

# Anticipated acquisition by Menzies Aviation plc and Menzies Aviation Inc. of ASIG Holdings Limited and ASIG Holdings Corp.

## Decision on relevant merger situation and substantial lessening of competition

**ME/6639/16**

The CMA’s decision on reference under section 33(1) of the Enterprise Act 2002 given on 15 December 2016. Full text of the decision published on 3 March 2017.

Please note that [X] indicates figures or text which have been deleted or replaced in ranges or with non-confidential summaries at the request of the parties for reasons of commercial confidentiality.

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### SUMMARY

1. Menzies Aviation plc and Menzies Aviation Inc. (**Menzies**) has agreed to acquire ASIG Holdings Limited and ASIG Holdings Corp. (**ASIG**) from BBA Holdings Limited and BBA Aviation USA Inc. (the **Merger**). Menzies and ASIG are together referred to as the **Parties**.

2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that the Parties will cease to be distinct as a result of the Merger, that the turnover test is met and that, accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties overlap in the supply of ground handling services at Aberdeen Airport (**ABZ**), Manchester Airport (**MAN**) and Terminals 2 and 3 of London Heathrow Airport (**LHR**). While the CMA assessed the Merger on an airport-wide basis for each of ABZ and MAN, the CMA, on a cautious basis, assessed the Merger at a terminal-level at LHR given the barriers to moving equipment and staff between certain terminals (eg between Terminals 4 and 5 (where the Parties do not overlap) and to a lesser extent between Terminals 2 and 3 (where the Parties do overlap).
4. The CMA believes that the Merger gives rise to a realistic prospect of an SLC at ABZ given that the Parties compete closely at ABZ, the Merger would reduce the number of ground handlers currently present at ABZ from three to two (with Swissport the only remaining competitor) and [evidence received by the CMA indicates that ground handlers not currently present at ABZ would not exert a sufficient constraint on the Parties post-Merger].
5. The CMA did not find competition concerns at MAN, in particular given that the increment is small, there are a number of credible competitors remaining post-Merger and, in contrast to ABZ, there is evidence of some constraint from ground handlers not currently present at MAN.
6. The CMA also did not find competition concerns at LHR Terminal 2, given that there are a number of credible competitors either present (or soon to be present) at Terminal 2 or at Terminal 3 nearby that would be able (and likely) to bid for future tenders at Terminal 2.
7. The CMA also did not find competition concerns at LHR Terminal 3 given that the Parties were not competing particularly closely at that terminal pre-Merger and there are a number of credible competitors present that could bid for future tenders.
8. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). The Parties have until 22 December 2016 to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, the CMA will refer the Merger pursuant to sections 33(1) and 34ZA(2) of the Act.

## **ASSESSMENT**

### **Parties**

9. Menzies is a provider of ground handling, cargo handling and cargo forwarding services to airlines at various airports in the UK and internationally. The turnover of Menzies' ultimate controlling company, John Menzies plc, in 2015 was around £1,899 million worldwide and around £1,363 million in the UK. John Menzies plc is a public company listed on the London Stock Exchange.
10. ASIG is a provider of ground handling, aviation fuelling and airport facility services to airlines, airports and oil companies at various airports in the UK and internationally. The turnover of ASIG in 2015 was around £272 million worldwide and around £[~~272~~] in the UK. ASIG is controlled by BBA Holdings Limited and BBA Aviation USA Inc., and ultimately controlled by BBA Aviation plc, a public company listed on the London Stock Exchange.

### **Transaction**

11. Menzies is proposing to acquire ASIG for \$202 million in cash.
12. The Merger will be implemented by means of a stock purchase agreement between Menzies Aviation plc, Menzies Aviation Inc., BBA Holdings Limited and BBA Aviation USA Inc., signed on 16 September 2016, pursuant to which Menzies Aviation plc will acquire the entire share capital of ASIG Holdings Limited from BBA Holdings Limited and Menzies Aviation Inc. will acquire the entire stock in ASIG Holdings Corp. from BBA Aviation USA Inc.

### **Jurisdiction**

13. As a result of the Merger, the enterprises of Menzies and ASIG will cease to be distinct. The UK turnover of ASIG exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
14. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
15. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 26 October 2016 so the statutory 40 working day deadline for a

decision is 20 December 2016. The Merger was considered at a Case Review Meeting.<sup>1</sup>

## Counterfactual

16. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.<sup>2</sup>
17. The Parties have submitted that the prevailing conditions are the relevant counterfactual, and there is no evidence supporting a different counterfactual. Therefore, the CMA believes the prevailing conditions of competition to be the relevant counterfactual.

## Frame of reference

18. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.<sup>3</sup>
19. The Parties are both active in the supply of ground handling services to airlines at ABZ, MAN and Terminals 2 and 3 of LHR. Ground handling is the general term for the servicing of an aircraft while it is on the ground at an airport.

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<sup>1</sup> See *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, from paragraph 7.34.

<sup>2</sup> *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, Annex D).

<sup>3</sup> *Merger Assessment Guidelines*, paragraph 5.2.2.

## **Product scope**

20. The CMA assessed whether each of the ground handling services provided by the Parties should form a separate frame of reference or whether certain ground handling services, in particular, baggage, ramp, passenger and airside cargo handling services should form part of the same frame of reference.
21. The European Commission (**EC**), the CMA and the Office of Fair Trading (**OFT**) have considered the provision of ground handling services and associated activities on a number of occasions, including in *Aviator/Swissport*,<sup>4</sup> *Swissport/Servisair*<sup>5</sup> and *Servisair/Aviance*.<sup>6</sup>
22. As discussed in those decisions, ground handling encompasses a number of different services which may be provided together by one supplier or by different suppliers, including:
  - baggage activities: loading and unloading of baggage from an aircraft, handling baggage in the sorting area, sorting, preparing for departure, and transporting baggage from the sorting area to the reclaim area;
  - ramp activities: Loading and unloading of aircraft, baggage and freight, push-back and towing of the aircraft, passenger debarkation via steps, aircraft safety checks upon arrival and departure, traffic operation (flight documentation and planning, crew briefing, weight and balance, load planning, ground to air communication, flight supervision);
  - passenger management activities: check-in, passenger assistance landside, gate management airside, air bridge connection and disconnection, passenger security checks;
  - airside cargo handling activities; and
  - other services including de-icing, fuelling, aircraft cleaning and landside cargo transport.<sup>7</sup>
23. The Parties overlap in the provision of baggage activities, ramp activities, passenger management activities and airside cargo handling activities at

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<sup>4</sup> ME/6578/15, [Completed acquisition by Aviator LGW Limited of the assets of Swissport Limited's ground handling business at London Gatwick](#), CMA, 5 February 2016 (*Aviator/Swissport*).

