EMR/MWR MERGER INQUIRY

Summary of hearings

1. In March and April 2018, the CMA held interviews with various metal recyclers, suppliers that sell metal to the Parties, and customers that purchase metal from the Parties. The purpose of the interviews was to understand the nature of competition in the UK and how it could be affected by the merger.

2. These companies provided commercially confidential information to the CMA and the relevant non-sensitive information will be disclosed in the provisional findings report in due course.

Sourcing waste scrap metal

3. Metal recyclers generally procure and supply both ferrous and non-ferrous scrap metals. Metal recyclers source scrap metal from a variety of suppliers including factories, engineering companies, other merchants and door trade drop-offs / the general public.

4. We were told that the ability to procure large volumes of waste scrap metal is an important characteristic for a recycler to be classed as a sufficient competitor in the UK market and that small recyclers tend to work on more of a hand-to-hand cash basis. The larger players tended to be more cash rich with more infrastructure and processing equipment, whereas the smaller players have a more restricted ability to supply the products in the marketplace. Additionally, smaller players may not have the required collection transport or equipment.

Routes to Market

5. Metal recyclers might sell waste scrap metal to other recyclers, or they might process it and sell processed scrap metal either to customers located in the UK or in the export market. Competitors told us that the majority of scrap metal is exported, either in bulk (the scrap is transported in the hull of a ship) or in shipping containers. One competitor told us that it exports in bulk into Portugal and Spain but also exports a lot of containers. It sells around 30% in the domestic market. Two competitors told us that most non-ferrous metals are exported in containers.

6. One metal recycler told us that decisions on whether to export or to supply to domestic customers are dictated by the market itself and the demand for scrap metal in, for example Turkey. If demand is strong in Turkey, materials might be able to be shipped in containers, but if demand were to slow down in Turkey, it could instead be sold into Europe. Two metal recyclers told us that it is cheaper to export overseas than transport to other regions in the UK.

7. A competitor told us that shipping using containers is a very straightforward route to market for certain grades of scrap metal and that the short-sea dock market is a route to market for the medium-sized recycling companies. On the ferrous side, some new production grades can go in containers, and around 80 per cent of non-ferrous grades can also go in containers. There are also numerous traders around the world and in the UK that act as the route to market. They buy the scrap material from smaller recyclers on a free-on-container basis, with payment up front, thereby giving immediate access to the recycler to certain export markets. This competitor said that smaller traders could only sell certain grades of scrap metal whereas larger recyclers would have all the processing capabilities required to sell all grades. Larger recyclers would also go directly to the end-user market. Larger recyclers also have greater cash flow in place and so do not need the payment up front in many circumstances and will take different payment terms.

8. A competitor told us that in the UK there are around six to ten of these large recyclers that have the processing capabilities and the ability to sell directly in the export market. There is, however, only one recycler in North London (EMR) that has access to any export deep-sea market as well as access to large shredding capabilities. Small recyclers do not have shredders whereas medium to large recyclers all have shredders, although not necessarily in London.

9. Another competitor told us that the metal recyclers that are able to export, such as EMR, are massively competing on getting all of the feed in, to then export it, and all of the metal recyclers that do not have export facilities are basically feeding into the metal recyclers that have export facilities.

10. One customer told us that UK prices are driven by deep sea prices. It said that the second driver of prices is the box market (containerised export which does not require deep sea facilities but just an investment in a container loader). Most of this is ex-scrap yard metals which are placed in a container which is then sent to places like India or Pakistan from a container port. Another export method for ferrous metals is short sea market vessels, which are sent to Spain, Belgium, France and Portugal.

11. A customer told us that the UK is one of the main exporters into all these markets, and that the prices in each of these markets fluctuate so that the prices achieved in the UK depend on prices in each of the export markets as well as demand in the UK. The customer did not see any more scope for medium or smaller players to get into the deep sea business via a trader as it is not easy from a logistical perspective. It would not only require a facility on the dock, but also the logistics to reach the port. For example, if a player found a deep-sea dock with a railway connection, it may not find the required wagons because most wagons are already controlled by the big players. This makes it very difficult for anyone else to enter. Short sea is different as there are more short sea players in the market, including EMR, MWR and other larger and medium players.

