.

Deputy Seán Kenny: I thank Virgin Atlantic Airlines for coming before the committee and Mr. Thompson for his statement. He is urging us to act on behalf of the Irish consumer. Although I am speaking personally on my own behalf, I am sure it is true for all Deputies and members of the committee that this is uppermost in our minds. The interest of the Irish consumer and the Irish air traveller is the uppermost priority. If this were not the case, it would be remiss of us.

So some of my questions have been already asked. Mr. Thompson said there was a lot of

business from onward flights out of Ireland. Are there direct agents or people directly employed by Virgin Atlantic Airlines in Ireland?

Mr. Joe Thompson: We have a sales team that represents Virgin Atlantic Airlines in Ireland. It is a relatively small team and we work through travel agents distributing tickets in Ireland.

Deputy Seán Kenny: Where is the team based?

Mr. Joe Thompson: I will have to clarify where those people are based.

Deputy Seán Kenny: Does Mr. Thompson directly provide employment in Ireland?

Mr. Joe Thompson: I believe so. I will have to clarify that.

Deputy Seán Kenny: I am trying to find out the direct benefit to the Irish economy from Virgin Atlantic Airlines, which is a worldwide carrier. What Mr. Thompson is arguing for, as I understand it, is for existing interline agreements to remain as they are. In the commercial world, where everything is changing, I question whether that is realistic. How realistic is the request that all existing interline agreements remain as they are and not be affected by any take-over of Aer Lingus by anyone else?

Mr. Joe Thompson: We seek to make sure that what is quite a technical element of the aviation business is reflected in remedies applied to this transaction. I recognise and applaud the efforts of the committee and others in Ireland to review the impact of the proposed transaction between IAG and Aer Lingus. The simple and prevalent way of looking at these arrangements in the past was to think about what the aeroplanes do. This is the most visible demonstration of how an airline operates. Flights operate between point A and point B and much of the focus in this case has been on the overlapping routes that Aer Lingus and BA operate today between Ireland and the UK. That fails to recognise that customers and consumers often do different things from what the airline does. If there is not a direct service between two points, customers must make connections, and the interests of those consumers are just as important as the interests of point-to-point consumers on direct flights. Our perspective is the interest of those consumers, with which the interests of Virgin Atlantic Airlines and many of our competitors at Heathrow are aligned. We are here today and have expressed our concerns about how elements, and potential consequences, of the transaction are related to a group of consumers whose interests have not been reflected so far.

Regarding the need to deal with changing competitive dynamics in the marketplace, we do that all the time. The airline industry is susceptible to changing external conditions and we must deal with it all the time. We do so and will continue to do so in the course of our everyday business. Where a transaction between a company creates consumer harm, regulators have a responsibility to act, and we are trying to highlight the interest of a group of consumers whose interests have not been reflected in the debate to date.

Deputy Seán Kenny: We take issue with that, as we feel we are acting as watchdogs for Irish consumers as well as everyone else.

Senator Paschal Mooney: I welcome the witnesses, Mr. Thompson and Mr. Hodges. I have a certain amount of sympathy with them from a commercial standpoint, as it seems on the face of it that if the deal goes through they will be adversely affected in terms of passenger numbers. I am sure the witnesses are aware that Aer Lingus indicated that it was to purchase

two new long-haul aircraft, one of which would be used to create a direct Dublin to Los Angeles connection. It will certainly happen if the takeover goes through.

