Completed acquisition by John Menzies plc of part of the business of Airline Services Ltd

Appendices and glossary

Appendix A: Terms of reference and conduct of the inquiry

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Glossary

Appendix A: Terms of reference and conduct of the inquiry

Terms of reference

1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 (the **Act**) the Competition and Markets Authority (**CMA**) believes that it is or may be the case that:

   (a) a relevant merger situation has been created, in that:

      (i) enterprises carried on by Menzies Aviation (UK) Limited (**Menzies**), a wholly owned subsidiary of John Menzies plc, have ceased to be distinct from enterprises carried on by part of the business of Airline Services Limited (**Airline Services**) acquired by Menzies; and

      (ii) the condition specified in section 23(2)(b) of the Act is satisfied; and

   (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom (UK) for goods or services, including:

      (i) The supply of de-icing services at Edinburgh airport;

      (ii) The supply of de-icing services at Glasgow airport;

      (iii) The supply of de-icing services at London Heathrow airport;

      (iv) The supply of ground handling services at London Gatwick airport; and

      (v) The supply of ground handling services at Manchester airport.

2. Therefore, in exercise of its duty under section 22(1) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 28 January 2019, on the following questions in accordance with section 35(1) of the Act:

   (a) whether a relevant merger situation has been created; and

   (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the UK for goods or services.

Sheldon Mills
Senior Director
Competition and Markets Authority
14 August 2018

Conduct of the inquiry

3. On 14 August 2018, we published the administrative timetable for the inquiry and biographies of the panel members of the inquiry group conducting the inquiry. On 18 September 2018, we published an issues statement, setting out the areas of concern on which the inquiry would focus. We received a response to the issues statement from the Parties. We did not receive responses to the issues statement from any third parties.

4. In order to prevent any prejudice to a reference of the transaction under section 22 of the Act or to prevent any impediment to the taking of any action under the Act by the CMA which may be justified by the CMA's decisions on such a reference, the CMA on 23 April 2018, during the Phase 1 Investigation, issued an Initial Enforcement Order. Under a number of derogation letters issued between 13 July 2018 and 4 October 2018 the CMA authorised particular derogations on strict conditions to ensure the overall independence of the two businesses. One of these derogations was granted during Phase 2 of the investigation. These derogations can be viewed on the case page.

5. We invited a wide range of third parties to comment on the Merger. We sent questionnaires to a number of competitors and airlines. Evidence was obtained from third parties (competitors, airlines, various airports and the CAA) through staff telephone calls and written information requests. We also used evidence from the CMA's Phase 1 inquiry into the Merger.

6. We received written evidence from the Parties and a non-confidential version of their response to the Phase 1 decision was published on our website.

7. On 21 September 2018, members of the inquiry group, accompanied by staff, attended a site visit at Manchester Airport.

8. In addition to a number of meetings and calls with the Parties, we also held separate hearings with Airline Services and Menzies on 1 November and 5 November 2018, respectively. We also received from the Parties responses to a range of information requests.

9. In the course of our inquiry, we sent to the Parties a number of working papers setting out some of the evidence and analysis we were considering. We also sent them an annotated issues statement, indicating our emerging thinking and invited them to comment.

10. A non-confidential version of the provisional findings report has been placed on the inquiry case page.

11. We would like to thank all those who have assisted us in our inquiry.

Appendix B: Summary of our approach to tender analysis

Introduction

1. This appendix sets out our approach to the analysis of tenders and sets out the details of the tenders we considered for each of the five overlap airports:

   (a) Ground handling at LGW and MAN; and

   (b) De-icing at LHR, EDI and GLA.

Approach to tender data

2. We approached both airlines and ground handling / de-icing suppliers for information relating to recent tenders:

   (a) We requested tender data from the largest 10 airlines at each of the five overlap airports (LHR, LGW, MAN, EDI, GLA), which accounted for 32 airlines. We asked each airline for details of all tenders they have undertaken for the relevant service at each of the five overlap airports, including rolled-over contracts.[1] In total, we received relevant tender information from 23 airlines. We requested information on the tenders each airline had undertaken during the period January 2016 to August 2018.

   (b) We also contacted a number of ground handling and de-icing suppliers, including the Parties, requesting information on the tenders in which they had participated for the relevant service at each of the five overlap airports, including rolled-over contracts. We requested information covering the same period - January 2016 to August 2018. As well as the Parties, we received responses from the following suppliers, including Aero Mag, Aviator, Azzurra, Cobalt, dnata, IDS, Stobart and Swissport.

Airlines

3. We asked airlines to outline the details of each tender they had undertaken for ground handling at LGW and MAN and de-icing at each of LHR, EDI and GLA during the relevant period.

[1] We observe that [✂] contracts in our sample were participated in by a single supplier. We consider it plausible that this may indicate that a high proportion of contracts are rolled over. However, we cannot with certainty identify that such contracts are rolled over. We further consider that there may be other factors not captured within our dataset underlying the involvement of only a single supplier in a tender eg an airline is a new entrant to an airport and invited only a single supplier to bid.

