5 Views of third parties

Contents

Page

Introduction

5.1. In this chapter we summarize the evidence put to us by third parties in written and oral submissions. Hearings were held in London, Liverpool and Yorkshire.

Customers

A small cable manufacturer

5.2. A small cable manufacturer expressed serious concern that the joint venture appeared monopolistic and could seriously damage the cable manufacturing business by virtue of increased costs and unavailability of supplies of drums when these were required.

A medium-sized cable manufacturer

5.3. A medium-sized UK cable manufacturer said that it used plywood, cardboard and plastic drums. Its choice of reel was largely dictated by the use to which the drum was to be put. The company had already substituted to the extent that this was possible and kept the situation under review.

5.4. The company currently bought plywood and cardboard reels from Cable Reels, although Pentre and Askern had always competed for its business. It was not aware of any other suppliers for the volumes it required. In the past, it had seen prices being kept at acceptable levels due to competition between Pentre, Askern and Cable Reels.

5.5. The company had major concerns about the merger, and believed that it would significantly diminish competition in the market. It did not expect that the presence of Cable Reels in the market would be sufficient to keep prices down.

Alcatel Cablenet Ltd

5.6. Alcatel Cablenet Ltd said that it did not support the merger because it believed the situation to be monopolistic and therefore likely to be detrimental.

Aluminium Wire and Conductor plc

5.7. Aluminium Wire and Conductor plc, Knowsley (AWC) (formerly BICC Palco) told us that it purchased new and second-hand timber drums from Pentre, and second-hand drums from CDR. Its main reason for using Pentre was that Pentre had historically given quick delivery and good service due to its proximity to its site. AWC considered that CDR could not produce a sufficient quantity of new drums at present. It used steel drums for the supply of conductors to the National Grid, but had not bought any recently as it had a high recovery rate of used drums. It did not see steel and timber drums as substitutes. It acquired second-hand drums from both other UK cable manufacturers and cable importers.

5.8. AWC said that the EC directive on packaged goods (see Appendix 4.1) had complex methods of calculation and that that it was not yet clear how well the directive could be monitored.

5.9. AWC added that it obtained prices from a number of suppliers in order to ensure competitive quotes. In its view, Pentre had been competitive and its delivery had been good. It had mild concern about the merger which, in its view, would reduce competition in the market, but it felt that the presence of CDR had kept prices keen in the past and would continue to do so in the future.

5.10. Commenting on possible remedies, AWC said that posting prices on a website would be useful only for standard products. It said that nearly all its wooden and steel drums were built to its own specification, and it would not want these published. On the possible remedy of prohibiting a rise in prices following a reduction, AWC felt that this remedy was too inflexible for this sort of business to be conducted. AWC agreed that OFT approval should be sought for future mergers. On a requirement to publicize undertakings, AWC said that it seemed fair to proceed with this remedy. On a requirement to assist the OFT, possibly by paying costs, AWC said that this remedy would be useful but, if it were to incur costs to the merged group, it would be the customer who would pay in the end.

Andrew Ltd

5.11. Andrew said that its greatest concern was about the pricing for its UK requirements. Prior to its introducing Pentre as an alternative supplier three years ago, Askern's prices were high. The company gained price reductions through splitting its business between Pentre and Askern. If the merger were allowed to stand, Andrew would actively seek new arrangements to service its requirements.

5.12. Andrew said that it had had a ten-year relationship with Askern. Recently, however, for its UK requirements it had solicited bids from three companies: Pentre, Askern and one other supplier. For its mainland European requirements, Andrew said that it had requested bids from six companies. [

Details omitted. See note on page iv.

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5.13. Andrew stated that it could purchase its UK requirements from mainland Europe only if there were a local facility within the UK. This was important because of the need to take delivery of drums within hours. Andrew had identified one German-based company which was willing to stock drums in the UK for use by its manufacturing facility at Lochgelly in Scotland but had not yet received pricing.

5.14. Andrew said that it did not manufacture drums in-house. Alternative products to drums would need to be in line with the policy of Andrew's global packaging group in the USA, which was responsible for ensuring that all the Andrew plants worldwide used exactly the same packaging. There was a price difference between new and recycled 7 foot and 8 foot timber drums of around 10 per cent due to the high transport cost of returning them from mainland Europe.

5.15. Andrew said that if the merger went ahead, it would not under any circumstances source solely with the newly-merged company. It would actively source and encourage new companies to set up operations locally to service its requirements. Andrew told us that it had identified a local drum manufacturing company which might be an option, but initial discussions Andrew had had with the company found that there were potential barriers to conducting business with it. Andrew said that it saw no problems arising from the possible remedies on prices, provided that any price increase caused by raw material was in line with the relevant published price index.

Anixter International Ltd

5.16. Anixter International Ltd (Anixter) told us that it bought plywood from both Pentre and Askern. Its main reason for using two suppliers was to ensure security of supply. It said that prices were also a consideration. Prices had dropped 20 per cent in recent years due to Anixter's buying increased volumes. Anixter did not track raw material prices. It said that it had no concerns about the merger.