<sup>5</sup> Case No COMP/M.7021, [SWISSPORT / SERVISAIR](#), 18 December 2013 (*Swissport/Servisair*).

<sup>6</sup> ME/4429/10, [Completed acquisition by Servisair UK Limited of the regional ground handling business of Aviance UK Limited](#), OFT, 15 June 2010 (*Servisair/Aviance*).

<sup>7</sup> The CMA understands that the terms 'above wing' or 'front-of-house' services and 'below wing' or 'back-of-house' services are commonly used in the industry. Above wing or front-of-house services refers to passenger-facing services which do not require access to the tarmac and aircraft, such as reservation, ticketing and check-in services. Below wing or back-of-house services refers to non-passenger-facing services which do require access to the tarmac and aircraft, such as aircraft towing and pushback and baggage handling.

ABZ, MAN and Terminals 2 and 3 of LHR,<sup>8</sup> and to a lesser extent in de-icing at ABZ. Menzies has bid for contracts which include cleaning where these services are part of a wider ground handling contract but it outsources the provision of these services to other firms, whereas ASIG provides them directly.

24. The Parties told the CMA that baggage, ramp, passenger and airside cargo handling services are typically grouped together in contracts with airline customers. The Parties therefore submitted that the appropriate frame of reference should be ground handling services comprising baggage, ramp, passenger and airside cargo handling services.
25. In *Aviator/Swissport*, the CMA assessed the merger on the basis of a frame of reference comprising baggage, ramp, passenger and airside cargo handling services. Likewise, in *Swissport/Servisair*, the EC found that baggage, ramp, passenger and airside cargo handling constituted the relevant product market. In *Servisair/Aviance*, the OFT considered the impact of the merger in ground handling as a whole, rather than delineating any further.
26. From a demand perspective, all third parties which responded to the CMA said that ground handling incorporates baggage, ramp, passenger and airside cargo handling services. In general, customers said that they used the same ground handler for these services under one single tender (although there were a minority of examples where customers had split service lines).
27. From a supply perspective, baggage, ramp, passenger and airside cargo handling services appear to necessitate similar expertise, personnel and equipment. In this context, the CMA notes that all suppliers of baggage, ramp, passenger and airside cargo handling services at ABZ, MAN and LHR supply all of these services.
28. On the basis of this evidence, and consistent with previous decisional practice, the CMA believes that the appropriate starting point for the product frame of reference in this case should encompass the supply of baggage, ramp, passenger and airside cargo handling services.

#### *Other services*

29. The CMA then assessed whether it was appropriate to expand the product frame of reference to include other services, specifically:

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<sup>8</sup> At Terminal 3 of LHR, ASIG currently provides only passenger management services (commonly referred to as 'above wing' services).

- fuelling; and
  - de-icing, cleaning and landside cargo transport.
30. In addition, the CMA considered whether the product frame of reference should be expanded to include the self-supply of the relevant services by airlines.

#### *Fuelling*

31. The CMA investigated whether fuelling services should be included in the relevant product frame of reference.
32. Fuelling services comprise the organisation and execution of airport fuelling and defueling operations, including the storage and stewardship of fuel at airport fuel farms and the onward delivery of fuel to the aircraft, handling the control of the quality / quantity of fuel deliveries into the aircraft, as well as the replenishing of oil and other fluids.
33. The Parties submitted that fuelling services are distinct from other ground handling services as they require different assets and expertise. In addition, the Parties submitted that fuelling services are typically provided by different providers, with only ASIG and Swissport active in the provision of both fuelling services and ground handling services in the UK. Furthermore, fuelling services are usually procured by oil companies or airports rather than by airlines.
34. Third party responses confirmed the Parties' submissions.
35. On the basis of this evidence, the CMA believes that it is not appropriate to include fuelling in the same product frame of reference as the supply of baggage, ramp, passenger and airside cargo handling services. As Menzies does not overlap with ASIG in relation to fuelling services the CMA has not assessed fuelling any further.

#### *De-icing, cleaning and landside cargo transport services*

36. The CMA investigated whether de-icing, cleaning and landside cargo transport services should be included in the relevant product frame of reference.
37. One or both of the Parties are active in relation to de-icing, cleaning and landside cargo transport services at each of ABZ, MAN and LHR; although, with the exception of de-icing at ABZ, in each case there is either no overlap

between the Parties or the overlap is negligible.<sup>9</sup> In light of this, and given that in general these services are procured separately from one another and not alongside baggage, ramp, passenger and airside cargo handling services, the CMA believes that it is not appropriate to widen the frame of reference to include these services.

38. However, the CMA notes that, in relation specifically to de-icing at ABZ, this service is typically procured by airlines as part of the same contract for baggage, ramp, passenger and airside cargo handling services (in contrast to LHR and MAN). Each of the three ground handlers present at ABZ offer de-icing services. The CMA therefore believes it appropriate to include de-icing in the same product frame of reference as the supply of baggage, ramp, passenger and airside cargo handling services for ABZ only.<sup>10</sup>
39. As there is no or only a negligible overlap between the Parties in relation to cleaning and landside cargo transport services, the CMA has not assessed these services further.

#### *Self-handling by airlines*

40. The CMA investigated whether airlines that serviced their own ground handling requirements internally (ie self-handling or self-supplying) should be included in the relevant product frame of reference.<sup>11</sup>
41. The Parties submitted that self-handling forms part of the same product frame of reference as independent ground handling because many airlines could feasibly switch to self-handling, providing a constraint on independent ground handlers. The Parties noted that, when bmi was purchased by British Airways, bmi's ground handling services were progressively moved away from Menzies to British Airways' self-handling. The Parties also gave several examples of airlines currently or recently self-handling, such as Eastern Airways in relation to passenger services at ABZ and United Airlines at LHR.
42. However, the majority of airlines told the CMA that they were unlikely to switch to self-handling in response to a small but significant non-transitory increase in price (**SSNIP**).<sup>12</sup> Some airlines said that a move to self-handling

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<sup>9</sup> Or the overlap relates to situations where Menzies has been required to include the additional service as part of a wider offer for 'ground handling services', with the provision of the additional service outsourced to another provider.

