

Acquisition of Asiana Airlines by Korean Air

1 Outline of the Review (International Air Passenger Services)

View Points of the Review

Will the proposed acquisition (the "Transaction") substantially restrain competition in the markets of international air passenger services between Japan and South Korea, in which the transaction is likely to have significant impact on competition?

Outline of the Transaction (air passenger services)

Airports in South Korea (city)

*Incheon and Gimpo are defined as "Seoul"



International Air Passenger Services



Airports in Japan (city)

*Haneda and Narita are defined as "Tokyo"

Market Definition

The JFTC reviewed **10 overlapping routes** (Tokyo-Seoul, Osaka-Seoul, Sapporo-Seoul, Nagoya-Seoul, Fukuoka-Seoul, Okinawa-Seoul, Tokyo-Busan, Osaka-Busan, Sapporo-Busan, and Fukuoka-Busan).

- Both FSC and LCC were included in the same relevant service market. (However, the degree of competitive constraints of LCC on FSC was considered route by route.)
- Defined separate markets for each route (round-trip) between specific origin airports and destination airports.

Substantial Assessment

➤ Unilateral Conducts (regarding the following 7 routes)

① The Position of the Parties Group and competitors, etc.

- The Parties Group will gain approximately 50-75% market share and 1st place in the relevant market, with a huge gap from undertakings in 2nd place and lower.

② Competitive constraints from competitors

• In particular, with regard to the Seoul-related route (excluding the Tokyo-Seoul), competition between FSCs will be completely lost (Competitive constraints by LCC on FSC is relatively weak. Therefore, the loss of competition between FSCs would have significant impact on competition.)

- Competitive constraints will be limited, even taking into account the Parties' expansion plans and competitors' expansion plans.

③ Competitive pressure from new entrants

- There will be no competitive pressure from new entrants.

④ Economic Analysis

• Economic analysis indicated that there would be an incentive for the Parties Group to raise prices after the Transaction.

➤ Coordinated Conducts

JFTC concluded that coordinated conducts would not substantially reduce competition in all 10 overlapping routes.

The Transaction will **substantially restrain competition in the international air passenger services market on 7 routes (Osaka - Seoul, Sapporo - Seoul, Nagoya - Seoul, Fukuoka - Seoul, Osaka - Busan, Sapporo - Busan, and Fukuoka - Busan)** out of the 10 overlapping routes on which the Parties compete.

Proposed Remedy

① Slots held by one of the Parties Group on the routes concerned shall be divested to specified carriers ("Slot Divestment").

② In case where the number of slots to be divested by the Slot Divestment is less than the number of slots held by one of the Parties Group described in ① above on the routes concerned, the Parties shall offer the slot divestment to unspecified carrier(s) for the shortfall and shall accept the request from the potential remedy takers ("Open Slot Commitment").

③ In order to complement the competitiveness of the remedy takers, the Parties shall provide the remedy takers with supporting measures, such as a ground handling service agreement, etc.

④ Each Parties Group shall take necessary interim measures to maintain competition between the Parties until the time when the expansion or entry by the remedy takers set out in ① above becomes a reality.

⑤ The Parties shall appoint a suitable Monitoring Trustee, who will continuously monitor the performance of the measures set forth in ① through ④ above and make periodic reports to the JFTC.

Conclusion

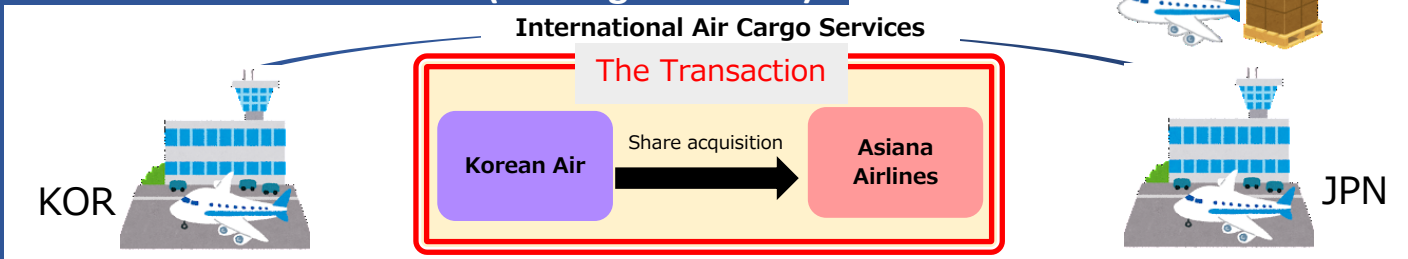
Based on the premise that the Parties will implement their proposed remedies, the JFTC concluded that it could not establish that the Transaction would substantially restrain competition in the international air passenger services between Japan and South Korea.

2 Outline of the Review (International Air Cargo Services)

View Points of the Review

Will the proposed acquisition (the "Transaction") substantially restrain competition on the air cargo route from Japan to South Korea, in which the transaction is likely to have significant impact on competition?

Outline of the Transaction (air cargo services)



Market Definition

Air cargo services from Japan to South Korea (one-way)

➤ **Scope of services**

• Air cargo services (The international transportation services provided by integrators and sea freight forwarding services are not included.)

➤ **Geographical scope**

• Route from Japan to South Korea (The route from South Korea to Japan constitutes a distinct market.)

Substantial Assessment

➤ **Unilateral Conducts**

① The Position of the Parties Group and competitors, etc.

• The Parties Group will gain over 60% market share and 1st place in the relevant market, with a huge gap from enterprises in 2nd place and lower.

• Asiana Airlines tended to offer lower prices than Korean Air.

② Supply Capacity of Competitors and Level of Differentiation of Services

• While competitors have a certain amount of supply capacity, there is a meaningful differentiation between the Parties and competitors.

③ Competitive pressure from new entrants, adjacent markets (such as integrators), and customers

• Limited.

④ Economic Analysis

• Economic analysis indicated that the prices of the Parties were closely related, and that there would be an incentive for the Parties Group to raise prices after the Transaction.

➤ **Coordinated Conducts**

JFTC concluded that coordinated conduct would not substantially reduce competition in the air cargo market.

The Transaction will **substantially restrain competition in the international air cargo services regarding the route from Japan to South Korea.**

Proposed Remedy

① Asiana Airlines shall divest its global air cargo business operated by its dedicated freighters to a third party ("Freighter Business Divestment").

② The Parties shall enter into a Block Space Agreement (s)* with certain carrier(s) and provide it/them with cargo space of flights from Japan to South Korea at a certain competitive price.

*An agreement to provide a certain amount of cargo space to competitors

③ A suitable Monitoring Trustee shall be appointed to conduct continuous performance monitoring and periodic report to the JFTC on the measures set forth in ① and ② above.

④ Regarding ① above, a Divestiture Trustee shall be appointed as necessary to secure the completion of the Freighter Business Divestment.

Conclusion

Based on the premise that the Parties will implement their proposed remedies, the JFTC concluded that it could not establish that the Transaction would substantially restrain competition in the international air cargo services from Japan to South Korea.