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The IAG Bid for Aer Lingus: How Heathrow Slots Actually Work

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Two Main Issues

- What happens to the Aer Lingus Heathrow slots, and
- What growth plans might IAG have for Aer Lingus?

Slots – Current Position

- Aer Lingus has 23/24 slot-pairs at LHR.
- It can re-deploy these to non-Irish routes at present.
- It cannot sell them without the approval of 70% of shareholders.
- The blocking minority is the government's 25.1% + 5% from elsewhere.

What are Heathrow Slots?

- There are just two runways at LHR, so only 688 daily slot-pairs at peak.
- Busiest two-runway airport in the world.
- Third runway not possible sooner than 2025.
- Charges controlled by the regulator.
- This transfers the rent from the airport to the airlines

Who Owns the LHR Slots?

- BA owns more than half, about 350 daily slot-pairs.
- Aer Lingus owns 330 movements per week at Summer peak, equates to 23.57 slots!
- There is a Use-It-Or-Lose-It Rule
- Slots are traded in a non-transparent market.
- Only airlines can own slots.

What Are Slots Worth?

- It depends. Early morning arrival slots are scarce, late evening slots have least value.
- Aer Lingus has slots through the day. Recently they used 21 arrival slots of which the earliest was 08.05. Just four were prior to 10.00.
- Several are late evening, worth little.
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Break-up Value of Aer Lingus

- Net assets around €900 million at end 2013.
- Slots not shown as an asset.
- But pension fund payment €190 mill not shown, redundancy on break-up not shown either.
- Would roughly balance, so the offer price contains goodwill.

Would IAG Sell Slots?

- BA has never sold Heathrow slots.
- Nor has Aer Lingus.
- BA has plenty – BA is short of wide-bodies, not short of slots.

Victorville Ca.



Economics of Stealing EI Slots

- To switch EI slots into 'lucrative' long-haul, you need profitable route rights, wide-bodies, and terminal access.
- BA has created an average of just one long-haul departure at LHR per annum in the last four years, out of its c. 350 slots.
- There is a balance at BA with 250 short-haul arrivals feeding 100 long-haul departures.

The Ireland-UK Air Travel Market

- Volume similar to France-UK or Germany-UK
- Dublin-London (All airports) busiest in Europe
- Dublin-LHR joint highest frequency
- To all London airports, 61 departures per day ex-Dublin, one every fifteen minutes.
- BA runs 14 per day to DUB, 8 LHR and 6 London City.

Hub Competition.

- The UK 'leaks' traffic to Amsterdam, Frankfurt and Paris CDG.
- Aer Lingus services from UK provincial to Dublin almost as strong as to Amsterdam, better than CDG.
- Credible that IAG would seek to divert the leakage westward through Dublin.