

THE MERGER BETWEEN IBERIA AND BRITISH AIRWAYS

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In the summer of 2008, the Spanish airline Iberia and British Airways announced their intention to merge, thereby creating what would then be the world's third largest carrier in terms of turnover (an expected figure of 16.5 billion euros), behind only Air France (24.1) and Lufthansa (23.3), and the fifth by stock market capitalisation (around 5 billion euros), behind Air China (9.2), Singapore Airlines (8.4), Southwest Airlines (7) and Lufthansa (6.8).

The operation was undertaken following the failed attempt in 2007 by British Airways, together with a UK mutual fund, to buy Iberia, given the refusal by the savings bank Cajamadrid to sell its stake to a non-domestic company. The merger's announcement prompted shares in the Spanish company to rise by 21%, whereas British Airways' stock rose by 6%.

The final deal was secured in November 2009 following a binding agreement reached by the respective boards of directors that created a holding company in which British Airways would take a 55% stake, with Iberia accounting for the remaining 45%, by virtue of the prior valuations of the companies estimated at 2.48 and 2.115 billion euros, respectively. The former stockholders of each one of the companies were allocated shares in proportion to their previous holdings, whereby Cajamadrid and Invesco, a UK investment management company, continued to be the main shareholders with 9%, whilst other Spanish shareholders of note were the state-run holding company, SEPI, with 2% and El Corte Inglés department store chain with 1%.

The new company's head offices were to be located in Madrid, whereas London would host its financial and operating centre. The operational arrangement contemplated at the time for the future involved maintaining the two existing brands, with separate boards of directors, plus a third one for the new company, with members drawn from the other two. The announcement of this agreement led to a next-day jump of 11.8% in Iberia share's price and of 7.5% in the case of British Airways.

The new company began operating as a single entity in early 2011, trading under the name of International Airlines Group (IAG), being listed for the first time as a single company on the Ibex-35, as it had already been doing on London's FTSE-100.

The merger culminated the alliance process the two companies had been pursuing over the 10 preceding years, during which time they had shared routes as part of the major global airline grouping called One World. Furthermore, at the time of the merger's announcement, Iberia held a 9.9% stake in British Airways, with the latter holding a 13.5% stake in the Spanish company. The third major partner in One World, American Airlines, also welcomed the news, understanding it would lead to the strengthening of the alliance.

This merger followed in the wake of those agreed in 2005 between Air France and the Dutch KLM and, in 2006, between Germany's Lufthansa and Swiss Airlines. Back in 2008 the merger was expected to create the world's third largest carrier, but the reality in 2011 was that IAG became the third largest European carrier and the sixth in the world, with a turnover of around 14 billion euros, due to other merger

operations undertaken by US companies, such as the ones agreed in 2010 between United and Continental and between Delta and Northwest.

At the beginning of 2011, the new company had a fleet of around 400 aircraft, with some 700 daily flights, 200 routes taking in more than 100 countries and the capacity to carry around 55 million passengers per year. The merger expected to achieve synergies of 400 million euros as of the fifth year of trading, of which 60% would come from reduced expenditure, based on the cost reduction arising from the use of information technology, shared aircraft maintenance and the fine-tuning of resources, and 40% from the higher income provided by the coordination of sales, the streamlining of networks and the extension of code sharing between the two airlines (Vázquez, 2011:261).

References:

Vázquez, A. (2011): "Iberia: una nueva empresa", *Economistas*, no. 126, pp. 258-262