
Anticipated acquisition by Trelleborg Holdings UK Limited of Premia Group Limited

ME/4784/10

The OFT's decision on reference under section 33(1) given on 28 January 2011. Full text of decision published 10 March 2011.

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

PARTIES

1. **Trelleborg Holdings UK Limited** is a wholly owned subsidiary of **Trelleborg AB** ('Trelleborg'). Trelleborg is a multinational company active in a variety of engineering industry sectors. The relevant part of its business in relation to this transaction is its Trelleborg Wheel Systems division, which supplies tyres and complete wheel systems for use in transportation equipment, including materials handling vehicles such as forklift trucks.
2. **Premia Group Limited** (Premia) trades as Watts Tyre Group which is principally active in the industrial tyre market. Premia provides industrial tyres, wheels and related services for materials handling and forklift truck industries worldwide. Its UK turnover in 2009 was £11.04 million. Premia also provides industrial tyre replacement and fitting services in the UK (and France) through its Interfit business.

TRANSACTION

3. Trelleborg proposes to acquire the entire issued share capital of Premia for a consideration of approximately SEK [] million.¹
4. The administrative target deadline for a decision is 28 January 2011.

¹ Around £[] million.

JURISDICTION

5. As a result of this transaction Trelleborg and Premia will cease to be distinct. The parties overlap in the supply of new industrial tyres and wheels in the UK. Post-merger the parties will have a [30-40] per cent share of supply of new industrial tyres to aftermarket dealers in the UK and a [30-40] per cent share of supply of new wheels for industrial tyres to aftermarket dealers in the UK. As a result, the share of supply test in section 23(3) of the Enterprise Act 2002 (the Act) is met. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

RATIONALE FOR THE MERGER

6. Trelleborg submits that the rationale for the transaction is to combine complementary activities and provide Trelleborg with manufacturing and supplier synergies. The transaction will also give Trelleborg access to the provision of tyre replacement services through Interfit.

MARKET DEFINITION

7. Tyres are classified into several standard types, based on the type of vehicle they serve, for example, passenger vehicles and light trucks, heavy duty trucks, off-the-road vehicles, agricultural vehicles and industrial vehicles. Tyres used on each of these types of vehicles will have different features relevant to their particular application. The parties overlap in the supply of industrial wheels and tyres, such as those fitted to forklift trucks and other materials handling equipment (such as warehouse trucks). Both parties supply to both original equipment manufacturers (OEMs) and to aftermarket dealers offering replacement tyre fitting services.
8. There are different types of Industrial tyres. These are:
 - Press-on band solid tyres: these are solid tyres with a polyurethane layer bonded directly to a steelband or wheel. They are generally used on trucks or other equipment working in indoor warehouses and high load applications.
 - Solid resilient tyres: are manufactured with two or more layers of rubber with metal wires/beads which provide the grip to the wheel on which they are mounted. They are used in a wide variety of applications, both indoor and outdoor and are the best choice for slow-moving industrial machines that require heavy lifting.
 - Pneumatic tyres: feature a carcass made of nylon cord rubber that contains and protects the air (which in turn provides the load

capacity), and a sturdy rubber tread. They represent the best solution to cover uneven terrains and are more suitable for applications requiring long distance and high speed.

9. The parties submitted that solid rubber tyres used in the UK are predominantly solid resilient tyres and that only 20 per cent of solid tyres are represented by press-on band solid tyres. Trelleborg confirmed that it does not supply polyurethane tyres in Europe. The OFT has therefore focused its analysis on rubber industrial tyres (hereafter referred to as industrial tyres).
10. Suppliers of new industrial tyres either manufacture them in-house or they outsource manufacturing to plants based, for example, in China or Sri Lanka. The parties estimate that there are more than 50 overseas industrial tyre manufacturers, mainly based in India, China, Thailand and Sri Lanka, that will either supply tyres in their own moulds but branded as required, or which will toll manufacture to the suppliers' compounds, specifications and using the suppliers' own moulds.
11. Industrial wheels are made in two stages: production of the basic wheel rim; and subsequent welding to the wheel rim of the disk, which connects the wheel as a whole to the vehicle. The parties are active only at this second stage.
12. The OFT has assessed the supply of industrial tyres and industrial wheels in turn.

