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EUROPEAN COMMISSION
DG Competition

Case No M.7766 - HNA GROUP / AGUILA

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**REGULATION (EC) No 139/2004
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 17/11/2015

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EUROPEAN COMMISSION

Brussels, 17.11.2015
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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE

To the notifying party:

Dear Sir/Madam,

**Subject: Case M.7766 - HNA GROUP / AGUILA
Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004¹ and Article 57 of the Agreement on the European Economic Area²**

- (1) On 15 October 2015, the European Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which HNA Group Co., Ltd. ("HNA Group") will acquire sole control of Aguila 2 S.A., the holding company of the Swissport group of companies (together with its subsidiaries, "Swissport", and together with HNA Group, the "Parties") by way of purchase of securities (the "Transaction").

¹ OJ L 24, 29.1.2004, p. 1 ('the Merger Regulation'). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ('TFEU') has introduced certain changes, such as the replacement of 'Community' by 'Union' and 'common market' by 'internal market'. The terminology of the TFEU will be used throughout this decision.

² OJ L 1, 3.1.1994, p.3 ("the EEA Agreement").

1. THE PARTIES

- (2) Swissport is a provider of airport ground handling, cargo handling, and related ground handling services, to airlines in Europe and abroad. Swissport has around 40 000* employees worldwide and is active at 269 airports in 48 countries. In 2014, Swissport provided ground handling services for approximately 229 million passengers and handled approximately 4.1 million tons of cargo worldwide.
- (3) HNA Group is a Chinese conglomerate encompassing core divisions of aviation, holdings, capital, tourism and logistics. The core focus of the HNA Group is China and the Asia region, with some limited activities in the EU. Through its HNA Aviation division, HNA Group manages aviation related enterprises, with a focus on China and the Asia region. HNA Group, through its controlled airlines,³ is active at a number of airports in the EEA.

2. THE OPERATION AND THE CONCENTRATION

- (4) On July 30, 2015, HNA Group and Aguila 1 S.à r.l. entered into a Sale and Purchase Agreement (the "SPA"), pursuant to which HNA Group intends to acquire Aguila 2 S.A. Aguila 2 S.A. is a wholly owned subsidiary of Aguila 1 S.à r.l. and is the holding company of the Swissport group of companies.
- (5) Pursuant to the SPA, HNA Group intends to acquire all of the interest in Aguila 2 S.A., representing 100% of the issued and outstanding share capital and voting rights in the company.
- (6) The Transaction, therefore, constitutes a concentration within the meaning of Article (1)(b) of the Merger Regulation.

3. EU DIMENSION

- (7) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million⁴ (HNA Group: EUR 20 700 million; Swissport: EUR: 2 408 million). Each of them has an EU-wide turnover in excess of EUR 250 million (HNA Group: EUR [BUSINESS SECRETS – TURNOVER] million; Swissport: EUR [BUSINESS SECRETS – TURNOVER] million), and they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State.
- (8) The Transaction, therefore, has an EU dimension pursuant to Article 1(2) of the Merger Regulation.

³ HNA Group controls the following airlines: Hainan Airlines, Beijing Capital Airlines, Yangtze River Express, Deer Jet, Ghana Africa World Airlines, Hong Kong Airlines, Hong Kong Express, Lucky Air, Tianjin Airlines and West Airlines. Of these airlines, only Hainan Airlines, Beijing Capital Airlines, and Yangtze River Express are active in the EEA. HNA Group also holds a non-controlling stake in Aigle Azur, a French-headquartered airline. For completeness, HNA Group also holds stakes in the following aviation-related companies with operations outside the EEA: HNA Cargo, Hong Kong Aviation Capital and myCargo. Finally, HNA Group owns and operates an airport management business focussed solely on airport management services in China.

⁴ Turnover calculated in accordance with Article 5 of the Merger Regulation.

* [CLERICAL ERROR. SHOULD READ "60 000".]

4. MARKET DEFINITION

- (9) Swissport is primarily active in the provision of ground handling and cargo handling services,⁵ while three airlines within HNA Group (Hainan Airlines, Beijing Capital Airlines and Yangtze River Express) have limited activities in the EEA in air transport services.

