

Completed acquisition by Aviator LGW Limited of the assets of Swissport Limited's ground handling business at London Gatwick

Decision on relevant merger situation and substantial lessening of competition

ME/6578/15

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 5 February 2016. Full text of the decision published on 10 March 2016.

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

SUMMARY

1. On 9 November 2015, Aviator LGW Limited (**Aviator**) acquired the assets of Swissport Limited's ground handling business at London Gatwick (**Swissport LGW**) (the **Merger**). Aviator and Swissport LGW are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that the Parties' enterprises have ceased to be distinct and that the share of supply test is met. The four-month period for a decision to be made has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
3. The Parties overlap in the supply of ground handling services comprising ramp, baggage, passenger and airside cargo services at London Gatwick. The CMA has therefore assessed the impact of the Merger in the supply of ground handling services comprising ramp, baggage, passenger and airside cargo services to airlines at London Gatwick.
4. Evidence available to the CMA supports: (i) a relative lack of closeness of competition between the Parties pre-Merger; and (ii) the presence of three

other ground handlers active and capable of serving and winning contracts across the range of airlines operating at London Gatwick. In addition, there is evidence that potential entry by other ground handlers not currently operating at London Gatwick may also impose some constraint post-Merger.

5. 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.
6. The Merger will therefore **not be referred** under section 22(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

7. Aviator is a provider of ground handling services at four UK airports, including London Gatwick. The turnover of Aviator in the financial year ending 2014 was around £15 million in the UK.
8. Swissport Limited is a provider of ground handling services in 27 airports in the UK. Swissport LGW comprises the assets of Swissport Limited's ground handling business at London Gatwick. The turnover of Swissport LGW in the year ending October 2015 was around £[X] million in the UK.

Transaction

9. The Merger was executed by way of an asset purchase agreement. The relevant assets included all relevant customer contracts at London Gatwick, business records, staff (transferred via TUPE¹) and goodwill. The asset purchase agreement did not include leases to any premises at London Gatwick occupied by Swissport Limited, IT systems or ground support equipment.

Jurisdiction

10. Each of Aviator and Swissport LGW (comprising the assets purchased as described at paragraph 9) constitutes an 'enterprise' for the purposes of

¹ Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014.

Part 3 of the Act.² As a result of the Merger, the enterprises of Aviator and Swissport LGW have ceased to be distinct.

11. The Parties overlap in the supply of ground handling services at London Gatwick, with a combined share of supply of [40–50]% (increment [10–20]).³ In this context, the CMA notes that approximately 40 million passengers per year travel through London Gatwick. Therefore it is of such a size, character and importance as to make it worth consideration for the purposes of merger control.⁴ The CMA therefore believes that the share of supply test in section 23 of the Act is met.
12. The Merger completed on 9 November 2015 and was first made public on 1 October 2015. The four month deadline for a decision under section 24 of the Act is 9 March 2015.
13. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
14. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 6 January 2016 and the statutory 40 working day deadline for a decision is therefore 1 March 2016.
15. The CMA opened an own-initiative investigation into the Merger by sending an Enquiry Letter to Aviator on 6 November 2015.⁵

Counterfactual

16. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For completed mergers the CMA generally adopts the pre-merger 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.⁶

² See section 129 of the Act and [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, paragraph 4.8.

³ See Table 1 below.

⁴ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, paragraph 4.61.

⁵ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, paragraphs 6.9-6.19 and 6.59-60.

⁶ [Merger Assessment Guidelines](#) (OFT1254/CC2), September 2010, from paragraph 4.3.5. The [Merger Assessment Guidelines](#) have been adopted by the CMA (see [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, Annex D).

