



Not So Fast: Air Canada (TSX:AC) Raises Challenge With WestJet (TSX:WJA) Deal

Description

We learned earlier this year that **WestJet Airlines Ltd** (TSX:WJA) was being [purchased](#) by **Onex** for a price of \$5 billion (which includes debt) in a deal that would take the airline private.

However, rival **Air Canada** ([TSX:AC](#)) has recently launched a challenge to that deal, alleging that it may violate foreign ownership rules that dictate that an airline has to be at least 51% Canadian-owned.

The rival airline claims that Onex's structure (it receives funds from many different sources) could prove challenging when it comes to staying within those ownership rules. In addition, with Onex's CEO nearing retirement, that too presents uncertainty about the future of the company's ownership and should also be taken into account.

The challenge comes while Air Canada is facing [uncertainty](#) over its deal with **Transat** where the two companies are looking to join forces. However, that deal could present a problem in terms of competition and will need to undergo further review.

Some have speculated that this challenge raised against WestJet's deal is to give Air Canada some bargaining power with transportation authorities to help further its acquisition of Transat.

Competition is a big problem in the industry, as Canadian consumers often have few choices when it comes to flying. While it's not immediately clear what impact WestJet going private will have on consumers, it's clear that the Air Canada-Transat deal will certainly take another option off the table for travellers.

That's why it's important for the government to assess the impact on competition and whether the acquisition will be a problem.

Is the deal in jeopardy?

It's unclear how much merit there is to Air Canada's challenge regarding the WestJet deal. Onex is

based out of Toronto, and at first glance, it would seem like a long shot for Air Canada to try to poke significant holes in the pending acquisition.

While it may cause a delay, there appears to be little reason for WestJet investors to be worried just yet. There are no glaring issues that would suggest that the deal won't go through as ownership issues would have likely come up long ago.

The company's current ownership also shouldn't be in question, as there is no guarantee when a CEO will retire. Succession planning is an issue that could impact many companies and shouldn't make Onex any different, especially as here's no reason to demonstrate that a change would necessitate a change in the level of foreign ownership in WestJet.

It's the Air Canada deal with Transat that appears to be the more likely of the two acquisitions in jeopardy today.

Bottom line

Unless there's a response from the government that suggests that there is a strong case made by Air Canada, it's not an issue that WestJet investors should be concerned about today.

A company spending billions of dollars on an airline would have likely done the due diligence necessary to familiarize itself on the rules relating to ownership in the industry.

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