<sup>10</sup> The CMA notes that whether or not de-icing is included in the product frame of reference does not affect the CMA's conclusion in relation to the competition concerns at ABZ.

<sup>11</sup> Some airlines operate ground handling services. Where an airline offers ground handling services to another airline, this is already included in the frame of reference. In this section, the CMA is discussing whether to include in the frame of reference an airline supplying its own ground handling services.

<sup>12</sup> See [Merger Assessment Guidelines](#), paragraph 5.2.11.



would require far more than a 10% increase in current prices, while others noted that self-handling was simply not an option.

43. Furthermore, the CMA noted that the propensity of airlines to consider self-handling may vary by airport. In particular, the CMA found that there is currently limited self-handling at either ABZ or MAN, but more self-handling at LHR. Therefore, on a cautious basis, the CMA has not included self-handling within the relevant product frame of reference, but has considered self-handling within its analysis of competitive effects at ABZ.<sup>13</sup>

#### *Conclusion on product scope*

44. For the reasons set out above, the CMA has assessed the impact of the Merger on the supply of baggage, ramp, passenger and airside cargo handling services, and, for ABZ only, also de-icing services (**Ground Handling Services**).

#### *Geographic scope*

45. The Parties submitted that both Menzies and ASIG provide Ground Handling Services under their global brands, competing at global, national and local levels. The Parties submitted that the Merger does not give rise to competition issues at a global or national level due to the presence of significant other global and national providers.<sup>14</sup>

#### *Airport-level*

46. The Parties said that the narrowest geographical frames of reference in which the CMA could assess the Merger are the individual airports at which the Parties compete in the UK.
47. This was confirmed by most third parties, which told the CMA that most airlines contract for Ground Handling Services by airport. Whilst some airlines said that they may tender for multiple airports, a number of those airlines also told the CMA that they would still accept bids for single airports.
48. On the supply side, the CMA noted that, while it is possible for ground handlers to bid for contracts at airports where they are not currently active,

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<sup>13</sup> As the CMA did not find competition concerns on any basis at MAN or LHR, it was not necessary for the CMA to assess the constraint from self-handling at those airports.

<sup>14</sup> The CMA does not believe that concerns arise at a national level given the number of Ground Handling Services competitors operating in the UK, the shares of supply of those handlers and the fact that ASIG is very small in Ground Handling Services in the UK (operating at only three airports).

they could not use the equipment or staff from a different airport and would need to obtain a permit to operate at the new airport.

49. On the basis of this evidence, and consistent with previous decisional practice, the CMA believes that the starting point for determining the relevant geographic frame of reference should be airport-level (ie ABZ, LHR and MAN).

#### *LHR – Terminal-level*

50. The Parties and third parties told the CMA that, at ABZ and MAN, it is possible for ground handlers to supply Ground Handling Services to all terminals or all parts of the airport, indicating that there is no plausible narrower frame of reference. However, at LHR, the evidence is more mixed.
51. The Parties submitted that LHR should be assessed by reference to an airport-wide geographic frame of reference and there is no reason to view LHR differently from other airports. The Parties added that they both operate at both Terminals 2 and 3 and use common equipment and staff between these terminals.
52. However, several third parties told the CMA that the geographically dispersed nature of LHR terminals may make it difficult for a ground handler based at one terminal to use the same staff and equipment to service an airline at another terminal. Some competitors said that equipment and staff might be able to move between Terminals 2 and 3 but it would be much harder to move between these terminals and Terminal 4. Some airlines also told the CMA that Terminal 4 was isolated from Terminals 2 and 3, and some said that the movement of certain equipment between Terminals 2 and 3 might also be difficult.
53. Ground handlers that operate in multiple terminals at LHR generally use different assets for their operations at Terminal 4 as compared to Terminals 2 and/or 3. Other than the Parties, only one other ground handler, dnata, is currently active at both Terminals 2 and 3.<sup>15</sup> Competitors told the CMA that ground handlers do not tend to formally share any equipment or staff.
54. In light of this evidence and on a cautious basis the CMA has assessed the Merger at terminal-level at LHR. However, given that the CMA did not find competition concerns arising from the Merger at LHR on any basis, it did not need to conclude on the appropriate frame of reference at this airport. As

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<sup>15</sup> At Terminal 2 there are four ground handlers operating (soon to be five), and at Terminal 3 there are also four ground handlers operating.

neither of the Parties are active at Terminals 1, 4 or 5 at LHR, it was not necessary for the CMA to assess the impact of the Merger at these terminals.<sup>16</sup>

### *Conclusion on geographic scope*

55. For the reasons set out above, the CMA has assessed the impact of the Merger in the following geographic frames of reference:

- airport-wide for ABZ and MAN;
- terminal 2 of LHR; and
- terminal 3 of LHR.

### *Conclusion on frame of reference*

56. For the reasons set out above, the CMA has assessed the impact of the Merger in the following frames of reference:

- supply of Ground Handling Services at ABZ;
- supply of Ground Handling Services at MAN;
- supply of Ground Handling Services at Terminal 2 of LHR; and
- supply of Ground Handling Services at Terminal 3 of LHR.

## **Competitive assessment**

### *Horizontal unilateral effects*

57. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and without needing to coordinate with its rivals.<sup>17</sup> Horizontal unilateral effects are more likely when the merger parties are close competitors.

58. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to horizontal unilateral effects in each of the frames of reference outlined above.

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<sup>16</sup> The CMA understands that Terminal 1 of LHR is closed indefinitely and only British Airways operates from Terminal 5, where it self-handles.

<sup>17</sup> [Merger Assessment Guidelines](#), from paragraph 5.4.1.

59. The CMA calculated the Parties' shares of supply at each of the overlapping airports/terminals,<sup>18</sup> how closely the Parties had competed at those airports/terminals pre-Merger (in particular with reference to available bidding data) and what competitive constraints would remain from other actual and potential bidders for contracts post-Merger. Where possible, the CMA examined evidence of individual competitors' intentions for a particular airport/terminal, thereby considering constraints not only from those ground handlers currently active at an airport/terminal but also from ground handlers that have bid, have indicated a willingness to bid or would be likely to be perceived as possible bidders.