Auto Marine Cables Ltd

5.17. Auto Marine Cables Ltd (Auto Marine) bought mostly cardboard drums from Askern, and also timber drums from both Pentre and Askern. Its purpose in dual sourcing was to monitor prices. It considered that Pentre and Askern competed for the business of supplying timber drums but not cardboard drums. It said that prices had gone down in the past but were now back to the level of three years ago.

5.18. Auto Marine did not see plastic as a potential substitute for other types of drums as it would expect plastic drums to be more expensive. It tried to avoid returning drums, in order to avoid costs of administration and difficulties in monitoring drums. It had developed and patented an alternative reel-less technology called Box-Pack, which was used by a limited number of customers.

5.19. Its concerns about the merger were not about the removal of Pentre as an independent competitor, but rather about what would happen to the management of WTR, a cardboard factory which was a subsidiary of Askern Group (see paragraph 3.48), following reorganization. On possible remedies, Auto Marine felt that Pentre Askern should be required to sell to an individual customer at the same prices which that customer was charged before the merger, subject to adjustments for raw material costs. Alternatively, price decreases could be allowed, provided they were offered to all customers.

Belden UK Ltd

5.20. Belden is part of a major US multinational, and has a turnover of some £70 million. It was formerly Cornings and before that it was owned by BICC. Expenditure on drums and drum management in the first six months of 2000 was in excess of £[$]. Belden expressed concern that the joint venture would result in a monopoly supply situation in the UK. There would be no flexibility to introduce a second supplier; pricing would change significantly and there would be a risk to supply should the joint venture's facility be affected by force majeure.

5.21. Belden said that Pentre was its current supplier of drums, and they had a strong relationship. In addition to managing Belden's plywood drums, [

Details omitted. See note on page iv.

]. Belden expressed concern that Pentre's Knowsley timber drum factory might be closed. This would disturb the arrangements for just-in-time delivery of drums.

5.22. Belden said that, prior to the joint venture, it had had the choice of two suppliers in the UK, namely Pentre and Askern. However, Askern had not been able to offer the same levels of service as those provided by Pentre. As service levels were critical to its business, Belden said it was essential that it had one supplier who could manage its stocks and run its 'Kanban' (that is, just-in-time) system on a daily basis. If Belden were to switch to a mainland European supplier, then the service levels received would undoubtedly be reduced due to distance and logistical arrangements. Also, there were difficulties bringing in the required products from mainland Europe. Switching to alternatives to drums was likely to be costly and lengthy, and subject to customer approval. For example, plastic drums were estimated to be at least 50 per cent more expensive than plywood.

5.23. Belden said that, prior to the joint venture, it had been able to negotiate with both Pentre and Askern. There were a number of smaller drum manufacturers in the UK, but they did not have the capability to offer the same levels of service that Belden required. Belden said it was imperative that its suppliers were able to provide a good quality of service because of the high damages it could incur if it did not fulfil contracts with customers on time.

5.24. We asked Belden at a hearing to what extent it had used Askern as a bargaining counter in negotiating with Pentre. Belden said that Askern had constantly sought business and that a dialogue between the two companies had taken place. Belden had aimed to use Askern in order to achieve a benchmark relating to service and price reductions from Pentre. Belden also benchmarked with prices in mainland Europe and prices offered by smaller suppliers.

5.25. [

Details omitted. See note on page iv.

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5.26. Belden said that it did not purchase any drums from mainland European suppliers. Supply from abroad would have to be economically viable for the individual plant. The just-in-time requirement factor was very important. Storage of the drums bought from outside the UK would create a problem as Belden lacked storage facilities.

5.27. Alternatives were not as cost-effective as timber drums. Plastic drums needed to be discarded rather than repaired. New technology alternatives to drums would need to be cheaper or provide a packaging advantage and would require customer approval which could be a costly and lengthy process.

5.28. [

Details omitted. See note on page iv.

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BICC General UK Cables Ltd

5.29. Commenting on the possible remedies, BICC said that it would strongly object to the recommendation that all actual ex-factory prices charged in respect of products produced by Pentre Askern be posted on a website. As the largest customer of cable drums within the UK, the anonymity offered to customers would be of little protection. Due to the high volume of software drums purchased, BICC said that it would expect to obtain the lowest prices within the marketplace. To have these negotiated prices posted on a website for BICC's competitors to access would jeopardize its competitive advantage, thus undermining its commercial efforts.

5.30. On the possible remedy of prohibiting a rise in prices following a reduction, BICC said that this remedy appeared to be satisfactory. However, it said that Pentre Askern had already offered this package in connection with drum repairs.

The Concordia Electric Wire Co Ltd

5.31. The Concordia Electric Wire Co Ltd (Concordia) said that it bought timber and plywood drums from Cable Reels and cardboard drums from PKR, having switched from Askern because of prices and better quality. It stated that when PKR had undercut Askern on prices Askern had not chosen to compete.