An element of the proposed takeover that has not been touched on by anyone is the attractiveness of Dublin as a hub because of US immigration pre-clearance, which is unique to these islands in western Europe. It is a big pull factor. Does Mr. Thompson agree that, in the event of an IAG takeover, there will be a considerable focus by IAG on ensuring that Dublin is developed as a hub, taking more passengers out of the UK mainland airports, which may have a knock-on effect on Virgin Atlantic Airlines' services out of Manchester, and that inevitably it will boost its transatlantic services because there will be no point in taking over Aer Lingus to maintain the *status quo*? It will heavily market Dublin, according to what it is saying. That is at the core of where Mr. Thompson's concerns are. It will directly affect passenger numbers currently coming out of Ireland, which is a difficulty for all of us here. One of the attractions of the takeover is that more people, at least in theory, will come into Ireland than leave it to connect because there is an enhanced service out of Dublin as an international hub for transatlantic flights. From a tourism and economic point of view, that has great attraction for us. Anything that reduces the number of people leaving the country to connect in the UK is of advantage to us. That is why I am focusing on what Virgin Atlantic Airlines has raised about the number of passengers coming out of Ireland. Does Mr. Thompson agree that the core of his concerns is the loss of business? I agree with Mr. Thompson that where there has been consolidation in the airline business, not just with BMI and British Airways, there has unquestionably been a reduction in route choice and an increase in air fares. What I cannot understand, going back to what my colleague Deputy Michael Fitzmaurice said, is why Virgin Atlantic Airlines has not considered moving a transatlantic service out of Dublin. Inevitably, what will happen is that British Airways, the main competitor of Virgin Atlantic Airlines on international long-haul routes out of the UK, will hit the business of Virgin Atlantic Airlines. It will do so severely because of the advantage of a developing hub for international and long-haul transatlantic traffic out of Dublin and the immigration pre-clearance facility, which will be well marketed in the UK. It will be a major pull factor. This is the context in which I will put questions.

There is nothing wrong with Virgin Atlantic Airlines coming to say that this will damage its business. I was surprised to hear Mr. Thompson say he was agnostic about this because, if I was in his shoes, I would not be agnostic but totally against it.

Mr. Joe Thompson: To clarify, we are not agnostic about the transaction going through without the appropriate remedies being in place and the appropriate commitments.

Senator Paschal Mooney: I will add a point about interline arrangements. Does Mr. Thompson not agree that, based on experience, it is inevitable that the current interline agreement between Aer Lingus and Virgin Atlantic Airlines will disappear? Mr. Thompson has already mentioned the experience of BMI, where the interline agreements disappeared overnight. From a competitive point of view, why would IAG continue to tolerate the type of interline agreement that exists between Virgin Atlantic Airlines, a major competitor, and Aer Lingus? Surely it would disappear. Is that a concern of Mr. Thompson?

Mr. Joe Thompson: It will disappear unless action is taken, and action can be taken by the regulator. There is a precedent for such action in the case of British Airways and BMI that preserves those interline agreements. As I stated earlier, some lessons can be learned from that experience to ensure that a remedy is more effective this time around. It is correct that the interline agreement will go away in any useful form if there is no remedy to it and the transaction proceeds.

Senator Paschal Mooney: Who will provide the remedy?

Mr. Joe Thompson: The European Commission will review the competitive impact of this proposed transaction if and when it is confirmed. We are in the process of making a submission to the Commission outlining very similar arguments to what we have laid out today.

There was a point as to whether there is a commercial impact on Virgin Atlantic and I have been quite transparent in saying there is such an impact. There is also a commercial impact on a number of other airlines which currently operate in partnership with Aer Lingus today who are not IAG or IAG partners. We operate in a commercial world and airlines must deal with changing market conditions. In such a scenario we would have to find a way to adapt to the new world in the way we adapt to a new world every day. The important point is that Irish consumers will not have that option. We would seek other partners and we might change the size of aircraft or timing of flights to ensure we can adapt to the new world in the way we do. We should not have to do that as appropriate remedies should be applied. Nevertheless, we have the ability to do that but the Irish consumer does not have that choice. There was a point about Ireland and Dublin becoming more of a hub for flights, particularly across the Atlantic. We would welcome that coming about and we support competition. We have competed intensely with a number of airlines over many years, and if this comes about, we will compete with future services

To apply a network planner's view, one of the key enablers of a really strong hub is the size of the local market and the customers who want to travel point-to-point through flight services. If there is a strong local market that can be supplemented with feed, one would be in a really strong position. The size of the long-haul market from Heathrow is 27 million passengers per year, and the size of the local market from Dublin is 3 million passengers per year. I am sure there are opportunities for expansion in long-haul services in Dublin for the right airline, and that is what every country, city and airport wants. When it comes about, we will compete with it effectively. It is important at this point to examine the competitive position as it is today; second-guessing what will happen in future is very difficult. We need to examine consumer behaviour and the impact this transaction would have on those consumers and their choice.

