

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

Provisional findings report

Notified: 14 December 2018

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The Competition and Markets Authority has excluded from this published version of the provisional findings report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [X]. [Some numbers have been replaced by a range. These are shown in square brackets.] [Non-sensitive wording is also indicated in square brackets.]

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Appendices

- A: Terms of reference
- B: Bidding analysis
- C: Barriers to entry

Glossary

Provisional findings

1. The reference

- 1.1 On 14 August 2018, in exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act), the CMA referred for further investigation and report by a group of CMA panel members (the inquiry group) the completed acquisition by John Menzies plc (through its subsidiary Menzies Aviation (UK) Limited), of part of the business of Airline Services Limited.
- 1.2 In exercise of its duty under section 35(1) of the Act, the CMA must decide:
 - (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 United Kingdom for goods or services.
- 1.3 Our terms of reference, along with information on the conduct of the inquiry, are set out in Appendix A. We are required to publish our final report by 28 January 2019.
- 1.4 John Menzies plc and its wholly-owned subsidiary Menzies Aviation (UK) Limited, are together referred to as Menzies throughout this document. The part of the business acquired by Menzies from Airline Services Limited, consisting of all the relevant assets, contracts and employees relating to Airline Services, is referred to as Airline Services throughout this document. Where relevant, we refer to Menzies and Airline Services collectively as the Parties, we refer to Menzies Aviation (UK) Limited as Menzies Aviation, and we refer to Airline Services Limited as ASL.
- 1.5 This document, together with its appendices, constitutes our provisional findings, published and notified to Menzies and Airline Services in line with the CMA's rules of procedure.¹ Further information relevant to this inquiry, including non-confidential versions of the various submissions received from the Parties can be found on our website.

¹ *CMA rules of procedure for merger, market and special reference groups (CMA17)*, Rule 11. <https://www.gov.uk/government/publications/cma-rules-of-procedure-for-merger-market-and-special-reference-groups>

2. The Parties

Menzies

- 2.1 Menzies Aviation is a wholly owned subsidiary of John Menzies plc, a public company incorporated in 1833 and listed on the main market of the London Stock Exchange. Its market capitalisation is approximately £428 million.² Currently, Menzies employs around 30,000 staff globally and operates in 36 countries.³
- 2.2 John Menzies plc reported worldwide turnover of £2,460.5 million in 2017 (£1,982.5 million in 2016)⁴ of which just over half (£1,273.6 million) was in relation to aviation worldwide.⁵ Approximately [X]% of worldwide turnover (aviation and distribution) was generated in the UK.⁶
- 2.3 During 2017-18, John Menzies plc was divided into its aviation business (Menzies Aviation) and its distribution business (Menzies Distribution). In line with a strategic goal to become a 'pure-play, focused global leader in aviation services',⁷ John Menzies plc in the UK:
- (a) acquired Aircraft Service International Group (ASIG) in 2017; and
 - (b) disposed of Menzies Distribution to investment funds managed by British private equity company Endless LLP on 4 September 2018.^{8, 9}
- 2.4 Menzies Aviation is divided into four¹⁰ business units:¹¹
- (a) **ground handling**: performing aircraft turns¹², managing passengers and handling baggage;
 - (b) **cargo handling**: receiving cargo, storing and preparing it for transit, loading and unloading the consignment and readying it for onward transit;

² As at 3 December 2018. Source: <https://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summary/GB0005790059GBGBXSSMM.html>.

³ <http://www.johnmenziesplc.com/about-us/our-history/>

⁴ Annual report and accounts for the year ended 31 December 2017: Group Income statement (p102)

⁵ Annual report and accounts for the year ended 31 December 2017: Segment Information (p118)

⁶ [Final Merger Notice](#), paragraph 45

⁷ The Menzies Group also made acquisitions outside the UK in aviation services in 2017: Gold Coast Air Terminal Services Pty Ltd (cargo services in Australia), Farnair Handling Kft. (cargo services in Hungary). Source: Menzies' 2017 annual report and accounts

⁸ Menzies Distribution is not relevant to the Merger assessment and therefore not examined further in these provisional findings.

⁹ <https://www.endlessllp.com/investments/menzies-distribution-limited>

¹⁰ [Final Merger Notice](#), paragraph 30

¹¹ John Menzies plc Annual Report and Accounts 2017, pages 12 & 13

¹² A 'turn' is an industry term used to refer to the servicing of the arrival and subsequent departure of an aircraft.

- (c) **cargo forwarding**: wholesaling air cargo capacity to freight forwarders, couriers, packaging agents and customs agents; and
- (d) **fuelling**: providing into-plane fuelling for airlines¹³ and managing fuel farms¹⁴ for its partners.

2.5 Menzies Aviation operates at 15¹⁵ airports in the UK and provides ground handling, de-icing, aircraft presentation, cargo handling, cargo forwarding and fuelling services to airlines. Menzies Aviation generated a turnover of £151.3 million in 2017.¹⁶

2.6 Table 1 summarises Menzies Aviation's operations by airport as at December 2017, along with the corresponding revenues in the year ended 31 December 2017. Shaded areas indicate the overlapping services provided by Menzies and Airline Services at each airport.

Table 1: Menzies Aviation's operations by principal UK airports as at December 2017 and corresponding revenues (shading indicates direct competition overlaps between the Parties)

		Turnover (£m)	Ground handling	De-icing	Internal presentation
Aberdeen	ABZ	[X]	✓	✓	X
Bristol	BRS	[X]	✓	X	X
Edinburgh	EDI	[X]	✓	✓	X
Glasgow	GLA	[X]	✓	✓	X
London City	LCY	[X]	✓	X	X
London Gatwick	LGW	[X]	✓	X	X
London Heathrow	LHR	[X]	✓	✓	✓
London Luton	LTN	[X]	✓	X	X
London Stansted	STN	[X]	✓	X	X
Manchester	MAN	[X]	✓	X	✓

Source: [X].

¹³ Dealing with delivery of fuel to individual aircraft in preparation for their upcoming journeys.

¹⁴ Storage, management and accounting of fuel supplies on airport campuses.

¹⁵ Figure excludes Dublin and Isle of Man airports which are not UK airports but are run by Menzies Aviation's UK business.

¹⁶ Menzies Aviation (UK) Limited Annual report and accounts for the year ended 31 December 2017.

2.7 Menzies Aviation also provides executive services (providing premium experiences for travellers via executive lounges, and VIP meet-and-greet services) and offline services (handling key services for airline partners which take place away from frontline operations, such as maintenance or central load planning).¹⁷

2.8 Table 2 shows the breakdown in financial performance for the last three years ended 31 December 2017.

Table 2: Menzies Aviation (UK) Limited, financial performance for the three years ended 31 December 2017

£m	2015	2016	2017
Turnover	[REDACTED]	[REDACTED]	[REDACTED]
Net operating costs	[REDACTED]	[REDACTED]	[REDACTED]
Operating Loss	[REDACTED]	[REDACTED]	[REDACTED]

Source: [REDACTED].

2.9 In 2017, Menzies Aviation generated [REDACTED] ([REDACTED]%) of its UK turnover from ground handling, [REDACTED]% from aircraft presentation and [REDACTED] from de-icing ([REDACTED]%).^{18, 19}

2.10 [REDACTED].

2.11 Financial information year-to-date July 2018 suggests [REDACTED]²⁰ [REDACTED].²¹

Airline Services

2.12 Airline Services was a trading division of ASL. Immediately prior to March 2018, ASL was divided into its Airline Services business (its ground handling, de-icing and internal presentation business), and its interiors business (Airline Services Interiors). On 20 February 2018, Airline Services Interiors was separately sold to Lantal Textiles AG. Before this sale, both businesses shared the same head office services.²²

¹⁷ These services are not relevant to the Merger assessment and therefore not examined further in these provisional findings.

¹⁸ [Final Merger Notice, paragraph 145](#)

¹⁹ The remainder was derived from other services, such as fuelling.

²⁰ [REDACTED]

²¹ [REDACTED]

²² [REDACTED]

- 2.13 Immediately prior to the Merger, ASL's largest investor was Lloyds Development Capital (LDC), the private equity arm of Lloyds Banking Group plc. LDC is active in the private equity mid-market and provides funds for buyouts and development capital transactions in UK unquoted companies.²³ LDC invested in ASL in June 2012.
- 2.14 Airline Services operates solely in the UK²⁴ and is divided into three business units:
- (a) de-icing – removal and prevention of build-up of ice on the wings and fuselage;
 - (b) aircraft presentation – cleaning, exterior washing and other cabin services; and
 - (c) ground handling – passenger services, ramp and baggage handling, operations and dispatch supervision.
- 2.15 Airline Services provides de-icing and aircraft presentation services to over [X] airlines at [X] UK airports. In terms of ground handling services, Airline Services is active at only two UK airports, London Gatwick and Manchester, the latter being its contract with Flybe, which began in April 2018.²⁵ Table 3 summarises Airline Services' operations by airport as at December 2017, along with the corresponding revenues in the year ended 31 December 2017. Shaded areas indicate the overlapping services provided by Menzies and Airline Services at each airport.

²³ [Final Merger Notice, paragraph 10](#)

²⁴ [Final Merger Notice, paragraph 25](#)

²⁵ [Final Merger Notice](#)

Table 3: Airline Services' operations by principal UK airports as at December 2017 and corresponding revenues (shading indicates direct competition overlaps between the Parties)

		Turnover (£m)	Ground handling	De-icing	Internal presentation
Birmingham	BHX	[X]	X	✓	✓
Bristol	BRS	[X]	X	✓	✓
Edinburgh	EDI	[X]	X	✓	✓
Exeter ²⁶	EXT	[X]	X	✓	✓
Glasgow	GLA	[X]	X	✓	✓
Liverpool John Lennon	LPL	[X]	X	✓	✓
London Gatwick	LGW	[X]	✓	✓	✓
London Heathrow	LHR	[X]	X	✓	X
London Luton	LTN	[X]	X	✓	X
London Stansted	STN	[X]	X	✓	✓
Manchester	MAN	[X]	✓	✓	✓
Newcastle	NCL	[X]	X	✓	✓

Source: [X].

2.16 In the year ended 30 April 2017, Airline Services generated £34.9m in turnover. [X]% of its turnover came from ground handling, [X]% from de-icing and % from aircraft presentation.

2.17 Table 4 and Table 5 show the breakdown in financial performance, by division, for the last two years ending 30 April 2017.

Table 4: Financial performance of ground handling division, two years ended 30 April 2017

<i>Ground Handling</i>		
<i>£m</i>	2016	2017
Revenue	[X]	[X]
Cost of Sales	[X]	[X]
Overheads	[X]	[X]
EBITDA	[X]	[X]

Source: [X].

²⁶ The turnover figure also includes that of [X].

Table 5: Financial performance of aircraft presentation & de-icing divisions, two years ended 30 April 2017

<i>Aircraft Presentation & De-icing</i>		
<i>£m</i>	<i>2016</i>	<i>2017</i>
Presentation Revenue	[REDACTED]	[REDACTED]
De-icing Revenue ²⁷	[REDACTED]	[REDACTED]
Total Revenue	[REDACTED]	[REDACTED]
Cost of Sales	[REDACTED]	[REDACTED]
Overheads	[REDACTED]	[REDACTED]
EBITDA	[REDACTED]	[REDACTED]

Source: [REDACTED].

Note: Aircraft presentation and de-icing sub-divisions were reported together in the KPMG Report.

²⁷ Figure excludes [REDACTED].

3. Markets in which the Parties operate

Introduction

- 3.1 Menzies and Airline Services are engaged in the provision of ground handling, de-icing and internal presentation services at a number of UK airports.
- 3.2 Ground handling services encompass a number of different services which may be provided together by one supplier or by different suppliers, including:
- (a) 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;
 - (b) 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, and traffic operation (including flight documentation and planning, crew briefing, weight and balance, load planning, ground to air communication and flight supervision);
 - (c) passenger management activities: check-in, passenger assistance landside, gate management airside, air bridge connection and disconnection, and passenger security checks; and
 - (d) airside cargo handling activities.
- 3.3 De-icing services consist of the storage and use of de-icing fluid to remove ice from the wings and engines of aircraft or to prevent its accumulation ('anti-icing'). De-icing fluid is stored in storage tanks located at an airport and then dispensed to de-icing rigs which are used to spray aircraft.
- 3.4 Airlines are the principal customers of both ground handling services and de-icing services.

Ground handling services

Competitors

- 3.5 Apart from the Parties, there are a number of providers of ground handling services operating in the UK such as Swissport, Worldwide Flight Services (WFS, dnata, Premiere Handling, Stobart, Azzurra and Aviator. There are other providers present operating through 'hybrid' supply models (see paragraph 3.9 below).

Customers

- 3.6 Airlines' ground handling requirements differ depending on the type of aircraft used and the nature of their operation. For example, airlines that fly short-haul flights within the UK and Europe generally fly narrow-bodied aircraft and require quick turnarounds. Such flights are more frequent and carry fewer passengers than long-haul flights. This means that whilst providers may be dealing with a lower amount of baggage handling and have a lower number of passengers to process than long-haul aircraft, there is pressure to execute fast turnarounds on a more frequent basis. By contrast, airlines flying long-haul flights use wide-bodied aircraft which means that ground handling providers have more passengers to process and more baggage to handle. However, there is relatively more time to do both activities.
- 3.7 Airlines' ground handling requirements are also influenced by the form of flight scheduling used. For example, chartered airlines tend to follow a less predictable schedule and their demand for ground handling services tends to be more seasonal. They are also less likely to experience cancellations than scheduled flights, meaning that aircraft may arrive very late and still require ground handling. This creates additional complexity for ground handlers.
- 3.8 At some airports, a small number of airlines of varying size such as Aurigny and Jet2.com and airlines which are part of IAG (via GGS at LGW and its self-handling operation at LHR) employ a self-supply model for ground handling services in that they do not contract with external providers. Airlines which self-supply in this way do not, currently, supply other airlines. Other 'hybrid' supply models have also emerged. In these 'hybrid' supply models, the third party provides the labour, the airline provides the physical ground handling equipment, and the management of the service is split between the airline and the provider or managed wholly by one of these.
- 3.9 Examples include: easyJet's arrangement with DHL at LGW; Norwegian's arrangement (through its RED subsidiary) with Omniserv, also at LGW; and Ryanair's arrangement with Omniserv at STN.

Airports

- 3.10 Airport operators, who issue licences for ground handling companies, have a clear interest in the operation of ground handling service providers present at their airports, and attach importance to the resilience of ground handling. Any deterioration in performance is considered likely to affect the reputation of the airport amongst travelling passengers, rather than the ground handling supplier. This can happen for example, when providers load and unload

baggage at slow rates and so there are delays to baggage arriving on the baggage carousel, or where baggage is damaged or lost.

- 3.11 Issues can arise at airports where there are multiple ground handlers and other service providers operating airside if the airfield becomes congested with different companies all operating on the same airfield. The Airport (Groundhandling) Regulations 1997 (AGRs) allow airport operators to limit the number of providers. In order to do so they must apply to the Civil Aviation Authority (CAA). However, the CAA confirmed to us that currently, there are no such restrictions in place, nor are there any live applications to limit the number of ground handlers from any airport operators (although we are aware that MAN airport is considering making such an application due to congestion with Ground Service Equipment and available airside capacity).
- 3.12 Ground handling service providers, in deciding whether to bid for a new contract with an airline at a particular airport, need to consider whether the flight schedules they work to under their current contracts at that airport would clash with those under any new potential contracts. If so, this may make it difficult and / or more expensive to service the new contract.

Industry dynamics

- 3.13 LGW airport authority explained that ground handling suppliers do not make significant margins as they are encouraged to undercut one another. Furthermore, the CAA described the intense price competition at airports as leading to a “race to the bottom” with negative impacts on service quality and for passengers and airport resilience.²⁸ We have also been told about the pressure on airlines from air traffic restrictions and weather delays as well as the obligation on airlines to pay passengers compensation under the EU261 Flight Compensation Regulation. These have consequent impacts on ground handlers who must adjust ground handling schedules to meet delayed aircraft and leads to increased pressure to ensure aircraft depart on time.
- 3.14 In ground handling, historically pricing has been based on the provider agreeing a cost to service each aircraft 'turn'. However, we have observed some movement towards a different pricing model whereby the provider identifies the costs of serving the contract and includes a margin on top of these costs (known as an ‘open-book’ pricing model’). This movement is driven by some providers looking to improve the cost-recovery of service

²⁸ We also note the Department for Transport is considering issues with ground handling resilience as part of the UK’s aviation strategy. Source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/698247/next-steps-towards-an-aviation-strategy.pdf.

provision, as well as some airlines being willing to contract on different pricing models to ensure greater operational resilience.

- 3.15 We have also observed considerable entry and expansion in ground handling and consider this further below, in section 8 (Competitive Effects).

De-icing services

Competitors

- 3.16 There are relatively few de-icing providers active in each UK airport, in comparison to the number of ground handling service providers. Table 6 below shows the number of de-icing suppliers at each of the UK's 10 largest airports.

Table 6: Number of de-icing suppliers at the UK's ten largest airports by passenger number

Airport	Number of de-icing suppliers
LHR	4
LGW	1
MAN	2
STN	2
LTN	3
EDI	3
BHX	2
GLA	3
BRS	2
BFS	1

Source: CMA analysis of Parties' data

- 3.17 At London Heathrow Airport (LHR), apart from the Parties, there are two other providers: Aero Mag and Cobalt. At EDI and GLA, there is only one other provider (Swissport). At LGW there is only a single independent provider of de-icing services (Airline Services). There are other de-icing providers which operate at other UK airports such as IDS, dnata and Gate Aviation.

Customers

- 3.18 As with ground handling services, customer needs vary. Firstly, demand for de-icing is seasonal and even within the winter flying season, very unpredictable, as de-icing is only required below certain temperatures. Secondly, demand is driven by whether or not an aircraft is "night stopping" at an airport. If it is, and that airport experiences low night-time temperatures, it

will often be “anti-iced” before its first-wave departure in the morning. In contrast, aircraft that fly into an airport may have already been anti- and/or de-iced at their origin airport, and so will only need to be de-iced if conditions on the ground on landing are sufficiently cold (which is less likely given the tendency of temperatures to increase during the day).

- 3.19 The different demands of airlines may influence their choice of de-icing provider and type of contract. Those who have aircraft flying out of multiple airports may seek a “network” contract (that is, de-icing across a number of different airports). Others may prefer a “bundled” contract (that is, both ground handling services and de-icing services from the same provider) usually, but not always, for a single airport. Equally we also found examples of de-icing only contracts at some single airports, notably LHR.
- 3.20 With the notable exception of BA/Iberian at Terminal 5 at LHR, self-supply of de-icing by airlines is rare.

Airports

- 3.21 De-icing is considered to be an essential service and is very important for aircraft safety as well as the smooth operation of the airport. If delays occur because of failures in de-icing at an airfield, it can lead to considerable disruption (and in the worse cases, the shutdown of an airport).
- 3.22 Heathrow Airport Limited (HAL – the operator of LHR) and British Airways have jointly commissioned a report on de-icing resilience. The work in relation to this report is at a very early stage and there is uncertainty as to the end-point. HAL is considering whether [REDACTED] of de-icing services at LHR would drive resilience especially for peak demand during periods of severe weather. Currently, the form of such [REDACTED], if any, of de-icing services is uncertain.
- 3.23 As with ground handling services, de-icing service providers need to consider potential clashes between flight schedules under their current contracts with airlines and those under potential new contracts when pursuing new business.

Industry dynamics

- 3.24 Historically de-icing pricing has been based on a ‘per de-icing event’ basis. However, we have observed some movement towards ‘retainer’ contract pricing. [REDACTED]. [REDACTED]. [REDACTED]. The movement towards retainer contract pricing is driven by some providers looking to improve the profitability of service provision and share the risk of low demand for de-icing services in mild winters, as well as some airlines being willing to contract on different pricing models to ensure greater operational resilience. Under such models, airlines

benefit from reduced expenditure, compared to paying for de-icing purely on a 'per de-icing event' basis, in colder winters when demand for de-icing is higher. Retainer contracts may be particularly attractive to airlines with a large number of night-stopping aircraft.

4 The Merger and Relevant Merger Situation

The transaction

- 4.1 John Menzies plc through its wholly owned subsidiary Menzies Aviation, acquired part of the airline services business of ASL, namely that in relation to de-icing, aircraft presentation and ground handling (Airline Services).
- 4.2 The transaction was implemented by means of an asset purchase agreement between ASL and Menzies Aviation on 4 April 2018, pursuant to which Menzies Aviation acquired all the relevant assets, contracts and employees relating to Airline Services.
- 4.3 The consideration paid was [REDACTED].

The sale process

- 4.4 Immediately prior to the Merger, Airline Services was owned by ASL, a company whose largest investor is Lloyds Development Capital (LDC). LDC invested in ASL in April 2012 and the decision to sell the business was made over the course of 2017.
- 4.5 In [REDACTED], PwC produced, on LDC's behalf, a document entitled *Airline Services: Market review and exit considerations* which included a view on the growth of the market, a list of potential buyers, and valuation metrics, for both parts of the business (ground handling and interiors).
- 4.6 In [REDACTED], ASL produced a document entitled *Project Fort: Investment Overview* which was the memorandum of sale for the ground handling, aircraft presentation and de-icing businesses only (not the interiors business). The memorandum was sent to [REDACTED] companies²⁹ who expressed an interest in purchasing Airline Services.
- 4.7 In [REDACTED], KPMG produced, on LDC's behalf, a vendor due diligence³⁰ report, which set out the financial position and performance of the Airline Services business, as well as forecast financial information, in order for the prospective purchasers to assess the financial health of the business.
- 4.8 ASL received offer letters from [REDACTED] companies: [REDACTED], [REDACTED], [REDACTED] and Menzies. Table 7 below sets out the [REDACTED] offers received, the enterprise value assumed,

²⁹ Including Menzies, [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED] and [REDACTED].

³⁰ Vendor due diligence is commissioned by the vendor, with the due diligence report being made available to prospective purchasers initially on a non-reliance basis, but ultimately with a duty of care being provided to the purchaser.

and the remaining due diligence required as at [X] ([X] weeks before the completion of the transaction).

Table 7: Overview of offers received

Company name	[X]	[X]	[X]	[X]
Enterprise value	[X]	[X]	[X]	[X]
Remaining due diligence as at [X]	[X]	[X]	[X] [X]	[X]

Source: [X]

Note: DD refers to due diligence.

4.9 The Menzies bid was a non-binding offer of £[X] in [X] which was based on the memorandum of sale and synergies of £[X] per annum. Menzies was selected because [X]. By [X], Menzies Aviation had achieved preferred bidder status and the sale was completed in April 2018 for £[X]. LDC told us that [X].

The rationale for the transaction

Menzies

4.10 Menzies stated in the Merger Notice that the transaction (the Transaction) offered it an opportunity to expand its de-icing and aircraft presentation offerings (which it stated were currently minimal), expand its geographical coverage in the UK and deepen its customer relationships at airports around the UK.³¹

4.11 Menzies also stated that the Merger also offered it the opportunity to [X].³²

ASL

4.12 Airline Services was sold as it was owned by a private equity investor and the sale was part of the investment process. Airline Services' strategy was to [X].

4.13 LDC is a private equity investor and the length of investment was determined on a case by case basis given the flexible nature of LDC's funding (ie not driven by a particular time horizon). Whilst the average hold period of LDC's

³¹ Final Merger Notice, paragraph 18

³² Final Merger Notice, paragraph 19.

investments has been historically approximately [X] years, timing of exit is assessed on a case by case basis. ASL had been held in the portfolio since 2012.

Jurisdiction

- 4.14 Under section 35 of the Act and pursuant to our terms of reference (see Appendix A), we are required to investigate and report on certain statutory questions, the first being whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
- 4.15 Section 35 of the Act provides that a relevant merger situation has been created if two or more enterprises have ceased to be distinct within the statutory period for reference and either the turnover test or the share of supply test (or both) specified in the Act is satisfied.

The elements of the relevant merger situation

- 4.16 A relevant merger situation has four elements.³³ First, the transaction must involve enterprises. Secondly, two or more enterprises must have ceased to be distinct as a result of the transaction. Thirdly, the enterprises must have ceased to be distinct at a time or in circumstances falling within section 24 of the Act. Finally, either the turnover test or the share of supply test must be satisfied.
- 4.17 Section 129 of the Act defines an “enterprise” as “the activities, or part of the activities, of a business”. A “business” is defined as including “a professional practice and includes any other undertaking which is carried on for gain or reward or which is an undertaking in the course of which goods or services are supplied otherwise than free of charge”.
- 4.18 We consider that each of John Menzies plc and its wholly owned subsidiary Menzies Aviation (UK) Limited are enterprises since each company carries out a number of activities in the aviation sector for gain or reward.
- 4.19 We also consider that the acquired business (Airline Services) is an enterprise since it comprised the business of de-icing, aircraft presentation and ground handling formerly carried on by Airline Services Limited under the name “Airline Services Handling” as a going concern, together with a number of

³³ Section 23 of the Act.

related assets including employees, business contracts, know-how, IP and goodwill.

- 4.20 As a result of the Transaction, John Menzies plc, through its wholly owned subsidiary Menzies Aviation, has ownership and control of Airline Services. Therefore, we are satisfied that as a result of the Transaction the enterprises of John Menzies plc and Menzies Aviation, and Airline Services, have ceased to be distinct for the purposes of the Act.
- 4.21 The Transaction completed on 4 April 2018 and was first made public on 5 April 2018. Following an extension for failure to answer in good time (with or without a reasonable excuse) a notice issued under section 109, and a further extension while the CMA was seeking undertakings under section 73, the deadline for reference was 22 August 2018. The reference was made on 14 August 2018. Therefore, the enterprises ceased to be distinct at a time or in circumstances falling within section 24.
- 4.22 The share of supply test is satisfied where as a result of enterprises ceasing to be distinct, at least one quarter of goods or services of any description which are supplied in the UK, or in a substantial part of the UK are supplied by or to one and the same person.³⁴
- 4.23 The Parties' combined share of supply by number of aircraft "turns" (see footnote 12 above) exceeds 25%, with an increment as a result of the Transaction, at several airports.
- 4.24 We consider that the share of supply test is met in respect of the following airports and services. In each case, we are satisfied that the airport constitutes a significant part of the UK.³⁵
- (a) EDI (de-icing)
 - (b) GLA (de-icing)
 - (c) LHR (de-icing)
 - (d) LGW (ground handling)

³⁴ Sections 23(3) and (4) of the Act.

³⁵ Market shares are as follows:

LHR de-icing: combined market share of [60-70]% and an increment of [20-30]%; EDI de-icing: combined market share of [70-80]% and an increment of [20-30]%; GLA de-icing: combined market share of [80-90]% and an increment of [10-20]%; LGW ground handling: combined market share of [20-30]% and an increment of [10-20]%; MAN ground handling: combined market share of [40-50]% and an increment of [10-20]%. These market shares are based on turns.

(e) MAN (ground handling)

- 4.25 In addition, we are satisfied that the airports, taken together in aggregate, also constitute a substantial part of the UK.
- 4.26 Therefore, the share of supply test in section 23 is met and it is not necessary to enquire whether the turnover test is met.
- 4.27 In light of the above assessment, we provisionally conclude that the Transaction has resulted in the creation of a relevant merger situation.

5 The counterfactual

- 5.1 We assess the possible effects of the Merger on competition compared with the competitive situation that would have prevailed absent the Merger (ie the counterfactual situation). That is, the counterfactual acts as a benchmark against which to assess the competitive effects of the Merger.³⁶
- 5.2 Our Merger Assessment Guidelines (the ‘Guidelines’) state that the choice of counterfactual requires a finding that, on the balance of probabilities, a given scenario would have developed in the market in the absence of the merger.³⁷ The CMA will typically incorporate into the counterfactual only those aspects of scenarios that appear likely on the basis of the facts available to it and the extent of its ability to foresee future developments, and will seek to avoid any spurious claims to accurate prediction or foresight.³⁸ Where there is more than one possible counterfactual scenario, the situation most likely to have existed absent the merger will be selected.³⁹
- 5.3 This section sets out our assessment and provisional conclusions on the appropriate counterfactual.

Airline Services

Introduction

- 5.4 We have assessed whether, absent the Merger:
- (a) Airline Services was a failing firm; or
 - (b) Airline Services would have continued to provide a competitive constraint, either under alternative ownership or on a standalone basis.
- 5.5 Menzies was one of [redacted] bidders during a formal sale process. The Chairman of ASL told the CMA that, absent the sale to Menzies, his recommendation would have been to go with the next best bidder. Airline Services told us that any of the companies which made bids for Airline Services would have been a credible bidder. LDC told us that if the sale to Menzies had not gone ahead, they would have gone back to the other bidders in the expectation that one of

³⁶ Merger Assessment Guidelines (CC2 Revised/OFT1254), paragraph 4.3.1. The Guidelines have been adopted by the CMA (see Mergers: Guidance on the CMA’s jurisdiction and procedure (CMA2), Annex D).

