

# 5 The views of other parties

5.1. We sought views on the merger from relevant sectors of the textile industry including manufacturers and users of industrial thread and of a range of other textile products, retailers, wholesalers, trades unions, trade associations and Government departments concerned.

## **Manufacturers of industrial thread**

### *Oxley Threads Ltd (Oxley)*

5.2. Oxley is a family-owned company which supplies threads to the United Kingdom market through its factory in Ashton-under-Lyne, Lancashire.

5.3. Oxley is the third largest United Kingdom producer of industrial sewing thread. Its share of the United Kingdom market is estimated as 12.8 per cent. The company has apparently gained market share over recent years. It has a fully-integrated and modern production facility which the company claimed gave it as wide, if not wider, a range of colours and products as either Coats or Tootal. The company currently operates on three shifts but told us that it has some spare capacity and room on its site to expand production. Oxley told us that its prices may be, on an overall basis, somewhat lower than the two major suppliers. Oxley therefore expected that the merger would provide it with further opportunity for expansion as some of its existing, and it hoped new, customers would look to it to provide a competitive source of thread.

5.4. Oxley told us that in its view the United Kingdom suppliers were in a position to match the prices and service that could be obtained from thread that was imported into the United Kingdom. The company considered that the quality of United Kingdom industrial thread was higher than that in the rest of Europe, the United States and certainly in the Far East. Oxley expected that the merger would be likely to make the combined group's industrial thread operations more competitive. A merged group would have lower manufacturing costs as it would be producing larger quantities of thread and it would also be able to reduce its distribution costs. Oxley accepted that if the merger took place there was a possibility that prices would rise, but it doubted whether the price rises would be very great as this would risk bringing in, despite the lower quality, imports of industrial thread from the rest of Europe and the Far East.

### *Donisthorpe & Co Ltd (Donisthorpe)*

5.5. Donisthorpe, a long-established United Kingdom supplier of industrial thread, was acquired by DMC, a French-based company, in 1988. Both Donisthorpe and DMC gave written evidence and attended a hearing. DMC said that it had a substantial indeed dominant share of the French industrial thread market. Donisthorpe's share of the United Kingdom market is estimated at 10 per cent, apparently rather higher than some years ago.

5.6. Donisthorpe explained that it did not have facilities for spinning thread. It purchased twisted spun polyester from a number of sources in the Far East and, as far as corespun was concerned, it imported from Spain and Germany. All its present output of corespun and other industrial thread was dyed and finished in the United Kingdom.

5.7. Donisthorpe told us that the United Kingdom industrial thread industry was characterised by static demand. The two major participants, Coats and Tootal, enjoyed the advantages of being

vertically integrated (from their own Far Eastern and other sources of thread to the production in the United Kingdom and elsewhere of finished garments) and were consequently protected from the usual forces of competition. Competition in the industrial thread industry in the United Kingdom was primarily a question of price and new entry was virtually impossible with a very limited role for the import of finished thread. In these circumstances, in the view of Donisthorpe, if the merger took place the merged group would have a protected (as well as a dominant) position which would be reinforced by the advantages of size and the economies of scale to which the merger would give rise.

5.8. Donisthorpe told us that the arguments advanced publicly by Coats and Tootal for the combination of their industrial sewing thread interests did not, in its view, provide any justification for the merger. Furthermore, the expected costs of the merger in terms of adverse effects on the remaining competitors in the United Kingdom industrial thread industry and, over time, in terms of consumer choice and the jobs of Coats and Tootal employees were, in Donisthorpe's view, too high to allow the merger to proceed.

