

Pre-merger competition

1. This appendix considers issues pertinent to the assessment of competition in the relevant market. For the reasons set out in paragraphs 6.8 and 6.9 of our findings, the focus of this appendix is on issues arising in relation to new large steel drums and not reconditioned large steel drums. We consider the evidence on imports pre-merger. We then consider Great Britain suppliers of new large steel drums, starting with whether they manufacture comparable products, and the costs to customers of switching suppliers. We examine competition between the Great Britain suppliers, including the ability of the three smaller Great Britain suppliers (Metal Drum, Ramsden and Whale and AW Stokes) to compete with Greif and Blagden, and the evidence of competition between Greif and Blagden.

Competition from imports of new large steel drums

2. Imports of new large steel drums to Great Britain are few. We were unable to obtain accurate figures for total volumes, but estimated that imports accounted for less than 3 per cent of sales to Great Britain customers (less than 110,000 drums).
3. The largest supplier of imported drums is Sulo. It supplied [redacted] new large steel drums from its factories in Germany. Other suppliers mentioned by customers included Mueller Drums and Imto.
4. We asked two large steel drum suppliers with production facilities close to Great Britain ([redacted] and [redacted]) about their past involvement in the supply of drums to UK customers. [redacted] told us that it had been approached by Great Britain customers approximately three times in the last three years, but had been unable to provide a competitive quote because of high transport costs. [redacted] told us that it occasionally quoted for UK business as part of multinational tenders, but had sold fewer than [redacted] new large steel drums to UK customers in 2005 and none in 2006.
5. We noted that transport costs would be lower for open-head 'tapered drums' since they could be stacked inside each other. However, tapered drums were only imported in small quantities and are open-headed. Open-head drums accounted for less than 20 per cent of drums used in Great Britain and were typically significantly more expensive¹ than tight-head drums, and tapered drums accounted for only a fraction of these. So any competition from imported tapered drums would be limited to a small segment of the new large steel drum market.

Product range

6. Greif and Blagden were the principal suppliers of new large steel drums, both offering comparable ranges of steel drum products (each produces a number of specifications of open-head lacquered, tight-head lacquered, open-head plain steel, tight-head plain steel, plus other special drums). Whilst some customers might perceive differences in quality of the drums produced by each supplier, all customers from whom we received evidence cited the parties as suppliers of large new steel drums.

¹For example, Greif's open-head plain steel drum is approximately [redacted] per cent more expensive than its tight-head plain steel drum.

7. Greif cited Metal Drum, Ramsden and Whale and AW Stokes as active competitors in the supply of new large steel drums. Customers also cited the smaller suppliers as competitors.
8. Metal Drum told us that it could supply a similar range to Blagden and Greif. Ramsden and Whale also confirmed that it could supply the complete range of 210- to 220-litre steel drums, both open-head and tight-head, internally lacquered and internally plain steel and a variety of steel gauges. Currently, it did not manufacture a large range of steel gauges, although it had the capability to do so. Further, AW Stokes told us that it supplied the complete range of 210- to 220-litre steel drums, both open-head and tight-head, internally lacquered and internally plain steel.
9. From the evidence we have received, we considered that Greif, Blagden, Metal Drum, Ramsden and Whale and AW Stokes produce comparable products.

Cost of switching between new steel drum suppliers

10. We considered the cost of switching between new steel drum suppliers. Switching costs may take many forms, including inconvenience, monetary costs, administrative hurdles or a lack of information about the products of alternative suppliers.
11. Blagden, Greif, Ramsden and Whale and AW Stokes told us that it was easy for customers to switch between new large steel drum suppliers. Greif said that most contracts had no minimum purchase obligation and those contracts which did have such an obligation contained clauses which allowed the customer to switch to another supplier if it was offered a better price. Blagden said that there were few binding contracts and most business was conducted on the basis of trust.
12. Customers also confirmed that it was easy to switch between Blagden and Greif for the bulk of their standard purchases and to other suppliers when they produced products that were comparable in specification and quality.
13. On the basis of the evidence discussed above, we considered that switching costs were sufficiently low to enable customers to respond to price changes.