³⁷ Merger Assessment Guidelines (CC2 Revised/OFT1254), paragraph 4.3.6.

³⁸ Merger Assessment Guidelines (CC2 Revised/OFT1254), paragraphs 4.3.2 and 4.3.6.

³⁹ Merger Assessment Guidelines (CC2 Revised/OFT1254), paragraph 4.3.6.

them would have bought the business. LDC told us that the business was [REDACTED], and that LDC was minded to exit its investment.

- 5.6 If the sale to Menzies had not gone ahead, we consider the most likely scenario was that one of the other bidders would have been taken forward in the sale process as preferred bidder and that Airline Services would have been sold to that bidder. We currently consider that a sale to at least one of these other bidders would not have raised competition concerns as there were no overlapping services.

Menzies' submissions on Airline Services' financial performance

- 5.7 Menzies submitted that its due diligence of Airline Services showed that [REDACTED].

- 5.8 It also submitted that ASL was [REDACTED].

- 5.9 It also submitted that [REDACTED].

Airline Services' financial performance

- 5.10 We examined what condition Airline Services was in at the time of the sale as it informs our view as to how strong a competitor it would have been absent the Merger.

- 5.11 There are differing assessments of the financial performance of Airline Services. We examined the management accounts of Airline Services, the vendor due diligence report and the purchaser due diligence report, to understand the true performance of the business. We also examined the transaction valuation and model which contained a forecast profit and loss account, valuation metrics and estimate of synergies, and looked at board papers discussing the acquisition.

- 5.12 The due diligence reports, the transaction model, and the board papers all showed that [REDACTED].⁴⁰

CMA assessment

- 5.13 While we acknowledge that [REDACTED], we do not agree with [REDACTED]. We note the following:

⁴⁰ We consider that EBITDA is the more appropriate metric as it shows the underlying profitability and cash generation of the business and is not affected by differences in accounting policies for depreciation and amortisation.

- (a) Menzies announced the acquisition of Airline Services by stating it was a ‘significant addition to our UK business and is in line with our strategy to offer the deepest portfolio of products to our airline customers. The deal strengthens our market position in the UK, extends our product offering and takes us into new airports where we can now offer the full suite of Menzies services and continue to grow our business.’⁴¹ [REDACTED];
- (b) There was a delay in signing the 2018 accounts and Menzies characterised this delay as proof that the [REDACTED]. LDC told us that its understanding was that the delay in signing the 2018 accounts was due to ongoing discussion around whether the business was going to continue to trade or whether the company would be disposing of the businesses within the statutory entity and therefore there was ongoing discussion about the nature of the audit opinion given. We consider this was a technical audit issue and consistent with the circumstances surrounding the Transaction, and not necessarily related to the underlying performance of the Airline Services business;
- (c) Although [REDACTED]; we also note that there were multiple new contract wins in August 2017,⁴² and busier schedules from TUI and West Jet during 2017.

Provisional finding on Airline Services’ financial performance [REDACTED]

5.14 Whilst we accept that LDC intended to exit its investment in Airline Services, there is no evidence we have seen to suggest that [REDACTED].

Airline Services’ growth

5.15 The Parties submitted that, whilst the most likely counterfactual (although not certain) may be one in which Airline Services continued competing in the UK under the ownership of one of the other bidders in the sale process, it could not be said with sufficient certainty how, where or when Airline Services would have expanded, if at all.

5.16 We consider further the extent to which Airline Services may have expanded in ground handling in section 10 below (see paragraph 10.5).

5.17 In relation to de-icing, Airline Services stated that [REDACTED]. It added that, [REDACTED].

⁴¹ [Menzies Aviation acquires Airline Services Limited](#) 6 April 2018

⁴² [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED] and [REDACTED].

Provisional finding on the counterfactual for Airline Services

5.18 Our provisional finding is that on the balance of probabilities, the likely counterfactual for Airline Services is the prevailing conditions of competition, with Airline Services under the ownership of one of the other bidders in the sale process, although it is not possible to say which other bidder was most likely to acquire Airline Services.

Menzies

Menzies' submissions

5.19 Menzies submitted that [REDACTED]. The acquisition of Airline Services was a key component of [REDACTED], particularly in light of [REDACTED]. Menzies further stated that, [REDACTED].

5.20 Menzies provided detail on [REDACTED]. [REDACTED].

5.21 Menzies had recently [REDACTED]. Menzies told us that [REDACTED].

5.22 We asked Menzies whether the [REDACTED] contracts at [REDACTED]. Menzies told us that [REDACTED].

5.23 Menzies submitted that, [REDACTED].

5.24 Menzies further submitted that, absent the Merger, there was a strong likelihood that [REDACTED], and that this was sufficiently certain to be considered to be the appropriate counterfactual.

[REDACTED]

5.25 [REDACTED]

[REDACTED]

5.26 [REDACTED].

5.27 [REDACTED].

5.28 [REDACTED].

[REDACTED]

5.29 [REDACTED].

5.30 [REDACTED].⁴³ [REDACTED].⁴⁴ [REDACTED].

Menzies' board papers and other documents

5.31 We examined Menzies board papers and other documents to assess [REDACTED]:

(a) An internal document setting out the acquisition and integration of Airline Services show [REDACTED].

(b) Menzies' three-year plan 2019-2021 set out details of the [REDACTED].

CMA assessment

5.32 [REDACTED].

5.33 [REDACTED].

5.34 However, we also note the following:

(a) [REDACTED];

(b) [REDACTED];

(c) [REDACTED];

(d) [REDACTED];

(e) [REDACTED].

5.35 Our provisional finding, therefore, is that:

(a) [REDACTED];

(b) [REDACTED].

Provisional finding on the counterfactual for Menzies

5.36 On the balance of probabilities, our provisional finding is that the likely counterfactual for Menzies is the prevailing conditions of competition at the time of the Merger, [REDACTED].

⁴³ [REDACTED].

⁴⁴ [REDACTED].

LHR counterfactual

- 5.37 During the course of our inquiry, we have become aware of work HAL is doing to consider the effectiveness of de-icing provision at LHR. HAL is considering whether [redacted] of de-icing services at LHR would drive resilience and improve the quality of its infrastructure and services. It appears that this work is at an early stage and is yet to be discussed in detail with key stakeholders; that the end-point is uncertain (in terms of the form of such [redacted], if any, of de-icing provision); and the timescales for implementation are uncertain.
- 5.38 Menzies proposed an alternative counterfactual for LHR, that [redacted]. Menzies submitted that if this were the correct counterfactual for LHR, there was no realistic scope for the Merger to raise competition concerns as [redacted].
- 5.39 Whilst we consider the HAL review important context to our merger investigation, our provisional view is that the early stage state of HAL's plans, as well as the uncertain end-point and timescales make it too uncertain to consider an alternative counterfactual at LHR.

Provisional finding on the counterfactual

- 5.40 On the basis of the evidence we have seen, for the reasons explained above, and on the balance of probabilities, our provisional finding is that the appropriate counterfactual is:
- (a) the prevailing conditions of competition, with Airline Services under the ownership of one of the other bidders in the sale process; and
 - (b) the prevailing conditions of competition at the time of the Merger [redacted].

6 Market definition

- 6.1 The purpose of market definition is to provide a framework for the CMA's analysis of the competitive effects of a merger. The relevant market (or markets) is the market in which a merger may give rise to an SLC and contains the products and/or services that are the most significant competitive alternatives available to the customers of the merged companies.⁴⁵
- 6.2 Market definition is a useful analytical tool but is not an end in itself and identifying the relevant market involves an element of judgement. The boundaries of the market do not determine the outcome of the CMA's analysis of the competitive effects of a merger in a mechanistic way. The CMA may, for example, also take into account constraints outside the relevant market (or markets), segmentation within the relevant market and other ways in which some constraints are more important than others.⁴⁶
- 6.3 This section sets out the evidence relevant to the market definition assessment and provides our provisional view of that evidence. First, we consider the appropriate product market definition, before turning to the appropriate geographic market definition. We have considered the evidence as it relates to the five overlap airports namely, ground handling at LGW and MAN, and de-icing at LHR, EDI and GLA.⁴⁷

Product market definition

- 6.4 The Parties overlap in the supply of ground handling services, de-icing services and internal presentation services.
- 6.5 Ground handling encompasses a number of different services, namely the supply of baggage, ramp, passenger and airside cargo services.⁴⁸ De-icing services as considered in these provisional findings consist of 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.⁴⁹ Aircraft presentation services are split into internal presentation services (interior cleaning, seat cover changing, carpet fitting, leather seat cover cleaning and maintenance and disinfection) and external presentation services (exterior washing and

⁴⁵ [Merger Assessment Guidelines \(CC 2 Revised\)](#), paragraphs 5.2.1

⁴⁶ [Merger Assessment Guidelines \(CC 2 Revised\)](#), paragraphs 5.2.2.

⁴⁷ The analysis of the appropriate market definition in these provisional findings is specific to the evidence considered in this inquiry.

⁴⁸ Phase I decision, paragraph 32

⁴⁹ Phase I decision, paragraph 35a

polishing).⁵⁰ Menzies does not supply external presentation services in the UK,⁵¹ although Airline Services does.⁵²

6.6 Whilst the Parties overlap in the supply of internal presentation services at MAN we have not seen any evidence that this is an area of potential competition concern. Therefore, we do not consider internal presentation services further in this section.⁵³

6.7 We received no evidence that there are plausible alternatives to ground handling or de-icing services on the demand side.

Bundled and network contracts

6.8 Some airlines tender for bundled contracts involving ground handling and de-icing services. Some airlines may purchase those services across a network of airports. We have therefore considered whether a market exists for bundled or network contracts.

6.9 The available evidence suggests that airlines mostly tender for ground handling and de-icing separately, although some may tender for bundled contracts. Of the 164 de-icing and ground handling tenders we analysed across the five overlap airports, 111 were for tenders including only one of ground handling or de-icing.⁵⁴

6.10 Furthermore, we note that (with the exception of Swissport), the companies with the largest market shares in ground handling are not those with the largest market shares in de-icing, and vice versa. This in itself suggests that these services are not generally purchased together. It is also notable that there are far more companies active in ground handling services in the UK than are active in de-icing services.

6.11 The Parties told us that, generally, airlines purchase de-icing services either bundled with ground handling services or on a standalone basis, either in respect of a single airport or across a network of airports, and that there is little/no switching between these contracting modes. In particular, the Parties stated that at both EDI and GLA, they have 'two entirely separate methods of

⁵⁰ ME/6746/18, Completed acquisition by Menzies Aviation (UK) Limited of part of the business of Airline Services Limited, CMA, 21 August 2018 (Menzies/Airline Services), paragraph 35b

⁵¹ Final Merger Notice, paragraph 30

⁵² As explained in paragraph 2.14.

⁵³ ME/6746/18, Completed acquisition by Menzies Aviation (UK) Limited of part of the business of Airline Services Limited, CMA, 21 August 2018 (Menzies/Airline Services), paragraph 5

⁵⁴ We discuss our tender analysis further in Appendix B.

contracting'.⁵⁵ They set out that, at EDI and GLA, Menzies pursues a bundled offering,⁵⁶ but that in contrast, Airline Services pursues network contracts.⁵⁷

- 6.12 We have found that airlines commonly tender at EDI and GLA for either bundled or network contracts but that, also, there is some diversity in airlines' purchasing behaviour (ie all airlines do not use the same contracting mode). As set out in paragraphs 9.198, 9.199, 9.216 and 9.217. we observe that the Parties do not appear to compete for the same types of contracts.
- 6.13 In order to define a separate market for bundled or network contracts, we would need evidence that airlines would not switch to procuring these services on a different basis in response to an increase in price or decrease in quality.
- 6.14 However, we note that airlines indicated during the Phase 1 investigation that even where they procure services through bundled contracts, they often retain the flexibility of accepting bids for individual services if they consider it preferable to do so.⁵⁸ For example, even if an airline has a preference for procuring a bundle of services, it may be prepared to purchase services on a standalone basis if it cannot procure the bundle on competitive terms.⁵⁹
- 6.15 Accordingly, our provisional view is that, whilst we do not consider that we need to define either a separate bundled ground handling/de-icing product market and/or de-icing network product market, we take these purchasing preferences into account in our assessment of competitive effects.

Self-supply by airlines

- 6.16 We have also considered whether self-supply of ground handling and/or de-icing should be considered as part of the relevant product market.
- 6.17 Menzies set out its view that we should include self-supply in our market definition, since airlines can credibly threaten to switch to self-supply; there are a number of examples of airlines doing so; and airlines that self-supply are often willing to serve third parties.

⁵⁵ Response to Phase I Decision, paragraph 90.

⁵⁶ Response to Phase I Decision, paragraph 111

⁵⁷ Response to Phase I Decision, paragraph 111

⁵⁸ ME/6746/18, Completed acquisition by Menzies Aviation (UK) Limited of part of the business of Airline Services Limited, CMA, 21 August 2018 (Menzies/Airline Services), paragraph 38.

⁵⁹ TUI told us it is willing to substitute between network contracts and bundled contracts if it were to give it an improved commercial outcomes. Thomas Cook told us it felt that if it was receiving uncompetitive bids on a multi-station basis, it would be able to switch to contract on a single-station basis. Thomas Cook also told us that whilst de-icing and ground handling can be tendered as a service 'bundle', if it feels it is not receiving competitive bids on this basis, it can switch to tendering on a single-service basis.

- 6.18 The Parties also noted that airlines may choose to self-supply, even if it is not the lowest cost option. For example, they may do so in order to retain greater control over the services provided.⁶⁰
- 6.19 We note that there is considerable use of self-supply / 'hybrid' ground handling supply models at LGW (BA, Aurigny, DHL, and Norwegian). At MAN, Jet2.com self-supplies ground handling. We note that there is much less self-supply of de-icing at LHR/EDI/GLA (BA/Iberian, only at LHR).
- 6.20 As discussed below (see section 8 and Appendix C: Barriers to Entry), in our view, self-supply of ground handling is likely to be a credible option for some airlines in the event that there is a deterioration in competitive terms. On the other hand, as discussed below (see section 9 and Appendix C: Barriers to Entry), in our view, self-supply of de-icing is likely to be a credible option for fewer airlines in the event that there is a deterioration in competitive terms.
- 6.21 For both ground handling and de-icing, we are not aware of examples of airlines that self-supply offering their services to other airlines.
- 6.22 Overall, while we note that self-supply, particularly for ground handling, may be an option for some airlines, we have not included it in the relevant product market definition. However, as with bundled and network contracts, we consider the role of self-supply in our assessment of the competitive effects of the Merger.

Provisional conclusion on product market definition

- 6.23 For the reasons given above, our provisional conclusion is that there are separate product markets for:
- (a) the supply of baggage, ramp, passenger and airside cargo handling services (together, ground handling services); and
 - (b) the supply of de-icing services.

Geographic market definition

- 6.24 In this part, we consider the appropriate geographic market definition.
- 6.25 Menzies submitted that the appropriate geographic market in which the CMA should assess the Merger is at least national in scope and possibly EEA-wide. This was on the basis that there are no entry barriers for existing providers

⁶⁰ Response to Phase I Decision, paragraph 69

active in the UK to bid for contracts at any UK airport and airlines will sometimes conduct tender processes for multiple airports.⁶¹

- 6.26 For the 90 tenders in our sample that include ground handling at either LGW or MAN, only two of these tenders were for a contract that included ground handling at multiple airports. For the 60 tenders in our sample that included de-icing at any of LHR, EDI and GLA, ten tenders were for contracts that included de-icing at a network of multiple airports.
- 6.27 This suggests that for both ground handling and de-icing, in the clear majority of cases, airlines tender for services on an airport-by-airport basis.
- 6.28 We note that the identity of ground handling and de-icing companies present varies considerably from airport to airport. In addition, for those companies that operate in multiple airports, their market shares vary significantly across airports. These factors suggest that there are distinct competitive conditions at each airport, and that an airport-level market definition may be appropriate.
- 6.29 In addition, we note that the pricing, of ground handling and de-icing services tends to be determined on a local (airport-level) basis, rather than at a national or regional level, giving further weight to an airport-level market definition.⁶²
- 6.30 As noted above, Menzies submitted that suppliers can bid for a contract at airports where they are not currently active, and that the market should therefore be defined nationally or broader. We consider that suppliers not present at an airport can exert an important competitive constraint and consider this further in our assessment of competitive effects. However, as noted above, the clear majority of tenders in our tender analysis involved bidders that were already located at the airport.
- 6.31 We have observed some examples of airlines facilitating entry of new suppliers to an airport. Recent examples at the overlap airports for ground handling include [X]. We also note that there are several other examples of airlines facilitating entry at non-overlap airports.
- 6.32 However, these recent examples of airlines facilitating entry have been for airlines with a relatively large presence at the airport. Several de-icing and ground handling suppliers have said that they would enter a new airport but are likely to require a contract of sufficient scale. As a result, competitive

⁶¹ See paragraphs 135 to 142 of the Merger Notice.

⁶² For example, Airline Services told us that its de-icing rates will vary depending on several factors, including volume, location and relationship.

conditions may be different for airlines with a large presence at an airport than for airlines with a smaller presence.

- 6.33 We therefore considered whether it would be appropriate to define a broader geographic market for the segment of airlines with a large presence at a given airport, since they may be able to choose from a wider set of potential providers, if they can facilitate entry from suppliers not currently at the airport.
- 6.34 While we recognise that the competitive conditions may be different for different types of airline (e.g. based on the scale of their presence at an airport), we do not consider it necessary to define separate markets for these different customer segments since we consider the impact of the Merger on different types of airline in our assessment of the competitive effects of the Merger.

Geographic market definition for de-icing at LHR

- 6.35 We have also considered whether it is appropriate to define a single market for de-icing at LHR, or whether it would be more appropriate to define separate markets for different terminals.⁶³
- 6.36 We note that:
- (a) There are effectively no constraints on suppliers moving de-icing equipment between Terminals 2 and 3. Suppliers can serve airlines at both terminals from a single base,⁶⁴
 - (b) Suppliers can move equipment between Terminals 2 and 3 and Terminal 4.⁶⁵ However, they have to transport their equipment through a tunnel under the southern runway. While this does not prevent suppliers from serving these terminals from a single base, moving between these terminals can be time consuming. For instance, Airline Services told us that it is possible to serve a customer in Terminal 4 with equipment based at Terminals 2 and 3, [✂];
 - (c) There is evidence that some de-icing suppliers focus on serving either Terminals 2 and 3 or Terminal 4. For example, Cobalt is active in de-icing

⁶³ This does not include Terminal 1 which is closed indefinitely.

⁶⁴ ME/6746/18, Completed acquisition by Menzies Aviation (UK) Limited of part of the business of Airline Services Limited, CMA, 21 August 2018 (Menzies/Airline Services), paragraph 51b

⁶⁵ For example, Aero Mag told us that it provides de-icing services across T2, 3, and 4 from one base.

only at Terminal 4. However, the Parties and Aero Mag operate across Terminals 2, 3 and 4.⁶⁶

(d) BA and Iberia are the only airlines operating out of Terminal 5, and BA self-supplies de-icing to itself and its affiliate Iberia. We understand that it is not possible to move equipment easily between Terminals 2/3/4 and Terminal 5.⁶⁷

6.37 We consider that – notwithstanding the logistical issues associated with moving de-icing equipment between Terminals 2 & 3 and Terminal 4 – suppliers are able to serve both areas from a single base. As a result, we consider that Terminals 2, 3 and 4 are part of the same geographic market.

6.38 Terminal 5 is wholly dedicated to BA and Iberia. Therefore, it follows that any de-icing supplier located at Terminal 5 would be supplying BA and Iberia. Whether such a supplier would be able to supply other terminals would depend on any agreement between BA/Iberia and the supplier. However, as BA self-supplies its de-icing provision at Terminal 5 we have not needed to consider whether Terminal 5 is a separate geographical market for de-icing.

Conclusion on geographic market definition

6.39 For the reasons given above, our provisional conclusion is that it is appropriate to define the geographic market at an airport level. However, where relevant, we consider out-of-market constraints and/or any differences in the degree of competitive constraints from different suppliers in our assessment of the competitive effects of the Merger.

⁶⁶ Final Merger Notice, paragraph 266

⁶⁷ Final Merger Notice, paragraph 275

7 Competitive effects – analytical framework

Introduction

- 7.1 In this section, we set out the analytical framework for our assessment of the competitive effects of the Merger and the key theories of harm we have considered.
- 7.2 In section 8, we consider the impact of the Merger on competition for ground handling services at LGW and MAN.
- 7.3 In section 9, we consider the impact of the Merger on competition for de-icing services at LHR, EDI and GLA.
- 7.4 In section 10, we consider whether the Merger gives rise to a loss of potential competition and/or any foreclosure concerns.

Nature of competition for de-icing and ground handling services

- 7.5 As noted above, airlines are the customers of de-icing and ground handling services. The services may be procured in a range of ways – on a full ‘Request for Proposal’ basis, by less formal tender processes, and, in some instances, through ‘rolling over’ an existing supply contract with the incumbent supplier.
- 7.6 Generally, the degree to which airlines procure services via more formal processes will be linked to the volume of services the airline requires and whether the contract is for more than one airport. However, this is not always the case. In some instances, quite large contracts are awarded with only limited (or no) tendering.

Characteristics of tenders

- 7.7 For both ground handling and de-icing services, airlines often invite a number of suppliers to bid for a contract. Suppliers are typically not told which other suppliers are participating in a tender. However, we understand that bidders are sometimes told which other bidders participated in tenders after the contract has been awarded. We also understand that bidders sometimes receive information about which other suppliers are competing for tenders through informal channels. For example, Menzies told us that it sometimes recognises other bidders when arriving or leaving the airline’s premises to deliver a pitch for business, or that, if it is the incumbent supplier, the airline will inform Menzies when they are conducting a site visit with another potential supplier.

- 7.8 For both de-icing and ground handling services, when submitting a tender, bidders invariably do so through ‘sealed bids’; meaning that bidders do not have visibility around the price at which other suppliers are bidding.

Our analytical framework

- 7.9 In this part, we set out the analytical framework within which we consider the impact of the Merger on future de-icing and ground handling tenders.
- 7.10 Auctions can generally be categorised as being either first price (sealed bid) auctions or second price (open) auctions. In our view, tenders for ground handling and de-icing services appear to follow closely the characteristics of a first price auction. In first price auctions, bidders do not know the bids of their competitors and may not even know their identity (although as noted above, they may have a good idea based on their own informal intelligence and will usually make an informed assessment as to the identities of any rival bidder(s)). At some point in the auction process, bidders have to make a best-and-final offer. Since they do not know how their competitors are bidding, they have to make a final offer under uncertainty. There is therefore a risk of a bidder losing an auction if it does not bid competitively.
- 7.11 When determining the level at which to bid, a bidder in this type of tender will consider the benefits of offering a less attractive (ie higher) price namely, the increased profits from the contract if it wins. Against this, a bidder will weigh the potential downside of offering too high a price, which is likely to increase the risk of losing the tender. Since bidders do not know how their competitors are going to bid (or perhaps even which competitors are bidding), they have to make these trade-offs based on their expectations about how rivals will bid.
- 7.12 The more credible competitors that a bidder expects to face, the more likely it is that it will lose a tender if it does not bid competitively. Therefore, each credible bidder exerts some level of competitive constraint on the other bidders. Removing bidders, as a result of a merger, can therefore reduce the competitive constraint felt by all other bidders who would have competed in the same tenders.
- 7.13 Where the Parties would have competed against each other in future tenders absent the Merger, the Merger may reduce the constraint that the merged entity faces. Absent the Merger, the two Parties would have constrained each other, but as a result of the Merger, the merged entity is not subject to this same constraint. In addition, other bidders that would have competed with both Parties in future auctions may also experience less of a constraint as a result of the Merger. Whereas, absent the Merger, such a bidder may have been constrained by both Parties, following the Merger it is constrained by

only the merged entity. As set out above, a bidder facing fewer other credible bidders is likely to face a reduced competitive constraint.

- 7.14 The aim of our analysis is to understand the extent to which the Merger can be expected to reduce the competitive constraint felt by the Parties and other bidders in upcoming tenders.
- 7.15 Market shares and the results of previous tenders, as well as which firms competed (where known), are typically used to assess the impact of a merger in bidding markets, particularly when bidders are unaware of whom they are bidding against at the time of the tender and the strength of those bids.⁶⁸ Both of these types of evidence are of value, and we set out how we use them and the weight we attach to them in our analysis below.

Market shares

- 7.16 As noted above, a characteristic of ground handling and de-icing tenders is that the identity of competing bidders is likely to be unknown to each bidder participating in the tender as well as the amount that competitors are bidding. As a result, when bidders form their expectations around the number and identity of other credible bidders, they may do so based on easily observable information, such as how successful each bidder has been in recent tenders, both at the airports in question or nationwide.
- 7.17 One measure of relative success in recent tenders is market shares. Since airlines re-tender on a relatively frequent basis (often, every three years), a firm with a high market share is likely to have won a high proportion of recent tenders and/or tenders with a large volume of business. Suppliers may therefore assign a higher probability of losing a tender to a firm with a high market share than to a firm with a lower market share. As a result, if the Parties had high market shares pre-Merger, it is likely that they may have viewed each other (and other suppliers may have viewed them) as significant competitive constraints.
- 7.18 It is important to note that examining market shares may be a useful measure of the degree of competitive constraint exerted by suppliers at a given airport, but it does not reflect any constraint exerted by suppliers not currently at the airport. Nor may market shares necessarily offer a full picture of the competitive conditions at the airport, particularly where suppliers serve different segments of the market. In addition, if shares changed substantially and rapidly over time, then the market shares at a given point in time may not

⁶⁸ For example, see the assessment of the *Diebold/Wincor* merger, 16 March 2017. <https://assets.publishing.service.gov.uk/media/58ca7d7140f0b67ec80001e2/diebold-wincor-final-report.pdf>

reflect well the likelihood of an incumbent, or new entrant, winning a contract and may, therefore, be less useful in measuring the degree of competitive constraint exerted by suppliers at an airport.

Outcomes of previous tenders

- 7.19 If bidders have good information about the outcomes of previous tenders at a particular airport (eg which suppliers bid and how suppliers were ranked) in addition to information on market shares, this information may supplement their views about the likely strength of their competitors.
- 7.20 For example, if a bidder knows that it competes against a given supplier regularly at a particular airport and has lost some recent tenders to that supplier, it is likely to view that competitor as a significant constraint when determining at which price to bid in future auctions. In contrast, if a bidder knows that it does not regularly compete in tenders against a given bidder at an airport, and/or it has not lost any recent tenders to that bidder, it is unlikely to view that bidder as a particularly strong constraint.
- 7.21 The outcome of previous tenders may therefore also shape bidders' views around the extent to which different competitors constrain them. For example, looking at how frequently the Parties compete in the same tenders gives us an indication of how strong a competitive constraint they would likely have exerted on each other in future tenders absent the Merger. Likewise, for tenders where we would expect both Parties to have bid absent the Merger, the outcomes of previous tenders may inform us about the number and identity of other competitors that would likely have bid. If a significant number of credible bidders could be expected to compete in future tenders following the Merger, the Merger may result in only a small reduction in competitive constraint felt by the merged entity and other bidders.

Relevance of entry and barriers to entry and expansion

- 7.22 When barriers to entry and expansion are high, incumbents are unlikely to consider that the threat of potential entry, or rapid expansion by rivals, is significant when choosing how to bid for a tender. In this scenario, then market shares and/or knowledge of those recently tendering is likely to be informative of competitive constraints.
- 7.23 However, if barriers to entry and expansion are low, there is a history of entry and expansion, and a significant likelihood of further entry, market shares and the outcomes of previous tenders may provide less useful evidence regarding the likely competitive constraints that suppliers face in future tenders. In this scenario, the threat of further entry or rapid expansion by rivals is likely to

constrain the ability of an incumbent firm to offer uncompetitive terms to customers.

Theories of harm

7.24 Theories of harm describe the possible ways in which an SLC could arise as a result of a merger and provide the framework for our analysis of the competitive effects of the Merger.

7.25 In this inquiry, we have focused on the following theories of harm:

(a) Loss of existing competition in ground handling services at LGW and MAN.

(b) Loss of existing competition in de-icing services at LHR, EDI and/or GLA.

(c) Loss of potential competition in ground handling services at UK airports.⁶⁹

(d) Loss of potential competition in de-icing services at UK airports.

(e) Potential foreclosure concerns.

7.26 Based on our provisional conclusions as to the appropriate counterfactual as set out in section 5 above, we take the prevailing conditions of competition as the relevant counterfactual for our assessment of competitive effects. That is; we consider the impact of the Merger assuming Airline Services is under the ownership of one of the other bidders in the sale process, and we consider the impact of the Merger assuming Menzies continues to operate and compete for customers at all UK airports at which it is currently present.⁷⁰

⁶⁹ The [Merger Assessment Guidelines](#) refer to this as 'actual potential competition' (see paragraphs 5.4.14 – 5.4.16).

⁷⁰ [REDACTED].