4. Airlines provided details of:

   (a) Background information on the tender, including the date of the tender, whether it was for a bundle of services and/or to serve a network of airports;

   (b) Which suppliers were invited to tender;

   (c) Which suppliers were considered at the final stage of each tender; and

   (d) How suppliers ranked in each tender.

Suppliers

5. We asked suppliers for details of each tender in which they had participated for ground handling at LGW and MAN and de-icing at any of LHR, EDI and GLA. Since suppliers would not have been aware of the outcome of tenders (i.e. they may not have known whether they were considered in the final stage and are unlikely to know how suppliers ranked relative to each other), we asked suppliers to list the tenders in which they participated. As with airlines, they also provided background information on the tender, including the date of the tender, whether it was for a bundle of services and/or to serve a network of airports.

Combining airline and supplier datasets[2]

6. Our responses from suppliers identified a number of tenders on which we did not receive information from airlines (since we did not request tender information from all airlines present at each overlap airport). For the tenders where our information came only from the suppliers involved, we therefore did not have detailed information about which suppliers were invited to bid, were considered at the final stage of the tender and how they ranked. In these cases, we know only which suppliers have stated that they participated in a tender.

7. In order to combine the sample of tenders from airlines and suppliers, we noted for each tender which suppliers were 'involved' in the tender. This included suppliers that were listed by airlines as having been 'invited' to

[2] The data submitted by de-icing suppliers and the data submitted by airlines relating to de-icing services at EDI and GLA exhibited a greater number of inconsistencies that that for LHR (or that for ground handling at LGW and MAN). Specifically, we noted multiple examples of major airlines submitting tenders that were not submitting by suppliers. We therefore considered it appropriate to conduct our analysis for both EDI and GLA on the airlines' data, rather than a combined dataset. [✂].

tender[3] (for tenders where we had information from airlines) and/or suppliers that stated that they had 'participated' in the tender.

8. The data submitted to us by the airlines and suppliers was not always consistent. For example, we observed instances of airlines stating that a supplier had been invited to tender, but the tender in question was not submitted by the supplier. Conversely, we also observed examples of a supplier submitting that it had participated in a tender, but the airline did not include this supplier in its list of invited suppliers for that tender.[4]

9. Where we encountered such inconsistencies, we adopted the following approach across the dataset:

   (a) In instances where an airline identified that a supplier had some level of involvement[5] in a tender, but the supplier did not submit the tender, we have generally included the supplier as being 'involved' in our dataset. We consider this appropriate as a result of the relatively expansive definition of 'involved' adopted here.[6]

   (b) Conversely, in instances where a supplier submitted that it was involved in a tender but was not recognised as being involved[7] by the airline in question, we have generally included the supplier as being 'involved' in our dataset. Again, we consider this appropriate as a result of the relatively expansive definition of 'involved' adopted here.

10. We recognise that the definition of 'involved' adopted here implies a relatively low threshold for suppliers' inclusion within our dataset. However, our understanding is that in the ground handling and de-icing industries, it is common for airlines and suppliers to interact and contract via both formal and informal engagement. Therefore, we consider that this approach is likely to capture the dynamics of competition in this industry.

11. There are a small number of examples where we have not followed the approach outlined in paragraph 9. For example, [✂].

12. We note that the Parties have submitted that Airline Services has been described as participating in a number of tenders in which it 'categorically did

[3] Regardless as to whether or not the supplier ultimately bid.
[4] There may be a number of reasons for these differences including: differing interpretations of our questions; varying levels of accuracy in internal record-keeping; and/or incorrect information being provided by an airline or supplier. Moreover, airlines engaging with multiple suppliers may do so with varying degrees of formality (see paragraph 10) further contributing to such inconsistencies.
[5] Either because the supplier had been invited to bid or had ultimately bid.
[6] Specifically, we have considered a supplier as being 'involved' in a tender if it was invited to bid, regardless as to whether or not it ultimately bid.
[7] Specifically, as having been invited to bid, regardless as to whether it ultimately bid.

not participate in the tender at all'.[8] We further note that the Parties submitted that Airline Services does not believe that it was even invited to tender for these contracts, but noted that '**even if they were invited to bid** [CMA emphasis] they declined to do so'. We therefore considered it appropriate to amend the airlines' submissions where Airline Services had been identified as having bid and any subsequent ranking such that Airline Services was only identified as being 'invited' for these tenders, and not to have actually bid.[9] We further note that this approach was adopted consistently with respect to similar submissions by other suppliers.

Networks and bundled contracts

13. We asked airlines and suppliers whether each tender was for a contract to serve a bundle of services and/or a network of airports.

14. There were also a number of examples where suppliers and/or airlines reported these details of the tenders differently. Where we have contradictory evidence regarding whether a tender was for (e.g.) a bundled contract, we have tended to record this tender as not being for a bundled contract. If a supplier reports that it participated in the tender, and states that it was bidding for (e.g.) only ground handling while other suppliers report that the tender was for a bundle of services, in our view, the fact that a supplier was bidding for only part of the bundle suggests that bundling is not a defining characteristic of this tender. We have used the same approach for network contracts.