5.9. Donisthorpe suggested that Coats and Tootal together would have over 45 per cent of the United Kingdom industrial thread market and over 60 per cent of the market for corespun thread. The merged group's protected and dominant position in the industry would, in Donisthorpe's view, enable it to act anti-competitively, while currently Coats and Tootal, as rival competitors, could effectively hold each other in check, particularly in relation to prices. Donisthorpe argued that the adverse effects of the merger would be reinforced because corespun was likely increasingly to dominate the United Kingdom market (as the United Kingdom garment-manufacturing industry increasingly concentrated on the production of higher-quality products) and because there was, in Donisthorpe's view, no significant excess capacity in the industry and no substitutes for corespun. Donisthorpe was also concerned that once the merger took place the merged group might try to put pressure on its smaller rivals by ceasing the current practice of both companies in buying thread from them. This would certainly adversely affect Donisthorpe and other suppliers in the trade.

5.10. Donisthorpe suggested that some of the smaller suppliers in the industrial thread market might take the view that they would benefit from uncertainty among customers resulting from the proposed merger. But in the longer term these suppliers did not have, and could not acquire, sufficient capacity to replace Coats' or Tootal's output on any significant scale. Only Oxley would have the capacity to spin more corespun yarn but Oxley on its own could not, in Donisthorpe's view, be realistically expected to fill any significant gap in the requirements for this particular kind of thread. Donisthorpe also considered that the smaller United Kingdom competitors did not have the dyeing and finishing facilities to process the many tonnes of extra thread which would be needed if they were to be a serious alternative sourcing of industrial thread to that produced and finished by Coats and Tootal. Although technological advances had made dyeing more efficient, the new developments had increased the barriers to establishing new dyeing facilities because of the increased cost of the modern machinery. Donisthorpe considered that the cost advantages arising from the size of the merged group would be all the more effective in the fight for market share in such circumstances.

5.11. Donisthorpe also considered that the merged group's international connections would further contribute to its dominance of the United Kingdom industrial thread market. Donisthorpe pointed out that a merged Coats and Tootal would have the advantages of a world-wide network of thread companies, each of Coats and Tootal already being leading industrial thread manufacturers on a world-wide basis. The combined network which would result from the merger would permit Coats, for example, to use Tootal's very cheap Chinese-sourced grey thread to undercut its competitors in the United Kingdom market for spun polyester industrial thread, neither Oxley, nor Donisthorpe, nor any of the smaller United Kingdom competitors having access to such cheaply-priced supplies. DMC pointed out that, in contrast, it was not a world-wide industrial thread operator or even a European-wide one. DMC told us that its operations were primarily in France whereas Coats and Tootal between them had significant market shares in each member state (except Greece and Luxembourg).

5.12. DMC explained that, from its own position of strength in the French market, it could appreciate the problems for competition in the United Kingdom market if the merger were to take place. DMC's decision to enter the United Kingdom market by purchasing Donisthorpe had been made on the basis of a market in which there were two major suppliers. Before purchasing

Donisthorpe it had looked at the United Kingdom market and, although it was dominated by two competitors, decided that that dominance had its good side as it was shared and, from a competitive point of view, it was relatively attractive for a newcomer to be faced with a market where the two leaders had in a way a comparable share which was a guarantee of a 'fair, competitive situation'. A decision as to whether or not to make such an acquisition would be materially influenced by the competitive structure of the market. DMC said that it was the extent to which Coats and Tootal already dominated the United Kingdom market for domestic thread that had to date dissuaded it from attempting to attack that dominant position.

#### *Perivale-Gütermann Ltd (Gütermann)*

5.13. This United Kingdom subsidiary of the Gütermann group told us that it was not opposed to the merger. Gütermann said that it was in strong competition with Coats and Tootal in both the industrial and domestic thread markets in the United Kingdom. The company believed that the effect of the proposed merger would be greater on the marketing of domestic thread where Gütermann was the second largest supplier after Tootal than on industrial thread. Gütermann also told us that its policy was to market its domestic thread mainly through wholesalers whereas it understood that Tootal and Coats sold mainly direct to retailers; this gave Gütermann considerable wholesale support. The company had steadily increased its share of the United Kingdom domestic thread market over the past decade and planned to continue this trend.

