

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

Appendices and glossary

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Glossary

Appendix A: Terms of reference and conduct of the inquiry

Terms of reference

1. In exercise of its duty under [section 22\(1\)](#) of the Enterprise Act 2002 (the **Act**) the Competition and Markets Authority (**CMA**) believes that it is or may be the case that:
 - (a) a relevant merger situation has been created, in that:
 - (i) enterprises carried on by Menzies Aviation (UK) Limited, a wholly owned subsidiary of John Menzies plc, have ceased to be distinct from enterprises carried on by part of the business of Airline Services Limited acquired by Menzies; and
 - (ii) the condition specified in [section 23\(2\)\(b\)](#) of the Act is satisfied; and
 - (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom (UK) for goods or services, including:
 - (i) the supply of de-icing services at Edinburgh airport;
 - (ii) the supply of de-icing services at Glasgow airport;
 - (iii) the supply of de-icing services at London Heathrow airport;
 - (iv) the supply of ground handling services at London Gatwick airport; and
 - (v) the supply of ground handling services at Manchester airport.
2. Therefore, in exercise of its duty under [section 22\(1\)](#) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under [Schedule 4](#) to the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 28 January 2019, on the following questions in accordance with [section 35\(1\)](#) of the Act:
 - (a) whether a relevant merger situation has been created; and
 - (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the UK for goods or services.

Sheldon Mills
Senior Director
Competition and Markets Authority
14 August 2018

Conduct of the inquiry

3. On 14 August 2018, we published the administrative timetable for the inquiry and biographies of the panel members of the inquiry group conducting the inquiry on the [inquiry webpage](#). On 18 September 2018, we published an [issues statement](#), setting out the areas of concern on which the inquiry would focus. We received a response to the issues statement from the Parties. We did not receive responses to the issues statement from any third parties.
4. In order to prevent any prejudice to a reference of the transaction under section 22 of the Act or to prevent any impediment to the taking of any action under the Act by the CMA which may be justified by the CMA's decisions on such a reference, the CMA on 23 April 2018, during the Phase 1 Investigation, issued an [Initial Enforcement Order](#). Under a number of derogation letters issued between 13 July 2018 and 4 October 2018 the CMA authorised particular derogations on strict conditions to ensure the overall independence of the two businesses. One of these derogations was granted during Phase 2 of the investigation. These derogations can be viewed on the [inquiry webpage](#).
5. We invited a wide range of interested parties to comment on the Merger. We sent questionnaires to a number of competitors and airlines. Evidence was obtained from third parties (competitors, airlines, various airports and the CAA) through staff telephone calls and written information requests. We also used evidence from the CMA's Phase 1 inquiry into the Merger.
6. We received written evidence from the Parties and a [non-confidential version of the Parties' response to the Phase 1 decision](#) was published on the [inquiry webpage](#) on 23 October 2018.
7. On 21 September 2018, members of the inquiry group, accompanied by staff, attended a site visit at Manchester Airport.
8. In addition to a number of meetings and calls with the Parties, we also held separate hearings with Airline Services and Menzies on 1 November and 5 November 2018, respectively. We also received from the Parties responses to a range of information requests.

9. In the course of our inquiry, we sent to the Parties a number of working papers setting out some of the evidence and analysis we were considering. On 26 October 2018, the Parties were also sent an annotated issues statement, which indicated our emerging thinking and invited them to comment.
10. Our provisional findings were announced on 14 December 2018 and a [non-confidential version of the provisional findings report](#) was placed on the [inquiry webpage](#) on 19 December 2018. We invited interested parties to comment on this. We received no representations on our provisional findings.
11. Our findings were announced and a non-confidential version of the final report was placed on the [inquiry webpage](#) on 17 January 2019.
12. We would like to thank all those who have assisted us in our inquiry.

Appendix B: Summary of our approach to tender analysis

Introduction

1. This appendix outlines the methodology that was used in collecting and analysing the tender data. We considered the details of the tenders for each of the five overlap airports:
 - (a) Ground handling at LGW and MAN; and
 - (b) De-icing at LHR, EDI and GLA.
2. The summary analysis of the data and the inferences we drew from the data is presented in the competitive effects analysis for each airport in the main body of the report.

Approach to tender data

3. We approached both airlines and ground handling / de-icing suppliers for information relating to recent tenders:
 - (a) We requested tender data from the largest 10 airlines at each of the five overlap airports (LHR, LGW, MAN, EDI, GLA), which accounted for 32 airlines. We asked each airline for details of all tenders they have undertaken for the relevant service at each of the five overlap airports, including rolled-over contracts.¹ In total, we received relevant tender information from 23 airlines. We requested information on the tenders each airline had undertaken during the period January 2016 to August 2018.
 - (b) We also contacted a number of ground handling and de-icing suppliers, including the Parties, requesting information on the tenders in which they had participated for the relevant service at each of the five overlap airports, including rolled-over contracts. We requested information covering the same period - January 2016 to August 2018. As well as the Parties, we received responses from the following suppliers, including Aero Mag, Aviator, Azzurra, Cobalt, dnata, IDS, Stobart and Swissport.