15. There are a small number of examples where we have not followed this approach. For example:

    (a) In a few instances Airline Services submitted that a tender was not bundled whilst others submitted that the tender was, stating specifically that the de-icing component would be sub-contracted to [✂].[10] We considered this probative of both Airline Services' ability to serve the de-icing component of the contract and of the contract's nature as being bundled. We therefore coded the tender as being 'bundled' within our dataset, despite Airline Services' submission stating that it was standalone.

[8] [✂].
[9] [✂].
[10] [✂].

Summary of tenders

16. We set out below details of the tenders for which we received information for the relevant service at each of the five overlap airports. Each table shows:

    (a) The airline issuing the tender;

    (b) The year of the tender;

    (c) Whether it was a tender for a bundle of ground handling and de-icing services together;

    (d) Whether it was a tender for providing services at a network of different airports;

    (e) Which suppliers were involved in the tender, if at all; and

    (f) The total number of suppliers that were involved.[11]

17. The following tables do not indicate whether a supplier ultimately bid for the tender.

[11] The table presenting de-icing tenders at LHR additionally records the terminal at which the relevant airline operates.

Ground handling at LGW

[✂]

Notes: Data for ground handling tenders at LGW between January 2016-August 2018.

Ground handling at MAN

[✂]

Source: CMA analysis.
Notes: Data for ground handling tenders at MAN between January 2016-August 2018.

De-icing at LHR

[✂]

Source: CMA analysis.
Notes: Data for de-icing tenders at LHR between January 2016-August 2018.

De-icing at EDI

[✂]

Source: CMA analysis.
Notes: Data for de-icing tenders at EDI between January 2016-August 2018.

De-icing at GLA

[✂]

Source: CMA analysis.
Notes: Data for de-icing tenders at GLA between January 2016-August 2018.

Appendix C: Barriers to Entry and Expansion

1. In this appendix, we consider barriers to entry and expansion in relation to both ground handling and de-icing services.

2. In relation to barriers to entry and expansion, we structure the assessment under the following headings, before considering a number of points made by other suppliers and airlines:

    (a) Regulatory entry barriers

    (b) Physical entry barriers

    (c) Costs of participating in tenders

    (d) Scale and scope economies

    (e) Barriers to serving certain types of customer

    (f) Attractive opportunities to enter

    (g) Examples of entry for both ground handling and de-icing at both the overlap airports and non-overlap airports.

Regulatory barriers to entry

Licences to operate

3. Operators need a licence to operate at an airport, which is issued by the airport.[12] It is common to secure a contract and then gain a licence at an airport, as gaining a licence once a contract has been agreed is not seen as particularly difficult and it appears that the licence is not activated until the provider has a contract in place.[13] Nevertheless, providers may secure a provisional licence in the expectation of winning contracts, and this may allow them to appear better prepared and more credible.[14] Competitors and airlines have not identified difficulties in securing licences at airports.

4. The airport operator at LGW explained that there are no limits on the number of operators that can obtain a licence. Provided an operator can demonstrate they that can satisfy requirements such as in relation to health and safety,

[12] One airport operator, EDI, indicated that, while a licence was required in order to supply ground handling services at the airport, there was no requirement for a de-icing provider to secure a licence from the airport.
[13] For example, EDI airport operator said that a contract with an airline would normally be in place or expected before a ground handler went through the process of obtaining a licence at the airport.
[14] For example, [✂].

they will be granted a licence.[15] The airport operator at MAN said that it was not aware of a case where it had denied a licence when the service provider had a contract in place. It said that the cost of a licence application is insignificant.[16]

TUPE Regulations

5. TUPE allows for staff to be transferred from one ground handler to another when an airline chooses to switch a contract between them. This can be a benefit because it provides the new provider with trained staff immediately, rather than needing to hire and train new staff. However, one airline, [✂], indicated that TUPE can impact on the pricing offered by a ground handler new to an airport and this will, in turn, impact on whether they are successful in a tender. The airline noted that the staff which transfer across may have higher-than-market rates of pay which the entrant is required to pay or there may be outstanding liabilities which the entrant must take on.[17] Other airlines did not raise this as a concern.