#### *American & Efird, Inc*

5.14. American & Efird, a major United States supplier of industrial thread which has a subsidiary in the United Kingdom, told us that if the merger took place the new company would possess a very large share of the sewing thread market in the United Kingdom and in many other markets. American & Efird took the view that this size in itself would not be harmful to the industry. It told us that favourable economies of scale were available to smaller companies to compete on an equal cost basis (ie they could cut costs just as well as large companies) and, in addition, the ability to import products tended to force a competitive world system. The company registered its concern that the merger could lead to predatory pricing or customer coercion.

5.15. American & Efird had found that, from a Governmental standpoint, it had been relatively easy to enter the United Kingdom market. The cost of establishing a new thread dyeing and finishing operation was not a prohibitive barrier. The technology was relatively well known throughout the world. There were very few patents or secret processes in the thread industry. From a practical business growth standpoint, however, the United Kingdom had been a difficult market for American & Efird.

#### *Courtaulds plc (Courtaulds)*

5.16. Courtaulds (see paragraphs 5.22 and 5.23) owns a small industrial thread business but, in the company's view, this was too small to be considered a significant competitor to Coats or Tootal or other major industrial thread suppliers. The business supplied thread mainly to Courtaulds companies and regularly to a few other companies.

#### *Barbour Campbell Threads Ltd (Barbour)*

5.17. Barbour manufactures in Northern Ireland and mainly supplies medium to heavy industrial sewing threads to the footwear, furniture, upholstery, tarpaulin, automotive and similar industries. Barbour told us that this significantly restricted those areas of the market in which it was in competition with Coats and Tootal. In consequence Barbour doubted that the merger would have much effect on its area of the market.

## *Belgian Sewing Threads*

5.18. Belgian Sewing Threads, which has a small share of the United Kingdom industrial thread market supplied by imports from its Belgian plant, told us that it had no objections to the proposed merger.

## **Users of industrial thread**

### *Corah plc (Corah)*

5.19. Corah, a manufacturer of underwear and leisurewear (under contract for retailers) and fabric, told us that it bought 20 per cent of its thread from Coats and a minimal amount from Tootal. At a hearing Corah expressed concern over the high share the merged company would have of the industrial thread market. Corah said that there were few other suppliers and a merger of the two largest would significantly reduce competition and enable the merged company to control prices. Corah told us that the retailers which it supplied specified the type of thread which should be used in particular garments and Corah needed to be able to buy from medium- to large- sized, technically-competent suppliers who were able to provide the quantities of thread to meet requirements for consistent quality and colour.

5.20. Corah said that as the company supplied mainly large retailers it would be impractical for the company from the point of view of match or specifications for quality and colour to buy from several small suppliers. It believed that Coats and Tootal purchased thread from other smaller thread manufacturers who also supplied other clothing manufacturers. If this continued after a merger Corah said that the merged company would be able to squeeze the market to the detriment of other clothing manufacturers and prices would rise. Corah was also concerned that the merged company, as a clothing manufacturer, might pass thread to its manufacturing plants at advantageous transfer prices and this would distort competition.

5.21. Corah said that as the United Kingdom industrial thread market was a relatively mature one, with two strong, technically-competent market leaders, entry was already difficult. But a merger of those two companies would act as an even stronger deterrent to new entrants. Finally, as a large purchaser of thread, Corah was able to transfer its purchases from one supplier to another to obtain the best price, quality and delivery combination but believed that a merger would seriously reduce its ability to do this.

### *Courtaulds*

5.22. Courtaulds, by some margin the United Kingdom's largest single user of industrial thread, gave evidence at a hearing. The company's representatives told us that the market for industrial thread was largely dominated by United Kingdom-based suppliers. An essential element of the sewing thread business was the speed at which the supplier could respond to the colour requirements of his customers, so that supplies from dyeing and finishing works had to be quickly available. In these circumstances, in Courtaulds' view, it would be impossible for an overseas supplier to be able to provide the sort of flexibility and service that was necessary without having facilities in the United Kingdom.