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

Airlines

4. We asked airlines to outline the details of each tender they had undertaken for ground handling at LGW and MAN and de-icing at each of LHR, EDI and GLA during the relevant period.
5. Airlines provided details of:
 - (a) background information on the tender, including the date of the tender, whether it was for a bundle of services and/or to serve a network of airports;
 - (b) which suppliers were invited to tender;
 - (c) which suppliers were considered at the final stage of each tender; and
 - (d) how suppliers ranked in each tender.

Suppliers

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

Combining airline and supplier datasets²

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

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

8. In order to combine the sample of tenders from airlines and suppliers, we noted for each tender which suppliers were ‘involved’ in the tender. This included suppliers that were listed by airlines as having been ‘invited’ to tender³ (for tenders where we had information from airlines) and/or suppliers that stated that they had ‘participated’ in the tender.
9. The data submitted to us by the airlines and suppliers was not always consistent. For example, we observed instances of airlines stating that a supplier had been invited to tender, but the tender in question was not submitted by the supplier. Conversely, we also observed examples of a supplier submitting that it had participated in a tender, but the airline did not include this supplier in its list of invited suppliers for that tender.⁴
10. Where we encountered such inconsistencies, we adopted the following approach across the dataset:
 - (a) In instances where an airline identified that a supplier had some level of involvement⁵ in a tender, but the supplier did not submit the tender, we generally included the supplier as being ‘involved’ in our dataset. We consider this appropriate as a result of the relatively expansive definition of ‘involved’ adopted here.⁶
 - (b) Conversely, in instances where a supplier submitted that it was involved in a tender, but was not recognised as being involved⁷ by the airline in question, we generally included the supplier as being ‘involved’ in our dataset. Again, we consider this appropriate as a result of the relatively expansive definition of ‘involved’ adopted here.
11. We recognise that the definition of ‘involved’ adopted here implies a relatively low threshold for suppliers’ inclusion within our dataset. However, our understanding is that in the ground handling and de-icing industries, it is common for airlines and suppliers to interact and contract via both formal and informal engagement. Therefore, we consider that this approach is likely to capture the dynamics of competition in this industry.
12. There were a small number of examples where we did not follow the approach outlined in paragraph 10. For example, [✂].

³ Regardless as to whether or not the supplier ultimately bid.

⁴ There may be a number of reasons for these differences including: differing interpretations of our questions; varying levels of accuracy in internal record-keeping; and/or incorrect information being provided by an airline or supplier. Moreover, airlines engaging with multiple suppliers may do so with varying degrees of formality (see paragraph 11) further contributing to such inconsistencies.

⁵ Either because the supplier had been invited to bid or had ultimately bid.

⁶ Specifically, we have considered a supplier as being ‘involved’ in a tender if it was invited to bid, regardless as to whether or not it ultimately bid.

⁷ Specifically, as having been invited to bid, regardless as to whether it ultimately bid.

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

Networks and bundled contracts

14. We asked airlines and suppliers whether each tender was for a contract to serve a bundle of services and/or a network of airports.
15. There were also a number of examples where suppliers and/or airlines reported these details of the tenders differently. Where we had contradictory evidence regarding whether a tender was, for example, a bundled contract, we tended to record this tender as not being for a bundled contract. If a supplier reported that it participated in the tender, and stated that it was bidding, for example, for only ground handling while other suppliers report that the tender was for a bundle of services, in our view, the fact that a supplier was bidding for only part of the bundle suggests that bundling is not a defining characteristic of this tender. We used the same approach for network contracts.
16. There were a small number of examples where we did not follow this approach. For example:
 - (a) In a few instances, Airline Services submitted that a tender was not bundled whilst others submitted that the tender was, stating specifically that the de-icing component would be sub-contracted to [X]. We considered this probative of both Airline Services’ ability to serve the de-icing component of the contract and of the contract’s nature as being bundled. We therefore coded the tender as being ‘bundled’ within our dataset, despite Airline Services’ submission stating that it was standalone.

Summary of tenders

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

- (a) the airline issuing the tender;
- (b) the year of the tender;
- (c) whether it was a tender for a bundle of ground handling and de-icing services together;
- (d) whether it was a tender for providing services at a network of different airports;
- (e) which suppliers were involved in the tender, if at all; and
- (f) the total number of suppliers that were involved.⁸

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

⁸ The table presenting de-icing tenders at LHR additionally records the terminal at which the relevant airline operates.

