

Albion's chlorine packaging business

Albion's operations at Sandbach

1. Albion told us that there were two revenue-earning activities at its Sandbach site, which it was occupying under a lease from the developers, Bluefield Sandbach Ltd:
 - (a) manufacture of ferric chloride (most of it used as a coagulant in sewage treatment); and
 - (b) packaging chlorine into drums and cylinders for BOC and Air Products, and distributing chlorine packaged into drums by Ineos Chlor at Runcorn to Albion's end-user customers.

There were also customer service and planning functions on the site, and various product storage and dilution activities.

2. Both of these businesses contribute to the non-product-related overheads of the Sandbach business. In particular, BOC pays Albion [REDACTED] a year as part of its contract with Albion for the supply of packaged chlorine which [REDACTED].
3. Albion has a wholly owned subsidiary, Water Treatment Solutions Ltd (WTS), which is a sales and marketing entity for Albion and manages the contracts with UK water companies, including those for packaged chlorine. WTS sells a range of chemicals, not just chlorine, to the water companies. Albion said that this dedicated sales channel had a strong market position due to a combination of:
 - disinfection and chlorination product range;
 - technical credibility;
 - ability to deliver in bulk (ie tankers) and in packages; and
 - a local network with a high service ethos.

4. Management accounts show that in 2007 Albion Group Ltd had consolidated sales of £213 million. [REDACTED] However, Albion told us that water companies were its most important customer segment and there were various reasons why it believed that it was a good supplier to them. [REDACTED]
5. Sandbach is Albion's only top tier COMAH site. The group has about nine lower tier sites, none of which are used for chlorine.

Manufacture of ferric chloride

6. The most important product for Albion that is manufactured at the Sandbach site is ferric chloride, which has scrap iron and chlorine as the principal inputs. This, as well as packaged chlorine, is an important product for Albion's water industry customers.
7. Albion told us that there were various future options for its ferric chloride business, including:
 - (a) [REDACTED];
 - (b) capital investment to relocate to the north end of the Sandbach site. [REDACTED]
 - (c) build a facility on land leased from a third party, possibly [REDACTED]; and
 - (d) [REDACTED]

Packaging chlorine

8. Albion has two packaged chlorine activities. First, it packages cylinders and drums for two distributor customers, Air Products and BOC, at Sandbach. Second, it buys drums of chlorine packaged by Ineos Chlor at Runcorn, which Albion sells to its water company customers.

9. At Sandbach there is a packaging installation with two filling points, one for drums and one for cylinders. For site security reasons they are permanently manned, usually by a single operator.
10. As noted in paragraph 1, Albion packages chlorine for BOC at Sandbach. [REDACTED]
11. [REDACTED]
12. In 2007, Albion purchased [REDACTED] tonnes of chlorine from Ineos Chlor, about [REDACTED] of which was used to supply packaged chlorine. Table 1 shows Albion's purchases and sales of chlorine in 2007.

TABLE 1 [REDACTED]

13. Table 1 shows that BOC took [REDACTED] of packaged chlorine, split [REDACTED] between cylinders and drums, and accounting for [REDACTED] per cent of Albion's packaged chlorine sales volumes. Air Products, its other distribution customer, took [REDACTED] tonnes, about [REDACTED] per cent of the total.
14. It can also be seen from the table that the loss of the BOC business, either from the merger or from some other cause, would mean that [REDACTED] tonnes out of the [REDACTED] tonnes packaged at Sandbach would be removed, about [REDACTED] per cent. Albion told us that the Sandbach packaging operation would no longer be viable if the loss of the BOC business left it only with Air Products. Albion told us that if it closed its packaging facility, it would endeavour to sell the chlorine that it currently packs for BOC and Air Products by arranging for it to be converted to other chlor-alkali products.

Supply of chlorine from Ineos Chlor

15. Albion told us that in 2003 it decided to close the chlorine manufacturing plant at Sandbach, because it was losing money and needed significant reinvestment to meet

new standards for mercury emissions. It knew that Ineos Chlor would receive a grant to support investment in a new plant, while Albion would not qualify for any grants. Albion therefore entered into negotiations with Ineos Chlor. The Chlor-alkali Supply Agreement (otherwise known as the ECU Agreement) was signed on [REDACTED]. Albion ceased manufacturing chlorine in November 2005 and commenced purchases from Ineos Chlor.