5.32. Concordia stated that it had been paying the same prices for a long time. At the time that it had been a customer for cardboard drums from Askern, it had once asked Pentre to quote, but Pentre had offered uncompetitive prices. It considered that there was no substitution from plywood to cardboard drums. A 5 per cent increase in prices might lead to some switching from plywood to timber drums, but the amount that could be switched would depend on technical considerations. Concordia had no concerns about the merger.

Corning Cable Systems

5.33. Corning Cable Systems (Corning), formerly part of BICC, was opposed to the merger. Expenditure on drums was about £500,000 a year. Its drum management administration was currently undertaken by Pentre (and 80 per cent of its drums were recycled) and it depended on this system to supply large pan-European customers. In the past it had felt that the threat of transferring business to Askern had been a useful negotiating tool, and it had in fact on several occasions purchased new drums from Askern, although most new drums were purchased from Pentre. Pentre had a contract with both Corning and Belden, dating from the time when both were part of BICC; this was a cost-plus contract which did not provide incentives to reduce costs.

5.34. We asked Corning what it would do if the merger were allowed to stand. Corning said that it would have to deal with Pentre Askern in the short term. It would ask for cost savings due to economies of scale. There were no other suppliers in the UK on the same scale as Pentre Askern, although Corning had been placing some orders with one smaller supplier, CDR, and could continue to encourage that supplier in order to provide competition. Looking outside the UK, supplies in South America were quite cheap but, depending on exchange rates, transport costs could outweigh the cost of buying drums domestically. Buying drums flat-packed from mainland Europe could also inflate costs, and would create problems of where to store drums.

5.35. As to reel-less alternatives, Corning expressed the view that, for its range of products, there were not many tried and tested alternatives that actually worked.

5.36. Corning expressed concern that Pentre's Knowsley factory might close, jeopardizing Corning's just-in-time deliveries. It considered that Pentre Askern would have the market power to raise prices and that customers would not be able to prevent this. It suggested that if the merger were postponed for a period while alternative suppliers were encouraged, this could be advantageous to customers. Corning added that if Pentre Askern were to offer it a long term fixed-price contract, that would not be satisfactory; it was looking for cost reductions.

5.37. We asked Corning about KTG's operations in Germany. Corning said that its German operations used KTG rented drums. However in Corning's view, this arrangement cost customers more than the UK arrangements whereby drums were owned by the cable companies which were encouraged to return them to the drum manufacturer for refurbishment.

Draka Ltd Industrial Cables UK

5.38. Draka told us that it had purchased drums from YCD for a six month period in 1999, and that this had been extended for a further six months in 2000. Draka had not committed itself to buying drums from [$] (which had yet to prove itself), but had taken materials on trial, and this had been extended to a production trial. [$] was not yet in a position to offer a complete product range, and Draka was still using Pentre Askern for larger plywood drums, which [$] did not produce—it could also obtain these from other suppliers such as Cable Reels. Draka was not sufficiently close to YCD and [$] to assess their likely future development, and it was not aware of any joint supply agreement between them.

5.39. Draka said that its policy had always been to look at new sources of supply, and proactively to obtain quotes from new suppliers, for example, CDR. This was done to protect both price competition and security of supply; it would not seek to drive suppliers into the ground. Draka confirmed that Askern had offered it lower prices (on selected products only) when Draka started getting supplies from YCD. Askern's prices were 5 to 6 per cent lower, which Draka saw as significant, but it had not accepted Askern's offer as it wished to see YCD develop and grow.

5.40. Draka said that it had in the past explored the possibility of importing drums (and it might do so in future), but had not done so because of the logistical difficulties involved. Draka added that it saw price rises as inevitable following the merger.

Permanoid Limited

5.41. Permanoid Limited (Permanoid) told us that it bought cardboard drums from WTR, plastic drums from Industrial Reels Limited (see paragraph 3.12) and plywood drums from Cable Reels. It was not aware of any other suppliers of cardboard and plywood drums. It did not see the different material types as potential substitutes, commenting that plastic reels were used because one customer wanted them. Cardboard drums were cheaper, and the potential for reuse of plastic drums was limited as most cardboard drums were sent to distributors. As to the choice between plywood and cardboard drums, this was dependent on weight, and was made by the technical department.

5.42. Permanoid said that it had not considered Pentre and Askern as competing strongly for its business. It had previously used Pentre to supply cardboard drums, but considered that Pentre's delivery performance had been disappointing. It had once asked Askern to quote for the supply of plywood drums but had not received a response. The prices of cardboard drums had increased last year and WTR had told Permanoid that this was due to increases in the cost of raw materials.

5.43. Permanoid had some concern that there would be price increases following the merger. It said that it would not consider importing drums because its level of usage varied widely and therefore it needed a quick delivery response.

