

SUMMARY

Overview of the CMA's findings

1. Veolia Environnement S.A. (**Veolia**) proposes to acquire Suez S.A. (**Suez**) through two related transactions: its acquisition of a minority shareholding in Suez on 5 October 2020 and the public takeover bid by Veolia for the remaining share capital of Suez, which has not yet completed (together, the **Merger**). The CMA is exercising its discretion to review the two related transactions as a single merger transaction. Veolia and Suez are together referred to as the **Parties**, or for statements referring to the future, the **Merged Entity**.
2. The CMA believes that the Merger gives rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in a number of national waste management and water management services in the United Kingdom (**UK**) including the supply of complex waste management contracts procured by local authorities, the supply of non-hazardous commercial and industrial (**C&I**) waste collection services, the operation and maintenance (**O&M**) of water and wastewater treatment facilities for industrial customers and the supply of mobile water services. The CMA also believes the Merger gives rise to a realistic prospect of an SLC in certain local markets in the UK for waste incineration and composting services.

Waste and water management services

3. In the UK, local authorities are responsible for managing the waste generated by households. This generally includes **collecting** waste from residents, **sorting** different dry recyclates (such as paper, cardboard, glass, metals and plastics), recovery (eg incineration with energy recovery, composting) and **disposing** of waste (eg via landfill). To fulfil these responsibilities, local authorities may procure services from specialist waste management companies, such as Veolia and Suez, through contracts that can be worth hundreds of millions of pounds.
4. Businesses must also procure collection and disposal services for the waste they generate. Businesses that use water as part of their processes and/or which generate wastewater will also require water management services, for example through **water and wastewater treatment facilities**. These are facilities that provide the quantity and quality of water (such as drinking water

and treated water) required by the business, and also provide wastewater treatment. Business may also require **mobile water services** in response to emergency shutdowns, planned outages or to meet medium term needs. Both Veolia and Suez provide these water and wastewater management services.

Trends in waste management and the move towards a net zero economy

5. Water and waste management services are becoming increasingly important as the UK Government and devolved nations implement their net zero strategies, and move towards a circular economy. The circular economy is a model of consumption and production that involves sharing, reusing, repairing, renewing and recycling existing products for as long as possible. Pursuant to this strategic goal, the UK Government's waste hierarchy prioritises the prevention of waste, waste recycling and other waste recovery, while seeking to reduce waste disposal, including via landfill. In particular, the UK Government expects waste incineration, which can be used to generate energy, to play a significant ongoing role in waste management in the UK.
6. While historically most of the UK's waste was disposed via landfill this is changing. For example, the UK Government's strategy is to ultimately reduce the use of landfill to zero. Indeed, over the past decade the proportion of waste disposed via landfill has steadily reduced from over 80% in 2010 to less than half in 2019, with waste processed through incineration with energy recovery increasing from around 6.7 million tonnes in 2014 to 14 million tonnes in 2020. Administrations in the devolved nations have similar strategies.
7. To achieve these strategic priorities, it is crucial that sufficient competition remains in UK waste management markets. This will ensure that local authorities can procure waste collection, recycling, recovery and disposal services at competitive rates, and to a high standard of service, providing value for money to UK taxpayers as the UK economy transitions towards net zero.

Veolia and Suez's activities in the UK

8. Within the increasingly important waste management sector, Veolia and Suez are very large international businesses and are two of the leading providers in the UK. Veolia and Suez provide services to many local authorities and businesses to collect, sort and dispose of their waste across the UK. Both Parties are active at most key stages of the waste management supply chain, have a national presence with access to capacity at several types of waste management facilities (such as sorting facilities, incineration facilities, landfills,

etc.) and benefit from comprehensive research, development and innovation capabilities. The Parties have some of the most longstanding and largest waste management contracts with local authorities, serving millions of households across the UK. The Parties also both provide a range of water management services to businesses. In 2020, Veolia reported worldwide revenues of €26 billion and revenues of €2.1 billion in the UK and Ireland (UK revenues are not reported separately in its financial statements). For the same year, Suez reported worldwide revenues in excess of €17.2 billion and revenues exceeding €0.9 billion in the UK.

CMA's assessment

9. The CMA examined whether the Merger would lead to a loss of competition between the Parties in several markets.
10. As part of its merger investigation, the CMA reviewed a substantial amount of evidence, including internal documents from each of Veolia and Suez, as well as data on tenders the Parties competed in. The CMA also considered detailed submissions from other market participants such as local authorities, consultants specialising in local authority procurement processes, C&I customers of the Parties, as well as competing suppliers in the different waste and water management services.

Complex waste management contracts

11. The CMA's investigation found that a subset of waste management contracts procured by local authorities are particularly complex. Complexity can arise from a range of factors such as the inclusion of several waste management services into single tenders, the overall value of such contracts or duration of the contract (eg a long-term contract servicing hundreds of thousand or even millions of households in the UK), or specific local authority requirements. Local authorities told the CMA that not all waste management companies are able to credibly compete for complex contracts, and that the more complex the contract, the smaller the number of potential bidders. In particular, local authorities said that waste management companies must demonstrate a track record in supplying large contracts and contracts covering multiple services, that they must have a sufficiently large UK presence, including access to fallback facilities in the event of a site outage, and that they must have sound financial standing and access to significant funding.
12. The CMA's investigation showed that the Parties have several strengths that make them particularly strong suppliers of these complex contracts. In particular:

- (a) Both Veolia and Suez have extensive decade-long experience in managing complex waste management contracts, including contracts that cover a range of waste management services (both collection and disposal) and high-value contracts that cover millions of UK households;
 - (b) Both are present across most stages of the waste management supply chain, including collection, sorting of dry recyclates, incineration, disposal via landfill and composting and can also assist local authorities with operating and maintaining the infrastructure necessary for waste management purposes;
 - (c) Both have a nationwide footprint, which gives them access to additional capacity eg in the event of a plant shutdown;
 - (d) Both have comprehensive global research, development and innovation capabilities which allow them to develop and implement innovative solutions in the UK; and
 - (e) Both are also companies forming part of an international group, benefitting from knowhow and best-practice sharing across different countries.
13. The CMA received a large number of complaints from local authorities, some of whom expressed concerns that the Merged Entity would be the only company that could credibly service complex waste management contracts in the UK. Several submissions from local authorities showed that the Parties are perceived as two of a very small number of credible bidders for complex waste management contracts, with some submitting that they had been the last two bidders in high-value contracts.
14. Local authorities also told the CMA that the Parties' strength in competing for contracts covering several waste management services significantly exceeds that of other UK suppliers (including Biffa, Serco, Urbaser, Viridor and FCC). In particular, other providers do not offer the same breadth of services as the Parties, cannot match the Parties' track record in servicing complex contracts, do not have a comparable geographic footprint, and/or do not have sufficiently robust financial standing.
15. The CMA is therefore concerned that the Merger would remove an important competitor from the market and give rise to a realistic prospect of an SLC, which could manifest itself through higher prices, lower quality of service and/or less innovation, affecting potentially millions of UK households and businesses.

C&I waste collection services

16. As set out above, the Parties also provide waste collection services to C&I customers. Many customers that operate across all or large parts of the UK (**national customers**) told the CMA that they prefer to use only one supplier to collect their waste, instead of using different regional suppliers in different parts of the UK.
17. The evidence received by the CMA shows that Veolia and Suez compete closely for national customers. The CMA for example found that, in their internal documents, the Parties primarily monitor each other and Biffa. National customers also most often identified Veolia, Suez and Biffa as businesses that could service their needs and several competitors told the CMA that Suez is a close competitor to Veolia and vice-versa. Generally, customers considered Biffa, Veolia and Suez to be the three strongest suppliers of C&I waste collection services.
18. In addition to their waste collection services, both Parties also have access to significant waste disposal capabilities (as outlined above). Several third parties told the CMA that this may give them an advantage over their rivals because they are able to more efficiently design their disposal routes, have more control over the prices they charge to customers, and can transparently show to their customers how their waste is going to be disposed. The Parties also recognise this advantage in their internal documents.
19. While the Parties told the CMA that they are also in competition with brokers, several national customers said that they had tried using brokers, but found that the quality of service, costs, and ability to manage the service were inferior to using a single national supplier. Furthermore, while there are a few other C&I waste collection providers, the available evidence shows that these are weaker than the Parties and Biffa.
20. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of the removal of an important competitor from the market.

O&M of water and wastewater treatment facilities for industrial customers

21. The CMA's investigation found that as a result of the Merger, the Parties would become the largest provider of O&M of water and wastewater treatment facilities for industrial customers.
22. The evidence also shows that the Parties compete closely in this market. Several customers told the CMA that the Parties are strong suppliers of O&M

in particular to large customers, with both offering innovative services. This closeness of competition was also reflected in the Parties' tender data and internal documents confirmed that innovation is a strategic priority for both Parties.

23. The available evidence suggests that the Parties may have an advantage over their rivals because in addition to operating and maintaining water and wastewater treatment facilities, both are also active in the design and construction of technical solutions and equipment for these facilities. Some evidence received by the CMA suggests that vertically integrated companies like the Parties can respond to a broader range of requests from customers, covering more than just O&M contracts.
24. Furthermore, while third parties identified a few other suppliers active in the UK, the feedback on these other suppliers showed that these are not strong rivals to the Parties. Customers also said that it would be difficult to cater for their own O&M requirements in-house.
25. The CMA is therefore concerned that removing one of the Parties from the market would give rise to a realistic prospect of an SLC and could lead to higher priced, lower quality and/or less innovative services being provided.

Mobile water services

26. The CMA's investigation found that as a result of the Merger, the Parties would be the largest UK supplier of mobile water services by a very large margin with a combined share of supply exceeding 80%. The Parties' market leading position was also confirmed by the Parties' internal documents, which show that the Parties view each other as close competitors. Many third parties also raised concerns about this market, telling the CMA that other competitors have a much smaller fleet size than the Parties. The evidence also shows that smaller suppliers may have more difficulties in winning contracts, because Veolia and Suez offer a large portfolio of wider services and are therefore more likely to win contracts because of their existing relationship with customers.
27. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects.

Other markets

28. In addition to the areas of concern set out above, the CMA also assessed the following overlaps, finding for each that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects:
- The supply of non-hazardous municipal waste collection services in the UK;
 - The supply of services for the O&M of local authority-owned energy recovery facilities (ERFs) in the UK;
 - The supply of non-hazardous waste incineration services in several local areas; and
 - The supply of organic waste composting services at open-windrow composting (OWC) facilities in several local areas.
29. These markets are discussed in more detail in the decision text itself.

Conclusion

30. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in a number of markets in the UK.
31. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). Veolia has until 14 December 2021 to offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger for a Phase 2 investigation pursuant to sections 33(1) and 34ZA(2) of the Act.