12. Another customer told us that generally, domestic prices are derived from local consumers in the UK/Europe. Generally, export prices are better (for recyclers) than domestic prices and work on faster payment terms compared to the domestic market.

13. One customer told us that a lot of the local independent merchants are exporting because there is a high demand overseas for metal, with lower quality requirements. Merchants find this easier and get a better return with the added benefit of getting paid immediately from the overseas companies. The customer told us that this had created a culture of domestic versus the export market.

14. A supplier told us that the UK generates around 10 million tonnes of scrap a year, with around 1.5 million tonnes of that being consumed in the UK and the rest being exported in either deep-sea or shipping containers to places like India, Pakistan and Bangladesh. According to the supplier, Sims, S Norton and EMR have all got strong market positions in exporting via deep-sea ports. The supplier thought that cash flow was an important element in exporting via deep-sea ports. Deep-sea merchants pay smaller merchants on 30-day terms but the UK steel mills pay on 90-day terms. This causes a cash flow issue to smaller merchants who would then rather sell at a lower price to the big metal recyclers such as S Norton, EMR and Sims to improve their cash flow than to sell to the UK steel mills at a higher price. This therefore strengthens the positions of the bigger players in the market and when selling to the UK mills. Additionally, a lot of the UK mills only want low-grade scrap since they do not want to pay the prices for higher-grade scrap. As a result, higher-grade scrap metals are exported more often.

15. One supplier told us that it had port facilities within driving distances from areas with contracts. The supplier told us that there was no relationship

between container and bulk export prices. Even in circumstances where a recycler does have its own bulk facilities it may sometimes sell to other recyclers, for example where it has scrap arising close to the other recycler's facility, or where it does not itself have sufficient volumes for a full cargo and would rather sell volumes on promptly than wait for a full cargo to accumulate.

16. Another supplier told us that EMR won its contract because of the deep-sea facilities it has and its ability to offer better prices through exporting. It is often more profitable to supply a metal recycler who then exports rather than going to UK mills and foundries as there is only one option for the UK domestic price whereas on the export, the merchant has the connections to change the destination of the material, allowing flexibility and higher prices.

17. A third party told us that processed ferrous scrap metal could not be economically sourced from overseas as there is a significant price premium for importing scrap metal into the UK compared to domestic supply. The third party estimated that the price premium is approximately £40 - £45 per tonne. The additional costs of importing scrap metal from abroad include the cost of port loading in the EU, freight costs to transport scrap metal from the EU to the UK, the cost of port discharge in the UK and the cost of transporting scrap from the port to a site in the UK.

Grades of metal including New Production Steel

18. A competitor told us that new production steel is anything that comes from manufacturing. It is sometimes called low residual steel. For example, steel cuttings or steel turnings would both be classed as new production as they come from a production line.

19. One competitor told us that if a steel mill wanted to buy low residual scrap, it would have to deal with EMR, more so now as the second biggest dealer in low residual markets was previously MWR. Low residual scrap was MWR's speciality in terms of the scrap metal industry. The competitor considers that EMR controls 80- 90 per cent of this grade of metal, which stops other smaller players from selling to the mills as they cannot get access to that particular scrap.

20. A competitor told us that EMR and MWR had collectively bought the previous smaller players in the market, over the last ten years, and that there are no other major factory contract players within this market in the UK. Competition in this market is affected by the ability to offer a good price, which depends in turn on the recycler's ease of access to international markets. A further competitor told us that it had good contracts with different suppliers of new

production steel, but then these were taken by EMR who was more competitive on price although sometimes lacked in service.

21. Two competitors told us that that EMR and MWR can offer good prices because they purchase a large proportion of NPS in the UK, and as a result have some pricing power over UK customers that purchase NPS.

22. One customer told us that for export markets, the quality of metal within a specified grade can be more variable than is tolerated by UK customers. This means that comparing prices of the same grade in between the UK and other markets can be difficult. Shredded grades and cut grades are the high-demand grades for which there are published prices; these published prices then tend to drive the prices for the other grades.