Deputy Tom Fleming: I welcome the representatives from Virgin Atlantic. The substantial issue is our national airline, our airports, the Irish economy in general and how we can attract business. There is a related connectivity aspect and, naturally, we must consider the competitive nature of the airline business and the good of the Irish consumer. I am very much aware of the needs of people who wish to travel to this country because of our tourism industry.

The witness mentioned the hub issue with regard to Dublin. If we are talking about becoming a major hub in world aviation, one may need to take account of Shannon, Cork and Knock as well as Dublin. The regional airports would also feed into the system. The precedent has been set in the Persian Gulf states and we can see the success of those major hubs in Abu Dhabi and elsewhere in the oil-rich states for the Atlantic trade and connectivity with America, Europe, Australia and Asia. We should go down that route.

It is good to hear the witnesses' concerns but I am in favour of an independent analysis. Perhaps the Government should seek the opinion of aviation experts, if they exist, who would be totally independent. Perhaps we could find three people who have been involved with the industry and who have much experience to give us an overview of what would be good for Ireland. They could advise us on IAG possibly taking over Aer Lingus and what would be good all round. We are a small island. I respect the view of the witnesses but we must consider the bigger picture. Policies are changing and we must be very careful that EU policy would not be

geared towards the big players of Germany and France. That will influence American policies and they would probably link to this.

Chairman: I presume the use of independent expertise is ongoing in the background. That would not be relevant to the function of this committee.

Deputy Tom Fleming: It should come from this committee.

Chairman: The Government obviously wants to do the best deal for Ireland so I presume it will have all that expertise and independence at hand.

Deputy Tom Fleming: Fair enough. As a committee, we should have input.

Chairman: Yes, and the Deputy has made his point in that regard.

Deputy Tom Fleming: Perhaps we need to convey that point. We can get into the nit-picking.

Chairman: We will consider all the discussions we have had in private and make recommendations to feed into the debate.

Deputy Tom Fleming: We must be careful about the long term. While Mr. Walsh is there, he will probably protect the country's interests to a certain extent but we must think about the long term.

Chairman: I am conscious that people wish to ask supplementary questions and I will allow that after Mr. Thompson responds.

Mr. Joe Thompson: Many of the subjects discussed, including the strategic importance of Aer Lingus to the Irish Government and the impact on jobs in Ireland, are appropriate but are not for me. That is a matter for the Irish Government in its capacity as shareholder of Aer Lingus. I have come here to represent a perspective on behalf of a group of consumers whose voice we are not sure has been heard loudly enough through the process so far. There was a point about inward tourism and investment and greater choice drives down prices while improving levels of service. It creates demand and more business; it is a virtuous circle. Constraining that process in any way can only have the opposite effect. The opinions and concerns we are expressing today are aligned with the specific interests outlined by the Deputy.

Chairman: Members, including me, want to ask some supplementary questions. I ask that the questions be direct as we want to maintain a bit of decorum.

Deputy Timmy Dooley: I thank the witnesses for the presentation as they have done a really good job of outlining the potential impact on a group of Irish consumers if the current deal goes ahead without appropriate checks being put in place. They will be disadvantaged significantly as a result of a potential loss of access to a competitor, namely Virgin Atlantic. The witnesses have clearly indicated they have a business or commercial interest. That should not prevent them from highlighting something which is of benefit to the company and also to some of the Irish people and inbound tourism. Mr. Thompson has done such a good job at identifying those concerns that he seems to have upset some people at Government level who perhaps wanted to keep this brushed under the carpet and did not-----

Chairman: Any analysis we have of this discussion can be done in private session and I will do the same to any other Deputy here. The nature of committees is that we are cross-party and

we put direct questions to witnesses who are entitled to come in to us, and whom we welcome to come in to us, but we do not make a political football within committees. That is the strength of committees and, as Chairman, I am going to maintain that.

Deputy Timmy Dooley: I was making the comments to give some context to the witness being asked questions about why Virgin Atlantic has not provided services to Ireland and what services it is providing in other jurisdictions around the world. For me there was a very narrow focus in terms of asking the witness to come before the committee and it was based on documentation he sent to the committee clearly outlining a potential issue for consumers. Mr. Thompson's motivation in terms of his commercial interest is irrelevant but he has identified a problem which, if it is not properly addressed with remedies, is an issue for consumers. That is the only reason I sought the witness here. I thank him for doing that. He has done a good job of outlining that and it should be clear to him, with the reaction of some of the committee members, that he has done a good job.

