



## The Daily Dish

# Fririt Airlines or Just Frontier and Spirit Airlines?

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Airline mergers can be a fun spectator sport, but the fate of Spirit Airlines will tell observers a lot about the approach the Biden Administration will take to mergers and acquisitions. AAF's Fred Ashton has all the [details](#).

The backdrop is the topsy-turvy struggle between Frontier Airlines and JetBlue for Spirit. On February 7, 2022, Spirit Airlines and Frontier announced an agreement to combine the companies. Two months later, JetBlue launched an unsolicited bid to purchase Spirit. Spirit said no, but the rejection just incited JetBlue to initiate a series of hostile takeover bids at ever higher prices – first in May and three more times in June. Frontier upped its original bid and Spirit said yes (again). At present, Spirit's fate is scheduled to be determined by a vote on July 27.

As noted above, great fun. But after all the private-sector arm wrestling is done, will the Federal Trade Commission (FTC) and the Department of Justice (DOJ) approve the merger? Maybe. But it will depend enormously on how the regulators frame the market competition. As Ashton notes, one way to view it is a competition along pairs of cities:

“An [editorial](#) published by *Routes* analyzed the merger using the city-pairs approach. Flight schedule data revealed that Frontier and Spirit have no substantial overlap in routes as Frontier has ‘heavy exposure in the western U.S., and Spirit largely centered around the east.’ Using flight schedule data for the “upcoming summer season, the editorial notes that the two carriers ‘plan to offer almost 650 nonstop routes across their combined networks – and the two will compete directly on fewer than 20% of them... However, on the routes where the two overlap, they will face competition from one or more carriers on 97% of them.’ The data presented by *Routes* show little evidence that these two companies are direct competitors when it comes to city-pairs.”

That sounds reasonable. Very little overlap, and when overlap exists, there are other airlines offering competition. Ah, but not so fast. Suppose you believe that ultra-low-cost (ULC) airlines like Spirit and Frontier are not direct competitors for the full service airlines. Then in those city-pairs that overlap there will be essentially no other competition. In this case, the outcome is a lot less obvious.

And there is another, even bigger “maybe.” This analysis adheres to the existing guidelines for reviewing mergers and acquisitions. These are guided by the consumer welfare standard that seeks to evaluate the impact of a merger on the ultimate airline consumer. The FTC and the DOJ are engaged in a joint review of the guidelines and the Biden regulators have a track record of opining that the guidelines should be ripped up and replaced with more arbitrary criteria. For example, Senator Elizabeth Warren has proposed legislation that essentially says no merger should result in a firm larger than \$5 billion in valuation; Frontier and Spirit would break that limit.

So it goes in the soap opera Days of our Airlines. The current guidelines may apply and may allow the merger. Or maybe not. Or maybe there are new guidelines. Stay tuned to this channel.