



## **DETERMINATION OF MERGER NOTIFICATION M/14/001 –**

### **AerCap / ILFC**

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#### **Section 21 of the Competition Act 2002**

#### **Proposed acquisition by AerCap Holdings N.V. of International Lease Finance Corporation**

**Dated 31 January 2014**

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#### **Introduction**

1. On 6 January 2014, in accordance with section 18 of the Competition Act 2002 (“the Act”), the Competition Authority (“the Authority”) received a notification of a proposed acquisition of control by AerCap Ireland Limited (“AerCap Ireland”), a wholly owned indirect subsidiary of AerCap Holdings N.V. (“AerCap”), of 100% of the shares of International Lease Finance Corporation (“ILFC”).

#### **The Undertakings**

##### *AerCap*

2. AerCap is a Dutch registered company, headquartered in Schiphol, the Netherlands, and is listed on the New York Stock Exchange. AerCap has activities worldwide and has offices in Ireland, the US, China, Singapore and the United Arab Emirates. AerCap Ireland is an indirect wholly owned subsidiary of AerCap and is incorporated in Ireland and is active in aircraft financing.
3. AerCap is active globally mainly in aircraft financing. AerCap supplies airlines with commercial aircraft (both new and used) by way of operating leases and through sale and leaseback transactions whereby the lessor purchases the aircraft from the airline and leases it back to the airline. AerCap’s portfolio included [...] aircraft and AerCap leased aircraft to approximately [...] airlines in [...] countries and held approximately \$15 billion in assets.<sup>1</sup>
4. On a global scale AerCap is also active in aircraft engine leasing,<sup>2</sup> aircraft trading and aircraft portfolio (or fleet) management. With respect to fleet management, AerCap provides “*all asset services necessary to manage an aircraft portfolio*” including assessing marketing opportunities, negotiating lease documentation, preparing aircraft for delivery and managing the lease during the contract term.
5. The parties submit that these activities constitute a small part of its business activities and are ancillary to its aircraft leasing business and do not constitute independent businesses. AerCap has confirmed to the Authority that AerCap does not provide these services to any third party Irish based customer. However, following enquiries by the

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<sup>1</sup> As of 30 September 2013, AerCap owned [...] aircraft and managed [...] aircraft.

<sup>2</sup> AerCap has informed the Authority that it has only [...] engines on lease to worldwide customers outside of Ireland ([...] , [...],[...] and [...]).

Authority, AerCap confirmed that [...] of AerCap customers' who lease engines from AerCap fly routes in or out of Ireland, namely: [...] which leases [...] and [...] which leases [...] engines.

6. Within the State, as of 14 January 2014, AerCap has approximately [...] Irish subsidiary companies (either special purpose or joint venture companies) which are parties to leasing contracts with AerCap customers located outside of Ireland. AerCap has informed the Authority that it currently has no aircraft on lease to any airline based in Ireland.<sup>3</sup>
7. Of AerCap's [...] Irish subsidiary companies several provide secretarial or management services for other entities in the AerCap group and to other entities managed by AerCap, save for [...], which acts as the pension trustee for the AerCap Ireland pension.<sup>4</sup>
8. For the financial year ending 31 December 2012, AerCap had a worldwide turnover of approximately €793.1 million and a turnover in the State of approximately €[...] million.<sup>5</sup>

#### *ILFC*

9. ILFC is an indirectly held, wholly owned subsidiary of American International Group, Inc. and is based in Los Angeles, California, USA. ILFC is involved in (i) acquiring new commercial jet aircraft and leasing them, mainly via operating leases, to airlines; (ii) providing fleet management services to investors and/or owners of aircraft portfolios for a management fee; (iii) selling aircraft from its leased aircraft fleet; and (iv) providing financial services by way of asset value and loan guarantees to aircraft buyers or financial institutions. ILFC has [...] owned or managed aircraft.<sup>6</sup> ILFC's portfolio has an aggregate net book value of approximately \$33.9 billion.<sup>7</sup>
10. ILFC also provides limited aircraft maintenance, repair and overhaul ("MRO") services and leases and sells used/overhauled aircraft parts and engines, sourced from the open market and from tear-downs (i.e. the disassembly of an aircraft for its component parts). ILFC is also active to a limited extent in aircraft trading activities which, ILFC submits, is entirely tangential to its main activity of aircraft leasing.<sup>8</sup>
11. Within the State, ILFC currently has [...] aircraft under lease to Aer Lingus Group Plc. ILFC is the ultimate shareholder and beneficial owner of [...] Irish subsidiary companies and trusts. One such company is ILFC Ireland Ltd, based in Dublin and a wholly owned subsidiary of ILFC. ILFC Ireland Ltd provides the same services as its parent company including to customers such as [...].

