Competition in the market

1. This appendix considers issues pertinent to the assessment of competition in the relevant market. For the reasons set out in paragraphs 7.3 and 7.4 of the provisional findings, the focus is on issues arising in relation to new large steel drums and not reconditioned large steel drums. The issues covered are:
   - whether the three smaller suppliers (Metal Drum, AW Stokes and Ramsden and Whale) manufacture products comparable with those produced by Greif and Blagden;
   - whether customers would be able to switch easily between suppliers of new large steel drums; and
   - whether the smaller suppliers possess sufficient capacity to take significant business from the merging parties.

Product range

2. Greif and Blagden are the principal suppliers of new large steel drums, both offering comparable ranges of steel drum products (each produces a number of specifications of open-head lacquered, tight-head lacquered, open-head plain steel, tight-head plain steel plus other special drums). While for some customers there may be differences in quality of some of the drums, all customers from whom we received evidence cited the parties as suppliers of large new steel drums.

3. Greif cited Metal Drum, Ramsden and Whale and AW Stokes as active competitors in the supply of new large steel drums. Customers also cited the smaller suppliers as competitors.

4. Metal Drum told us that it could supply a similar range to Blagden and Greif. Ramsden and Whale also confirmed that it could supply the complete range of 210- to 220-litre steel drums, both open-head and tight-head, internally lacquered and internally plain steel and a variety of steel gauges. Currently, it did not manufacture a large range of steel gauges, although it had the capability to do so. Further, AW Stokes told us that it supplied the complete range of 210- to 220-litre steel drums, both open-head and tight-head, internally lacquered and internally plain steel.

5. From the evidence we have received, we considered that Greif, Blagden, Metal Drum, Ramsden and Whale and AW Stokes produce comparable products.

Cost of switching between new steel drum suppliers

6. We considered the cost of switching between new steel drum suppliers. Switching costs may take many forms, including inconvenience, monetary costs, administrative hurdles or a lack of information about the products of alternative suppliers.

7. Blagden, Greif, Ramsden and Whale and AW Stokes told us that it was easy for customers to switch between new large steel drum suppliers. Greif said that most contracts had no minimum purchase obligation and those contracts which did have such an obligation contained clauses which allowed the customer to switch to another supplier if it was offered a better price. Blagden said that there were few binding contracts and most business was conducted on the basis of trust.

8. Customers also confirmed that it was easy to switch between Blagden and Greif for the bulk of their standard purchases and to other suppliers when they produced products that were comparable in specification and quality.

9. On the basis of the evidence discussed above, we considered that switching costs are sufficiently low to enable customers to respond to price changes.

Capacity estimates from new steel drum producers

10. We asked each of the new steel drum manufacturers to produce estimates of the maximum sustainable capacity of their production facilities operating on current shift patterns. These estimates are shown in Table 1.

TABLE 1 **Manufacturers' capacity estimates**

	Current number of shifts	*Parties' estimate of maximum sustainable capacity on current number of shifts m*	*2006 sales m*	*Implied spare capacity utilization %*	*Implied spare capacity m*
Blagden					
Greif					
Metal Drum			✂		
AW Stokes					
Ramsden and Whale					
Total					

Source: CC analysis of data provided by suppliers.

11. Key points from Table 1 are:

- Blagden and Greif operate at high levels of capacity utilization.
- Greif and Blagden had spare capacity to take customers from each other prior to the merger.
- The merger results in Greif holding approximately [✂] per cent of new large steel drum capacity.
- Based on these estimates, the total spare capacity per year prior to the merger was approximately [✂]. This is the equivalent of approximately [✂] per cent of total UK sales for new large steel drums in 2006 (estimated at [✂]). This supports the view that we have heard from the merging parties and others that there is overcapacity within the large new steel drum industry.
- Based on these estimates, [✂] collectively hold spare capacity of approximately 790,000 drums a year.

12. We compared our calculations of capacity with other evidence from Metal Drum, Ramsden and Whale and AW Stokes. This suggested that the spare capacity

calculated above overstates the actual level of spare capacity within these manufacturers' plants:

- [✂] told us that spare capacity was approximately [✂] drums a year. It told us that it could [✂] production by making better use of its resources.
- [✂] told us that it had [✂] drums a year spare capacity.
- [✂] told us that it currently [✂].

13. Table 2 shows the revised estimate of spare capacity.

TABLE 2 **Adjusted estimates of spare capacity**

million

	Blagden	*Greif*	*Metal Drum*	*AW Stokes*	*Ramsden & Whale*	*Total spare capacity*	*Smaller suppliers (MD+ R&W+Stokes)*
Spare capacity as calculated by the CC					✂		
Revised estimate of spare capacity							

Source: CC analysis of data provided by suppliers.

