

Anticipated acquisition by Swissport Group UK Ltd of Heathrow Cargo Handling Ltd

Decision on relevant merger situation and substantial lessening of competition

ME/6796/18

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 18 April 2019. Full text of the decision published 24 May 2019.

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

SUMMARY

1. Swissport Group UK (**Swissport**) has agreed to acquire Heathrow Cargo Handling Limited (**HCH**) (the **Merger**). HCH is a fifty-fifty joint venture between Air France KLM (**AF**) and Swissport. Under the proposed transaction, Swissport will purchase AF's fifty per cent shareholding in HCH. Swissport and HCH are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Swissport and HCH is an enterprise; that these enterprises will cease to be distinct as a result of the Merger; and that the share of supply test is met. Accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties overlap in the supply of landside cargo handling services at Heathrow Airport. Swissport provides landside cargo handling services across several airports in the UK, including Heathrow Airport. HCH's business is solely in the supply of landside cargo handling services at Heathrow Airport. The CMA has therefore assessed the impact of the Merger in the supply of landside cargo handling services at Heathrow Airport.
4. The CMA considered a broad range of evidence in its competitive assessment to determine the extent to which the Parties would compete absent the Merger and the significance of the competitive constraints they face, including: shares

of supply; evidence on differences in service propositions; tender data; and third-party responses to the CMA's investigation.

5. Evidence available to the CMA indicates that HCH would exert a limited competitive constraint on Swissport absent the Merger and that post-Merger, the merged entity will face significant competitive constraints from other providers of landside cargo handling services at Heathrow Airport, including WFS, dnata and to a significant, albeit comparatively more limited extent, Menzies. The Parties will also face some additional although significantly more limited constraint from other cargo handlers.
6. The CMA believes that these constraints, taken together, are sufficient to ensure that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in the supply of landside cargo handling services at Heathrow Airport.
7. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

8. Swissport provides landside cargo handling services at the following airports in the UK: Heathrow, Aberdeen, Glasgow, Belfast, Manchester, East Midlands, Birmingham and Stansted. The turnover of Swissport for landside cargo handling services at Heathrow Airport in year ending 2018 was £[~~XX~~] million. Swissport's subsidiaries provide airport passenger and ground handling services and cargo handling services.
9. HCH is a fifty-fifty joint venture which was established in 1995 between AF and Servisair – Swissport's predecessor.
10. HCH's business is solely the supply of landside cargo handling services at Heathrow Airport. The turnover of HCH for landside cargo handling services at Heathrow Airport in year ending 2018 was £[~~XX~~] million.

Transaction

11. The proposed transaction is for Swissport to purchase AF's fifty per cent shareholding in HCH.

Jurisdiction

12. Each of Swissport and HCH is an enterprise. As a result of the Merger, Swissport, which currently has de facto control of HCH, will acquire a controlling interest in HCH, and the two enterprises will cease to be distinct.
13. The Parties overlap in the supply of landside cargo handling services at Heathrow Airport with a combined share of supply of [20-30]% (with the Merger bringing about an increment of [0-10]%) based on the volume of cargo handled at Heathrow Airport¹. The CMA therefore considers that the share of supply test in section 23 of the Act is met.
14. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
15. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 28 March 2019 and the statutory 40 working day deadline for a decision is therefore 28 May 2019.

Counterfactual

16. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.
17. Swissport submitted that the appropriate counterfactual should be prevailing conditions of competition. Under the prevailing conditions of competition HCH is providing very limited constraint on Swissport as "*Swissport negotiates the contracts on behalf of itself and HCH...Customers consider Swissport and HCH as a single contracting entity and as a "one stop shop" for their needs.*" Therefore, the Merger will have very limited effect on competition.

¹ See also Shares of supply section in the Competitive Assessment. This excludes self-supply.

