

## 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 steel drum and closures business of Blagden Packaging Group. Our terms of reference are set out in Appendix A. We are required to publish our final report by 6 August 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 drums and closures 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<sup>1</sup>. 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 popular form of rigid large 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).

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<sup>1</sup>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 10).

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 [X] per cent in the last five years, to [X] million in 2006. We heard that the decline was attributable partly to a decline in the demand for packaging overall 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 new large steel drums, we concluded that the product market was new and reconditioned large steel drums. We found evidence of both some past switching and some switching costs to other alternatives such as large plastic drums, IBCs and bulk transport. Different customers (and, indeed, individual customers in relation to the different uses they made of new large steel drums) had different propensities to switch. We noted that significant increases in the price differentials between large steel drums and plastic packaging products in the past had not resulted in the level of switching that we might expect of close substitutes, even when taking into account the fact that these increases may be viewed by customers as transitory. These indicators led us to the view that a hypothetical monopolist of large steel drum products could rely on the 'stickiness' of enough of its customers (and indeed the existence of some customers who would have no alternative at all) to make a small but significant price increase profitable.

8. We concluded that the geographic market primarily affected by the merger was Great Britain. We did not consider in detail how to define the market for the supply to customers in Northern Ireland, as the effect of the merger in Northern Ireland will be linked to the effect in Great Britain. We excluded imports from neighbouring countries because, despite lower prices for steel drums in Continental Europe, higher transport costs meant that imports were not a close enough substitute for Great-Britain-produced drums. We calculated that prices in Continental Europe would have to be at least 9 per cent cheaper than in Great Britain, but did not find evidence of such a wide price differential.
9. We assessed the competitive effects of the merger on the basis that Blagden and Greif would have continued in competition with each other in similar conditions to those that existed prior to the merger. Although we accepted that, in the absence of the acquisition by Greif, it may be that Blagden would have changed ownership anyway, we did not think that any existing UK manufacturer of new large steel drums would have acquired it. 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.
10. 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. For each of Greif and Blagden, we found that more custom was lost to the other than to any other single alternative (either another type of packaging or another supplier of new large steel drums).
11. We found evidence that reconditioned drum suppliers exerted only a limited constraint on behaviour because there were shortages in the supply of their raw materials and they would not be able to increase their share of the market. Although

we found that all manufacturers of new large steel drums had spare capacity, the evidence indicated that the merged parties had lower variable costs, in particular as a result of lower steel costs per unit than those of their rivals. In light of the evidence on rivalry, we considered that Blagden was the main constraint on Greif's pricing prior to the merger.

12. We considered that the merger would result in the loss of Greif's strongest competitor, who had imposed the greatest constraint on Greif pre-merger. The merged company would account for between 50 and 60 per cent of the market for new and reconditioned large steel drums in Great Britain. In order to decide whether this would result in a substantial lessening of competition, we considered whether there were other possible constraints that would mitigate the loss of Blagden and prevent the merged entity exercising market power by, for example, raising prices to some or all customers. We considered whether the loss might be offset by entry or expansion in the market, and/or buyer power.
  
13. With regard to entry or expansion, we considered three possible scenarios:
  - (a) *Independent entry* was unlikely as we found that there would be significant costs for any new entrant, including those companies with a UK manufacturing base in other industrial packaging products and new steel drum production overseas, and uncertain returns in a declining market.
  - (b) *Independent expansion* by one or more of the smaller suppliers of new large steel drums could occur. However, we found that increased use of existing plant (by incremental improvements or additional shifts) would not mitigate the loss of Blagden. The smaller suppliers produce on a higher cost-per-drum basis, and therefore this additional capacity would only constrain Greif's ability to raise prices above those of the remaining small suppliers. In light of the costs and risk associated with such a strategy, we did not consider that any of the smaller

suppliers was likely to undertake a transformation of its business to operate on a similar cost-per-drum basis to that enjoyed by Blagden.

(c) *Sponsored entry or expansion* was not a credible threat because very few customers accounted for a sufficient amount of sales to consider such a strategy, and Greif could easily identify and offer lower prices to these customers, thus removing any incentive to follow such a strategy.

14. We considered whether there was sufficient buyer power to countervail the loss of Blagden as a competitor. We were not persuaded that larger buyers would be able to exert power because we do not believe that threats to sponsor entry or expansion, or to take away business from Greif in other parts of the world, would constrain Greif's behaviour towards all UK customers.
15. For these reasons, we provisionally concluded that the merger may be expected to lead to a substantial lessening of competition in the market for new and reconditioned large steel drums in Great Britain.