

AIRLINE MERGERS AND COMPETITION LAW: IMPACT ON PRICES AND CONSUMER CHOICE

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❖ Abstract

Airline mergers have far-reaching effects on market competition, resulting in possible price fluctuations and changes in consumer preference. Competition law comes in to play in controlling airline mergers so that there will be equitable market practices, no monopolies, and safeguarding of consumer interests. This paper discusses the effects of airline mergers on ticket prices, quality of service, and market dynamics in general as well as assessing the effect of competition law in curbing anti-competitive behavior.¹ The research points out that although mergers can create operational efficiencies and cost savings, they can also have the effect of less competition, which can increase fares and decrease options for travelers. Market concentration, barriers to entry, and regulatory action are critical factors examined to determine their impacts on pricing behavior and route availability. Case studies of significant airline mergers give insight into their economic and legal significance, highlighting how competition authorities evaluate and regulate such mergers. The study also investigates the equilibrium between economic efficiency and consumer well-being, focusing on issues such as predatory pricing, consolidation of services, and dominance in the market. Findings indicate that tough enforcement of competition law is vital to having a competitive aviation industry that rewards consumers by virtue of fair prices and range of available services. It is significant to have an understanding of how airline mergers relate to competition law for policymakers, industry players, and consumers.

Keywords: airline mergers, competition law, pricing, consumer choice, market concentration, regulation interventions, economic efficiency.

¹ Borenstein, S. (1990). *Airline Mergers, Airport Dominance, and Market Power*. Journal of Industrial Economics, 38(3), pp. 317-332.

❖ Introduction

The airline sector is a key driver of international connectivity, economic growth, and tourism. In the last several decades, airline mergers have been a widespread practice for airlines to gain economies of scale, reduce complexity, and become more competitive. These mergers tend to create substantial issues regarding competition law, price policies, and consumer choice. This part discusses the complex relationship between airline mergers and competition law and lays the groundwork for comprehending their core economic and legal effects.²

1. Background of Airline Mergers

Airline mergers have long been motivated by a desire to enhance efficiency of operations, enlarge route networks, and ride out economic recessions. Firms tend to cut costs through common resources and infrastructure, producing larger, more solid organizations. But these mergers are not without debate, since decreased competition may result in increased prices and diminished options for consumers. It is important to consider the historical background of airline mergers in order to assess their long-term effects on market conditions.

2. Role of Competition Law in the Aviation Sector

Antitrust policy seeks to avoid monopolistic behavior and promote competitive market conditions. In the aviation sector, authorities like the U.S. Department of Justice (DOJ) and the European Commission thoroughly examine mergers to determine their effects on competition and consumer well-being.³ These antitrust regimes seek to avoid commanding positions in the market that will hurt travelers by restricting alternatives and driving up fares.

3. Impact on Pricing Strategies

Perhaps the most direct and observable impact of airline mergers is on ticket prices. Although advocates contend that mergers produce cost savings that can reduce prices, critics observe that

² Evans, D. S. and Schmalensee, R. (2008). *The Antitrust Analysis of Airline Mergers*. *Journal of Competition Law and Economics*, 4(3), pp. 649-680.

³ Goehler, J. (2015). *Airline Mergers and Their Impact on Prices and Consumer Welfare*. *Journal of Air Transport Management*, 47, pp. 1-8.

decreased competition tends to raise fares, especially on routes where the merged airline is the only or dominant carrier. This section considers theoretical and empirical views regarding the pricing effects of airline consolidations.

4. Consumer Choice and Market Concentration

Airline mergers can have a major impact on consumer choice by lowering the number of carriers serving principal routes. With greater market concentration, travelers could experience fewer choices, less options in scheduling, and increased ancillary charges.⁴ This subsection looks at how competition law attempts to balance industry consolidation against maintaining consumer choice.

5. Significance of Regulatory Interventions

Regulatory measures are of utmost importance in countering the adverse impacts of airline mergers. Regulators can impose requirements like divestment of airport slots, preservation of service levels on certain routes, or providing fare caps to safeguard consumers. An appreciation of the importance of these measures can better demonstrate how competition law is a bulwark against abuse of the market.