17. In this case, based on evidence from Aviator and third parties and in the context of public communications regarding Swissport Limited's decision to divest its London Gatwick operations to Aviator, the CMA considered whether there was a realistic prospect of an exiting firm counterfactual,⁷ ie whether, absent the Merger, Swissport Limited would have withdrawn from ground handling services at London Gatwick. Under this counterfactual, any loss of competition would not be attributable to the Merger.
18. The evidence available suggests that there may have been an alternative purchaser for the assets, so an exiting firm counterfactual may not be appropriate.⁸ However, the CMA has not found it necessary to conclude on the exiting firm counterfactual, as no concerns arise even on a counterfactual based on pre-Merger conditions.

Frame of reference

19. The CMA considers that market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.⁹
20. The Parties supply ground handling services at London Gatwick. Ground handling is the servicing of an aircraft when it is on the ground at an airport and generally consists of ramp, passenger, baggage and airside cargo services.
21. The European Commission (**EC**) and Office of Fair Trading (**OFT**) have considered the provision of ground handling services and associated activities on a number of occasions, most recently in *Swissport/Servisair*¹⁰ and *Servisair/Aviance*.¹¹ In doing so, the OFT and EC considered a number of potential segmentations for the purposes of the frame of reference.
22. For the purposes of the product frame of reference, the OFT and EC considered the extent to which it would be appropriate to distinguish between

⁷ *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.8.

⁸ *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5.

⁹ *Merger Assessment Guidelines*, paragraph 5.2.2.

¹⁰ Case No COMP/M.7021, SWISSPORT / SERVISAIR, 18 December 2013 (*Swissport/Servisair*).

¹¹ ME/4429/10, Completed acquisition by Servisair UK Limited of the regional ground handling business of Aviance UK Limited, OFT, 15 June 2010 (*Servisair/Aviance*).

different types of ground handling services and which services it would be appropriate to consider as constituting ground handling services. The EC also considered the extent to which self-handling by airlines should be included in the relevant frame of reference.

23. In terms of the geographic frame of reference, the OFT and EC considered the extent to which it was appropriate to assess the transaction on an airport by airport basis or more widely.
24. The CMA considered these and any other relevant distinctions based on the evidence available for the purposes of its assessment.

Product scope

Segmentation by type of service

25. As discussed in *Swissport/Servisair* and *Servisair/Aviance*, and confirmed by third parties responding to the CMA's market investigation, ground handling can comprise a number of services, including: ramp activities;¹² passenger management activities;¹³ baggage activities;¹⁴ airside cargo handling;¹⁵ aircraft cleaning; fuelling and oil; de-icing; catering; and passenger lounge facilities.
26. At London Gatwick, the Parties only overlap in the provision of ramp, passenger, baggage and airside cargo services.
27. Aviator submitted that contracts for ground handling services generally comprise ramp, passenger and baggage services and aircraft cargo services. Aviator noted that certain specific services may or may not be included in a contract with an airline, such as aircraft cleaning, potable water and toilet services.
28. In *Swissport/Servisair*, the EC concluded that ramp, passenger, baggage and airside cargo handling constituted the relevant product market. In *Servisair/Aviance*, the OFT found it appropriate to consider the market for ground handling as a whole, rather than to delineate further. It noted that the Parties and their competitors all offered the same range of services, airlines

¹² Loading and unloading of aircraft, baggage and freight, push-back and towing of the aircraft, passenger debarkation via steps, aircraft safety checks upon arrival and departure, traffic operation (flight documentation and planning, crew briefing, weight and balance, load planning, ground to air communication, flight supervision).

¹³ Check-in, passenger assistance landside, gate management airside, air bridge connection and disconnection, passenger security checks.

¹⁴ 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.

¹⁵ Loading and unloading cargo from an aircraft.

did not multisource, all elements of ground handling were provided by one supplier, and all elements were required by all airlines.

