

## **Evidence of transport costs and prices of new large steel drums produced in Continental Europe**

1. Imports of new large steel drums are currently very limited—they account for less than 3 per cent of total UK new large steel drum sales. Several parties told us that the cost of transport was high relative to the cost of the drums; transporting bulky empty drums was ‘transporting air’. This appendix considers whether the geographic market should include drums produced outside Great Britain.
  
2. There is likely to be a threshold price in the Great Britain market above which it will be worthwhile for Great Britain purchasers to buy imported drums and for foreign manufacturers to export drums to Great Britain. If that threshold price is close to the current Great Britain price, then it would act as a constraint on Great Britain steel drum prices. If the threshold price is more than 5 per cent higher than current Great Britain prices, imports (or the threat of imports) would not be included in the relevant market.
  
3. The price at which imports into Great Britain act as a constraint depends on the difference between the delivered price of Great Britain manufactured drums and:
  - factory gate prices of drums produced outside Great Britain; plus
  - direct costs of importing, that is the cost of transport from Continental Europe to the Great Britain purchaser; plus
  - any indirect costs that might arise because the drums are imported rather than supplied domestically, or any price discount relative to Great Britain manufactured drums that is necessary to convince customers to purchase imported drums.

## Relative prices of new steel drums

4. The parties provided figures for the average sales prices of new large steel drums in different countries. These are set out in Table 1.

TABLE 1 Greif and Blagden average prices in European countries

	Greif average prices, Jan–Jun 2006	Blagden average prices, Jan–Jun 2006	Greif prices, indexed to 100 in the UK	Blagden prices, indexed to 100 in the UK
Great Britain				
Belgium				
Netherlands				
France				
Sweden				
Germany				
Spain				
Portugal				
Greece				
Italy				

€

Source: The parties.

5. Greif's prices in neighbouring countries (Belgium, Netherlands, France) for the first half of 2006 were [X] per cent cheaper than Greif's Great Britain prices. Blagden's prices in Belgium and the Netherlands were [X] and [X] per cent respectively cheaper than in Great Britain, although their prices in France [X] as in Great Britain. The parties said that the higher Great Britain prices were explained by higher costs in Great Britain, but [X] in Great Britain than in the Netherlands and Belgium.
6. A non-Great-Britain producer (Mauser) said that it understood that the average steel drum price in Great Britain was 5 per cent higher than in Continental Europe.
7. It is possible that differences in prices between countries may reflect different product mixes in each country (for example, internally coated drums are more expensive than plain, and open-head are more expensive than tight-head).

## Direct costs of importing: transport costs

8. Greif provided data on the costs of transporting new large steel drums from the Netherlands, Belgium and France, and the costs of importing large plastic drums from its German plant. Greif told us that there was no difference in the transport costs of plastic and steel drums. Blagden provided estimates of the cost of a hypothetical one-off delivery for a full load from its factory in northern France, as well as estimates based on its experience of occasional importing from Belgium. Sulo, a German manufacturer which currently imports around [redacted] to [redacted] large steel drums per year into the UK from Germany, also provided figures for its transport costs. Mauser, which manufactures large steel drums in Germany and France, provided an estimate of the transport costs of importing drums into Great Britain. The various estimates are set out in Table 2.

TABLE 2 Drum freight costs from Continental Europe to the UK

<i>From</i>	<i>To</i>	<i>Load</i>	<i>Cost per load</i> €	<i>Cost/drum</i> €	<i>Cost/drum</i> £
Greif Europort production plant, Netherlands	Warrington, UK	320 drums (full load)	[redacted]	[redacted]	[redacted]
Greif Ghent production plant, Belgium	Suffolk, UK	320 drums (full load)			
Blagden factory in Belgium	Manchester, UK	305 (full load)			
Greif France, Rouen	Manchester/Cheshire	313 drums			
Greif Monzingen operation, Germany	Staffordshire, UK	320 drums			
Greif Monzingen operation, Germany	UK	Plastic drums (regularly imported)			
Mauser, northern France	Northern UK	-			
Blagden, northern France	Manchester, UK	305 (full load)			
Sulo, Herford or Neustadt, Germany	UK	290			

Source: The parties and other steel drum suppliers.

Note: Currencies have been translated at a rate of €1.47=£1.

9. The table shows that transport costs to Great Britain vary according to the location of the production site, ranging from just under €[redacted], to over €[redacted] from [redacted]. Greif's transport costs were lower than those of its competitors in similar locations. The cost

per drum also varies according to the number of drums that can be carried. Greif told us that Continental European lorries could carry up to 330 drums, significantly more than the typical Great Britain full load of 264 drums. We also noted that fewer drums could be carried on each load if they were palletized.