Industrial tyres

Product scope

13. The parties submit that the supply of new tyres to OEMs and to aftermarket dealers constitute separate relevant product markets. They refer to the European Commission's decision in *Continental/Matador*² to support this view, although the main focus in that case was on bus and truck tyres.
14. There is some scope for demand and supply side substitution between different types of industrial tyres. On the demand side this may vary between different types of vehicle and the conditions in which they are used.³ The parties submit that there is significant substitutability from a

² COMP/M.4516 (June 2007) – “Whereas OEM tyres are tyres purchased by vehicle manufacturers for installation on new vehicles, replacement tyres are tyres replacing the tyres that were originally sold with the new vehicle. Since the life-span of a vehicle is much longer than the life-span of a tyre, tyres are typically replaced several times during the life-span of a vehicle.”

³ For example, solid resilient tyres and pneumatic tyres are technically substitutable because there is no need to change the design of the wheel.

supply-side perspective between different types of tyre, as similar production machinery can be used to make different types of resilient and press-on band rubber tyres for the full range of industrial vehicles.

15. No third parties suggested that industrial tyres should be assessed on a more narrowly-segmented basis.

Geographic scope

16. The parties consider that the relevant geographic market for the supply of new industrial tyres to OEMs is at least EEA-wide. Tenders and invitations to supply are made available to suppliers operating throughout the EEA, and production is often sourced from outside the EEA. Premia outsources tyre production to a manufacturer based in China, whilst Trelleborg uses its in-house manufacturing facility in Sri Lanka. This position was supported by comments received from several international OEM customers.
17. In relation to supply to aftermarket dealers, the OFT received mixed views on whether the relevant geographic scope is national or wider than national, though the weight of opinion was towards an international frame of reference.
18. In Continental/Matador, the European Commission considered markets for new replacement tyres on a national basis. On a cautious basis, the OFT considers the transaction with respect to supply to aftermarket dealers both in the UK and the EEA.

Industrial wheels

Product scope

19. The parties submit that many of the supply characteristics of the supply of new industrial tyres to OEMs and aftermarket dealers would equally apply in relation to the supply of new industrial wheels. Industrial wheels are made from steel so do not wear out like tyres, hence around 85 per cent of wheels are supplied to OEMs with the aftermarket being far less significant.
20. No third parties suggested that industrial wheels should be assessed on a more narrowly-segmented basis.

Geographic scope

21. As with the supply of industrial tyres, much of the manufacturing activity for industrial wheels takes place on an international basis.
22. Premia currently sources wheel rims primarily from a manufacturer based in Bulgaria and has a wheel production shop in Lydney in the UK. Trelleborg

sources wheel rims from a manufacturer that has plants located in the EU and Turkey, and Trelleborg supplies finished wheels to OEMs and aftermarket dealers in the UK from its wheel production shop in Belgium.

23. Therefore, again on a cautious basis, the OFT consider the transaction with respect to supply to aftermarket dealers both in the UK and the EEA.

Conclusion on product and geographic scope

24. For the purposes of its competitive assessment, the OFT therefore considers the appropriate product frames of reference to be:

- the supply of industrial tyres to OEMs
- the supply of industrial tyres to aftermarket dealers
- the supply of industrial wheels to OEMs, and
- the supply of industrial wheels to aftermarket dealers.

25. For OEM markets there is a firm basis for considering markets as being (at least) EEA-wide. For the purposes of its competitive assessment of supply to aftermarket dealers the OFT has considered both UK and EEA basis but, as no competition concerns arise on either basis, it has not been necessary to conclude on the precise geographic scope.

HORIZONTAL ISSUES

Shares of supply

26. The parties provided estimates of share of supply separately for industrial tyres and industrial wheels on a UK and EEA wide basis but argue that the tendering of OEM contracts is characteristic of a bidding market and therefore current shares of supply are not informative of the likely competitive impact of the merger.⁴ Overall, responses from third parties were consistent with the range of suppliers identified by the parties and their relative market strength.

⁴ The parties submit that the OEM market in the UK essentially consists of one significant forklift truck manufacturer (based in Northern Ireland) and two other smaller OEMs.