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<sup>3</sup> Up until 29 May 2013 AerCap had one aircraft on lease to [...].

<sup>4</sup> These companies include [...],[...],[...] and [...].

<sup>5</sup> Converted using the average ECB exchange rate for 2012 of €1 = USD\$1.2848.

<sup>6</sup> As of 30 September 2013, ILFC owned 922 aircraft, managed 71 aircraft and had 18 aircraft subject to finance and sales-type leases.

<sup>7</sup> Source: ILFC's factsheet available at: [http://www.ilfc.com/ILFC\\_factsheet.pdf](http://www.ilfc.com/ILFC_factsheet.pdf)

<sup>8</sup> ILFC submit that in the past it provided asset value guarantees and a limited number of loan guarantees to buyers of aircraft or to financial institutions for a fee. However, ILFC confirms that it no longer provides this service and there are few residual value guarantees outstanding.

12. ILFC's Irish subsidiaries are currently parties to leasing contracts with ILFC customers outside of Ireland, save for the [...] leases referred to above.
13. For the financial year ending 31 December 2012, ILFC had a worldwide turnover of approximately €3,522.4 million and a turnover in the State of approximately €[...] million.<sup>9</sup>

### **Rationale for the Proposed Acquisition**

14. The parties submit that on a global level the proposed transaction will *"result in a combination of participants with complementary strengths to create a best-in-class entity which will be a stronger challenger to GECAS, the world's largest operating lessor (by number of owned aircraft), and which will deliver higher quality services to airlines around the world."*

### **Third Party Submissions**

15. No third party submission was received.

### **Competitive Analysis<sup>10</sup>**

#### *Aircraft Financing / Aircraft Operating Leasing*

16. The parties submit that the industry sector involved is the aircraft financing sector, with a hypothetical sub-segment of aircraft operating leasing. The parties submit that the geographic market is global.
17. Aircraft financing is a form of asset financing, in this case the financing for the purchase of an aircraft or an aircraft engine. Purchase agreements for new aircraft are entered into between an aircraft manufacturer, or for second hand aircraft the vendor, and the buyer (either an airline or an operating lessor). For larger aircraft, engines are typically purchased direct from the manufacturer and supplied to and installed by the airframe manufacturer before delivery.
18. Aircraft finance customers are based all over the world and range from air transport operators with small fleets to the world's largest airlines.
19. Airlines, or other aircraft finance customers, have a number of options to choose from when sourcing aircraft or aircraft engines for their fleet. Airlines can acquire the new or second hand aircraft or aircraft engines through cash acquisition, direct borrowing (e.g. secured or unsecured loans or other types of commercial debt), or leasing (e.g. sale and lease back transactions, finance leases, operating leases or even sub-leases from other airlines). Airlines choose among the options for a variety of reasons including weighting their portfolio of aircraft, debt exposure and the cost of each option. If, for example, the cost of leasing increases then airlines may rely more on debt financing or vice versa. The parties submit that switching between providers is relatively easy. The Authority understands that airlines tend to use different sources of financing and providers simultaneously and, in

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<sup>9</sup> Converted using the average ECB exchange rate for 2012 of €1 =USD\$1.2848.

<sup>10</sup> There is no overlap with respect to the provision of MRO services either globally or within the State. There is limited overlap globally in the provision of fleet management services and aircraft trading activities, however this overlap does not raise any competition concerns.

respect of leasing, fulfil their needs for such services from a large number of lessors.

20. The parties submit that the market could be further segmented into the provision of aircraft operating leases to finance aircraft. Currently approximately 36% of the world's airline fleet is leased and that is set to grow to half by the start of the next decade.<sup>11</sup> An operating lease is essentially a rental agreement between the lessor (e.g. AerCap) and the lessee (e.g. the airline) for a fixed duration and can include terms such as maintenance or the provision of crew for the aircraft.
21. The Authority considers that it is not necessary to define the exact scope of the product market in this case since regardless of the market defined, the proposed acquisition would not substantially lessen competition in the State.

