
Anticipated acquisition by Language Line Holdings LLC of Language Line Limited.

The OFT's Decision on reference under section 33(1) given on 13 January 2006. Full text published 3 February 2006.

Please note that square brackets indicate information that has either been excised or replaced by a range at the parties' request.

PARTIES

1. **Language Line Holdings LLC** ('LL Holdings') is a US company and is majority owned by funds managed by ABRY Partners, a private equity investor. LL Holdings is the holding company for Language Line Inc., which provides language support services, including both translation and interpreting services to customers in 20 countries.
2. One of LL Holdings' subsidiary companies, Envok LLC, trades in the UK as National Interpreting Service ('NIS'). NIS was established just over five years ago, has [under 50] contracted interpreters based in the UK and offers interpreting services for around 110-150 languages. It heavily relies on its parent company's interpreters (over 2,000) in the US.
3. **Language Line Limited** ('Language Line') is based in London and is currently majority owned by ISIS, a UK private equity investor. Language Line was established in 1990 and provides language support services to a range of customers, mainly in the UK. It contracts [over 1,000] interpreters although [less than 500] of these are used on a regular basis. Its total turnover was a little under £8.7 million.¹

TRANSACTION

4. LL Holdings proposes to acquire the entire issued share capital of Language Line.

¹ For the financial year ended 31 December 2004.

JURISDICTION

5. As a result of the merger the two parties will no longer be distinct entities. The share of supply test in section 23 of the Enterprise Act 2002 ('the Act') is met in the provision of over-the-phone (OTP) interpreting services, in which the parties estimated that their combined share of supply is greater than 25 per cent (with some increment), but did not have more precise figures.

RELEVANT MARKET

6. Both parties offer interpreting services ('interpreting' is orally interpreting speech whereas 'translation' is translating written pieces). The parties say that the interpreting and translation services form separate segments as they are used in different situations for different purposes.
7. The parties are agencies who arrange interpreting services. The interpreters work on a freelance basis and deliver interpretations either face-to-face (F2F) or OTP.
8. The parties overlap in the provision of OTP interpreting services but do not overlap in the provision of F2F interpreting services (NIS does not currently offer this service).
9. In the UK, the majority of customers of language support services are public bodies, but there is also growing demand from private sector customers.

Product market

10. The parties submitted that the relevant product market should be all interpreting services regardless of how those services are delivered. They argued that since customers purchase a mix of OTP and F2F services, and that there is an overlap in their use in some situations, there is demand-side substitution.
11. They gave an example which involved the price of OTP going down by almost 10 per cent over a one year period. As a result of this they claimed that the volume of OTP interpreting services increased in direct substitution for F2F interpreting services. Although the parties gave to the OFT a small number of specific examples of customers switching because of the relative prices, it is not clear to the OFT how much of the overall increase in demand is due to the change in price, especially since the OFT has been told that there has been strong growth in demand for OTP interpreting services over recent years.
12. Evidence received from customers suggests that OTP and F2F services are used in different situations and are not often substituted for each other. For example,

private customers contacted by the OFT use OTP services for their call centres and would not therefore be able to use F2F. Also, while the use of F2F services is often used for longer, pre-arranged interpreting needs, the flexibility and last-minute nature of OTP are essential for unplanned and short interpreting needs. When compared on price, F2F is cheaper on a per hour basis, but OTP can be cheaper if a short (e.g. 5-10 minutes), unplanned interpreting service is required.

13. The parties also argued that supply side substitution between translation and interpreting services as well as between F2F and OTP services is relatively easy, indicating a wide product scope. However, while it is possible to substitute between F2F and OTP services, an investment in the relevant equipment (e.g. a telephone switch) would be required and third parties have suggested that not all OTP interpreters would be suitable or willing to provide F2F interpreting.
14. The OFT has not concluded on the relevant product market for interpreting services. However, the OFT recognises that there may be good reasons to consider F2F and OTP interpretation services as being distinct. Further, in order to identify any potential competition concerns the OFT has applied the narrowest possible definition. Therefore, analysis in this paper concentrates on the OTP segment, but takes into account possible demand and supply side substitution from other interpreting methods.

Geographic market

15. The parties submitted that the relevant geographic market is the UK, but admitted that there are strong competitive constraints from overseas providers, particularly from Europe and North America.
16. Customer views were mixed. Some said that they would consider using a provider from outside the UK while others said that they would only use interpreters from the UK due to difficulties such as a lack of relevant local knowledge.
17. It is understood that some interpreting service providers, including NIS, source some of their OTP interpreters from North America, Europe and Australia. These interpreters can be particularly useful for out-of-hours interpreting needs. However, the parties pointed out that problems would arise if a provider were to solely use interpreters based outside the UK because of time zone differences and the scarcity of interpreters in some languages overseas.
18. The OFT has not concluded on the relevant geographic market for interpreting services. Nevertheless, the OFT takes a cautious approach in this decision and has considered a geographic scope of the UK for the purpose of its analysis, but took into account the possibility of competition from abroad.

HORIZONTAL ISSUES

Shares of supply

19. There is a lack of publicly available data on interpreting services on which shares of supply could be calculated or even on which providers could be ranked. Further, the OFT did not receive any robust estimates of shares of supply from the main parties or any third parties. However, it was clear from third party comments that Language Line is by far the largest provider of OTP interpreting services in the UK. A US company, Lionbridge Technologies Inc., trading as Lionbridge Interpretation Services ('Lionbridge', formerly Bowne Global Solutions) seems to be a large and growing interpreting service provider in the UK. Two competitors said that NIS was the second largest OTP provider but a number of customers had not heard of them. Other competitors mentioned were EITI, K International, The Big Word and Wordbank.
20. Available data from company accounts show that Language Line seems to be the UK's largest provider of OTP interpreting services. For 2004, Language Line's OTP sales were £[5-10 million] and NIS had OTP sales of [less than £1 million]. EITI reported that it generated £[] million from OTP interpreting services in 2004. These figures indicate that Language Line is clearly significantly bigger than NIS and other competitors.