Industrial tyres

Table 1: Supply of new industrial tyres to OEMs in the EEA (2010, volume)

Company	Per cent
Trelleborg	[20-30]
Premia	[0-5]
Combined	[20-30]
Continental	[30-40]
Solideal	[10-20]
Marangoni	[5-10]
Others	[10-20]

Source: Parties estimates

27. In terms of supply of industrial tyres to OEMs, Premia's presence in relation to EEA customers (including the UK) is very limited.⁵ Further, the merged entity would face effective competition in the supply of new industrial tyres in the EEA from a number of well-established players, including Solideal, Continental, Marangoni, Gumasol, Michelin and Globestar.
28. Premia does not supply any new industrial tyres to OEMs in the UK, so there is no overlap on this geographic basis.

Table 2: Supply of new industrial tyres to aftermarket dealers in the EEA (2010, volume)

Company	Per cent
Premia	[10-20]
Trelleborg	[10-20]
Combined	[20-30]
Solideal	[20-30]
Continental	[10-20]
Marangoni	[5-10]
Others	[20-30]

Source: Parties' estimates

29. The parties estimate their combined share of supply in the supply of tyres to aftermarket dealers in the EEA to be [20-30] per cent with an increment

⁵ Trelleborg's internal documents indicate that Premia's geographic areas of relative strength in terms of tyre sales are principally in emerging markets such as [].

of [10-20] per cent. Following the merger, Trelleborg will remain subject to strong competition from other suppliers in the market, notably Solideal and Continental.

Table 3: Supply of new industrial tyres to aftermarket dealers in the UK (2009, volume)

Company	Per cent
Premia	[20-30]
Trelleborg	[5-10]
Combined	[30-40]
Solideal	[20-30]
Continental	[10-20]
Globestar	[5-10]
Marangoni	[0-5]
TVH	[0-5]
Greekstar	[0-5]
Eurotec	[0-5]
Index	[0-5]
Others	[5-10]

Source: Parties' estimates

30. The parties estimate their combined share in the supply of tyres to aftermarket dealers in the UK to be [30-40] per cent with an increment of [5-10] per cent. The parties' combined share is sufficiently high to warrant further consideration of whether it could raise competition concerns. The OFT, therefore went on to consider the closeness of competition between the merging parties (see paragraphs 34-37 below) and also took into account the costs customers face when switching suppliers and the level of spare capacity currently in the market; both of which are discussed below.

Industrial wheels

31. For new industrial wheels, the parties estimate their UK post-merger shares of supply as [10-20] per cent to OEMs with an increment of [0-5] per cent and [30-40] per cent to aftermarket dealers with an increment of [0-5] per cent. The parties submit that their main activities in relation to industrial wheels across the wider EEA is in reselling wheels produced by major

manufacturers such as Balkancar and Hayes-Lemmerz, and that they themselves have comparatively very limited own production.

32. Third party views were consistent with those of the parties regarding the relative strength of competitors in the market.
33. The post-merger combined share and the very limited merger increment to the parties' combined position in the supply of industrial wheels to each supply channel does not give the OFT cause for concern over unilateral effects. In addition, there are a number of companies who are active competitors to the parties in the supply of new industrial wheels including Solideal, Hayes-Lemmerz, Mefro, GKN-FAD, Balkancar.

Unilateral effects - closeness of competition

34. Given that the parties' share of supply of new industrial tyres to aftermarket dealers in the UK was more significant than in other areas, and was not of a level whereby concerns could be immediately dismissed, the OFT considered during its investigation whether the parties could be said to be close competitors.
35. The parties submit that they are not close competitors in the supply of new industrial tyres to aftermarket dealers. They stated that the UK focus of each of them is, at present, largely at different levels of the supply chain, with most of Premia's supply taking place through its own tyre service business (Interfit), whereas Trelleborg is not active at the replacement tyre service level and is primarily active as a tyre wholesaler.
36. No third parties contacted by the OFT during its investigation considered that Premia and Trelleborg were particularly close direct competitors in the supply of industrial tyres (or the supply of industrial wheels) in the UK. Indeed, one third party considered one of the merging parties to be a manufacturer and the other a retailer.
37. On the basis of the information available, the OFT does not consider the parties to be close competitors in any areas of horizontal overlap.