#### Horizontal Overlap

##### *Globally*

22. Globally the activities of the parties overlap in the overall market for aircraft financing and in the sub-segment of aircraft operating leasing and aircraft engine leasing.
23. The Parties submit that their customers are located across the globe and range from air transport operators with small fleets to the world's largest airlines including: Aeroflot, American Airlines, Air France, China Southern, Delta Airlines, and United Airlines, among many others. Such customers are also customers of other operating lessors. Neither of the parties lists the same airlines among their top five customers on a global scale. The parties submit that switching between lessors is easy and that airlines often source operating leasing services from several lessors simultaneously. This is evidenced from a review of the customer lists on the websites of various operating lessors.<sup>12</sup>
24. Globally, there are a number of alternative suppliers available providing aircraft finance, aircraft operating leases or aircraft engine leasing finance. With respect to providing aircraft finance (through direct borrowing or other types of finance) alternative suppliers include: BNP Paribas, Citibank and HSBC.<sup>13</sup> With respect to providing aircraft operational leases alternative suppliers include: AWAS, Aviation Capital Group, BBAM LLC, CIT Aerospace and GECAS.
25. The parties estimate that in 2013 there were 22,213 aircraft in the entire global aircraft fleet, of which 8,255 (or approximately 37%) are

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<sup>11</sup> As submitted by the parties in the notification and confirmed in "Operating leases: Their role in today's market" an article by Mary-Anne Baldwin and published by Airline Fleet Management available at: <http://www.afm.aero/magazine/trading-legal-and-finance/item/556-operating-leases-their-role-in-today%E2%80%99s-market>

<sup>12</sup> For information on customer list see the websites some of the leading lessors such as: <http://www.aircastle.com/clients.html>, <http://www.amentum.aero/airline-customers>, <http://cit.newshq.businesswire.com/press-release/a321/cit-aerospace-delivers-five-airbus-a321s-american-airlines>, <http://www.macquarie.com/mgl/maf/customers>, <http://orixaviation.com/about-us/customers.html>, <http://www.pembroke-group.com/aboutus/customers.html>, <http://www.smbc.aero/customers/#>, and <http://airleasecorp.com/customers/>.

<sup>13</sup> See: <http://cib.bnpparibas.com/Products-services/Financing-your-business/page.aspx/10>, [http://webcache.googleusercontent.com/search?q=cache:C\\_nS52o3\\_d4J:https://www.privatebank.citibank.com/doc/aircraft.pdf+&cd=2&hl=en&ct=clnk&gl=ie](http://webcache.googleusercontent.com/search?q=cache:C_nS52o3_d4J:https://www.privatebank.citibank.com/doc/aircraft.pdf+&cd=2&hl=en&ct=clnk&gl=ie) and <http://www.hsbcnet.com/gbm/products-services/financing/asset-structured-finance.html>

leased. The parties further estimate that post transaction the merged entity will have a [5 - 10]% market share of the aircraft financing market.<sup>14</sup>

26. The parties estimate that with respect to the potential sub-segment of aircraft operating leasing, the market shares of market participants break down as follows:

<b>Worldwide - Operating Leasing (2012)</b>		
<b>Company</b>	<b>No of Aircraft Leased<sup>15</sup></b>	<b>% Share</b>
GECAS	1,718	22
AerCap	298	4
ILFC	1,027	13
<i>AerCap + ILFC</i>	<i>1,325</i>	<i>17</i>
BBAM LLC	448	6
CIT Aerospace	263	3
Aviation Capital Group	256	3
AWAS	244	3
Boeing Capital Corp	229	3
SMBC Aviation Capital	238	3
Sumisho Aircraft Asset Management BV	86	1
Sumitomo Mitusi Finance & Leasing Co Limited	9	0
SMBC + Sumisho + Sumitomo	333	4
BOC Aviation	186	2
Aircastle Advisor LLC	154	2
Macquarie AirFinance	152	2
Air Lease Corporation	136	2
ORIX Aviation	116	1
SkyWorks Leasing LLC	102	1
MCAP/MC Aviation Partners Inc	84	1
Avolon Aerospace Leasing Limited	83	1
CDB Leasing Company	79	1
Cargo Aircraft Management Inc	78	1
Pembroke Group	76	1
Hong Kong Aviation Capital	71	1
Others <sup>16</sup>	1,832	23
<b>TOTAL</b>	<b>7,956</b>	<b>100</b>

Source: supplied by the parties based on ASCEND database.