8 Competitive effects – ground handling services

- 8.1 In this section, we consider the impact of the Merger on competition for ground handling services at LGW and MAN.
- 8.2 First, we consider a number of general points raised by the Parties in relation to ground handling, as well as our review of the Parties' internal documents. We then discuss the evidence in relation to each of LGW and MAN separately, before reaching our provisional conclusions.

Views of the Parties in relation to ground handling – general points

- 8.3 In relation to ground handling, in general, the Parties told us that:
- (a) There has been a “tremendous” volume of entry and exit activity in the UK market in recent years. This activity continues at several UK airports at the present time (including several of the overlap airports). In particular, Menzies highlighted the significant number of new entrants into the UK market in recent months (including Stobart and DHL), and the continuing trend of airlines of all sizes to consider self-supply as a viable and credible alternative to using a third party provider (including Norwegian/RED, Aurigny and Jet2.com). Menzies further submitted that the ground handling market therefore continues to be highly dynamic and competitive.
- (b) Entry by an international operator not currently present at any UK airport is also highly credible. The Parties noted that the UK market is fully open and liberalised and, unlike in many other countries, it is a straightforward formality to obtain a licence to provide services from an airport authority. Non-UK entrants, therefore, face no barriers to entry to the UK.
- 8.4 Menzies submitted that the airlines have strong buying power. It told us that when renewing contracts, airlines are aware of their negotiating position and that the loss of a contract can be hugely detrimental to a provider and will use the renewal negotiations as an opportunity to drive pricing down either by fixing prices for a certain period of time, or by getting an actual reduction in price. Menzies further noted that low barriers to entry further exacerbate this situation for the incumbent, as an airline can always invite more than just the incumbent to tender for business.⁷¹
- 8.5 Menzies told us that margins are extremely thin at a ground handling station; and, [redacted]. Menzies also told us that [redacted]. It highlighted that obtaining a licence was straightforward in the UK and therefore, there are no barriers to a

⁷¹ Buyer power is discussed in more detail in paragraphs 8.92-8.102 below.

provider obtaining a licence and so becoming a potential competitor at an airport capable of bidding for and winning contracts.

- 8.6 Menzies submitted that contract gains and losses are the single biggest contributor to the profitability of an individual airport for a ground handling provider. A provider typically identifies an anchor customer to gain entry to a new airport, and then grows its market share by attracting airlines from competitors by offering competitive pricing. However, if an anchor customer is lost ([REDACTED]) or a contract is lost which had significant resources allocated to serving it ([REDACTED]), it is impossible to reduce costs in line with the revenue loss and there is therefore a detrimental effect to profitability.

Internal documents

- 8.7 We requested relevant internal documents from Airline Services and Menzies.
- 8.8 Airline Services produced relatively few internal documents. [REDACTED]. We saw evidence, in a limited number of documents, of Airline Services' plans to expand its ground handling operations. For example, its "Investment Overview" ([REDACTED]) highlighted to potential buyers Airline Service's possible expansion into ground handling markets, specifically identifying opportunities at [REDACTED], [REDACTED], [REDACTED] and [REDACTED].
- 8.9 Menzies' internal documents indicated that it makes some assessment of the competitive environment at an airport, such as [REDACTED] at the airport. [REDACTED] of the [REDACTED] "Commercial/Contract Investment Proposals" (CIPs)⁷² identified other competitors (specifically, [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED] and [REDACTED]), but [REDACTED] in these documents.⁷³ In instances where specific competitors are identified, these tended to be where the competitor was already active at the airport in question. However, the CIPs indicated that for some contracts (particularly those of a larger scale), Menzies considers the competitive constraints imposed by potential entrants. Some CIPs identified [REDACTED].
- 8.10 The CIPs occasionally indicated the importance of [REDACTED].
- 8.11 We have incorporated evidence from the Parties' internal documents, where relevant, in our assessment of the competitive effects of the Merger (see paragraph 8.84 below).

⁷² CIPs are used by Menzies to assess contracts globally. CIPs are an in-depth analysis of a potential new contract, considering the costs, prices, risk, and the strategic fit between the new contract and those of other airlines Menzies serves at that airport.

⁷³ [REDACTED].

Ground handling services at LGW

LGW airport

- 8.12 LGW is the second-largest airport in the UK. It serves over 45 million passengers per year and is served by 56 airlines.⁷⁴ The ground handling market at LGW experienced the sudden exit of Aviator in 2016. At that time, there were four independent providers of ground handling services with Aviator, one of the largest, handling [X]% of turns⁷⁵ and receiving [X]%⁷⁶ of the total ground handling revenue at the airport. As a result of Aviator's exit, many airlines were forced to find an alternative ground handler at short notice.⁷⁷
- 8.13 As described in paragraph 3.8 above, there is also full self-supply by two airlines, one with a large operation at LGW (BA self-ground handling via Gatwick Ground Services)⁷⁸ and one with a far smaller operation at the airport (Aurigny). In addition, there has been the emergence of so-called 'hybrid' supply models including DHL supplying easyJet (which is by far the largest airline operating at LGW, by passenger numbers), and Norwegian Air's relationship, via its subsidiary RED, with Omniserv.
- 8.14 There are also four independent suppliers of ground handling, of which Menzies is the largest. Of those airlines at LGW served by the independent ground handlers (here, excluding both self-handling and hybrid models), the airlines served by Menzies account for [40-50]% of passenger numbers. On the same basis, Airline Services accounts for [20-30]% of passenger numbers, while Swissport and dnata respectively account for [10-20]% and [10-20]%. Share of supply figures are set out in more detail in Table 8 below.⁷⁹
- 8.15 We describe the competitive landscape at LGW further below (see paragraphs 8.36 to 8.64 below).

⁷⁴ Gatwick Airport website, accessed 20 November 2018, <https://www.gatwickairport.com/business-community/about-gatwick/company-information/gatwick-by-numbers>. Latest figures 2017.

⁷⁵ A turn refers to the servicing of an aircraft on arrival and preparing it for departure.

⁷⁶ CMA analysis based on revenues submitted by competitors.

⁷⁷ [X].

⁷⁸ GGS is the subsidiary through which BA self-handles ground handling services.

⁷⁹ We do not present shares of supply, in the tables further below, which include both hybrid models and full self-handling at LGW. Nevertheless, we recognise, as context, that self-handling and hybrid models account for a high share (over half) of the traffic at LGW. Therefore, including the passenger numbers for the airlines served through these methods would substantially reduce the shares of the four traditional ground handlers (the Parties, Swissport and dnata) at LGW.

Views of the Parties in relation to Ground Handling Services at LGW

- 8.16 In addition to the general points summarised in paragraphs 8.3-8.6 above, the Parties submitted that:
- (a) They are competitors in the ground handling market at LGW. However, they further stated that they face numerous additional constraints such that there is no plausible basis for a substantial lessening of competition in ground handling at LGW.
 - (b) They are constrained at LGW by the three ground handling providers present at the airport: DHL, dnata, and Swissport. They submitted that each of these competitors had recently won significant contracts at the airport. Moreover, the Parties stated that dnata and Swissport, as large international ground handling service providers, are readily able to bid for and win contracts at any airport in the UK, including LGW.⁸⁰
 - (c) DHL's success in winning the largest ground handling contract at LGW ([REDACTED]), and subsequent entry into LGW in 2017, demonstrates its credibility as an effective competitor. Whilst the Parties understand that DHL's contract with [REDACTED] involves a condition of exclusivity, they also believe that this is limited in time and due to expire [REDACTED].⁸¹ The Parties stated that DHL [REDACTED]. As such, the Parties contended that they face competition from DHL at LGW.⁸²
 - (d) Whilst dnata has been present at LGW since May 2015, it has only recently expanded from handling Emirates to competing more actively for other airlines.⁸³ In addition to serving Emirates, dnata ground handles, or has recently ground-handled, for Cathay Pacific, Aeroflot, Rossiya and China Airlines.⁸⁴
 - (e) Swissport previously exited LGW in 2014, and re-entered to serve Virgin in 2016 following Aviator's exit. The Parties stated that Swissport then subsequently won: Air Canada; Air Transat; Qatar.⁸⁵ Menzies noted that [REDACTED] in its bidding at LGW. The Parties submitted that Swissport's re-entry to serve Virgin is evidence that a small contract can be enough to sponsor

⁸⁰ Final Merger Notice, paragraph 256.

⁸¹ Response to the phase I decision, paragraph 162.1. The Parties submitted that they believed the exclusivity is likely to expire in [REDACTED]. [REDACTED].

⁸² Response to the phase I decision, paragraph 155.

⁸³ Response to the phase I decision, paragraph 162.2.

⁸⁴ Response to the phase I decision, Table, 6.

⁸⁵ Response to the phase I decision, Table, 6.

a new entrant; Virgin Atlantic operates approximately five to six turns a day at LGW.⁸⁶

- (f) Moreover, the Parties submitted that as a result of its reliance upon the assessment of 'legacy shares' (shares of supply based on contracts agreed some years ago and which may not reflect well the more recent growth of competitors and their bidding activity), the CMA's phase I decision understated the constraint imposed by DHL, dnata and Swissport. The Parties stated that as Swissport had only recently re-entered the market at LGW in 2016 to serve Virgin, its comparatively small share of supply ([REDACTED])% of passenger numbers in 2018)⁸⁷ understates its significance as a competitor.⁸⁸
- (g) The Parties stated that potential entry to the ground handling market at LGW by a new supplier is plausible. The Parties cited the recent entry of DHL in 2017 and Swissport's re-entry in 2016 as evidence of this. The Parties further submitted that they believe a number of other suppliers, including [REDACTED], are likely to bid for contracts at LGW and enter the market in the short to medium term.⁸⁹ The Parties further identified that [REDACTED].⁹⁰
- (h) Airline Services told us that [REDACTED].
- (i) Airline Services told us that WFS is currently active in cargo handling at LGW. Airline Services told us that, if WFS' strategy is to move into ground handling at the major UK airports, Airline Services would have to be 'mindful' of WFS' plans at LGW.
- (j) Airline Services also told us that [REDACTED]. It noted that Omniserv currently provides the labour for Norwegian's subsidiary RED and that [REDACTED].
- (k) The Parties stated that airlines may easily switch to self-supply, which imposes an additional competitive constraint. Examples are British Airways' move to self-supply of ground handling at LGW via its subsidiary GGS in 2016 and Aurigny's move to self-supply at LGW in December 2017.⁹¹
- (l) In addition to this, the Parties told us that frequent examples of exit from the ground handling market at LGW further demonstrate the high level of

⁸⁶ Response to the phase I decision, paragraph 165.

⁸⁷ Response to the phase I decision, Table 7.

⁸⁸ Response to the phase I decision, paragraph 162.2.

⁸⁹ Response to the phase I decision, paragraph 163.

⁹⁰ Response to the phase I decision, paragraph 163.

⁹¹ Final Merger Notice, paragraph 260.

competition in the market. For example: Swissport in 2014;⁹² Aviator in 2016.⁹³

(m) Moreover, the Parties submitted that those airlines currently engaging in self-supply at LGW have the potential to provide ground handling services to other airlines. The Parties indicated dnata as an example of this: at LGW dnata initially handled for Emirates, a company in the same group as dnata. However, dnata now handles for three additional third party airlines.⁹⁴ The Parties also consider that [REDACTED].⁹⁵ [REDACTED].

Views of third parties

Airlines

- 8.17 Most airlines did not raise any significant concerns about the impact of the Merger on ground handling services at LGW.⁹⁶ Specific views on LGW included the following.
- 8.18 Norwegian told us that it considers two active ground handlers at an airport to be enough to allow for sufficient competition. Norwegian further noted that 3 to 4 ground handlers is optimal, but no more than this. Norwegian submitted that there are currently too many ground handlers present at LGW and that the number needs to reduce. Norwegian explained that an excessive number of active ground handlers at an airport may lead to handlers lowering prices to the extent that they are no longer able to deliver an acceptable quality of service. Norwegian currently self handles its operations at LGW through its subsidiary RED, involving both wide-bodied and narrow-bodied aircraft. It has no plans to outsource either ground handling or de-icing services at LGW in future.
- 8.19 Thomas Cook told us that although Airline Services and Menzies overlap in their provision of ground handling services at LGW, there are other major ground handlers at the airport (eg dnata and Swissport) and so the market is competitive.
- 8.20 WestJet told us that it had no concerns in relation to the Merger. It felt that prior ground handling service has been within expectations and there are other vendors to choose from if necessary. WestJet noted that whilst the Merger will further reduce the competitive environment of the UK ground

⁹² Response to the phase I decision, paragraph 159.

⁹³ Final Merger Notice, paragraph 249.

⁹⁴ Final Merger Notice, paragraph 127. [REDACTED].

⁹⁵ Final Merger Notice, paragraph 127.

⁹⁶ WestJet, Norwegian, [REDACTED], Eurowings, [REDACTED], Ryanair, [REDACTED].

handling market, it is not opposed to the Merger based upon its current partnership with Menzies. It has a 'strong expectation' that Menzies will take over Airline Services without disruption or degradation of service quality.

- 8.21 Other airlines, for example Eurowings and Ryanair, responded that they did not have concerns regarding the Merger but did not explain further.
- 8.22 However, some airlines raised concerns.
- 8.23 TUI told us that it had concerns regarding the impact of the Merger in ground handling at LGW. [REDACTED]. [REDACTED]. TUI has been handled by Airline Services at LGW since the exit of its previous ground handler, Aviator, in 2016. TUI stated that in its tender following this at LGW, [REDACTED].⁹⁷ [REDACTED].
- 8.24 TUI considers the Parties to be close competitors at LGW. TUI told us that the ground-handling market at LGW is challenging; with limited supplier availability and considerable self-handling models.
- 8.25 TUI does not consider the smaller operators at LGW, or operators not yet present at the airport, to be credible bidders for TUI's operation at LGW. This is due to the complexity of TUI's operation at LGW, requiring an operator of substantial size and scale. Specifically, [REDACTED]. [REDACTED]. [REDACTED].
- 8.26 Finally, TUI told us that self-handling was a possibility should it face a deterioration in price or terms of its ground handling service. It also mentioned the possibility of tendering the contract and/or facilitating new entry in the market.
- 8.27 Flybe's main concerns were related to [REDACTED]. Flybe also told us it was concerned about a reduction in choice following the Merger; that fewer suppliers could lead to a more stagnant market and higher prices. These concerns were not specific to LGW.
- 8.28 Air Baltic told us that it was currently tendering for ground handling at LGW. It was concerned about the impact of the Merger but did not specify the exact nature of this concern.
- 8.29 Icelandair did not comment on LGW specifically. When asked if it had any concerns relating to the impact of the Merger on competition, Icelandair expressed both a concern and a potential benefit. Icelandair expressed a concern that the Parties would have a monopoly, ultimately resulting in price increases and a decline in service. It stated that a monopoly and higher prices had occurred at another UK airport [REDACTED]. However, Icelandair was also hopeful

⁹⁷ [REDACTED].

that in consequence to the Merger there may be a decrease in price resulting from the merged entity's number of customers and the possibility of using the merged entity across multiple stations.

Ground handlers

- 8.30 Most ground handlers did not have any concerns with the Merger. For example, Swissport told us that the Merger would have no impact on the ground handling market nationwide. Swissport further explained that network relationships made it unprofitable for a supplier to exploit a customer at a single station. In addition, Swissport told us that, given the degree of self-supply, bespoke ground handling solutions and exclusivity at LGW, the actual size of the ground handling market is relatively small and there are limited volumes available for incumbent or new suppliers.
- 8.31 [REDACTED]. Other ground handling suppliers not currently present at LGW such as WFS and AviaPartner did not express concerns. [REDACTED].
- 8.32 Stobart expressed concerns that were centered around quality issues post-Merger. Stobart believes [REDACTED].

Views of LGW airport

- 8.33 LGW raised concerns about the Merger. BA, Norwegian and easyJet comprise 70-80% of the airport's traffic. The remaining business is split between four ground handlers; the Parties, Swissport and dnata. LGW did not believe dnata or Swissport are aggressively pursuing a growth strategy. They are [REDACTED] perceived to be a "smaller" option by airlines. LGW explained that dnata is [REDACTED] they will not necessarily submit a bid. LGW believe Swissport are only [REDACTED]. It has not been successful in [REDACTED]. If either were to expand, it is likely to be for wide-bodied aircraft. LGW did not consider Swissport and dnata to be [REDACTED].
- 8.34 In addition, the airport operator is encouraging airlines to consider whether self-supply or a more centralised model would be commercially viable, as it believes this may improve ground handling performance. It notes the success of Aurigny's self-handling.

Views of the Civil Aviation Authority (CAA)

- 8.35 The CAA did not raise any concerns regarding the impact of the Merger on ground handling markets generally. This is partially as a result of the regulatory regime surrounding ground handling in the UK: airport operators cannot restrict the number of active ground handlers without CAA permission.

Moreover, no airport operator in recent years has requested this. However, the CAA noted that it had not made a detailed assessment of the Merger and could not comment on the effect of the Merger at LGW specifically. The CAA stated that it would be surprised if increased concentration in ground handling markets nationally resulted in a “long-lasting significant deterioration in competitive conditions” of the type that could not be overcome by airlines. The CAA considers that airlines mainly have the means to adopt alternative strategies if they are unable to receive a good price/quality.

Competitive landscape and market shares at LGW

Current ground handlers at LGW

- 8.36 In this section, we set out our analysis of ground handling market shares at LGW. We first set out the market shares of the competitors, before providing more detail and background about each competitor.
- 8.37 As set out above, bidders may consider competitors with high market shares to be a significant constraint in future tenders, since high market shares are likely to be indicative of suppliers having won significant tenders in the recent past. However, the extent to which market shares are a useful measure of constraint felt by bidders in future tenders may depend on the extent to which there are barriers to entry. Where there are low barriers to entry, and a history of entry, expansion and exit, as explained in paragraph 7.23, current market shares may not be indicative of constraints on incumbent suppliers in future tenders. As discussed below (see paragraphs 8.85-8.86), LGW has seen considerable entry, expansion and exit.
- 8.38 We gathered shares of supply data for LGW based on both the number of aircraft turns and passenger numbers. In the case of ground handling, we consider that market shares based on aircraft turns and passenger numbers are both potentially useful measures.
- 8.39 However, we note that measuring shares of supply based on aircraft turns does not take into account the size of different aircraft. When measuring market shares using turns, handling a small (eg narrow-bodied) aircraft would account for the same volume of supply as handling a large (eg wide-bodied) aircraft, despite handling a large aircraft requiring significantly more resources. In contrast, measuring shares of supply based on passenger numbers would reflect the different size of aircraft.
- 8.40 We therefore consider that measuring ground handling market shares on the basis of passenger numbers is preferable to using aircraft turns, so present

market shares on this basis below. We also present shares of supply based on revenue.

8.41 In the analysis below, we report the shares of supply *excluding* pure self-handling. This is because, whilst recognising a switch to self-supply may represent a competitive constraint for some airlines, none of those airlines currently self-supplying ground handling services told us that they intended to start supplying third-party airlines.⁹⁸ Initially, we exclude hybrid models of self-handling. In further analysis (see Table 9), we include these hybrid models.⁹⁹

Table 8: Ground handling at LGW based on passenger numbers, excluding self-supply and hybrid models

<i>Supplier</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018 (to end August)</i>
Menzies	[40-50]%	[40-50]%	[40-50]%	[70-80]%	[40-50]%
Airline Services	[0-5]%	[5-10]%	[5-10]%	[20-30]%	[20-30]%
Aviator	[10-20]%	[10-20]%	[40-50]%	-	-
Swissport	[30-40]%	[30-40]%	[0-5]%	[5-10]%	[10-20]%
dnata	-	[0-5]%	[0-5]%	[0-5]%	[10-20]%

Source: [redacted]

8.42 As shown in Table 8 above, when excluding self-supply and hybrid models, Menzies is currently the largest ground handling service provider at LGW with a market share of [40-50]% by passenger numbers. In 2017 it held a market share of [70-80]%, but this changed considerably when it lost the contract with easyJet to DHL in late 2017.

8.43 Menzies told us that at LGW [redacted]. It explained that [redacted], [redacted] LGW being the second largest airport in the UK, makes LGW a very attractive market for suppliers to expand¹⁰⁰ and/or enter.¹⁰¹

8.44 Airline Services is currently the second largest ground handling service provider at LGW with a market share of [20-30]% by passenger numbers. It told us that airlines at LGW tended to change ground handling service provider after a contract period expires and that was the reason it found the airport an attractive place to bid for contracts. Airline Services told us that it would want to continue its growth at LGW. It explained that in deciding which

⁹⁸ Gatwick Ground Services (GGS) is a wholly-owned subsidiary of British Airways through which British Airways self-supplies ground handling at LGW. GGS does not provide ground handling services to any other airline. Swissport does not believe that GGS, Norwegian/RED or Aurigny wish to enter the wider market for ground handling provision, which would involve serving airlines other than themselves.

⁹⁹ For an explanation of hybrid self-handling models, see paragraph 8.13. When self-handling and hybrid models are excluded, the overall ground handling market is significantly reduced.

¹⁰⁰ Menzies specifically identified DHL, Swissport and dnata

¹⁰¹ Menzies specifically identified Aviapartner, Stobart and WFS.

airlines' contracts to bid for, it considered the airlines' flight schedules and whether they clashed with those of their current customers. Airline Services said that it had decided against bidding for certain contracts because clashing flight schedules of current customers meant that [REDACTED]. [REDACTED].

- 8.45 Swissport has a market share of [10-20]% by passenger numbers (excluding self-supply and hybrid models). Swissport serves Virgin as well as airlines with a small number of turns (Air Transat; 1 flight per day in winter and 3 per day in summer and Qatar Airways; 2-3 flights per day).
- 8.46 Swissport told us that it provides an [REDACTED] for Virgin Atlantic (which operates wide-bodied aircraft) at LGW and has some additional ground handling services contracts with other airlines at the airport.¹⁰² Swissport explained to us that it [REDACTED]. [REDACTED].¹⁰³ It said that despite these limitations, it continues to search for opportunities to selectively grow its business at LGW where the return is positive for shareholders. Swissport told us that new opportunities that arose at LGW were not of high volume.
- 8.47 Dnata has a market share of [10-20]% by passenger numbers (excluding self-supply and hybrid models). It submitted that it planned to bid for other contracts for ground handling services at LGW. Dnata submitted that a pre-existing presence at an airport may provide synergies. It said that conflict in relation to flight schedules of already existing airline customers is one of the key factors in determining whether to expand within the same airport. In addition to Emirates, dnata also serves airlines with a smaller number of daily turns such as Cathay Pacific.
- 8.48 We also considered market shares at LGW *including* hybrid models.¹⁰⁴

Table 9: Ground handling at LGW based on passenger numbers, including hybrid models

Supplier	2014	2015	2016	2017	2018 (to end August)
Menzies	[40-50]%	[40-50]%	[40-50]%	[50-60]%	[10-20]%
Airline Services	[0-5]%	[5-10]%	[5-10]%	[10-20]%	[10-20]%
Aviator	[10-20]%	[10-20]%	[40-50]%	-	-
Swissport	[30-40]%	[30-40]%	[0-5]%	[0-5]%	[5-10]%
dnata	-	[0-5]%	[0-5]%	[0-5]%	[0-5]%
Omniserv	-	-	[0-5]%	[10-20]%	[10-20]%
DHL	-	-	-	[5-10]%	[40-50]%

Source: CMA analysis

¹⁰² [REDACTED].

¹⁰³ Swissport told us that [REDACTED].

¹⁰⁴ Note that pure self-supply models are not included in this market share analysis.

- 8.49 Our analysis indicates that suppliers offering a hybrid ground handling model (Omniserv and DHL) account for a high share of supply at LGW.
- 8.50 DHL has recently entered into ground handling services at LGW, through its contract to supply easyJet and has the largest share of supply at LGW (accounting for [40-50]% of passengers), when hybrid models are included.
- 8.51 DHL currently serves only easyJet at LGW and [REDACTED]. DHL informed us that [REDACTED] it would 'respond accordingly' to tenders should it be included in the process.¹⁰⁵
- 8.52 [REDACTED].
- 8.53 The other supplier offering a hybrid model, Omniserv, has a market share of [10-20]%, making it the third largest supplier. Omniserv provides the labour to Norwegian's subsidiary RED for its model of self-supply of ground handling services. Omniserv has informed us that it is interested in expanding its service at LGW. It stated that it has a significant foothold at LGW and would like to add further contracts to its business there. Omniserv further stated that it would be interested in working with airlines such as: TUI; Thomas Cook; Virgin; British Airways; Ryanair.¹⁰⁶
- 8.54 When including hybrid models, Menzies ([10-20]%) and Airline Services ([10-20]%) are the second and fourth largest suppliers respectively. The other suppliers present (Swissport and dnata) have comparatively low shares of supply of [5-10]% and [0-5]% respectively.
- 8.55 Table 9 also demonstrates that there has been considerable volatility in market shares for ground handling at LGW across the period we are examining. It shows that Swissport had a market share (based on passenger numbers) of [30-40]% for 2015, before exiting LGW at the start of 2016 (and later re-entering). Aviator's share of supply increased from [10-20]% in 2015 to [40-50]% in 2016, before it exited LGW at the end of that year. Menzies' market share reached [50-60]% in 2017, before it lost the easyJet contract to DHL at the end of that year and its market share decreased to [10-20]% of passengers for 2018 (to end August).
- 8.56 Table 10 below sets out suppliers' market shares based on revenues. We note that Omniserv's revenue is not included in these shares of supply. [REDACTED].

¹⁰⁵ DHL currently serves [REDACTED] at LGW and [REDACTED].

¹⁰⁶ These airlines were identified by Omniserv as they have the required scale at LGW. Omniserv told us that it would be interested in the top 10 airline customers at LGW.

Table 10: Ground handling at LGW based on revenues

<i>Supplier</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018 (to end June)</i>
Menzies	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Airline Services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Aviator	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Swissport	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Dnata	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
DHL	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis of suppliers' data

8.57 Overall, the tables above show high market shares currently for the Parties when DHL and Omniserv's shares are excluded. However, if these hybrid models are included, the Parties' combined market share is significantly reduced (as shown at Table 9). The overall picture regarding market shares also should be considered in the context of significant volatility in the market shares of ground handling suppliers at LGW (as outlined above), moves from a number of airlines towards self-handling (BA and Aurigny) and the emergence of new 'hybrid' supply models (Norwegian/RED and Omniserv).

Other ground handlers (potential entrants)

8.58 In addition to those ground handlers currently present at LGW, we spoke to a number of potential new entrants.

8.59 WFS re-entered the UK ground handling market when it contracted to supply easyJet at EDI. This contract started in November 2018. [REDACTED]. [REDACTED]. [REDACTED]. [REDACTED].

8.60 Stobart provides ground handling services to easyJet at STN. This contract started in March 2018. Stobart told us that it is aiming to grow its global aviation services. It said that it had applied for a licence at LGW and said that it had bid for contracts with [REDACTED] there. It submitted that it was willing to enter a new airport provided that the relevant contract involved sufficient volume. It told us that smaller contracts would be considered where they facilitated entry into a new airport. Stobart explained that it would only bid for contracts that were stand-alone profitable, [REDACTED].

8.61 Both [REDACTED] and [REDACTED], [REDACTED]. This [REDACTED] has been an important part of Airline Services' appeal to some airlines, particularly Flybe. Flybe told us that the introduction of this [REDACTED] is "shaking up the market" and [REDACTED].

- 8.62 IDS has a successful ground handling operation in Northern Europe. IDS told us it was interested in expanding its ground handling operation into the UK, including at LGW. IDS has been invited to bid for ground handling contracts in the UK, but it told us that it is very selective in terms of the customers which it would want to work with. It is not necessarily looking for a large contract and whether it bids for a contract would depend on whether the timing and the scheduling of the opportunity was right.
- 8.63 AviaPartner told us that it does not currently operate in the UK. It said that it would be interested in entering the UK market if the commercial opportunity arose, and that it was bidding for a ground handling contract with [REDACTED] at [REDACTED] at the time. AviaPartner did not consider it had any disadvantages in comparison to providers who were already present in the UK market.
- 8.64 [REDACTED]. [REDACTED].

Switching between competitors

8.65 We examined the extent to which ground handling contracts at LGW changed hands between the Parties in recent years, and the extent to which switches have taken place between each of the Parties and other competitors. Most contracts are renewed at LGW, so the instances of switching are not large relative to the number of airline contracts at LGW. We understand that, since the start of 2014, Airline Services has won the following contracts from Menzies:

- (a) [REDACTED];
- (b) [REDACTED]; and
- (c) [REDACTED].

8.66 We also understand that [REDACTED]. Menzies has also lost contracts to other ground handlers (one to Aviator and one to DHL), while Airlines Services has lost one to self-handling.¹⁰⁷

Bidding analysis

8.67 In this section, we set out our analysis of bidding in recent ground handling tenders at LGW.

¹⁰⁷ Menzies lost the, relatively small, [REDACTED] contract to [REDACTED] and the very large [REDACTED] contract to [REDACTED]. Following Aviator's exit from LGW, Aurigny switched to Airline Services and then switched to self-handling.

