

AUSURUS GROUP / METAL & WASTE RECYCLING (MWR) MERGER INQUIRY

PHASE 2 SUBMISSION BY A MARKET PARTICIPANT

A market participant made a confidential submission to the CMA on 13 April 2018. Below is a non-confidential summary of this submission.

1. SUMMARY

1.1 The market participant was of the view that, despite the current dominant position of EMR, MWR would, absent the merger, have continued to represent an important competitive constraint on EMR in relation to the supply of low residual ferrous scrap metal for the following reasons:

- (a) although MWR currently purchases, and supplies, significantly smaller volumes of low residual ferrous scrap than EMR, MWR is by far the closest competitor to EMR. Moreover, MWR is the only scrap merchant that is well placed to increase its share of the purchase and supply of low residual ferrous scrap. In comparison, other scrap merchants have limited yard coverage and infrastructure in the Midlands (the largest generating area of low residual scrap);
- (b) in order for MWR to be a credible competitive constraint on EMR, it is not necessary for it to be able to meet all, or even a majority of, customers' requirements for low residual ferrous scrap;
- (c) as well being a competitive constraint on EMR in the purchasing and supply of low residual ferrous scrap, MWR is also an important competitive alternative to EMR in relation to the servicing of factory contracts.

1.2 The market participant explained that low residual scrap is typically generated by factories as waste from their production processes. Whilst end customers for scrap metal can purchase low residual scrap directly from the source, they normally need to partner with a scrap merchant (e.g. EMR or MWR) to service output from the factory (i.e. collect process and deliver).

1.3 When bidding to acquire scrap metal directly from factories, end customers are almost invariably competing with the same scrap merchants with which they would need to contract to service the scrap. In these circumstances well-placed scrap merchants (and the merging parties in particular) have a significant advantage when bidding for low residual scrap. In particular, those scrap merchants can either:

- (a) offer an end to end solution that direct purchasers without collection and processing facilities cannot. This can also include dealing with all other waste products arising from the factory's normal operations, i.e. non-ferrous metals, wood, plastic, paper, etc.; or
- (b) they can flex the cost of their standalone collection and processing services to improve the relative attractiveness of their bid for the scrap. For example, they can increase their standalone service costs to make their bid for the entire scrap contract more attractive. In this regard, the merger will significantly increase the ability of the merged entity to increase their standalone service costs, as it will remove an independent provider of those services.

1.4 The market participant submitted that the merging parties bidding advantages are well illustrated by their success in recent tenders.

1.5 The market participant was also of the view that smaller scrap merchants would face significant barriers in bidding for large contracts for the purchase of low residual scrap, both

in terms of purchasing the scrap directly from factories and in terms of servicing the scrap for end users, for the following reasons:

- (a) smaller scrap merchants have a limited network of yards located in areas in which such scrap arises (particularly relative to EMR and MWR). Collecting and processing low residual scrap from a factory usually requires a scrap yard in close proximity to the factory as unprocessed scrap is difficult and costly to transport. Smaller scrap merchants have, at most, one site in the Midlands, where most low residual scrap metal arises. These merchants would, therefore, face significantly higher costs in transporting scrap compared to the merging parties which have an established network of yards in this area;
- (b) there are substantial barriers to establishing new scrap yards. In particular, it is difficult to acquire a licence from local government authorities and the environmental agency to build new scrap yards due to concerns over the impact on the local environment;
- (c) smaller scrap merchants often have a limited infrastructure network for collecting and delivering scrap, e.g. a network of collection vehicles, skips and round the clock service for transporting unprocessed scrap. In comparison, both of the merging parties have the collection infrastructure to service any of the large factories in the Midlands (or other areas). Smaller scrap merchants are also less likely to be willing or able to accept the risk of compensating a factory if supplier failure causes a disruption to production;
- (d) smaller scrap merchants have a lack of track record in servicing such contracts; and
- (e) a resulting lack of credibility in the eyes of tenderers meaning that smaller scrap merchants are not invited to bid.

1.6 The market participant observed that as a result of the above barriers and challenges faced by smaller scrap merchants in bidding for large factory contracts, there is little prospect of such merchants being able, in the short or medium term, to materially increase their market position in the relation to the purchase and supply of low residual ferrous scrap.