4.1. Ground and cargo handling services

4.1.1. Product market definition

- (10) In its decisional practice, the Commission has previously distinguished the following product markets: (i) ground handling services, consisting of ramp, passenger and baggage handling services (which in turn include other services such as airside cargo handling, de-icing and security services); and (ii) landside cargo handling services (which include among others cargo terminal operations, warehousing and inventory control, cargo security, handling of certain goods or animals and custom clearances).⁶
- (11) The Commission has also previously left open whether offline cargo handling⁷ constitutes a separate product market, belongs to the same market as cargo handling services, or belongs to an overall market for freight forwarding services.⁸
- (12) The Notifying Party generally agrees with the Commission's previous definitions of separate markets for ground handling and landside cargo handling services, with no need to further segment the market by the type of service offered. However, they consider that any definition of the ground handling market should also include self-handling by airlines.
- (13) As regards offline cargo handling, the Notifying Party submits that the Commission can ultimately leave this point open since the Transaction does not raise serious doubts under any plausible market definition

4.1.2. Geographic market definition

- (14) In its decisional practice, the Commission has previously considered ground handling and landside cargo handling either at a single airport or airports within the same catchment area as the appropriate geographic parameters for these markets. The

⁵ Swissport also provides the following additional services: (i) into-plane fuelling; (ii) security services; (iii) airport lounges; (iv) catering; (v) maintenance, repair and overhaul; and (vi) executive aviation. None of these services gives rise to any affected market and are, therefore, not discussed further in the assessment section of this Decision.

⁶ See case M.7021 – *Swissport/Servisair*, paragraphs 28 and following; case M.6671 – *LBO France/Aviapartner*, paragraphs 10 and following.

⁷ Offline cargo handling services are services provided for freight that will not be, or was not, loaded at the airport where it is handled. Offline services do not necessarily need to be provided at airports (the cargo is handled and prepared for flight at one airport, then transported by truck to another airport for loading onto the aircraft). See case M.7021 – *Swissport/Servisair*, paragraph 34.

⁸ See cases M.7021 – *Swissport/Servisair*, paragraph 36; M.6671 – *LBO France/Aviapartner*, paragraph 47.

Commission has also left open the exact geographic market definition for offline cargo handling.⁹

- (15) The Notifying Party submits that while the Transaction can be assessed on the basis of either single airports or airports within the same catchment area, the Commission can ultimately leave this point open since the Transaction does not raise serious doubts under any plausible market definition.

4.1.3. Conclusion

- (16) For the purpose of the assessment of the Transaction, the Commission considers that the precise scope of the product and geographic market definitions for ground handling, landside cargo handling and offline cargo handling services can be left open since the Transaction does not raise serious doubts under any plausible market definition.

4.2. Air transport services

4.2.1. Product and geographic market definition

- (17) In its decisional practice, the Commission has previously considered the origin/point of destination (O&D) pair approach as the appropriate basis both the relevant product and geographic dimension of the market for the assessment of air transport services.¹⁰

- (18) However, in its assessment of cases where there is only a vertical relationship between on the one hand, air transport service providers and, on the other hand, ground handling, landside cargo handling or offline cargo handling service providers, the Commission has assessed the competitive effects of a transaction by reference to the downstream share of purchases of ground handling, landside cargo handling or offline cargo handling services by providers of air transport services, without distinguishing by O&D pair operated by the air transport provider.¹¹

- (19) The Notifying Party submits that there is no need to further segment the market for air transport services on the basis of the origin / point of destination pair approach.

4.2.2. Conclusion

- (20) For the purpose of this assessment of the Transaction, the Commission considers that the precise scope of the product and geographic market definition for air transport services can be left open since the Transaction does not raise serious doubts under any plausible market definition.

⁹ See cases M.7021 – *Swissport/Servisair*, paragraph 44; M5747 – *Iberia/British Airways*, paragraph 46; M.5830 – *Olympic/Aegean*, paragraphs 314 and following.

¹⁰ See cases M.7541 – *IAG/Aer Lingus*, paragraphs 14 and following; M.6828 – *Delta Air Lines/Virgin Group/Virgin Atlantic Limited*, paragraphs 17 and following; M.6447 – *IAG/bmi*, paragraphs 31 and following.

¹¹ See cases M.7541 – *IAG/Aer Lingus*, paragraphs 525 and following; M.7270 – *Cesky Aeroholding / Travel Service / Ceske Aeroline*, paragraphs 111 and following; M.5830 – *Olympic/Aegean Airlines*, paragraphs 1719 and following.

5. COMPETITIVE ASSESSMENT

(21) While the Transaction does not give rise to any horizontal overlap between Swissport and HNA Group, it does give rise to vertical relationships between Swissport and HNA Group, given that Swissport is active in the provision of ground handling, landside cargo handling and offline cargo handling services, and HNA Group, *via* its controlled airlines, is a potential purchaser of these services.

5.1. The Notifying Party's views

(22) Regarding a possible input foreclosure strategy, the Notifying Party submits that the merged entity will have neither the incentive nor the ability to engage in such a strategy, given that HNA Group's controlled airlines account for only a small portion of downstream demand and any such strategy. Regarding the incentive, such a strategy would result in Swissport foregoing revenues from the vast majority of available business. Regarding the ability, there is significant competition on the upstream markets that would materially limit Swissport's ability to engage in any such strategy. Moreover, the majority of relevant services at the affected airports are liberalised¹², meaning that alternative suppliers are able to establish operations at the affected airports as competitors to Swissport, and to compete for the business of HNA Group's downstream rivals, without facing any material regulatory barriers.