14. [✂]

15. Key points from Table 2 are:

- Based on these estimates, smaller suppliers' spare capacity at current shift levels currently stands at approximately 600,000 drums a year. This is equivalent to approximately [✂] per cent of current total UK annual sales of new large steel drums (estimated at [✂]), approximately [✂] per cent of Greif and Blagden's combined 2006 new steel drum sales (estimated at [✂] million) and approximately [✂] per cent of Blagden's 2006 new steel drum sales (estimated at [✂] million). We use these estimates in further calculations because we believe that they are likely to present the most accurate picture for each of the smaller suppliers. However, we recognize that using revised estimates for only some (ie the smaller) suppliers may produce a less accurate picture of their capacity as a proportion of that in the whole industry.

- If excess capacity held by [✂] is excluded from our calculations ([✂]), spare capacity is [✂] drums a year, [✂]. This is equivalent to approximately [✂] per cent of total UK annual sales of new large steel drums (estimated at [✂] million), approximately [✂] per cent of Greif and Blagden's combined 2006 new steel drum sales (estimated at [✂] million) and approximately [✂] per cent of Blagden's 2006 new steel drum sales (estimated at [✂]).

Capacity expansion

16. We considered the ways that smaller competitors could increase usable capacity, and thus create additional spare capacity. We also considered risks and barriers to capacity expansion.

17. Production capacity could be expanded by an existing supplier of large new steel drums in three stages. First, it could remove any existing bottlenecks in the production process. Secondly, it could increase production hours by, for example, implementing an additional shift. Thirdly, it could purchase a new production line which could both increase capacity and provide the economies of scale to produce large steel drums at a similar variable cost to Greif and Blagden. The third stage is similar to de novo entry in terms of investment and timing, and is not considered further in this appendix.

Removal of bottlenecks

18. [✂] both told us that they could increase output [✂].

19. Ramsden and Whale told us that [✂].

20. AW Stokes submitted that it was difficult to expand capacity, given that its site had a maximum daily capacity. Nonetheless, it said that it could employ additional staff to spray drums while the production line was not running, increasing the volume of paint

spraying, and enabling output expansion on a single shift. It was unable to provide volume and cost estimates. AW Stokes told us that it had no current plans to expand capacity but this was subject to market conditions.

Implementation of a new shift

21. [✂] told us that they could run an additional shift if required. [✂], noted that it was more likely that it would relocate to a larger production site than implement an additional shift.

22. Table 3 estimates capacity on the assumption of an extra shift.

TABLE 3 **Manufacturers' capacity estimates with an additional shift**

million drums

	Revised estimate of maximum capacity at one shift	*Revised estimate of maximum capacity at two shifts*	*2006 sales*	*Spare capacity m*
Metal Drum				
AW Stokes		✂		
Ramsden and Whale				
Total				

Source: CC analysis of data provided by suppliers.

23. Table 3 shows that if each smaller supplier implemented an additional shift, spare capacity within the smaller suppliers would stand at approximately 2.07 million drums a year. This figure assumes that both [✂] and [✂] have removed the bottlenecks referred to above. This is equivalent to approximately [✂] per cent of current total annual UK sales of new large steel drums (estimated at [✂]), approximately [✂] per cent of Greif's and Blagden's combined 2006 new steel drum sales (estimated at [✂] million).

24. We asked the three smaller suppliers for estimates of the costs of implementing an additional shift. By comparing this with our estimates of contribution per drum,[1] we were able to indicate the approximate extra sales needed, at existing prices, to cover these costs.

25. [✂] estimated that the capital expenditure and one-off costs (such as recruiting) needed to implement a new shift would be approximately £[✂]. At current prices, we estimated that its average contribution was £[✂] per drum. It would therefore have to supply an additional [✂] drums to recoup the cost.

26. [✂] told us that the cost of implementing an additional shift would be approximately £[✂]. We estimated that its average contribution was £[✂] per drum and therefore it would have to supply an additional [✂] drums to cover the costs of the additional shift.

27. [✂] did not provide any cost estimates, [✂].

28. We considered that variable costs could increase with the implementation of a new shift because of costs such as shift allowances and a requirement for proportionally more maintenance. We were unable to quantify these costs and have not included them in our analysis.

29. A move to a strategy of expansion would also involve recruiting additional sales resource, and additional shifts would require more management time. [✂]

30. Our calculations show that the additional sales volumes needed to cover the one-off costs of implementing an additional shift are [✂]. We also noted that if implementing

[1]Our estimates of contribution per drum are set out in Table 9 of the provisional findings.

an additional shift turned out to be unprofitable, production could return to a single shift without significant costs, provided the additional labour had been employed on a temporary basis.

31. Taking into consideration the points above, we believe that on balance that capacity arising from an additional shift would be made available by [✂] if the potential to win ongoing business at a profitable price was there. We are less convinced that [✂] would be willing to implement an additional shift given its cost position, capacity on its existing shift, and stated strategy. However, with an additional shift, new capacity of approximately 830,000 drums a year would be held by [✂].