

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

1. Imports of new large steel drums are currently very limited—we estimated that they account for less than 3 per cent of total UK new large steel drum sales. Several parties told us that the cost of transport was high relative to the cost of the drums; transporting bulky empty drums was ‘transporting air’. This appendix considers the evidence on whether the geographic market should include imports of drums produced outside Great Britain, and the degree of competitive constraint that imports may pose.
2. The price at which any imports into Great Britain act as a constraint on the prices of drums produced in Great Britain depends on the difference between the delivered price of drums manufactured in Great Britain and:
 - factory gate prices of drums produced outside Great Britain; plus
 - direct costs of importing, that is the cost of transport from Continental Europe to the Great Britain purchaser; plus
 - any indirect costs that might arise because the drums are imported rather than supplied domestically, or any price discount relative to British-manufactured drums that is necessary to convince customers to purchase imported drums.
3. We considered the evidence on these elements in the framework of our assessment of the relevant geographic market and the competitive constraint posed by imports. Broadly, imports would form part of the market for the supply to Great Britain customers if the delivered price of imported drums was low enough to render unprofitable a 5 per cent increase in the delivered price of drums manufactured in Great Britain imposed by a hypothetical monopolist. The competitive constraint imposed by imports will depend on the characteristics of individual plants, including capacity, whether they are independent from existing British producers of large steel drums, and location.

Relative prices of new steel drums

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

TABLE 1 Greif and Blagden average delivered prices in European countries

£

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

Source: The parties.

5. Greif’s prices in neighbouring countries (Belgium, Netherlands, France) for the first half of 2006 were [redacted] per cent cheaper than Greif’s UK prices. Blagden’s prices in Belgium and the Netherlands were [redacted] and [redacted] per cent respectively cheaper than in the UK, although their prices in France [redacted] as in the UK. The parties said that the higher UK prices were explained by higher costs in the UK, but [redacted] in the UK than in the Netherlands and Belgium.
6. Mauser Group said that it understood that the average steel drum price in Great Britain was 5 per cent higher than in Continental Europe.
7. Schütz Group told us that the planned average price for its new large steel drums in the Netherlands was €[redacted].¹ This included €[redacted] of transport cost per steel drum (on average), and therefore the average factory gate price in the Netherlands would be €[redacted]. Schütz Group told us that this was an estimated average price for financial planning purposes relating mainly to tight-head coated and uncoated 210-litre drums.
8. It is possible that differences in prices between countries may reflect different product mixes in each country (for example, internally coated drums are more expensive than plain, and open-head are more expensive than tight-head). We investigated this using information provided by Greif on the average factory gate price of different types of new large steel drums in various European countries. This information is shown in Table 2.

¹Currencies have been converted at a rate of €1.47 = £1.

TABLE 2 Greif ex-work average prices, FY2006

	£			
	Open-head		Tight-head	
	Lac	Plain	Lac	Plain
UK				
Belgium (Greif)				
Belgium (Blagden)				
Germany				
Netherlands				
France (Greif)				
France (Blagden)				

Source: Greif.

Notes: All prices except for UK were expressed in euros and were converted to £s at a rate of 1.47. Lacquered drums are not produced by Greif in Belgium.

- If we assume that the composition of demand is the same as in the UK for new large steel drums,² Greif's average ex-factory price in the Netherlands would have been £[redacted]. The average factory price planned by Schütz Group for the Netherlands is [redacted]. This consistency in the figures suggests that it is not unreasonable to compare Schütz Group's average price in the Netherlands with the Greif average price in the UK. (In other words, it is not unreasonable to assume that the composition of demand between the different types of drums is similar in the UK and in the Netherlands.)

Direct costs of importing: transport costs

- Hemeyer Verpackungen GmbH, a German steel drum manufacturer, told us that it had considered exporting drums into Great Britain but that the additional transport costs were too high.
- Mauser Group thought that it would not be attractive to export steel drums to Great Britain because of the additional transport and warehousing costs.
- The transport cost per drum also varied according to the number of drums that could be carried in a load. Greif told us that Continental European lorries could carry up to 330 drums, significantly more than the typical Great Britain full load of 264 drums.
- Greif provided data on the costs of transporting new large steel drums from the Netherlands, Belgium and France, and the costs of exporting large plastic drums from its German plant. Greif told us that there was no difference in the transport costs of plastic and steel drums. Blagden provided estimates of the cost of a hypothetical one-off delivery for a full load from its factory in northern France, as well as estimates based on its experience of occasional importing from Belgium. Sulo, a German manufacturer which currently exports around [redacted] to [redacted] large steel drums a year to Great Britain from Germany, also provided figures for its transport costs. Mauser Group, which manufactures large steel drums in Germany and France, provided an estimate of the transport costs of exporting drums to Great Britain.
- We also wanted to obtain a number of quotes from third-party haulage companies for comparison. We contacted the Road Haulage Association, which provided details of three haulage companies that it thought could provide representative quotes. We asked for indicative quotes for the cost of transporting an articulated lorry and trailer