Pirelli Cables Limited

5.44. Pirelli told us that Askern and Pentre had been its two suppliers. Pirelli used prices in mainland Europe to benchmark its UK local prices.

5.45. Pirelli had introduced Pentre as a second source of supply a number of years ago to increase local competition. Pirelli considered that, although Askern's modern manufacturing facilities enabled it to offer competitive new product unit costs, Pentre was more experienced and more focused on the management of drum recovery and recycling. The combination of the two complemented each other and had offered Pirelli the benefit of both their areas of expertise.

5.46. Although the Pirelli Group in mainland Europe had a wide variety of packaging suppliers, Pirelli UK had not before now seriously explored importing drums from mainland Europe, despite using European prices as a benchmark for its local UK prices. Pirelli said that in the future it was likely to consider having a pan-European source of supply. The Pirelli Group in mainland Europe was currently assessing Group requirements with a view to centralizing its policy on procurement of drums.

5.47. Pirelli said that, before the merger, both Askern and Pentre had supplied it with the full range of drums for Pirelli products, and it had considered that to be a benefit from both a security of supply and competitive point of view. As regards substitutability, Pirelli said that it used each product for a specific reason and for a specific application. The only possible substitute would be to replace softwood and plywood drums with steel drums, and then only if there were an excellent rate of drum recovery in the market place. Pirelli said that it had, in the past, repaired drums in-house but had, over the years, subcontracted most of its non-core activities to its financial advantage. This process continued and was not likely to reverse in the medium term.

5.48. Pirelli did not consider that it would invest in new drums in future. Its focus was on drum recycling and refurbishment. Its ambition was to buy very few new drums in the future and to concentrate on improving its existing drum management. Pirelli said there was a possibility that it could introduce a reel-less system to replace the cardboard drums which, after initial equipment investment, could be very cost effective. This was a project that was being investigated but would need the acceptance of its customer base before trials could begin. This idea complemented its strategy of reducing and recycling its packaging. Pirelli had also considered plastic drums in the past but had not found this to be cost effective.

5.49. Pirelli considered that, in the short term, the merger would offer it some advantages in administrative costs, and also in the optimization of the lowest-cost operations and activities within both the former Pentre and Askern. However, in the medium to long term, the need to explore European supply options was more critical. It expressed the view that the merger did not make any difference to the feasibility of new suppliers coming into the marketplace. The joining of Askern and Pentre made for a stronger supplier and a more cost-effective company within a European and global market.

5.50. Pirelli said that prices of cable and drums had been falling over the last few years, as a result of not just local but global competition, and there was every reason to expect this process to continue. The drive to use even more reconditioned and recycled drums was likely to accentuate this trend. Pirelli said that it would welcome Pentre Askern as a strong competitor and that it would have equally strong competitors in mainland Europe. Pirelli's strategy would be to source from more than one major supplier, in a global context. It would always aim for price competition or price competitive clauses in any agreement. It also wanted its main suppliers to be able to supply the full product range and to have relatively long relationships with them. It believed there was a good range of suppliers in France, Italy and Spain, although less so in Germany.

5.51. We asked Pirelli if it were likely that the joint venture would raise prices. Pirelli said that Pentre Askern could not do this within the terms of its existing agreement, but if it were to raise prices once the agreement expired, Pirelli's view was that it could shift to European suppliers if necessary. However drums represented only some 2 per cent of its total purchasing expenditure, and it took much bigger risks in assessing new sources of supply of raw materials for its business. It was also worth noting that Pentre Askern had approached Pirelli with an offer of stable prices; this suggested that prices were unlikely to rise in the future. However, as indicated in paragraph 5.46, Pirelli was likely to source in the future on a European-wide basis.

5.52. Pirelli said its understanding was that there were considerable differences within mainland Europe on drum prices, owing to different cost structures, and that decisions on importing European drums would need to take transport and other costs into account. It thought that it would be quite feasible to import flat-packed drums and arrange local assembly activity near its cable-manufacturing plants. Its specifications for cable included drum specifications. It intended to exploit price differentials even if it had to create a new system to do so.

5.53. We asked Pirelli if the merger changed the competitive situation. Pirelli said that the effect of the merger was that two large UK-based suppliers were becoming one within the UK environment but that, in the medium to long term, the market was becoming more and more a European one. Pirelli used seven or eight viable suppliers around Europe and therefore it was not concerned about the UK situation. It preferred to deal with larger, more integrated suppliers for all its raw material needs. Although it currently bought drum management services from Pentre, other suppliers around the world could provide the same service, and relationships could be built up over time. Pentre currently provided a drum management service to BICC, and if Pirelli's merger with BICC went through, expansion and development of that service was likely to be sought.

5.54. We asked Pirelli if, in its opinion, the merger made any difference to the likelihood or feasibility of a new supplier coming into the marketplace. Pirelli said that it doubted if the merger would influence that. A relevant consideration was that cable drum manufacturers tended to be focused only on drums and not to manufacture other products.