18. The CMA considered whether there is a realistic prospect of a counterfactual that is more competitive than the prevailing conditions based on the Parties' plans for HCH absent the Merger.
19. Swissport submitted that landside cargo handling services are not part of AF's core business and AF therefore wishes to withdraw from the market. In light of AF's intention to sell its fifty per cent shareholding in HCH, Swissport's internal documents indicate that Swissport considered three options:
 - (a) acquiring AF's fifty per cent shareholding;
 - (b) selling its fifty per cent shareholding in HCH;
 - (c) closing HCH upon expiry of the current lease terms.
20. HCH was not marketed to other potential buyers. However, the evidence from internal documents indicates that Swissport considered this option as a viable alternative ahead of taking the decision to acquire AF's fifty per cent shareholding. In addition, the CMA notes that given evidence of capacity constraints at Heathrow Airport, HCH may have presented an attractive opportunity for expansion or entry to other smaller cargo handlers.
21. Therefore, the CMA believes that there is a realistic prospect that, absent the Merger, HCH would have been purchased by an alternative purchaser. The CMA considers that this would have been a more competitive counterfactual than prevailing conditions or the closure of HCH because it would have enabled HCH to compete with Swissport.
22. For these reasons, the CMA has assessed the Merger against a counterfactual in which HCH is run as an independent business and in competition with Swissport.

Background

23. Landside cargo handling services include leasing and operating warehouses at or near airports which have been approved by HM Revenue & Customs (**HMRC**) for the processing and temporary storage of goods in transit to or from the airport. The cargo is transported to or collected from the aircraft by the ground handling company. This is then delivered to the landside cargo handler's facilities. The contractual relationship is between the airline and the cargo handler.
24. The customers for cargo handling services are all airlines some of which are passenger airlines, and some may be cargo-only airlines. The main difference between these two types of airlines in terms of the landside cargo handling

services they require is that certain types of dangerous goods can only be transported on cargo-only aircraft.

25. Airlines procure services via tenders and typically agree contracts lasting between three and five years, although the majority are terminable within that period with 60 to 90 days' notice.
26. Responses from airlines indicate that some airlines may have a preference for procuring cargo handling services on a network basis comprising a cargo handler's facilities across different airports in the UK or more widely. In particular, airlines flying to multiple destinations in the UK may have a preference for using a cargo handler with a network of facilities across the UK. Cargo handlers with facilities in other airports in the UK can accept cargo at another one of these facilities, eg in Birmingham or Manchester, and then transport it using their trucking service to Heathrow Airport.
27. Cargo handlers at Heathrow Airport, other than the Parties, are Worldwide Flight Services (**WFS**), Dubai National Air Transport Association Limited (**dnata**), Menzies World Cargo Ltd (**Menzies**), Airworld Handling Ltd (**Airworld**), ASC Cargo Handling (**ASC**). There are also three airlines at Heathrow Airport which self-handle their cargo, namely International Airlines Group (**IAG**), Air Canada, and DHL.
28. Cargo handlers at Heathrow Airport can locate themselves in two areas: either on-airport or off-airport. On-airport cargo facilities mean that a provider of cargo handling services has direct access to the airside and can deliver cargo straight to the plane without necessarily going through checkpoints. Alternatively, cargo handlers can locate themselves off-airport which means they have to transport the cargo on public roads from a warehouse based just outside Heathrow Airport and through a checkpoint to get to the airside.
29. On-airport facilities can be divided between those that are in the so-called 'horseshoe' (Shoreham Road) and those that are outside the horseshoe, typically on Sandringham Road.
30. Heathrow Airport has a 65 per cent share of UK air freight. Evidence from third parties indicated that generally capacity was limited at Heathrow Airport and that expansion was necessary to continue meeting growth in demand for cargo handling.

Frame of reference

31. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market

do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.²

32. Swissport submitted that the Parties overlap in providing landside cargo handling services (ie cargo terminal operations, warehousing and inventory control, cargo security, customs clearance, global cargo tracking) to a variety of airline customers at Heathrow Airport.