²[redacted] per cent tight-head plain; [redacted] per cent tight-head lacquered; [redacted] per cent open-head plain; [redacted] per cent open-head lacquered.

filled with empty drums from Rotterdam to five destinations in Great Britain—London, Birmingham, Manchester, Hull and Glasgow. In each case we used the lowest of the three estimates received to calculate a cost per drum based on a full load of 264 drums. These transport costs are set out in more detail later in this appendix.

15. Table 3 shows the various freight costs.

TABLE 3 Drum freight costs from Continental Europe to the UK

<i>From</i>	<i>To</i>	<i>Load</i>	<i>Cost per load</i> €	<i>Cost/drum</i> €	<i>Cost/drum</i> £
Greif Ghent production plant, Belgium	Suffolk, UK	320 drums (full load)	(✂)
Blagden factory in Belgium	Manchester, UK	305 (full load)			
Greif Europoort production plant, Netherlands	Warrington, UK	320 drums (full load)			
Independent haulier—Rotterdam (best quote)	Various locations in England	264 drums	1,250– 1,397	4.73– 5.29	3.22– 3.60
Independent haulier—Rotterdam (best quote)	Glasgow	264 drums	1,911	7.24	4.93
Greif France, Rouen	Manchester/ Cheshire	313 drums	(✂)
Mauser, northern France	Northern UK	-			
Blagden, northern France	Manchester, UK	305 (full load)			
Greif Monzingen operation, Germany	Staffordshire, UK	320 drums			
Greif Monzingen operation, Germany	UK	Plastic drums (regularly imported)			
Sulo, Herford or Neustadt, Germany	UK	290			

Source: The parties, other steel drum suppliers, haulage companies and the CC.

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

16. The table shows that transport costs to Great Britain varied according to the location of the production site, ranging from just under €[redacted] from Greif and Blagden production sites close in Belgium and the Netherlands, to over €[redacted] from Sulo's production sites in Germany. The transport costs quoted by Greif were lower than those of its competitors in similar locations.

Indirect costs of importing

17. Indirect costs might arise when drums are imported rather than supplied domestically, for example:

- there might be additional costs of storage, if a purchaser felt that it needed protection against the greater risk of running out of drums because of longer lead times, or a less secure transport route;
- there might be costs of hedging against the risk of currency fluctuations; or
- it might be necessary to sell imported drums at a discount to British-manufactured drums because of customer preferences for British-manufactured drums.

18. In the customer survey, customers were asked which factors might inhibit switching to imported steel drums. The majority (around 80 per cent) identified at least one factor. Price and availability appeared to be equally important to the respondents. Other factors included longer delivery times, the impact of foreign exchange rates on the overall cost of new steel drums, the quality and specification of imported drums, and the quantity they would be required to import (ie full loads only).
19. A number of customers to whom we talked directly cited longer lead times and less security of supply as reasons why they were reluctant to rely on imported supplies of drums.
20. Greif told us that the factors inhibiting switching identified above were not significant. It provided delivery notes showing a two-day delivery time from Germany. It also said that currency risk could be easily hedged, and that many customers sourced other purchases from Continental Europe.
21. In the customer survey, customers were also asked what difference between the British price of British-produced steel drums and the British price of imported steel drums would make them choose imported drums. The results are shown in Table 4.

TABLE 4 Price of Great Britain versus imported large new steel drums to choose imports

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

Source: CC customer survey.

22. 43 per cent of customers said that they would choose imported drums if the price of drums produced in Great Britain was higher by 5 per cent or less compared with the British price of imported drums. Therefore, it appears that a significant proportion of customers would be willing to switch to imports if these were slightly cheaper. This suggests that customers view imports as a substitute for British-produced drums. The high degree of price sensitivity suggests that the effect of non-price factors on switching to imports is limited.