- 8.68 As throughout these provisional findings, we consider this bidding analysis in light of the analytical framework set out in section 7 above.
- 8.69 We gathered information relating to 57 ground handling tenders at LGW, covering the period January 2016 to August 2018. We gathered details of tenders from a combination of airlines and ground handling suppliers. Appendix B sets out the details of our sample and our methodology in more detail.
- 8.70 Throughout this analysis, we report when a supplier was ‘involved’ in a tender. For the purposes of this analysis, a supplier is recorded as having been ‘involved’ in a tender if it was invited to tender and/or bid for the contract.
- 8.71 Table 11 below sets out some summary statistics relating to ground handling tenders at LGW. It shows a summary of the tenders in which each of the Parties were involved, whether they won, and on which tenders both Parties were involved. This is broken down by the type of tender (i.e. whether it is for a bundle of ground handling and de-icing, a contract to provide ground handling across a network of airports, a standalone contract to provide ground handling at LGW only, or a contract to provide both ground handling and de-icing across multiple airports).¹⁰⁸

Table 11: summary statistics of ground handling tenders at LGW

	<i>Bundled only</i>	<i>Network only</i>	<i>Standalone</i>	<i>Bundled network</i>	<i>Total</i>
Number of tenders	23	0	34	0	57
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]	[X]
Number of tenders where both Parties were involved	[X]	[X]	[X]	[X]	[X]
[X]	[X]	N/A	[X]	N/A	[X]

Source: CMA analysis of airlines’ and ground handling suppliers’ data
 Note: Sample includes tenders for ground handling services at LGW from January 2016 – August 2018

¹⁰⁸ We note that our sample of tenders includes contracts that were rolled-over with the same supplier without a full tendering process.

8.72 The Parties were the suppliers involved in the most tenders at LGW over the period, with Menzies involved in [redacted] tenders (winning [redacted]) and Airline Services involved in [redacted] tenders (winning [redacted]). Aviator was involved in [redacted] tenders, but left LGW in November 2016. Swissport was involved in [redacted] tenders and dnata was involved in [redacted] tenders. [redacted], DHL, OCS, Omniserv and Stobart were [redacted].

8.73 The Parties were both involved in the same tender on [redacted] occasions over the period, including [redacted] tenders for bundled contracts and [redacted] standalone ground handling contracts. There were [redacted] tenders in which the Parties were the only two suppliers involved.

Table 12: Number of tenders in our sample in which selected suppliers were involved in the same tenders as the Parties

	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	Unopposed
Airline Services	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Menzies/ASIG	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: CMA analysis of airlines' and ground handling suppliers' data

Note: Sample includes tenders for ground handling services at LGW from January 2016 – August 2018

8.74 Table 12 shows that of the [redacted] tenders in our sample in which Menzies was involved, as well as Airline Services being involved in [redacted] tenders, Swissport was also involved in [redacted], dnata in [redacted] and Aviator in [redacted]. Of the [redacted] tenders in which Airline Services was involved, as well as Menzies being involved in [redacted], dnata was involved in [redacted], Swissport in [redacted] and Aviator in [redacted] (although Aviator's bids relate to the period when it was present at LGW).

8.75 Of the 57 tenders in our sample, there were [redacted] tenders in which only one supplier was involved. Of these, Menzies was the only supplier involved in [redacted] tenders, while Airline Services was the only supplier involved in [redacted] tenders.

8.76 The evidence outlined above indicates that the Parties compete with each other for ground handling contracts at LGW. Swissport and dnata also compete for these contracts but are involved in tenders less frequently than Menzies and Airline Services.

Barriers to entry and/or expansion

- 8.77 Barriers to entry and expansion in ground handling are discussed more fully in Appendix C. The evidence indicates that a licence is not difficult to secure once a contract with an airline has been won by a ground handler. In addition, a ground handler does not need to invest in purchasing or leasing equipment or hiring ground handling staff until it has secured a contract. Gatwick is an area with relatively high levels of employment and this can make it harder for a new ground handler to secure staff. On the other hand, the challenges of hiring and retaining staff do not differ between new entrants and incumbents. Moreover, TUPE processes may allow a new entrant to gain trained staff from the incumbent from which the entrant wins a contract.
- 8.78 The primary factor we identified as affecting entry and expansion is the availability of attractive opportunities. The attractiveness of an opportunity depends on a range of factors. Some providers highlighted that there needed to be a minimum scale of operations of an airline at an airport in order to justify entry. The main factor when assessing the attractiveness of an opportunity for expansion was identified as how the schedule of flights for any new customer fits with the available resources of the ground handler and how easy (or not) it is to 'in-fill' new customers against its existing schedule of flights.

Overall provisional conclusion on ground handling services at LGW

Competition between incumbent ground handlers

- 8.79 We have considered evidence in relation to tender, market share and switching of contracts. This evidence indicates that the Parties compete for ground handling contracts at LGW. There are also other ground handlers at LGW which provide a similar ground handling service to Airline Services and Menzies. The evidence indicates that these other competitors also compete for contracts at LGW, but at a lower level of frequency and hold a lower share of supply.
- 8.80 In terms of how the Parties have competed against each other, our bidding, switching, and market share analysis indicates that:
- (a) Of all companies bidding for ground handling contracts at LGW, the Parties have been invited to bid the most often by airlines.
 - (b) However, both Parties were involved in around [20-30]% of all tenders in our sample.

- (c) In addition, three contracts were switched between Airline Services and Menzies, in 2014 and 2015 – [REDACTED], [REDACTED] and [REDACTED] (as outlined in paragraph 8.65 above).
- (d) We note that, when discounting the market shares of self-handling and hybrid handling models of supply, the Parties have relatively high market shares.

- 8.81 We also see bidding by other competitors currently at LGW, particularly [REDACTED] and [REDACTED]. The market shares of these two competitors are relatively low, which may indicate a weak competitive constraint. However, we consider that the market shares underplay the strength of these global competitors. Although they have not been as active in bidding as the Parties, they each have been involved in tenders about [REDACTED] as frequently as each of the Parties. Each of [REDACTED] and [REDACTED] has also been winning contracts and growing over time. The bidding activity, growth, and the possibility for market shares to change rapidly at LGW when large contracts change hands, mean that they account for a greater competitive constraint than implied by market shares alone.
- 8.82 Three contracts have switched from Airline Services to Menzies. However, these switches all took place shortly after Airline Services' entry into LGW, more than 3 years ago. As discussed earlier, LGW has seen material change in the intervening period. This is also a small number of contract switches relative to the total number of contracts which have arisen at LGW over the last 3 years. Most contracts are renewed. However, more recently, Menzies has also lost contracts to other ground handlers (one to Aviator and one to DHL), while Airlines Services has lost one to self-handling.
- 8.83 In addition, the hybrid providers, Omniserv and DHL, may seek to grow further at LGW and provide an effective constraint on the Parties. Omniserv has indicated that it is interested in expanding further at LGW. Although DHL is subject to a period of exclusivity, it has also indicated an interest in serving additional airlines at LGW, particularly long-haul airlines.
- 8.84 As described above (see paragraph 8.7), we also reviewed internal documents requested by the CMA. Whilst not specific to LGW, Menzies' internal documents relating to ground handling services did not specifically identify Airline Services as a competitor at any airport. Menzies was identified as a competitor by Airline Services in two of the limited number of internal documents that Airline Services submitted. Only one of these references was relevant to LGW.

Competition from entry and expansion

- 8.85 We have seen large variations in market shares over time at LGW. This has occurred with major incidences of entry and expansion:
- (a) Aviator, 2014-2016.¹⁰⁹
 - (b) Swissport, 2016.¹¹⁰
 - (c) Dnata, 2015.
 - (d) Airline Services, 2014.
 - (e) Entry by hybrid providers – Omniserv in 2016, and DHL in 2017.
- 8.86 In addition, we have seen major incidences of exit (Swissport, 2015; Aviator, 2016). This indicates a dynamic and changing market (even before reflecting on the increased use of self-handling and hybrid models).
- 8.87 Against this context, we have considered whether entry and/or expansion would be timely, likely, and sufficient to prevent any SLC in the ground handling market at LGW.¹¹¹
- 8.88 We consider that the history of entry, expansion and exit at LGW is likely to have a significant impact on the expectations of incumbents about whom they can expect to bid against for contracts, particularly more attractive contracts. Given this history, the risk of entry will continue to be a competitive constraint post-Merger. In particular, we consider that entry for attractive contracts at LGW is sufficiently probable that, in our provisional view, the Parties are likely to be constrained by the threat of entry, along with the constraint from other providers currently at the airport, such that they would not be able profitably to deteriorate their offer post-Merger.
- 8.89 As noted, a key piece of evidence in coming to this view is the history of entry, expansion and exit at the airport in recent years. In addition, we have seen bidding (or involvement in tenders) by a number of providers who are not currently incumbents at the airport. Credible bidders include [REDACTED] and [REDACTED], which hold major ground handling contracts at other UK airports. Furthermore, we have also heard from other ground handlers who have identified LGW as one of the airports which they are targeting, depending on the opportunities that arise (see paragraphs 8.58 to 8.64). These include [REDACTED], [REDACTED] and [REDACTED].¹¹²

¹⁰⁹ Response to the phase I decision, Table 6.

¹¹⁰ Response to the phase I decision, Table 6.

¹¹¹ Para 5.8.3, Merger Assessment Guidelines.

¹¹² See paragraphs 8.58 to 8.64.

We consider each of these to be potential bidders which would be seen as credible by airlines. Given the experience of these providers, their bidding activity, and their intention to bid for future contracts if attractive, we do not consider potential entry by these various providers to be unlikely. Therefore, the threat of entry is likely to be a strongly constraining factor with respect to attractive contracts.

- 8.90 Furthermore, we consider that barriers to entry at LGW (e.g. physical, regulatory) are not particularly high and, importantly, can be incurred only once a contract has been won. Staff can often be secured by the previous contract-holder through TUPE. In addition, as discussed further below, we have seen examples of the costs of entry and expansion being lowered further by airlines sharing these costs with providers (for example, the hybrid models of Omniserv and DHL; and the [X]). We consider that the bidders and prospective bidders are all reputable and so, building up a reputation first at the airport is not essential to be a credible bidder. Indeed, we have seen major entry at LGW and other UK airports by providers not previously active in third party ground handling in the UK (eg DHL, Stobart).
- 8.91 Overall, we provisionally consider that entry and/or expansion would likely be timely and sufficient to prevent any SLC in ground handling at LGW. In reaching this view we have placed significant weight on the history and very recent evidence of entry and exit at LGW.

Countervailing buyer power

- 8.92 As set out in the CMA's Mergers Assessment Guidelines the existence of countervailing buyer power will be a factor in making an SLC finding less likely.¹¹³
- 8.93 The extent to which the buyer power of one customer, or group of customers, can constrain the merged firm's prices to all its customers (sometimes referred to as the 'umbrella effect') will depend on the market concerned. Where individual negotiations are prevalent, the buyer power possessed by any one customer will not typically protect other customers from any adverse effect that might arise.¹¹⁴ However, as noted in the Merger Assessment Guidelines, there may be occasions when it does so, for example if increases in productive capacity in the market through buyer-sponsored entry benefit all customers from the merger.¹¹⁵ This may be because the capacity of the new

¹¹³ Para 5.9.1, Merger Assessment Guidelines.

¹¹⁴ Para 5.96, Merger Assessment Guidelines.

¹¹⁵ Footnote 83, Merger Assessment Guidelines.

entrant is made available to other customers in the market, rather than only the customer sponsoring entry.

- 8.94 We consider that airlines are likely to have a range of countervailing buyer power which will vary from airline-to-airline and depend on a range of factors including: the size of the airline's ground handling business; whether it contracts with ground handlers across a number of airports; how attractive its flight schedules may be to ground handle (eg late-night arrivals/departures may not be attractive as ground staff have to stay late for a small volume of ground handling); and also the complementarity of an airline's flight schedule against the ground handler's existing profile of ground handling customers.
- 8.95 We have been told that airlines hold buyer power.¹¹⁶ This is consistent with a market in which, as discussed earlier, pricing is constrained by airlines credibly threatening to switch to new providers, including new entrants or smaller incumbents being able to expand rapidly. We have been told that, on occasion, this has led to ground handlers realising losses. This is also consistent with exits, including those of Swissport and Aviator.
- 8.96 In the ground handling market at LGW, we consider that effective buyer power may be exercised through the ability to: (i) seek competitive bids from credible entrants; (ii) bring new entrants into the airport; (iii) switch major contracts to other credible incumbents who are not capacity constrained; (iv) move to full self-handling; (v) move to hybrid models; and (vi) (where applicable) leverage any multi-airport relationship with providers.
- 8.97 We have observed a number of instances of (i) to (iii) as described in paragraphs 8.12-8.14 above.
- 8.98 In relation to point (iv), we consider that a switch to self-handling provides an effective option for some airlines. At LGW, we note BA self-handles, as does a relatively small airline (Aurigny). We have also seen other instances of self-handling at other UK airports by airlines with mid-sized operations (Jet2.com). In addition, the airport operator is encouraging airlines to consider whether self-supply or a more centralised model would be commercially viable, as it believes this may improve ground handling performance.¹¹⁷ Although our interactions with airlines more generally indicates that self-handling is not a preferred option, we consider that self-handling is likely to be a credible option for some airlines if the Parties' offer were to deteriorate post-Merger.

¹¹⁶ Virgin noted that that in recent years airlines have been forcing down prices, in some cases to unsustainable levels. Similarly, LGW airport operator observed that the suppliers do not make significant margin as they are encouraged to undercut one another. This under-cutting is what leads to the market de-stabilising.

¹¹⁷ The operator noted the success of Aurigny self-supplying.

- 8.99 In relation to point (v), we consider that hybrid models allow the costs, risks and operational challenges of self-handling to be shared. At LGW, we note both DHL and Omniserv offer a hybrid model. We have also seen this model being employed in other airports and with other airlines (eg Ryanair at STN).
- 8.100 We consider it unlikely that those engaged in pure self-handling at LGW will enter into providing ground handling services to third party airlines.¹¹⁸ Rather, expansion into supplying third-party airlines is more likely to come from the third party provider in hybrid models (Omniserv and/or DHL) than by the airlines themselves. To date, we have not seen these hybrid models at LGW serve more than a single airline and it is clear that the providers of these hybrid models wish to ensure that their main customer enjoys a good quality of service. Nevertheless, we have been told that these providers are interested in expanding, where profitable opportunities arise. Moreover, we understand that when providers operate an open book costing model, sharing overheads and resources with an additional airline customer can reduce the costs to the original airline customer.
- 8.101 In relation to (vi), we note that Menzies' internal documents, prepared for assessing tenders, occasionally demonstrated the importance of Menzies' wider relationships with airlines in its pricing strategy. [REDACTED].¹¹⁹
- 8.102 Overall, we consider that many airlines at LGW are likely to have a degree of buyer power post-Merger. We also note that the individual actions of airlines with significant buyer power may in turn create new ground handling options for other airlines (for example, when Swissport returned to LGW to serve Virgin, other airlines, over time, were able to use Swissport as an alternative ground handler).

Views of third parties and the position of airlines with smaller operations at LGW

- 8.103 We have considered the views of third parties carefully. Some airlines have raised concerns about the impact of the Merger on their choice of ground handler at LGW.¹²⁰ The airport operator at LGW has raised similar concerns, as discussed above.¹²¹ Concerns have also been raised about the potential impact of [REDACTED] on the quality of service provided by Airline Services.

¹¹⁸ IAG informed us that it is not a competitor in the market for ground handling to other airlines as it only provides ground handling services to the group.

¹¹⁹ [REDACTED].

¹²⁰ See paragraphs 8.23-8.29 for further detail.

¹²¹ See paragraph 8.33 for further detail.

- 8.104 For the reasons set out above, we consider that airlines are likely to have a degree of countervailing buyer power.
- 8.105 For example, [REDACTED].
- 8.106 We have also considered carefully whether airlines with smaller operations at LGW may be particularly disadvantaged by the Merger. Such airlines are unlikely to have the option to sponsor new entry on a stand-alone basis. We note that the top 12 airlines at LGW account for more than 90% of passenger numbers at LGW. Some providers have indicated that they would be interested in serving larger operations at LGW. For example, Omniserv said that it would be interested in the top 10 airline customers at LGW.
- 8.107 Nonetheless, we do not consider that smaller airlines are likely to be left without effective competitive options post-Merger. In particular, we note that both dnata and Swissport serve customers with relatively small operations at LGW. [REDACTED]. Consistent with this, dnata stated they did not have a minimum value of a contract but, rather, their choice of whether to bid was based more on achieving a level of operational standard in line with the airline requirements and meeting the requirements of their financial modelling. Similarly, the challenges which Swissport identified [REDACTED]. Therefore, having a smaller operation does not imply that dnata or Swissport would not find that contract attractive.
- 8.108 Furthermore, as noted above, we have been told that it is the complementarity of the airline's schedule that is key to the attractiveness of the contract. If a 'small' contract's schedule falls in the troughs of a ground handlers existing schedule, the handler may be able to use the resource that would have otherwise been idle to service this contract. These synergies mean that 'small' contracts can be considered highly attractive by handlers.
- 8.109 Indeed, we have been told of instances in which incumbent ground handlers have chosen not to bid because the contract was too big for the provider's operation.¹²² We note also that Menzies has pointed to [REDACTED]. Even if each contract were, on its own, not sufficiently attractive to induce entry, the fact of these contracts all coming to market at the same time is likely to increase the likelihood of expansion and/or new entry at LGW.

Overall assessment

- 8.110 For the reasons set out above, in particular the likelihood of new entry and expansion, our provisional conclusion is that the Merger has not resulted in,

¹²² [REDACTED].

and may not be expected to result in, an SLC in ground handling services at LGW.

Ground handling services at MAN

8.111 We set out below our assessment of the evidence in relation to any potential SLC in ground handling services at MAN.

MAN airport

8.112 MAN airport served 27.8 million passengers in 2017, an increase of 8.5% on 2016.¹²³ It is the busiest airport in the UK outside of London. '70+' airlines operate out of MAN. There are currently seven ground handling providers; Menzies, Airline Services, Aviator, dnata, Premiere Handling, Swissport and DHL.

8.113 The airport has recently seen three new entrants to ground handling; Airline Services entered in April 2018 to serve Flybe, Premiere Handling entered in 2017/2018 and DHL is due to start handling easyJet from February 2019.

8.114 WFS has previously operated at MAN, serving Brussels Airlines until March 2015 as well as Jet2.com and Turkish Airlines up until March 2016. Jet2.com switched to self-handling at MAN in April 2016. Across the airlines operating at MAN, and following the switch of the easyJet contract from Menzies to DHL, Menzies will account for [10-20]% of supply, by passenger number, and Airline Services will account for [5-10]% of supply, by passenger number.¹²⁴ Swissport is the largest operator with [40-50]%, by passenger number, while Aviator accounts for [10-20]%, dnata accounts for [5-10]%, and Premiere Handling accounts for [0-5]% (see Table 13).

Views of the Parties in relation to ground handling at MAN

8.115 The Parties made a number of specific submissions in relation to ground handling services at MAN:

(a) That their shares of supply at MAN are low, regardless as to whether they are based on passenger numbers or turns.¹²⁵ They further stated that

¹²³ Manchester Airport Passenger Statistics. Accessed 22 November 2018. Available at: <https://www.airportmanchester.com/passenger-statistics.shtml>

¹²⁴ The figures presented here exclude self-handling and, therefore, Jet2.com is not included.

¹²⁵ Response to the phase I decision, paragraph 172.3.

Menzies' share of supply has declined rapidly following contract losses, particularly following the loss of the easyJet contract.¹²⁶

(b) That Airline Services was a recent entrant to MAN and has only been invited to bid for [REDACTED] contracts.¹²⁷ Of these, Airline Services told us that it has only actually bid for [REDACTED], winning [REDACTED].^{128 129} (We set out the CMA's bidding analysis below in paragraphs 8.154 to 8.160.) As such, the Parties contended that few airlines have invited Airline Services to bid for ground handling services and it therefore cannot be considered a close competitor to Menzies.¹³⁰

(c) [REDACTED].¹³¹ [REDACTED], [REDACTED]¹³² [REDACTED].¹³³

(d) That they face a number of competitive constraints at MAN. They submitted that the CMA's phase 1 decision discounted the strength of Aviator, dnata and Premiere as competitors, all of which are active ground handlers at MAN.¹³⁴

(e) That they are constrained by potential entrants to MAN. Menzies stated that the entrance of DHL to serve easyJet at MAN demonstrates the plausibility of entry. The Parties told us that handlers not currently active at MAN, including [REDACTED], [REDACTED] and [REDACTED], constitute an important constraint at MAN.¹³⁵ The Parties understood suppliers not active at MAN to be actively bidding on contracts.¹³⁶

(f) [REDACTED].¹³⁷ [REDACTED].¹³⁸

(g) [REDACTED].

¹²⁶ Response to the phase I decision, 172.2.

¹²⁷ As indicated, Airline Services has indicated that it was only invited to [REDACTED] tenders at MAN. However, data sourced from the airlines indicates that Airline Services has been invited to [REDACTED] tenders at MAN. An explanation of how we have treated the tender data is provided in Appendix B.

¹²⁸ Response to the phase I decision, paragraph 173.

¹²⁹ [REDACTED].

¹³⁰ Response to the phase I decision, paragraph 173.

¹³¹ Final Merger Notice, paragraph 309.

¹³² Response to the phase I decision, paragraph 21.2.2.

¹³³ Response to the phase I decision, paragraph 38.

¹³⁴ Response to the phase I decision, paragraph 179.

¹³⁵ Response to phase I decision, paragraph 179.4.

¹³⁶ Response to phase I decision, paragraph 182.

¹³⁷ Response to phase I decision, paragraph 21.2.2.

¹³⁸ Response to the phase I decision, paragraph 176.

Views of third parties

Airlines

- 8.116 Flybe, an existing Airline Services customer, expressed concerns with the Merger at MAN.
- 8.117 Flybe expressed a general concern (see paragraph 8.27) that the reduction in competition in ground handling services following the Merger may lead to higher prices and ‘stagnation’ in the market. Flybe stated that “the transaction will further reduce the possibility of running a proper tender as Flybe already has a limited number of options”.
- 8.118 Flybe also expressed concerns about the impact of the Merger specifically relating to what it saw as Menzies’ service failures at Manchester, which Flybe considers a critical airport. Flybe awarded its ground handling contract at MAN to Airline Services in 2018. Flybe stated that it had invited eight providers to tender¹³⁹ and considered Airline Services, [REDACTED] and [REDACTED] at the final stage of bidding.¹⁴⁰ Ultimately Flybe awarded the contract to Airline Services, [REDACTED]. This was because Airline Services successfully offered an [REDACTED]. [REDACTED]. Flybe informed us that in the hypothetical event of a price increase at MAN, it would be able to either engage in self-handling or seek to introduce a new supplier. Flybe explained that its decision regarding the feasibility of self-handling at MAN was based upon its ‘ghost-model’ at the airport; when Flybe runs a ground handling tender it creates a ‘ghost model’ based upon an in-house provision of ground handling services.
- 8.119 Some airlines expressed general concerns about the impact of the Merger in relation to ground handling services, but these were not specifically focussed on MAN airport. We discuss some of these more general concerns above (see paragraphs 8.27, 8.29). Additionally, Jet2.com expressed a general concern that the Merger would ‘erode’ Airline Services’ good service, as Menzies may look to find efficiencies and cut costs. Jet2.com opts to self-handle at MAN which is its biggest base. Jet2.com additionally self-handles at a number of other UK airports (STN, [REDACTED]).
- 8.120 Other airlines expressed no concerns relating to the impact of the Merger on ground handling services at MAN:

¹³⁹ Airline Services, [REDACTED].

¹⁴⁰ [REDACTED].

- (a) In contrast to LGW, TUI did not express concerns about the impact of the Merger relating to the ground handling market at MAN. TUI informed us that Airline Services had previously offered to provide TUI with ground handling services at MAN, and that Swissport is considered to be well established at MAN. Virgin expressed no concerns generally about the impact of the Merger on ground handling.¹⁴¹ In relation to MAN, Virgin told us that it had [REDACTED]. [REDACTED].
- (b) [REDACTED] expressed no 'great concerns' about the impact of the Merger on ground handling services; the only concern expressed related to the impact that the integration of the businesses would have on an operational level. [REDACTED] informed us that Stobart had expressed an interest in [REDACTED] at MAN, and that [REDACTED] would consider Stobart a credible bidder at MAN. [REDACTED]¹⁴² [REDACTED] stated that it did not consider it overly important that a ground handling supplier is already present at the airport. [REDACTED] would not consider self-supplying ground handling services.

Competitors

- 8.121 Suppliers of ground handling services also did not raise any concerns about the Merger in relation to ground handling at MAN.
- 8.122 Specifically, Swissport considers the ground handling market at MAN to be competitive, with five to six active participants. It noted that MAN, in comparison to LGW, currently has fewer bespoke ground handling arrangements and more possibilities for third-party suppliers to secure contracts.
- 8.123 Dnata, IDS and Premiere Handling did not express concerns about the impact of the Merger on ground handling at MAN. Dnata and IDS expressed similar views that competition in the UK ground handling market as a whole remains strong.
- 8.124 Stobart's concerns focused on its views of Menzies' [REDACTED]. It was concerned how this may impact on the service quality of Airline Services.

Airport Operator

- 8.125 MAN airport operator did not raise concerns about the Merger. It told us that the Merger will reduce the number of ground handling suppliers at MAN to six. MAN believes this to be a reasonable number for the size and scale of its

¹⁴¹ Virgin is not handled by Menzies at any airport.

¹⁴² [REDACTED] invited: [REDACTED].

operations, providing sufficient resilience and competition at the airport. MAN further notes that the Merger may lead to efficiencies in terms of airport ground space capacity.

8.126 MAN believes that a sensible number of ground handling suppliers at the airport would be four or five, [redacted]. It told us that it is considering restricting further new entry into the airport [redacted]. [redacted].

8.127 MAN expressed concern that the Merger could lead to a preference of providing de-icing services to Menzies' existing customers rather than Airline Service's existing customers, creating operational delay and service provision issues. We consider this to be more of a concern about general 'resilience' at the airport (and not about competition in ground handling services per se).

Competitive landscape and market shares at MAN

Current ground handling providers at MAN

8.128 In this section we describe the position of the various ground handling providers at MAN and their market shares. As discussed in relation to LGW, we present shares on the basis of passenger numbers and revenues. We do not include self-handling in this analysis.

8.129 In these shares of supply, we have included the switch of the easyJet contract from Menzies to DHL, but we have not included the Jet Airways contract which Premiere Handling recently won, as the passenger numbers are yet to be determined. The figures also exclude self-handling by Jet2.com at MAN.

8.130 This approach gives Menzies a share of [10-20%] and Airline Services a share of [0-10%]. Swissport is the largest operator with [40-50%], Aviator accounts for [10-20%], dnata accounts for [0-10%], and Premiere Handling accounts for [0-10%].

Table 13: Ground handling market shares at MAN by passenger numbers

Supplier	2014	2015	2016	2017	2018 (to end August)	2018 - following EasyJet contract loss
Menzies (incl. ASIG)	[30-40%]	[30-40%]	[30-40%]	[30-40%]	[20-30%]	[10-20%]
Airline Services	-	-	-	-	[5-10%]	[5-10%]
Aviator	[5-10%]	[5-10%]	[10-20%]	[10-20%]	[10-20%]	[10-20%]
dnata	[0-5%]	[0-5%]	[0-5%]	[5-10%]	[5-10%]	[5-10%]
Premiere Handling	-	-	-	-	[0-5%]	[0-5%]
Swissport	[50-60%]	[40-50%]	[50-60%]	[40-50%]	[40-50%]	[40-50%]
WFS	[5-10%]	[5-10%]	[0-5%]	-	-	-
DHL	-	-	-	-	-	[10-20%]

Source: Parties' data.

Menzies

8.131 Menzies has [REDACTED] ground handling contracts at MAN¹⁴³, excluding easyJet which DHL has recently won from Menzies. These contracts account for [10-20]% of passengers.

8.132 Menzies does not provide de-icing services at MAN. It bids for [REDACTED]; outsourcing the de-icing element of bundled contracts to [REDACTED].

8.133 Table 13 above shows that Menzies has lost substantial market share in recent years. By passenger numbers, Menzies' share fell from [30-40]% in 2017 to [10-20]% following the recent loss of the [REDACTED]. This fall in share also reflects the contract losses for [REDACTED], [REDACTED] and [REDACTED]. However, Menzies did renew its contract with [REDACTED] at MAN in 2017. It also won contracts with [REDACTED].

8.134 [REDACTED]¹⁴⁴ [REDACTED].¹⁴⁵ [REDACTED].

8.135 [REDACTED].

8.136 [REDACTED].