The witness has spoken about presenting a paper to the European Commission which, using his considerable aviation experience, will set out a series of remedies he believes have potential to protect those consumers. Will the witness circulate that document to this committee when it is done, or at an appropriate time? It would be helpful in preparation of the members' report. As an Opposition spokesperson, my desire is to try to ensure the Government gives due consideration to those issues, and to the potential solutions, if it decides to go ahead with selling its share. That would certainly help the people, even if the Government wants to hide from the concerns expressed by the witness.

Mr. Joe Thompson: That submission is being made imminently, if it has not already happened. Certainly, by way of follow-up with this committee and other interested parties, we are happy to share the contents of that submission.

Deputy Patrick O'Donovan: I wish to go back to a question I asked a while ago about Mr. Thompson's engagement with Irish stakeholders and his obvious concern for the Irish citizen. The witness said he felt the consumer was not being adequately protected in the process, and taking up Deputy Kenny's point, I believe that is unfair to this committee and the work it has done, particularly given the number of meetings held on this issue. I would like Mr. Thompson to give some insight as to what Irish stakeholders he met, such as industry leaders and political representatives, before he formulated his position in the best interests, he says, of the Irish people. I will go back to the numbers. Correct me if I am wrong, but the witness said about 50,000 people per annum transition between Aer Lingus and Virgin Atlantic, is that right?

Mr. Joe Thompson: That is at Gatwick Airport.

Deputy Patrick O'Donovan: Is that the total number?

Mr. Joe Thompson: No, the total number is referred to in my original statement. It is approximately 100,000.

Deputy Patrick O'Donovan: Does the witness know what percentage of the 100,000 are in the North Atlantic routes?

Mr. Joe Thompson: I do not know the number off the top of my head. The majority would be travelling to a final destination across the North Atlantic.

Deputy Patrick O'Donovan: Would it be 60%?

Mr. Joe Thompson: I could not give a firm figure but it would be the majority.

Deputy Patrick O'Donovan: If 100,000 people are transitioning with Virgin and if it has made the decision to come out and advise the people that this is such a bad deal, would the airline not know, before the submission is made, how many are going to each of the destinations? From a brief look on the Internet, I believe there are three million direct seats into Ireland from North America, by a whole host of airlines, including US Airways and Aer Lingus. A quick search of the eastbound flights of Etihad and Emirates airlines shows more than 500,000 seats direct into Ireland. I would have thought that if the witness was telling the committee this was such a bad deal, he would be able to tell us, based on statistics, exactly why it would be such a bad deal.

Mr. Joe Thompson: We have that information. I do not have it by individual city pair today, but it forms part of our submission and I am quite happy to share it by way of follow-up.

Deputy Patrick O'Donovan: For argument's sake, if it were 60,000 out of three million seats on the North Atlantic routes, it is less than 1.5% of the total number of people who travel the North Atlantic to and from Ireland with Virgin Atlantic.

Mr. Joe Thompson: The concern is not just the customers who travel with Virgin Atlantic. They are travelling with multiple other carries also partnering with Aer Lingus in this way today-----

Deputy Patrick O'Donovan: Is the witness expressing a concern for more than Virgin Atlantic?

Mr. Joe Thompson: I am only here today to represent Virgin Atlantic. The points I am making are only on behalf of Virgin Atlantic. I will go back to the Deputy's original point. I would not want this committee to go away thinking that Virgin Atlantic did not believe the committee was doing a good job on behalf of Irish consumers. It is clear that the scrutiny the committee has applied to this transaction demonstrates that. I am here today to describe one specific aspect of this proposed transaction that we do not feel has been aired sufficiently. I welcome the proactivity of this committee in inviting us to make those points. It illustrates very clearly a desire to subject this proposed transaction to the appropriate scrutiny.

Deputy Patrick O'Donovan: I accept the legitimacy of the witness's concern but from a transatlantic point of view, even at very high water, in the deliberations of the airline, 1.6% of the total traffic into and out of Ireland is handled by Virgin Atlantic on the North Atlantic routes.

