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Katherine Bang

Korean Air's long-awaited acquisition of Asiana Airlines is nearing completion, marking a significant milestone in the aviation industry. So after four years of navigating complex legal and regulatory challenges, Korean Air aims to finalize a deal on December 11th, depending on approval by the U.S. antitrust group. So this \$1.3 billion merger will create one of Asia's largest carriers, promising both opportunities and challenges as Korean Air integrates Asianas' assets and also debts. Well, let's find out what this could mean for the industry and even for consumers. We have invited Dr. Sangyun Lee, who is a postdoctoral researcher at Kyoto University. So he is on air with us. Hi, thanks for joining us.

Sangyun Lee

Hi, good morning.

Katherine Bang

Yes. So if you can explain, if we can go back a little bit, a few years back as to why Korean Air decided to buy Asiana or in Korea, we say 아시아나. So why? What's the reason?

Sangyun Lee

Yeah, that's a really good question, I think. But this question might be better framed as what led Korean Air to believe that it could acquire Asiana Airlines despite the clear antitrust concerns. As you know, there are only two full carrier services, airlines, in Korea, Korean Air and Asiana Airlines. So it was natural for Korean Air that acquiring the sole competitor was a rational and attractive choice. However, such a deal was impossible for a long time because acquisition would create a monopoly and that would certainly be prohibited by government. So the right question may be what changed Korean Air's perspective, making it believe that it can acquire national airlines despite antitrust concerns? So, I would say the story traces back to 2019, before the pandemic became a really serious issue.

In December 2019, HDC, 현대산업개발, the hyundai development company, signed a deal to acquire Asiana Airlines and filed a report with the KFTC in January 2020. And, only within just three months, in April 2020, the KFTC approved the deal. The KFTC means the korea's competition authority, Fair Trade Commission. However, as we all know, the pandemic's impact was unprecedented and it was unpredictable. So, the HDC demanded a re-evaluation of the deal. But,

of course, KDB was not happy with that, and that Asiana Airlines' main creditor refused the demand. So in September, 2020, the deal collapsed, fell apart. However, just two months after that failure, in November 2020, KDB announced Korean Air as the new buyer.

Specifically, KDB initiated this deal and several ministers, including the Minister of Economy, approved it through the 산업경쟁력관계장관회의, simply called the industry council. Then, in February 2022, the KFTC conditionally approved the deal. So, simply put, the decision for Korean Air to acquire Asiana Airlines was not entirely a Korean Air's choice. It was largely driven by the government. And why did the government decide on this merger? I think there are a few reasons. First, we have to understand that, back then, KDB faced a growing criticism over repeated restructuring failures, and it had already injected trillions of Korean won into both airlines. So with the pandemic dragging on, KDB was under pressure to resolve Asiana Airlines' situation very quickly.

The second is that the policymakers misjudged the global trends in competition policy. I read some articles and news reports, and according to them, officials back then, seemed to believe that the market concentration in the airline industry was a global trend and wouldn't raise significant antitrust risks. Of course, this was a miscalculation. The last is...You were saying?

Katherine Bang

Oh, no, go ahead. Continue.

Sangyun Lee

The last is that the KFTC had no choice but to approve the deal, because the government had already decided to push this deal through the Industrial Council. Meanwhile, let's look at the Korean Air's perspective. In his perspective, of course, as I said, acquiring Asiana Airlines, the sole competitor, was indeed an appealing idea. It meant eliminating its only competitor, while Asiana Airlines' heavy debt was a concern, of course, it wasn't a big deal for Korean Air. Because, first, KDB committed to providing 800 billion Korean won in order to fund that acquisition. So second, at the time, the Korean Air chairman, cho won-tae, his English name is Walter Cho, was facing a management to dispute a boardroom conflict with other shareholders.

But, by working with KDB, he could secure the government's support and retain control over the company. So, why not? So through this series of events, the Korean air Asiana airlines merger officially begins.

Katherine Bang

Well, thank you for going over the details of how we got to this point, Dr. Lee. But I also want to talk about the biggest issues and obstacles that Korean Air faced from outside of Korea, for example, the European Union or even the U.S. in getting their OK to push this merger through.

Sangyun Lee

So, European Union... and your question would be, what was their concern?

Katherine Bang

Yes. What were their biggest issues? Because obviously right now, with the European Union on board, Korean Air is waiting final word from the U.S. antitrust agency. So, what were some of the biggest issues?

Sangyun Lee

First, if you look at the European Union, the European Commission's main concerns focused on overlapping routes between Seoul and major European cities, especially Barcelona, Paris, and Frankfurt and Rome. Similarly, in the United Kingdom, the issue was with, as far as I remember, the London route. On these routes, the merged airline, post-merger Korean Air, would hold a 70% to 100% market share, with few or no competitors. This raises serious concerns about the potential price increases and reduce the competition after the merger. And, of course, these concerns were also pointed out in the KFTC's decision as well. So, to address these issues, the EU required the airlines to return airport slots on affected routes.

However, back then, the findings appropriate remedy takers for the slots was very difficult. Eventually, we all know that T-Way Airline became the remedy taker, but since T-Way is still not very competent and lacks the long-haul operational capacity of the two emerging airlines. As far as I know, Korean Air agreed to provide access to required aircraft and offer support to ensure effective operations of T-Way on these routes. And in the United States, while there have been no official announcements, but concerns were first reported in May 2023 in a political article, which stated that the Department of Justice was considering lawsuits against the deal.