Airline Services

8.137 Airline Services serves one ground handling contract at MAN with Flybe which started in April 2018. Menzies was the incumbent supplier of this contract [REDACTED]. This contract accounts for approximately [REDACTED] turns per month ([REDACTED] flights per day). Flybe is the largest airline in terms of turns at MAN airport, and sixth-largest airline in terms of passenger numbers. Flybe accounts for [5-10]% of passenger numbers at MAN. Airline Services' share of [5-10]% is fully accounted for by its single contract with Flybe.

8.138 Airline Services was previously involved in the [REDACTED] contract in 2016, which [REDACTED] secured.¹⁴⁶

8.139 Airline Services indicated that it would be interested in bidding for the [REDACTED] contract at MAN when that becomes available.¹⁴⁷ [REDACTED].

¹⁴³ Menzies serves: [REDACTED]. [REDACTED] has not been included in Menzies' customer list. [REDACTED] won this contract in 2018 and are due to start handling on [REDACTED]. [REDACTED]

¹⁴⁴ Response to the phase I decision, paragraph 21.2.2.

¹⁴⁵ Response to the phase I decision, paragraph 38.

¹⁴⁶ See Appendix B for further explanation of our treatment of the tender data.

¹⁴⁷ [REDACTED].

Other suppliers

- 8.140 Swissport is the largest supplier of ground handling services at MAN, supplying services to [X] airlines at MAN. These contracts account for [40-50]% of passenger numbers.
- 8.141 Aviator holds a substantial contract at MAN with Thomas Cook alongside serving SAS and Norwegian. These airlines accounted for [10-20]% of passenger numbers at MAN in 2018.¹⁴⁸ MAN is the only airport in the UK where Aviator continues to operate, following its exit from LGW and BHX in 2016. In 2016, Aviator bid for [X] contracts at MAN, [X].
- 8.142 DHL is a new entrant at MAN; winning the easyJet contract from Menzies which it is due to start serving in February 2019. This contract accounts for [10-20]% passenger numbers at MAN. This is the second airport in the UK where DHL offers third party ground handling services, after its entry at LGW.
- 8.143 Dnata currently serves the following airlines at MAN: Austrian Airlines, Cathay Pacific, Emirates, Lufthansa and Swiss. These airlines account for [5-10]% of passengers in 2018. Dnata has been actively bidding at MAN, as discussed further in the bidding analysis below.
- 8.144 Premiere Handling is a small supplier of ground handling services at MAN which started to provide full ground handling services in 2018. It serves Aurigny and Loganair, accounting for [0-5]% of passenger numbers at MAN. Premiere Handling has also recently secured a ground handling contract with Jet Airways, which launched its operation from MAN in November 2018.
- 8.145 [X]. Loganair told us that the service it has received has been excellent and it would support Premiere's growth in MAN. [X]. [X]. MAN airport felt that the Jet Airways' contract gave Premiere a more significant presence at the airport and would expect Premiere to secure more contracts in the future.
- 8.146 Overall, our market share analysis shows that Airline Services, DHL, dnata, Premiere, and Aviator have all seen growth, whilst Swissport and Menzies have seen their market share decline.¹⁴⁹
- 8.147 We also considered market shares by revenue. The table below provides a similar view of the current position of competitors and the changes over time as market shares by passenger numbers, although it does not reflect

¹⁴⁸ Market share the same regardless of before or after [X] contract changeover.

¹⁴⁹ The table does not reflect how Premiere Handling's share may change with the Jet Airways contract which it has recently won.

Menzies' loss of the easyJet contract nor Premiere Handling serving the Jet Airways contract.

Table 14: Ground handling market shares at MAN by revenue¹⁵⁰

Supplier	2014	2015	2016	2017	2018 (to end June)
Menzies (incl. ASIG)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Airline Services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Aviator	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
dnata	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Premiere Handling	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Swissport	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
WFS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis.

Other ground handling providers (potential entrants)

8.148 There are a number of potential entrants at MAN. We understand that [REDACTED] were among the bidders for the easyJet contract at MAN at 2018.

8.149 [REDACTED].

8.150 Stobart has also indicated it is interested in expanding its ground handling operations at MAN. [REDACTED].

8.151 As explained above, IDS told us it was interested in expanding its ground handling operation into the UK, including at MAN.

8.152 In addition, [REDACTED].

Switching between the parties

8.153 Since January 2014, the only contract which has switched between the Parties is the Flybe contract, which Airline Services began to serve in 2018.

¹⁵⁰ In calculating shares of supply by revenue at MAN, please note that [REDACTED] and [REDACTED] did not provide the CMA with revenue data. The CMA estimated their shares of supply by revenue, assuming they would be equal to their shares of supply by passenger numbers. The remaining suppliers' shares were then calculated taking this into account.

Bidding analysis

8.154 In this section, we set out our analysis of bidding in recent ground handling tenders at MAN. The table below indicates that the CMA received data on a total of 32 tenders at MAN, covering the period January 2016 to August 2018.¹⁵¹

8.155 Over the period, Menzies was involved in [redacted] tenders, winning [redacted]; while Airline Services was involved in [redacted] tenders, winning [redacted]. Menzies was involved in all of the [redacted] tenders in which Airline Services was involved in, and both Menzies and Airline Services bid on the same [redacted] tenders, those of [redacted].

Table 15: Ground handling at MAN summary of tenders

	Bundled only	Network only	Standalone	Bundled network	Total
Number of Tenders	8	1	21	2	32
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Number of tenders where both Parties were involved	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: CMA analysis.

Note: Sample includes tenders for ground handling services at MAN from January 2016 – August 2018

8.156 We have also considered how active other ground handlers have been in bidding at MAN. [redacted] was the supplier involved in the most ground handling tenders at MAN ([redacted] tenders), [redacted] ([redacted]), [redacted] ([redacted]), [redacted] ([redacted]), [redacted] ([redacted]); [redacted] ([redacted]), [redacted] ([redacted]). Additional ground handlers involved in only one tender at MAN include: [redacted]; [redacted]; [redacted]; [redacted].

¹⁵¹ Similar to our analysis of bidding at LGW, we gathered details of tenders from a combination of airlines and ground handling suppliers. Appendix B sets out the details of our sample and our methodology in more detail. Throughout this analysis, we report when a supplier was 'involved' in a tender. For the purposes of this analysis, a supplier is recorded as having been involved in a tender if it was invited to tender and/or bid for the contract.

8.157 The table below shows the frequency with which other ground handlers bid against Menzies and Airline Services.

Table 16: Number of tenders in our sample in which selected suppliers were involved in the same tenders as the Parties

	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	Unopposed
Airline Services	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Menzies/ASIG	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: CMA analysis

Note: Sample includes tenders for ground handling services at MAN from January 2016 – August 2018

8.158 Across the [redacted] tenders in which Menzies was involved, as well as Airline Services being involved in [redacted] tenders, [redacted] was involved in [redacted] tenders, [redacted], [redacted], and [redacted].¹⁵²

8.159 Across the [redacted] tenders in which Airline Services was involved, as well as Menzies being involved in [redacted] tenders, [redacted] was involved in [redacted] tenders, [redacted], [redacted], and [redacted].¹⁵³

8.160 Based on the evidence outlined above relating to recent tenders, it appears that the Parties compete against each other but also that there are other ground handlers at MAN which are more actively involved in tenders.

Barriers to entry and/or expansion

8.161 Barriers to entry and expansion are considered in more detail in Appendix C. In general, we consider the barriers to entry at MAN to be very similar to those previously discussed in relation to LGW at paragraphs 8.77-8.78 (ie not very high). However, there appear to be some factors influencing ease of entry which are particularly relevant to MAN.

8.162 Some factors specifically relevant to MAN may make entry particularly attractive:

¹⁵² Other bidders, for a lower number of the [redacted] tenders in which Menzies was involved, were [redacted].

¹⁵³ Other bidders involved in at least [redacted] of the [redacted] tenders in which Airline Services was involved in, were [redacted].

(a) We have been told that MAN is an airport with growth potential. Menzies stated that MAN is 'a fast-growing airport with available capacity to support new entrants from both a terminal and a runway perspective'. [REDACTED] additionally identified MAN as a growing airport.

(b) Currently, only Jet2.com self-handles at MAN. As expressed by Swissport, this means a greater proportion of the ground-handling market at MAN is contestable to third party suppliers (including new entrants).

8.163 However, some factors specifically relevant to MAN may make the prospect of entry less attractive:

(a) We have been informed that recruitment can be a challenge at MAN. Menzies stated that [REDACTED]. Menzies stated generally that low unemployment around airports can make recruitment challenging. [REDACTED] identified that low levels of unemployment in the area around MAN specifically makes the ground-handling market at the airport particularly challenging.

(b) MAN stated that it does not have sufficient airfield capacity to accommodate any additional suppliers. MAN further stated that it believed a sensible number of ground handling suppliers for MAN to be four to five suppliers. Menzies said that parking of equipment is a particular challenge at MAN. As noted above (see paragraph 8.126), it is also considering taking steps to limit the numbers of ground handlers present on the airfield [REDACTED].

Provisional conclusion on whether the Merger will give rise to an SLC for the supply of ground handling services at MAN

Competition between incumbents

8.164 Based on the evidence considered above, our provisional view is that the Parties compete against each other at MAN but that there are other significant competitive constraints provided by other ground handlers operating at MAN and those not currently operating at MAN but who are credible bidders and have been involved in recent tender processes.

8.165 We have reached this view because:

(a) Since January 2016, out of a total of [REDACTED] tenders, the Parties have only been involved in the same tenders [REDACTED] times.¹⁵⁴ They have only bid

¹⁵⁴ [REDACTED].

against each other on [REDACTED] occasions.¹⁵⁵ There has only been one instance of a contract switching between the Parties at MAN: Airline Services won Flybe contract from Menzies in 2018. Securing a single contract at MAN means that Airline Services' share of supply is not large. Therefore, Airline Services appears to have a relatively narrow focus in terms of the contracts it has bid for and represents a limited increment in Menzies' presence at LGW.¹⁵⁶ [REDACTED] and its loss of market share, suggest that Menzies has been a weaker competitor in recent years.

(b) Post-Merger, in addition to the Parties, there will be five¹⁵⁷ independent ground handlers operating at MAN, which have been actively bidding for, and winning, contracts at MAN. Swissport is the largest provider at MAN and will continue to act as a strong competitive constraint. In addition, dnata, Aviator, and Premiere are actively bidding for contracts and expanding their presence at MAN. In terms of shares of supply, by passenger numbers, dnata and Aviator have market shares which are greater than that of Airline Services. Premiere Handling is a recent entrant into ground handling at MAN. However, it has won contracts previously served by [REDACTED] as well as securing business with a new airline to the airport (Jet Airways). It has also told us it has an appetite to grow further. DHL is due to enter the airport in February 2019 to serve the easyJet contract it recently won from Menzies.

Competition from entry and expansion

8.166 We have evidence of ground handlers not currently operating at MAN bidding for contracts at the airport, including [REDACTED], [REDACTED], and [REDACTED].

8.167 Further, as explained above, a number of ground handlers such as [REDACTED] and [REDACTED] which do not currently operate at MAN and have yet to bid on contracts at MAN have indicated to us that they are interested in entering MAN if profitable opportunities arise. In addition, there is a track record of airlines supporting entry. These instances include the entry of Airline Services to serve Flybe in 2018, the more recent entry of DHL to serve easyJet, and the entry of Premiere Handling in 2017/2018. Therefore, as well as the strong competitive constraints which the Parties are likely to face from other incumbent suppliers and recent bidding activity by credible providers, there will be a further competitive constraint from the threat of further entry by reputable ground handlers. For these reasons, we consider that entry and/or expansion at

¹⁵⁵ [REDACTED].

¹⁵⁶ [REDACTED].

¹⁵⁷ Aviator, DHL, dnata, Premiere and Swissport. In addition, Jet2.com self-handles.

MAN in ground handling would likely be timely, likely and sufficient to prevent any post-Merger deterioration of price and/or quality.

Countervailing buyer power

8.168 We have discussed above (see paragraphs 8.95 to 8.97) how airlines are able to attract bids from credible providers not already operating at the airport. In addition, airlines have awarded contracts to such providers and these providers have been successful in operating contracts when new to an airport, and in expanding further by supplying additional airlines. These factors indicate the ability of airlines to exercise buyer power pre-Merger. The reduction in choice of providers due to the Merger appears unlikely to undermine the ability of airlines to exercise buyer power in this way due to the number of current providers and potential entrants interested in operating at MAN. We have also seen the ability of airlines to switch between ground handlers and the ability of ground handlers to expand their capacity in order to serve these contracts.

8.169 Self-handling provides an alternative for some airlines and, so another potential route by which airlines can exercise a degree of buyer power. Jet2.com currently self-handles at MAN. We consider that some other airlines could move to this model if they considered that they were not receiving sufficiently competitive bids from third party ground handlers. For example, Flybe told us that, although it would prefer to not self-handle, it felt it would be able to resist an unjustified price increase post-Merger by either engaging in self-supply or by bringing in a new provider.

Views of third parties

8.170 We have considered the views of third parties carefully. We note that few concerns have been raised by airlines specifically regarding the impact of the Merger on ground handling at MAN. However, we also note that one major airline raised concerns about the impact of the Merger both on its choice of ground handlers at MAN and the impact that [REDACTED] may have on the quality of Airline Services' offering.

8.171 In relation to these concerns we consider that there are a sufficient number of current providers, and potential entrants, at MAN to ensure effective competition for airline ground handling contracts. We also understand that the [REDACTED] – which is considered a key part of Airline Services' competitive offer – is not a feature unique to Airline Services.

8.172 In relation to [REDACTED].

Overall assessment

8.173 For the reasons set out above, our provisional conclusion is that the Merger has not resulted in, and may not be expected to result in, an SLC in ground handling services at MAN.

9 Competitive effects – de-icing services

- 9.1 In this section, we consider the impact of the Merger on competition for de-icing services at LHR, EDI and GLA. We follow a similar approach to our assessment of competitive effects in relation to ground handling services.
- 9.2 First, we consider a number of general points raised by the Parties in relation to de-icing services, as well as our review of the Parties' internal documents. We then discuss the evidence in relation to LHR and then EDI and GLA, before reaching our provisional conclusions.

Views of the Parties – general points

- 9.3 The Parties told us that de-icing is primarily a weather dependent, seasonal service that is (in the UK) primarily provided to night-stop aircraft (ie those that spend the night on the ground at the airport). In particular, de-icing is dependent on the local (climatic) conditions. The Parties also told us that de-icing is only required in the winter, where it is necessary to enable an aircraft to depart an airport without snow, ice or frost contamination. The investment in the provision of a de-icing service may be more attractive to providers if the volume of night-stop aircraft they serve is comparatively high, as it is the majority of first-wave departures on cold mornings that require de-icing.
- 9.4 Menzies told us that it is a global provider of traditional ground handling services with minimal activities in de-icing. Menzies told us it derived [X]% of its 2017 UK turnover from ground handling, but only [X]% from de-icing.
- 9.5 Menzies also told us that, [X], it [X] bids for combined ground handling and de-icing contracts (“bundled contracts”). There are no UK airports where Menzies offers only de-icing (and does not supply ground handling). Menzies supplies de-icing services at five airports in the UK, while offering ground handling at ten UK airports. At the airports where Menzies does not offer its own de-icing services ([X], [X], [X], [X] and [X]), it offers a bundled contract but out-sources the de-icing services to [X], or has told the CMA that it would outsource de-icing contracts to [X] when winning bundled contracts at these airports.
- 9.6 In contrast, Airline Services told us it is a specialist de-icer which has recently expanded to provide some ground handling services.¹⁵⁸ It offers de-icing at 12

¹⁵⁸ Airline Services is also a specialist in aircraft presentation.

UK airports but offers ground handling at only two UK airports (LGW and MAN). Airline Services told us that it is, therefore, well placed to serve network contracts,¹⁵⁹ whereby airlines can leverage their requirements and supply contracts across a network of airports in order to improve bargaining power.

- 9.7 The Parties told us that Swissport is the closest competitor to each of the Parties. The Parties told us Swissport has the capability, intention to and record of supplying both bundled contracts and network contracts. Its UK de-icing footprint combined with its extensive ground handling capabilities mean that Swissport regularly competes with the Parties on the respective tenders that they bid for.¹⁶⁰
- 9.8 The Parties told us that airlines exert significant buyer power and are capable of pushing pricing down to levels that do not allow a provider to make the appropriate investments to ensure a high quality service. The Parties submitted that airlines, who are themselves operating in a competitive sector, are capable of exerting buyer power in a variety of ways, including: bundling services and airports (network contracts); imposing contract terms that transfer risk and cost to suppliers; threatening to switch to self-supply; leveraging their positions in multiple airports; joint purchasing through alliances; and sponsoring entry.
- 9.9 The Parties also told us that de-icing tends to result in low levels of profitability. Bundling the provision of de-icing with other services can reduce that financial risk, as can the use of other contracting methods [X].
- 9.10 The Parties submitted that de-icing suppliers have to be available to provide de-icing throughout the winter, which requires staff and equipment to be available in case they are required, whether or not any aircraft actually need to be de-iced. The Parties told us that de-icing companies in the UK tend to charge their customers based on the volume of de-icing fluid actually sprayed on customers' aircraft. This means therefore that de-icing companies only receive revenue when they de-ice aircraft, meaning that profit depends on the severity of winter.
- 9.11 Suppliers are therefore exposed to significant risks relating to the weather. In cold winters, where aircraft require regular de-icing, de-icing may be profitable; however, in warm winters, where demand for de-icing is low, suppliers may be unable to cover their costs.

¹⁵⁹ Response to the phase I decision, paragraph 19.2.

¹⁶⁰ Response to the phase I decision, paragraph 19.2-19.3.

- 9.12 Airline Services told us that it has partly moved away from this type of arrangement, [REDACTED]. Airlines Services told us, however, that it [REDACTED], while it believed that [REDACTED]. Menzies told us that it also has a mix of contracts, [REDACTED].
- 9.13 The Parties told us that the practicalities of running a standalone de-icing business are considered difficult as it is assumed that staff used during winter months for de-icing would need to be laid off for the summer when not required and then re-employed the following winter. De-icing services also require capital investment in specialised equipment (in storage tanks and de-icers).^{161 162}
- 9.14 Airline Services told us that, starting in 2014, it departed from operating its business this way and now [REDACTED]. This allows for greater risk sharing between airlines and de-icing providers, thus lowering Airline Services' risk exposure to warm winters.

Internal documents

- 9.15 We reviewed a number of internal documents from the Parties. From this document review we noted the following:
- (a) Menzies submitted [REDACTED] Commercial/Contract Investment Proposal Papers (CIPs) [REDACTED]. CIPs are used by Menzies to assess contracts globally.¹⁶³
 - (b) [REDACTED] of the CIPs (and some related internal documents) submitted addressed a contract for de-icing services only: [REDACTED].
 - (i) In its Request for Proposals (RFP) as part of its tender process for services, including ground handling and de-icing services, at airports including MAN and GLA, [REDACTED].
 - (ii) At the time of the RFP, Menzies had no de-icing service at GLA or MAN and outsourced the de-icing element of its bundled contracts there to [REDACTED].
 - (iii) Therefore, in assessing the RFP, Menzies [REDACTED].
 - (iv) Therefore, although the internal documents indicated that Menzies [REDACTED].
 - (c) [REDACTED].

¹⁶¹ Final Merger Notice, paragraph 116.

¹⁶² The Parties told us that de-icing equipment can be used for external presentation.

¹⁶³ Final Merger Notice, paragraph 175

(d) Airline Services explained that [REDACTED]. We therefore found that Airline Services had generated low volumes of potentially relevant internal documents. We observed [REDACTED], within the documents submitted.

9.16 We have incorporated evidence from the Parties' internal documents, where relevant, in our assessment of the competitive effects of the Merger (see paragraphs 9.187 to 9.188 below).

De-icing services at LHR

9.17 We set out below our assessment of the evidence in relation to any potential SLC in relation to de-icing services at LHR.

LHR airport

9.18 LHR is the largest airport in the UK. It is served by 81 airlines. In 2017, it handled 78 million passengers.¹⁶⁴ The number of independent de-icing providers at LHR has reduced over time. In 2012, LHR had eight de-icing providers, reducing to seven in 2014 and currently, it has four independent de-icing providers. HAL told us that this reduction is a consequence of suppliers having insufficient sustainable business and therefore having to exit the airport. It told us that airlines have generally been reluctant to pay a retainer to suppliers to guarantee income.

9.19 The four current independent de-icing suppliers are Menzies, Airline Services, Aero Mag and Cobalt. Each of Menzies and Cobalt also provides ground handling services at LHR, but Aero Mag and Airline Services do not offer this service there. The de-icing operations and resources of Menzies, Airline Services, and Aero Mag are of broadly similar size at LHR, while Cobalt's operation and resources are considerably smaller (see Table 17 and Table 18 below). Aero Mag entered at LHR in 2013 while the others have been established there for longer.

9.20 In addition to the independent de-icing providers, BA self-supplies at LHR. BA is by far the largest airline, handling almost 50% of total passengers at LHR. BA currently self-supplies de-icing services at LHR at Terminals 3 and

¹⁶⁴ <https://www.heathrow.com/company/company-news-and-information/company-information/facts-and-figures>. Accessed: 15 November 2018.

5, but also uses Airline Services to provide [REDACTED] to BA at [REDACTED].¹⁶⁵ As discussed below, BA tendered in 2018 for de-icing services at LHR.

9.21 The Parties have indicated that BA is likely to tender for these services again in [REDACTED].¹⁶⁶ The Parties explained that the [REDACTED]. Airline Services won the contract for [REDACTED].

Views of the Parties in relation to de-icing at LHR

9.22 In addition to the general points summarised in paragraphs 9.3-9.14 above, the Parties made a number of specific submissions in relation to de-icing services at LHR:

(a) The Parties acknowledged that they do compete for the same de-icing contracts; however, they believe that they compete only on a limited basis.¹⁶⁷ They also told us that they are not each other's closest competitors at LHR¹⁶⁸ and point to three other competitors: Aero Mag, Cobalt and IDS.

(b) The Parties submitted that there has been very limited bidding against each other since 2016. They told us that this shows airlines do not, in practice, see the Parties as close competitors in de-icing at LHR.¹⁶⁹ The Parties believe that there is clearly 'very strong' competition from other suppliers at LHR, new entrants and self-supply.¹⁷⁰

(c) In terms of companies already active in tenders and other potential entrants, the Parties told us:

(i) IDS operated in LHR from 2012 until 2015; it responded to [REDACTED] tender for de-icing services at LHR.

(ii) Swissport provides de-icing at more airports than any other provider and has existing relationships with multiple airlines and could easily enter LHR. Swissport already provides ground handling services at LHR.

¹⁶⁵ In addition, Iberia flights from LHR are de-iced by BA, as both Iberia and BA are part of the IAG group. However, not all IAG airlines are de-icing by BA at LHR. In particular, Aer Lingus is served by a third-party de-icing provider.

¹⁶⁶ [REDACTED].

¹⁶⁷ Response to phase 1 Decision, paragraph 130.

¹⁶⁸ Final Merger Notice, paragraph 285.

¹⁶⁹ Parties' Response to the CMA issues statement dated 18 September 2018, paragraph 11.

¹⁷⁰ Response to phase 1 Decision, paragraph 103.

- (iii) dnata provides ground handling services at LHR and has supplied de-icing services at LHR in the past and, therefore, it could easily bid and enter LHR; and
- (iv) [REDACTED] and ACS are both [REDACTED].
- (d) The Parties submitted that the CMA should take account of the possibility that BA's self-supply of de-icing services may be outsourced in [REDACTED].
- (e) The Parties said that Airline Services' lack of ground handling capability at LHR effectively disqualifies it from bidding for bundled de-icing services with ground handling contracts and Airline Services had not been invited to tender on this basis.¹⁷¹
- (f) The Parties told us that they have different business models and [REDACTED] for de-icing. Therefore, it is unlikely that they would be viewed as competitive alternatives by customers.¹⁷² The Parties told us that:
- (i) [REDACTED].¹⁷³ [REDACTED].
- (ii) [REDACTED].¹⁷⁴
- (g) The Parties told us that there will be a sufficient number of de-icing providers (or potential providers) following the Merger (either across the airport or from a terminal-by-terminal perspective).¹⁷⁵
- (h) [REDACTED].¹⁷⁶
- (i) Additionally, the Parties submitted evidence on the providers they regard as their "active competitors" in de-icing, dividing their business across different LHR terminals:¹⁷⁷
- (i) Terminal 2: Menzies, Airline Services and Aero Mag operate.
- (ii) Terminal 3: Menzies, Airline Services, Aero Mag and BA operate.
- (iii) Terminal 4: Menzies, Airline Services, Aero Mag and Cobalt operate.

¹⁷¹ Parties' Response to the CMA Issues Statement dated 18 September 2018, paragraph 9.

¹⁷² Parties' Response to the CMA Issues Statement dated 18 September 2018, paragraph 13.

¹⁷³ Parties' Response to the CMA Issues Statement dated 18 September 2018, paragraph 14.

¹⁷⁴ Parties' Response to the CMA Issues Statement dated 18 September 2018, paragraph 15.

¹⁷⁵ Final Merger Notice, Executive Summary, page 4.

¹⁷⁶ Parties' Response to the CMA Issues Statement dated 18 September 2018, paragraph 18.

¹⁷⁷ Final Merger Notice, Table 15.9.

(iv) Terminal 5: BA

(j) The Parties further submitted that only one licence is required for a provider to operate at LHR, regardless of from how many terminals it operates. The licence agreement will, however specify those terminals from which the provider may operate (subject to the usual means of amendment, in particular seeking approval from the Airport Operators Committee (AOC) and Heathrow Airport Limited (HAL)), the airport operator. The Parties submitted that it was their understanding that seeking approval to expand into another terminal is not particularly burdensome and does not present any real barrier to expansion.¹⁷⁸¹⁷⁹

(k) Additionally, the Parties submitted that HAL plays a leading role in influencing the conditions of supply of de-icing services at LHR.¹⁸⁰ While other airport operators do play a role in influencing supply conditions provided to airlines at their airports, HAL has historically been even more involved because de-icing at LHR has a particular political and economic sensitivity given the crucial and high profile role of that airport to the UK as a whole.¹⁸¹ The Parties told us they believe that, as a larger de-icer, (i) the merged entity would be able to provide a more resilient de-icing service at the airport; (ii) the merged entity would be able to liaise more effectively with HAL during snow days; and (iii) HAL is 'strongly supportive' of this Transaction precisely because of these efficiencies.

Views of third parties

Airlines

9.23 There are 81 airlines operating at LHR.¹⁸² We asked 34 airlines operating at LHR to comment. This included the largest 19 airlines at LHR in terms of passenger numbers, which accounts for approximately 85% of LHR's passenger volume.¹⁸³ Of the 34 airlines in total, we received a response from 20 during phase 2. We received responses from an additional two during phase 1. However, with the exception of the airlines listed below, all other airlines operating at LHR from which we received responses (including [REDACTED]),

¹⁷⁸ Final Merger Notice, paragraph 217.

¹⁷⁹ The Parties also submitted that a Provider does not need to hold the necessary licence at the time of bidding for a contract. Provided it can meet the necessary criteria for the award of a licence it can always apply after it has won a contract. This dynamic is not specific to LHR and is seen throughout the UK.

¹⁸⁰ Airline Services told us that HAL was a '[REDACTED]' airport operator.

¹⁸¹ Parties' Response to the CMA Issues Statement dated 18 September 2018, paragraph 19.

¹⁸² LHR website: <https://www.heathrow.com/company/company-news-and-information/company-information/facts-and-figures>

¹⁸³ Calculated based upon the passenger volume of August 2018, sourced from the Parties' data on de-icing contracts.

Eurowings and Emirates) did not raise concerns. Here we set out in more detail the concerns which some airlines have raised about the impact of the Merger on de-icing services at LHR.

- 9.24 IAG expressed a concern that the Merger may reduce competition in de-icing services at LHR, as both Menzies and Airline Services are both very credible suppliers of de-icing at the airport with a baseload of other activities that allow them to cover fixed costs. Whilst IAG currently primarily self-supplies de-icing services for BA flights at LHR, it recently tendered for de-icing services at the airport (as discussed at paragraph 9.20 above).¹⁸⁴ IAG invited [REDACTED] to tender. [REDACTED]. IAG identified that the number of de-icing companies operating at LHR has been shrinking, and that the Merger would further reduce the competitive landscape at LHR.
- 9.25 Virgin noted that the de-icing marketplace is very limited in all UK airports. Virgin considers the Merger to be anti-competitive. Virgin is not currently served by Menzies. However, Virgin did not rule out using Menzies in the future; it told us Menzies' quality may have improved over time, absent the Merger, such that it may have become a credible option were Virgin seeking to switch away from its current de-icing provider in the future. [REDACTED]. Virgin told us it understood that Cobalt largely outsources its de-icing at LHR.¹⁸⁵ Virgin indicated the challenges relating to introducing a new de-icing supplier to an airport, stating that the costs of entry are high, particularly relative to the uncertainty of revenues. Virgin also indicated that the CMA investigation has caused uncertainty in the marketplace and should Airline Services' de-icing be subject to a required sale, the marketplace could be restricted even further should a buyer not be found.
- 9.26 Lufthansa and Swiss told us that they had concerns about the impact of the Merger on de-icing services because the de-icing market is already very limited. Both stated that any further market consolidation would possibly result in monopolies, higher prices and lower performance. [REDACTED].¹⁸⁶ Lufthansa identified Aero Mag and IDS as having a 'very good reputation' generally but no rating was provided. Swiss also commented that Aero Mag and IDS generally have a 'very good reputation', [REDACTED]. It did not give a rating to Aero Mag at LHR specifically. [REDACTED]. Both Lufthansa and Swiss stated that the chances of awarding de-icing contracts to providers not present at an airport

¹⁸⁴ The Parties have explained that the tender [REDACTED].