5.23. Courtaulds told us that it purchased approximately half of its supplies from either Coats or Tootal but it also bought from Oxley, Donisthorpe and Gütermann. These companies could all supply the colour range that Courtaulds required with the necessary speed and flexibility and Courtaulds found their quality was very comparable. The only difference between the suppliers had been in price but Courtaulds had been able, from its strength in the market, to negotiate comparable prices from all its present suppliers. It did not consider that the merger would provide an opportunity for the merged group to increase prices unreasonably.

### *The Wakefield Shirt Company (Wakefield)*

5.24. Wakefield manufactures a wide range of clothing including shirts, blouses, dresses and trousers. Wakefield gave evidence in writing and at a hearing. The company told us that in its view a merger would result in a very high percentage of the United Kingdom sewing thread manufacture, sale and distribution coming under one company. It considered that Coats' and Tootal's prices were already much higher than those of their competitors but because they were the only companies large enough to offer a full range of colours and most of the qualities which it needed, and because accurate colour matching was a significant factor in its business, it had to buy a large part of its thread from either Coats or Tootal.

5.25. Wakefield regularly tested other suppliers' threads and, as far as possible, used supplies from these other parties, including Gütermann, but generally found that the rate of breakage on the high-speed sewing machines required by modern production methods was far too high and it could not risk becoming dependent upon the other smaller suppliers or on imports. Wakefield believed that if a merger took place prices would rise. While the cost of thread was a relatively small part of the overall material costs, the margins for garment makers in the United Kingdom were very low and the company believed that this could have a serious effect, particularly in areas where competition in garment making would be coming from the merged group.

5.26. Wakefield was particularly concerned about its future supplies of corespun thread which it had found to be essential to certain of its manufacturing processes. It told us that it had attempted to use polyester and other threads but had again found unacceptable breakage rates and in some cases other reasons for thread failure. Only corespun from Coats and Tootal met Wakefield's standards and, it told us, the merger would therefore adversely affect its ability to play off the two companies in the quality and price of supply.

5.27. Wakefield was also concerned about the effects of the merger on the competitive situation in the market for garments, particularly the market for branded shirts produced in the United Kingdom. The company told us that it considered the merged group would have a very strong position in this part of the shirt market and would be in a position, particularly if for any reason Marks & Spencer reduced its shirt orders, to price at very low levels, perhaps lower than production costs, as indeed it suggested Coats had already been doing.

### *Lonrho Textiles Ltd (Lonrho)*

5.28. Lonrho, which manufactures and distributes household textiles, told us that it was opposed to the merger. It commented on the effects that the merger would have on the markets for industrial thread and household textiles. Lonrho said that as the other suppliers were small and relatively fragmented, the merged company, with about 40 per cent of the industrial thread market, would hold a dominant position. Lonrho saw this as a threat to its ability to obtain competitive thread prices. Lonrho told us that the bed linen and window furnishings sectors were influenced by imports of both finished products and components and by the strong position of Coats' brands. Tootal also supplied the market under the Osman brand which was supported by imports. The merger would enhance an already strong position, Lonrho said, and provide the opportunity for greater import penetration, to the detriment of United Kingdom manufacturers.

### **Industrial thread users: survey**

5.29. We carried out a survey of users of industrial thread (see Appendix 2.1) which asked, amongst other things: 'If the merger of Tootal with Coats Viyella takes place will you consider it necessary to change your suppliers to provide you with alternative suppliers to the merged group?'

Out of 132 respondents to the question, 22 (16.7 per cent) said that they would change suppliers and 110 (83.3 per cent) said that they would not. Of these who said they would change suppliers, 10 (7.6 per cent of the total respondents) said that they would have difficulty in sourcing supplies from a non-Coats/Tootal source and 12 (9.1 per cent) said that they would not have such a difficulty. These details are set out in full in Table 5.1.

TABLE 5.1 **Intentions of industrial thread users**

|   | <i>Number of respondents</i> | <i>% of total</i> |
|---|------------------------------|-------------------|
| Would change suppliers                                | 22                           | 16.7              |
| Of which:   |                              |                   |
| Those expecting difficulty in alternative sourcing    | 10                           | 7.6               |
| Those expecting no difficulty in alternative sourcing | 12                           | 9.1               |
| Would not change suppliers                            | 110                          | 83.3              |
| Total   | 132                          | 100.0             |

*Source:* MMC survey of users of industrial thread.