## ABZ

### *Shares of supply*

60. Table 1 shows the shares of supply by number of aircraft 'turns'<sup>19</sup> for ground handlers active at ABZ in the last two years.

**Table 1: Shares of supply for Ground Handling Services at ABZ based on aircraft turns**

Supplier	2015		2016 (to Oct)	
	Number of aircraft turns	% of all aircraft turns	Number of aircraft turns	% of all aircraft turns
Menzies	[X]	[30-40]%	[X]	[30-40]%
ASIG	[X]	[10-20]%	[X]	[20-30]%
<b>Combination</b>	[X]	<b>[40-50]%</b>	[X]	<b>[50-70]%</b>
Swissport	[X]	[10-20]%	[X]	[30-50]%
AGS	[X]	[30-40]%	0*	0%
Total	[X]		[X]	

Source: [X]  
 Data for 2016 is for the ten months to October 2016. The CMA understands that the total number of turns in 2016 has declined since 2015 due to falling oil prices (which affect the popularity of flights to Aberdeen).  
 \*AGS exited ABZ during the course of 2016. All turns in 2016 have been assigned to the ground handlers which took on AGS's contracts at some point in 2016.

61. As shown by Table 1, Menzies's current share of supply at ABZ is around [30-40%] and ASIG's share of supply is around [20-30%]. The only other

<sup>18</sup> The CMA notes that in markets where contracts are individually negotiated and can change hands following tenders, shares of supply may not be representative of a supplier's strength within that market.

<sup>19</sup> Turns (or turnarounds) refers to the process of loading, unloading, and servicing an aircraft.

competitor currently active at ABZ, Swissport, has a share of supply of [40-50%].

62. In bidding markets share of supply may not necessarily be representative of a supplier's strength within that market. The CMA has therefore considered in its assessment of ABZ and in each of its assessments of MAN and LHR the share of supply data alongside other evidence and analysis including how closely the Parties competed with one another prior to the Merger and the number of other credible bidders that could bid for future contracts.

### *Closeness of competition*

63. Evidence from [redacted] indicated that churn at ABZ is low with only [redacted] contracts switching supplier in the last four years.<sup>20,21,22</sup>
64. The Parties provided the CMA with tender data for ABZ.<sup>23</sup> They submitted that, because the Parties both bid in [redacted]% of those tenders in which either party bid since 2012, this showed that they are not close competitors.
65. However, the CMA does not believe that this evidence demonstrates that the Parties do not compete closely with each other. The CMA notes that, while the Parties' tender data shows that ASIG only bid in [redacted] of tenders where Menzies also bid, Menzies bid in around [redacted]% of cases in which ASIG bid. Furthermore, the tender data shows that ASIG was [redacted] in bidding in [redacted] than it was [redacted]. When only considering tenders since 2014, ASIG bid in [redacted] of the tenders where Menzies bid, while Menzies bid in [redacted]% of tenders in which ASIG bid.<sup>24</sup>
66. The Parties were unable to supply the CMA with any internal documents which might indicate the competitive conditions at ABZ.
67. The vast majority of third parties, both customers and competitors, told the CMA that Menzies and ASIG are close competitors at ABZ.

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<sup>20</sup> Including [redacted] contracts switching over from AGS which exited ABZ in 2016. It does not include contracts won for new airlines entering ABZ.

<sup>21</sup> The CMA acknowledges that this tender information is not complete as there may have been some tenders where Swissport bid and the Parties did not.

<sup>22</sup> There are around 20 airlines operating at ABZ, although many operate on a 'seasonal' basis.

<sup>23</sup> This data was prepared for the purposes of the CMA investigation by combining the Parties' best recollections of bids in which they have both participated, which limits its reliability.

<sup>24</sup> The Parties were not able to provide information on how close their bids were when bidding.

### *Competitive constraints*

68. The CMA assessed the extent to which there are alternative suppliers which would provide a competitive constraint on the combined entity at ABZ.
69. Following the Merger, there would be only two ground handlers at ABZ: the merged entity and Swissport. [REDACTED]. Customers were asked to provide details of the last three ground handling contracts they awarded.<sup>25</sup> <sup>26</sup> The CMA did not receive complete responses in all cases but [REDACTED], [evidence received by the CMA indicates that ground handlers not currently present at ABZ would not exert a sufficient constraint on the Parties post-Merger] [REDACTED]. The CMA understands that bidders have little or no visibility about the identity, number or bids of rivals in any given tender process, and therefore expects that losing one of a small number of bidders is likely to mean that each remaining bidder perceives that its chances of winning any bid increase, which in turn means that the merged entity (and remaining competitors) may not bid as keenly.
70. The Parties submitted that ABZ is a small airport and, unless a ground handler has a number of contracts with airlines that require sufficient turns to be serviced, it is difficult to operate profitably at the airport. They said that it is unrealistic to expect a large number of ground handlers to be present at ABZ.
71. Menzies provided data on its profit margins at the UK airports at which it operates, including some where there are only two ground handlers present. Menzies submitted that this data showed that there is no correlation between the number of ground handlers present and the profit margins made at the airport. The data showed that, while at some airports with two handlers Menzies' profit margins are positive, at others they are negative.
72. The CMA recognises that there are many airports in the UK with only one or two ground handlers present. However, the CMA notes that there are a range of factors that affect the profitability of a ground handler at an airport, including the types of airlines serviced, the service schedule and changes to the operating conditions at the airport since the contract was awarded.
73. The Parties also submitted that, pre-Merger, Swissport was a closer competitor to each of Menzies and ASIG than the Parties were to each other, and it will continue to constrain the merged entity post-Merger. The Parties noted that Swissport is a far larger supplier of Ground Handling Services at

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<sup>25</sup> The CMA received responses from seven ground handlers, including Aviator which is exiting the UK with the exception of MAN.

<sup>26</sup> The information included dates, who bid, and how bidders were ranked.

both a global and national level than ASIG, and it alone has been consistently present at ABZ since the airport was liberalised.