23. One customer told us that there was not a lot of low residual scrap consumption in the UK due to a lack of foundries and special steel producers. Two customers told us that MWR is a strong player in the new production steel market. A customer recently received 50 to 2,000 tons of new production steel from a newcomer in the UK market but could not buy directly from the factory as it did not have the infrastructure to pick up the materials. The logistics could potentially be outsourced to a third-party provider.

24. Another customer told us that most merchants supply shredded, heavy melting scrap (ferrous metals) and some mixed metals (non-ferrous). New production steel is more specific as the supply is contracted by a tender system and metal recyclers have to buy these regularly. Although there are other suppliers that could provide some new production steel, their volumes are comparatively much lower than MWR. The customer would therefore not be able to provide new production steel products unless it could buy the metals from MWR. Purchasing only from smaller recyclers that can each provide small volumes in these grades would not provide sufficient volumes overall.

25. A third party told us that different grades of ferrous processed scrap metal, and low residual scrap metal in particular, are not always substitutes. It told us that EMR and MWR are the two largest merchants in the low residual ferrous scrap market with an estimated market share in excess of 85 per cent. This third party thinks that MWR is the second largest player in both the purchase and domestic supply of low residual ferrous scrap. It is also well placed to increase its share of the purchase and supply of low residual ferrous scrap. Other suppliers of ferrous scrap metal either do not trade low residual ferrous scrap metal, or only trade low residual scrap in relatively small volumes. The

third party also considers that the ferrous processed scrap metal and the non-ferrous processed scrap metal represent separate markets.

Market Conditions

26. One customer told us that MWR is a regular supplier to it from the London and Midlands areas. MWR also has the shortsea facilities and so has alternative sales markets.

27. A customer told us that smaller recyclers tend to sell to bigger recyclers and only sell directly to UK customers intermittently. A scrap dealer earns its money by buying cheap but not selling cheap. This customer told us that the bigger the presence of the recycler, the more control over price it has and the cheaper it can buy metals.

28. One customer told us that negotiations with suppliers are undertaken on a one-to-one basis agreeing the contract price, quality levels, delivery terms and the payment terms. For regular suppliers, the only discussion element is price as all other terms are agreed. The customer told us that its prices are determined by international prices as well as local competition in the UK. The bigger the quantity that the recycler supplies, the higher the price that the recycler can achieve. The customer told us that there are around 25 suppliers (ie recyclers) around, with the customer currently working with between 10 and 12 regular suppliers.

29. One customer told us that it uses its subscription to Steel Business Briefing to monitor prices in the industry and when negotiating with suppliers. Most of its suppliers are small independent scrap merchants, as well as some larger merchants including EMR. It had previously been supplied by MWR but had issues with quality and service levels. When selecting a supplier, factors considered include quality, price, and supplier accreditations. The customer uses several independent merchants as one supplier could not provide all the necessary volumes. The independent merchants all have steady streams of material, but are limited in volume, which allows the customer to spread the risk so that if one did not deliver during the month, the customer would be less exposed.

30. A further customer told us that it buys some of its non-ferrous materials from EMR as it could not get the same materials with the same specifications from other suppliers. It has spoken with other suppliers but could not find an alternative that offered the same specifications. Pricing with EMR is agreed and reviewed quarterly. The customer tracked the scrap market using the

Metal Bulletin to ensure that prices are negotiated fairly. It is also considering obtaining some of the materials from outside of the UK.

31. Multiple customers told us that EMR could raise its prices at any time.

32. One supplier told us that it supplies metal recyclers with materials it sources from its waste contracts that cover metal and non-metal materials. It sometimes works alongside metal recyclers to win waste contracts that include metal and sometimes competes against metal recyclers (ie EMR) to win waste contracts. The supplier said that MWR is a strong metal recycler in London, Midlands and the North East. When considering competition on a regional basis, it would seek to avoid reliance on the largest metal recycler, but for national contracts there is only EMR, MWR and one other metal recycler to choose from.

33. A recycler told us that EMR is currently the only competitor with the required geographic presence to serve several areas. A lot of contracts involve several locations, for which EMR's site network provides it with a significant advantage.