Dynamics of Mergers in the Airline Industry and its Effects on Market Competition

Airline mergers are really complicated processes that change the structures of markets and thereby touch almost everyone, including the airlines themselves, passengers, competitors, and the industry as a whole. It is from understanding this that one goes on to study how these mergers affect market competition and pricing, as well as regulation.

⁴ Button, K. (2010). *Competition and the Economic Impacts of Airline Mergers*. Journal of Transport Economics and Policy, 44(1), pp. 91-115.

1. Economic Rationale Behind Airline Mergers

The principal economic reason for mergers between airlines is that it becomes possible to attain economies of scale and operational efficiency. Consolidating resources will thus enable airlines to achieve scale efficiencies in operating costs, fleet management, and network expansion. Such consolidation often results in a lower cost per unit on which an organization depends to remain competitive in an industry of shrinking profit margins caused by high fuel prices, recessions, and unpredictable demand. However, the search for profit through mergers raises alarms about market concentration and the resulting competition, thus calling for vigilance in terms of regulations.

2. Effect of Mergers on Concentration in the Market

Airline mergers usually create increased concentration in the markets, whereby a handful of large carriers serve the majority of the regional and international routes. Although consolidation may make companies operate more efficiently, it can lead to monopolistic and oligopolistic market conditions.⁵ The reduced competition gives airlines greater price power to impose fare increases and further reductions in services. This section assesses how regulatory bodies like the U.S. Department of Transportation (DOT) and the European Commission determine market concentration levels and intervene when deemed necessary.

3. Pricing Effects of Airline Consolidation

One of the hottest debates over airline mergers is whether they are a boon or bane to airline tickets with respect to their ticket prices. Studies using empirical data have yielded mixed results: some have suggested short-term fare cuts as a result of operational efficiencies, while others have found long-term price increases, especially on routes where competition has become significantly reduced. This subsection will analyze the mechanisms of price increase caused by mergers regarding yield management, route rationalization, and ancillary revenue models.

⁵ Morrison, S. A. and Winston, C. (1995). *The Economic Effects of Airline Mergers*. Journal of Law and Economics, 38(1), pp. 107-137.

4. Consumer Choice and Service Quality

Airline mergers extend beyond ticket prices to consumer choice and service quality. Merged airlines streamline their operations, reduce the number of flights on less profitable routes, limit the availability of seats, and integrate frequent-flyer programs. All this amounts to fewer travel options and longer layover periods for passengers. This is normally a concern for the regulatory authority, and they attach conditions to the mergers regarding levels of service provision or market entry for new entrants into certain critical markets.

5. Role of Competition Law in Merger Approval

Indeed, competition law acts as a safeguard against the adverse impacts of many mergers on the airline industry. Agencies conduct complete antitrust reviews, assessing aspects like market share, overlap of routes, and possible entry barriers.⁶ They also can block a merger that threatens consumer welfare or create conditions under which a merger might proceed, such as divestiture of airport slots and access to key route segments. The section also highlights several case studies in airline mergers focusing on the field of competition law in market fairness.

❖ Significance

Case Study: The Jet Airways and Air Sahara Merger

The merger of Jet Airways with Air Sahara during the year 2007 was one of the major developments in the aviation industry of India. It would highlight some touch points with the nuances of how the mergers of airlines affect competition, pricing, and choice in the Indian market. The case study analyzes the backdrop of the merger, its regulatory hurdles, and its market impact on the entire industry.

⁶ Winston, C. and Kim, S. (2013). *The Effects of Airline Consolidation on Prices and Consumer Welfare*. Transportation Research Part A, 49, pp. 1-10.

1. Background of Merger

In 2007, Jet Airways, one of the largest private airlines in India, successfully acquired Air Sahara for the sale consideration of ₹ 1,450 crores (around \$340 million).⁷ The acquisition is a direct result of the strategic plan of Jet Airways to expand its domestic market share and give the airline a stronger front towards competition from low-cost airlines like IndiGo and SpiceJet. The merged entity sought to maximize Air Sahara's existing infrastructure, airport slots, and customer base in the formulation of a more integrated network.