Mr. Joe Thompson: We would want to go away and look at those numbers. The Deputy is quoting numbers at me that I do not have a chance to validate.

Deputy Patrick O'Donovan: It is a pity the witness did not bring those figures with him before he came to the Oireachtas with such obvious concerns.

Mr. Joe Thompson: We brought some very relevant figures with us today regarding the number of customers who are making connections through the UK. It is 500,000 customers who make connections through UK airports to long-haul destinations. That is a significant market by any measure.

Deputy Patrick O'Donovan: It is, but there are three million seats per annum directly into and out of Irish airports that are not affected by this at all. Plus there are more than 500,000

that are eastbound-----

Mr. Joe Thompson: The point is not what airlines do, the point is how consumers behave. Consumers today value the opportunity, the chance and the choice of airlines they have when connecting to long-haul destinations that are not served directly, and that is the point to consider.

Deputy Patrick O'Donovan: When Senator Mooney asked about Dublin, Mr. Thompson's answer referred to whenever the opportunity comes about for some airline to look at Dublin. That opportunity is staring us in the face now. We know there is a lot of capacity in Dublin airport, there is pre-clearance on the North Atlantic, and there are fantastic facilities there. Has Virgin Atlantic had any engagement with the Dublin Airport Authority with a view to opening a route?

Mr. Joe Thompson: Conversations that happen between us and airport authorities around the world will always remain private. It is clearly commercially sensitive which routes we might or might not be planning to operate.

Deputy Patrick O'Donovan: Taking Virgin Atlantic's concern for the Irish consumer at face value, Mr. Thompson's next port of call should be the DAA which would be delighted to see him.

Chairman: On the further information which Mr. Thompson does not have with him today, perhaps he could follow up with that as much as he can?

Mr. Joe Thompson: Of course.

Senator Paschal Mooney: I have one question relating to figures. I may be overlapping here so forgive me. The witness referred in one of his letters to further important examples where more than 15,000 passengers currently connect via Manchester, Gatwick or Heathrow each year from Dublin, with effective competition between British Airways and another carrier on the long-haul route of San Francisco-Vancouver-Hong Kong. My original premise was that one of the attractions of the IAG proposal is that it would grow passenger numbers out of Dublin into the Irish economy. Mr. Thompson addressed that in terms of economies of scale relating to Heathrow and Dublin airports, but I am sure he would agree that any increase into Dublin would be of benefit to the Irish economy.

Does Mr. Thompson have any figures for inward passengers using Virgin Atlantic's transatlantic service? He cited a figure of 15,000 which, I presume, means outward. Does he have any way of assessing whether there is any added value to the Irish economy via connectivity by Irish consumers going through those three airports and using his services? Extracting the 15,000 outward, does Mr. Thompson have any inward figures for people using it in reverse, that is, Virgin Atlantic using the onward connections by Aer Lingus into Ireland? Is it part of Virgin Atlantic's remit, as a commercial organisation, to actively encourage tourist numbers? For example, does Virgin Atlantic work with British Tourism or Fáilte Ireland in providing attractive packages for its international passengers to visit the UK and, by extension, Ireland?

In recent years, the Irish Government has been successfully attempting to attract Far Eastern customers. As Mr. Thompson will be aware, until recently, someone using long-haul services in the Far East or Middle East who wanted to tour Europe could get a visa for the UK but not one to come to Ireland. In the main, however, they can do so now. That must be of some benefit to Virgin Atlantic because it means it is providing an attractive option, primarily for the tourist market but also for business passengers.

Keeping in mind that Virgin Atlantic is providing an alternative option for consumers, I am trying to establish if there are any advantages to the Irish economy by the airline's continuing use of this service and its connection with Aer Lingus.

Mr. Joe Thompson: The short answer is "absolutely". I have been with Virgin Atlantic for a number of years and in that time I have been a country manager in India and Hong Kong where our entire remit is around creating demand from those markets to visit the UK and onward connections with partner carriers. We work closely with a number of tourist boards and tour operators to come up with joint promotions to develop and build those markets. We want to bring customers into those markets, as well as providing choice for consumers who are travelling on outbound itineraries.

The mix of inward and outbound varies significantly by route. On a route like the Caribbean or some of our more leisure-oriented destinations, travel will mainly be outbound. However, it is a much more even flow of traffic to destinations like Los Angeles or Chicago.