74. Third parties indicated that Swissport is a strong competitor to the Parties, having won the majority of contracts for airlines entering ABZ in the last few years. This was confirmed by customers' tender data, which showed Swissport bidding in [REDACTED].<sup>27</sup> However, the majority of third parties also told the CMA that the presence of only one alternative ground handler at ABZ would not maintain sufficient competitive tension in tenders following the Merger and prices would be expected to rise.
75. The CMA considered whether other ground handlers not currently present at ABZ would bid for future tenders, and whether airlines at ABZ would consider other ground handlers as credible suppliers.
76. The Parties submitted that there are no barriers to entry at ABZ (or other UK airports). The Parties noted that ground handling is a licensed business, with licenses readily awarded by the relevant airport authority. The Parties also submitted that the costs of entry are nominal and can be achieved by an incumbent transfer (ie when a new entrant wins a contract it will typically acquire the assets and staff of the previous ground handler).
77. However, ground handlers told the CMA that the key determinant for commencing operations at an airport (or in the case of LHR, a terminal) is the ability to operate at sufficient scale, depending on the number of airlines served, the number of turns of those airlines, the size of aircraft and the scheduling of flights through the day.
78. The Parties submitted that, although ABZ is a small airport, it has 11 airlines operating regular scheduled flights and, on a stand-alone basis, [REDACTED] airlines offer sufficient volume to encourage a potential new entrant.
79. However, third parties told the CMA that, as a small, regional airport there are very few contracts at ABZ which would be of a sufficient size to allow a ground handler to achieve a minimum efficient scale. Most third parties considered that there is only one contract of sufficient scale which, on its own, would incentivise entry. The implication of this evidence is that any ground handler wishing to commence operations at ABZ would need to win this contract, or a number of smaller contracts, to achieve the scale needed to operate profitably.

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<sup>27</sup> Customers provided details of their most recent tenders.

80. [REDACTED], the CMA asked ground handlers not currently present at ABZ whether there was any prospect of them bidding for airlines at this airport [REDACTED]. As noted above, [REDACTED] [evidence received by the CMA indicates that ground handlers not currently present at ABZ would not exert a sufficient constraint on the Parties post-Merger] [REDACTED].

#### *Conclusion on horizontal unilateral effects at ABZ*

81. For the reasons set out above, the CMA believes that the Parties compete closely at ABZ, the Merger would reduce the number of active ground handlers at ABZ from three to two (with Swissport the only remaining competitor currently present at ABZ) [and evidence received by the CMA indicates that ground handlers not currently present at ABZ would not exert a sufficient constraint on the Parties post-Merger].
82. Accordingly, the CMA believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of Ground Handling Services at ABZ.

#### *Buyer power*

83. The Parties submitted that airlines at ABZ have significant buyer power.
84. However, the CMA notes that customers can only exercise buyer power if they have good alternatives. On the basis of the evidence above, the CMA does not believe that, post-Merger, airlines would have sufficient alternatives at ABZ as there will only be one alternative supplier to the combined entity post-Merger. In addition, no customer told the CMA that it would be willing to sponsor/support new entry at ABZ, and there was no evidence to suggest that airlines had sponsored/supported new entry at ABZ in the past.
85. The CMA also did not find any evidence that airlines at ABZ would consider self-handling (beyond Eastern Airways which currently partially self-handles, and has fully self-handled in the past). Airlines at ABZ told the CMA that self-handling did not make sense at ABZ due to each airline's low number of flights.
86. For these reasons, the CMA does not believe that buyer power or self-handling are sufficient to prevent or mitigate an SLC arising at ABZ as a result of the Merger.



## MAN

### Shares of supply

87. There are currently six ground handlers present at MAN,<sup>28</sup> though one of those ground handlers, WFS, is in the process of exiting. The CMA is also aware that Aviator has announced plans to exit the supply of Ground Handling Services in the UK, but understands that it will remain at MAN.<sup>29</sup>
88. Table 2 shows the shares of supply by number of aircraft turns for ground handlers active at MAN in the last two years.<sup>30</sup> The CMA has allocated WFS' share of supply to the relevant ground handler which will take over each of WFS' airline customers.<sup>31</sup>

**Table 2: Shares of supply for Ground Handling Services at MAN based on aircraft turns**

Supplier	Shares of supply assuming WFS exit	
	# turns 2016	% of all turns 2016
Menzies	[X]	[40-50]%
ASIG	[X]	[0-5]%
<b>Combined</b>	[X]	<b>[40-55]%</b>
Swissport	[X]	[40-50]%
WFS	-	-
Aviator	[X]	[5-10]%
dnata	[X]	[0-5]%
Other*	[X]	[0-5]%
Total	[X]	100%

Source: Manchester Airports Group  
\*Other includes Landmark Aviation and Premiere Handling

89. As shown by Table 2, Menzies's current share of supply at MAN is around [40-50%] and ASIG's share of supply is around [0-5%]. Other competitors include Swissport with a share of supply of around [40-50%] and Aviator with

<sup>28</sup> Not including Premiere Handling, for the reasons given below.

<sup>29</sup> Aviator's Nordic parent company will take control of the operations at MAN.

<sup>30</sup> Using data from Manchester Airports Group between December 2015 and November 2016.

<sup>31</sup> Manchester Airport Group supplied the CMA with information on which ground handler had taken over each of WFS' previous customers.

a share of supply of around [5-10%]. dnata and others currently hold shares of supply of around [0-5%].

### *Closeness of competition*

90. Evidence from Manchester Airport Group indicated that churn at MAN is moderately high with [X] switches of ground handlers in the last three years (and a further [X] airlines beginning operations at MAN).<sup>32</sup>
91. The Parties provided the CMA with tender data for MAN, which showed that they had both bid in [X]% of all tenders in which either of the Parties had bid since 2012. The Parties said that this data showed that they do not compete closely with each other at MAN. However, the CMA notes that Menzies bid in around [X]% of cases in which ASIG bid, suggesting a possible asymmetric constraint. More importantly, though, the CMA notes that ASIG bid for [X], and was successful in [X], indicating that it had provided little competitive constraint on the other ground handlers at the airport.
92. The Parties were unable to supply the CMA with any internal documents which might indicate the competitive conditions at MAN.
93. The vast majority of third parties, both customers and competitors, told the CMA that Menzies and ASIG compete at MAN; however, some third parties noted that ASIG was small at MAN, suggesting that it was not a particularly close competitor to Menzies.