Date of Announcement: April 12, 2007

Deal Value: ₹ 1,450 crores

Reason for Merger: Increase market share in the domestic segment and enhance operational efficiencies.

2. Regulatory Challenges and Competition Law

The merger faced a significant dent for scrutiny by India's competition authorities and regulatory bodies involved in civil aviation activities. Back then, the Competition Commission of India was not fully functional and therefore, this transaction did not undergo any exhaustive antitrust scrutiny.⁸ The main concern, however, was that the merger would significantly reduce competition on key domestic routes since post-merger Jet Airways would become the biggest domestic carrier.

Regulatory Authorities Concerned: Directorate General of Civil Aviation (DGCA), Ministry of Civil Aviation.

⁷ Chisholm, P. (2017). *Competition Law and Airline Mergers: A Comparative Analysis of Regulatory Approaches*. *Journal of Air Law and Commerce*, 82(2), pp. 345-368.

⁸ Dube, J.-P., Hitsch, G. J. and Chintagunta, P. K. (2010). *Tipping and Competitive Effects in the Airline Industry: The Case of Airline Mergers*. *Journal of Marketing Research*, 47(2), pp. 216-227.

Important Issues: Possible monopoly on high-traffic routes; for example, the Delhi-Mumbai and Delhi-Bangalore routes.

3. An Effect on Pricing Strategies

The most straightforward consequence of the merger was an increase in ticket prices on routes now dominated by Jet Airways. The airline started charging higher fares with fewer rivals on the major domestic routes, although it insisted that this was possible due to the increasing costs of operation and fuel.

Immediate Effects: Higher fares on competitive routes.

Long-Term Effects: Jet Airways could never profitably maintain those price increases, as they were grossly overestimated by the demand in the market.

4. Choices by Consumers and Quality of Service

While the merger enabled Jet Airways to expand its routes and improve connectivity, it eventually reduced consumer choice. Consumers did not have the name Air Sahara as a stand-alone brand, which deprived them of cheap ticket purchases in the full-service airline segment, thus filling the gap created with low-cost carriers such as IndiGo and SpiceJet.⁹

Positive Outcome: Better in-flight services and enhanced loyalty programs.

Negative Implication: Reduced numbers of the domestic full- service carriers in India on competitiveness of fare.

5. Long-Term Market Implications and Lessons to Learn from the Situation

That is how the story began. The merger between Jet Airways and Air Sahara, though initially possible, failed to produce long-lasting results. Jet Airways was virtually bust by 2019, thanks to its inefficient management of finances, cut-throat competition from low-cost carriers, and a

⁹ Dempsey, P. S. (2014). *The Economic Consequences of Airline Mergers: A Global Perspective*. *The Journal of Air Law and Commerce*, 79(2), pp. 249-277.

high level of debt. Commonalty in the cases is the element of danger in over-leveraging through mergers, without concomitant appropriate financial and operational strategies.

Post-Merger Market Dynamics: Rapid rise of low-cost carriers filled the competitive vacuum.

Industry Learnings: Competition law enforcement and pricing strategy sustainability are key determinants to the success of airline consolidations.

Conclusion

The Jet Airways-Air Sahara merger has shown that when Indian airlines join hands within themselves, the competition in the market changes, the rules of pricing change, and customers may be forced to make poor choices.¹⁰ Further compounding the negative statistics mostly are that at the moment when the transaction was launched, there was no strong antitrust oversight leading to initial catastrophes for the market, underscoring the continuation of vigilance in regulation of fair competition. This study illustrates the complexity of airline mergers and emphasizes the importance of competition law in maintaining a fair and competitive environment. While, in the short run, the merger operates efficiently and expands the airlines' network, it may reduce competition, thereby harming consumers and leading to increased prices whenever the regulatory are lax. Future mergers need appropriate scrutiny with strengthened competition law to prevent the establishment of monopolies that could breach consumer welfare. The merger of Jet Airways with Air Sahara looks quite complicated when it comes to airline consolidations in the nation. The merger gave a way for Jet Airways to base its network and build a firm competitive stronghold in India's domestic market, but at the same time reduced competition, increased fares on the main routes, and reduced consumer choice, especially for those looking for low-cost options. Approval of the merger, notwithstanding the alleged dominance of the market by competition authorities, calls for stronger regulatory frameworks to take care of long-term effects of such merges. The case certainly reminds that mergers, while creating efficiencies, have to be managed well, keeping consumer welfare,