6. WFS said that TUPE is always a risk – the legal process is well defined but the typical start up period for a new operating station could be as short as 3-4 months. Ordering ground handling equipment and the TUPE legal requirements can cause planning stress and operational / financial impacts for a ground handling start-up. In addition, it saw finding sufficient space at an airport for staff and equipment to be an issue as there is limited availability and space airside at airports is very expensive.[18] However, WFS also said that the UK market is open, it is not difficult to obtain an airport licence, and there are limited barriers to entry.[19]

Supplier audits

7. Airlines will want to verify that a provider meets its service standards, including any regulatory requirements which the airline must meet. One airline, [✂], noted that there are benefits in using an incumbent supplier of ground handling because a supplier audit at the same airport can be assessed against the airline's compliance standards more easily than assessing a provider not at the airport.[20] Similarly, in relation to de-icing, [✂], observed that it is beneficial if a de-icing provider is already at an airport

[15] [✂]
[16] [✂]
[17] [✂]
[18] [✂]
[19] [✂]
[20] [✂]

because then necessary audits are already available and there is proof that the supplier meets international standards.[21]

8. Based on the evidence we have reviewed, our provisional view is that there do not appear to be significant regulatory barriers to entry which would prevent entry in ground handling or de-icing.

Physical entry barriers

9. For both ground handling and de-icing, the key physical barriers to entry are securing equipment, staff, and a location at an airport for both. One supplier of both services, Swissport, observed that a [✂] proportion of the costs of de-icing relate to equipment as compared to [✂], where [✂] per cent of costs relate to labour.[22]

Ground handling

10. Stobart noted the costs of entry into ground handling can be restrictive given the capital investment required for GSE (ie Ground Service Equipment) but that airlines can easily fund this directly to reduce risk on the ground handling supplier.[23]

11. Airline Services stated that the actual costs incurred for entry will vary with the size of the airline and the services contracted. Airline Services told us that for the [✂] contract at [✂], it required [✂] staff of which 50% were transferred over by TUPE, and the cost to Airline Services was about £[✂]. To service [✂] at [✂] with approximately [✂] staff (of which the majority were transferred through TUPE) the cost was about £[✂]. Typically, Airline Services budgets for about [✂] weeks of staff costs as about [✂]% of the start-up costs.

De-icing

12. Some third parties considered the costs of entry into de-icing services to be high.[24] However, it was also recognised to be a very important service for resilience of the operation of an airline. Therefore, if the operation was considered sufficiently important for that airline, the costs were not high

[21] [✂]
[22] [✂]
[23] [✂]
[24] For example, Swissport made this observation. [✂].

relative to the risks of incurring problems in receiving timely de-icing services.[25]

13. BA told us that a supplier not currently operating at the airport would need more time to set up a new operation and would have additional costs that an incumbent supplier would not have. BA also noted that track record is very important for de-icing (particularly for BA at LHR) and failure to deliver has high costs for airlines.[26]

14. Swissport explained that fixed costs, in the form of equipment such as de-icing rigs, are a substantial part of the cost base for de-icing. Swissport said it requires at least two rigs at any location where it offers de-icing services.[27] [✂].[28]

15. Stobart said that it takes about [✂] weeks to order a new rig from the supplier. It also said that rigs cost about £[✂] each.[29]

16. Virgin Atlantic said that a large investment is required to start a de-icing operation, whether this is a new entrant or an existing supplier expanding its business.[30] In addition, new rigs have a lead time from suppliers.

17. Menzies told us new rigs have a lead time of 3-5 months (unless suppliers have equipment readily available).[31]

18. WestJet pointed out that new entrants may have uncompetitive pricing compared to incumbents as the new entrant needed to incur the high cost of purchasing new de-icing vehicles but may have little business.[32]

19. The Parties said that it was possible to lease rigs rather than purchase them. Menzies told us that [✂].[33]

20. Menzies said that leasing a rig costs approximately £[✂] per month for used rigs, depending on the age and specification of the rig, or £[✂] for a new rig.[34] Airline Services said that [✂]. Menzies also pointed to the possibility to transport spare rigs from one location to another, as shown by it moving two spare rigs it had from [✂] to [✂] in order to establish its de-icing operation at

[25] For example, Ryanair observed, in relation to its move to self-supply at its base in Stansted: "The move to self-supply was not costly considered relative to the costs of failing to ensure the timely departure of Ryanair's fleet at STN." [✂].
[26] [✂].
[27] [✂].
[28] [✂].
[29] [✂].
[30] [✂].
[31] [✂].
[32] [✂].
[33] [✂].
[34] [✂].

[✂]. It is not normal practice to move de-icing tanks. This is because the cost of moving a de-icing tank can be expensive and because tanks that have been moved are more likely to leak.[35]

21. Ryanair stated that it is both costly and intensive to train and certify de-icing staff.[36] Airline Services indicated that it took [✂] to train a de-icer to be confident they would be competent and safe.

22. Aero Mag does not believe there to be barriers to entry or expansion, whether for the airports at which it operates or for airports where it is not currently operating.[37] IDS indicated that, if it won a major contract at LHR, then it would be able to enter within [✂].[38]

Mitigating physical barriers to entry

23. We have observed a range of hybrid models for ground handling and de-icing services. For example, Omniserv supplies Norwegian with staff for both its ground handling and de-icing services. Norwegian provides the equipment, management and is responsible for the service standards.[39] In this way, the physical barriers to entry and expansion can be shared between an airline and a provider. This lowers the costs and risks of entry to a ground handler, although it may also lower the revenues they can expect to earn from a contract.