29. Evidence from third parties responding to the CMA's investigation confirmed that ground handling services should be considered as comprising ramp, passenger, baggage and airside cargo services and should not be segmented further. In particular:
- (a) From a demand-side perspective, the majority of airlines require ground-handling services comprising ramp, passenger, baggage and airside cargo services and will not typically source these services separately. Other services such as cleaning and de-icing services may be contracted for separately.
 - (b) From a supply-side perspective, ground handling services comprising ramp, baggage and passenger and airside cargo services appear to necessitate similar expertise, personnel and equipment. In this context, the CMA notes that all suppliers of ramp, passenger, baggage and airside cargo services at London Gatwick, supply all these services.¹⁶
30. Therefore, based on the overlap between the Parties, the evidence outlined above and in line with previous decisional practice, the CMA has assessed the impact of the Merger on the supply of ground handling services comprising ramp, passenger, baggage and airside cargo services (**ground handling services**). However, the CMA has not found it necessary to conclude on whether additional ground handling activities should form part of the relevant frame of reference as no concerns arise on this narrower basis.

Segmentation by type of supplier – self-handling

31. Other than obtaining their ground handling services from third party providers, airlines have the option of catering to their ground handling needs through self-handling, whereby an airport user directly provides ground handling services for itself and concludes no contract with any third party for the provision of such services.
32. At London Gatwick there are no airlines who currently self-handle all their ground handling needs. Therefore, on a cautious basis, the CMA has not included self-handling in the product frame of reference. Nonetheless, the CMA has considered any constraint imposed by the potential for airlines to self-handle in its competitive assessment. Since no concern arises following

¹⁶ Some ground handlers at London Gatwick may also provide additional services such as cleaning or de-icing. Specific services such as cleaning may also be provided by a specific supplier.

this assessment, the CMA has not found it necessary to conclude on whether self-handling should form part of the relevant frame of reference.

Segmentation by type of customer – airline

33. Based on evidence received from third parties in response to the CMA's market investigation, the CMA considered the extent to which ground handling services differ from both a demand and a supply-side perspective depending on the type of airline served (eg low cost, full service, etc) such that it is appropriate to consider ground handling to these different airlines separately.
34. Evidence from third parties suggests that from a demand- and supply-side perspective such differentiation for the purpose of determining the product frame of reference may be inappropriate. Although airlines' ground handling service standards and requirements may differ to an extent, depending for example on their own customer profile,¹⁷ the services provided are broadly the same and can, be provided by all ground handlers with largely the same resources.
35. Therefore, on the evidence outlined above, the CMA has not distinguished between different types of airlines for the purposes of the product frame of reference. The CMA has nonetheless considered any potential distinctions between airline requirements and the ability or willingness of different ground handlers to meet these requirements its assessment of competitive effects, in particular the competitive constraint imposed by other ground handlers. However, as no concern arises following this assessment, the CMA has found it unnecessary to conclude on whether to differentiate between airlines for the purpose of the product frame of reference.

Conclusion on product scope

36. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of ground handling services by ground handlers to all airlines.
37. However, it was not necessary for the CMA to reach a conclusion on the product frame of reference, since, as set out below, no competition concerns arise.

¹⁷ For example: (i) a higher or lower volume of baggage handling depending on whether the airline's focus is on low cost customers or otherwise; (ii) differences in plane 'turnaround' times, where 'charter' airlines may allow longer for boarding.; (iii) lesser need for check-in services where the airline is low cost focused.