Switching costs

38. The parties submitted that the majority of OEMs multi-source new industrial tyres from at least two suppliers on a pan-national basis. Even those OEM customers who do not have a buying strategy in place will switch and source from different suppliers of new industrial tyres in response to price and availability. The parties submit that this is because the costs of switching between suppliers are fairly low; an OEM would only need to run down its existing stock before switching.

39. The parties submitted that aftermarket dealers also engage in multi-sourcing, focusing on quality and price when selecting suppliers. Smaller aftermarket dealers will not hold stock and will tend to buy closer in time to need, but even larger accounts will not face material delay or costs to switching.
40. Customers contacted by the OFT during its investigation confirmed that they multi-source their tyres and wheels and confirmed that they do switch tyre manufacturer/brand in search of a better price or continuity of supply. The OFT therefore considers, on the information available to it, that costs would not prevent customers from switching suppliers in response to a price increase or a decline in service.

Spare capacity

41. The parties submitted that there is also spare capacity amongst manufacturers of new industrial tyres and wheels which would enable them to respond to any upwards price movement by increasing supply. For example, Trelleborg currently has spare capacity in the region of [] per cent of installed capacity and believes its competitors are operating at similar levels. This was confirmed by a competitor who considered that it and other suppliers have sufficient spare production capacity to expand UK supply if customers sought to switch away from the merging parties.
42. The parties indicated that suppliers could also look to outsource manufacturing further, using suppliers in China and Sri Lanka. Again, this was confirmed by a competitor who considered that it would be fairly easy for a new entrant to start supplying industrial tyres and wheels to UK customers as low cost manufacturers exist in China and India.

Conclusion

43. On the basis of the information available to it, and taking account of third party views, the OFT considers that the transaction does not raise competition concerns over unilateral effects in the supply of new industrial tyres in the EEA, including in relation to new industrial tyres to aftermarket dealers in the UK.

Co-ordinated effects

44. Coordinated effects arise when a merger makes it more likely that the remaining firms will be able to arrive at and sustain a degree of tacit coordination such as may limit competition. We have not identified a firm basis for coordinated effects concerns in this case given the number of suppliers and diverse shares of supply.

VERTICAL ISSUES

45. The merger creates a new vertical relationship/overlap between Trelleborg (upstream in the supply of tyres to aftermarket dealers) and Interfit (Premia's downstream servicing arm/entity).
46. Two third parties identified concerns arising from their current position as customers of Trelleborg and competitors to Interfit in the servicing market. They were concerned that Trelleborg would be in a position to disadvantage them with respect to supply terms, or might also gain and use information of value to Interfit about the identity and purchase requirements or volumes of end customers. This would represent a type of input foreclosure concern.
47. Given these concerns, the OFT examined Trelleborg's ability and incentives to engage in such a foreclosure strategy post-merger.
48. Premia estimates that it currently accounts for about [20-30] per cent⁶ of industrial tyre replacement services provided to customers in the UK. It submits that it competes with a number of significant independent providers of tyre/wheel replacement services, including Solideal (ITS), ATS-Euromaster, Linde UK and Barloworld, and many other smaller suppliers.
49. As discussed above, the parties submit that there are aftermarket dealers who can switch suppliers with minimum cost and delay; that there are many competing industrial tyre suppliers with considerable spare capacity able to meet increased demand from aftermarket dealers; and that brand loyalty amongst aftermarket dealers and end customers is low.
50. Evidence available points to a lack of ability on the part of the merged entity to foreclose competitors in the supply of tyre replacement services given the scale of Trelleborg's upstream position post-merger, and also due to the presence of other vertically-integrated manufacturer and service businesses with the ability to source tyres internally, the most notable being (as identified by the parties and third parties) the Solideal/Industrial Tyre Services business. Solideal has recently announced plans to build on its 2009 acquisition of ITS to develop further its position at the retail service level of the UK market. This will be in direct competition to the merged Trelleborg/Premia/Interfit proposition.
51. The parties submit that withholding Trelleborg tyres to other service providers would make no financial sense, especially considering that it has excess industrial tyre manufacturing capacity. The parties submitted that:

⁶ [A high percentage] of all tyres sold by Premia are supplied and fitted by Interfit.