34. One supplier told us that EMR gets a higher premium when selling to UK mills because of its selling power which means that EMR can pay more in purchase markets, which puts other players at a disadvantage and is a barrier in the market.

35. A further supplier told us that if a new recycler came into the market and bid for a contract to purchase scrap metal from the supplier, it would do the financial checks to see if it was within its tolerance or risk and if this was sufficient, would consider the recycler's operations capabilities before considering price. The supplier would not be averse to speaking with a new entrant if the pre-qualification criteria was met.

36. One supplier told us that selling to foundries was slightly difficult as foundries needed specific materials with specific residuals, so the technical specifications were quite demanding. Foundries try to buy competitively from a portfolio of suppliers and need a lot of scrap every month, which the bigger suppliers always have. This supplier had been trying to sell to foundries, but found that the competitors had long term relationships, and when a new entrant came in, there were reactions from the other recyclers. This had the effect of discouraging the end consumer from buying from the new entrants because of the fear of increased prices and/or reduced deliveries from the competitors. A decrease in prices could also have the effect of blocking entry to the market.

Contracts

37. One recycler told us that when competing for factory contracts in the procurement of new production steel, suppliers look for a good price, guaranteed service level and a financially strong company to guarantee payment. Guaranteeing service includes operating 24/7 and being able to reliably collect from their site. Usually smaller metal merchants, due to payment terms and culture, cannot win the large contracts. Other challenges include not being well known in the area and lacking a presence. Parties such as EMR and MWR have that presence and a good reputation. Suppliers also looked for a reliable partner in terms of health and safety, processes; good administration and finance structures (operations and payment).

38. A recycler told us that suppliers often want only a one-year commitment which is a very short period of time over which to recoup the necessary investment into logistics and operations. Some contracts are for between three to four years but most are not.

39. Another supplier told us that it would be most likely to go for total waste management contracts where it would do all the general waste, improve the supplier's recycling levels, and take control of the sales of the metals. For selling the metals, it would tender contracts for companies such as EMR, MWR or a local merchant. The value of these contracts varies between £10,000 and £1 million.

40. Other large contracts include contracts with automotive factories.

41. One supplier told us that in its recent tendering process for metal recycling services, it had nine bidders which was then shortlisted to three bidders, including both EMR and MWR, based on infrastructure and capabilities. MWR was found to have the best prices although EMR was very competitive. The supplier told us that currently only EMR, MWR and one other metal recycler have the infrastructure and the site network in place to serve its needs. Other factors include ease of service, back-office infrastructure, security procedures, technology and financial calculations. Security is a key factor which many smaller merchants cannot deliver on in the same way as EMR or MWR. Having shredding capabilities was also a key factor.

42. Multiple third parties told us that all the prices within purchase contracts are benchmarked against Metal Bulletin prices.

Expansion

43. A competitor told us that expansion to get good coverage of the UK would be expensive and take time. Competitors told us that they experienced difficulties finding suitable larger sites (with room for a shear or a shredder) in the London area. The issue is the size and the availability of land and getting a planning permission, which are very difficult to get in London.

44. Another competitor told us that as soon as big players such as EMR find out about expansion plans, they try and prevent it by offering better prices to the competitor's customers or even buying the expansion site. EMR has been extremely aggressive over the last ten years.

45. A further competitor told us that in terms of timing, getting a new site with a shredder installed (including permissions) would take 3 years, optimistically. For a feeder site it's a lot quicker: 6-12 months (or 18 months if appealed).

Comments on Merger

46. One competitor told us that the merger would not have an effect on it as the merging parties could not compete with it on all grades. Additionally, although MWR always offer a good service, they are never able to provide very good prices. Two competitors told us that EMR offer good prices but do not always provide a very good service in their view.

47. One competitor told us that EMR holds an extremely strong position in the North London area for shredders, more so now as MWR was previously the only competitor. This is problematic as certain grades of scrap have to go through a shredder and cannot go through any other routes. This competitor also told us that since there are no domestic steel mills in London (thereby no natural local UK customers for its processed scrap ferrous metal), the only route to market for it is the export market via short-sea, deep-sea or container shipping. Moreover, within the M25, the only deep-sea port is EMR's.