16. [REDACTED]

17. Ineos Chlor told us that the supply of chlorine to Albion was governed by the ECU Agreement, under which [REDACTED].¹

18. Up to [REDACTED] ECUs (tonnes of chlorine) can be supplied as chlorine that is packaged at Runcorn into drums [REDACTED].

19. [REDACTED]

20. Ineos Chlor told us that the Chlor-alkali Supply Agreement would expire at the end of October 2012, whether or not the proposed merger took place [REDACTED]. In our view, it is likely that it will be able to negotiate a continuation of its bulk supply from Ineos Chlor, though probably on less advantageous terms. As the sole UK manufacturer of chlorine, Ineos Chlor [REDACTED] would continue to have commercial incentives to supply a willing purchaser. Ineos Chlor told us that it would want to continue to supply chlorine to Albion, but on commercial terms more similar to those of its other bulk chlorine customers.

21. [REDACTED]²

22. Albion provided us with management accounts for the Sandbach chlorine packaging operation for the last three years. They are set out in Table 2.

TABLE 2 Albion: Results of chlorine business, 2005 to 2007

Tonnes	[REDACTED]	[REDACTED]	[REDACTED]
Sales	[REDACTED]	[REDACTED]	[REDACTED]
Average selling price £	[REDACTED]	[REDACTED]	[REDACTED]
Cost per tonne £	[REDACTED]	[REDACTED]	[REDACTED]
Margin pre-haulage	[REDACTED]	[REDACTED]	[REDACTED]
Haulage per tonne £	[REDACTED]	[REDACTED]	[REDACTED]
Margin post-haulage	[REDACTED]	[REDACTED]	[REDACTED]
Margin: sales %	[REDACTED]	[REDACTED]	[REDACTED]

Source: Albion.

23. [REDACTED]

24. Table 2 does not include any portion of the fixed costs and utilities of the Sandbach site or other overheads. It also excludes [REDACTED].

25. Table 2 shows that sales volumes dropped enormously following the closure of chlorine manufacturing in November 2005. [REDACTED]

26. Albion gave us information on the sales and contribution of its chlorine business by customer for 2006 and 2007. The figures for 2007 are set out in Table 3.

¹One ECU consists of one tonne of Chlorine (Cl₂) and 2.2 tonnes of Caustic Soda (NaOH) or varying quantities of downstream products Sodium Hypochlorite, Hydrochloric Acid or Caustic Soda Liquor.

²[REDACTED]

this part of the site cannot be used for other development), leaving the rest of the site available for development for mixed residential and light industrial use. We looked at the website of the relevant local authority and noted that no planning application had yet been submitted for the site. Further, we believed that the current uncertainty in the housing market would be likely to reduce the impetus for the land developer to require Albion to vacate the site in the near future, given that its plans for the site included residential housing.

30. Bluefield told us, in July 2008, that it was in early stage negotiations with Albion regarding its application to extend the lease [REDACTED]. Bluefield believed that Albion might [REDACTED]. Albion had expressed interest in retaining the site, on a [REDACTED] rolling basis. Bluefield said that it might be content to agree to [REDACTED], but did not want to jeopardize its full planning application. The local council did not want the site to be derelict, but had been clear with Bluefield that it wanted the site to be redeveloped with residential and commercial areas and did not want Albion present. Bluefield was still in discussions with the local authority and it told us it was, therefore, cautious in its discussions with Albion.
31. Albion told us that it was exploring available options for the continuation of its ferric chloride operation (see paragraph 11) and chlorine packaging plant. Albion also told us that although there was a strong likelihood that it would lease a small portion of the Sandbach site on a long-term basis, it had no plans to rebuild the chlorine packaging plant there. This was because the large amount of chlorine storage required would be unacceptable to Bluefield in a mixed development.
32. Although Albion may be able to extend its lease [REDACTED], it will have to cease packaging chlorine when the Sandbach site is required for redevelopment. There is no financial case for Albion to build a new packaging plant at Sandbach or elsewhere at current

volumes, so the only chlorine packaging installation in the UK will be at Runcorn when Albion's Sandbach packaging facility closes. Albion will however be able to continue to source packaged chlorine in drums from Ineos Chlor under its Chlor-Alkali Supply Agreement with Ineos Chlor until at least late 2012.³

³Under Ineos' Business Purchase Agreement with BOC, Ineos has made arrangements for BOC to pack this chlorine for Albion on Ineos' behalf following the merger.