5.55. Pirelli concluded by saying that it was more positive than neutral about the merger because the merged entity would be a stronger company within the European context.

5.56. We asked Pirelli about hypothetical remedies. Pirelli said that, in its view, the cardboard production or the steel production or the drum management services, could, in theory, be divested by the merged group but this would destroy the synergy. We asked about price undertakings. Pirelli said that it felt that price undertakings would be the wrong kind of approach to any problem, although a temporary price cap might be a possibility.

South East Cables Ltd

5.57. South East Cables Ltd had bought plywood and cardboard drums from both Pentre and Askern. It was concerned about the merger because it had switched from Askern to Pentre in order to obtain better prices and service. It did not see plastic drums as a potential substitute for cardboard drums because of high switching costs, particularly in the tools required, which would cost around £4 million to £5 million per product line.

Supertension & Subsea Systems

5.58. Supertension & Subsea Systems (Supertension), a unit of BICC now merged with Pirelli, submitted that it would have concerns if it were not able to position an alternative source that could compete directly with the new group on all aspects of the service—price, timescale, quality, support and commitment. Supertension had traded with both Askern and Pentre before the merger and prices had been very competitive. Each of its drums represented a different size, quantity and design and was rarely repeated. Other manufacturers within Europe had not been able in the past to compete with the UK supplier base; however, negotiations with suppliers in Eastern Europe were in progress. Transport from mainland Europe added between £600 and £2,000 to costs per load.

5.59. Supertension said that it had manufactured drums in-house in the past, but currently it was totally focused on its manufacture of cable. As to alternative products, these were not available for the heavy cable manufactured. Subsea cables, however, were so long and heavy that they were coiled directly onto a ship, representing thousands of tonnes. Recycled drums were used to some extent but it was too expensive and too difficult to get drums returned from abroad.

5.60. Commenting on possible remedies, Supertension said that the suggestions constituted a need for continual monitoring and recording of data, which was time-consuming and without added value. On the possible remedy of posting Pentre Askern's prices on a web site, Supertension said that this would diasvantage Pentre Askern relative to its competitors. In effect, the proposal was demanding a catalogue of drum specifications. As to the possibility of divestment, Supertension said it was unsure that this would in fact improve the competitive situation, which was subject to the capacity and demand in the market. As to the possibility of OFT approval being sought for further mergers, Supertension said that this was academic as any further mergers were likely to be outside the UK. Finally, committed policing would be needed to monitor remedies and consideration should be given as to whether monitoring was desirable in the relatively small drums market.

Thomas Bolton Flexible Cables Ltd

5.61. Thomas Bolton Flexible Cables (Thomas Bolton), previously part of BICC until 1998, submitted that it had a grave concern that, if the joint venture went ahead, UK drums would be supplied by a single major supplier plus one smaller supplier used by Thomas Bolton, namely Cable Reels. Inevitably this would seriously reduce Thomas Bolton's purchasing options and weaken its negotiating position. Its total turnover this year had been £17.5 million—of which about 2 per cent was spent on drums (mainly plywood and cardboard).

5.62. Thomas Bolton had purchased from Pentre before the merger and believed Pentre and Askern to be the only major UK suppliers of its packaging material. Thomas Bolton had not recently switched suppliers.

5.63. In the past, Thomas Bolton had found some advantage in negotiating high-volume supply agreements with single suppliers; however, more recently, with regard to products other than cable drums, there had been advantages in buying by size or type from more than one supplier.

5.64. Thomas Bolton told us that cardboard, hardboard, plywood and softwood drums were not interchangeable since the determining factor was the size, weight and length of cable to be accommodated on the drum. Short lengths of small, lightweight cables were packed on cardboard drums, and long lengths of big, heavy cables were packed on soft wooden drums.

5.65. At present Thomas Bolton did not purchase from a mainland European supplier and felt that it would be difficult to achieve a competitive price because of shipping costs. Cables wound on drums were dispatched every day and therefore a good regular delivery service was needed; this could be achieved from UK suppliers. Alternatively, if stocks were to be held, additional cost and space would be involved. We asked Thomas Bolton about recent contacts with mainland European suppliers. Thomas Bolton said that it was hard for a small buyer to buy from mainland Europe; suppliers tended not to respond to invitations to tender. It did not believe that suppliers of cardboard and plywood drums in mainland Europe were actively seeking UK customers.

5.66. Thomas Bolton did not manufacture drums in-house. To do so would involve investment in space, equipment, expertise and people and Thomas Bolton believed that this would be unwarranted for its mature business, which operated at relatively low margins. Operating costs would be high unless such an investment were used to service other users and to achieve high volumes with greater utilization of the plant involved. We asked what would happen if prices of drums rose by as much as (say) 15 to 20 per cent; Thomas Bolton said that, in that case, in-house production might have to be considered.