Existing capacity of UK new steel drum suppliers

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

TABLE 1 **Manufacturers' capacity estimates**

	<i>Current number of shifts</i>	<i>Parties' estimate of maximum sustainable capacity on current number of shifts</i> <i>m</i>	<i>2006 sales</i> <i>m</i>	<i>Implied spare capacity utilization</i> <i>%</i>	<i>Implied spare capacity</i> <i>m</i>
Blagden	(4.71	3.68	×	1.03
Greif					
Metal Drum					
AW Stokes					
Ramsden and Whale					
Total					

Source: CC analysis of data provided by suppliers.

15. Key points from Table 1 are:

- Blagden and Greif operated at rather higher levels of capacity utilization than other manufacturers.
- Greif and Blagden had spare capacity to take customers from each other prior to the merger.
- The merger resulted in Greif holding over two-thirds of new large steel drum capacity in Great Britain.
- Based on these estimates, the total spare capacity per year prior to the merger was approximately 1.0 million drums. This was the equivalent of approximately 28 per cent of total sales of UK-manufactured new large steel drums in 2006 (estimated at 3.68 million). This supports the view that we heard from the merging parties and others that there was overcapacity within the large new steel drum industry.
- Based on these estimates, [redacted] collectively held spare capacity of approximately 790,000 drums a year.

16. We compared our calculations of capacity with other evidence from Metal Drum, Ramsden and Whale and AW Stokes. This suggested that the spare capacity calculated above overstates the actual level of spare capacity within these manufacturers' plants:

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

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

TABLE 2 **Adjusted estimates of spare capacity**

	<i>Blagden</i>	<i>Greif</i>	<i>Metal Drum</i>	<i>AW Stokes</i>	<i>Ramsden and Whale</i>	<i>Total spare capacity</i>	<i>Smaller suppliers (MD+ R&W+Stokes)</i>
Spare capacity as calculated by the CC							
Revised estimate of spare capacity					[redacted]		

million

Source: CC analysis of data provided by suppliers.

18. Table 2 shows that [redacted]. Other factors that we were told might deter output expansion included: companies' strategies of 'staying under the radar' or avoiding low-margin high-volume business; and fear of retaliation from Greif.

19. Key points from Table 2 are:

- Based on the estimates in Table 2, smaller suppliers' maximum spare capacity at current shift levels currently stood at approximately 600,000 drums a year. It should be noted that this figure might overstate the realistic spare capacity as the smaller suppliers might not see capacity utilization as a primary objective. This was equivalent to approximately 16 per cent of total sales of UK-manufactured new large steel drums (estimated at 3.68 million), approximately [redacted] per cent of

Greif and Blagden's combined 2006 new steel drum sales (estimated at [redacted] million) and approximately [redacted] per cent of Blagden's 2006 new steel drum sales (estimated at [redacted] million). We used these estimates in further calculations because we believed that they were likely to present the most accurate picture for each of the smaller suppliers. However, we recognized that using revised estimates for only some (ie the smaller) suppliers might produce a less accurate picture of their capacity as a proportion of that in the whole industry.

- If excess capacity held by [redacted] was excluded from our calculations ([redacted]), spare capacity was substantially lower ([redacted] drums a year), and is [redacted]. This was equivalent to rather more than [redacted] per cent of total UK annual sales of new large steel drums (estimated at 3.68 million), approximately [redacted] per cent of Greif and Blagden's combined 2006 new steel drum sales (estimated at [redacted] million) and approximately [redacted] per cent of Blagden's 2006 new steel drum sales (estimated at [redacted]).

Capacity expansion

20. We considered the ways that smaller competitors could increase usable capacity, and thus create additional spare capacity. We also considered risks and barriers to capacity expansion.
21. Production capacity could be expanded by an existing supplier of large new steel drums in three stages. First, it could remove any existing bottlenecks in the production process. Secondly, it could increase production hours by, for example, implementing an additional shift. Thirdly, it could purchase a new production line which could both increase capacity and provide the economies of scale to produce large steel drums at a similar variable cost to Greif and Blagden. The third stage is similar to new entry in terms of investment and timing and is considered further in Appendix G.

Removal of bottlenecks

22. [redacted] and [redacted] both told us that they could increase output by removing 'bottlenecks' [redacted].
23. Ramsden and Whale told us that [redacted].
24. AW Stokes told us that [redacted].

Implementation of a new shift

25. [redacted] told us that they could run an additional shift if required. [redacted] noted that it was more likely that it would relocate to a larger production site than implement an additional shift.
26. Table 3 estimates capacity on the assumption of an extra shift.