48. A competitor told us that EMR and MWR have very strong positions in North and South London (within the M25) with a good number of feeder sites. It is therefore difficult and expensive for scrap to travel past them to go anywhere else. The merger will reduce competition in the shearing market as EMR have taken out the competition. Most of the competition do not have a route to market and therefore have to go through EMR. EMR have numerous satellite yards now enhanced further by MWR. They now control 90 per cent of the shredding market in London. It is very difficult for people in that area to compete.

49. A competitor told us that EMR has been the biggest player in the low residual market for several years. It said that both EMR and MWR had an enormous amount of resource and equipment within the marketplace which has now been consolidated under one roof. Other players cannot therefore go out and get the resource needed to enter the market as this would require a large investment in people, plant machinery and sites. The competitor is of the view that EMR now controls the majority of the low residual market in the UK, therefore anyone that wants to buy that low residual scrap (domestically or for export) would have to pay a premium to EMR. This competitor considers that EMR is therefore able to get a premium on the sell side because of their dominant position thereby allowing them to pay a premium on the buy side to prevent others from entering. In low residual scrap, price is a significant barrier to entry, as well as relationships and site infrastructure

50. A non-ferrous customer views the merger as beneficial, as EMR can now tap into additional resources to serve its needs. EMR may now be able to bring products in from abroad at a lower cost point and provide additional offerings. The customer has not considered MWR during searches for alternative suppliers, as it looks at local supply chains and MWR has not appeared in searches.

51. A further customer did not think it would be affected by the merger whereas another customer told us that losing MWR as a supplier would make its business very difficult to run or unsustainable.

52. One third party told us that it was concerned for the smaller independent traders who were in danger of being priced out of the markets by the aggressive pricing approach of EMR's collection yards. The only way the merger will not have a negative impact on the market is if EMR were to close a substantial number of their yards. Several third parties said that the merger strengthened the position of EMR in the metal recycling market.

53. One supplier told us that EMR is very strong in the purchase of ferrous materials and has around 40% of the UK market. The merger is likely to have an effect on its household recycling sites as both EMR and MWR supply services to its sites, and both pay good money for the scrap. Additionally, there are currently only three companies that could do a national contract which will reduce to two following the merger. The supplier considered that the merger would harm suppliers by reducing their choices of who to sell to.

54. Another supplier told us that EMR is competitive in all aspects of the metal recycling market and MWR, although not strong due to a lower geographical spread, MWR has a strong presence due to its contracts with suppliers. Both

EMR and MWR are close in terms of price, financial stability and service. The merger will therefore result in a strong concentration, potentially 80% of the new production steel market. The supplier is concerned that EMR and MWR will have a strong position in the market post merger and will be able to influence the price index. Suppliers will therefore have less of a choice for example in West Midlands and the North East where both are present. Additionally, EMR and MWR may have control over the purchases and be able to raise prices for materials. The UK is already more concentrated than in other countries, and the acquisition will it make it even more concentrated.

55. One supplier told us that the merger would be a positive thing as EMR and MWR would be combining their resources and operating their estates much more effectively as they would have access to each other's yards, drivers and management. This could increase operational efficiency and provide cost savings whilst maintaining a good price. The supplier further stated that if its primary worry were price and stimulating competition on price, it would have much more concern over the merger, but that is not the case. Additionally, it may be more concerned if its relationship with EMR and MWR changed in which case, it would only have one alternative provider it could go to for its needs.

56. A third party told us that the merger will remove from the market a relatively significant independent buyer/seller of low residual ferrous scrap, remove a competitive constraint on EMR and make the merged entity a compulsory trading partner in respect of the buying/supplying of low residual ferrous scrap metal. The third party further told us that EMR is the largest buyer/supplier of low residual ferrous scrap and MWR is the second largest supplier thereby making it EMR’s closest competitor. MWR is the only significant scrap merchant (other than EMR) that has a strong presence (in terms of yard coverage and infrastructure) in the Midlands. Additionally, competitors to the merging parties have limited yard coverage which restricts their ability to compete to supply certain grades of ferrous scrap metal. This third party said that despite the current dominant position of EMR, MWR would, absent the merger, have continued to represent an important competitive constraint on EMR.