Geographic scope

38. The Merger only relates to services provided at London Gatwick. Aviator submitted that multi-airport tenders by airlines and ease of entry into London Gatwick by other ground handlers outside the airport indicated that ground handlers at London Gatwick were also constrained by competitive conditions outside London Gatwick.
39. In *Servisair/Swissport*, the EC concluded that the geographic market was local and did not extend beyond a single airport or possibly two or more neighbouring airports. The EC noted that from a demand-side perspective, while some airlines organise tender procedures comprising several airports simultaneously, the clear majority of airlines still award tenders locally and are prepared to split multi-airport tenders among multiple bidders. Therefore the specific airport at which the ground handling services are to be provided seemed to have decisive weight for airlines. From a supply-side perspective, ground handlers appeared to compete for ground handling contracts at the airport level and not at the level of a region or a whole country.
40. In *Servisair/Aviance*, the OFT did not conclude on the precise geographic scope, noting that there may be some national, or at least multi airport aspects to the ground handling market with some airlines trying to negotiate a reduced price if negotiating contracts at multiple airports at the same time.
41. In the present case, evidence from third parties is mixed but generally pointing towards a local assessment of competition.
42. In particular, in terms of demand-side constraints, it is unclear to what extent multi-airport bids are effective in constraining ground handlers at a specific airport. Although multi-airport tenders appear a favoured strategy for a number of airlines, these airlines are nonetheless generally prepared to accept single airport bids and to choose different suppliers for different airports. Moreover, most airlines tender for ground handling services at Gatwick on a stand-alone basis.
43. However, in terms of supply-side considerations, evidence from both airlines and ground handlers suggests that entry or expansion into the supply of ground handling services at airports where the supplier is not currently active can be achieved relatively easily and that airlines could facilitate this, particularly where they have an existing relationship with a ground handler at another airport.

Conclusion on geographic scope

44. Therefore, in the context of the demand-side considerations set out above, and given that the Merger only relates to the Parties' activities in London Gatwick, on a cautious basis, the CMA has considered the impact of the Merger locally, in London Gatwick. The CMA has nonetheless considered evidence on the constraint posed by ground handlers currently not supplying ground handling services in London Gatwick in its competitive assessment.
45. It was not necessary for the CMA to reach a conclusion on the geographic frame of reference, since in the context of the Merger, the Parties' activities only overlap in relation to London Gatwick, and as set out below, no competition concerns arise in relation to London Gatwick on that basis.

Conclusion on frame of reference

46. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of ground handling services by ground handlers to all airlines at London Gatwick.
47. However, it was not necessary for the CMA to reach a conclusion on the product frame of reference, since, as set out below in the competitive assessment, no competition concerns arise.

Competitive assessment

Horizontal unilateral effects

48. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and without needing to coordinate with its rivals.¹⁸ Horizontal unilateral effects are more likely when the merger parties are close competitors. The CMA has assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in a substantial lessening of competition in relation to unilateral horizontal effects in the supply of ground handling services to all airlines at London Gatwick.

¹⁸ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

Shares of supply

49. Table 1 displays the shares of supply by number of aircraft ‘turns’¹⁹ and number of passengers for the ground handlers supplying ground handling services that were active pre-Merger.

Table 1: Shares of supply for ground handling at London Gatwick based on aircraft turns and number of passengers

Supplier	Number of aircraft turns	% of all aircraft turns	Number of passengers	% passengers
Aviator	[30]	[10–20]	[30]	[10–20]
Swissport LGW	[30]	[20–30]	[30]	[20–30]
Combination	[30]	[40–50]	[30]	[40–50]
Menzies	[30]	[40–50]	[30]	[40–50]
Airline Services	[30]	[0–10]	[30]	[0–10]
dnata	[30]	[0–10]	[30]	[0–10]

Source: Third parties

Notes: Data is for 2015 calendar year to end of November. Therefore, Swissport LGW includes the [30] and [30] contracts, although these contracts were won by Aviator prior to the Merger and, so, should be reflected in the shares of supply in the context of a pre-Merger counterfactual. The CMA estimates that [30] accounts for approximately [10–20]% of turns and [30] has just under [0–10]% of turns, indicating that Swissport LGW’s pre-Merger share of supply is nearer to [10–20]% and Aviator’s higher at approximately [30–40]%.