### *Competitive constraints*

94. The CMA assessed the extent to which there are alternative suppliers which would provide a competitive constraint on the combined entity at MAN.
95. With WFS exiting MAN, following the Merger there would be four significant ground handlers at MAN: the merged entity, Swissport, dnata and Aviator.
96. Swissport is one of the largest ground handlers at MAN based on aircraft turns (comparable in size with Menzies). Every airline the CMA contacted indicated that it would consider Swissport as an alternative to the Parties for Ground Handling Services at MAN. Swissport was also named as a bidder in [X] responses the CMA received from customers on previous tenders. The CMA therefore considers that Swissport is currently a closer competitor to

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<sup>32</sup> Not including contracts won as a result of the exit of WFS.

Menzies than ASIG and is likely to remain a strong competitor to the Parties post-Merger.

97. dnata is a relatively small ground handler at MAN, with less than 5% share of supply. However, the majority of airlines contacted by the CMA said that they would consider dnata for the provision of their Ground Handling Services requirements. dnata also told the CMA that it would consider bidding for all airlines at MAN, and believed itself to be well placed to bid successfully for any airline.
98. Aviator told the CMA that it will continue to operate at MAN, where it has a share of supply around [5-10%]. Some airlines told the CMA that they would consider Aviator for the provision of their Ground Handling Services requirements, though some said that they would not. The CMA notes that it received feedback from airlines at a time when there was considerable doubt about whether Aviator would remain at MAN (having announced its exit from the UK), which the CMA believes contributed to some airlines not identifying Aviator as a potential bidder.
99. The Parties told the CMA that Premiere Handling was also active at MAN. However, the CMA understands that Premiere only offers passenger services and contracts out other Ground Handling Services (such as ramp activities) to Menzies. Moreover, Premiere was not mentioned by any airline as a potential supplier of Ground Handling Services. Data from Manchester Airport Group suggested that Landmark Aviation also held one small ground handling contract, but no customer identified Landmark Aviation as a potential supplier of Ground Handling Services, and no competitor mentioned it as a competitor to the Parties. For these reasons, the CMA has not relied on either of these firms providing any constraint on the Parties at MAN.
100. Third parties told the CMA that MAN may be an attractive airport to ground handlers not currently present at MAN, given that it is the third largest airport in the UK, it hosts around 50 airlines, and its airlines comprise both premium and low cost carriers, with wide and narrow bodied aircraft, undertaking short and long haul flights. Some customers at MAN told the CMA that they are in discussions about their Ground Handling Services requirements with credible ground handlers not currently active at MAN; and one ground handler not currently operating at MAN told the CMA that it had firm plans to begin operating at the airport and was actively bidding for contracts.

#### *Conclusion on horizontal unilateral effects at MAN*

101. On the basis of this evidence, the CMA believes that the Parties were not competing particularly closely at MAN pre-Merger, such that the loss of

competition arising from the Merger is likely to be limited. Moreover, there are a number of credible competitors that will remain at MAN post-Merger and there is also evidence of some constraint from ground handlers not currently present at MAN.

102. Accordingly, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of Ground Handling Services at MAN.

## ***LHR – Terminal 2***

### *Background*

103. Terminal 2 of LHR opened in June 2014, around the time that Terminal 1 was closed. Terminal 2 is the base for Star Alliance members at LHR, although it also hosts a small number of non-Star Alliance airlines. The CMA understands that, leading up to the opening of Terminal 2, many airlines that were moving to Terminal 2 conducted tender processes to obtain ground handlers for the new terminal.

### *Shares of supply*

104. The CMA estimated shares of supply for LHR Terminal 2 using data provided by [REDACTED].<sup>33</sup> Table 3 shows the results.<sup>34</sup>

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<sup>33</sup> In general, airlines use the same ground handler for check-in, baggage and ramp services. However, at Terminal 2, economy check-in is tendered in zones of the airport, meaning that a ground handler operates check-in for a number of airlines. Below wing elements of ground handling are tendered separately, so an airline may have one ground handler for check-in and a different ground handler for baggage and ramp.

<sup>34</sup> [REDACTED] provided data on the number of turns for each airline, and which handler was operating check-in, baggage and ramp services for each airline for each month in 2016. To produce shares of supply for Ground Handling Services at Terminal 2, the CMA weighted each of these three Ground Handling Services elements. The CMA explored three ways to do this. The first approach used the Parties' proposed method of applying a weighting ratio of [REDACTED] for 'front of house' to 'back of house' (based on the Parties' experience). The second approach gave each of the three elements equal weight. The final approach gave weight to each element according to how much was contestable (ie if more airlines were self-supplying check-in then less weight was given to check-in). However the CMA found that the resulting shares of supply varied very little on which approach is used.

**Table 3: Shares of supply for Ground Handling Services at Terminal 2 based on aircraft turns (2016)**

Supplier	Turns by check-in	Turns by Baggage	Turns by Ramp	% of turns (weighted [redacted] FoH to BoH)	% of turns (equal weight)	% of turns (weighted by contestable elements)
Menzies	[redacted]	[redacted]	[redacted]	[60-70]%	[60-70]%	[60-70]%
ASIG	[redacted]	[redacted]	[redacted]	[20-30]%	[20-30]%	[20-30]%
<b>Combination</b>	[redacted]	[redacted]	[redacted]	<b>[80-100]%</b>	<b>[80-100]%</b>	<b>[80-100]%</b>
dnata	[redacted]	[redacted]	[redacted]	[0-5]%	[0-5]%	[0-5]%
Swissport	[redacted]	[redacted]	[redacted]	[5-10]%	[10-20]%	[10-20]%
Total	[redacted]	[redacted]	[redacted]	100%	100%	100%

Source: [redacted]

Data for 2016 is for the ten months to October 2016.

These figures exclude self-supplying airlines.

105. As shown by Table 3, Menzies current share of supply at Terminal 2 is around [60-70%] and ASIG's current share of supply is around [20-30%]. The merger entity would have a combined share of supply of around [80-90%]. Other competitors include Swissport with a current share of supply of [5-20%, depending on the measure] and dnata with around [0-5%].

#### *Closeness of competition*

106. The Parties provided the CMA with tender data for LHR overall, which they submitted showed that they do not compete closely with each other. The Parties submitted that, because they have both bid in only [redacted]% of all tenders in which either bid since 2011, this showed that they are not close competitors. However, the CMA does not believe that this data provides strong evidence that the Parties do not compete closely with each other, as it also showed that, when considering just those contracts for Terminal 2 (not including cleaning and de-icing contracts), they both bid in around [redacted] of cases in which either bid.
107. The Parties' submissions show that both Menzies and ASIG have been active in bidding for contracts at LHR. Between 2011 and 2016, Menzies bid in [redacted] tenders and ASIG bid in [redacted] tenders.<sup>35</sup> The CMA notes that, whilst these bids were made across a number of airlines and terminals, for Terminal 2 contracts (or those airlines moving to Terminal 2), ASIG bid in around [redacted] contracts and Menzies in [redacted] contracts across a relatively short period of time.