5.30. In the light of the large share the merged company would have in the supply of corespun thread estimated to be about 60 per cent we discussed with a number of garment makers the supply situation for corespun and the availability of acceptable substitutes. They told us that the threads they bought were mainly corespun (both cotton and spun polyester covered 'poly/ poly'), polyester thread and bulk nylon thread. Some bought quantities of all these threads but a minority bought virtually 100 per cent corespun.

5.31. We were told that corespun was required mainly for garments where the strength of the seam and the fineness and smoothness of the finish was important. Examples we were given included buttonholing, button sewing and cross stitching in seams on stretchy fabric such as lycra. Substitute threads had been tried by a number of the companies we consulted. Some said that they could be used for a number of applications, but many had found them unsatisfactory; rate of breakage in machines and lack of required quality of finish were mentioned as factors.

5.32. Most of the garment makers we spoke to bought significant quantities of thread from Coats and/or Tootal; some used no other supplier and others used a range of suppliers. None had found any difficulty in securing corespun but, as in the results of our survey (paragraph 5.29) a minority (four out of 13 companies consulted) would seek alternative suppliers if the merger went ahead. Two of these four companies thought they might have difficulty in securing their corespun needs from other suppliers.

## **Wholesalers and retailers**

5.33. One of the larger wholesalers of industrial thread attended a hearing and expressed concern about the merger. He told us that he had a rather wider place in the market than as a trimmer and that he bought about 80 per cent of his industrial thread supplies from Coats and Tootal. He told us that in his view the merged company would be less efficient than Coats and Tootal operating independently and their merger would also lead to job losses among skilled textile operators. The wholesaler also believed that the merged company would have a monopoly position in the United Kingdom supply of industrial thread and this would enable it to dominate thread prices. To maintain an alternative source of supply he would be compelled to increase his imports of thread from the Far East, though this would make it more difficult for him to continue to meet the needs of all his current customers.

### *Marks & Spencer Ltd (Marks & Spencer)*

5.34. At the retailing end of the chain leading from industrial threads through to garment manufacture Marks & Spencer's views were sought as the largest garment retailer in the United Kingdom. Marks & Spencer gave evidence in writing and at a hearing. It told us that it was a major customer for Coats' and Tootal's products and that the company took a neutral view of the merger which, it said, would give the combined group about 12 per cent of Marks & Spencer's garment supply and as much as 40 per cent of the supply of woven shirts. It did not believe this concentration would be against its interests or those of its customers. The merger would create a considerable concentration of production of sewing threads in one company. Marks & Spencer said that it did not believe this concentration in the industrial sewing thread market would be contrary to its own interests or the interests of its customers, as thread was a commodity traded internationally and represented a very low proportion of the cost of a garment.

5.35. Marks & Spencer would normally agree a specification for its garments with the supplier and this would include details of the thread to be used. The formulation of the specification was mutually agreed between the thread makers, the garment maker and Marks & Spencer. The garment maker could, within the terms of this specification, use thread from Marks & Spencer's list of 11 approved thread suppliers. Moreover, while Marks & Spencer approved the suppliers of its thread, it was always prepared to approve a new supplier subject to it satisfying Marks & Spencer's standards.

### **Domestic sewing thread**

#### *John Lewis Partnership (John Lewis)*

5.36. John Lewis, a major purchaser from both Coats and Tootal, said that if the merger took place it would welcome safeguards in connection with the supply of sewing threads and knitting yarns. John Lewis, which purchases a significant proportion of its thread requirements from the two companies, expected substantial rationalisation after the merger. It was anxious to preserve a wide range of choice of threads for its customers and competitive pricing by suppliers. John Lewis also buys knitting yarns from Coats and Tootal and would like to see some assurance that the merged company would facilitate the continued supply of own-label yarns.