Difference between the cost of drums manufactured in Great Britain and imported drums

23. Using the above information on prices and transport costs, we calculated the price differential (on an ex-delivery or 'factory gate' basis) that would be needed for imported drums to be the same price delivered to the customer as British drums. We then compared this with the price differentials submitted by Greif in Table 1, and with the price differential if the Great Britain price were to rise by 5 per cent. We used the prices (and price differentials between countries) supplied by Greif as a proxy for market prices. The results are shown in Table 5.

TABLE 5 Price differentials required for parity between imported drums and drums produced in Great Britain

	Great Britain price Including transport cost	£[redacted] £[redacted]			
	Transport cost £		Price differential (factory gate) for import to be the same as GB factory gate price %	Actual price differential (from Table 1) %	Actual price differ- ential after a 5% GB price rise %
From Belgium	2.38–2.71	(✂	✂)
From the Netherlands	2.69–3.60				
From France	3.33–4.08				
From Germany	3.35–5.00				

Source: CC analysis.

Note: The transport costs from Rotterdam to Glasgow have been excluded from this table.

24. In order to assess the appropriate geographic market, we considered whether a hypothetical monopolist of new large steel drums produced in Great Britain could profitably raise prices by 5 per cent. The table shows that using the cheapest transport costs from Belgium and the Netherlands, average prices on a delivered basis to customers in Great Britain would be sufficiently competitive to render unprofitable a 5 per cent rise in Great Britain prices imposed by a hypothetical monopolist.

Competitiveness of imports

25. We sought to determine the extent to which imports might constrain prices of the merged firm. We considered that since transport costs varied with distance, the degree of constraint would vary according to the customer's location. We therefore obtained further information on transport costs for different locations in Great Britain. We also considered that average selling prices might conceal price differences between different types of drum. We therefore undertook a more detailed analysis of the competitiveness of imports for each of the four types of new large steel drum.

26. The degree of constraint from imported drums depends on a number of factors, most notably transport costs (a function of the locations of the production facility and the final destination), but also the level of production costs and amount of spare production capacity. We considered that producers located closer to Great Britain would have a transport cost advantage over producers located further away and so looked at the potential constraint from the former first.

27. We first looked at imports from Belgium and the Netherlands. Nearly all of the current production capacity in these countries is owned by the merged firm. We found one smaller producer in Belgium, Feraxo, which told us that it was not able to supply drums competitively to Great Britain because of transport costs, and concentrated its sales on France, Belgium, the Netherlands and Germany. We considered that Feraxo's smaller size would lead it to have higher steel costs than the merged firm. We obtained steel costs from Feraxo and Greif and found the Feraxo price to be approximately [redacted] per cent higher.³ Given this cost disadvantage, historic absence of sales to Great Britain customers and their stated strategy, we did not consider that

³Feraxo said that its steel price ranged from £[redacted] to £[redacted]. Greif said that its UK steel price ranged from £[redacted] to £[redacted]. Using the midpoints of these ranges Feraxo's cost is [redacted] per cent higher than Greif's.

Feraxo on its own would provide a relevant constraint to a price rise by the merged firm.

28. Late in our inquiry we learned of Schütz Group’s plans to build an industrial packaging production facility at Moerdijk, near Rotterdam in the Netherlands, and carried out further investigation. This facility is to include a new large steel drum production line with a capacity of 1.3 million drums annually per shift. Schütz Group told us that there was sufficient spare capacity to supply Great Britain customers.
29. Transport costs vary with distance, and so using an average figure for transport between the Netherlands and Great Britain conceals variances in transport costs to customers in different locations. If drums imported from Schütz Group in the Netherlands could constrain the merged firm’s prices only in certain locations, it might be possible for the merged firm to raise prices only to customers where, because of transport costs, the constraint was weaker. We therefore analysed transport costs in different locations.
30. As we described in paragraph 14, we obtained transport quotes from third-party hauliers for journeys from Rotterdam to five destinations in Great Britain—London, Birmingham, Manchester, Hull and Glasgow. We also asked the hauliers for quotes on a similar basis from Manchester to the same five locations to provide a comparator from which to calculate the additional transport cost from Rotterdam. In addition, we obtained estimates from Greif for transport from Ellesmere Port (approximately 40 miles west of Manchester) to these locations. These figures are set out in Table 6.