¹⁰ Choi, E. K., and Lee, J. Y. (2013). *Mergers in the Airline Industry and Their Impact on Consumer Choice: Evidence from the U.S. Domestic Airline Market*. *Review of Industrial Organization*, 43(4), pp. 417-430.

competition, and financial sustainability in mind, for them to turn out as positive for the involved stakeholders.

❖ **Research objectives.**

1. To examine the economic and strategic motivations behind airline mergers in India and their implications for market competition.
2. To evaluate the role of competition law in the regulation of airline mergers and monopoly conduct.
3. To examine the effect of airline consolidations on ticket price strategies and revenue management.
4. To quantify the effect of airline mergers on consumer choice, service quality, and market concentration.
5. To identify key lessons from the Jet Airways-Air Sahara merger and recommend best practices for balancing economic efficiency with consumer welfare in future airline mergers.

❖ **Research questions**

1. What is the impact of airline mergers on competition in the air transport industry?
2. What is the role of competition law in controlling airline mergers and preventing monopoly behavior?
3. What is the impact of airline mergers on price policy and fare level for consumers?
4. How do airline mergers influence customer choice, level of service, and route availability?
5. What is the impact of airline mergers on market concentration and innovation in the industry in the long term?

❖ Research methodology

1. Research Design

The research will use a qualitative research design to analyze the impact of airline mergers on competition, prices, consumer choice, and market dynamics. The focus will be on economic and legal impacts using case studies, expert interviews, and document analysis.¹¹

2. Data Collection Methods

- Case Study Analysis: A detailed case study of the Jet Airways-Air Sahara merger will be analyzed to study real-life implications of an airline merger under Indian competition law.
- Secondary Data: Secondary sources of data will be industry reports, government reports, and academic articles giving insights into previous mergers and their impact on the airline sector. The data will also be used to place the role of competition law in context while regulating mergers.
- Interviews: Semi-structured interviews will be taken from aviation experts, legal experts, and industry regulators to gain expert insights into the implications of mergers and the role of competition law.

Document Analysis: Document analysis will also be conducted to study legal documents, merger agreements, and regulatory orders on the Jet Airways-Air Sahara merger and other comparable cases.

3. Data Analysis

The data will be studied through thematic analysis to identify common themes and patterns in the impact of airline mergers on competition, prices, and consumer welfare. The case study

¹¹ Perloff, J. M., & Salop, S. C. (2003). *Equilibrium and Antitrust Policy in the Airline Industry*. *Journal of Industrial Economics*, 51(2), pp. 159-185.

will also be compared with other mergers overseas to derive industry-specific trends. The interview data and document analysis will be integrated to evaluate the role of competition law.

4. Research Approach

This research employs an inductive approach, where it seeks to build understanding and theory from the examination of real airline merger cases.¹² Implications drawn from the case study and interviews will enable a better understanding of the effects of mergers on the aviation sector.

5. Ethical Considerations

The research will adhere to ethical guidelines by ensuring the confidentiality of the interview respondents and obtaining informed consent. All secondary data sources will be properly cited and referenced to avoid plagiarism.

6. Limitations

While the research is centered on the Jet Airways-Air Sahara merger, findings may not be fully generalizable to all airline mergers, especially given the dynamic nature of the aviation sector and variations in regulatory environments across countries. Additionally, data limitations could be due to the non-availability of certain regulatory reports or company-specific data.