Product scope

33. The European Commission (**EC**) have considered the supply of landside cargo handling services activities in a number of cases, including *Swissport/Servisair*³ and *LBO France/Aviapartner*⁴. The CMA also considered the supply of landside cargo handling services in *Menzies/ASIG*⁵. In all these cases, the relevant authorities considered whether it would be appropriate to consider the supply of landside cargo handling services jointly with the supply of other airport services provided to airlines, specifically ground handling services. The EC and CMA concluded that it was not appropriate to widen the frame of reference for ground handling services to include landside cargo handling services given that in general those services are procured separately and not alongside ground handling services.
34. The CMA considered whether the product frame of reference:
- (a) Should be broader or narrower than the supply of landside cargo handling to comprise additional services such as ground handling or distinguish between specific types of landside cargo handling services (eg in relation to particular types of goods);
 - (b) Should distinguish between different types of customers because of any differences in requirements, the services they receive and therefore the competitive conditions they may face. Specifically, the CMA considered whether it would be appropriate to distinguish between customers with a preference for network agreements with cargo handlers across multiple airports.

² [Merger Assessment Guidelines](#), paragraph 5.2.2.

³ Case [COMP/M.7021 Swissport/Servisair](#), 18 December 2013.

⁴ Case [COMP/M.6671 – LBO FRANCE / AVIAPARTNER](#), 20 November 2012.

⁵ Case [ME/6639/16 Menzies/ASIG](#), CMA, 15 December 2016.

35. Swissport submitted that it would not be appropriate to either narrow or broaden the scope of the relevant product frame of reference beyond landside cargo handling on the basis that these generally comprised a similar set of services and requirements and all suppliers active at Heathrow Airport were capable of supplying these services. Swissport noted that customers tend to tender for landside cargo handling services independently of ground handling services and additionally confirmed that there are no common customers of the Parties in the potentially related market of ground handling services. In addition, despite the potential differences in types of cargo that these two different types of customers can handle, Swissport submitted there is no difference in the nature of the service offered to them. Swissport submitted that although each customer is slightly different in terms of the number of types of shipments, the processes are in principle the same and most suppliers are capable of providing these services.
36. Evidence received from third parties responding to the CMA's investigation was consistent with Swissport's submissions. In particular, while a number of third parties confirmed that some airlines may have a preference for a cargo handler that can provide landside cargo handling services using its network of airports in the UK, the requirement applies generally to a number of airlines such that segmenting precisely by this requirement may be inappropriate. The CMA has nonetheless taken these customer preferences into account in the competitive assessment.
37. For the reasons set out above and consistent with previous decision practice, the CMA has considered the impact of the Merger on the supply of landside cargo handling services.
38. However, the CMA has not found it necessary to conclude on the product scope as no concerns would arise on any plausible basis.

Geographic scope

39. EC decisional practice indicates that it may be appropriate to consider an airport wide geographic frame of reference. For example, in the *Swissport/Servisair* case, where the EC considered that the geographic scope for the supply of landside cargo handling services was restricted to a specific airport.⁶
40. In light of some airlines preferences to procure cargo handling services on a network basis, the CMA considered whether it would be appropriate to

⁶ Case No [COMP/M.7021 - Swissport/Servisair](#), 18 December 2013 (the EC ultimately left the geographic market definition open in this case).

broaden the geographic frame of reference to include all airports in the UK. While there is some evidence to suggest that this may be appropriate, in the context of the current Merger this would not change the CMA's conclusions. While Swissport independently offers cargo handling services at several airports in the UK: Heathrow, Aberdeen, Glasgow, Belfast, Manchester, East Midlands, Birmingham and Stansted, HCH operates only at Heathrow Airport.

41. The CMA has therefore considered the impact of the Merger at Heathrow Airport but has taken into account the relevance of landside cargo handling suppliers' presence at other airports in its competitive assessment.
42. The CMA has not found it necessary to conclude on the geographic frame of reference as no concerns arise on any plausible basis.

Conclusion on frame of reference

43. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of landside cargo handling services at Heathrow Airport.
44. However, given that the CMA has identified no competition concerns on any basis, it has not had to conclude on the appropriate frame of reference.