24. The providers to whom we spoke did not tend to see the costs of investing in ground handling equipment as preventing them from bidding and entering into new airports (e.g. WFS, Stobart[40]). We have also observed how airlines can, when it is needed, provide up-front payments to a ground handler in order to support them in expanding their operation at an airport.[41]

Views of the CMA on physical barriers to entry

25. Based on the evidence we have reviewed, our provisional view is that there appear to be some physical barriers to entry (particularly, in relation to the costs of equipment, managing the service against the service requirements

[35] [✂]
[36] [✂]
[37] [✂]
[38] [✂]
[39] [✂]
[40] [✂]
[41] [✂]

and the schedule of the airline customer[42], and the need for reliable staff) but that these are not so significant as to prevent entry into ground handling where there are sufficiently attractive opportunities for providers.[43] These opportunities are discussed further below.

26. Similarly, based on the evidence we have reviewed, our provisional view is that there appear to be some physical barriers to entry (particularly, in relation to the costs of de-icing equipment and the need to deploy specialist trained staff) but that these are not so significant as to prevent entry into de-icing where there are sufficiently attractive opportunities for providers. These opportunities are discussed further below.

Costs of participating in tenders

27. Before entering as a provider at any airport, a provider will need to participate in tenders. If the costs of participation are high (relative to the likelihood of success or the value of the contract), then this may discourage participation. For example, such bids require the time and effort of the ground handling management team, with one competitor, WFS, estimating a tender to take [✂].[44] However, third parties, including WFS, did not indicate that the costs of participating in bids were high relative to the value of contracts, or that they were an impediment to bidding for valuable contracts.

28. Based on the evidence we have reviewed, our provisional view is that the costs of participating in tenders do not appear to be barriers to entry which would prevent entry in ground handling or de-icing.

Scale and scope economies

Economies of scale in ground handling

29. We have been told that economies of scale tend to be important in the supply of ground handling services. [✂].[45] Several providers and other third parties have commented on the minimum scale of operations that ground handlers and de-icers require to make operating at an airport viable. For example, Airline Services considers that to operate successfully at an airport, a provider requires £[✂] in minimum (annual) revenue for ground handling.

[42] Scheduling is discussed further in paragraph 49 below.
[43] For example, Swissport, highlighted the number of new entrants into the market over the last few years (DHL, Stobart, Azzurra, WFS, Aviator). [✂]
[44] [✂]
[45] Menzies added that it is possible to make good returns on a small business if the schedule is flat with few peaks and troughs (i.e. if the schedule is efficient).

30. [✂].[46] Stobart highlighted that it would generally only seek to bid only for contracts which provided at least [✂] turnarounds a day.[47]

31. Scale may also be important to expansion too. One airline, Loganair, said that low volumes of daily flights may be of little interest to potential suppliers as the risk and complexity of a new carrier and aircraft type negate any financial advantage to the supplier.[48] Loganair pointed to the necessary scale of entry required to be profitable and how this made it difficult for airlines with smaller operations at a given airport to sponsor entry.[49]

32. Dnata said that it does not believe there to be barriers to entry or expansion. There is no minimum contract value, the decision to bid is more based on achieving a level of operational standard in line with the airline requirements and a robust financial model.[50]

Economies of scale in de-icing

33. Airline Services considers that to operate successfully at an airport, a provider requires £[✂] in minimum (annual) revenue for de-icing. It noted that it recently declined an offer to de-ice [✂] at [✂] (an airport where it is not currently active) as it considered that the attributable revenue (approximately £[✂]) was not sufficient for it to operate profitably. In relation to LHR, [✂].

34. Virgin identified the costs of entry into de-icing at LHR to be substantial, particularly given the propensity for mild winters at that airport, which made revenues for de-icing providers uncertain.[51]

Economies of scope between de-icing, ground handling and other services

35. Economies of scope between de-icing and other services may arise where there are efficiencies in supplying de-icing alongside other services. We have been told that some ground handling staff may be trained to provide de-icing services.[52] We have also been told that, because de-icing staff are only needed during certain months of the year, de-icing providers may choose between employing these staff for the colder months of the year or employing

[46] [✂]
[47] [✂]
[48] [✂]
[49] [✂]
[50] [✂]
[51] [✂]
[52] For example, when Menzies opened its de-icing operation at GLA, [✂].

them all year round. If they choose the latter, the staff tend to be employed in other tasks, other than de-icing, during the warmer months.[53]

36. Swissport stated that, due to the high fixed costs associated with de-icing, new entry into the de-icing market, in the absence of any complementary business, is harder than in the ground handling market.[54] IAG also expressed a preference for de-icing providers for whom de-icing was not the only source of revenues because this would make the provider more financially stable.[55]

37. Menzies and Swissport tend to offer de-icing services alongside a range of other services, particularly ground handling. Similarly, Airline Services seeks to provide additional services to airlines where it also supplies de-icing services, such as cleaning. These factors suggest that supplying other services alongside de-icing may be important in covering the fixed costs of supplying de-icing services. However, we are also aware of alternative business models. For example, Aero Mag is a standalone de-icing provider at LHR, as is IDS at Luton.[56]