TABLE 6 Transport costs to Great Britain destinations from Rotterdam and Manchester

					£
	<i>Number of loads per week</i>	<i>Quote from transport company 1</i>	<i>Quote from transport company 2</i>	<i>Quote from transport company 3</i>	<i>Transport costs from Greif</i>
Rotterdam–Manchester	20	950	950	1,160	
Rotterdam–Manchester	2	875	950	1,210	
Rotterdam–Birmingham	2	900	900	990	
Rotterdam–Glasgow	2	1,400	1,300	1,370	
Rotterdam–Hull	2	850	950	1,100	
Rotterdam–London	2	900	900	880	
Manchester–Manchester	20	125	275	120	(✂)
Manchester–Manchester	2	175	275	100	
Manchester–Birmingham	2	275	400	220	
Manchester–Glasgow	2	500	600	385	
Manchester–Hull	2	300	500	240	
Manchester–London	2	550	700	375	

Source: Greif, haulage companies.

Note: Greif transport costs are from Ellesmere Port (approximately 40 miles west of Manchester).

31. The haulage companies told us that transport prices were dependent on the ability to fill the lorry with cargo on the return journey. This meant that an element of transport pricing was provider specific and differences between hauliers could give rise to some unexpected results. By way of example, some hauliers might charge more per load for larger commitments than smaller ones (for example, 20 loads a week instead of 2) due to the additional likelihood that they would be unable to find a return load for each lorry. We were told that there was no preferred route between Rotterdam and Great Britain, nor a preferred mode of sea crossing (ie ferry or tunnel) although some providers benefited from substantial negotiated discounts on some crossings. We were told that the choice of route would often be decided on the day of transport and

did not necessarily affect the price quoted. The transport costs quoted by Greif were generally within the range of quotes provided by the haulage companies, which gave us confidence that its costs were reasonable.

32. We compared the three sets of quotes from the haulage companies to find the additional transport cost that customers would face when importing drums from the Netherlands. We also calculated the additional cost when the cheapest quotes were chosen (ie the cheapest from Manchester and the cheapest from Rotterdam), even if these were from different hauliers. We believed this 'cheapest quotes' figure would most accurately reflect competitive conditions. The figures for the additional transport cost are set out in Table 7.

TABLE 7 Additional transport costs for haulage from Rotterdam compared with costs from Manchester

<i>Destination</i>	<i>Number of loads a week</i>	<i>Additional cost for Rotterdam based on Company 1 quotes; per drum £</i>	<i>Additional cost for Rotterdam based on Company 2 quotes; per drum £</i>	<i>Additional cost for Rotterdam based on Company 3 quotes, per drum £</i>	<i>Additional cost from Rotterdam based on cheapest quotes* £</i>
Manchester	20	3.1	2.6	3.9	3.1
Manchester	2	2.7	2.6	4.2	2.9
Birmingham	2	2.4	1.9	2.9	2.6
Glasgow	2	3.4	2.7	3.7	3.5
Hull	2	2.1	1.7	3.3	2.3
London	2	1.3	0.8	1.9	1.9

Source: Greif, Blagden, haulage companies.

*The differences can be seen in Table 6. For example, the difference in costs for transportation to Hull would be between £850 (from company 1) and £240 (from company 3). The difference per drum is based on a load of 264 drums.

33. We then compared the additional transport cost from Rotterdam with the differential for factory gate prices of new large steel drums in Great Britain and in the Netherlands. If the difference in price was greater than or equal to the transport differential, we would consider that imported drums from the Netherlands could constrain the price of drums produced in Great Britain. We also examined the price differentials for prices of 2, 4 and 5 per cent above Greif and Blagden's current prices to try and determine whether imported drums could constrain a post-merger price rise by the parties.
34. We considered two alternative price levels for our analysis. First, we used the differential between the Schütz Group's planned average selling price in the Netherlands, and Greif and Blagden's average Great Britain selling prices. This would show whether Schütz Group would be competitive at a price which would allow it to make similar margins to those on drums sold in the Netherlands.
35. Secondly, we used the differential between Schütz Group's estimate of its average total cost of a new large steel drum and Greif and Blagden's average Great Britain selling prices. This differential was used in order to provide an indication of the constraint that would be provided if Schütz Group were to sell drums to Great Britain customers at less than the current Netherlands selling prices but just above its unit costs (variable plus fixed). The different average factory gate prices and average total costs are set out in Table 8.