Competitive assessment

Horizontal unilateral effects

45. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm to profitably raise prices or to degrade quality on its own and without needing to coordinate with its rivals.⁷ Horizontal unilateral effects are more likely when the merging parties are close competitors.
46. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to horizontal unilateral effects in the supply of landside cargo handling services at Heathrow Airport.
47. In order to assess whether the Merger gives rise to competition concerns, the CMA has considered a range of evidence including:
 - (a) Shares of supply;

⁷ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

- (b) Evidence on the suitability of the Parties' and competing cargo handlers' facilities and service proposition based on factors highlighted as important by third parties;
- (c) Third party views on the Parties and alternative cargo handlers; and
- (d) Evidence from bidding data and recent tenders.

48. The CMA used this evidence to assess both the closeness of competition between the Parties and the extent of the competitive constraint exerted by alternative cargo handlers. However, for the reasons noted in the counterfactual, the CMA placed limited weight on bidding data for the purposes of assessing closeness of competition between the Parties.

Shares of supply

49. The CMA estimated shares of supply based on volume and revenue using the Parties and third party data. This is set out in Table 1 and 2 below.

Table 1: Volumes and shares of supply in the supply of landside cargo handling services at Heathrow Airport⁸

Company	Total tonnes per year (000s)	Market share
HCH	[X]	[0-10%]
Swissport	[X]	[10-20%]
Combined	[X]	[20-30%]
dnata	[X]	[30-40%]
Menzies	[X]	[0-10%]
WFS	[X]	[20-30%]
Others	[X]	[1-10%]
Total	1,036	100%

Source: data provided by the Parties.

⁸ The Parties clarified that the volumes used are from 2017, from the Civil Aviation Authority's (CAA) website (table 13.2 Freight) <https://www.caa.co.uk/Data-and-analysis/UK-aviation-market/Airports/Datasets/UK-Airport-data/Airport-data-2017>

Table 2: Revenue based estimated shares of supply in the supply of landside cargo handling services at Heathrow Airport

Company	2018 Revenue (£m)	Market share
HCH	[REDACTED]	[10-20%]
Swissport	[REDACTED]	[10-20%]
Combined	[REDACTED]	[20-30%]
Dnata	[REDACTED]	[30-40%]
WFS	[REDACTED]	[30-40%]
Menzies	[REDACTED]	[0-10%]
Total	189	100%

Source: CMA analysis based on the data provided by the Parties and third parties.

50. This data indicates that the Parties' post-Merger share of supply will be relatively moderate and that the Parties will continue to be constrained from a number of other cargo handlers, in particular dnata and WFS.
51. However, the CMA notes that available evidence indicates that a large proportion of the supply of cargo handling services at Heathrow is contestable and therefore that the shares of supply noted above may understate the level of competitive interaction at Heathrow Airport. In particular, the Parties provided bidding data from the last five years which indicates that non-incumbents win a significant proportion of contracts.⁹
52. The CMA has therefore also considered a range of other evidence to assess closeness of competition and the constraint imposed by the Parties' rivals.

Closeness of competition

53. Third parties responding to the CMA's investigation indicated that a number of factors were particularly important to assessing the competitive constraint between landside cargo handlers more generally including:

⁹ Over the five-year period, Swissport/HCH bid for [REDACTED] contracts of which they won [REDACTED]. Of these [REDACTED] wins, [REDACTED] were for customers Swissport/HCH had retained and [REDACTED] were for new customers that they had won from rival cargo handlers. Swissport/HCH were unsuccessful in [REDACTED] of the tender bids over the period. Of these, [REDACTED] of the contracts were lost where Swissport/HCH was the incumbent supplier and [REDACTED] were lost where they were not the incumbent. [REDACTED] of the contracts are ongoing bids.

- (a) Nature and location of facilities;
 - (b) Capacity at the relevant facilities;
 - (c) Whether a cargo handler had a UK or global network.
54. The CMA discusses each of these factors and the evidence on HCH and Swissport's competitive constraint on that basis below.