Table 1: Ground handling at LGW



Source: CMA analysis.

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

Table 2: Ground handling at MAN



Source: CMA analysis.

Note: Data for ground handling tenders at MAN between January 2016-August 2018.

Table 3: De-icing at LHR



Source: CMA analysis.

Note: Data for de-icing tenders at LHR between January 2016-August 2018.

Table 4: De-icing at EDI



Source: CMA analysis.

Note: Data for de-icing tenders at EDI between January 2016-August 2018.

Table 5: De-icing at GLA



Source: CMA analysis.

Note: Data for de-icing tenders at GLA between January 2016-August 2018.

Appendix C: Barriers to Entry and Expansion

Introduction

1. This appendix briefly reviews evidence on barriers to entry and expansion and hence whether market entry or expansion might prevent an SLC.

Assessment of barriers to entry

2. This section sets out our assessment of the evidence we received on the extent to which there are barriers to entry in the ground handling and de-icing services markets. We consider the following issues related to setting up a new business for a new market entrant:
 - (a) regulatory obligations;
 - (b) costs of physical assets and staff needed for entry;⁹
 - (c) costs of participating in tenders;
 - (d) scale and scope economies;
 - (e) barriers to serving certain types of customer;
 - (f) attractive opportunities to enter; and
 - (g) examples of entry for both ground handling and de-icing at both the overlap airports and non-overlap airports.

Regulatory obligations

3. We considered the evidence of whether regulatory obligations, specifically licences to operate, TUPE regulations and supplier audits, might be a barrier to expansion.

Licences to operate

4. Operators need a licence to operate at an airport, which is issued by the airport.¹⁰ It is common to secure a contract and then gain a licence at an airport, as gaining a licence once a contract has been agreed is not seen as particularly difficult and it appears that the licence is not activated until the

⁹ In the [Merger Assessment Guidelines](#), these are captured under the term 'Intrinsic/structural advantages'. Paragraph 5.8.5

¹⁰ One airport operator, EDI, indicated that, while a licence was required in order to supply ground handling services at the airport, there was no requirement for a de-icing provider to secure a licence from the airport.

provider has a contract in place.¹¹ Nevertheless, providers may secure a provisional licence in the expectation of winning contracts, and this may allow them to appear better prepared and more credible. Competitors and airlines did not identify difficulties in securing licences at airports.

5. The airport operator at LGW told us that there are no limits on the number of operators that can obtain a licence. Provided an operator can demonstrate they that can satisfy requirements such as in relation to health and safety, they will be granted a licence. The airport operator at MAN told us that it was not aware of a case where it had denied a licence when the service provider had a contract in place. It also told us that the cost of a licence application is insignificant.

TUPE Regulations

6. TUPE allows for staff to be transferred from one ground handler to another when an airline chooses to switch a contract between them. This can be a benefit because it provides the new provider with trained staff immediately, rather than needing to hire and train new staff. However, one airline, [REDACTED], told us that TUPE can impact on the pricing offered by a ground handler new to an airport and this will, in turn, impact on whether they are successful in a tender. The airline also told us that the staff which transfer across may have higher-than-market rates of pay which the entrant is required to pay or there may be outstanding liabilities which the entrant must take on. Other airlines did not raise this as a concern.
7. WFS told us that TUPE is always a risk – the legal process is well defined but the typical start up period for a new operating station could be as short as 3-4 months. Ordering ground handling equipment and the TUPE legal requirements can cause planning stress and operational / financial impacts for a ground handling start-up. In addition, WFS said that finding sufficient space at an airport for staff and equipment to be an issue as there is limited availability and space airside at airports is very expensive. However, WFS also told us that the UK market is open, it is not difficult to obtain an airport licence, and there are limited barriers to entry.

Supplier audits

8. We noted that airlines want to verify that a provider meets its service standards, including any regulatory requirements which the airline must meet, and will audit suppliers to ensure that this is the case. One airline, [REDACTED], told us

¹¹ For example, the EDI airport operator told us that a contract with an airline would normally be in place or expected before a ground handler went through the process of obtaining a licence at the airport.

that there are benefits in using an incumbent supplier of ground handling because a supplier audit at the same airport can be assessed against the airline's compliance standards more easily than assessing a provider not at the airport. Similarly, in relation to de-icing, [redacted] observed that it is beneficial if a de-icing provider is already at an airport because then necessary audits are already available and there is proof that the supplier meets international standards.

9. In light of the above, we found that there do not appear to be significant regulatory barriers which would prevent entry in ground handling or de-icing.