¹⁸⁵ This is Virgin's view. Cobalt told us that it either provides de-icing itself or the airline contracts directly with a de-icing supplier. It does not subcontract.

¹⁸⁶ The questionnaire asked respondents to comment on and rate (from 1 to 5 where 5 is very strong) the relative strength of each supplier for de-icing services, including whether the airline would consider them as their future supplier.

are low, as de-icing is a safety critical operation and a safety audit is mandatory before a provider can be appointed.

- 9.27 TAP stated that the Merger would reduce competition in de-icing services as it would join two good suppliers. TAP rated both Menzies' and Airline Services' strength in de-icing services at LHR as a "3". TAP is currently supplied by Aero Mag at LHR, which it rated as a "4". TAP expects to retender its de-icing contract at LHR [REDACTED] and stated that it would consider both the Parties and Aero Mag credible competitors for this tender.
- 9.28 Flybe expressed concerns generally about the Merger, including the possible impact on Airline Services' quality of service under Menzies' control. Flybe stated that it had concerns regarding the impact of the merger on de-icing services at LHR. In assessing de-icing competitors at LHR, Flybe considered Aero Mag to be a credible provider. Flybe explained it was concerned that [REDACTED]. Flybe noted that there is less competition in de-icing than ground handling generally as a result of the greater barriers to entry and the risk associated with revenues. Flybe stated that the volume of de-icing operations for Flybe alone at LHR would mean that the introduction of a new supplier to serve Flybe would not be cost viable, unless the new supplier was able to contract additional airlines simultaneously.

De-icing providers

- 9.29 Most de-icing providers (Cobalt, IDS and Swissport) did not express any concerns with the Merger. In particular, Swissport considered that despite there being fewer operators and less entry into the de-icing market compared to ground handling, it is still possible for customers to receive competitive bids. Swissport noted that there are a number of competitive de-icing tenders ongoing at most airports. Swissport pointed to [REDACTED] with customers that override any airport specific relationship. [REDACTED].
- 9.30 Cobalt believes that airlines would appreciate an additional de-icing supplier at LHR, as customers may feel they will not have sufficient options in their choice of de-icing supplier post-Merger. However, Cobalt told us that it did not think it was likely that airlines would pay significantly more post-Merger for their de-icing services as they considered it unlikely that the remaining suppliers would have substantially different pricing models. Furthermore, airlines tend to prefer to pay for de-icing services on a per use basis, comprising of a call-out fee and a price-per-litre of fluid sprayed. Cobalt felt that the more pressing concern would be the quality of service provided by de-icing suppliers post-Merger. It believed that it is probable that the remaining competitor (Aero Mag) would focus on higher volume customers, resulting in a decline in quality for its smaller volume customers.

- 9.31 One supplier, Stobart, expressed concern that the Merger would harm competition (although these concerns were not specific to LHR). Stobart pointed to [redacted] would impact Airline Services' operation post-Merger. This may particularly be the case if Airline Services' staff allocated to de-icing are brought in to support Menzies ground handling staff if they are short-staffed, which could lead to [redacted].
- 9.32 Specifically, Stobart identified the impact of the Merger on de-icing as a *“Reduction in choice at airports and potential decline in wider service offering. Potential risk to staffing for de-icing being used on existing short-staffed handling operations and airlines being made to wait for de-icing services resulting in congestion at first wave and airlines unable to land due to outbound aircraft waiting to de-ice”*.
- 9.33 IDS did not express concerns regarding the Merger. It commented that the transaction would give Menzies a better foothold in the de-icing market. It did not feel that the Merger was a threat to its own business.
- 9.34 WFS said that it had no “qualified view” on the impact of the Merger on the de-icing market.

Views of LHR airport

- 9.35 Heathrow Airport Limited (HAL) did not express a specific expectation regarding the impact of the Merger on resilience of de-icing services at LHR. HAL stated that if, following the Merger, Menzies reduced resources at LHR, this may have a detrimental impact on de-icing resilience at the airport. However, HAL did not indicate that it expected that Menzies would reduce resources at LHR in this way. HAL told us it would act to overcome any increase in price/lessening of quality if these were to result from the Merger.
- 9.36 HAL told us that it considers Airline Services and Aero Mag to be closer competitors in the de-icing market at LHR than Airline Services and Menzies. This is because Airline Services provides only de-icing services at LHR, whilst Menzies is a very large supplier of ground handling services for which de-icing is considered to be an ‘add-on’ service.

Views of the CAA

- 9.37 The CAA did not raise any concerns regarding the competitive effects of the Merger on the supply of de-icing services generally. The CAA noted that it had not made a detailed assessment of the Merger and therefore could not comment on the impact of the Merger at LHR specifically. Whilst it was noted

that there would appear to be relatively few de-icing suppliers at LHR, the CAA stated that HAL is able to promote change in the market itself.

Measures of market share/concentration

- 9.38 In this part, we set out our analysis of de-icing market shares at LHR.
- 9.39 We consider that aircraft turns and passenger numbers are potentially useful measures in examining de-icing market shares. As with ground handling, measuring market shares on the basis of aircraft turns would not account for the size of aircraft, whereas measuring market shares using passenger numbers may provide a proxy measure since larger aircraft carry more passengers. Since the resources and activity required to de-ice aircraft of different sizes can differ substantially, we consider that measuring market shares on the basis of passenger numbers is, on balance, preferable.¹⁸⁷ Passenger numbers will also reflect that, other things being equal, an airline with higher passenger numbers is likely to imply a more attractive contract and, so, shares of supply on this basis will reflect how successful incumbents have been in securing these contracts. This would not be captured by simply counting the number of contracts each provider had secured. As explained in section 7 above, these shares of supply may influence a bidder's expectation of how strong other incumbents are in upcoming tenders, including larger tenders which may be more attractive for de-icing providers.
- 9.40 We note that some airlines have seasonal demand, so an airline that accounts for a high proportion of passengers across the year could account for a significantly lower number of passengers during the winter period when de-icing is required. We therefore measure market shares for de-icing based on passenger numbers over the winter period (October to May), since this is likely to reflect better suppliers' shares of de-icing.
- 9.41 We have also gathered information on revenues from de-icing suppliers at LHR, and the number of de-icing rigs that each supplier has at LHR. We therefore present shares of supply below on the basis of passenger numbers, revenues, and number of de-icing rigs.
- 9.42 As with ground handling, we report the shares of supply excluding self-supply. BA is the only airline at LHR that self-supplies de-icing services, and we understand that it does not offer de-icing services to other airlines, other than Iberia, which is part of the same group, IAG. As a result, we do not think that

¹⁸⁷ The Parties have stated that "While turn data may be a proxy for identifying which providers have activities at an airport it does not reflect the scale of their activities (as it does not reflect the size of aircraft and so the number of passengers they service)."

BA is a credible alternative supplier to other airlines and is therefore unlikely to exert a competitive constraint on the Parties and other de-icing suppliers.

Table 17: De-icing at LHR based on passenger numbers¹⁸⁸

Supplier	Winter 2014/2015	Winter 2015/2016	Winter 2016/2017	Winter 2017/2018
Menzies (incl. ASIG)	[40-50]%	[30-40]%	[20-30]%	[20-30]%
Airline Services	[20-30]%	[20-30]%	[30-40]%	[30-40]%
Aero Mag	[0-5]%	[30-40]%	[30-40]%	[30-40]%
Cobalt	[5-10]%	[5-10]%	[5-10]%	[5-10]%
dnata	[0-5]%	-	-	-
Gate Aviation	[0-5]%	-	-	-
IDS	[10-20]%	-	-	-

Source: Parties' data.

9.43 Table 17 above shows that Airline Services and Aero Mag are the two largest de-icing suppliers at LHR by passenger numbers, each having a [30-40]% share of supply. Menzies is the next largest supplier with [20-30]% and Cobalt is the smallest supplier with [5-10]% of passengers.

9.44 As noted above, there has been a reduction in the number of de-icing providers at LHR in recent years (see paragraph 9.18 above).

9.45 There have been some changes in the levels of market share of the four incumbent suppliers over recent years (with the exception of Cobalt, whose market share has remained constant at [5-10%]). Aero Mag entered LHR in September 2014 and increased its market share rapidly to [30-40]% the following winter. Menzies' market share has fallen from [40-50]% in winter 2014/15 to [20-30]% in winter 2017/18. Over the same period, Airline Services' market share has increased from [20-30]% to [30-40]% of passengers.

Table 18: De-icing at LHR based on revenues¹⁸⁹

Supplier	2014	2015	2016	2017	2018 (to end June)
Menzies (incl. ASIG)	[⊗]	[⊗]	[⊗]	[⊗]	[⊗]
Airline Services	[⊗]	[⊗]	[⊗]	[⊗]	[⊗]
Aero Mag	[⊗]	[⊗]	[⊗]	[⊗]	[⊗]
Cobalt	[⊗]	[⊗]	[⊗]	[⊗]	[⊗]
dnata	[⊗]	[⊗]	[⊗]	[⊗]	[⊗]
Gate Aviation	[⊗]	[⊗]	[⊗]	[⊗]	[⊗]
IDS	[⊗]	[⊗]	[⊗]	[⊗]	[⊗]

¹⁸⁸ We note that the de-icing shares of supply by passenger number at LHR provided by the Parties excludes BA's passengers from the calculations, on the bases that BA self-supplies de-icing at LHR. We note that Airline Services provides contingency de-icing for BA which is therefore not included in its market share. As a result, this is likely to slightly understate Airline Services' share of supply for de-icing at LHR.

¹⁸⁹ In calculating shares of supply by revenue at LHR, we note the following: [~~⊗~~].

9.46 Table 18 shows that the de-icing market shares based on revenues are significantly more volatile than market shares based on passenger numbers. This is not surprising. Passenger numbers reflect the aggregate size of the operations, as reflected in passenger numbers, of the airlines served by a particular de-icing provider at an airport. However, passenger numbers do not necessarily reflect the number of de-icing events that a de-icing provider undertakes in a period of time. The key driver of demand for de-icing (and therefore revenues) is the weather, which can vary significantly year-on-year, whereas passenger numbers are comparatively stable.¹⁹⁰ However, notwithstanding this, the broad position is similar, with Menzies, Airline Services and Aero Mag being the largest providers at LHR, whether calculating market shares based on passenger numbers or revenues.

9.47 We have also looked at the number of rigs operated by each de-icing supplier at LHR, since this may indicate the supplier's capacity. This provides another useful measure of market shares and is therefore a potentially useful measure of the extent to which suppliers view each other as competitors in tenders.

Table 19: Number of de-icing rigs by supplier¹⁹¹

<i>Supplier</i>	<i>Number of de-icing rigs</i>	<i>Share of total rigs</i>
Airline Services	[X]	[30-40]%
Menzies	[X]	[20-30]%
Aero Mag	[X]	[20-30]%
Cobalt	[X]	[10-20]%

Source: [X]

9.48 Table 19 above shows that the current capacity of de-icing suppliers based on number of rigs is consistent with the de-icing market shares reported above: Airline Services has the most rigs ([X]), with Menzies and Aero Mag having [X] fewer and Cobalt having [X] fewer rigs ([X]).

9.49 Table 20 shows that across all measures, we observe that the Parties have high market shares (for example, Airline Services has a [30-40]% market share based on passengers, and Menzies has [20-30]%), and that the increment in market share resulting from the Merger would be high ([20-30]% based on passenger numbers).

¹⁹⁰ Although, when de-icing services are required, a de-icing provider serving airlines with higher passenger numbers means a greater volume of work for that de-icing provider.

¹⁹¹ The data in the table has been provided by HAL. The Parties subsequently informed us that each of Menzies and Airline Services has [X] rigs at LHR. However, in order to have a consistent source for this data, we have maintained the figures provided by HAL. In any case, the adjustment to the shares would not be large.

Table 20: Current market shares by passenger numbers, revenues and number of de-icing rigs

<i>Supplier</i>	<i>Passenger numbers</i>	<i>Revenues</i>	<i>De-icing rigs</i>
Airline Services	[30-40]%	[X]	[30-40]%
Menzies	[20-30]%	[X]	[20-30]%
Aero Mag	[30-40]%	[X]	[20-30]%
Cobalt	[5-10]%	[X]	[10-20]%

Source: CMA analysis.

Competitive landscape at LHR

Current de-icing providers at LHR

9.50 In this part, we describe in more detail the four de-icing providers currently active at LHR, starting with the Parties before moving to the other current incumbents. Following this, we consider other potential providers which could enter.

Menzies

9.51 Menzies provides de-icing at Terminals 2, 3 and 4. It provides de-icing services to [X] airlines via a mix of bundled contracts and standalone de-icing only contracts. It told us that it is able to offer ground handling alongside de-icing services at T2 and T3 but does not have a ground handling operation at T4 and has not had ground handling services there for the last [X] months. Therefore, Menzies is not currently providing a bundle of ground handling and de-icing at T4.

9.52 Menzies started offering de-icing services at LHR following its acquisition of ASIG and ASIG's de-icing contracts in 2017. Menzies has won a further [X] contracts since taking over the ASIG business.

Airline Services

9.53 Airline Services is based at Terminals 2, 3 and 4 and provides de-icing services to [X] airlines. It also provides external cleaning of aircraft. [X].

9.54 Airline Services told us that [X].

9.55 Airline Services told us that HAL can be a [X] airport operator; requiring suppliers to demonstrate that the necessary resources are in place to serve contracts and limiting the extent to which equipment can be transferred into the airport from other stations due to strict environmental air quality controls.

Characteristics of the customers and contracts served by Menzies and Airline Services

9.56 The Parties have submitted that they tend to focus on different types of customers at LHR, although there may still be an overlap in the customers for which they compete. Below, in paragraphs 9.84-9.95, we discuss the bidding activity of the Parties at LHR and what this indicates about the extent to which they compete for the same or different customers. Here, we explore the Parties’ claim of focusing on different customers, by examining the characteristics of the customers and contracts of each of Menzies and Airline Services. The first difference discussed below is the claimed focus of Menzies on contracts which bundle ground handling, or elements of ground handling, with de-icing, while Airline Services focuses on de-icing contracts which do not offer elements of ground handling but may be bundled with some cleaning services.

Table 21: Menzies’ contract types at LHR

<i>Total Number of Contracts</i>	<i>Bundle of de-icing, full ground handling and cleaning</i>	<i>Bundle of de-icing and elements of ground handling</i>	<i>Bundle of de-icing and elements of ground handling and cleaning</i>	<i>Bundle of de-icing and cleaning services</i>	<i>De-icing only</i>
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Parties’ data.

9.57 As shown in the table above, Menzies holds [REDACTED] de-icing only contracts at LHR ([REDACTED]). The large majority of its contracts are for de-icing alongside other services. For [REDACTED] of the [REDACTED] contracts the contract is for a bundle of de-icing and (external) cleaning services. We understand that Airline Services only offers de-icing services at LHR. Therefore, Airline Services could compete directly for [REDACTED] of the [REDACTED] contracts which Menzies holds at LHR (i.e. those for de-icing only).

9.58 Of the remaining contracts, [REDACTED] are for a bundle of ground handling, de-icing and cleaning services. As Airline Services does not provide ground handling services at LHR, it is not currently in a position to offer a comparable service. The remaining [REDACTED] contracts are for a mix of de-icing and other services, including passenger handling, ramp, and flight ops. These are elements of what is normally provided in a full ground handling service and, therefore, it does not appear that Airline Services is currently in a position to supply these services or bid credibly for these contracts.

- 9.59 The second difference in the focus of Menzies and Airline Services, as submitted by the Parties, is the difference in the number of night-stopping aircraft served by each. As discussed further below, Airline Services has said that it has focused on serving customers with larger de-icing requirements, particularly those airlines with night-stopping aircraft at LHR. Menzies has [REDACTED] contracts with airlines with night-stopping aircraft, and these airlines have a small number of night-stopping flights: [REDACTED].¹⁹² Also reflecting its focus on being a de-icing and cleaning specialist, [REDACTED].
- 9.60 Airline Services explained that its [REDACTED]. Airline Services serves [REDACTED] customers with night-stopping aircraft; [REDACTED].

Table 22: Airline Services' and Menzies' Night-Stopping Aircraft

	Number of Customers with Night-Stopping Aircraft	Total Number of Night-Stopping Aircraft per Day
Airline Services	[REDACTED]	[REDACTED]
Menzies	[REDACTED]	[REDACTED]

Source: Parties' data.

- 9.61 The third area of potential difference between the Parties is the contracts which they expect to bid for in future.
- 9.62 Menzies submitted that it expects to bid for contracts involving both ground handling and de-icing. In addition, Menzies explained that, [REDACTED].
- 9.63 Absent the Merger, Menzies told us it would [REDACTED].
- 9.64 Airline Services indicated that [REDACTED]. [REDACTED], Airline Services has been exploring taking on new business and is aware of upcoming contracts which may be of interest to it. In particular, it noted that it had recently had discussions with [REDACTED]. Similarly, Airline Services told us that [REDACTED]. [REDACTED].

Aero Mag

- 9.65 Aero Mag is based at Terminals 2, 3 and 4 and provides de-icing services to 32 airlines. Aero Mag is a specialist de-icing provider and has eight de-icing rigs. It entered LHR in 2013 and is now the second largest de-icing provider. Aero Mag has a relatively high number of contracts as there are more airlines active at Terminal 4 than any other terminal at LHR. These airlines tend to operate single, daily services although some of its customers have night-stopping aircraft.

¹⁹² In addition, the contract with [REDACTED] is a contract for a bundle of de-icing, ground handling and cleaning services. As noted Airline Services is not currently able to supply ground handling services at LHR.

- 9.66 Aero Mag regularly bids for tenders at LHR and it told us that it was interested in expanding both in LHR and the UK more generally. It does not believe there to be barriers to expansion. Aero Mag explained that these opportunities would need to be profitable to be viable and they are selective in the business they bid for. Aero Mag does not have a minimum contract size and would bid for any contract if its cost targets are met. [REDACTED]. Aero Mag would not bid for [REDACTED].
- 9.67 Menzies provided internal documents which illustrated how [REDACTED].

Cobalt

- 9.68 Cobalt is the smallest provider of de-icing services at LHR and only provides de-icing at Terminal 4 and then only when bundled with ground handling. Cobalt provides ground handling at Terminal 3 but does not offer de-icing at Terminal 3. When [REDACTED] moved to Terminal 3 from Terminal 4, Cobalt outsourced the de-icing element of the bundled contract to Airline Services. [REDACTED]. Cobalt confirmed that it has no plans to offer stand-alone de-icing services at LHR.
- 9.69 Cobalt does not consider itself a viable alternative for customers seeking a change in de-icing supplier at LHR. Cobalt considers its main priority to be retaining its existing customers and is not interested in growing its de-icing business further at LHR. Cobalt may reduce its de-icing provision in the future. It told us that unless UK winters become harsher, it is likely that Cobalt will at some point exit the de-icing market. It explained that it previously operated four de-icing rigs at LHR, but this has been reduced to three (two of which it owns, one is leased); the costs of supporting a de-icing service is high whilst the returns tend to be low and uncertain.
- 9.70 [REDACTED] told us it does not consider Cobalt to be an appropriate choice of de-icing supplier due to Cobalt being a small provider [REDACTED]. Neither [REDACTED] or [REDACTED] invited [REDACTED] to tenders.

Other de-icing providers (potential entrants)

- 9.71 In addition to those de-icing providers currently present at LHR, we spoke to a number of potential new entrants.
- 9.72 Broadly, airlines expressed a preference for using the de-icing services of a supplier that is already present at the airport, since such a supplier is effectively tried and tested, as opposed to bringing in a new provider. However, this view was not unanimous. [REDACTED].

- 9.73 IDS is a specialist de-icing provider which entered LTN with an easyJet contract in 2015. IDS is a very large provider in North America and is well regarded by those aware of it. It has previously operated at LHR. However, due to mild winters and airlines being reluctant to pay a retainer, it exited in 2015.
- 9.74 IDS told us it is very selective with respect to its expansion plans and would only bid for profitable opportunities; it requires larger carriers with sizeable schedules. IDS believes it has good relationships with many customers at LHR and it would return to LHR if the right opportunity arose. For example, [redacted] which IDS considers to be a major customer with the right schedule. It could then build on these relationships and look for further expansion opportunities. IDS has also considered entering Terminal 2 and Terminal 3 but would need to ensure the contract fits within its business model.
- 9.75 Stobart is a new entrant into the provision of ground handling services to third party airlines in the UK; it won the easyJet contract at STN and is looking to expand in the UK. Stobart operates an airport (Southend) and provides de-icing services to the airlines there (including some which operate from LHR, such as Flybe and Air Malta). Due to this operation, Stobart believes that airlines consider Stobart to be a reputable provider of de-icing services and therefore, the fact that it has not previously provided these services at other UK airports would not cause customers to doubt its ability or resilience. Stobart told us it would be willing to offer de-icing services to customers who seek this service alongside ground handling and would consider offering stand-alone de-icing services if the contract were to provide sufficient scale to support this investment. Stobart is a very recent entrant into the supply of ground handling services to third parties, entering in 2018. It has not yet bid, or to be invited to bid, for any de-icing contracts, whether on a stand-alone, network or bundled basis; nor did it identify LHR (or any other airport) as a specific ‘target’ airport.
- 9.76 Swissport is the largest de-icing provider in the UK, providing de-icing services at 21 airports. (Airline Services is larger by [redacted].) It does not provide de-icing at LHR. It does provide ground handling at LHR to Flybe and SAS. [redacted]. One airline ([redacted]) indicated that Swissport had bid for a de-icing contract at LHR, but we do not consider this to be robust evidence of bidding activity by Swissport, given that Swissport has not recently operated de-icing services at LHR.
- 9.77 Swissport did not rule out the possibility of entering the de-icing market at LHR in the longer term. Specifically, it said, “if Swissport were able to win sufficient volume in ground handling operations at LHR, it may consider including de-icing as part of its services offered there”. However, given

Swissport's current customer profile it is currently "commercially unfeasible for Swissport to offer de-icing services at LHR". Swissport explained that its current customers have very few night-stopping aircraft, therefore they have very little need for de-icing services and so, rather than having a bundled contract for ground handling and de-icing services with Swissport, who then could outsource the de-icing element of the bundle, Swissport's airline customers at LHR contract directly with a de-icing provider for de-icing services. These contracts do not provide sufficient de-icing demand for Swissport to profitably offer de-icing as a service. [REDACTED]. Swissport would have to introduce at least two rigs as well as the purchase of storage tanks and fluid.

- 9.78 Swissport examined the recent BA tender at LHR. [REDACTED].
- 9.79 Dnata has previously provided de-icing services for three airlines at LHR. Dnata does not currently provide de-icing at LHR and does not have any de-icing rigs there.
- 9.80 Alpha Bravo was [REDACTED]. The Parties told us that Alpha Bravo is known to have access to significant funding for the right opportunity. However, the CMA is not aware of Alpha Bravo currently offering de-icing services in the UK and no third parties have mentioned this supplier.
- 9.81 WFS explained that [REDACTED].
- 9.82 Omniserv currently supplies staff to Norwegian's ground handling operation at LGW (RED), which undertakes both ground handling activities and de-icing. The Omniserv staff drive the rigs and spray the fluid, while RED provides the equipment, management of the service, and holds the commitment to service standards. Omniserv has had enquiries about providing staff to undertake these activities at LHR [REDACTED]. Omniserv told us that it is currently exploring expanding into ground handling services at LHR [REDACTED] it said that it would be open to supplying staff for de-icing only services at LHR.

Switching between the parties

- 9.83 We examined the extent to which de-icing contracts at LHR have changed hands between the Parties in recent years. No contracts have switched from Menzies to Airline Services or from Airline Services to Menzies since January 2015. In addition, Menzies confirmed that [REDACTED]; and Airline Services confirmed [REDACTED].

Bidding analysis

- 9.84 In this part, we set out our analysis of bidding in recent de-icing tenders at LHR. As set out above, we consider that the outcomes of previous tenders give useful information about the extent to which suppliers would consider each other to be significant constraints when bidders in future tenders.
- 9.85 We received information relating to 46 de-icing tenders at LHR, covering the period January 2016 to August 2018. Our information regarding tenders comes from both airlines and de-icing suppliers. See Appendix B for a more detailed explanation of our methodology for compiling the tender data.
- 9.86 As set out previously, we consider whether a supplier was ‘involved’ in a given tender, meaning whether it was invited to tender and/or bid for the contract.
- 9.87 Table 23 below sets out some summary statistics relating to de-icing tenders at LHR.

Table 23: summary statistics of de-icing tenders at LHR

	Bundled only	Network only	Standalone	Bundled network	Total
Number of Tenders	10	2	34	0	46
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis.

Note: Sample includes tenders for de-icing services at LHR from January 2016 – August 2018

- 9.88 In our sample of 46 tenders, Aero Mag was the supplier that was involved in the greatest number of tenders ([REDACTED]).¹⁹³ Menzies was involved in the second

¹⁹³ [REDACTED].

greatest number of tenders ([X]) followed by Airline Services, which was involved in [X] tenders. Cobalt was involved in [X] tenders and Dnata was involved in [X] tenders, while [X], IDS and Swissport were involved in [X] tender each. None of dnata, [X], IDS or Swissport are currently active in de-icing at LHR.

9.89 Ten of the 46 tenders were for bundles of de-icing and ground handling services. There were only two examples of tenders for network contracts and no examples of contracts to serve a bundle of ground handling and de-icing across a network of airports.

9.90 Table 24 and Table 25 below set out in more detail the specific tenders in which each of the Parties were involved.

Table 24: details of tenders in which Menzies was involved

<i>Airline</i>	<i>Year of tender</i>	<i>Terminal</i>	<i>Bundled with GH</i>	<i>Network</i>	<i>Other party bid</i>	<i>Winner</i>
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	Yes	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	Yes	No	No	[X]
[X]	[X]	[X]	Yes	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	No	No	Yes	[X]
[X]	[X]	[X]	No	No	Yes	[X]
[X]	[X]	[X]	Yes	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]

Source: CMA analysis of airlines' and de-icing suppliers' data

Note: Sample includes tenders for de-icing services at LHR from January 2016 – August 2018

Table 25: details of tenders in which Airline Services was involved

<i>Airline</i>	<i>Year of tender</i>	<i>Terminal</i>	<i>Bundled with GH</i>	<i>Network</i>	<i>Other party bid</i>	<i>Winner</i>
[X]	[X]	[X]	No	Yes	No	[X]
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]
[X]	[X]	[X]	No	No	No	[X]

[X]	[X]	[X]	No	No	Yes	[X]
[X]	[X]	[X]	No	No	Yes	[X]
[X]	[X]	[X]	No	Yes	No	[X]

Source: CMA analysis of airlines' and de-icing suppliers' data

Note: Sample includes tenders for de-icing services at LHR from January 2016 – August 2018

9.91 Table 24 and Table 25 above show that the Parties were involved in the same tenders on two occasions, in both cases for standalone de-icing contracts.

9.92 Both Parties bid for the [X] contract in 2017, which Menzies won. The Parties were the only two suppliers involved in the tender. [X] has (on average) one flight every [X] days and is, therefore, a very small airline at LHR.

9.93 Both Parties were invited to bid for [X]. Airline Services won the contract. [X] and [X] both also bid. Menzies stated that [X]. Menzies has stated that [X].

9.94 Our analysis indicates that there were a significant number of tenders where [X] was involved. Out of our sample of 46 tenders, [X].

9.95 The bidding data indicates that despite the Parties both being active in bidding for de-icing contracts at LHR, they do not appear to have competed against each other in the same tenders with only one exception for a very small de-icing contract (with [X] – 1 flight every 3 days) where the Parties bid for the same contract.

Barriers to entry and/or expansion

9.96 Barriers to entry and expansion are discussed in greater detail in Appendix C. However, they are also relevant to the assessment of competitive effects and our views are briefly summarised here.

9.97 In summary, we consider that the regulatory barriers to securing a licence to supply de-icing services at LHR are not particularly high for a reputable supplier of such services. The physical barriers are the requirement to have at least two de-icing rigs, trained staff, and a location to store de-icing tanks, rigs and other equipment and to locate staff. There are some challenges with each of these given the investment costs and the limited available space airside at an airport. Nonetheless, the absolute costs of entry are not particularly high. For example, Swissport quoted a figure of [X] to enter LHR.¹⁹⁴ We observe that Menzies has entered into de-icing services at GLA with [X] rigs and [X]; that Cobalt operates at LHR with three rigs; also, that it is possible to lease

¹⁹⁴ This is an estimate of the minimum investment required to enter the de-icing market.

rigs. [X]. Menzies told us that each used rig costs between [X] per month to lease and a new de-icing rig cost [X] per month to lease.