Nature and location of facilities

55. As mentioned above, cargo handlers can locate themselves either on-airport inside or outside the horseshoe, or off-airport. Evidence from third parties indicates that the location of a cargo handler's facilities can be important to customers when choosing a supplier. Third parties indicated that airlines may prefer suppliers located on airport as there was a perception that on-airport cargo handlers have speedier access to the aircraft. Third parties were also consistent in highlighting that the horseshoe was highly congested and that while some improvements had been made, would remain so for the foreseeable future. This congestion has meant that some airlines may prefer to and have actively switched to cargo handlers that are outside the horseshoe. For example, one airline ([REDACTED]) submitted that it chose Swissport as its cargo handler, as Swissport was outside the horseshoe area.
56. However, landside cargo handlers responding to the CMA's investigation indicated that while airlines might prefer on-airport cargo handlers, in practice there is little difference in service delivery and that customer perceptions were changing. For example, one cargo handler ([REDACTED]) told the CMA that having its facilities off-airport allows it to handle the cargo much more quickly than those cargo handlers that are located on-airport, who in any case face some internal congestion.
57. Airlines and cargo handlers also noted the importance of the quality of facilities for the purposes of ensuring service delivery. Modern facilities with good access for trucks are more likely to be able to process goods quickly and therefore provide good service levels to customers.
58. On the basis of the above, while the CMA notes that off-airport cargo handlers may provide a significant constraint, the CMA believes that the nature and location of facilities may be a differentiating factor between suppliers at Heathrow Airport.
59. Swissport operates two facilities. Swissport's on-airport facility's (Building 521) size is [REDACTED] square feet with the total capacity of [REDACTED] tonnes. The off-airport

facility – Portal in Scylla Road – is [redacted] square feet with the capacity of [redacted] tonnes.

60. HCH operates two warehouses: Building 558 is located on-airport and in the horseshoe (Shoreham Road) having capacity of [redacted] tonnes. HCH's off-airport facility in Horton Road has around [redacted] tonnes capacity, however, it does not have [redacted] and therefore [redacted].
61. Evidence from third parties indicates that Swissport is an effective competitor with good facilities but that HCH would provide limited additional constraint on Swissport absent the Merger based on the location and state of their current facilities. This is because Swissport has facilities outside the horseshoe, whereas the main HCH warehouse is located in the horseshoe. HCH's on-airport building is seen to be dated, whereas Swissport has a much more modern facility. HCH does not have dedicated parking outside its warehouse on the horseshoe which creates more logistical issues. Finally, HCH's off airport facility is [redacted]. It is therefore not suitable for the provision of landside cargo handling services. These limitations were highlighted by a number of third parties responding to the CMA's investigation.

Total and spare capacity of cargo facilities

62. Swissport has told the CMA that if a facility is at or near capacity, that would affect its ability to service a particularly large customer. This was supported by third parties responding to the CMA's investigation. Larger airlines in particular considered a cargo handler's capacity to be a key factor.
63. Swissport submitted that HCH is currently [redacted] at its facilities both on- and off-airport. This was supported by internal documents.
64. Swissport recently expanded by opening a new facility off-airport. As a result, Swissport has some spare capacity in its off-airport facility ([redacted] tonnes out of [redacted] tonnes).
65. The CMA notes that in light of its views on the counterfactual, it can place less weight on evidence of HCH's current spare capacity as this is subject to change based on existing contractual commitments and therefore could be different in the counterfactual. However, the evidence on capacity indicates that while Swissport is well placed to compete effectively at Heathrow Airport, HCH has comparatively more limited capacity.

UK network

66. Swissport submitted that some airlines contract for one handler at multiple or all UK airports while some airlines prefer to contract a cargo handler at each individual airport. Alternatively, some airlines procure services on a network basis across a cargo handler's facilities. Cargo handlers such as Swissport, WFS, and dnata have facilities in many of the UK's airports. These cargo handlers can accept cargo at another one of these facilities, e.g. in Birmingham or Manchester, and then transport it using their trucking service to Heathrow Airport.
67. As noted above, most airlines responding to the CMA's investigation indicated that they had a preference for suppliers with a network of activities across the UK and in some instances globally.
68. HCH only operates at Heathrow Airport and has no network beyond it, whereas Swissport is active in a number of other UK airports.
69. A significant proportion of the third parties responding to the CMA's investigation indicated that HCH's lack of UK or global network was seen as a key limitation in its ability to compete.