Costs of physical assets and staff needed for entry

10. We also considered, for both ground handling and de-icing, whether investment costs (including securing equipment, staff, and a location at an airport) might be relatively large and may act as a barrier to entry.

Ground handling costs

11. Stobart told us the costs of entry into ground handling can be restrictive given the capital investment required for GSE (ie Ground Service Equipment) but that airlines can easily fund this directly to reduce risk on the ground handling supplier.
12. Airline Services told us that the actual costs incurred for entry will vary with the size of the airline and the services contracted. Airline Services told us that for the [redacted] contract at [redacted], it required [redacted] staff of which 50% were transferred over by TUPE, and the cost to Airline Services was about £[redacted]. To service [redacted] at [redacted] with approximately [redacted] staff (of which the majority were transferred through TUPE) the cost was about £[redacted]. Typically, Airline Services budgets for about [redacted] weeks of staff costs as about [redacted]% of the start-up costs.

De-icing costs

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

¹² For example, Swissport made this observation.

relative to the risks of incurring problems in receiving timely de-icing services.¹³

14. BA told us that a supplier not currently operating at the airport would need more time to set up a new operation and would have additional costs that an incumbent supplier would not have. BA also told us that track record is very important for de-icing (particularly for BA at LHR) and failure to deliver has high costs for airlines.
15. Swissport told us that fixed costs, in the form of equipment such as de-icing rigs, are a substantial part of the cost base for de-icing. Swissport said that a [redacted] proportion of the costs of de-icing relate to equipment as compared to [redacted], where [redacted] per cent of costs relate to labour. Swissport also told us that it requires at least two rigs at any location where it offers de-icing services. [redacted].
16. Stobart told us that it takes about [redacted] weeks to order a new rig from the supplier. It also indicated that rigs cost about £[redacted] each.
17. Virgin Atlantic told us that a large investment is required to start a de-icing operation, whether this is a new entrant or an existing supplier expanding its business. In addition, new rigs have a lead time from suppliers.
18. Menzies told us new rigs have a lead time of 3-5 months (unless suppliers have equipment readily available).
19. WestJet told us that new entrants may have uncompetitive pricing compared to incumbents as the new entrant needed to incur the high cost of purchasing new de-icing vehicles but may have little business.
20. The Parties told us that it was possible to lease rigs rather than purchase them. Menzies told us that [redacted].
21. Menzies told us that leasing a rig costs approximately £[redacted] per month for used rigs, depending on the age and specification of the rig, or [redacted] for a new rig. Airline Services told us that [redacted]. [redacted]. Menzies also pointed to the possibility to transport spare rigs from one location to another, as shown by it moving two spare rigs it had from [redacted] to [redacted] in order to establish its de-icing operation at [redacted]. It is not normal practice to move de-icing tanks. This is because the cost of moving a de-icing tank can be expensive and because tanks that have been moved are more likely to leak.

¹³ For example, Ryanair observed, in relation to its move to self-supply at its base in Stansted: "The move to self-supply was not costly considered relative to the costs of failing to ensure the timely departure of Ryanair's fleet at STN."

22. Ryanair told us that it is both costly and intensive to train and certify de-icing staff. Airline Services told us that it took [REDACTED] to train a de-icer to be confident they would be competent and safe.
23. Aero Mag told us that it does not believe there to be barriers to entry or expansion, whether for the airports at which it operates or for airports where it is not currently operating. IDS indicated that, if it won a major contract at LHR, then it would be able to enter within [REDACTED].

Mitigating the investment costs of entry

24. We also considered the evidence of a range of hybrid models for ground handling and de-icing services that might mitigate the costs of investing in new assets and staff.
25. For example, we noted that Omniserv supplies Norwegian with staff for both its ground handling and de-icing services. Norwegian provides the equipment, management and is responsible for the service standards.
26. In this way, the costs of equipment can be shared between an airline and a provider. This lowers the costs and risks of entry to a ground handler, although it may also lower the revenues they can expect to earn from a contract.
27. Third parties (eg WFS, Stobart¹⁴) told us that they did not tend to see the costs of investing in ground handling equipment as preventing them from bidding and entering into new airports. We also observed how airlines can, when it is needed, provide up-front payments to a ground handler in order to support them in expanding their operation at an airport.¹⁵

Findings on the investment costs of physical assets and staff

28. In light of the above, we found that there appear to be some necessary investment costs in physical assets and staff (particularly, in relation to the costs of equipment, managing the service against the service requirements and the schedule of the airline customer¹⁶, and the need for reliable staff) but that these are not so significant as to prevent entry into ground handling where there are sufficiently attractive opportunities for providers.¹⁷ These opportunities are discussed in more detail in paragraphs 58 to 66 below.