- 9.98 The main barrier to entry appears to be profitable opportunities to enter. The tendency to compensate de-icing providers on the basis of use, rather than a fixed annual payment, gives rise to great uncertainty in the revenues of providers. Additionally, we have been told that LHR is a relatively warm UK airport and, so, does not need de-icing frequently for those aircraft not spending the night at LHR. These factors, along with the fixed costs of entry and the total value of the de-icing market at LHR, mean that entry at LHR may not be particularly attractive, unless a provider is able to secure a large contract and/or have confidence it can acquire quickly a sufficient number of smaller contracts.
- 9.99 In summary, therefore, there are few physical or regulatory barriers to entry. Currently, new entrants may be deterred by the lack of profitable opportunities. The history of entry and expansion at LHR suggests that profitable opportunities arise less frequently than we have observed for ground handling at LGW and MAN. This is likely to relate, in part, to the mode of compensation for many de-icing contracts ('pay as you use'); the dependency of the service on weather conditions; and that the service is only required for certain months of the year. However, should things change, including as a result of the Merger, airlines, particularly larger ones at LHR, may seek to offer de-icing contracts which attract another supplier of de-icing services.

Provisional conclusion on whether the Merger will give rise to an SLC for the supply of de-icing services at LHR

Competition between incumbent de-icing providers

- 9.100 We have considered evidence in relation to tender, market share and switching of contracts. This evidence indicates that the Parties compete only to a very limited extent for de-icing contracts at LHR.
- 9.101 The combined market shares of the Parties, and increment due to the Merger, are high. This might indicate that the Parties compete closely and act as strong constraints on each other when bidding for de-icing contracts. Nevertheless, we consider that the evidence showing a lack of competitive interaction between the Parties in recent years is more informative of the competitive constraints which they place on each other than market shares. In particular, we have found that:
- (a) There are no instances of recent contract switches between the Parties.

(b) There is a very low incidence of the Parties being asked to bid for the same contracts.

(c) There is a very low incidence of the Parties competing against each other in bids for airline de-icing tenders.

9.102 The lack of competitive interaction between Menzies and Airlines Services at LHR appears to be consistent with the different focuses of the businesses and how they are perceived by airlines. Menzies is a large ground handling company which tends to offer de-icing services alongside ground handling services. It only offers de-icing services as part of a bundled contract with ground handling services at all UK airports except LHR. Similarly, at LHR it serves a number of contracts ([REDACTED] out of its [REDACTED] contracts) which are for elements of ground handling alongside de-icing services. Airline Services does not offer ground handling services at LHR and, so, is not in a position to compete for these contracts.

9.103 Airline Services is a specialist provider of de-icing services across [REDACTED] UK airports. It has submitted that, being a specialist de-icing provider, it has focused on securing contracts with airlines which will have the greatest need for de-icing services, whether this is due to having night-stopping aircraft at LHR, or having a large presence at LHR (for example, [REDACTED]), or airlines seeking a de-icing provider across multiple airports. For example, Airline Services has contracts with airlines which account for [REDACTED] night-stopping aircraft, while Menzies has contracts with airlines accounting for [REDACTED] night-stopping aircraft.

9.104 The difference in focus of the two providers does not mean that there are no customers for whom they would both bid. However, the bidding and switching data evidence indicates that this has occurred very rarely. This, in turn, suggests that they do not constrain each other materially. Similarly, we saw no evidence (for example, from internal documents) to indicate that either Menzies or Airline Services would have changed their approach materially going forwards, in the absence of the Merger, such that they would become closer competitive constraints on each other.

9.105 Post-Merger, aside from the merged entity, there will be two independent de-icing providers at LHR: Aero Mag and Cobalt.

9.106 Since its entry in 2013, Aero Mag has grown rapidly to take [REDACTED] of the 81 airline contracts at LHR (excluding those self-supplied by BA).¹⁹⁵ This has

¹⁹⁵ This is higher than the [REDACTED] airlines served by Menzies, the [REDACTED] airlines served by Airline Services, and the [REDACTED] airlines served by Cobalt.

allowed it to account for one third of passenger numbers at LHR. It told us it had achieved this by 'giving airlines an alternative in offering a world class multiple truck de-icing service at LHR' and 'by supplying [a] high level service to our airline partners.' Aero Mag does not provide ground handling services at LHR [REDACTED]. Therefore, the contracts that it can bid for are those contracts without ground handling, where each of Menzies and Airline Services could (but largely have not) bid. In our sample of 46 de-icing tenders at LHR, 36 were for contracts that included de-icing but not ground handling. Menzies won [REDACTED] of these contracts, compared to [REDACTED] which won [REDACTED] of these contracts and Airline Services which won [REDACTED] of these contracts.

- 9.107 Aero Mag is recognised as a reputable operator by many airlines. Aero Mag has indicated that it aims to grow where commercially attractive opportunities arise. Aero Mag identified no issues about expanding further at LHR. In addition, Aero Mag bid for [REDACTED] at LHR, which are both large contracts requiring an expansion of capabilities. These factors suggest that Aero Mag is likely to compete with the merged entity for de-icing contracts post-Merger.
- 9.108 As noted above (see paragraphs 9.68-9.70), Cobalt is primarily a provider of ground handling services at LHR and we would not expect, post-Merger, [REDACTED].
- 9.109 Overall, the evidence considered above indicates that the Parties compete only to a very limited extent at LHR. We also note that post-Merger Aero Mag (and, to a limited extent, Cobalt) will provide a competitive constraint on the merged entity.
- 9.110 Notwithstanding this provisional assessment, we consider below the prospects for entry and/or expansion, as well any countervailing buyer power which may exist post-Merger.

Competition from entry and/or expansion

- 9.111 As discussed above, we consider that Aero Mag's activity to date indicates an intention to expand further at LHR as profitable opportunities arise, but that Cobalt is not likely to seek to expand. We have also considered the prospects for further entry at LHR.
- 9.112 The entry and expansion of Aero Mag at LHR indicates that successful entry is possible when providers perceive that there are profitable opportunities.
- 9.113 IDS is a major de-icing provider in North America and currently provides de-icing services to easyJet at LTN, although it also operated at LHR until 2015. In addition, it was identified as a reputable provider by a number of airlines. Therefore, we consider IDS to be a credible bidder at LHR. In addition, IDS has indicated that it would like to re-enter LHR if profitable opportunities arise

and that it has good relationships with airlines there. IDS bid [REDACTED]. It said that, if it won a major customer with the right schedule, then it would seek to build on these relationships and look for further expansion opportunities. Therefore, if a major contract opportunity were to arise, we consider that IDS would bid and be a credible bidder.

- 9.114 Swissport is a major supplier of de-icing services at many UK airports. Swissport indicated that, if it were able to win sufficient volume in ground handling operations at LHR, it may consider including de-icing as part of its services offered there. Its current customer base for ground handling at LHR would not justify investing in entry into de-icing services at LHR. It also noted that LHR was one of the UK airports with the least demand for de-icing. We consider that Swissport would be a credible bidder for de-icing contracts at LHR, given its experience of de-icing services in the UK. However, [REDACTED]. Therefore, we do not place significant weight on Swissport as providing a competitive constraint.
- 9.115 Stobart has indicated that it wishes to expand its ground handling and de-icing services in the UK where profitable opportunities arise. However, it has yet to bid, or to be invited to bid, for any de-icing contracts in the UK, whether alongside ground handling or on a stand-alone basis.
- 9.116 As noted above (see paragraphs 9.96 to 9.99 on barriers to entry), there are some challenges around entering into de-icing services at LHR, particularly relating to the dependency of the weather and the compensation model used for many contracts. These factors may lead to an entrant not being financially sustainable unless it secures enough contracts which are sufficiently large. Being able to secure compensation on the basis of a retainer, rather than purely on a 'pay-as-you-use' basis, may also be an important determinant.
- 9.117 For the reasons discussed above, we consider that there are one or two credible potential bidders for de-icing contracts at LHR and that we would expect bidding by one or more of these credible bidders for large de-icing contracts at LHR but that entry for smaller scale contracts is less likely.

Countervailing buyer power

- 9.118 Similar to ground handling, we observe some self-supply of de-icing services. At LHR, BA has a very large operation and self-supplies. We are also aware of other airlines engaged in self-supply at other UK airports (for example, Ryanair at STN). Similarly, we are aware of other 'hybrid' self-supply models, whereby the staff undertaking the de-icing service is supplied by a third party while the equipment and management of the service is supplied by the airline (for example, Omniserv supports RED, the subsidiary of Norwegian, in this

way at LGW).¹⁹⁶ This suggests that self-supply is an option for airlines at an airport where they have a particularly large presence.

9.119 On the other hand, our view is that self-supply is very unlikely to be a credible option for airlines with relatively few aircraft movements at LHR, which do not have the scale of operations to justify investing in self-supplying de-icing services.

9.120 Airlines may exercise buyer power by sponsoring new entry at an airport. easyJet brought IDS to Luton as a de-icing provider. Winning the BA/IAG bundled ground handling and de-icing contract for GLA led to Menzies establishing a de-icing operation at that airport. Specific to LHR, we have seen the airport operator take actions which introduced Aero Mag to LHR in 2013. Therefore, if an airline has a sufficiently large operation at LHR, seeking credible bids from, and ultimately contracting with, a new entrant at the airport is an option. However, as with self-supply, we do not consider this to be an effective option for airlines with smaller operations.

9.121 Another way in which an airline may be able to exercise a degree of buyer power is by taking advantage of the relationship it has with the provider over the longer term and across multiple airports. For example, [REDACTED]. Similarly, Flybe indicated that one of the reasons, along with convenience, for having a network contract for de-icing was because this provided it with a degree of buyer power. Virgin indicated that it sought to protect itself from any excessive price increases or poor supplier performance by having no-fault termination clauses and fixed prices. It also indicated that, if a supplier were to increase prices without good reason, Virgin would hold the supplier to the contractual terms and indicate that it is not in their long-term interests to do so. These factors suggest that there may be a degree of buyer power emanating from the on-going network relationship which some airlines may have with providers. On the other hand, we did not see sufficient evidence of this to consider it to be a significant constraint at LHR.

Views of third parties

9.122 We have considered the views of third parties carefully. On the one hand, we note the views of the CAA, HAL and that most airlines did not raise concerns with the Merger.¹⁹⁷ In particular, we place some weight on HAL's position who

¹⁹⁶ Omniserv indicated that it would consider expanding further to provide staff for stand-alone de-icing services at other UK airports.

¹⁹⁷ [REDACTED] airlines – including [REDACTED], Eurowings and Emirates.

told us that it would act to overcome any increase in price/lessening of quality if these were to result from the Merger.

9.123 However, we also note that concerns have been expressed by a number of airline customers.¹⁹⁸ For the reasons set out in paragraphs 9.100 to 9.121 above, we consider that these airlines are likely to have sufficient options post-Merger such as to prevent any deterioration in prices and/or quality.

Overall assessment

9.124 For the reasons set out above, our provisional conclusion is that the Merger has not resulted in, and may not be expected to result in, an SLC in de-icing services at LHR. In reaching this provisional conclusion, we have placed significant weight on the evidence that there is very limited competitive interaction between the Parties.¹⁹⁹

De-icing services at EDI and GLA

9.125 We set out below our assessment of the evidence regarding whether the Merger results in an SLC for de-icing services at each of EDI and GLA.

9.126 We note that there are many similarities between the two airports: both airports have the same three de-icing suppliers active (Swissport, Airline Services, Menzies); the tender data shows a similar pattern of bidding; and a number of comments from the Parties and third parties apply equally to both airports. As a result, we consider it appropriate to set out the evidence relating to these two airports together, whilst highlighting any important differences in conditions of competition between the airports, before setting out our provisional conclusions separately for each.

EDI airport

9.127 EDI is a small to medium sized airport.²⁰⁰ 37 airlines operate out of EDI and the airport served 13.4 million passengers in 2017. There were 121,800 air traffic movements at EDI in 2016.²⁰¹ There are three de-icing providers at EDI: Swissport, Menzies and Airline Services. There is currently no self-supply by airlines of de-icing services at EDI.²⁰²

¹⁹⁸ IAG, Virgin, Lufthansa/Swiss, TAP, Flybe.

¹⁹⁹ The Parties have made submissions that the Merger will lead to Relevant Customer Benefits (RCBs) at LHR. However, given our provisional conclusion, we have not needed to consider these submissions in detail.

²⁰⁰ Final Merger Notice, paragraph 218.

²⁰¹ <https://www.edinburghairport.com/about-us/facts-and-figures>

²⁰² Final Merger Notice, paragraph 216.

GLA airport

9.128 GLA is a small to medium sized airport.²⁰³ 30 airlines operate out of GLA and the airport serves approximately 9.9 million passengers annually.²⁰⁴ There are roughly 102,000 air traffic movements at GLA per year.²⁰⁵ There are three de-icing providers at GLA: Swissport, Menzies and Airline Services. Menzies is a recent entrant to the market at GLA, having entered in 2017 to serve IAG's bundled contract.²⁰⁶ There is currently no self-supply by airlines of de-icing services at GLA.²⁰⁷

Views of the Parties in relation to de-icing at EDI and GLA

9.129 The Parties made a number of submissions that apply equally to de-icing at both EDI and GLA:

- (a) For both EDI and GLA, there is a 'fundamental difference' between how the two companies operate their businesses, and that they therefore do not compete with each other at these airports.²⁰⁸ Specifically, the Parties told us that at both airports, Menzies services bundled contracts, and that Airline Services is unable to compete for bundled contracts as it does not have ground handling operations at these airports.²⁰⁹ The Parties further submitted that, in contrast, Airline Services pursues and services network contracts at EDI and GLA, while Menzies is unable to compete for network contracts as it does not have a sufficiently wide de-icing footprint across the UK.²¹⁰
- (b) Moreover, Menzies does not offer de-icing only contracts at any UK airport other than at LHR. [REDACTED]. Outside of LHR Menzies only offers de-icing services as part of a bundled contract. Therefore, the Parties stated that they do not compete in the supply of de-icing services at EDI and GLA. The Parties submitted that this is evidenced in available tender data.²¹¹
- (c) Swissport competes directly with both Menzies and Airline Services at EDI and GLA, as it has the capacity to compete for both network and bundled contracts. The Parties explained that this is because Swissport has de-

²⁰³ Final Merger Notice, paragraph 240.

²⁰⁴ <https://www.glasgowairport.com/about-us/>

²⁰⁵ <https://www.glasgowairport.com/about-us/>

²⁰⁶ Final Merger Notice, paragraph 237.

²⁰⁷ Final Merger Notice, paragraph 238.

²⁰⁸ Response to phase I decision, paragraph 109.

²⁰⁹ Response to phase I decision, paragraph 110.

²¹⁰ Response to phase I decision, paragraph 112.1. Menzies supplies de-icing services at 4 airports. Airline Services supplies de-icing services at 12.

²¹¹ Response to the phase I decision, paragraph 113. See also later section on CMA's analysis of bidding data.

icing capabilities across a large number of UK airports and is also a major supplier of ground handling services at EDI and GLA.²¹²

9.130 In relation to de-icing at EDI, the Parties submitted that:

(a) The threat of entry by a new supplier into the de-icing market at EDI poses a competitive constraint. There are various contracts at EDI of a sufficient size to make entry attractive. The Parties contended that WFS' entry into ground handling at EDI²¹³ makes it a "very possible entrant for de-icing".²¹⁴

(b) [REDACTED].²¹⁵ [REDACTED].²¹⁶

9.131 In relation to de-icing at GLA, the Parties submitted that:

(a) Menzies recently entered the de-icing market at GLA in November 2017. Prior to its entry, it sub-contracted the de-icing elements of its bundled contracts to [REDACTED]. At GLA, Menzies continues to sub-contract to [REDACTED] apart from its contract with IAG;

(b) Prior to Menzies' entry into GLA, there were only two independent de-icers (Airline Services and Swissport) and there was nothing to suggest that this situation was not sufficiently competitive. The Parties explained that the Merger would simply return the market to this previous situation.

²¹⁷

9.132 Menzies also submitted that:

(a) It only entered the de-icing market at GLA to serve IAG's bundled contract for ground handling and de-icing services. [REDACTED];

(b) [REDACTED].²¹⁸ [REDACTED].

Views of third parties

9.133 In this part we consider the views of third parties – airlines, suppliers and the airport operators – on the impact of the Merger at EDI and GLA, noting any comments specific to individual airports.

²¹² Response to the phase I decision, paragraph 114.

²¹³ WFS entered the ground handling market at EDI in November 2018 to serve easyJet.

²¹⁴ Response to the phase I decision, paragraph 123.

²¹⁵ Response to the phase I decision, paragraph 126.

²¹⁶ Response to the phase I decision, paragraph 126.

²¹⁷ Response to phase I decision, paragraph 127.

²¹⁸ Response to the Phase I decision, paragraph 129.

Airlines

- 9.134 As noted above (see paragraphs 9.26 to 9.28), a number of airlines which fly from either EDI and/or GLA (specifically, IAG, Virgin, Flybe, and Jet2.com) raised concerns about the Merger in relation to de-icing services more generally, albeit that these concerns were not specific to EDI or GLA per se.²¹⁹ Lufthansa, which operates from both EDI and GLA, expressed a concern that the Merger would reduce competition at both airports.
- 9.135 Loganair raised a concern about the impact of the Merger that was specific to EDI and GLA. Loganair's concerns related to both de-icing and ground handling. It felt that consolidation of suppliers has a disproportionately high negative impact on 'regional' carriers. It submitted that smaller airlines are at a disadvantage for two reasons. First, in tenders, their choice is limited to incumbent suppliers and the Merger will therefore reduce choice. It submitted that this is not the case for larger airlines, which have sufficient scale to sponsor entry if the existing supplier options do not suit their business model. Second, Loganair submitted that de-icing suppliers often prioritise large carriers over small airlines (such as Loganair), leading to delays in the service it receives.
- 9.136 Furthermore, Loganair raised concerns about the loss of potential competition resulting from the Merger. It considered that Airline Services could have expanded into ground handling in the future. However, Loganair also set out that there is a limit to the number of de-icers an airport can sustain due to the high start-up costs and limited profit.
- 9.137 Other airlines we engaged with did not raise concerns regarding the Merger at EDI or GLA. Notably, IAG, which raised specific concerns at LHR, did not have concerns at EDI or GLA.

De-icing suppliers

- 9.138 No de-icing competitors raised concerns about the Merger specifically in relation to EDI or GLA.
- 9.139 In relation to the preferred mode of contract, Swissport believes that customers are flexible to changing their strategies to adopt a different approach, ie customers previously on 'network' contracts, switching to single site. Some of Swissport's customers have previously held network contracts for years and then switched to single site, single service contracts.

²¹⁹ IAG, Virgin, Flybe, and Jet2.com operate from GLA. IAG, Flybe, and Jet2.com operate from EDI.

Airport operators

Views of EDI airport

- 9.140 EDI airport authority did not have concerns about the competitive effects of the Merger. It stated that it did not have a view on what the ‘right’ number of providers at the airport would be. It did not consider the number of de-icing providers at the airport to be an issue and considered that airlines operating there appear to be satisfied. EDI airport noted that airlines have not raised concerns with it regarding the number of active de-icing suppliers at EDI, either pre or post-Merger. It also did not express a view on whether the level of de-icing activity at EDI is likely to be able to support the viable operation of three de-icing suppliers.
- 9.141 Overall, EDI airport believed that consolidation between Menzies and Airline Services would allow for a stronger business, for both de-icing and ground handling services.

Views of GLA airport

- 9.142 GLA airport authority did not have concerns regarding the Merger. It told us that three de-icing suppliers would be its preferred scenario as there would be greater competition. However, it noted that in the past there had been two de-icing suppliers and the airport did not experience problems with performance. Therefore, the airport authority believed that two suppliers is sufficient. GLA airport had not been contacted by airlines concerned about de-icing more generally but also noted it would not expect airlines to do so if they did have concerns, but rather airlines would contact their de-icing provider.

Competitive landscape at EDI and GLA

De-icing at EDI

- 9.143 Menzies has [REDACTED] de-icing contracts at EDI.²²⁰ All of these contracts are bundled contracts with ground handling services. At EDI, Menzies serves all the elements of the contracts itself. However, Menzies [REDACTED]. This is consistent with its approach at all other UK airports except LHR. [REDACTED].

²²⁰ Menzies serves [REDACTED].

- 9.144 Airline Services has [REDACTED] de-icing contracts at EDI.²²¹ These contracts are all network contracts; for de-icing services only, across multiple airports. Airline Services does not supply ground handling services at EDI and therefore does not bid for (nor serve) any bundled contracts at the airport.
- 9.145 Swissport has [REDACTED] de-icing contracts. It also provides ground handling services for all these contracts and therefore competes to provide bundled services.²²² However, we note [REDACTED].
- 9.146 At EDI, airlines tend to hold a preference for either bundled contracts or network de-icing only contracts. This is mostly dependent on their demand for de-icing at the airport, which varies according to their volume of night-stopping aircraft. If an airline has a greater volume of night-stopping aircraft, it is more likely to contract its de-icing separately and not part of a bundled contract, as de-icing is a greater proportion of its costs.

De-icing at GLA

- 9.147 Menzies has [REDACTED] de-icing contract at GLA; a bundled contract with [REDACTED]. As explained in paragraph 9.132, Menzies entered the de-icing market at GLA in November 2017 in order to serve this [REDACTED] contract. Prior to this, it outsourced the de-icing elements of its bundled contracts to [REDACTED] and continues to do so for all other bundled contracts at the airport.
- 9.148 Airline Services serves [REDACTED] de-icing contracts at GLA, all of which are network contracts.²²³ Airline Services does not provide ground handling at GLA and therefore, it does not bid for (nor serve) any bundled contracts where airlines require both ground handling and de-icing.
- 9.149 Swissport serves [REDACTED] de-icing contracts at GLA.²²⁴ Swissport also provides ground handling services for all these contracts. However, our analysis of tenders at GLA indicates that Swissport has also bid for at least [REDACTED].

Potential entrants to EDI and/or GLA

- 9.150 GLA airport stated that it does not expect there to be any upcoming tenders that could support a new entrant. It noted that it has not had conversations with other de-icing suppliers that may be interested in entering GLA.

²²¹ Airline Services serves [REDACTED].

²²² Swissport serves [REDACTED].

²²³ Airline Services serves [REDACTED].

²²⁴ Swissport serves [REDACTED].

9.151 [REDACTED] told us [REDACTED] at EDI and GLA. [REDACTED].²²⁵ [REDACTED]. [REDACTED]. [REDACTED] told us this [REDACTED] would be specifically tailored to focus on [REDACTED] and would [REDACTED].

9.152 [REDACTED] told us [REDACTED]. [REDACTED].

9.153 IDS told us it is very selective in terms of its expansion plans. However, it is looking at opportunities to expand in the UK and has considered EDI and GLA. It told us that EDI and GLA are “on IDS’ radar” and it spoke to the respective airport authorities a few years ago. IDS told us it had had discussions with [REDACTED]. IDS noted that it is selective about which customers it would work with and explained it needs a large carrier with a significant schedule to support its business model.

9.154 IDS noted that the location of EDI and GLA is attractive due to the greater likelihood of snow in the north of the UK. IDS would be interested in submitting a proposal, but it would have to be for the right customers with the right scheduling and is also dependent on the timing of the tender.

9.155 Stobart provides de-icing services at Southend airport to all passenger aircraft and due to this operation, Stobart feels it is a reputable de-icing provider. It does not currently provide de-icing at any other location. Stobart indicated that it would consider bidding for de-icing opportunities, whether this be as part of a broader ground handling contract or as a stand-alone de-icing operation (for both single airport and network contracts). Stobart said this in reference to de-icing in the UK more generally (without specifically identifying EDI or GLA as target airports). It does not consider the cost of the rigs or the lead time to be a significant challenge but does explain that contracts would have to be of a sufficient size. So far, Stobart has not received a direct approach from an airline inquiring about de-icing. However, it believes a lot of airlines have recently awarded their contracts or are half-way through; plus Stobart are relatively new to the industry and airlines are “sussing them out”.

9.156 WFS currently provides ground handling at EDI. [REDACTED].

Measures of market share/concentration

9.157 In this part, we set out our analysis of de-icing market shares at EDI and GLA.

9.158 As set out above in our analysis of de-icing at LHR, we consider that passenger numbers and revenues are the most suitable measures of market share available to us for measuring de-icing market shares. However, as discussed further below in relation to the tender data, we consider that the

²²⁵ [REDACTED].

evidence showing a lack of competitive interaction between the Parties in recent years is more informative than market shares of the competitive constraints which they place on each other.

De-icing market shares at EDI

Table 26: De-icing market shares at EDI by passenger numbers

<i>Supplier</i>	<i>Winter 2014/2015</i>	<i>Winter 2015/2016</i>	<i>Winter 2016/2017</i>	<i>Winter 2017/2018</i>
Menzies	[5-10]%	[5-10]%	[5-10]%	[20-25]%
Airline Services	[40-50]%	[40-50]%	[40-50]%	[40-50]%
Swissport	[50-60]%	[40-50]%	[40-50]%	[30-40]%

Source: Parties' data.

9.159 Table 26 above shows that Airline Services is the largest provider of de-icing services at EDI as measured by passenger numbers. Throughout 2014/15 to 2016/17, Airline Services and Swissport both had similar market share (between [40-50]%), with Swissport slightly larger in 2014, but slightly smaller in 2015/16 and 2016/17. Menzies had a low market share during this period of [5-10]%.

9.160 In October 2017, Menzies took over the IAG de-icing contract at EDI, which resulted in its share of supply by passenger numbers increasing from [5-10]% in 2016/17 to [20-30]% in 2017/18. Swissport, which previously supplied IAG, saw its market share reduce correspondingly, from [40-50]% in 2016/17 to [30-40]% in 2017/18.

Table 27: De-icing market shares at EDI by revenue

<i>Supplier</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Menzies	[5-10]	[5-10]	[5-10]	[5-10]	[5-10]
Airline Services	[40-50]	[40-50]	[40-50]	[40-50]	[40-50]
Swissport	[50-60]	[40-50]	[40-50]	[40-50]	[30-40]

Source: CMA analysis of suppliers' data

9.161 Table 27 shows suppliers' market shares based on revenue and shows a similar situation to the market shares by passenger number. The main differences are that [~~5-10~~].

9.162 The overall situation, however, is similar using both measures. The merged entity has a high market share; [60-70]% based on passenger numbers and [~~5-10~~]% based on revenues. In addition, under both measures, the merger increment is substantial; [20-30]% when measured based on share of passenger numbers and [~~5-10~~]% based on revenues.

De-icing market shares at GLA

Table 28: De-icing market shares at GLA by passenger numbers

Supplier	Winter 2014/2015	Winter 2015/2016	Winter 2016/2017	Winter 2017/2018
Menzies	[0-5]%	[0-5]%	[0-5]%	[10-20]%
Airline Services	[60-70]%	[60-70]%	[60-70]%	[60-70]%
Swissport	[40-50]%	[40-50]%	[40-50]%	[20-30]%

Source: [REDACTED].

9.163 Table 28 above shows that Airline Services is the largest provider of de-icing services at GLA as measured by passenger numbers, with its market share remaining constant at [60-70]% over the period. Swissport's market share was a constant [40-50]% from 2014/15 to 2016/17. In October 2017, Menzies entered GLA to take over the IAG de-icing contract from Swissport. As a result, Menzies had a market share of [10-20]% in 2017/18, while Swissport's market share fell to [20-30]% in the same year.

Table 29: De-icing market shares at GLA by revenue

Supplier	2014	2015	2016	2017	2018
Menzies	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Airline Services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Swissport	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis of suppliers' data

9.164 Table 29 shows suppliers' market shares based on revenue and shows a broadly similar situation to the market shares based on passenger numbers. The main differences are that [REDACTED].

9.165 As with EDI, the overall situation [REDACTED]. The merged entity has a very high market share; [70-80]% based on passenger numbers and [REDACTED]% based on revenues. In addition, under both measures, the merger increment is substantial; [10-20]% when measured based on share of passenger numbers and [REDACTED]% based on revenues.

Switching between the Parties

9.166 We examined the extent to which de-icing contracts at EDI and GLA changed hands between the Parties between January 2015 and August 2018.

Switching at EDI

9.167 We note that there have been no instances of airlines switching de-icing suppliers between the Parties at EDI over this period.

9.168 We observed two examples of airlines switching from Swissport to Menzies at EDI: IAG’s de-icing supplier at EDI was Swissport prior to Menzies’ taking over the contract in October 2017; [redacted] de-icing supplier was Swissport until it switched to Menzies in June 2018.

9.169 We also observed two examples of airlines switching from Menzies to Swissport: [redacted], which was supplied by Menzies until it switched to Swissport in August 2015; [redacted], which was supplied by Menzies until it switched to Swissport in April 2016.