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

	<i>Revised estimate of maximum capacity at one shift</i>	<i>Revised estimate of maximum capacity at two shifts</i>	<i>million drums</i>	
			<i>2006 sales</i>	<i>Spare capacity m</i>
Metal Drum				
AW Stokes				
Ramsden and Whale				
Total				

Source: CC analysis of data provided by suppliers.

27. Table 3 shows that if each smaller supplier implemented an additional shift, spare capacity within the smaller suppliers would stand at approximately [X] million drums a year. This figure assumed that both [X] and [X] had removed the bottlenecks referred to above. This was equivalent to approximately [X] per cent of current total annual Great Britain sales of new large steel drums (estimated at 3.68 million), approximately [X] per cent of Greif's and Blagden's combined 2006 new steel drum sales (estimated at [X] million).
28. We asked the three smaller suppliers for estimates of the costs of implementing an additional shift. By comparing this with our estimates of contribution per drum,² we were able to indicate the approximate extra sales needed, at existing prices, to cover these costs.
29. [X] estimated that the capital expenditure and one-off costs (such as recruiting) needed to implement a new shift would be approximately £[X]. At current prices, we estimated that its average contribution was £[X] per drum. It would therefore have to supply an additional [X] drums to recoup the cost.
30. [X] told us that the cost of implementing an additional shift would be approximately £[X]. We estimated that its average contribution was £[X] per drum and therefore it would have to supply an additional [X] drums to cover the costs of the additional shift.
31. [X] did not provide any cost estimates, [X].
32. We considered that variable costs could increase with the implementation of a new shift because of costs such as shift allowances and a requirement for proportionally more maintenance. We were unable to quantify these costs and have not included them in our analysis.
33. A move to a strategy of expansion would also involve recruiting additional sales resources, and additional shifts would require more management time. [X]
34. Our calculations showed that the additional sales volumes needed to cover the one-off costs of implementing an additional shift were [X]. We also noted that if implementing an additional shift turned out to be unprofitable, production could return to a single shift without significant costs, provided the additional labour had been employed on a temporary basis.
35. Taking into consideration the points above, we believe that on balance capacity arising from an additional shift would be made available by [X] if the potential to win

²Our estimates of contribution per drum are set out in Table 5.

business at a profitable price was there. We were less convinced that [X] would be willing to implement an additional shift given its cost position, capacity on its existing shift, and stated strategy. However, with an additional shift, new capacity of approximately 830,000 drums a year would be held by [X].

Costs and pricing

36. The evidence indicated that Blagden and Greif operated at lower variable costs per drum (part of which was explained by lower material costs per drum) and higher fixed costs per drum than other UK manufacturers. We looked at high-level data on costs from manufacturers.³ Table 4 compares the costs of suppliers of new large steel drums.⁴

TABLE 4 Comparison of cost by supplier (for all drum types)

	Average revenue per drum	Material cost per drum	Total variable cost (VC) per drum (material + other VC)	Fixed cost per drum	Contribution per drum (price – VC)	Greif – VC	Blagden – VC
Blagden	(((((((
Greif							
AW Stokes							
Ramsden and Whale							
Metal Drum							
				✂			

Source: CC analysis of data provided by suppliers.

*For Ramsden and Whale, the average revenue per drum shown is average revenue for tight-head plain steel drums.

Note: The average revenue per drum is different from the selling price for Greif and Blagden because different datasets have been used.

37. We also looked at data on prices from manufacturers. Table 5 shows the absolute level of manufacturers' current average prices for the different types of new large steel drums. However, it was difficult to compare prices between manufacturers. Indeed, there were no list prices for new large steel drums, and prices vary (for a given type of drum) depending on the location and size of customers. In addition, even within a type of drum and for similar-sized customers, there were differences, for instance depending on the gauge and on the type of lacquer applied. For these reasons, price comparisons between manufacturers are at best indicative, although they may be more reliable for plain steel drums than for lacquered drums (because of the different types of lacquers that can be applied).

TABLE 5 Current prices of new large steel drums

	£			
	Open-head plain steel	Open-head lacquered	Tight-head plain steel	Tight-head lacquered
Blagden	((((
Greif				
AW Stokes				
Ramsden and Whale				
Metal Drum				
			✂	

Source: CC analysis of data provided by suppliers.

³We requested data for the last completed financial year in respect of production of 210-litre new steel drums, but manufacturers may have used different definitions and allocated costs differently between variable and fixed costs.