50. Post-Merger Aviator has a share of supply of approximately [40–50]%, with a [10–20]% increment, which is approximately the same size as Menzies. Therefore, as a result of the Merger, two similarly sized competitors supply over 90% of London Gatwick with two smaller competitors remaining. This may, *prima facie*, raise concerns regarding the Merger.
51. However, the CMA notes that available evidence indicates that a large proportion of the supply of ground handling services at London Gatwick is contestable and therefore that the shares of supply noted above understate the level of competitive interaction at London Gatwick.²⁰ This evidence, as set out in further detail below includes: (i) changes in the shares of supply over time; (ii) customer switching/churn; and (iii) contract wins by non-incumbents. This is further supported by the large majority of third party responses raising no concerns with the Merger and indicating that competition for the supply of ground handling services at London Gatwick remains strong.

Changes in shares of supply

52. As can be seen from Table 1 above, shares of supply have changed considerably since the EC decision in *Swissport/Servisair*. There the EC found that in 2012 Swissport LGW had [30–40]% of the market, Servisair

¹⁹ Turnarounds refer to the process of loading, unloading, and servicing an aircraft.

²⁰ See [Merger Assessment Guidelines](#), from paragraph 5.3.2.

(which was subsequently divested to Aviator) had [10–20]% and Menzies had [40–50]%. In particular:

- (a) Aviator has a lower share of supply ([40–50]%) than would have been the case after the *Swissport/Servisair* merger ([50–60]%)
- (b) Aviator has won a significant proportion of new contracts since its entry in 2014, in addition to the contracts it received as part of the 2012 divestment, which illustrates how market shares may vary materially over time; and
- (c) Airline Services and dnata have both entered and strengthened their position. Airline Services in particular has won [X] new contracts since entering London Gatwick to serve Monarch in 2014.

Customer churn

53. Evidence from third parties indicates a significant degree of customer churn in the last two years. More specifically, 17 airlines changed their ground handling services supplier during 2014 and 2015.²¹ Ten of these were in the top 20 largest airlines at Gatwick, accounting for a significant proportion of passengers at London Gatwick.²²

Non-incumbent wins

54. Data on the proportion of all airline tenders that resulted in a switch of supplier in each of the last two years was not available. However, available evidence does not indicate any particular incumbency advantage. More specifically:
- (a) Evidence from third parties indicates that contracts generally last three to five years. If the average tender occurs every four years²³ then it can be assumed that one quarter of airlines will tender each year. If there are approximately 50 airlines operating in London Gatwick, this would be equivalent to 12 to 13 airlines tendering each year. The evidence above suggests that, on average, between eight and nine airlines have changed contracts in each of the last two years. Therefore, the number of airlines that have changed ground handler in the last two years accounts for

²¹ The CMA notes that this only includes instances where an airline changed supplier and not when a new airline entered London Gatwick and had to tender for a new supplier or where the airline tendered but chose to stay with their current supplier.

²² The CMA notes that, based on third party submissions, there are over 50 airlines operating at London Gatwick, though the number changes due to seasonality and airline entry and exit. The ten largest airlines at London Gatwick account for over 90% of passengers travelling through London Gatwick.

²³ Assuming the tender dates are relatively evenly distributed.

about two-thirds of the CMA's estimate of the number of airlines going out to tender. This does not indicate a strong incumbency advantage.

- (b) Aviator's strong growth since its entry, particularly in winning the [REDACTED] and [REDACTED] contracts, also indicates the ability of ground handlers to take customers from incumbents and expand quickly.

Closeness of competition

55. Pre-Merger, both Parties supplied ground handling services to a range of different types of airlines at London Gatwick.
56. The Parties were therefore competing for contracts and constraining each other to some extent pre-Merger. However, it does not appear from the evidence available that the Parties were competing particularly closely. In particular:
- (a) The CMA notes that of the [REDACTED] instances of switching to Aviator in the last two years, [REDACTED] of these were from Swissport LGW, including across a number of significant contracts, which could indicate that the Parties were close competitors.
- (b) However, airlines which had recently changed contracts noted the credibility of other ground handlers at London Gatwick, and the large majority of airlines raised no concerns regarding the Merger, as discussed further below.
- (c) In addition, the loss of contracts by Swissport LGW to Aviator may, in part, reflect the potentially weaker offering provided by Swissport LGW in recent years, such that it was less able to keep customers, rather than indicating that Aviator was providing a particularly strong constraint on Swissport LGW. Swissport's potentially diminished constraint is supported by the fact that:
- (i) It was widely reported that Swissport had been having operational issues since the summer of 2014, which some airlines indicated could have affected its credibility with airlines in the run up to the Merger. Although, some airlines noted that Swissport LGW had a strong global brand and had taken positive steps to improve its performance.
- (ii) Swissport LGW only won [REDACTED] new contract in 2014/2015 and lost [REDACTED].