Views of the CMA on economies of scale and scope

38. Based on the evidence we have seen, the CMA considers that there are clearly some economies of scale in ground handling and this can benefit an incumbent provider, if the peaks in the schedule of a prospective new customer fits within the troughs of the schedules of existing customers.[57] However, we have also seen a number of instances of entry on a large scale (for example, DHL's entry at LGW) which indicates that new entrants can capture large scale economies when securing large contracts. Our view is similar for de-icing services – for example, supply for the BA contract at LHR would realise large economies of scale in its operation. However, the nature of de-icing services (such as its weather dependency and the lower revenues generally realised in this business relative to ground handling) means that the opportunities to realise scale economies for new entrants are fewer. This is consistent with the far fewer instances of entry into de-icing services which we observe.

[53] Airline Services employs its staff all year around and said that it believed that [✂]. Similarly, Airline Services has explained that offering different services at an airport can help given the seasonal and fluctuation in demand for de-icing services at an airport. There are some synergies that can be created over labour costs. For example, Airline Services supplements its de-icing activity with cleaning. [✂].

[54] [✂].

[55] [✂].

[56] [✂].

[57] Scheduling is discussed further in paragraph 49 below.

39. Before discussing our views on economies of scope, we note that there may be a number of reasons for offering both ground handling and de-icing services, or offering additional services, such as internal presentation, alongside ground handling and/or de-icing. First, some airlines may prefer to purchase de-icing services along with ground handling services rather than on a stand-alone basis.[58] Second, offering a wider portfolio of services reduces the financial risk of a de-icing business due to the uncertain demand for de-icing services which is highly weather-dependent. Third, there may also be economies of scope such that supplying both ground handling and de-icing reduces the average cost of supplying each of these services. We consider that economies of scope arise to some extent in the provision of de-icing, ground handling, and other related services (such as internal presentation and external cleaning of aircraft) as staff may be utilised to undertake other services when not required for de-icing. Menzies and Airline Services [✂]. [✂]. Potential economies of scope are not limited to offering both de-icing and ground handling services. For example, Airline Services historically has been a provider of de-icing and internal presentation services rather than de-icing and ground handling services.[59]

40. Therefore, while we recognise that economies of scope may provide important efficiencies, it also appears that efficiencies can be achieved in other ways.

Barriers to serving certain types of customer

41. In relation to ground handling, charter airlines may be less attractive to serve than other types of airline because their schedules are less stable and more seasonal. We were also told that charter airlines do not tend to cancel their flights, even when they are very delayed and this creates further scheduling issues for providers, or creates particular challenges to self-handling.[60] TUI explained that TUI may be a particularly risky and complex proposition for a new entrant because it operates both wide and narrow-bodied aircraft, has a more seasonal schedule, and flies both short and long haul.[61]

42. In relation to the suppliers that have recently entered ground handling, such as [✂], there was concern expressed by TUI that they were unproven, particularly in relation to more complex airlines which may not be as

[58] For example, Aero Mag observed that it [✂]. [✂].
[59] Airline Services also explained that [✂].
[60] [✂]
[61] [✂]

streamlined or straightforward to serve as airlines with narrow-bodied aircraft and fixed schedules.[62]

43. On the other hand, prospective entrant ground handlers with whom we spoke included large charter airlines among the airlines they considered to be attractive.[63]

44. In relation to de-icing services, Virgin pointed to the additional challenges of serving airlines with wide-bodied aircraft.[64]

45. Airlines (for example, Jet2.com[65], [✂][66]) tended to indicate that for both ground handling and de-icing, they preferred to use a provider already at an airport. However, as observed in the section on competitive effects in relation to ground handling, there have been many examples of entry and expansion at LGW and MAN, which suggests that this preference does not constitute a significant barrier to entry at these airports.

46. There are some differences in the equipment used to serve different types of customers, depending on the aircraft they use, particularly between narrow-bodied and wide-bodied aircraft. However, for both ground handling and de-icing, the evidence does not indicate that the differences in the types of equipment provide a significant barrier to entry or expansion in terms of serving different customers. We have also been told that certain types of airlines may be more challenging in terms of their operation, particularly ground handling for charter aircraft. We consider that such differences reflect the attractiveness of these opportunities, which we discuss next, rather than representing an additional barrier to entry or expansion to serving such customers. As indicated above, some ground handlers have expressed an interest in serving the larger charter customers at LGW despite the potential additional challenges that might arise.

Attractive opportunities to enter

Ground handling

47. We heard from a range of ground handling providers that the most significant factor when assessing whether to bid for a contract is how financially attractive the opportunity is. This may depend on a range of factors.

[62] [✂]
[63] [✂].
[64] [✂].
[65] [✂].
[66] [✂].