5.67. The possibility of Thomas Bolton using alternative products was extremely limited. Customers' equipment was set up to use cable supplied on drums. There would be a high cost of equipment to provide reel-less systems. Plastic drums had a relatively high cost and there were problems about returning them to the supplier. The traditional products were well proven and were accepted by customers.

5.68. Although Thomas Bolton would consider using recycled or reconditioned drums, these were generally not a substitute for cardboard and hardboard drums. Recycled and reconditioned drums might bring environmental benefits but would not necessarily be cheaper than new drums.

5.69. Thomas Bolton had had a relatively strong bargaining position while there had been two major suppliers competing with one another. Thomas Bolton said that the merger might give smaller suppliers an opportunity but, on the other hand, they might not be able to cope with increased demand from customers seeking an alternative to Pentre Askern.

5.70. Thomas Bolton said that Pentre Askern had written to its customers about the merger and had mentioned the need for a global supplier to supply fewer and fewer global cable companies. However, the effect of consolidation of selling power for companies like Askern and Pentre was that small customers like Thomas Bolton saw a diminution of their purchasing power. Pentre Askern had said that it was in its interest to continue to give competitive prices but it was necessary to consider who the competitors would be.

5.71. We asked Thomas Bolton about hypothetical remedies. Thomas Bolton suggested that limitations on potential price increases relative to the Retail Price Index might be a possibility. If that were not feasible, divestment of part of the business, for example the cardboard and plywood drum supply, could be considered. It also said that it agreed with the possible remedy that would require Pentre Askern to sell to an individual customer at no more than the same prices which that customer was charged before the merger, subject to adjustments for raw material costs. Subsequently we asked Thomas Bolton about the additional possible remedies set out in paragraph 2 of Appendix 2.1. Thomas Bolton said that it would be content with any or all of those undertakings, particularly with regard to plywood and cardboard drums.

Competitors

August Hildebrandt GmbH

5.72. Hildebrandt, a German company, stated that it had a partnership with Michelfelder Holzwaren. Hildebrandt produced timber drums while Michelfelder produced plywood drums and, together, the two companies aimed to offer the whole range of drums for the cable industry. Company priorities were: satisfied customers, quality and flexibility. Hildebrandt/Michelfelder had established an efficient and internationally active company building on excellent service and long-term relationships with clients. The company was exporting worldwide and had clients in countries such as Brazil and Libya. It exported all types and dimensions of drums worldwide by ship or lorry, both dismantled and assembled.

5.73. Hildebrandt/Michelfelder had not yet exported to the UK, because of the currency difference and expensive haulage, and did not expect sales in the UK. It did not have a UK agent. It had found that it was not competitive in the UK. It had made offers to companies such as Pirelli, BICC, Delta and Draka. At first, it had had the impression that these customers were ready to purchase. However after a few weeks, when it had tried to send samples to the UK, the prospective customers seemed to be no longer interested in buying drums from Hildebrandt, on the grounds that they had had a better offer.

5.74. Commenting on possible remedies, Hildebrandt said that in its view the market should be seen in wider geographical terms than the UK. The merger was likely to affect the competitive situation not only in the UK but also in France and Finland. Hildebrandt considered that the most effective remedy was likely to be the setting of maximum prices for a defined period.

Boffi SRL

5.75. Boffi SRL, an Italian company, told us that some UK customers had expressed interest in buying its cable drums because of the high prices charged by Pentre and Askern. However, until the end of 2000, Boffi had a number of projects on hand and therefore did not need to enter the UK market. It might do so in 2001. It considered that its prices were not competitive because of the high cost of transport.

CDR Ltd

5.76. CDR, which, along with Cable Reels, is owned by Marlin Industries, submitted that the joint venture caused some degree of concern. It recognized, however, that there had been such a degree of rationalization within the European cable industry recently that the merger could be seen as inevitable. There was insufficient cable packaging business to sustain the number of production facilities within the UK and mainland Europe. CDR told us at a hearing that, in its view, it was likely that Pentre Askern would rationalize its manufacturing of plywood and timber drums, as demand for new drums was falling off.

5.77. CDR specialized in drum repair; it had been set up in 1991 by ex-BICC employees with an initial investment of £5,000. It now employed about [$] people and had a turnover of £[$] million a year. The manufacture of new drums represented [$] per cent of its business, and repairs accounted for about [$] per cent. CDR said that a number of drum users were now requiring more new wooden drums, and that the manufacture of these would continue to grow. The supply of new drums had to be considered part of the service that CDR provided. It regarded its main competitors as Pentre Askern and YCD. It had spare capacity but considered that the barriers to entry were quite high because significant capital investment was needed to achieve volumes. Pirelli's planned takeover of BICC made the future uncertain and was likely to increase competition between Pentre Askern, CDR and other suppliers. [

Details omitted. See note on page iv.

], having won this business from Pentre. It was looking to expand its steel drum import business. It was also developing waste operations.