¹⁴ [REDACTED].

¹⁵ [REDACTED].

¹⁶ Scheduling is discussed further in paragraph 52 below.

¹⁷ For example, Swissport, highlighted the number of new entrants into the market over the last few years (DHL, Stobart, Azzurra, WFS, Aviator).

29. Similarly, we found necessary investment costs in relation to de-icing equipment and the need to deploy specialist trained de-icing staff. However, these were not so significant as to prevent entry into de-icing where there are sufficiently attractive opportunities for providers. These opportunities are discussed in paragraphs 58 to 66 below.

Costs of participating in tenders

30. We also considered the evidence for whether the costs of participating in tenders might be a barrier to expansion.
31. It is important for providers to be able to participate in tenders so as to enter as a provider at any airport. If the costs of participation are high (relative to the likelihood of success or the value of the contract), then this may discourage participation. For example, such bids require the time and effort of the ground handling management team, with one competitor, WFS, telling us that a tender takes [redacted]. However, providers, including WFS, did not indicate that the costs of participating in bids were high relative to the value of contracts, or that they were an impediment to bidding for valuable contracts.
32. In light of the above, we found that the costs of participating in tenders do not appear to be barriers to entry which would prevent entry in ground handling or de-icing.

Scale and scope economies

Economies of scale in ground handling

33. We considered whether economies of scale in ground handling services was important in limiting the ability of a provider to expand.
34. [redacted].¹⁸ Several providers and other third parties that we talked to commented on the minimum scale of operations that ground handlers and de-icers require to make operating at an airport viable. For example, Airline Services told us that to operate successfully at an airport, a provider requires £[redacted] in minimum (annual) revenue for ground handling.
35. [redacted]. Stobart indicated that it would generally only seek to bid only for contracts which provided at least [redacted] turnarounds a day.
36. We also considered how scale may be important to expansion. One airline, Loganair, told us that low volumes of daily flights may be of little interest to

¹⁸ Menzies added that it is possible to make good returns on a small business if the schedule is flat with few peaks and troughs (ie if the schedule is efficient).

potential suppliers as the risk and complexity of a new carrier and aircraft type negate any financial advantage to the supplier. It added that the necessary scale of entry that is required to be profitable made it difficult for airlines with smaller operations at a given airport to sponsor entry.

37. Dnata told us that it does not believe there to be barriers to entry or expansion. It noted that there is no minimum contract value, and hence the decision to bid is more based on achieving a level of operational standard in line with the airline requirements and a robust financial model.

Economies of scale in de-icing

38. Airline Services told us that to operate successfully at an airport, a provider requires £[redacted] in minimum (annual) revenue for de-icing. It also told us that it recently declined an offer to de-ice [redacted] at [redacted] (an airport where it is not currently active) as it considered that the attributable revenue (approximately £[redacted]) was not sufficient for it to operate profitably. In relation to LHR, [redacted].
39. Virgin told us that the costs of entry into de-icing at LHR are substantial, particularly given the propensity for mild winters at that airport, which made revenues for de-icing providers uncertain.

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

40. Economies of scope between de-icing and other services may arise where there are efficiencies in supplying de-icing alongside other services. Menzies told us that some ground handling staff may be trained to provide de-icing services.¹⁹ Airline Services told us that, because de-icing staff are only needed during certain months of the year, de-icing providers may choose between employing these staff for the colder months of the year or employing them all year round. If they choose the latter, the staff tend to be employed in other tasks, other than de-icing, during the warmer months.²⁰
41. Swissport told us that, due to the high fixed costs associated with de-icing, new entry into the de-icing market, in the absence of any complementary business, is harder than in the ground handling market. IAG told us that it has a preference for de-icing providers for whom de-icing was not the only source of revenues because this would make the provider more financially stable.

¹⁹ For example, when Menzies opened its de-icing operation at GLA, [redacted].

²⁰ Airline Services employs its staff all year around and said that it believed that [redacted]. Similarly, Airline Services has explained that offering different services at an airport can help given the seasonal and fluctuation in demand for de-icing services at an airport. There are some synergies that can be created over labour costs. For example, Airline Services supplements its de-icing activity with cleaning.