48. For example, [✂][67] and Stobart[68] [✂][69] [✂]. IDS said that entry depends on whether the opportunity is right when a customer's contract comes up for the renewal in the UK. It said that it would be interested in bidding for the contracts of certain major airlines.[70]

49. A major factor for an incumbent considering expanding is the extent to which the scheduled flights entailed in a contract with an additional airline fit with the schedules of the airlines which it serves already. Swissport specifically told us that an airline's schedule affects the price that can be offered, since if the schedule leads to a high level of staff and equipment downtime this is inefficient.[71] Therefore, the attractiveness of a particular airline contract may vary between incumbent providers. For example, although Airline Services won the [✂] contract, it explained that [✂].

De-icing

50. De-icing providers also stressed that the attractiveness of the opportunity was key when considering both entry and expansion.

51. Aero Mag would not bid for "just any airline's or airport's business" and it has to be careful about which customers or projects to approach. The decision to enter a new airport is always driven by the business model generating an acceptable profitability in relation to the required investment.[72]

52. As with ground handling, how the schedule of a new customer's flights fits with those of existing customers is an important factor in assessing whether expansion by an incumbent is profitable. If additional contracts clash with existing contracts, more de-icing equipment and staff are required which is costly. [✂].[73]

53. A key challenge in the profitability of de-icing operations in the UK is the unpredictability of the weather. For example, WFS pointed to the unpredictability of the UK weather as directly impacting de-icing profitability and therefore in the UK, with its temperate climate, [✂].[74] Similarly, [✂] the dependency of profitability on weather.

[67] [✂].
[68] [✂].
[69] [✂].
[70] [✂].
[71] [✂].
[72] [✂].
[73] [✂].
[74] [✂].

54. Related to this is the way de-icing providers have been recompensed, with airlines usually paying for the de-icing service only when it is needed. For this reason, some de-icing providers have moved to a compensation model whereby an airline customer makes a fixed payment and then an additional variable element for the volume of de-icing fluid sprayed. [✂]. Similarly, [✂].[75] [✂].[76]

55. We consider that entry is more likely to be attractive for some customers and opportunities than for others. For example, for ground handling, airlines with a large volume of regular flights on a fixed schedule are particularly attractive for a new entrant. For de-icing, airlines with a high number of night-stopping aircraft are likely to be particularly attractive for specialist de-icing suppliers.[77] On the other hand, other providers, such as Swissport, provide a bundle of ground handling and de-icing services, of which ground handling provides the bulk of the revenue. Therefore, for providers which are primarily ground handlers, entry into de-icing may depend on securing sufficient ground handling contracts.[78]

Examples of Entry

Ground Handling

56. We note the following examples of entry into ground handling at LGW:

    (a) Aviator, which entered LGW in early 2014;

    (b) Airline Services, which entered into ground handling at LGW in November 2014 to serve Monarch;[79]

    (c) Dnata, which entered in May 2015 to serve Emirates;[80]

    (d) Omniserv, which entered the ground handling market in November 2016 to provide the labour for Norwegian's operations;

    (e) Swissport, which re-entered LGW in November 2016 to serve Virgin Atlantic;

    (f) DHL, which entered in November 2017 to serve easyJet.

[75] [✂].
[76] [✂].
[77] [✂].
[78] [✂]. [✂].
[79] Airline Services previously supplied de-icing and cleaning services at LGW.
[80] Dnata subsequently won Cathay.

57. We note the following examples of entry into ground handling at MAN:

(a) Dnata, which entered to serve Emirates in October 2014;[81]

(b) Aviator, which entered in April 2015;

(c) WFS, which entered in April 2015 to serve Jet2.com;[82]

(d) Airline Services, which entered in April 2018 to serve Flybe;

(e) Premiere which entered in April 2018 to serve Loganair and Aurigny.

58. We note the following select examples of entry by suppliers into ground handling at non-overlap airports:

(a) Menzies entered Belfast City in April 2012 to provide ground handling to Aer Lingus;[83]

(b) WFS entered EDI in November 2018 to supply ground handling services to easyJet;

(c) Azzurra expanded to supply ground handling services to Wizz Air at Luton in December 2017;[84]

(d) Stobart entered Stansted to supply easyJet in March 2018.

(e) DHL will enter Bristol to serve easyJet on [✂] 2019.[85]

De-Icing

59. There have been fewer examples of entry by suppliers into de-icing services at airports. We note the following examples:

(a) Aero Mag, which entered LHR in the summer of 2013;

(b) IDS, which entered the de-icing market at Luton to serve easyJet's contract in 2012;

(c) Airline Services, which entered Exeter in November 2015;[86]

[81] Dnata subsequently won Cathay's contract at MAN.
[82] WFS subsequently exited by April 2017.
[83] Menzies subsequently exited in December 2017.
[84] [✂].
[85] [✂]. [✂].
[86] Airline Services entered [✂].

(d) Omniserv, which entered LGW in November 2016 to provide manpower for ground handling that included de-icing manpower to Norwegian;

(e) Menzies, which entered into de-icing provision at GLA in 2017 to serve IAG's bundled contract.