Senator Paschal Mooney: North America in particular?

Mr. Joe Thompson: Similarly in Shanghai, Hong Kong and Delhi, there is a much more even flow of traffic in both directions, and there is a more even split between business and leisure travel. The short answer to all this is that choice is good for all customers. Whether they are travelling for business or leisure, to or from Ireland, preserving choice and competition creates growth, opportunity and a competitive environment that, in turn, leads to more growth.

Going back to the Senator's point about the opportunity for growth at the Dublin hub, I can completely understand the rationale for that and the drive behind it. I hope it happens because that will clearly be a benefit for Irish consumers. However, the reality is that the breadth and depth of the schedule from Dublin will not match that of other larger hubs and, therefore, there will always be a role for connecting customers. There is a role for connecting customers in every large city because some markets simply do not have the volume of traffic to support a direct service. The interests of those consumers who will continue to use connecting itineraries need to be looked after.

Senator Paschal Mooney: In a word, therefore, the interline relationship, which will disappear with the takeover of Aer Lingus, will have a detrimental effect from Mr. Thompson's perspective on Irish consumers.

Mr. Joe Thompson: "Yes" is the short answer, but it does not need to go away.

Chairman: I will hand over to Deputy Ellis in a moment, but I first want to pose a couple of supplementary questions based on the discussion as it has evolved. Mr. Thompson referred to Virgin Atlantic's reluctance to come into Ireland and stated the reasons for that from lessons learned in the UK. My impression is that there is already competition among a number of airlines coming into or flying from Ireland. It is about 40% Ryanair and 40% Aer Lingus. If the IAG takeover goes ahead, therefore, the new arrangement would not have a monopoly on flights out of Ireland. I find it difficult to understand why Mr. Thompson is reluctant to get involved in the competition. IAG would not have the dominance of the Irish market then and Ryanair would be equal to it anyway.

Mr. Joe Thompson: In responding to that, it is important to look at different groups of customers and consumers. Ryanair is a phenomenal airline and a formidable competitor for certain types of traffic, but it does not address all the needs of the market. There are two specific

customer groups that Ryanair does not address, but over which Aer Lingus and British Airways have the dominant position. The first group is time-sensitive point-to-point customers, particularly those who value access to Heathrow, as well as the depth of schedule and proximity to central London that Heathrow offers. That cannot be replicated by Ryanair's current schedule.

The second group is connecting customers. That is because Ryanair, which is a hugely successful and impressive no-frills low-cost carrier, does not offer interline connections with other carriers. The competition that Ryanair provides only addresses part of the market, and the interests of those other groups need to be reflected.

Chairman: Mr. Thompson is effectively ruling out Virgin Atlantic flying into Ireland, no matter what decision is made going forward.

Mr. Joe Thompson: I have learned never to say never in this business. However, I think the prospect of competing with a monopoly carrier is not terribly appealing from a commercial perspective. Therefore, the onus is on the appropriate authorities to ensure consumers are not harmed by a transaction proceeding without the necessary remedies that would protect the interests of those consumers.

Chairman: I have two final brief questions. Who is Virgin Atlantic's biggest feed partner, as we are today? We have spoken a lot about feed partners and deals, but who is Virgin Atlantic's biggest feed partner today?

Mr. Thompson may not be able to answer this from a commercial point of view, but what would Virgin Atlantic's options be with regard to Ireland, first, if the deal goes ahead and, second, if it does not go ahead? He was asked a question earlier about employment and how many people Virgin Atlantic has in Ireland. Would that change? One of the big things in earlier discussions with IAG concerned employment losses or gains. Perhaps Mr. Thompson could address those two questions: first, about Virgin Atlantic's biggest feed partner today and, second, the options open to Virgin Atlantic if the deal goes ahead or does not.

Mr. Joe Thompson: Our biggest feed partner at Heathrow today is Aer Lingus.

Chairman: I would have thought that British Airways would be Virgin Atlantic's biggest feed partner.

Mr. Joe Thompson: At the moment, Aer Lingus is our number one feed partner in terms of connections per day. As regards the Chairman's second question, we are very focused on ensuring the right thing is done for consumers. As a commercial organisation, we are always adapting to changing conditions. However, it is in our interests not to talk about the options we will pursue until we go down that route, because it is commercially sensitive information and other competitors could take action to make it more difficult for us to pursue our strategies.