<sup>35</sup> Not including cleaning and de-icing contracts.

108. The Parties have been unable to supply the CMA with any internal documents which indicate the competitive conditions at Terminal 2.
109. The majority of customers which responded to the CMA said that the Parties are close competitors at Terminal 2, providing similar services to each other. One customer told the CMA that the Parties are direct competitors for passenger and ramp handling services. However, some customers told the CMA that the Parties were differentiated in terms of their service quality.

#### *Churn and incumbency*

110. The Parties provided tender data from 2011 covering all terminals at LHR. Out of 76 tenders (not including tenders for airlines new to the airport), there were [X] occasions where an airline changed its ground handler, suggesting that a new ground handler is selected in approximately [X]% of tenders across LHR. [X] also provided data, which showed that there were [X] occasions in the last three years where an airline switched its ground handler.<sup>36</sup> The CMA noted that this high level of churn at LHR was indicative of strong competition, low switching costs and limited incumbency advantages.
111. The CMA found that the recent data on churn for Terminal 2 suggests much less churn than at the other terminals at LHR, with only [X] switches in the last two years. However, Terminal 2 only opened in June 2014 and the CMA understands that there were a large number of tenders by airlines when they moved to Terminal 2. The Parties' data showed that the Parties bid in [X] tenders for airlines at Terminal 2, the vast majority of which had commencement dates around the time Terminal 2 opened. The data showed that [X] of these tenders resulted in airlines switching their Ground Handling Services provider. As most contracts last for 3 to 5 years, many contracts entered around the opening of Terminal 2 have not yet come up for re-tender.
112. The Parties provided the CMA with evidence showing that a [X]. The CMA also understands from customers that many airlines have already begun engaging with ground handlers about the possibility of submitting bids. Therefore, it is likely that a significant number of contracts (including large contracts covering multiple flights per day, and both narrow and wide bodied aircraft) will be contestable within the next year.
113. In light of this evidence, the CMA believes that the current shares of supply held by the Parties may not be an accurate indicator of the constraint which

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<sup>36</sup> The CMA understands there are approximately 80 airlines present at LHR with an average contract for Ground Handling Services lasting 3 to 5 years. This suggests that approximately 20 airlines re-tender on average per year, or 60 airlines in a three year period.

competitors may exert on the parties at Terminal 2 in relation to future tenders. While Terminal 2 is a new terminal and there is little previous churn history there are a large number of contestable tenders planned in the next year, which means that the current shares of supply may change substantially in a relatively short period.

### *Competitive constraints*

114. There are currently two other ground handlers active at Terminal 2: dnata and Swissport. dnata holds two contracts at Terminal 2 (one of which it recently re-won) while Swissport holds a large contract. Until recently, Swissport's operations were mainly based at Terminal 4 of LHR; [REDACTED]. dnata is active at Terminals 2, 3 and 4 of LHR.
115. dnata and Swissport each have a much smaller share of supply at Terminal 2 than each of the Parties. However, the CMA understands that both dnata and Swissport have been active in the few tenders that have come up since the terminal was opened. Both dnata and Swissport told the CMA that they were keen to bid on contracts at Terminal 2 as opportunities arise. Moreover, the CMA estimates that dnata has a sizeable share of supply at Terminal 3 ([20-30%]) demonstrating that it is seen as a credible supplier at the terminal adjoining Terminal 2 of LHR.
116. In addition to the ground handlers currently present at Terminal 2, the CMA understands that a further ground handler, Azzurra, will begin supplying Ground Handling Services at Terminal 2 in January 2017 when Air India moves from Terminal 4 to Terminal 2. Azzurra handles a number of airlines at Terminal 4, and has won several contracts at Terminal 4 in the last year. Azzurra told the CMA that it is keen to bid for contracts at Terminal 2 and is in discussion with a number of airlines at Terminal 2. Azzurra said that it is investing in new Ground Handling Services equipment at Terminal 2 both to service Air India and in the expectation of winning new contracts.
117. In addition, Cobalt, which is a ground handler at Terminals 3 and 4 of LHR, told the CMA that it was interested in winning contracts at Terminal 2 when tenders come up. [REDACTED]. Moreover, in common with dnata, the CMA estimates that Cobalt has a sizeable share of supply at Terminal 3 ([30-50%, depending on the measure]) demonstrating that it is seen as a credible supplier at the terminal adjoining Terminal 2 of LHR.
118. Third parties generally told the CMA that, unlike at some smaller regional airports, there are a significant number of large airline contracts at Terminal 2 which individually would provide sufficient scale to warrant the necessary investment in staff and assets to enter. This is demonstrated by Swissport

currently holding a single contract, dnata holding only two contracts, and Azzurra entering on the basis of a single contract. The large number of contracts coming up for tender/renewal in the next 12 months suggests that there will be many opportunities for these small-scale operators at Terminal 2, or other providers not currently at Terminal 2, to build scale rapidly. The high level of churn in Ground Handling Services at LHR generally indicates that switching costs are low and incumbency advantages are limited.

119. The CMA also considered the constraint on the merged entity from large airlines which have the option of self-supplying their Ground Handling Services. However, given the sufficient constraints from independent providers of Ground Handling Services, it was not necessary for the CMA to assess the extent to which this option provided an additional constraint on the Parties.

#### *Third party views*

120. Two customers raised specific concerns regarding the impact of the Merger at Terminal 2. These customers told the CMA that Menzies and ASIG 'dominate' Ground Handling Services at Terminal 2 and that, following the Merger, there would be a limited choice of providers.
121. However, all the airlines at Terminal 2 which responded to the CMA said that Swissport and dnata were credible providers of Ground Handling Services at the terminal. The majority of airlines also mentioned Cobalt as a credible supplier, and some airlines mentioned Azzurra as a potential supplier.
122. This evidence suggests that there are four other credible providers of Ground Handling Services (dnata, Swissport, Azzurra and Cobalt) which will constrain the merged entity post-Merger.