5.78. There had been one example of a customer switching from Pentre to CDR and CDR considered that Pentre had followed CDR's techniques in repairing drums. Drum repair was a specialized business and employees had to be trained to do it. CDR thought that it had about 35 to 40 per cent of the British market for repairs. As to the possibility of customers repairing drums themselves, CDR thought it unlikely that the trends to outsourcing in recent years would be reversed. We asked if CDR thought it likely that drum rental would become the practice in the UK: CDR said that in its opinion this was not likely to be introduced soon. In the last 12 months, prices of drums had come down, in some cases by 30 per cent.

5.79. We asked CDR about the effect of the merger. CDR said that it might benefit from a reduction of competition in the short term, but in the long term, might find life more difficult. Pentre Askern was very much larger than CDR and could drop its price. Cable manufacturers were very geared to prices and told CDR what they were prepared to pay. We asked if CDR had concerns about aggressive pricing from Pentre Askern. [

Details omitted. See note on page iv.

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5.80. [

Details omitted. See note on page iv.

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5.81. We subsequently asked CDR to comment on possible remedies concerning either the freezing of prices or setting maximum prices (see Appendix 2.1). CDR made the following points:

(a) When applying a price freeze there could be difficulties in assessing the prices charged to new customers or for new business. Difficulties might arise when applying to drum management services the provision that price decreases were allowable provided they were offered to all customers because the services, and hence prices, were tailored to meet a particular customer's needs.

(b) No particular difficulties were envisaged in setting maximum prices although CDR noted that access would be required to the designs of drums supplied to avoid the possibility that a lower specification of drum, which would incur lower manufacturing costs, would be offered.

(c) The monitoring of either remedy over a period of three to five years would in practice be difficult, particularly in respect of drum management services because the services provided vary according to customers' demands and those demands vary due either to internal organization alterations or external market forces.

(d) Possibly the only effective remedy would be to benchmark Pentre Askern's prices against any available competition.

5.82. We also asked CDR to comment on a number of other possible remedies (see Appendix 2.1). Their responses were:

(a) On the possible remedy of publicizing prices, CDR said that this remedy had some attractions and had the effect of almost creating a published price list. However, CDR had concerns that in practice the concept might be difficult to operate. In a contracting market, the publication of prices would enable suppliers and customers to know the prices which had been paid by whom. Because specifications of individual customers were known, anonymity would not prevent the identification of particular customers. Publishing the prices for a range of drums might help maintain anonymity but, because different prices were charged for different sized drums, the benefits of the published list would be reduced.

(b) The application of any requirement to publish prices in respect of the supply of drum management services might give rise to difficulties because the services were specific to a customer's requirement. On the possible remedy of prohibiting a rise in prices following a reduction, CDR said that this remedy appeared to be satisfactory. However it considered that it would be difficult to apply this remedy to drum management services.

(c) On the possible remedy of divestment, CDR said that there could be two types of divestment. Either Pentre Askern could revert to two distinct organizations or it could be required to sell off one or more plants to a third party. As the cable industry at present was contracting, drum excess manufacturing capacity needed to be removed in a controlled fashion. In theory Marlin Industries, which owned both CDR and Cable Reels, might wish to acquire certain parts of Pentre Askern, but in practice it would want to be clear that it was purchasing a business with a future. It would be futile for Marlin to purchase a plant which had been earmarked by Pentre Askern for closure.

(d) On a possible undertaking to seek clearance from the OFT for future mergers, CDR said that it had no concerns over this possible remedy.

(e) On a requirement to publicize undertakings, CDR said this possible remedy did not appear to present problems, but the difficulties of listing prices anonymously would still apply.

(f) On a requirement to assist the OFT possibly by paying costs, CDR said that this did not present problems.

5.83. CDR suggested that a further possibility to consider would be the introduction by the OFT of a regulator operating over a timescale of one to two years. This might assist particularly if remedies were required in the area of drum management. A regulator with a working knowledge of the cable industry would be able to provide an informed opinion on significant variances in prices or service levels offered by Pentre Askern.

Cable Reels Ltd

5.84. Cable Reels (like CDR a member of Marlin Industries) said that, as a competitor of both Askern and Pentre in the manufacture of plywood drums, it would be happy for the joint venture to proceed. Askern, Pentre and Cable Reels had competed aggressively with one other over the past four to five years. The customers had used the oversupply in the market to drive down prices. Over the past two years the customer base in the UK had gone through a major rationalization, increasing the over-supply of drums still further. The joint venture would reduce the number of suppliers of plywood drums to two, namely Pentre Askern and Cable Reels: this would provide a sufficient manufacturing capability and a healthy level of competition for the customer base.

J E Jervis Limited

5.85. Jervis, which manufactures wooden, cardboard and plywood drums for tape and elastic, said that its main competitors before the merger had been Pentre and Askern. It did not have concerns about the joint venture but believed that the new entity would be in a stronger market position.

PKR Ltd

5.86. PKR was set up in 2000 by two former Askern employees. It told us that it had set up production lines to produce cardboard reels. In doing so, it had been supported by supply a commitment from [$].