10. Hemeyer Verpackungen GmbH, a German steel drum manufacturer, told us that it had considered importing drums into Great Britain but that the additional freight costs were too high.
11. Mauser, another German steel drum manufacturer, thought that it would not be attractive to import steel drums to Great Britain because of the additional transport and warehousing costs.
12. Transport costs would be lower for open-head 'tapered drums' since they can be stacked inside similar drums. However, tapered drums are only imported in small quantities and are open-headed. Open-head drums account for fewer than [redacted] per cent of drums used in Great Britain and so any constraint from imported tapered drums will be limited. Open-head drums are also typically significantly more expensive<sup>1</sup> than tight-head drums and so we would not expect imported tapered drums to constrain tight-head drums.
13. In summary, transport costs to Great Britain from Belgium and the Netherlands were approximately €[redacted] or £[redacted] per drum. However, there are limited alternative suppliers to the parties in these countries. Apart from Greif and Blagden, there is currently only one smaller producer of large steel drums in Belgium and none in the Netherlands. We considered the possibility of a third party buying drums from the parties in these countries and reselling them to UK customers. Given the cost of

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<sup>1</sup>For example, Greif's open-head plain steel drum is approximately £3.80 or 26 per cent more expensive than its tight-head plain steel drum.

storing, unloading and reloading and importing drums, this does not appear to be a cost-effective strategy. Therefore, we also considered direct transport costs from Germany and northern France. These were in the range €[x], or £[x] to €[x], or £[x] per drum.

### **Indirect costs of importing**

14. Indirect costs might arise when drums are imported rather than supplied domestically; for example:
  - there might be additional costs of storage, if a purchaser felt that it needed protection against the greater risk of running out of drums because of longer lead times, or a less secure transport route;
  - there might be costs of hedging against the risk of currency fluctuations; and
  - it may be necessary to sell imported drums at a discount to Great-Britain-manufactured drums because of customer preferences for Great-Britain-manufactured drums.
  
15. In the customer survey, customers were asked which factors might inhibit switching to imported steel drums. The majority (around 80 per cent) identified such factors. Price and availability appeared to be equally important to the respondents. The factors identified included longer delivery times, the impact of foreign exchange rates on the overall cost of new steel drums, the quality and specification of imported drums, and the quantity they would be required to import (ie full loads only).
  
16. A number of customers to whom we talked directly cited longer lead times and less security of supply as reasons why they were reluctant to rely on imported supplies of drums.

17. Greif told us that the factors inhibiting switching identified above were not significant. It provided delivery notes showing a two-day delivery time from Germany. It also said that currency risk could be easily hedged, and that many customers sourced other purchases from Continental Europe.
18. In the customer survey, customers were also asked what difference between the Great Britain price of Great-Britain-produced steel drums and the Great Britain price of imported steel drums would make them *choose* imported drums. The results are shown in Table 3.

TABLE 3 **Price of Great Britain versus imported large new steel drums to choose imports**

<i>Great Britain drums more expensive by up to %</i>	<i>Cumulative %</i>	<i>Cumulative count</i>
1	12	7
3	17	10
5	43	26
10	72	43
30	97	58
50	100	60

Source: CC survey.

19. 43 per cent of customers said that they would choose imported drums if the price of drums produced in Great Britain was higher by 5 per cent or less compared with the Great Britain price of imported drums. Therefore, it appears that a significant proportion of customers would be willing to switch to imports if imports were cheaper in Great Britain than Great-Britain-produced drums. This suggests that customers view these as a substitute to Great-Britain-produced drums. The high degree of price sensitivity suggests that non-price limitations to switching to imports are considered to be reasonably low.

### **Difference between the cost of UK manufactured drums and imported drums**

20. Using the above information on prices and transport costs, we calculated the price differential (on an ex-delivery or 'factory gate' basis) that would be needed for

imported drums to be the same price delivered to the customer as Great Britain drums. The results are shown in Table 4.

TABLE 4 Price differentials of imports required for parity with UK prices

	€	£	Price differential (factory gate) for import to be the same as Greif's GB factory gate price %
Greif Great Britain price (£)		[X]	
Including transport cost (£)		[X]	
<i>Transport cost</i>			
Greif from Belgium/Netherlands	[		
Greif from France, Germany (lower),			
Mauser from France (lower)			X
Greif from Germany (upper)			
Mauser from France (upper)			
Sulo from Germany	)		

Source: The parties and other steel drum suppliers.

21. The table shows that from northern France or Germany (the nearest locations of competitors to the parties), the factory gate price of new large steel drums would need to be 15 to 26 per cent lower than Greif's current average Great Britain factory gate price to achieve parity on a delivered to customer basis.