❖ Findings

The findings from this research illuminate how mergers in airlines affect competition in the market, prices, consumer choice, and effectiveness competition law may have on these variables as illustrated by the Jet Airways-Air Sahara merger.¹³ These would provide some learning lessons for several mergers in future.

¹² Van Dijk, M. (2018). *Airline Mergers, Competition Law, and Consumer Protection*. European Competition Journal, 14(1), pp. 75-105.

¹³ Kahn, A. E. (2011). *The Economics of Airline Mergers and Antitrust Regulation*. The Journal of Economic Perspectives, 25(2), pp. 47-70.

1. Market Competition-The merger between Jet Airways and Air Sahara has significantly transformed the competitive scenario in the Indian aviation market. Post-merger, Jet Airways has been carving a greater share of the cake in most domestic routes joining major metropolitan cities.¹⁴ It has reduced competition in the sector which results in higher market concentration.

While all efficiencies are gained, this reduced competition raises questions about monopolistic forms of actions and possible increase in prices.

-Key Insight: Mergers may end up reducing competition, which may disadvantage consumers when not strictly regulated by a regulatory body.

2. Effect on Ticket Pricing and Fares: The most glaring consequences were ticket prices' rise on strategic routes between Jet Airways thereby having greater capabilities in price controls and contributing towards fare hikes in both short- and long-term periods independent of such rhetoric.

- **Key Insight:** Airline mergers can result in increased fares due to reduced competition, together with the promotional argument for operational efficiencies that are the main reasons for the merger.

3. Impact on Consumer Choice and Quality of Service: The amalgamation has reduced consumer choice as with the taking over of stellar Sahara, the independent brand of Air Sahara was swallowed by Jet Airways. It meant that the choices available under the full service carrier section are significantly less¹⁵.

¹⁴ Scher, S. (2016). *The Effects of Airline Consolidation on Airfares and Passenger Choice: An Empirical Analysis*. Review of Transport Economics and Policy, 50(3), pp. 289-314.

¹⁵ Liu, S. and Zhang, A. (2019). *Impact of Airline Mergers on Ticket Prices and Consumer Choices in Asia-Pacific Markets*. Journal of Transport Economics and Policy, 53(2), pp. 218-234.

On the other end, an improvement of service quality was experienced for some passersby, especially on international trips where Jet Airways expanded its route network and global connectivity-the decreasing numbers of full-service options reduced the options available to passengers, especially within domestic routes.

Key Insight: Although service quality might improve for some customers, mergers frequently result in fewer options for others, especially those on domestic routes.

4. The Role of Competition Law and Regulatory Oversight: The Indian competition law was at its very entry point and had very minor interest to the merger by the Competition Commission of India (CCI) at that time.¹⁶ "The merger received unconditional approval, thereby allowing the new entity a free rein in half a dozen key domestic markets." Without stricter harm to the regulatory framework, concentration increased in the market, leading to higher prices and lesser choices for consumers.

Key Insight: The primary importance of effective competition law in governing mergers lies in protecting consumer welfare and controlling monopolistic behavior.

5. Long Run Effects on the Market: The merger did allow Jet Airways at the initial time to capture market strength; however, in the long run, the airline was plagued by financial mismanagement and competitive forces of low-cost aggregators amid increasing operational costs.

Not that the merger failed to yield returns over the long run, but it was enough to show the same risk of depending on consolidation, alone, for success over time. The example of Jet

¹⁶ Borenstein, S. (1991). *The Price Effects of Airline Mergers: An Analysis of the Airline Industry in the United States*. International Journal of Industrial Organization, 9(3), pp. 359-377.

Airways in 2019 serves as a reminder that merged airlines will need more than market dominance to sustain successful operations.

- "Clean Air" raises the possibility that airline merger will yield near-term benefits. Short-term gains can ultimately lead to long-term consequences if the merged entity does not adapt to the market changes or change inefficient internal systems.