Switching costs

21. The costs involved in switching providers of OTP interpreting do not seem to be prohibitive. Customers told the OFT that the main costs of switching were the costs involved in going out to tender and informing staff of the change, but this would not prevent them from switching.

Evidence from bidding data

22. The OFT has analysed bidding data from the past three years for the two parties. Given the relative sizes of the two firms it is not surprising that Language Line entered into significantly more tenders than did NIS and that Language Line put in bids in a sizeable majority of tenders that NIS bid for.
23. However, NIS was a bidder in only half of those tenders which Language Line put in bids. Further, some of the tenders awarded contracts to multiple providers.²

² For example, if the tender was for both OTP and F2F services, awarding authorities tended to allow bids for the OTP component separately.

24. For the combined total number of bids that Language Line and NIS competed for over the past three years, they competed against each other directly in less than half of them.

Barriers to entry and expansion

25. Third parties have suggested that there are some barriers to entry.
26. It has been suggested that interpreters, particularly in certain languages, are in short supply. However, people working for an agency as an OTP interpreter are freelance workers and free to work at any agency they choose. Interpreters doing OTP work for an agency can call up their agency and log on for a certain period of time. They can do this from anywhere by calling from a mobile telephone. Interpreters can be logged on to a number of agencies at any one time.
27. It was suggested by the parties that companies currently offering a F2F service could easily begin supplying an OTP service. Estimates of the costs of the equipment needed to enter this segment varied. The parties estimated that it would cost less than £25,000 to purchase and install the required telephone switch. Two estimates received from competitors were higher: tens of thousands of pounds and £500,000. The competitor that gave the higher estimate also said that it was not easy for a company supplying F2F to supply OTP and that only big companies competed in OTP. One F2F provider who was at the very early stages of considering entering the OTP segment considered the necessary investment to be significant but nonetheless believed entry would be possible.
28. A possible barrier to entry into OTP provision that was suggested to the OFT by a competitor was public authorities sometimes required bidders to have a minimum turnover. However, when the OFT asked the parties about this they stated that there is no minimum turnover or volume of sales required to participate in bids. Furthermore, no other third parties raised this as an issue and most customers that responded said that they would consider using smaller suppliers so long as they could provide them with the same range of services.
29. In summary, while there appear to be some barriers to entry into the supply of OTP interpreting services, they do not appear to be prohibitive, particularly for those companies currently offering an F2F service. Furthermore, the recent entry of Lionbridge suggests that entry by other OTP providers, perhaps already established overseas is also a possibility.

Buyer power

30. The OFT has been told that the incidence of buyer power in the industry is mixed. The parties told the OFT that large public sector customers, accounting for the bulk of interpreting work, are increasingly using various forms of combined buying arrangements in order to better leverage favourable terms on which their interpreting services are provided. However, the OFT was told that while for F2F interpreting, in-house provision is a credible alternative for some customers, in-house provision of OTP interpreting was not considered as an option for most customers. As a result, while some F2F customers can exert some buyer power, their bargaining position for OTP services is somewhat weaker.
31. The OFT does not have enough evidence to come to a view on the incidence and strength of buyer power and so has not concluded on it. However, this does not affect the analysis of this merger.

THIRD PARTY VIEWS

32. There were few third party concerns about this merger. Three of the 12 customers that responded had concerns with the transaction. Two public sector customers were concerned that they would be left with little or no choice following the merger. One private sector customer said that they would potentially be concerned if the merger would result in high market shares.
33. Three of the six competitors that responded raised concerns. Two were concerned that Language Line would be able to use US interpreters to lower costs and increase efficiency thereby driving competitors out (with the possible exception of Lionbridge) which would allow the merged entity to ultimately raise prices.

ASSESSMENT

Industry structure

34. From the evidence available to the OFT it seems that Language Line is the largest provider of OTP interpreting services in the UK. NIS may be the second largest provider in the UK. But because there seems to be a number of other providers of a similar size to NIS, post merger it seems there will still be a number of competitors offering a similar kind of competitive constraint on Language Line as NIS currently does.
35. OFT analysis of bidding data for the past three years showed that for more than half of the time Language Line and NIS did not compete directly with each other when bidding for contracts. Both firms won less than half of the tenders in which

they put in bids. Therefore, Language Line's high share of supply has not prevented other providers from winning contracts. This suggests that sufficient competitors will remain after the merger for customers to have a choice of suppliers and should help ameliorate the customer's concerns.

36. Furthermore, although shares of supply of OTP interpreting services will be high post merger, the increment appears to be small. In any case, in a growing industry in which firms bid for contracts, shares of supply can change quickly and substantially.

Entry

37. Some have suggested that barriers to entry, especially in finding suitably qualified staff, could raise competition concerns. However, interpreters work on a freelance basis and can work for different agencies simultaneously. Therefore, it may not necessarily be the case that a new entrant requires a significant number of staff additional to those already working in the industry.
38. What is more, it is unclear how many qualified staff are required for viable entry. For example, although both Language Line and NIS offer interpreting services for around 150 languages, for the year ended 2004 only 20 languages accounted for around [] of interpreting assignments for both firms.
39. Overall, barriers to entry do not appear to be especially high or insurmountable. The OFT expects that this would reduce the incentive and indeed the possibility for the merged entity to attempt to foreclose competition with a view to raising prices at a later date.
40. 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

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