#### *Other wholesalers and retailers*

5.37. We sought the views of a number of major store groups (including the larger department stores) and wholesalers on the potential effect of the proposed merger on the domestic thread market, in the light of the 55 per cent share the merged group would have. All were significant purchasers of domestic thread from either Coats or Tootal or both. The only other supplier from whom they also obtained significant quantities of domestic thread was the Gütermann group which at present has the second largest share of the United Kingdom domestic thread market; at 20 per cent it is marginally larger than that of Coats (18 per cent).

5.38. Over half the store groups and wholesalers we contacted bought thread only from Tootal, Coats and Gütermann, including one buying 100 per cent from Tootal and one buying 97 per cent from Coats (and 3 per cent on a trial basis from Tootal). The only other sources of domestic thread were small quantities ranging from less than 1 per cent to a maximum of 20 per cent (by one store group only) purchased direct from the Far East or from other United Kingdom suppliers. The wholesalers tended to buy more from Gütermann than from Coats and Tootal and Gütermann told us (paragraph 5.13) it was the company's policy to supply domestic thread mainly through wholesalers.

5.39. Domestic thread is sold by store groups mainly from display cabinets. Coats and Tootal supply these cabinets or contribute towards their cost, and keep them stocked.

5.40. Most of the wholesalers we contacted considered that the merger was unlikely to have much effect on the domestic thread market, largely because it was already dominated by the three major suppliers. However, a major wholesaler supplying haberdashery items to the grocery market told us that the majority of these items came from Coats, the remainder being purchased direct from the Far East. The wholesaler thought that in order to centralise European production and to benefit from marketing economies the merged company would reduce the range of threads offered by Tootal and replace them with Coats threads. The company believed that the present competition between the two parties ensured a wide selection of products and kept prices down but that a merger could result in reduction of choice and possibly price increases. Although Tootal was a potential competitor in the supermarket sector it thought that any advantage gained by its removal from the market was outweighed by the loss of competition on the supply side and that both customers and consumers could suffer from the merger.

5.41. Some store groups also believed that the merger would reduce competition which some considered was already weak. They also thought that the range of brands of domestic thread currently available would be reduced with a consequent restriction on customer choice.

## **Trades unions**

### *The Transport and General Workers Union (TGWU)*

5.42. The Textile Trade Group of the TGWU was in favour of the merger. It said that following enquiries throughout the industry it had found no evidence of concern expressed by thread users within its own union membership areas or those of other unions. The TGWU believed that the merger might strengthen and improve the position of the United Kingdom textile industry in what was a highly competitive international industry. The TGWU said that during the last decade the industry had suffered from large-scale closures and redundancies. But Coats and its former companies had shown consistent commitment to the industry and had retained and created production in the United Kingdom. The TGWU believed that the merger would lead to a broader-based company better able to compete in the single European market.

### *National Union of Tailors and Garment Workers (NUTGW)*

5.43. The NUTGW also supported the merger for a number of reasons, the most important, in its view, being that the merger would help to maintain employment in the clothing industry in areas which were regarded as unemployment 'black spots'. The NUTGW said that the United Kingdom clothing industry was subject to fierce competition, much of it from low-cost suppliers in the Far East, and the market was easily penetrated by these low-cost imports which, together with the purchasing power of the large retailing chains, put pressure on domestic suppliers' prices. The union said that the Multi-Fibre Arrangement had been designed to regulate these low-cost imports but had itself provided exporting nations with growing access to the United Kingdom domestic market. The NUTGW believed that the merger would not change the situation but the merged company would have greater ability to develop its design and marketing potential and thus be better able to compete in the single European market after 1992. The union said that despite external pressures Coats and Tootal had invested in the United Kingdom industry and were committed to continue to do so; their manufacturing facilities compared favourably with international standards.