(23) As for possible customer foreclosure, the Notifying Party submits that no such concerns will arise because HNA Group accounts for only a minimal share of demand at the airports at which it is active in the EEA, and is therefore unable to foreclose access to demand for these services.

5.2. The Commission's assessment

(24) For the reasons set out below, the Commission considers that the Transaction does not raise serious doubts due to the vertical relationships between Swissport and HNA Group.

5.2.1. Input foreclosure

(25) First HNA Group is an actual/potential purchaser of Swissport's ground handling, landside cargo handling and offline cargo handling services at the following airports in the EEA where Swissport's market shares with respect to the relevant services are above 30%:¹³

- a. for ground handling services: Birmingham ("BHX"), Brussels ("BRU"), and Munich ("MUC"); and

¹² There are only two affected airports where ground handling services are not liberalised (Brussels and Munich), and HNA Group accounts for less than [0–5]% of demand for ground handling services at these airports.

¹³ Some competitors of Swissport raised concerns regarding the horizontal effect of the Transaction on the market for ground handling services. As HNA Group is, however, not active on this market, the Transaction will have no merger-specific effects in this market.

- b. for offline cargo handling services: Berlin Tegel ("TXL"), Berlin Schönefeld ("SXF"), Birmingham ("BHX"), Brussels ("BRU"), Frankfurt ("FRA"), and Munich ("MUC").¹⁴

- (26) HNA Group, however, accounts for less than [0–5]% of all purchases of the relevant services at each of these airports. The merged entity will, therefore, not have the incentive to engage in an input foreclosure strategy.
- (27) Second, the merged entity will not have the ability to engage in such a strategy. As confirmed by a majority of respondents that replied to the market investigation and expressed an opinion, Swissport faces competition in the supply of ground handling at each affected airport, and with respect to offline cargo handling on both a national and airport-specific basis. At least two providers (including Swissport) of ground handling or offline cargo handling are present at each affected airport, with additionally certain airlines also choosing to self-handle.
- (28) Third, a majority of respondents to the market investigation indicated that the merged entity will have neither the ability nor the incentive to restrict access to ground handling services, or offline cargo handling services respectively, for HNA Group's competitors active in the air transport of passengers or cargo at any of the aforementioned airports.¹⁵

5.2.2. *Customer foreclosure*

- (29) First, the merged entity will have neither the ability nor the incentive to foreclose other providers of handling services as HNA Group accounts for only a minimal share of demand at the airports at which it is active in the EEA.
- (30) Second, a majority of respondents to the market investigation indicated that the merged entity will have neither the ability nor the incentive to foreclose customers of either ground handling or offline cargo handling services¹⁶. Moreover, these respondents indicated that, in general, the Transaction will have a neutral impact on the operations of ground handlers and offline cargo handlers active at each of the aforementioned airports.¹⁷

¹⁴ There are also additional airports in the EEA where Swissport and HNA Group are active: (i) for ground handling services: Amsterdam; (ii) for landside cargo handling services: Amsterdam, Berlin Tegel, Berlin Schönefeld, Birmingham, Brussels, Frankfurt, Munich, Paris Charles de Gaulle; and (iii) for offline cargo handling services: Amsterdam, Paris Charles de Gaulle. Swissport's market shares with respect to the relevant services are, however, below 30%.

¹⁵ Replies to Q1 – Questionnaire to ground handling and offline cargo handling customers, questions 5-6, and questions 9-10; Replies to Q2 – Questionnaire to ground handling and offline cargo handling competitors, questions 5-8.

¹⁶ Replies to Q1 – Questionnaire to ground handling and offline cargo handling customers, questions 5-6, and questions 9-10; Replies to Q2 – Questionnaire to ground handling and offline cargo handling competitors, questions 5-8.

¹⁷ Replies to Q1 – Questionnaire to ground handling and offline cargo handling customers, question 14; Replies to Q2 – Questionnaire to ground handling and offline cargo handling competitors, question 12.

¹⁷ Replies to Q1 – Questionnaire to ground handling and offline cargo handling customers, question 14; Replies to Q2 – Questionnaire to ground handling and offline cargo handling competitors, question 12.

6. CONCLUSION

- (31) For the above reasons, the European Commission has decided not to oppose the notified operation and to declare it compatible with the internal market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of the Merger Regulation and Article 57 of the EEA Agreement.

*For the Commission
(Signed)
Margrethe VESTAGER
Member of the Commission*