Conclusion on closeness of competition

70. Overall, based on the evidence above, the CMA believes that Swissport is well placed to compete strongly at Heathrow Airport but that HCH would pose limited competitive constraint on Swissport absent the Merger. HCH's on-airport facility is smaller, more dated and is in the congested horseshoe area and its off-airport facility is not suitable for handling flown cargo. Finally, HCH only operates at Heathrow Airport and has no presence in other airports within the UK or abroad, which is seen as a significant disadvantage by most airlines.

Competitive constraints

71. The CMA also assessed the extent to which other cargo handlers at Heathrow Airport would provide a competitive constraint on the combined entity post-Merger.
72. Swissport submitted that the Parties are constrained by all the current cargo handlers operating at Heathrow Airport, namely: WFS, dnata, Menzies, Airworld, ASC, IAG, Air Canada and DHL. Swissport also submitted that the Parties are constrained by airlines which currently self-handle but Swissport believed could easily start supplying services to third parties, namely IAG, Air

Canada and DHL and by airlines choosing to stop procuring services from a cargo handler and start self-supplying more generally.

73. As noted above in *Competitive assessment* in addition to evidence on service propositioning, the CMA has considered evidence from bidding data submitted by the Parties.
74. The CMA discusses the competitive constraint exercised by current non-self-handling cargo handlers operating at Heathrow Airport before turning to the competitive constraint exercised by airlines which currently self-handle.

Current cargo handlers

WFS

75. WFS is the second largest cargo handler based on the volume of the handled cargo having a share of supply of [20-30%] prior to 2018. Estimated shares of supply based on revenue showed that WFS is actually the largest provider in the provision of cargo handling services at Heathrow Airport with a share of supply of [30-40%].
76. In terms of network and facilities, WFS appears well placed to compete in Heathrow Airport. WFS has a wide network in many UK regions and Ireland and also has its own trucking services for UK and Ireland. WFS has three facilities on-airport in the horseshoe and one off-airport facility. Its facilities at Heathrow Airport have capacity to handle approximately [X] tonnes, which is significantly greater than the capacity of the Parties' facilities. Evidence from third parties indicates that generally cargo handlers at Heathrow Airport are suffering from some capacity constraint and that WFS has around [X]% spare capacity available in its warehouses on the horseshoe at the moment. However, this is nonetheless similar to the Parties' combined spare capacity and evidence from third parties indicates that this could increase to some extent in the foreseeable future [X].
77. In addition, evidence from third parties and the Parties bidding data indicates that WFS competes regularly and effectively in tenders. In particular, WFS bid in over half ([X]) of the contracts Swissport bid for in the last five years and won a significant proportion of those lost by Swissport ([X]).
78. Third parties, including airlines, consistently identified WFS as one of the strongest suppliers at Heathrow Airport.

Dnata

79. dnata was, prior to 2018, the largest provider of cargo handling services by volume at Heathrow Airport with a share of supply of [30-40]% and remains the second largest cargo handler at Heathrow Airport by volume and revenue.
80. In terms of network and facilities, dnata appears well placed to compete in Heathrow Airport. dnata has a network of operations across the UK and globally. Its facilities at Heathrow Airport have capacity to handle approximately [X] tonnes, which is over double the capacity of the Parties' facilities. dnata's facilities are predominantly located off-airport. Although third-party evidence suggests that the majority of airlines consider having on-airport facilities to be a very important factor when choosing a cargo handler, dnata has a significant share of supply at Heathrow Airport. This suggests that it is nonetheless considered a credible supplier by a substantial proportion of airlines. This is further supported by airline responses which consistently identified dnata as one of the strongest suppliers at Heathrow Airport.
81. Other cargo handlers also see dnata as a strong competitor, given that it is a global company with large facilities. Competitors acknowledged dnata's established UK network, as well as its focus on brand and good reputation.
82. The Parties' bidding data is consistent with these observations and indicates that dnata competes regularly and effectively against the Parties. dnata bid in the majority of tenders Swissport bid for ([X]) and won a similar number to WFS ([X]).
83. Third party evidence also indicates that dnata's competitive constraint will grow significantly in the foreseeable future. [X].