### *Manufacturing, Science, Finance (MSF)*

5.44. MSF, the industry and services union with approximately 1,000 members employed by Coats and Tootal, was concerned about the effect the merger would have on its members and also its general effect on the future of the United Kingdom manufacturing industry. MSF believed that the textile and clothing industry was economically of strategic importance and that it was essential to

consider the impact which the merger might have on United Kingdom production and on the balance of trade. This was especially important as the merged company would be the largest textile and clothing company in the United Kingdom and in the world. MSF believed that the merger would facilitate the transfer of production overseas and overseas sourcing and was concerned about resulting rationalisation and closure of United Kingdom production facilities, particularly in areas of high unemployment. MSF recognised that the merger could create a financially stronger company better able to compete internationally. But the union considered that if the merger took place assurances should be sought on the maintenance by the merged company of United Kingdom output and employment levels.

### *Scottish Trades Union Congress*

5.45. The Scottish Trades Union Congress told us that it was not opposed to the merger.

## **Trade associations**

### *British Textile Confederation*

5.46. The British Textile Confederation said that it was not its policy to comment on issues concerned with the corporate affairs of individual companies in the textile industry.

### *British Clothing Industry Association Ltd*

5.47. British Clothing Industry Association Ltd also thought it inappropriate to comment as the Commission were seeking views from the industry directly. The Association said that from internal contacts there was no concern expressed over the proposed merger although it impinged on the supply of industrial thread, due to the availability of alternative suppliers.

## **Government departments**

### *Department of Trade and Industry (DTI)*

5.48. The Consumer and Vehicles Markets Division of DTI (which said that its views should not be taken to reflect the views of the Secretary of State or of the Department's officials concerned with competition policy) told us that, from a competition viewpoint, its main concerns over the merger were with the industrial and domestic thread sectors where the merged company would have substantial market shares, both in the United Kingdom and world-wide. In the industrial thread market, the Division told us, there was significant actual and potential domestic and international competition in the United Kingdom market, but two important aspects to be considered were whether the alternative overseas sources of supply had the capacity to enter the industrial thread market and whether distribution costs could be a constraint on new entrants, at least in the short term.

5.49. On domestic thread, which it described as much the smaller of the two sectors, the Division said that the United Kingdom market was fragmented and major retailers should be able to obtain supplies from other sources if necessary.

### *Industry Department for Scotland (IDS)*

5.50. IDS told us that its interest in the merger arose from the significant presence which both companies had in Scotland and the employment which they provided, much of it in assisted areas. Coats was a major employer in the Scottish textiles/clothing market. Tootal's operations were on a smaller scale but it currently planned a joint venture with a Japanese company to set up a finishing plant in Dundee for imported grey fabric. This, the company had said, would be unaffected by the merger. IDS noted that a major factor in the recent decline in the textile market had been the penetration of imports.

5.51. IDS understood that the merger's benefits were more likely to come from rationalisation of overheads, especially of the company's distribution networks overseas, than from rationalisation of manufacturing capacity. IDS believed that this would enhance the merged company's competitiveness in world markets and be of long-term benefit to its United Kingdom operations by helping to increase market share. IDS said that there would be a number of alternative suppliers of industrial and domestic thread and, therefore, it did not believe that a merged company's high shares in these markets would be detrimental to competition. Assuming that users of thread would wish to dual source thread supplies, IDS thought that the merger might increase the market shares of other manufacturers. Overall IDS believed that the possible benefits to efficiency, competitiveness and the security of employment resulting from the merger would appear to be stronger than the possible detriments.

#### *Northern Ireland Office (NIO)*

5.52. NIO gave us comments from the Industrial Development Board for Northern Ireland (IDB). It said that Tootal had one thread-spinning plant at Lisnaskea, Co Fermanagh, where further investment was already planned. Coats had no thread-manufacturing businesses in Northern Ireland but had other significant businesses in which IDB hoped that as a result of the merger there would be further investment, particularly in products effecting import substitution. IDB said that both companies were very active in sourcing from overseas and it was hopeful that future manufacturing investment in Northern Ireland by the merged group would be of benefit to the United Kingdom in reducing imports. IDB was unable to comment on the effect of the merger on the domestic sewing thread market.