And the routes under the scrutiny appeared to include San Francisco, Los Angeles, and Seattle, New York City, and Honolulu, where the two airlines had overlapping operations. Actually, these passenger routes had also been pointed out in the KFTC's review as well. And to address these concerns, as far as I know, in January 2024, this year, it was reported that Korean Air promised to lease its aircraft to Air Premier to enable the company to expand its services on North American routes to appease the DOJ's concerns. And, these concerns are related to passenger transport, but both the European Union and the U.S. also raised issues about cargo air transport.

The concern was actually not pointed out by the KFTC, but they (EU and US) were really concerned about monopolization in this service sector.

Katherine Bang

Yes. Well, to Dr. Lee, well, if we also talk about, because you already alluded to Korean Air having to give up some of the flight routes, and you also mentioned the cargo aspect of Asiana,

as a cargo business. But, you know, how will this ultimately affect the company, these changes?

Sangyun Lee

That's really an important question. Personally, I don't believe Korean Air has given up much in this case. You mentioned they gave up some flight routes and air cargo, but Korean Air has given up nothing, from my perspective. Well, it is true that Korean Air agreed to return certain slots and the traffic rights and sell the cargo division to address competition authorities concerns, as you just correctly mentioned. But, these assets, in fact, all originally belonged to Asiana Airlines, not Korean Air. I think, in fact, Korean Air has lost nothing. And from my perspective, it seems that Korean Air has managed to dismantle, kill its competitor, Asiana Airlines, quite successfully, through this government-backed merger.

The most significant impact of these changes, of course, will be a strengthening of Korean Air's market power, or you can call it monopoly power. Of course, as I just mentioned, there are some remedy takers like T-Way and Air Premia or Air Incheon. Air Incheon was decided to take the cargo business of Asiana Airlines company. They have emerged as new competitors, but none of them come close to matching the competitive pressure Asiana Airlines once had. So, without a strong competitor, I think Korean Air, thanks to this deal, is likely to gradually consolidate and expand its market power over time. That's my perception.

Katherine Bang

Thank you for sharing your very interesting insight and your opinion on that front. And with this merger, obviously the aviation industry here in Korea is going to change. But do you think that Korea, with its flagship carrier now, Korean Air, just basically the one, will make it a stronger competitor to other Asian companies or other even Asian hubs? What do you think?

Sangyun Lee

Yeah, very interesting view, and I think it sounds really rational, but before I start, first of all, I believe, that no one knows the future. And I also believe that that's why it's so important to make the optimal decisions in the present. However, in this case, as I just explained, or as we just discussed, it was not the optimal decision at all. And I believe it was kind of, in academic terms, a suboptimal decision, or in a more general term, it's policy failure, I think. And so that said, of course, even poor decisions can sometimes lead to unexpected positive outcomes. So in that sense, I think the scenario you mentioned, the Asian hub, where the merger strengthens Korea's competitiveness as an Asian hub, well, could certainly be a possibility.

For example, I recently came across a news report that Delta Airlines has shifted its operations from Narita Airport in Japan to Incheon International Airport. And, this could be seen as a very encouraging sign of Korea's growing competitiveness as a hub.

Katherine Bang

I see.

Sangyun Lee

However, I'm still skeptical about any meaningful synergies from this merger.

Katherine Bang

Hm...

Sangyun Lee

Well, perhaps, this, my skepticism is because of the fact that I'm not the very expert in this aviation industry. But, from a general perspective, as a competition lawyer, I think the success of a hub airport largely depends on high demand for travel to or travel through Korea. And, I'm struggling to see any strong connection between this merger and an increase in such demands. Actually, on the contrary, I personally believe that having diverse airline alliances contribute to a hub airport's competitiveness. But with this merger, Asiana Airlines, a Star Alliance member, will disappear. And, there will be only Korean Air in the market, which is part of SkyTeam. So I'm not that, personally, convinced that this merger will necessarily enhance Korea's status as a hub. But again, I'm not a very expert in this industry, so I will leave it here as an open question.

Katherine Bang

Well, thank you for answering it. And so after this merger, since you have expressed your skepticism about this deal in the first place, what challenges do you think are going to be the biggest ones that Korean Air will face? For example, you know, there has to be an integration of Asiana staff, obviously the planes and even the routes. So, what do you think on this front?

Sangyun Lee

Yeah, that's also a really important, but a little bit difficult question for me. But, as I already said, no one knows the future. So we have to focus on making the most rational and optimal decision in the present, but I believe this merger was not the case. It was really suboptimal. And regarding the staff issue, as far as I know, Korean Air has promised to guarantee employment for Asiana employees under the government's oversight. It's positive. It's really good from a labor right perspective. But, such guarantees may lead to inefficiency issues over time for the company, the management, which could increase the societal costs, like reduced consumer welfare. Similar concerns may apply to the management of assets, I think.

And the government has committed to addressing these challenges against consumer welfare. But, I think such an intervention, a regulation, regulatory approach itself, only adds further social costs.

Katherine Bang

Ah...

Sangyun Lee

If Asiana airlines had remained independent in the market, competing with the Korean air, a more efficient and consumer-friendly outcome could have been achieved without these administrative burdens. So looking ahead, I personally fear this merger may ultimately increase costs for consumers and society. Maybe it would be really good for that company, but from the perspective of the society, it looks so. But still, now that the decision has already happened, so I hope that the integration succeeds and it would yield some unexpected good results. That's my opinion.

Katherine Bang

Thank you for your analysis and opinion of this merger. Thanks for joining us today, Dr. Lee. We appreciate it.

Sangyun Lee

My pleasure. Thank you very much.

Katherine Bang

Once again, this was Dr. Sangyun Lee, and he talked about, yes, his skepticism and, in his view, this suboptimal deal, but at the end, of course, he did mention how he is expressing, you know, optimism, and what may come. We just don't know until it really does go down. So we'll keep an eye on this story.