Menzies

84. Menzies is the fifth largest cargo handler at Heathrow Airport based both on the volume of the cargo handled and revenue, having a share of supply of [0-10]% and [0-10]% accordingly.
85. In terms of facilities and service offering, Menzies has one on-airport facility which is in the horseshoe. Its facility at Heathrow Airport has capacity to handle [X] tonnes, which is similar to HCH's capacity.
86. Some airlines indicated that Menzies' ability to compete may be impeded to some extent by its location in the congested horseshoe area and the fact that its network operations have been scaled back and are comparatively more limited than WFS, dnata and Swissport. However, other cargo handlers indicated that Menzies is a global company and noted its well-known brand as

one of its strengths. Third party evidence ([REDACTED]) also indicated that Menzies has some spare capacity to win some new business ([REDACTED]), which is similar to Swissport's.

87. Finally, evidence from the Parties' bidding data indicates that despite perceptions regarding its potentially more limited offering Menzies has been bidding regularly and effectively at Heathrow Airport. Menzies bid in half of the tenders in which Swissport took part in the last five years ([REDACTED]) and won an equal number to dnata ([REDACTED]).

Other cargo handlers

88. As indicated in paragraph 49 above, the remaining competitors at Heathrow Airport, ie ASC Cargo and Airworld, had a combined share of supply of only [0-10]%. Airlines responding to the CMA's investigation, noted concerns that these cargo handlers are small, may not have enough capacity and do not have established UK network. Some of the airlines which responded to the CMA's investigation indicated that they were not aware of Airworld or ASC. However, the CMA notes that evidence from third parties indicates that Airworld and ASC's combined capacity is similar to HCH's and that together they have more spare capacity than the Parties. In addition, Airworld does appear to have bid against the Parties and been successful, albeit to a much more limited extent than dnata, WFS and Menzies.

Self-supply by airlines

89. Swissport submitted that a number of airlines self-handle their landside cargo handling at Heathrow Airport, eg IAG and Air Canada. Swissport told the CMA that these airlines could also supply landside cargo handling services to third party airlines. Further, airlines which currently do not self-handle could decide to do so going forward.
90. The CMA assessed to which extent any of the airlines could start self-supplying cargo handling services and to which extent cargo handlers that currently self-supply could start providing cargo handling services to third parties, and therefore provide a competitive constraint on the combined entity post-Merger.
91. All airlines that responded to the CMA's investigation submitted that they have neither considered starting self-handling, nor are likely to switch to self-handling in the foreseeable future. One of the airlines said that economies of scale would not warrant such an investment, while others noted that self-handling was simply not a feasible option. In addition, [REDACTED].

Conclusion on competitive constraint

92. On the basis of the evidence above, that CMA believes that the Parties will continue to face sufficient competitive constraint post-Merger from dnata and WFS and to significant, albeit comparatively more limited extent, from Menzies. These cargo handlers all have a strong track record of competing regularly and effectively at Heathrow Airport and the evidence available indicates that they can and will continue to do so going forward. The Parties will also face some additional although significantly more limited constraint from other cargo handlers.

Conclusion on horizontal unilateral effects

93. For the reasons set out above, the CMA believes that HCH would exert a limited competitive constraint on Swissport absent the Merger due to its lack of UK network and more limited service offering (in particular more aged and capacity constrained facilities at Heathrow Airport).
94. Moreover, post-Merger, the merged entity will face significant competitive constraints from other cargo handlers at Heathrow Airport, including dnata, WFS and to a significant, albeit comparatively more limited extent, from Menzies. The Parties will also face some additional although significantly more limited constraint from other cargo handlers.
95. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of landside cargo handling services at Heathrow Airport.

Entry and expansion

96. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC.
97. In the present case, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

Decision

98. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the United Kingdom.
99. The Merger will therefore **not be referred** under section 33(1) of the Act.

Alba Ziso
Assistant Director, Mergers
Competition and Markets Authority
18 April 2019