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

Economies of scale and scope²¹

43. In light of the above, we found that economies of scale in ground handling and de-icing services benefit an incumbent provider. Nevertheless, the CMA does not consider that these advantages to incumbency are sufficient to discourage new entry in ground handling, particularly when this can be done at a relatively large scale based on the contracts secured by the entrant. The challenges of achieving sufficient economies of scale are more difficult to overcome in the supply of de-icing services.
44. For ground handling services, we considered that the economies of scale are stronger when the providers can take advantage of how the peaks in the schedule of a prospective new customer fit within the troughs of the schedules of existing customers.²² In addition, we also observed a number of instances of entry on a large scale (for example, DHL's entry at LGW) which indicates that new entrants can capture large scale economies when securing large contracts.
45. For de-icing services, we noted how the supply for the BA contract at LHR would realise large economies of scale in its operation. However, we also considered how the nature of de-icing services (such as its weather dependency and the lower revenues generally realised in this business relative to ground handling) suggests that the opportunities to realise scale economies for new entrants are fewer. This is consistent with the evidence showing that there are far fewer instances of entry into de-icing services.
46. The evidence on scale and scope indicate that there may be a number of reasons for offering both ground handling and de-icing services, or offering

²¹ Economies of scale arise where average costs fall as the level of output rises. They may prevent small-scale entry from acting as an effective competitive constraint in the market. Further, in the presence of economies of scale large-scale entry or expansion will generally be successful only if it expands the total market significantly, or substantially replaces one or more existing firm; and if the entrant can afford the risk that such investment will involve, especially in terms of sunk costs. [Merger Assessment Guidelines](#), page 59.

²² Scheduling is discussed further in paragraph 52 below.

additional services, such as internal presentation, alongside ground handling and/or de-icing. In our view this evidence shows that:

- (a) Some airlines may prefer to purchase de-icing services along with ground handling services rather than on a stand-alone basis.²³
- (b) Offering a wider portfolio of services reduces the financial risk of a de-icing business due to the uncertain demand for de-icing services which is highly weather-dependent.
- (c) There may also be economies of scope such that supplying both ground handling and de-icing reduces the average cost of supplying each of these services.

47. We also considered how economies of scope arise to some extent in the provision of de-icing, ground handling, and other related services (such as internal presentation and external cleaning of aircraft) as staff may be utilised to undertake other services when not required for de-icing. The ability to realise economies of scope may provide an advantage to incumbents which are able to supply jointly several services, lowering the average costs of providing ground handling or de-icing services relative to a new entrant supplying only a single service to airline customers at an airport. For example, the average costs of supplying ground handling may be lower when a provider jointly supplies de-icing and ground handling services compared to the average costs of a provider only supplying ground handling services at an airport.
48. Menzies and Airline Services [REDACTED]. [REDACTED].
49. More generally, we note that potential economies of scope are not limited to offering both de-icing and ground handling services. For example, Airline Services historically has been a provider of de-icing and internal presentation services rather than de-icing and ground handling services.²⁴
50. Therefore, while we recognise that economies of scope may lower the average costs of jointly supplying a ground handling or de-icing service, it also appears that similar efficiencies can be achieved in other ways.

²³ For example, Aero Mag observed that it [REDACTED].

²⁴ [Final Merger Notice](#), paragraph 76. Airline Services also explained that [REDACTED].

Barriers to serving certain types of customer

51. We also considered the evidence of whether there were particular challenges to entrants serving certain types of customers such that incumbents may enjoy an advantage in serving these customers.
52. In relation to ground handling, we found that charter airlines may be less attractive to serve than other types of airline because their schedules are less stable and more seasonal. We noted that charter airlines do not tend to cancel their flights, even when they are very delayed, and this creates further scheduling issues for providers, or creates particular challenges to self-handling. TUI explained that TUI may be a particularly risky and complex proposition for a new entrant because it operates both wide and narrow-bodied aircraft, has a more seasonal schedule, and flies both short and long haul.
53. In relation to the suppliers that have recently entered ground handling, such as [REDACTED], there was concern expressed by TUI that they were unproven, particularly in relation to more complex airlines which may not be as streamlined or straightforward to serve as airlines with narrow-bodied aircraft and fixed schedules.
54. On the other hand, prospective entrant ground handlers with whom we spoke included large charter airlines among the airlines they considered to be attractive.²⁵
55. In relation to de-icing services, Virgin told us of the additional challenges of serving airlines with wide-bodied aircraft.
56. Airlines (for example, Jet2.com, [REDACTED]) generally indicated that for both ground handling and de-icing, they preferred to use a provider already at an airport. However, as observed in the section on competitive effects in relation to ground handling, there have been many examples of entry and expansion at LGW and MAN, which suggests that this preference does not constitute a significant barrier to entry at these airports.
57. There are some differences in the equipment used to serve different types of customers, depending on the aircraft they use, particularly between narrow-bodied and wide-bodied aircraft. However, for both ground handling and de-icing, the evidence does not indicate that the differences in the types of equipment provide a significant barrier to entry or expansion in terms of serving different customers. We have also been told that certain types of airlines may be more challenging in terms of their operation, particularly

²⁵ [REDACTED].

ground handling for charter aircraft. We consider that such differences reflect the attractiveness of these opportunities, which we discuss next, rather than representing an additional barrier to entry or expansion to serving such customers. As indicated above, some ground handlers have expressed an interest in serving the larger charter customers at LGW despite the potential additional challenges that might arise.