'Trelleborg would ... not be able to maximise profits if it stopped supplying its branded tyres to Interfit's competitors in the hope of recovering lost tyre sales through Interfit. ... because the volume of lost tyre sales would be too large to recover by seeking to sell additional volume to Interfit because it couldn't profitably or feasibly expand its share of tyre replacement services to close that gap given the existing competition it faces from other providers of tyre replacement services.'

52. Overall, the evidence provided to the OFT indicates that Trelleborg has neither the ability nor the incentive to foreclose effective competition in the supply of tyre replacement services in the UK.

BARRIERS TO ENTRY AND EXPANSION

53. The parties submitted that there are an increasing number of new suppliers of new industrial tyres in the EEA, primarily from India, Sri Lanka and China. The parties submit that a new entrant could supply its own tyre moulds to be used by a contract manufacturer at limited cost (\$150,000) or could purchase tyres on a subcontract basis. As explained above, a third party considered that it would be fairly easy for a new entrant to start supplying industrial tyres and wheels to UK customers by sourcing from low cost manufacturers in the Far East.
54. Whilst information obtained from the parties and third parties suggests that barriers to entry and expansion are relatively low, given the competitive assessment it has not been necessary to conclude on the extent of entry barriers or of competitive constraints arising from potential entry.

BUYER POWER

55. The parties submitted that OEMs and aftermarket dealers have buyer power and use the threat of switching to secure a favourable deal. The parties provided examples of customers changing supplier in both the OEM and aftermarket segments between 2006 and 2010. The reasons often quoted for switching were price and service. One OEM customer indicated that they undertake a benchmarking exercise to ensure that they have a competitive contract in place.
56. A number of third parties confirmed that quality is the most important factor in the purchase of wheels and tyres due to safety considerations. A combination of price, product range, geographical coverage, service, availability and customer preference are also used to base purchasing decisions on.

57. This information, together with evidence of spare capacity in the sector, indicates that there may be a degree of buyer power in the purchase of industrial tyres and wheels in the UK. However, given that no competitive concerns were found as a result of the merger, it has not been necessary to conclude on buyer power.

THIRD PARTY VIEWS

58. Most third parties who responded to the OFT's investigation were not concerned about the transaction. Two businesses active in aftermarket servicing raised the vertical (input foreclosure) concern about Trelleborg tyres which has been discussed above. No concerns were raised about the supply of industrial wheels.

ASSESSMENT

59. The parties overlap in the supply of industrial tyres and wheels in the UK. Post-merger, the parties estimate that they will have the following shares of supply:
- [20-30] per cent (increment [0-5] per cent) in the supply of new industrial tyres to OEMs in the EEA
 - [20-30] per cent (increment [10-20] per cent) in the supply of new industrial tyres to aftermarket dealers in the EEA
 - [30-40] per cent (increment [5-10] per cent) in the supply of new industrial tyres to aftermarket dealers in the UK
 - [10-20] per cent (increment [0-5] per cent) in the supply of new industrial wheels to OEMs in the UK, and
 - [30-40] per cent (increment [0-5] per cent) in the supply of new industrial wheels to aftermarket dealers in the UK.
60. The OFT's investigation indicates that the parties are not close competitors in any areas of horizontal overlap. Trelleborg is primarily a wholesaler of industrial tyres to aftermarket dealers in the UK, who in turn carry out the fitting of replacement tyres. Premia, by contrast, is primarily a full service provider to end users or to aftermarket dealers who outsource the fitting to Premia.
61. Post-merger, the parties will continue to be subject to competition from a number of firms that could, in particular given the low switching costs, be used by customers to switch supplier. Further, there is spare production capacity in the market which, coupled with easy access to outsourcing

facilities, would allow competitors to increase supply in response to any attempt by the merging parties to increase price.

62. No third party concerns were raised regarding any unilateral effects of the transaction. However, a concern was raised regarding the new vertical relationship between Trelleborg and Premia's Interfit servicing arm, and whether Trelleborg would have the ability and incentive to foreclose effective competition in the supply of tyre replacement services in the UK. On the information available to it, the OFT considers that Trelleborg has neither the ability nor the incentive to engage in such foreclosure.
63. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

64. This merger will therefore **not be referred** to the Competition Commission under section 33(1) of the Act.