Switching at GLA

9.170 Similarly, there have been no instances of airlines switching de-icing suppliers between the Parties at GLA over this period.

9.171 We observe only one example of airlines switching de-icing supplier at GLA: IAG was supplied by Swissport prior to Menzies winning the contract in October 2017.

Bidding analysis

9.172 In this part, we set out our analysis of bidding in recent de-icing tenders at EDI and GLA. As set out above, we consider that the outcomes of previous tenders give useful information about the extent to which suppliers would consider each other to be significant constraints when bidders in future tenders.

Bidding analysis at EDI

9.173 We received information relating to 10 de-icing tenders at EDI, covering the period January 2016 to August 2018. Our information regarding de-icing tenders at EDI is sourced from airlines. See Appendix B for a more detailed description of our methodology for compiling the tender data.

9.174 Table 30 below sets out summary statistics relating to de-icing tenders at EDI.

Table 30: Summary statistics of de-icing tenders at EDI

	Bundled only	Network only	Standalone	Bundled network	Total
Number of Tenders	5	3	0	2	10

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Number of tenders where both Parties were involved	0	0	0	0	0
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: CMA analysis.

Note: Sample includes tenders for de-icing services at EDI from January 2016 – August 2018

9.175 In our sample of ten tenders, Swissport was involved in more tenders than any other supplier, having been involved in [redacted], winning [redacted]. Menzies was involved in the second greatest number of tenders, having been involved in [redacted], winning [redacted]. Airline Services was involved in [redacted] tenders, winning [redacted].

9.176 We note that there were no examples of both Parties being involved in the same tender. The Parties have argued that they bid for different types of contract at EDI: that Menzies bids for bundled contracts, whilst Airline Services bids for network contracts. The evidence from the tender data is consistent with this. Menzies has bid exclusively for contracts that were bundled with ground handling services.²²⁶ In contrast to this, all of the [redacted] contracts for which Airline Services has bid were network contracts.

9.177 Our sample therefore indicates that whilst both Parties have been involved in de-icing tenders at EDI, they do not appear to compete for the same tenders.

9.178 We further note that there are examples of Swissport being involved in the same tenders as both Airline Services and Menzies in our sample. Specifically, Swissport was involved in [redacted] of the same tenders as Airline Services²²⁷ and [redacted] of the tenders that Menzies was involved in. This is consistent with the Parties' submission that Swissport is a direct competitor to both Airline Services and Menzies at EDI, as it has the capacity to bid on both bundled and network contracts.²²⁸

9.179 We observed [redacted].

²²⁶ Including the IAG contract which was both a bundled and network contract.

²²⁷ [redacted].

²²⁸ See Parties' Views section.

Bidding analysis at GLA

9.180 We received information relating to nine de-icing tenders at GLA, covering the period January 2016 to August 2018. As with EDI, our information regarding de-icing tenders at GLA is sourced from airlines. See Appendix B for a more detailed explanation of our methodology for compiling the tender data.

9.181 Table 31 below sets out summary statistics relating to de-icing tenders at GLA.

Table 31: summary statistics of de-icing tenders at GLA

	Bundled only	Network only	Standalone	Bundled network	Total
Number of Tenders	1	5	0	3	9
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Number of tenders where both Parties were involved	0	0	0	0	0
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis.

Note: Sample includes tenders for de-icing services at GLA from January 2016 – August 2018

9.182 In our sample of nine tenders, Swissport was the supplier involved in the most tenders, having been involved in [REDACTED], winning [REDACTED]. Airline Services was involved in the second greatest number of tenders, being involved in [REDACTED], winning and winning [REDACTED]. Menzies was involved in [REDACTED] tenders, winning [REDACTED].

9.183 As with EDI, the Parties were not invited to bid for any of the same contracts in our sample. Again, this is consistent with the Parties' submission that Menzies focuses on bundled contracts, while Airline Services focuses on network contracts. The tender data shows that [REDACTED] tenders in which Menzies

was involved were for bundled contracts.²²⁹ In contrast, all of the [REDACTED] tenders in which Airline Services was involved were for network contracts.

9.184 Our sample therefore indicates that whilst both Parties have been involved in de-icing tenders at GLA, there were no examples of both Parties being involved in the same tender.

9.185 We observe within our sample examples of Swissport being involved in the same tenders as both Airline Services and Menzies. Specifically, Swissport was involved in [REDACTED] of the tenders in which Airline Services was involved²³⁰ and [REDACTED] of the tenders in which Menzies was involved.²³¹ As with EDI, this suggests that Swissport is able to compete for both network and bundled contracts and therefore competes with both Parties for de-icing contracts at GLA.

9.186 Similarly, to EDI, we observed [REDACTED].

Other measures of competitive interaction

9.187 We have considered whether there may be other sources of information, aside from switching and tender data, which is probative of the competitive constraints between the Parties and between other sources of competition. At paragraph 9.15, we summarised our findings from the Parties' internal documents. There is nothing in the internal documents of the Parties to indicate that either [REDACTED]; or that [REDACTED]. Indeed, we consider that it is informative that, outside of LHR, Menzies does not offer stand-alone de-icing services and that these services are always offered as part of a bundle with de-icing services.

9.188 In addition, the internal documents also do not identify [REDACTED]. However, it is notable that [REDACTED].

9.189 We also explored the willingness of airlines to switch between network contracts and bundled contracts. Airlines often indicated that, in general, they would contract in a way that best suits their commercial interest.²³²

9.190 On the other hand, it is clear that airlines often had a strong preference for contracting in a particular way. In particular, different airlines expressed different preferences for network or bundled contracts depending on which

²²⁹ [REDACTED].

²³⁰ [REDACTED].

²³¹ [REDACTED].

²³² For example, TUI told us that it is willing to substitute between the network contracts and bundled contract if it were to give it an improved commercial outcome.

would give them the better commercial terms or buyer power. For example, Loganair expressed a strong preference for bundled contracts in order to have greater leverage over its de-icing provider. It explained that when de-icing is required, it is needed by all airlines at the same time. If its contract is bundled with ground handling, it feels it has more leverage over the supplier to ensure it receives a timely and efficient de-icing service. Flybe expressed a preference for network de-icing contracts for reasons of convenience and buyer power. This suggests that airlines have a strong preference for either bundling or network contracts and, therefore, would not see the Parties as close substitutes.

9.191 In addition, we explored whether third parties saw the Parties as alternatives. Airlines did not consider Menzies and Airline Services to be substitutes for each other at EDI and GLA. For example, TUI told us that Menzies did not prove an attractive option in relation to de-icing because, in its view, Menzies is not a significant de-icing competitor due its limited de-icing footprint in the UK.

9.192 This additional evidence is consistent with the evidence we have discussed above in relation to switching and tendering.

Barriers to entry and/or expansion at EDI and GLA

9.193 In this section, we summarise our assessment of barriers to entry and expansion at EDI and GLA. This is discussed in more detail in Appendix C.

9.194 As at LHR, we consider that the regulatory barriers to securing a licence to supply de-icing services at EDI and GLA are not particularly high for a credible de-icing supplier. For example, EDI airport told us that its role is to respond to airlines' requests to introduce a new supplier. However, no concerns have been raised relating to the number of de-icing suppliers at EDI and the airport has not undertaken any steps to encourage new entrants.

9.195 Similarly to LHR, the main barrier to entry appears to be profitable opportunities to enter.²³³ We note that EDI and GLA are both significantly smaller than LHR, and as such their respective de-icing markets may not be large enough to support a greater number of de-icing suppliers. This may therefore discourage entry. As stated in paragraph 9.150, GLA told us that it did not expect there to be any upcoming contracts at the airport that could support a new entrant. Moreover, Aero Mag told us that it would only consider

²³³ See paragraph 9.151 regarding [REDACTED].

new airports where the business model justifies the required investment and would generate acceptable profitability.

- 9.196 However, we note that EDI and GLA are both colder airports than LHR. Colder weather implies that airlines will have a greater demand for de-icing services. IDS told us that it has previously considered possible expansion at EDI and GLA, and that the location of these airports is attractive due to the weather. Entry by a new de-icing provider may therefore be a more attractive prospect than at relatively warmer airports.

Provisional conclusion on whether the Merger will give rise to an SLC for the supply of de-icing services at EDI

Competition between incumbent de-icing providers

- 9.197 We have considered evidence in relation to tender, market share and switching of contracts. This evidence indicates that the Parties do not appear to compete for de-icing contracts at EDI.
- 9.198 The combined market shares of the Parties, and increment due to the Merger, are high. This might indicate that the Parties compete closely and act as strong constraints on each other when bidding for de-icing contracts. Nevertheless, we consider that the evidence showing an absence of competitive interaction between the Parties in recent years is more informative than market shares of the competitive constraints which they place on each other. In particular, we have found that:
- (a) There are no instances of contract switches between the Parties at EDI since January 2015;
 - (b) There are no instances of the Parties being asked to bid for the same contracts, and no instances of the Parties competing against each other for the same de-icing contracts.
 - (c) We have found no evidence in our examination of the Parties' internal documents of the Parties considering each other as competitors for de-icing tenders at EDI.
- 9.199 This absence of competitive interaction between Menzies and Airline Services at EDI is consistent with the Parties' submission that their businesses at the airport have different foci. As explained above in paragraph 9.102, Menzies is predominantly a ground handling company that offers de-icing services as part of a bundled contract. Menzies has [redacted] de-icing contracts at EDI, all of which are bundled with wider ground handling services. Moreover, the [redacted]

tenders within our sample that Menzies was involved in were all for bundled contracts.²³⁴

9.200 In contrast, Airline Services is a specialist de-icing provider and offers de-icing services across 12 UK airports.²³⁵ As a result of offering de-icing services at a wider range of airports, Airline Services is able to supply airlines seeking a single provider across multiple airports. Additionally, network contracts may be preferred by airlines with a greater demand for de-icing services.²³⁶ At EDI [REDACTED] of the de-icing contracts held by Airline Services are for network contracts. Moreover, our bidding analysis indicated that [REDACTED] out of the [REDACTED] tenders that Airline Services was involved in were for network contracts.

9.201 Given the limited number of airports at which Menzies offers de-icing services, it is a less credible competitor for network contracts. Moreover, Airline Services does not offer ground handling services at EDI and is therefore unable to compete for bundled contracts at this airport.

9.202 This distinction between the Parties' businesses at EDI was also expressed to us by airlines. As explained above in paragraph 9.191, TUI told us that it did not consider Menzies to be a significant de-icing competitor due to its limited de-icing footprint in the UK.

9.203 Post-Merger, Swissport will remain as an independent de-icing provider at EDI. As explained above in paragraph 9.145, Swissport holds [REDACTED] de-icing contracts at EDI and also provides ground handling services for all of these contracts. Swissport is therefore a credible competitor for bundled contracts at EDI. As noted previously in paragraph 9.114, Swissport is also a major supplier of de-icing services at many UK airports, and as such is a credible competitor for network contracts. We note that Swissport has previously bid for at least [REDACTED].

9.204 Analysis of tenders and contracts changing hands is consistent with this assessment, indicating that Swissport appears to compete with both Menzies and Airline Services at EDI for bundled and network de-icing contracts respectively. We expect that Swissport post-Merger will continue to compete for these types of contract and to exert a strong competitive constraint on the merged entity.

²³⁴ Including [REDACTED] contract, which was both bundled and network.

²³⁵ See paragraph 9.6

²³⁶ See paragraph 9.176

9.205 Notwithstanding this provisional assessment, we consider below the prospects for entry and/or expansion, as well any countervailing buyer power which may exist post-Merger.

Competition from entry and/or expansion

9.206 As explained in paragraph 9.154, IDS considered the location of both EDI and GLA to be attractive due to the greater likelihood of snow. IDS has previously had discussions with both the airport authority and [REDACTED] concerning offering de-icing services at EDI. IDS indicated that it would be interested in bidding for an appropriate tender. As at LHR (see paragraph 9.113) we consider that IDS would be a credible bidder at EDI if a relevant contract opportunity were to arise.

9.207 Furthermore, [REDACTED] indicated to us that it is [REDACTED].²³⁷

9.208 We therefore consider that there are credible potential bidders for de-icing contracts at EDI. However, as explained above (see paragraph 9.117) we consider that entry is less likely for smaller scale contracts.

Countervailing buyer power

9.209 Unlike at LHR (see paragraph 9.118) we currently observe no self-supply of de-icing services at EDI. We consider that self-supply is unlikely to be a credible option for airlines with relatively few aircraft movements at EDI.

9.210 However, we note that [REDACTED] has informed us [REDACTED]. [REDACTED].²³⁸

9.211 As noted in paragraph 9.121, we consider that airlines with network contracts may also be able to exercise a degree of buyer power by taking advantage of the relationship they may have with their provider over the longer term and across multiple airports. However, as with LHR, we did not see sufficient evidence of this to consider it to be a significant constraint at EDI.

Views of third parties

9.212 We have considered the views of third parties carefully. We note that the majority of third parties (including the airport authority, the CAA, and most airlines and suppliers) have not raised concerns relating to the impact of the Merger at EDI. However, we also note that concerns have been expressed by

²³⁷ See paragraph 9.151.

²³⁸ Based upon Parties' de-icing data for August 2018.

some airline customers. For the reasons set out in paragraphs 9.197 to 9.211 above, we consider that these airlines are likely to have sufficient options post-Merger such as to prevent any deterioration in prices and/or quality.

Overall assessment

9.213 Taking all of these factors into account, our provisional conclusion is that the Merger has not resulted in, and may not be expected to result in, an SLC in de-icing services at EDI. In reaching this provisional conclusion, we have placed significant weight on the lack of evidence of any existing competition between the Parties.

Provisional conclusion on whether the Merger will give rise to an SLC for the supply of de-icing services at GLA

9.214 Based on the evidence considered above, our provisional view is that the Merger has not resulted in, and may not be expected to result in, an SLC in relation to de-icing at GLA. We have reached this view for similar reasons as set out in paragraphs 9.197-9.213 above.

Competition between incumbent suppliers

9.215 As at EDI, our consideration of evidence in relation to tenders, market share and switching of contracts indicates that the Parties do not appear to compete for de-icing contracts at GLA.

9.216 Similarly to EDI, the combined market shares of the Parties, and increment due to the Merger, are high. Nevertheless, we consider that the evidence showing an absence of competitive interaction between the Parties in recent years is more informative than market shares of the competitive constraints which they place on each other. In particular, we have found that:

- (a) There are no instances of contract switches between the Parties at GLA since January 2015;
- (b) There are no instances of the Parties being involved in the same contracts at GLA
- (c) We have found no evidence in our examination of the Parties' internal documents of the Parties considering each other as competitors for de-icing tenders at GLA.;

9.217 This absence of competitive interaction between the Parties is again consistent with the submission that their businesses have different foci at GLA

(see paragraphs 9.199-9.202). Specifically, we note that [REDACTED] the tenders that Menzies was involved in at GLA were for bundled contracts, whilst [REDACTED] out of the [REDACTED] tenders that Airline Services was involved in were for network contracts.

9.218 As at EDI, Swissport will remain as a third-party de-icing supplier at GLA post-Merger. Swissport serves [REDACTED] de-icing contracts at GLA and provides ground handling services for all of these contracts. Our analysis indicates that Swissport has also bid for at least [REDACTED] since January 2016. Similarly to EDI, it therefore appears that Swissport competes with both the Parties for de-icing contracts at GLA. This is consistent with the results of our tender analysis: Swissport was involved in [REDACTED] of the same tenders as both Airline Services and Menzies. We consider that Swissport will continue to exert a strong competitive constraint on the merged entity post-Merger at GLA.

9.219 Notwithstanding this provisional assessment, as with our assessment in relation to GLA, we consider below the prospects for entry and/or expansion, as well any countervailing buyer power which may exist post-Merger.

Competition from entry and/or expansion

9.220 Similarly to EDI, we consider that there are credible potential entrants to the de-icing market at GLA. IDS indicated interest in entering GLA and as explained above (see paragraph 9.113) we consider that IDS would be a credible bidder should an appropriate tender arise. We also note that [REDACTED] has told us it was [REDACTED] at GLA.

Countervailing buyer power

9.221 We consider that the same countervailing buyer power considerations apply to GLA as those which apply to EDI (see paragraphs 9.209 to 9.211 above).

Views of third parties

9.222 We have considered the views of third parties in paragraphs 9.133 to 9.142 above. In addition, we note that GLA airport did not raise any specific concerns with the Merger.

Overall assessment

9.223 Taking all of these factors into account, our provisional conclusion is that the Merger has not resulted in, and may not be expected to result in, an SLC in de-icing services at GLA. As with EDI, in reaching this provisional conclusion,

we have placed significant weight on the lack of evidence of any existing competition between the Parties.

10 Competitive effects – other theories of harm

Loss of potential competition

- 10.1 We have also considered whether the Merger would be likely to result in a loss of potential competition at UK airports where the Parties do not currently overlap in ground handling or de-icing services.
- 10.2 We have considered this theory of harm mainly by reference to the concept of ‘actual potential competition’.²³⁹ Accordingly, we have considered, in each case, whether the potential entrant would have been likely to enter in the absence of the merger, and if so, whether such entry would have led to greater competition:²⁴⁰
- (a) In particular, we assess, first, whether Airline Services would be likely, in the absence of the Merger, to expand into additional UK airports (that is, additional to LGW and MAN; ‘non-overlap airports’) in the supply of ground handling services and would any such entry lead to greater competition.
- (b) Second, we consider whether Menzies would be likely, in the absence of the Merger, to expand into additional UK airports in the supply of de-icing services (that is, additional to LHR and GLA; ‘non-overlap airports’) such that it would lead to greater competition.
- 10.3 We also recognise, as noted in our Issues Statement, that ‘perceived potential competition’ may operate as a competitive constraint (that is, whether the Merger may remove a firm which is not in the market, but which nevertheless imposes an existing constraint because of the threat that it would enter if existing firms in the market raised their prices).²⁴¹ However, for the purposes of our competitive assessment, the distinction between ‘actual’ and ‘perceived’ potential competition makes no substantive difference to our provisional conclusion.

Evidence in relation to the loss of potential competition in ground handling services (at non-overlap airports)

- 10.4 Airline Services started offering ground handling services in the UK in 2014 when it secured a contract to supply ground handling services to Monarch at

²³⁹ *Merger Assessment Guidelines* refer to this as ‘actual potential competition’ (see paragraph 5.4.14). Actual potential competition is a constraint only if and when entry occurs.

²⁴⁰ *Merger Assessment Guidelines* (see paragraph 5.4.15).

²⁴¹ The *Merger Assessment Guidelines*, see paragraph 5.4.16. Perceived potential competition may arise even though the [CMA does] not believe that entry would actually occur.

LGW.²⁴² Airline Services now supplies [REDACTED], [REDACTED] and [REDACTED], amongst others at LGW.²⁴³ In 2018 Airline Services entered into the supply of ground handling services at MAN.²⁴⁴

10.5 We have seen some evidence to indicate that Airline Services had ambitions to expand into the supply of ground handling services at other UK airports, including:

(a) [REDACTED].²⁴⁵ [REDACTED]²⁴⁶ [REDACTED].

(b) [REDACTED].^{247, 248}

(c) [REDACTED].

(d) [REDACTED].

(e) [REDACTED]²⁴⁹ [REDACTED].²⁵⁰

(f) The airport operator at EDI told us it had had conversations with Airline Services indicating that it would be 'open' to the possibility of Airline Services providing ground handling services at the airport. However, as there were no relevant potential clients, Airline Services opted to remain as only a de-icing supplier at EDI. Airline Services' contract with EDI was described by Loganair as being a 'foot in the door' for Airline Services at EDI.

(g) In addition to this, some airlines stated that they viewed Airline Services as a credible potential ground handling supplier at airports where it is not currently active. Flybe identified Airline Services as being a supplier that [REDACTED]. Moreover, TUI stated that in the absence of the Merger, Airline Services would be considered a credible bidder for its network ground handling contract, when it goes to tender.

10.6 However, we have also seen evidence which indicates that Airline Services, absent the Merger, may not have expanded into ground handling services at

²⁴² Final Merger Notice, Table 21.2

²⁴³ Response to the phase 1 decision, Table 6.

²⁴⁴ Contract awarded in [REDACTED] with a start date of 11 April 2018.

²⁴⁵ Final Merger Notice, Annex 9.01.

²⁴⁶ Airline Services holds a [REDACTED].

²⁴⁷ Final Merger Notice, Annex 15.3.

²⁴⁸ [REDACTED].

²⁴⁹ For example: de-icing and cleaning.

²⁵⁰ It was noted that Airline Services also has a 'massive aircraft cleaning operation'.

other UK airports²⁵¹ (or if it had done so, such expansion would have been incremental), including:

- (a) Airline Services explained that starting a new ground handling operation at a station is a major endeavour, requiring a dedicated team for a number of months. [REDACTED].
- (b) Since January 2016, the only evidence of Airline Services bidding to enter a new airport is its bid for [REDACTED].
- (c) This low incidence of bidding at airports other than MAN and LGW is consistent with Airline Services having taken six years to enter a new airport (MAN) after it commenced ground handling at LGW in 2014.²⁵² Airline Services entered MAN in 2018 to serve [REDACTED]²⁵³ following [REDACTED] of discussion with the airline.²⁵⁴ Prior to Airline Services' entry at MAN, it had only bid for [REDACTED] at the airport.²⁵⁵
- (d) Whilst the airport operator at EDI stated that it had spoken with Airline Services concerning the possibility of Airline Services supplying ground handling services, it noted that it had also had conversations with other ground handlers that could potentially operate at EDI. However, due to a lack of suitable clients at EDI, Airline Services opted to remain as a supplier of only de-icing services at the airport. In addition to this, EDI did not consider [REDACTED] to be a 'natural stepping stone' to offering wider ground handling services at the airport.
- (e) We note that Airline Services' previous main investor, Lloyds Development Capital (LDC), told us that any expansion into new airports by Airline Services requiring additional funding and/or LDC's support would have been subject to making the appropriate financial return on the capital employed. Moreover, when asked if any airport in particular would have been targeted for expansion LDC identified MAN and LGW as potential options discussed by the Board of Airline Services; airports where Airline Services already provides ground handling services.

10.7 Whilst we consider that, absent the Merger, Airline Services would have been owned by a different company (see section 5 on the Counterfactual), we

²⁵¹ Other UK airports refers to airports that Airline Services is present, but at which it does not currently provide ground handling services.

²⁵² Final Merger Notice, table 21.2

²⁵³ Flybe accounts for [5-10]% of passenger numbers at MAN.

²⁵⁴ Response to the phase 1 decision, paragraph 175.

²⁵⁵ Airline Services had previously bid for [REDACTED] contract at MAN. Evidence submitted by the airlines also shows that Airline Services was invited to tender for an additional two airlines: [REDACTED] and [REDACTED].

would expect a different owner to LDC to have wanted to ensure any new ground handling contracts were similarly commercially appropriate.

10.8 We have also considered whether, if, absent the Merger, Airline Services entered additional airports, such entry would lead to greater competition in ground handling services.

10.9 As noted at paragraph 8.118, [REDACTED]. In addition, Airline Services is perceived by some airlines as having a particularly high quality of service.²⁵⁶ However, as explained above, we have been told by a number of other ground handlers that they [REDACTED].²⁵⁷

10.10 As set out above, there are a number of other ground handlers that have recently entered, or are seeking to enter, into ground handling in the UK²⁵⁸ and other providers that have expressed an interest in expanding into additional UK airports.²⁵⁹

Overall assessment in relation to potential competition – ground handling, non-overlap airports

10.11 Based on the evidence set out above, our provisional view is that, whilst Airline Services had a general ambition to expand into new airports to provide ground handling services, the overall evidence suggests that any such expansion, if it had occurred, would have been incremental and limited in scope. Considering the evidence in the round, we do not consider that the loss of any potential entry by Airline Services would be such as to lead to an SLC in the supply of ground handling at non-overlap airports.

Evidence in relation to the loss of potential competition in de-icing services (at non-overlap airports)

10.12 In relation to de-icing services, the Merger involves a significant increase in Menzies' de-icing capability and is described by Menzies as primarily complementary.²⁶⁰

10.13 LHR is the only UK airport where Menzies offers de-icing only contracts (see further paragraphs 9.51-9.63 above where we describe Menzies' de-icing activities at LHR). At all other airports, Menzies' de-icing services are contracted as part of a 'bundle' of ground handling services. Moreover, at

²⁵⁶ This was particularly in relation to Airline Services' service levels at LGW.

²⁵⁷ [REDACTED].

²⁵⁸ [REDACTED].

²⁵⁹ [REDACTED].

²⁶⁰ Phase 1 Decision, paragraph 12.

airports where Menzies does not have its own de-icing operation it must subcontract these services.

10.14 In relation to Menzies' bidding on tenders, [REDACTED].

10.15 In relation to Menzies' internal documents, we saw [REDACTED].

10.16 As noted previously,²⁶¹ Menzies told us that it [REDACTED]: [REDACTED] and Menzies had [REDACTED] de-icing rigs available. Menzies' internal documents [REDACTED].²⁶² [REDACTED], although we note that barriers to expansion in de-icing, once present at an airport, are relatively low.

10.17 Internal documents further indicated that Menzies [REDACTED]²⁶³ ²⁶⁴ As at [REDACTED], Menzies' internal documents demonstrated that [REDACTED].²⁶⁵ Menzies told us that it had ultimately chosen to [REDACTED].

Overall assessment in relation to potential competition – de-icing, non-overlap airports

10.18 In relation to Menzies, and based on the evidence set out above, our provisional view is that, absent the Merger, Menzies would not have sought to enter additional UK airports to provide stand-alone de-icing services. In addition, we consider that Menzies was unlikely to enter additional UK airports to deliver de-icing services itself (alongside any 'bundled' ground handling services) as Menzies would have continued to focus on ground handling and out-sourcing any de-icing requirements to [REDACTED]. Accordingly, our provisional assessment is that the Merger has not resulted in, and may not be expected to result in, an SLC in the supply of de-icing at additional UK airports.

Foreclosure

10.19 Given that some airlines tender for bundled contracts for both ground handling and de-icing, it is possible that the Merger could give rise to an SLC if:

- (a) the Merger would strengthen the ability of the merged entity to compete for bundled contracts and so weaken the ability of competitors to compete for bundled contracts – for example, if the merged entity is able to leverage

²⁶¹ See paragraph 9.132

²⁶² Final Merger Notice, annex 15.2M: Menzies [REDACTED] – CIP(De-Icing) ([REDACTED]). These internal documents precede the Merger. The decision to sell took place in [REDACTED].

²⁶³ Final Merger Notice, annex 15.4A: Menzies MCA Committee Meeting, 23rd June 2017; Final Merger Notice, annex 8.13F: MZA Business Review, 12th July 2017; Final Merger Notice, annex 8.13H: MZA Business Review, 10th October 2017.

²⁶⁴ The decision to sell was made in [REDACTED].

²⁶⁵ Final Merger Notice, annex 15.2M: Menzies [REDACTED] Tender – CIP(De-Icing) ([REDACTED])

market power in one aspect of the contract bundle in its pricing strategy;
and/or

(b) the Merger would prevent rival ground handling firms from bidding for contracts which combine ground handling and de-icing because those rivals are unable to subcontract de-icing services when they would previously have been able to use Airline Services for this.

10.20 Whether such competition concerns may arise will depend on factors such as whether the airlines that request tenders for a combined service of ground handling and de-icing are willing to split the contract, and whether ground-handlers have other suitable partners to whom they could sub-contract de-icing services. If these options are not available, it is possible that rivals who are not able to offer competing bundles may lose contracts, which could lead them to lose efficiencies in their operations and fall below a profitable scale. They may then exit the airport and/or find it harder to bid for new contracts at the airport.

10.21 Firstly, [REDACTED] in the UK. Secondly, we received no complaints about this potential theory of harm in our phase 2 investigation.^{266, 267} Thirdly, in response to any attempts to foreclose competitors in this way, we would expect airlines themselves to put pressure on the merged entity not to do this, as to do so would limit airlines' choice of ground handler.²⁶⁸ Therefore, we consider that the merged entity is unlikely to have the ability or the incentive to foreclose competitors.

10.22 For these reasons, our provisional view is that the Merger has not resulted in, and may not be expected to result in, an SLC on the basis of potential foreclosure.

²⁶⁶ Some concerns were expressed by Premiere in relation to out-sourcing internal presentation services to [REDACTED].

²⁶⁷ [REDACTED].

²⁶⁸ We also explored this theory of harm with Swissport, again in relation to LGW. Swissport told us that, whilst it acknowledged that all its ground handling customers at LGW use Airline Services as their de-icing supplier, forcing them to accept both ground handling and de-icing as a bundle from the merged entity is not seen as a possible outcome due to the strength of their customers. [REDACTED].

11 Provisional conclusions on the SLC test

- 11.1 We have provisionally concluded that the Merger has not resulted in, and may not be expected to result in, a substantial lessening of competition (SLC) in relation to ground handling or de-icing services in the UK.