Attractive opportunities to enter

Ground handling

58. A range of ground handling providers told us that the most significant factor when assessing whether to bid for a contract is how financially attractive the opportunity is. This may depend on a range of factors.
59. For example, [redacted] and Stobart [redacted]. IDS told us that entry depends on whether the opportunity is right when a customer's contract comes up for the renewal in the UK. It indicated that it would be interested in bidding for the contracts of certain major airlines.
60. A major factor for an incumbent considering expanding is the extent to which the scheduled flights entailed in a contract with an additional airline fit with the schedules of the airlines which it serves already. Swissport told us that an airline's schedule affects the price that can be offered, since if the schedule leads to a high level of staff and equipment downtime this is inefficient. Therefore, the attractiveness of a particular airline contract may vary between incumbent providers. For example, although Airline Services won the [redacted] contract, it explained that [redacted].

De-icing

61. De-icing providers also told us that the attractiveness of the opportunity was key when considering both entry and expansion.
62. For example, Aero Mag told us that it would not bid for "just any airline's or airport's business" and it has to be careful about which customers or projects to approach. The decision to enter a new airport is always driven by the business model generating an acceptable profitability in relation to the required investment.
63. As with ground handling, we observed how the schedule of a new customer's flights fits with those of existing customers is an important factor in assessing whether expansion by an incumbent is profitable. If additional contracts clash

with existing contracts, more de-icing equipment and staff are required which is costly. [REDACTED]

64. Evidence indicates that a key challenge in the profitability of de-icing operations in the UK is the unpredictability of the weather. For example, WFS pointed to the unpredictability of the UK weather as directly impacting de-icing profitability and therefore in the UK, with its temperate climate, [REDACTED]. Similarly, [REDACTED].
65. We also considered the way de-icing providers have been recompensed, with airlines usually paying for the de-icing service only when it is needed. We noted that some de-icing providers have moved to a compensation model whereby an airline customer makes a fixed payment and then an additional variable element for the volume of de-icing fluid sprayed. [REDACTED]. Similarly, [REDACTED]. [REDACTED].
66. We observed that entry is more likely to be attractive for some customers and opportunities than for others. For example, for ground handling, airlines with a large volume of regular flights on a fixed schedule are particularly attractive for a new entrant. For de-icing, airlines with a high number of night-stopping aircraft are likely to be particularly attractive for specialist de-icing suppliers.²⁶ On the other hand, other providers, such as Swissport, provide a bundle of ground handling and de-icing services, of which ground handling provides the bulk of the revenue. Therefore, for providers which are primarily ground handlers, entry into de-icing may depend on securing sufficient ground handling contracts.²⁷

Examples of Entry

Ground Handling

67. We considered the following examples of entry into ground handling at LGW:
 - (a) Aviator, which entered LGW in early 2014;
 - (b) Airline Services, which entered into ground handling at LGW in November 2014 to serve Monarch;²⁸
 - (c) Dnata, which entered in May 2015 to serve Emirates;²⁹

²⁶ [REDACTED].

²⁷ [REDACTED].

²⁸ Airline Services previously supplied de-icing and cleaning services at LGW.

²⁹ Dnata subsequently won Cathay.

- (d) Omniserv, which entered the ground handling market in November 2016 to provide the labour for Norwegian's operations;
- (e) Swissport, which re-entered LGW in November 2016 to serve Virgin Atlantic;
- (f) DHL, which entered in November 2017 to serve easyJet.

68. We considered the following examples of entry into ground handling at MAN:

- (a) Dnata, which entered to serve Emirates in October 2014;³⁰
- (b) Aviator, which entered in April 2015;
- (c) WFS, which entered in April 2015 to serve Jet2.com;³¹
- (d) Airline Services, which entered in [REDACTED] 2018 to serve Flybe;
- (e) Premiere, which entered in April 2018 to serve Loganair and Aurigny.

69. We considered the following selected examples of entry by suppliers into ground handling at non-overlap airports:

- (a) Menzies entered Belfast City in April 2012 to provide ground handling to Aer Lingus;³²
- (b) WFS entered EDI in November 2018 to supply ground handling services to easyJet;
- (c) Azzurra expanded to supply ground handling services to Wizz Air at Luton in December 2017;³³
- (d) Stobart entered Stansted to supply easyJet in March 2018.
- (e) DHL will enter Bristol to serve easyJet on [REDACTED] 2019.³⁴

De-icing

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

³⁰ Dnata subsequently won Cathay's contract at MAN.