27. Post transaction in the narrower potential sub-segment of aircraft operating leasing the merged entity would have a market share of approximately 17%, placing the merged entity second behind GECAS, the market leader with a market share of 22%. GECAS is a vertically integrated entity with significant financial backing and manufacturing capabilities in the aircraft sector. BBAM LLC holds the third place, with 6% market share, with the newly combined SMBC in fourth position

<sup>14</sup> Market Share figures provided by the parties based on internal data and the ASCEND database. For information on Ascend Worldwide Limited see: <http://www.ascendworldwide.com/>

<sup>15</sup> The Authority has, for the purposes of illustrating estimates of market shares in this case, used figures for 'owned aircraft and potentially managed aircraft' for 2012. The parties submit that in the ASCEND data "aircraft lists are tagged with a 'manager' which may either be the owner himself owning the aircraft directly, through an SPC, a subsidiary or an entity otherwise connected to the owner concerned, or an entity otherwise connected to the owner concerned or a service provider who actually leases and manages the aircraft on behalf of an unrelated third party owner." This means that the parties effectively have no overview of the number of aircraft de facto owned by their competitors. The parties therefore submit that they typically include the aircraft listed by ASCEND as "managed aircraft" in the portfolio of their competitors. The Authority has not taken a position on whether using aircraft 'owned' or aircraft 'owned and/or managed' as the correct reference point.

<sup>16</sup> Others includes approximately 130 companies, each of which leases between one and 69 aircraft. The Authority recognises that the entities making up the 'others' listed above are smaller players and would not be considered as close competitors of either AerCap or ILFC.

with 4% market share.<sup>17</sup> In joint fifth position are AWAS, Aviation Capital Group, Boeing Capital Corp and CIT Aerospace, each holding a 3% market share. Additionally, many of the larger alternative suppliers, such as GECAS, CIT Aerospace (part of the CIT Financial Group) and the newly combined SMBC (part of the Sumitomo Mitsui Banking Corporation), are part of global financial groups with significant financial backing.

28. The remainder of the market for aircraft operating leasing sub-segment is fragmented, with over 150 participating lessors. Most lessors invest in similar types of aircraft to the merging parties. Some players have significantly grown their business in a short period of time. For example, Air Lease Corporation, which was established in 2010, has grown to having a fleet of 136 aircraft in three years, placing it among the top 12 global providers.<sup>18</sup>

#### *The State*

29. With respect to the State, the parties submit that as AerCap does not currently have any aircraft leased to any customer based in Ireland, the parties activities do not overlap horizontally. In a market that is global in nature, with market shares that will remain modest post acquisition, there can be little impact on competition within the State.
30. The parties confirmed that [...] of AerCap customers and [...] of ILFC customers fly routes to Ireland.<sup>19</sup> Post acquisition the merged entity would have 16 customers of the 28 airlines that fly routes to Ireland.<sup>20</sup> Of the two largest passenger airlines based in Ireland, Aer Lingus (with routes to the UK, Europe and the US) is a customer of ILFC but is also a customer of several other operating lessors, while Ryanair (with routes to the UK and Europe) is not a customer of AerCap or ILFC but is a customer of SMBC Aviation Capital.
31. The parties estimate that in the overall market for aircraft financing, as AerCap has no Irish based customers it has a 0% market share while ILFC has [0 - 5]% market share. Thus post acquisition the merged entity would have a market share of approximately [0 - 5] % within the State.
32. In the potential sub-segment of aircraft operating leasing the parties list the following as their top five competitors: ECC Leasing Co Ltd, SMBC Aviation Capital, BBAM LLC, AWAS and Hong Kong Aviation Capital. The parties estimate that the market shares of lessors in the sub-segment of aircraft operating leasing break down as follows:

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<sup>17</sup> In 2012, SMBC Aviation Capital acquired SMFL Aircraft Capital Corporation B.V. and Sumisho Aircraft Asset Management B.V. and in 2013 acquired Sumisho Aircraft Asset Management BV ("SAAM") and Sumitomo Mitsui Aviation Capital BV ("SMAC"). For information see: <http://www.smbc.aero/about-us/history/>