❖ Analysis

A. Changes in the Airline's Network and Route Structure: The merger of Jet Airways and Air Sahara resulted in a change in the network of routes. By combining routes of Air Sahara, Jet Airways was raising its domestic and international presence. It has increased connectivity for passengers, but again, the area in question has had some regional routes shutting down.¹⁷With fewer players operating in unprofitable routes, many would be faced with very limited travel options.

Key Insight: Although the rationalized routes might maximize profit, the benefit often deprives accessibility among passengers not residing within metropolitan areas, thus touching on the issue of equity in air travel.

B. Customer Loyalty and Frequent Flier Programs: The merger triggered some changes in the loyalty programs whereby Jet Airways has inherited Air Sahara's frequent flyer base. This is again an amalgamation of loyalty schemes to assure customers of benefits within a greater network. On the other hand, this bringing forth the two programs has confused frequent flyers and created discrepancies in the way rewards are structured, and hence could also affect customer satisfaction.

¹⁷ Evans, D. S. and Hirschey, M. (2003). *Pricing and Competition in the Airline Industry*. Economics of Transportation, 2(1), pp. 55-77.

Key Insight: Merging Airlines often see such opportunities arise in a loyalty program but tend to make customers confused and dissatisfied due to poor integration. Thus, their brand loyalty may suffer.

C. **Effect on Employment and Human Resources:** A merger is almost always accompanied by spoils, such as changes in the rate of employment.¹⁸ The biggest ingredient, in the case of Jet Airways-Air Sahara merger, was job redundancy from operational overlaps. While some found their way into the new organization, most were left laid off due to the reduced services and workforce. It had a socio-economic implication on the aviation workforce; although efforts were made for the transition of employees, most were placed without job security into the system.

❖ Conclusion

Airline mergers and competition law can be viewed as either a facilitator of industrial consolidation or a detriment to healthy competition. Mergers can foster operational efficiencies, allow for cost savings, and provide better services to consumers. On the other hand, some mergers can cause reduced competition, harming prices and consumer choice. Effectively, what happens to prices would depend on the circumstances in the actual post-merger market; thus, prices can drop through cost efficiencies, or alternatively rise due to lessened competitive pressure. Competition laws are the fundamental basis for checking these mergers against the possibility of any anti-competitive practices, thus safeguarding consumer interests. Regulatory authorities must adopt a brisk approach, taking into account the benefits of greater competition and consumer welfare versus attempts at monopolistic conduct. Well-crafted competition law will ensure that mergers do not put consumer choice and market behavior at undue risk, creating a favorable environment for competition in Favor of both consumers and the industry.

¹⁸ Ma, C. and McMillan, J. (2014). *Airline Mergers and the Impacts on the Price Mechanism: A Comparative Study of the European and American Markets*. *Transport Policy*, 31, pp. 98-105.

The paper summarized here presents succinctly the conclusions of the study and throws light on the importance of regulation in protecting consumer interests while allowing industry development. This research on airline mergers, particularly on the Jet Airways-Air Sahara merger, emphasizes the very intricate relationship that exists between market consolidation, competition laws, and consumer welfare. While mergers do promise to deliver greater operational efficiencies, broader networks, and more diversified services, there are also serious corollaries in terms of reduced competition, increased pricing, and reduced choice for the consumer.¹⁹ Given the absence of any rigorous regulatory oversight at the time of the merger, particularly in the Indian aviation sector, Jet Airways cemented its position of dominance, with implications for both pricing and service availability. This study correlates with strong competition laws and anti-trust tools that protect consumers from mergers that stifle innovation. The long-term economic viability of the mergers must be thoroughly evaluated since, as this case illustrates, excessive reliance on consolidation could pose risks for airlines given the very nature of this business.²⁰

¹⁹ Rupp, E. (2017). *Regulatory Approaches to Airline Mergers: Antitrust and Consumer Welfare Considerations*. *Antitrust Bulletin*, 62(1), pp. 97-123.

²⁰ Salop, S. C., & Sheffman, D. (2016). *Market Power and Antitrust in the Airline Industry*. *Antitrust Law Journal*, 79(2), pp. 537-563.