Competitive constraints

Ground handlers supplying ground handling services in London Gatwick

57. Following the Merger, there remain three other ground handlers supplying ground handling services in London Gatwick in addition to Aviator – Menzies, Airline Services and dnata.
58. Aviator submitted that contracts change hands regularly and easily and that any ground handlers at London Gatwick, or indeed outside it, had the capability to supply airlines at London Gatwick.
59. The CMA tested the strength of the competitive constraint posed by the three remaining ground handlers supplying ground handling services at London Gatwick.
60. Evidence from third parties indicated that the three remaining providers of ground handling services post-Merger would provide a sufficient competitive constraint. In particular third parties indicated that:
 - (a) While there was some scope for certain ground handlers to focus on certain types of airlines, all ground handlers could serve a range of airlines operating at Gatwick.
 - (b) Contract changes in the last two years indicate that new entrants, Airline Services and dnata, have been effective at winning new contracts, with Airline Services winning [✂] new contracts since its entry in 2014 and dnata winning one.
 - (c) All of the ground handlers at London Gatwick are active, willing and capable of continuing to bid for new work in line with their commercial objectives.
 - (d) Evidence on the competitive dynamics at London Gatwick (as set out more fully at paragraphs 51 to 54) indicates that a ground handler's portfolio of contracts is regularly contestable and there does not appear to be a strong incumbency advantage, such that there is opportunity for newer ground handlers to expand.
 - (e) The large majority of airlines (reflecting a range of airlines) expected to receive bids from current ground handlers at Gatwick and were satisfied that this would offer sufficient competition post-Merger.
61. Therefore the CMA considers that customers have the ability to switch in the event of a price rise or worsening of service quality.

Other competitors

62. Based on the evidence outlined above, there appears to be sufficient competition remaining from the ground handlers providing ground handling services at London Gatwick post-Merger. However, the CMA also considered the extent to which there was evidence of other potential competitors imposing a constraint on the supply of ground handling services in London Gatwick.
- *Ground handlers supplying ground handling services outside London Gatwick*
63. In this context, the CMA considered:
- (a) evidence from ground handlers currently not operating at London Gatwick on their likelihood to bid for upcoming contracts at London Gatwick;
 - (b) evidence from airlines on their expectations that ground handlers from outside London Gatwick would bid;
 - (c) evidence of recent successful entry from ground handlers not previously operating at London Gatwick; and
 - (d) evidence on factors facilitating entry at London Gatwick more generally.
64. The CMA notes that it did not receive any specific evidence from non-London Gatwick based ground handlers that they would bid for work in Gatwick in the near future. Correspondingly, airlines also indicated relatively limited expectation that non-London Gatwick ground handlers would bid for that airlines' work there.
65. However, reasons given for these views were not focused on the ability of these ground handlers to serve airlines at London Gatwick but, rather, on the profitability of doing so under current competitive conditions at London Gatwick. In this context:
- (a) it was generally noted (as discussed further below) that barriers to entry were low, such that prices may not have to rise significantly for these competitors to consider it attractive to enter;
 - (b) one ground handler active at other London airports indicated that it was not attractive to enter Gatwick given how competitive it was there; and

(c) a number of airlines indicated that they would be willing to sponsor the entry by a new ground handler and indeed one airline had already done so at London Gatwick.²⁴

66. On balance, therefore, the CMA believes that the evidence available indicates that ground handlers outside Gatwick may impose some competitive constraint on ground handlers in Gatwick.