³¹ WFS subsequently exited by April 2017.

³² Menzies subsequently exited in December 2017.

³³ [REDACTED].

³⁴ [REDACTED].

- (a) Aero Mag, which entered LHR in the summer of 2013;
- (b) IDS, which entered the de-icing market at Luton to serve easyJet's contract in 2012;
- (c) Airline Services, which entered Exeter in November 2015;³⁵
- (d) Omniserv, which entered LGW in November 2016 to provide manpower foreground handling that included de-icing manpower to Norwegian;
- (e) Menzies, which entered into de-icing provision at GLA in 2017 to serve IAG's bundled contract.³⁶

³⁵ Airline Services entered [REDACTED].

³⁶ See paragraph 9.15 b, Chapter 9, for further information.

Glossary

Term	Definition
the Act	The Enterprise Act 2002
Aero Mag	Aéro Mag 2000, a supplier of de-icing services at LHR.
Aircraft Services International Group or ASIG	A group acquired by John Menzies plc in 2017.
Airline Services	Part of the business of Airline Services Limited acquired by Menzies.
Airline Services Limited	Previous owner of Airline Services.
ASL	Airline Services Limited.
Aurigny	Aurigny Air Services Limited, an airline company based in the Bailiwick of Guernsey.
Aviator	Aviator Airport Alliance Europe AB, a supplier of ground handling services.
Aviapartner	Aviapartner NV, a supplier of ground handling services.
Azzurra	Azzurra Ground Handling Service Ltd, a supplier of ground handling services.
BA	British Airways (including British Airways and British Airways CityFlyer).
BHX	Birmingham Airport.
Bundled contract	An airline contract seeking multiple services from a single provider. In this report we refer to bundled contracts as being for the provision of ground handling and de-icing.
CAA	Civil Aviation Authority, the aviation regulator.
Cathay Pacific	Cathay Pacific Airways Limited, an airline company.

CIP	Commercial/Contract Investment Proposal. CIPs are Menzies' internal documents.
Cobalt	Cobalt Ground Solutions Limited, a supplier of ground handling services and de-icing services at LHR.
De-icing	The storage and use of de-icing fluid to remove ice ('de-icing') or to prevent ice accumulating ('anti-icing') from the wings and engines of aircraft.
DHL	DHL Supply Chain Limited, a supplier of ground handling services.
dnata	dnata (Dubai National Air Transport Association) Limited, a supplier of ground handling services.
easyJet	easyJet Airline Company Limited.
EBIT	Earnings before interest and taxes.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
EDI	Edinburgh Airport.
EEA	European Economic Area.
de-icing event	An instance of de-icing or anti-icing an aircraft.
Endless LLP	A British private equity company.
Flybe	Flybe Group Plc
Gate Aviation	A supplier of ground handling services and a subsidiary of Gate Group, a company based in Switzerland.
GGS	Gatwick Ground Services Limited.
GLA	Glasgow Airport.
ground handling services	Refers collectively to the supply of baggage, ramp, passenger and airside cargo handling services.
HAL	Heathrow Airport Limited, operator of LHR.
IAG	International Airlines Group.

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

OFT	The Office of Fair Trading, the predecessor to the CMA.
Omniserv	Omniserv Limited.
Overlap Airports	EDI, GLA, LGW, LHR and MAN.
Parties	Menzies and Airline Services.
Premiere	Premiere Handling Limited.
Qatar Airways	Qatar Airways Company Q.C.S.C.
Ryanair	Ryanair UK Limited.
self-handling	Where airlines service their ground handling requirements themselves and do not procure these services (in whole or in part) from third parties.
self-supply	Where airlines service their de-icing requirements themselves and do not procure these services (in whole or in part) from third parties.
SLC	Substantial lessening of competition.
STN	Stansted Airport.
Stobart	Stobart Aviation Services Limited.
Swissport	Swissport Limited, a supplier of ground handling and de-icing services at a number of UK airports.
tender	An invitation to suppliers to submit bids to supply ground handling or de-icing services.
Transaction	The completed acquisition by Menzies Aviation of part of the business of Airline Services Limited.
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006.
TUI	TUI Airways Limited, a British airline company.
turn	An industry term used to refer to the servicing of the arrival and subsequent departure of an aircraft.
UK	The United Kingdom

Virgin Atlantic	Virgin Atlantic Airways Limited, an international airline.
WestJet	WestJet Airlines Ltd.
WFS	Worldwide Flight Services, the trading name for Worldwide Flight Services Limited, a supplier of ground handling services in the UK.