Chairman: I understand and accept that. I was wondering if Mr. Thompson could give us a range of options that are open, not the final position.

Mr. Joe Thompson: It is too early to do that.

Chairman: I respect that.

Deputy Dessie Ellis: I apologise for being late. Something else came up which distracted me. On the legal guarantees IAG has offered, first it offered the five-year guarantees. The Government has said it is looking for something longer like ten years. Is it unusual in the airline

industry to offer such guarantees? Certainly to us, it appears to be unusual to give guarantees on the retention of slots. Are there problems in making a guarantee like that? From many people's perspective, they are not worth the paper they are printed on and things can change. I am curious about Mr. Thompson's views in that regard.

In terms of competition, Mr. Thompson said Aer Lingus is Virgin's biggest feed partner. Would there be any repercussions from this merger for Virgin's operations? Mr. Thompson has not given an opinion on whether he agrees or disagrees with the merger, but is there a possibility that his own airline could lose out? It is clear that Aer Lingus has been very successful. Its passenger numbers are up. There are 11 million passengers and they have been expanding. Is it Mr. Thompson's belief that IAG is solely after the slots for long-haul services? Certainly a combination of that is in its game plan. Long haul is very important to IAG and it needs more long haul. I do not know if Mr. Thompson can answer those questions but it would be interesting if he would give us an opinion. These are some of the things we think are behind this.

Mr. Joe Thompson: I will not express a view second-guessing British Airways or IAG's commercial strategies. I understand completely why as shareholders and stakeholders in Aer Lingus and in the interests of Irish consumers as well as the other interests the members have outlined today those questions are important to the committee, but I am not in a position to answer specifically on BA's intentions.

Deputy Dessie Ellis: In terms of guarantees and in Mr. Thompson's experience, can someone make those guarantees?

Mr. Joe Thompson: There are precedents of a sort which can be looked at and learned from, specifically with regard to remedies the European Commission has applied to previous mergers and acquisitions in the airline industry that have been passed but which have had adverse impacts for consumers which have required remedies to be put in place. Two forms of remedy are common. One is commitments to give up slots on certain routes to encourage competition for other airlines to come onto those routes. Those are often multi-year in duration but they do not have a very successful track record of being effective because it is not easy competing with a monopoly provider who is well entrenched with frequent flyers and the corporate customer base. We have learned that from our experience operating flights on remedy slots between Heathrow and Edinburgh and Aberdeen. Similarly, there is a precedent from the IAG acquisition of BMI where the legacy interline arrangements between the legacy partners of British Midlands were protected for a period of time. They were only partially protected and we think it is possible to learn from that experience to apply a more effective remedy. That is what we would call on the European Commission to do this time. There is a clear precedent for those types of remedies to be multi-year in duration with a period to review at a point in time to observe if competitive harm has been amended via other means.

Deputy Dessie Ellis: Was it not some time later that the regulator said the slots could not be retained notwithstanding that there had been a guarantee at the time? The regulator in England said some of the slots would have to be offloaded for competition reasons.

Mr. Joe Thompson: In the case of the BA-BMI transaction, the slot remedy was applied by the European Commission in its role as competition regulator in that transaction. There was a period where there was a lag between the BA-BMI transaction being concluded and those slots being available for other operators to commence service in competition. There was a period of monopoly for British Airways after the acquisition of BMI and before Virgin Atlantic commenced its domestic services. That is one of the challenges we faced. The barriers to entry

become higher when there is a period of monopoly service provision.

Chairman: I thank Mr. Thompson and Mr. Hodges on behalf of the committee for attending today to give the views of Virgin Atlantic. It was a useful discussion. As has been demonstrated by the questions asked, the members want to examine this matter thoroughly and to get the best deal for the Irish people and Irish passengers. The witnesses have fed into that debate which has been helpful. There may be further information to provide in relation to some of the questions. That can be supplied to the clerk to circulate to members.

Mr. Joe Thompson: Of course.

The joint committee adjourned at 12.10 p.m. until 2.30 p.m. on Thursday, 16 April 2015.