Summary

1. On 20 February 2007, the Office of Fair Trading (OFT) referred to the Competition Commission (CC), for investigation and report, the completed acquisition by Greif Inc (Greif) of the new steel drum and closures businesses of Blagden Packaging Group. Our terms of reference are set out in Appendix A. We were required to publish our final report by 6 August 2007. On 17 July 2007 the period for report was extended to 1 October 2007.

2. Greif is a listed company, with headquarters in the USA. Its UK subsidiary, Greif UK Limited (Greif UK), is the largest manufacturer of new large steel drums in the UK. Prior to the merger, the acquired businesses were owned by Belgium-based Blagden Group NV (Blagden Group), a leading producer of new and reconditioned drums in Europe. Blagden Group's UK new steel drum operation (Blagden) was the second-largest producer of new large steel drums in the UK.

3. On 30 November 2006, Greif acquired the new steel drum and closure businesses of Blagden Group for approximately €210 million. As a result of the transaction, Greif and the acquired businesses ceased to be distinct enterprises. The parties' combined share of supply of new large steel drums in the UK is 85 per cent, an increment of 32 per cent.[1] We concluded that a relevant merger situation had been created.

4. The parties overlap in the supply of new large steel drums and closures. New large steel drums are the most widely-used form of large rigid industrial packaging. They are used in a range of industry sectors to package, transport and store a variety of substances. Other forms of large industrial packaging include reconditioned large steel drums, large plastic drums and intermediate bulk containers (IBCs).[2]

5. Demand for new large steel drums in the UK has been declining for many years. We estimated that total UK sales had fallen by 13 per cent in the last five years, to 3.7 million units in 2006. We heard that the decline was attributable partly to a decline in the demand for packaging overall, related to a decline in relevant UK manufacturing output, and partly to switching to other packaging, particularly plastic drums and IBCs.

6. Closure systems are the mechanism by which the content of a drum can be pumped or poured in or out, and the drum resealed. We did not expect any competition concerns to arise in relation to the supply of closures. The market for closures appears to be global and the increment from the merger is small. We found no evidence that the merger would affect UK closure customers or the viability in the UK of other closure manufacturers. For these reasons, we did not consider closures further.

7. In relation to large steel drums, we concluded that the product market was new and reconditioned large steel drums. So far as alternatives such as large plastic drums, IBCs and bulk transport were concerned, we found evidence of some past switching. We also noted that customers variously reported some willingness to switch and some switching costs, and that developments in product technology (particularly in relation to plastics technology) might affect willingness to switch in future. Different customers (and, indeed, individual customers in relation to the different uses they made of large steel drums) had different propensities to switch. We noted that

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[1]The share of supply test is different from the identification of market shares undertaken as part of the analysis of the competition in the relevant economic market (see paragraph 3.8).
[2]In this report, generally we use the term IBC to refer to composite IBCs—see Appendix B.

significant increases in the price differentials between large steel drums and alternative plastic products in the past had not resulted in a pattern of switching that we might expect of close substitutes, even when taking into account the fact that these increases might be viewed by customers as transitory. Considering all of these indicators together, we reached the view that a hypothetical monopolist of large steel drums could rely on the inertia of enough of its customers (and indeed the existence of some customers who would have no alternatives at all) to make a small, but significant, price increase profitable.

8. We concluded that the geographic market primarily affected by the merger was the supply to customers in Great Britain. We did not consider in detail how to define the market for the supply to customers in Northern Ireland, as the effects of the merger in Northern Ireland will be linked to the effects in Great Britain. We included potential imports from neighbouring countries because we found evidence that imports from at least Belgium and the Netherlands could render unprofitable a 5 per cent price rise by a hypothetical monopolist of manufacturing capacity in Great Britain.

9. We considered rivalry in the relevant market prior to the merger and found that the market was highly concentrated. We considered the merging parties' own information on their customers' switching behaviour as well as market share data. We found that, over the past five years, both Greif and Blagden lost more custom to each other than to any other competitor in the relevant market.

10. We found evidence that reconditioned drum suppliers exerted only a limited constraint on behaviour because there were shortages of used drums for reconditioning, and that these suppliers had not been able to increase their share of the market. With regard to the other, smaller manufacturers of new large steel drums in Great Britain, we found that they had spare capacity, but the evidence indicated that the merged parties generally had lower variable costs than smaller producers, in particular as a result of lower steel costs than those of their rivals. The smaller producers had little incentive to expand and did not appear to have plans to do so. We also noted that imports had been insignificant pre-merger. In the light of the evidence on rivalry in the relevant market, we considered that Blagden was the main constraint on Greif prior to the merger.

11. We assessed the competitive effects of the merger on the basis that Blagden and Greif would have continued in competition with each other in the absence of the merger. Although we accepted that, in the absence of the acquisition by Greif, Blagden might have been sold to another company, we did not think that it would have been acquired by any existing competitor in the relevant market. Having excluded that possibility, we found no evidence that indicated to us that either party would have altered its strategy over the next two or three years.

12. We also considered other possible changes in the structure of the market that could affect the counterfactual. Post-merger, we know that Schütz Group, one of the major manufacturers of industrial packaging, is building a new plant in Moerdijk (in the Netherlands), which is to include a new large steel drum production line with significant capacity. In the absence of the merger we considered that this entry would have occurred anyway, although the precise timing was unclear. We assessed the effects of the merger against the situation where Schütz Group would have entered on the same timetable as we observed post-merger.

13. We considered that the merger would result in the loss of Greif's strongest existing competitor, who had imposed the greatest constraint on Greif pre-merger. Without further developments in the market, we did not consider that the constraints imposed by alternative forms of packaging or other existing suppliers of large steel drums

would sufficiently mitigate this loss of rivalry. In order to decide whether the loss of Blagden would result in a substantial lessening of competition (SLC), we considered whether there were other possible factors that would develop in the market to constrain the merged entity's behaviour.

14. We considered the scope for and impact of entry or significant expansion by competitors to the merged business. We did not consider that entry or expansion in Great Britain production was likely, but it was clear that new capacity would be available shortly at Schütz Group's new plant in the Netherlands. Our analysis showed that imports from the new plant would act as an effective competitive constraint on the merged business in the future. This would operate in addition to any current or future constraints imposed by other existing suppliers, other imports, other forms of packaging and any countervailing buyer power.

15. For these reasons, we did not reach an expectation that the merger would result in an SLC in the market for new and reconditioned large steel drums in Great Britain.