⁴We used average revenue per drum for all drums because some manufacturers were unable to allocate costs between drum types. However, we note that the average revenue per drum is dependent on the product mix, which varies between suppliers, and that prices charged vary.

38. Tight-head drums account for the large majority of sales of new large steel drums. Tight-head plain steel drums accounted for around [X] per cent of Blagden and Greif's sales of new large steel drums, and tight-head lacquered drums accounted for around [X] per cent of Greif and Blagden's sales. Open-head plain drums accounted for [X] per cent of sales, and open-head lacquered drums for [X] per cent of sales. The remaining sales were for specialist drums such as polydrums.
39. Table 5 suggests that, for tight-head plain and lacquered steel drums, [X]. For open-head plain steel drums (which account for only [X] per cent of the parties' total sales), [X]. For open-head lacquered steel drums (which accounted for [X] per cent of the parties' total sales), [X]. However, as explained above, these price comparisons should be interpreted with caution.

Pre-merger competition between Greif and Blagden

40. Table 6 shows the yearly sales and shares of supply of new large steel drums by the different manufacturers in Great Britain for the period 2002 to 2006. In order to make the figures comparable, we added T&D's sales to Greif's total sales for 2002 and 2003. At an aggregate level, [X].

TABLE 6 Sales and shares of supply of new large steel drums

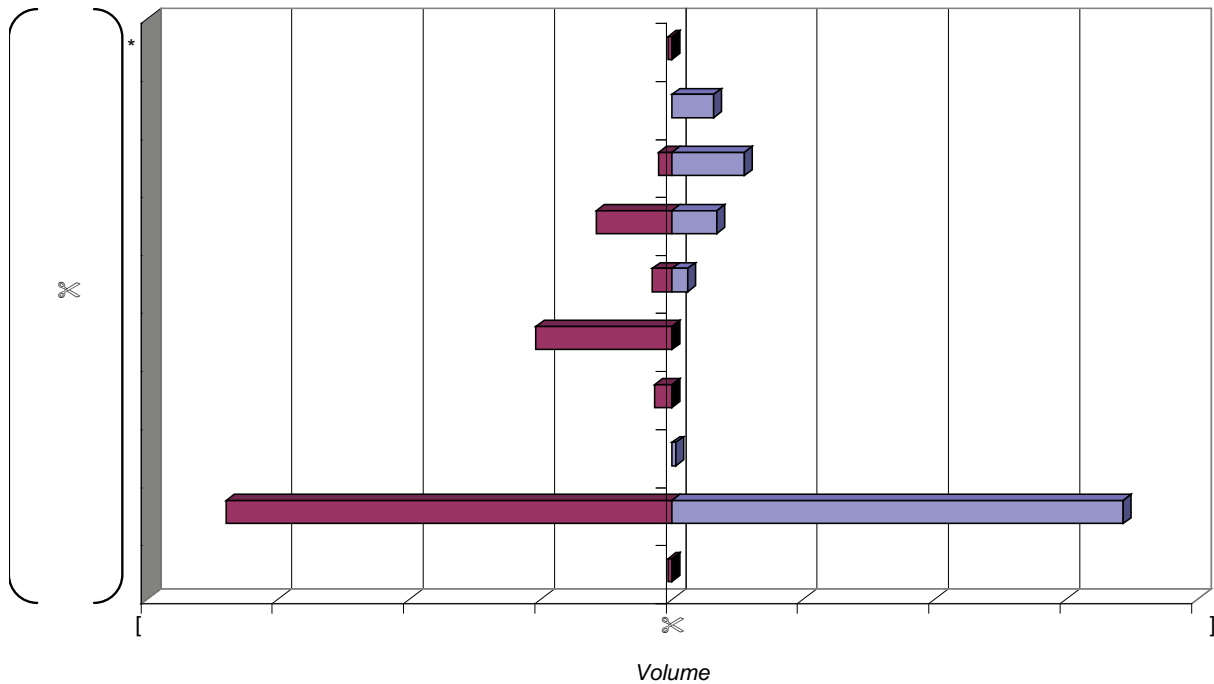
	2002		2003		2004		2005		2006	
	Sales '000 drums sold	Share %	Sales '000 drums sold	Share %	Sales '000 drums sold	Share %	Sales '000 drums sold	Share %	Sales '000 drums sold	Share %
Blagden	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Greif/T&D	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Ramsden and Whale	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Metal Drum	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
AW Stokes	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total	[X]	100	[X]	100	[X]	100	[X]	100	[X]	100

Source: CC, based on data provided by Greif, Blagden, Ramsden and Whale, Metal Drum and Stokes.