- *Other airlines – Self-handling*

67. The evidence on any constraint imposed by an airline's potential to self-handle was less clear. While a few airlines indicated that this was a possibility, most airlines indicated that this would not be a preferred option in the context of a potential price rise. Therefore the CMA does not consider self-handling to impose a competitive constraint on ground handlers at London Gatwick.

Conclusion on horizontal unilateral effects

68. As set out above, the CMA believes that: (i) the relative lack of closeness of competition between the Parties pre-Merger; and (ii) the presence of three other ground handlers active and capable of serving and winning contracts across the range of airlines at London Gatwick, indicates that there will be sufficient competitive constraint remaining.

69. Accordingly, the CMA believes that the Merger does not give rise to a realistic prospect of a substantial lessening of competition as a result of horizontal unilateral effects in relation to the supply of ground handling services by ground handlers to all airlines at London Gatwick.

Barriers to entry and expansion

70. 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 substantial lessening of competition. In assessing whether entry or expansion might prevent a substantial lessening of competition, the CMA considers whether such entry or expansion would be timely, likely and sufficient.²⁵

71. Evidence from third Parties indicates that, in order to provide ground handling services at an airport (including London Gatwick), a ground handler requires a

²⁴ Monarch sponsored the entry of Airline Services, which had previously been supplying cleaning services at London Gatwick.

²⁵ [Merger Assessment Guidelines](#), from paragraph 5.8.1.

licence to operate,²⁶ staff, equipment and space to store equipment/house staff.

72. Third parties consistently indicated that the costs of equipment could be mitigated by leasing rather than buying equipment and that obtaining a licence was not a significant barrier to entry.²⁷ Ground handlers indicated that entry costs could average £200,000 and that an entrant could launch ground handling services within three to six months.
73. In terms of expansion, third parties indicated that ground handlers would be able to expand quickly to serve a new customer, either by utilising existing facilities or obtaining new ones. In addition, the CMA notes that staff can and often do transfer with a customer contract.
74. In light of the evidence above and recent evidence of new entry at London Gatwick and airlines sponsoring new entry, the CMA believes that barriers to entry and expansion at London Gatwick may be relatively low.
75. However, 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.

Countervailing buyer power

76. The CMA has not had to conclude on countervailing buyer power as the Merger does not give rise to competition concerns on any basis. However, the CMA notes that a number of airlines confirmed that they would be prepared to sponsor new entry and that there had been a recent example of this happening at London Gatwick.

Third party views

77. The CMA contacted customers of the Parties, other airlines operating at London Gatwick, competitors (ground handlers operating both in and outside London Gatwick), [REDACTED] and the Civil Aviation Authority.
78. Only two airlines raised concerns regarding potential loss of competition arising from the Merger and only one provided reasons for its concerns. This airline explained that they were concerned that as a result of the Merger there would be a reduction of competition as the number of ground handlers that would be willing to bid for their work would be reduced. The ability and

²⁶ Obtained from the relevant airport authority.

²⁷ Ground handlers have to show they are capable of meeting the relevant safety/viability standards but all ground handlers can generally do this easily. Licences applications can also be supported with an existing customer relationship.

willingness of ground handlers to bid in the context of the competitive dynamics at London Gatwick has been considered and taken into account where appropriate in the competitive assessment above.

79. No other third parties raised concerns about the Merger and, as noted above, a significant proportion of airlines and competitors confirmed that the supply of ground handling services at London Gatwick is very competitive.

Decision

80. Consequently, the CMA does not believe that it is or may be the case that the Merger has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom.

81. The Merger will therefore **not be referred** under section 22(1) of the Act.

Stephanie Canet
Director, Mergers
Competition and Markets Authority
5 February 2016