#### *Conclusion on horizontal unilateral effects at LHR Terminal 2*

123. On the basis of this evidence, the CMA believes that, whilst the Parties currently have a high share of supply at LHR, there are a number of credible competitors either present (or soon to be present) at Terminal 2 (dnata, Swissport and Azzurra) or at Terminal 3 nearby (Cobalt) that would be able to bid for future tenders at Terminal 2.



124. Accordingly, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of Ground Handling Services at LHR Terminal 2.<sup>37</sup>

### **LHR – Terminal 3**

#### *Shares of supply*

125. The CMA estimated shares of supply for LHR Terminal 3 using data provided by [REDACTED]. Table 4 shows the results.<sup>38</sup>

**Table 4: Shares of supply for Ground Handling Services at LHR T3 based on aircraft turns (2016)**

Supplier	Turns by check-in	Turns by Baggage	Turns by Ramp	% of turns (weighted [REDACTED] FoH to BoH)	% of turns (equal weight)	% of turns (weighted by contestable elements)
Menzies	[REDACTED]	[REDACTED]	[REDACTED]	[30-40]%	[30-40]%	[30-40]%
ASIG	[REDACTED]	[REDACTED]	[REDACTED]	[0-5]%	[0-5]%	[5-10]%
<b>Combination</b>	[REDACTED]	[REDACTED]	[REDACTED]	<b>[30-45]%</b>	<b>[30-45]%</b>	<b>[35-50]%</b>
dnata	[REDACTED]	[REDACTED]	[REDACTED]	[20-30]%	[20-30]%	[20-30]%
Cobalt	[REDACTED]	[REDACTED]	[REDACTED]	[30-40]%	[40-50]%	[30-40]%
Total	[REDACTED]	[REDACTED]	[REDACTED]	100%	100%	100%

Source: [REDACTED]

Data for 2016 is for the ten months to October 2016.

These figures exclude self-supplying airlines.

126. As shown by Table 4, Menzies’s current share of supply at Terminal 3 is around [30-50%, depending on the measure] and ASIG’s share of supply is around [5-10%]. The merged entity would have a combined share of supply of around [40-50%]. Other competitors remaining post-Merger include dnata with a current share of supply of around [20-30%] and Cobalt with around [30-40%].

#### *Closeness of competition*

127. The CMA notes that ASIG currently serves one airline at Terminal 3 ([REDACTED]), to which it supplies only passenger handling (check-in) services. In contrast, Menzies provides Ground Handling Services to several airlines at Terminal 3,

<sup>37</sup> The CMA notes that, if it were to consider a wider frame of reference at LHR which includes both Terminals 2 and 3, the competitive effects analysis would not differ substantially.

<sup>38</sup> See paragraph 104 above.

operating both long and short-haul flights. Therefore, the current service offerings of the Parties at Terminal 3 are highly differentiated.

128. The Parties provided the CMA with tender data for LHR. When considering just contracts for Terminal 3, the data shows that ASIG bid in [X] of cases in which Menzies bid, while Menzies bid in [X] of cases where ASIG bid. More importantly, the data shows that ASIG bid for [X] contracts at Terminal 3 since the start of 2015, [X], indicating that, in recent years, it has provided little competitive constraint on Menzies and the other ground handlers at Terminal 3.
129. The Parties have been unable to supply the CMA with any internal documents which indicate the competitive conditions at Terminal 3.
130. The CMA has also received few comments from third parties relating to Terminal 3. One customer operating at Terminal 3 told the CMA that it considered the Parties to be complementary service providers, with ASIG providing cleaning services and Menzies providing passenger and ramp handling services. No third parties raised concerns about the possible impact of the Merger at Terminal 3.

#### *Competitive constraints*

131. There are currently two other ground handlers active at Terminal 3: dnata and Cobalt. Therefore, the Merger would result in a reduction in ground handlers at Terminal 3 from four to three. However, Cobalt has a share of supply of around [30-40%] and dnata has a share of supply around [20-30%], based on aircraft turns. The CMA notes that both dnata and Cobalt provide passenger (check-in), baggage and ramp handling services to customers at Terminal 3.
132. The CMA also notes that Terminal 3 has a significant number of large airlines which individually offer sufficient scale to make entry viable and the relative proximity of Terminal 3 to Terminal 2, such that it may be possible to use some common equipment and staff across these terminals.

#### *Conclusion on horizontal unilateral effects at LHR Terminal 3*

133. On the basis of this evidence, the CMA believes that the Parties were not competing particularly closely at LHR Terminal 3 pre-Merger and that there are a number of credible competitors (Cobalt and dnata) present that would be able (and likely) to bid for future tenders at Terminal 3.

134. Accordingly, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of Ground Handling Services at LHR Terminal 3.<sup>39</sup>

### **Conclusion on substantial lessening of competition**

135. Based on the evidence set out above, the CMA believes that it is or may be the case that the Merger may be expected to result in an SLC as a result of horizontal unilateral effects in relation to the supply of Ground Handling Services (which includes baggage, ramp, passenger, airside cargo handling and de-icing services) at ABZ.

### **Decision**

136. Consequently, the CMA believes that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the UK.

137. The CMA therefore believes that it is under a duty to refer under section 33(1) of the Act. However, the duty to refer is not exercised<sup>40</sup> whilst the CMA is considering whether to accept undertakings<sup>41</sup> instead of making such a reference.

138. The Parties have until 22 December 2016<sup>42</sup> to offer an undertaking to the CMA.<sup>43</sup> The CMA will refer the Merger for a phase 2 investigation<sup>44</sup> if the Parties do not offer an undertaking by this date, if the Parties indicate before this date that they do not wish to offer an undertaking, or if the CMA decides<sup>45</sup> by 3 January 2017 that there are no reasonable grounds for believing that it might accept the undertaking offered by the Parties or a modified version of it.

**Kate Collyer**  
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**Competition and Markets Authority**  
**15 December 2016**

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<sup>39</sup> The CMA notes that, if it were to consider a wider frame of reference at LHR which includes both Terminals 2 and 3, the competitive effects analysis would not differ substantially.

<sup>40</sup> Section 33(3)(b) of the Act.

<sup>41</sup> Section 73 of the Act.

<sup>42</sup> Section 73A(1) of the Act.

<sup>43</sup> Section 73(2) of the Act.

<sup>44</sup> Sections 33(1) and 34ZA(2) of the Act.

<sup>45</sup> Section 73A(2) of the Act.