41. Blagden's switching data covering 2002 to 2006 showed that Blagden and Greif had competed against one another to supply new large steel drums. Blagden told us that [X]. Figure 1 illustrates the total volume of new large steel drum sales won and lost by Blagden. Greif accounted for approximately [X] per cent of total sales lost between 2002 and 2006 and represented [X] per cent of sales gained.

FIGURE 1

Blagden new drum gains and losses (total, 2002 to 2006), by company



*[✂] is a distribution agent for a range of industrial packaging products.
Source: CC based on information from Blagden (Greif totals include T&D).

- 42. Switching data provided by Greif for the last five years indicated that approximately [✂] per cent of Greif volume that switched to other large steel drum suppliers switched between Greif and Blagden.⁵ The remaining [✂] per cent switched to Ramsden and Whale.
- 43. Greif told us that Ramsden and Whale had grown in strength as a competitor since it won a significant contract with BP in 2004. For the period 2004 to 2006 as a whole, Greif data indicated that [✂] per cent of lost large customer business went to other packaging, [✂] per cent to Blagden and [✂] per cent to Ramsden and Whale. This is shown in Figure 2. We noted that, for the period 2004 to 2006 as a whole, Blagden was a more important competitor than Ramsden and Whale in terms of the amount of switching.

⁵This dataset applies to large customers only.

FIGURE 2

Greif steel drum losses on major contracts, 2004 to 2006

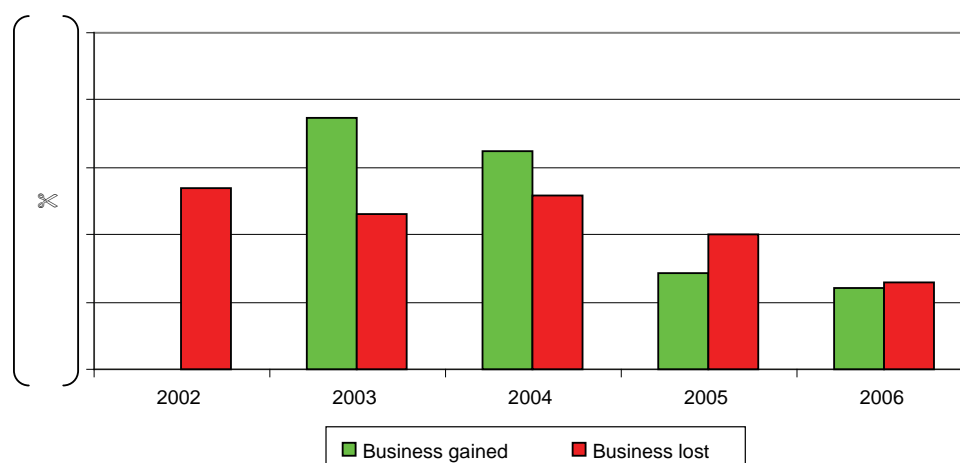


Source: Greif.

44. Greif said that Blagden progressively became a substantially weaker competitor in the market and told us that there was a strong trend when the data was looked at year on year since 2002. We analysed Blagden's data on business gains and losses from 2002, but did not find a clear trend indicating that Blagden was losing ground as a competitor. Figure 3 shows that Blagden's business gains first increased (from zero in 2002) and then decreased over the period. Its business losses appeared to exhibit a declining trend.

FIGURE 3

Blagden's steel drum gains and losses on major contracts, 2002 to 2006



Source: Blagden.

45. Customers' views on the level of rivalry and switching between Greif and Blagden pre-merger were mixed. Two-thirds of those responding to the customer survey said that promotional activity for both parties had been low. The survey also highlighted different experiences of customers: one-third reported that they had played off Greif against Blagden but half reported that they had not.
46. There was also evidence of dual sourcing. Blagden listed [redacted] customers that it shared with Greif. These represented approximately [redacted] per cent of Blagden's 2006 new steel drum sales. Metal Drum also said that many of its customers dual sourced, with large customers dividing their business 80:20 between the larger and smaller suppliers.