Glossary

Term	Definition
the Act	The Enterprise Act 2002
Aero Mag	Aéro Mag 2000, a supplier of de-icing services at LHR.
Aircraft Services International Group or ASIG	A group acquired by John Menzies plc in 2017.
Airline Services	Part of the business of Airline Services Limited acquired by Menzies.
Airline Services Limited	Previous owner of Airline Services.
ASL	Airline Services Limited.
Aurigny	Aurigny Air Services Limited, an airline company based in the Bailiwick of Guernsey.
Aviator	Aviator Airport Alliance Europe AB, a supplier of ground handling services.
Aviapartner	Aviapartner NV, a supplier of ground handling services.
Azzurra	Azzurra Ground Handling Service Ltd, a supplier of ground handling services.
BA	British Airways (including British Airways and British Airways CityFlyer).
BHX	Birmingham Airport.

Bundled contract	An airline contract seeking multiple services from a single provider. In this report we refer to bundled contracts as being for the provision of ground handling and de-icing.
CAA	Civil Aviation Authority, the aviation regulator.
Cathay Pacific	Cathay Pacific Airways Limited, an airline company.
CIP	Commercial/Contract Investment Proposal. CIPs are Menzies' internal documents.
Cobalt	Cobalt Ground Solutions Limited, a supplier of ground handling services and de-icing services at LHR.
De-icing	The storage and use of de-icing fluid to remove ice ('de-icing') or to prevent ice accumulating ('anti-icing') from the wings and engines of aircraft.
DHL	DHL Supply Chain Limited, a supplier of ground handling services.
dnata	dnata (Dubai National Air Transport Association) Limited, a supplier of ground handling services.
easyJet	easyJet Airline Company Limited.
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
EDI	Edinburgh Airport.
EEA	European Economic Area.
de-icing event	An instance of de-icing or anti-icing an aircraft.
Endless LLP	A British private equity company
Flybe	Flybe Group Plc
Gate Aviation	A supplier of ground handling services and a subsidiary of Gate group, a company based in Switzerland.
GGS	Gatwick Ground Services Limited.
GLA	Glasgow Airport.

ground handling services	Refers collectively to the supply of baggage, ramp, passenger and airside cargo handling services.
HAL	Heathrow Airport Limited, operator of LHR.
IAG	International Airlines Group.
IDS	Integrated Deicing Services. A supplier of de-icing services at Luton Airport. Part of the Inland Group.
Inquiry group	The group of CMA panel members the CMA referred the Merger to for further investigation and report.
International Airlines Group	Parent company of airlines Aer Lingus, British Airways, Iberia, Vueling and LEVEL.
Jet2	Jet2 Limited.
KPMG	KPMG LLP, a professional services company.
LDC	Lloyds Development Capital.
LGW	London Gatwick Airport.
LHR	London Heathrow Airport.
Lloyds Development Capital	Lloyds Development Capital (Holdings) Limited.
MAN	Manchester Airport.
Menzies	John Menzies plc and its subsidiary Menzies Aviation, acquirer of part of the business of Airline Services Limited, Airline Services.
Menzies Aviation	Menzies Aviation (UK) Limited, owned by parent company John Menzies plc.
Merged Entity	The combination of Menzies and Airline Services following the Transaction.
network contract	A contract for a single provider of de-icing services (and occasionally, ground handling and de-icing services) covering multiple airports.

Norwegian	Norwegian Air Shuttle.
OCS	OCS Group UK Limited.
Overlap airports	Airports where both the Parties operate in the supply of either ground handling or de-icing.
OFT	The Office of Fair Trading, the predecessor to the CMA
Omniserv	Omniserv Limited.
Overlap Airports	EDI, GLA, LGW, LHR and MAN.
Parties	Menzies and Airline Services.
Premiere	Premiere Handling Limited.
Qatar Airways	Qatar Airways Company Q.C.S.C.
Ryanair	Ryanair UK Limited.
self-handling	Where airlines service their ground handling requirements themselves and do not procure these services (in whole or in part) from third parties.
self-supply	Where airlines service their de-icing requirements themselves and do not procure these services (in whole or in part) from third parties.
SLC	Substantial lessening of competition.
STN	Stansted Airport.
Stobart	Stobart Aviation Services Limited.
Swissport	Swissport Limited, a supplier of ground handling and de-icing services at a number of UK airports.
tender	An invitation to suppliers to submit bids to supply ground handling or de-icing services.
Transaction	The completed acquisition by Menzies Aviation of part of the business of Airline Services Limited.
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006.

TUI	TUI Airways Limited, a British airline company.
turn	An industry term used to refer to the servicing of the arrival and subsequent departure of an aircraft.
UK	The United Kingdom
Virgin Atlantic	Virgin Atlantic Airways Limited, an international airline.
WestJet	WestJet Airlines Ltd.
WFS	Worldwide Flight Services, the trading name for Worldwide Flight Services Limited, a supplier of ground handling services in the UK.