TABLE 8 Average factory gate prices and average total costs

	£
Schütz Group NL selling price	()
Schütz Group NL average total cost	
Greif GB selling price	
Blagden GB selling price	

Source: Greif, Blagden, Schütz Group.

36. Comparing the price and transport differentials set out above, we were able to determine at which of the five locations in Great Britain (London, Birmingham, Manchester, Hull or Glasgow) we believed imports from the Netherlands might be competitive.

TABLE 9 Locations where Schütz Group might be competitive, based on cheapest transport quotes

	<i>Based on Schütz Group Netherlands selling price</i>	<i>Based on Schütz Group Netherlands average total costs</i>
<i>At current GB prices</i> Compared with Greif Compared with Blagden	()	
<i>At current GB prices plus 2%</i> Compared with Greif Compared with Blagden		
<i>At current GB prices plus 4%</i> Compared with Greif Compared with Blagden		✂
<i>At current GB prices plus 5%</i> Compared with Greif Compared with Blagden		

Source: CC.

Key: L: London, H: Hull, B: Birmingham, M: Manchester, G: Glasgow.

37. Based on the first assumption (that factory gate prices would be the same as those for Schütz Group’s customers in the Netherlands), our analysis showed that Schütz Group would be competitive in [✂] and [✂] compared with Greif’s average price and additionally in [✂] compared with Blagden’s (more expensive) average price. If Great Britain prices were to increase, imports from Schütz Group would become competitive in more locations. For instance, if Great Britain prices were to increase by 5 per cent, then Schütz Group should be competitive in [✂] locations compared with Blagden’s prices and in [✂] locations compared with Greif’s prices.
38. Based on the second assumption (that Schütz Group would charge Great Britain customers a factory gate price which merely covered its fixed and variable costs), our analysis showed that if Schütz Group were to sell its drums in Great Britain at a price which just covered its fixed and variable costs, it would be competitive [✂]. Given its predicted spare capacity, we formed a view that Schütz Group would have an incentive to sell drums at this price as they would still be marginally profitable.
39. As noted above, the average price of drums concealed differences in price between different types of drum. In order to analyse the competitive constraint for different drum types, we attempted to compare the price differentials for each type of drum.

40. We were unable to obtain average Netherlands drum prices by drum type from Schütz Group. Instead we used Greif's average Netherlands price for each of the four principal drum types (tight-head plain, tight-head lacquered, open-head plain, open-head lacquered) as a proxy. As noted in paragraph 9, we believe that this is a reasonable proxy for Schütz Group's selling prices. We compared these prices to Greif and Blagden's average Great Britain prices by drum type. The differences between the drum prices are shown in Table 10.

TABLE 10 Greif average factory gate prices for different drum types

	£		
	Greif NL	Greif GB	Blagden GB
Tight-head plain	(✂)
Tight-head lacquered			
Open-head plain			
Open-head lacquered			

Source: Greif.

41. Comparing the price and transport differentials set out above, we were able to determine locations in Great Britain where we believed imports of different types of drums from the Netherlands might be competitive.

TABLE 11 Locations where Schütz Group might be competitive, based on cheapest transport quotes

	Based on average Greif Netherlands selling price of			
	Tight-head plain drums	Tight-head lacquered drums	Open-head plain drums	Open-head lacquered drums
At current GB prices Compared to Greif Compared to Blagden	(✂)	
At current GB prices plus 2% Compared to Greif Compared to Blagden				
At current GB prices plus 4% Compared to Greif Compared to Blagden				
At current GB prices plus 5% Compared to Greif Compared to Blagden				

Source: CC.

Key: L: London, H: Hull, B: Birmingham, M: Manchester, G: Glasgow.

42. The table shows that for tight-head plain drums, which account for almost two-thirds of new large steel drums sold in Great Britain, imports sold at Greif's Netherlands price would [✂]. For the other types of drum the Greif Netherlands prices would be [✂].

43. The results should be interpreted with a degree of caution. In particular, the comparison is based on Greif's sales price in the Netherlands. As we note above, Schütz Group would have an incentive to sell drums at a lower price than this, although since we were unable to obtain breakdowns of variable and fixed costs by drum type, we do not know how much lower. Using the cost information in Table 8,

we found that if Schütz Group were to charge a price [REDACTED] per cent lower than Greif's Netherlands price,⁴ it would be competitive [REDACTED].

⁴[REDACTED]