5.87. PKR believed the market for cardboard drums to be worth around £6 million and the market for plywood drums to be worth around £10 million to £16 million. It said that it was difficult to predict how the UK market for cardboard and plywood drums would develop. It had commitments from [$] customers to be supplied with cardboard drums.

5.88. PKR said that its entry into the cardboard market had been largely customer driven. The main concern of its prospective customers was that price would be dictated by Pentre Askern. Security of supply was also a concern to customers but this was secondary to price considerations. PKR's intention was to win the business of all customers, large and small. On balance, it did not expect that Pentre Askern would respond to its entry with a price war, as it felt there was enough business to go around.

5.89. PKR saw delivery times as being very important, and it could produce cardboard drums for customers in two to three days for standard sizes. It believed that Pentre Askern could do this only for some customers but that seven to ten days was the norm.

5.90. We asked PKR about the substitutability between different types of drums. PKR said that most customers knew what they needed and not many switched between cardboard and plywood drums. PKR acknowledged that customers were very price sensitive. PKR added that there was a small degree of substitution between cardboard and plastic.

5.91. [*Details omitted. See note on page iv.*]

Simplast Plastic Injection Moulding

5.92. Simplast Plastic Injection Moulding, which manufactures plastic drums, said that Industrial Reels, part of Pentre, was a major competitor. There was a strong possibility that the joint venture would have a monopoly position in the manufacture and supply of drums. This could be used to drive out other competitors in the short term and to exploit its position in the long run.

Warbrick International Ltd

5.93. Warbrick International acted as representatives in the UK and Ireland for Windings Inc, USA. Windings produced coiling machinery but Warbrick International considered that this was not a substitute for the products produced by Pentre and Askern (see paragraph 4.37). Warbrick International had no specific objection to the joint venture.

Yorkshire Cable Drums Ltd

5.94. YCD had been created in 1998 by a former employee of Askern and manufactured timber drums. It also provided some drum management services. It had the capacity and capability of diversifying into the manufacture of cardboard and plywood drums, but did not have the capital required to proceed and had thought that such a move might worsen its competitive situation. It was unsure about the effects of the merger. If Pentre Askern raised prices, competitors might benefit from customers who wanted lower prices, high quality of service and more than one supplier. At the time that YCD had come into existence, supported by one of Askern's customers, Draka, Askern had priced quite aggressively. There had been some switching of customers from Askern to YCD. Barriers to entry were quite high: capital and the appropriate equipment such as a nailing machine were required. We asked YCD why there had not been more new entrants over the last few years: YCD said that this was not a run-of-the-mill industry but required workers with craft experience. YCD had some 50 per cent spare capacity. Customers were demanding and a supplier had to be confident of meeting their needs.

5.95. We asked to what extent the merger would change the competitive situation. YCD said that this was difficult to predict. Pricing behaviour in particular might be influenced by Pentre Askern's losses, in which case customers might turn to YCD and others. YCD did not think that Askern's behaviour had been much influenced by Pentre in the past. YCD said that the possible remedies relating to prices would only serve to protect the large cable manufacturers against Pentre Askern raising prices, and that there would be no benefit to YCD. If Pentre Askern were prohibited from raising prices, then that would also prevent YCD from raising its prices.

Trade associations

British Cables Association

5.96. The British Cables Association (BCA) wrote on behalf of one of its members who did not wish to be identified. The BCA member was concerned that if the joint venture were allowed to stand it would effectively control the vast majority of the UK market for chipboard, plywood, timber, plastic and steel drums.

5.97. There was only one credible competitor in the UK, namely Cable Reels, which had been instrumental in enabling the BCA member to drive down lead times, which were vital in supporting the erratic nature of the cable industry and its customers' demands for flexibility. Cable Reels had also provided a vital competitive element in keeping prices at acceptable levels. The BCA member said that the joint venture would have a monopoly in the manufacture of chipboard (currently produced at three sites), and this could lead to the closure of one or two of the these sites, which raised concerns about security of supply.

International Wire & Machinery Association

5.98. The International Wire & Machinery Association (IWMA) said that, in different circumstances, it might have wished to make representations in opposition to the merger. However, it had seen the demise of the cable and wire drawing industry in the UK over the past ten years, particularly in recent years, due to the strong pound sterling disadvantaging exports, and highly competitive foreign imports. This meant that the volume of drum and reel business in the UK was in decline, and this would continue if current economic policies continued to fail British industry.

5.99. Furthermore, the whole industry was now global, and while Pentre and Askern might appear to be the only British supplier of drums, cable and wire, producers in the UK had long since taken advantage of an open market for such products from non-UK suppliers.

5.100. The IWMA said that, as an international association, it was well aware of all aspects of manufacture and supply in the industry throughout the world. While it would not support any monopoly situation, should it exist, it could be the case that the joint venture would improve exports from the UK in a highly competitive market.