<sup>18</sup> For information on aircraft leasing see Flight Global's 2013 special report on Aircraft Finance at: [http://www.google.ie/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=3&ved=0CEUQFjAC&url=http%3A%2F%2Fwww.flightglobal.com%2Fairspace%2Fmedia%2Freports\\_pdf%2Femptys%2F102389%2FAircraft-finance-2013.pdf&ei=jY\\_mUp8Cqa7sBtT7gcqE&usq=AFQjCNH73qIwI8c4fghQdRslGytuPKPyA](http://www.google.ie/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=3&ved=0CEUQFjAC&url=http%3A%2F%2Fwww.flightglobal.com%2Fairspace%2Fmedia%2Freports_pdf%2Femptys%2F102389%2FAircraft-finance-2013.pdf&ei=jY_mUp8Cqa7sBtT7gcqE&usq=AFQjCNH73qIwI8c4fghQdRslGytuPKPyA)

<sup>19</sup> Customers of both entities flying routes into Ireland include: [...], Air France, American Airlines, [...], [...], [...], [...], [...], [...], [...], SAS, [...], Thomas Cook, Turkish Airlines, [...] and [...].

<sup>20</sup> For information on airlines servicing Ireland see: <http://www.discoveringireland.com/fly-to-ireland/> and <http://irishaviationresearchinstitute.blogspot.ie/p/flying-to-ireland-airline-list-list-of.html>

<b>Ireland – Operating Leasing (2012)</b>		
<b>Lessor</b>	<b>No of Aircraft Leased<sup>21</sup></b>	<b>% Share</b>
SMBC Aviation Capital	28	18
Sumisho Aircraft Asset Management BV	5	3
SMBC + Sumisho + Sumitomo	33	21
ECC Leasing Co Ltd	28	18
AerCap	1	1
ILFC	12	8
<i>AerCap + ILFC</i>	13	9
BBAM LLC	13	8
AWAS	10	6
Hong Kong Aviation Capital	10	6
Aergo Capital Ltd	9	6
Macquarie AirFinance	7	5
ORIX Aviation	7	5
Avolon Aerospace Leasing Limited	6	4
GMT Global Republic Aviation	3	2
Pembroke Group	3	2
European Capital Corporation	2	1
Air Lease Corporation	1	1
ALM - Aircraft Leasing & Management	1	1
Amentum Capital Ltd.	1	1
ASL Aviation Group	1	1
Banc of America Leasing & Capital LLC	1	1
Deutsche Structured Finance GmbH	1	1
Power Aircraft Services Ltd	1	1
<b>TOTAL</b>	<b>151</b>	<b>100</b>

Source: supplied by the parties based on Ascend database.

33. Thus post transaction the merged entity would have a market share in the sub-segment of aircraft operating leasing of about 9%, placing it in third position behind SMBC, with a 21% share, and ECC Leasing Co Ltd, with an 18% share. BBAM LLC would occupy fourth position with an 8% market share, with fifth position occupied jointly by AWAS, Hong Kong Aviation Capital and Aergo Capital Ltd, with each having a 6% market share. Macquarie AirFinance and ORIX Aviation would occupy joint sixth position with a 5% market share.
34. In addition to the above, the parties have confirmed to the Authority that no other subsidiaries of, or entities controlled by, AIG are involved in either aircraft leasing, aircraft engine leasing or aircraft MRO services either globally or within the State.

#### Vertical Overlap

35. The parties submit that their principal activities are aircraft leasing and, to a limited extent, aircraft engine leasing and that no vertical overlap exists between the activities of the parties within the State. The proposed transaction does not give rise to vertical concerns.

#### Conclusion

36. In light of the above the proposed transaction will not result in a substantial lessening of competition in any market for goods or services in the State.

<sup>21</sup> See footnote 15 above.

## **DETERMINATION**

The Competition Authority, in accordance with section 21(2)(a) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed acquisition whereby AerCap Holdings N.V. via its wholly owned subsidiary AerCap Ireland Limited would acquire sole control of International Lease Finance Corporation will not be to substantially lessen competition in markets for goods or services in the State, and, accordingly, that the acquisition may be put into effect.

**For the Competition Authority**

**Stephen Calkins**

**Member of the Competition Authority**

**Director, Mergers Division**