

CHAPTER 7

Conclusions

The merger situation

7.1. Under the terms of reference we are required to investigate and report whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation in which section 64(1)(b) of the Fair Trading Act 1973 will be satisfied. Table 4.1 in paragraph 4.30 shows that SGB's assets exceed £30 million. Section 64(1)(b) is therefore satisfied.

7.2. By virtue of section 64(8) a merger situation qualifying for investigation exists if two or more enterprises have ceased to be distinct enterprises in the circumstances described in section 64(1). Under section 75(2) we are required to proceed in relation to a prospective merger as we could proceed if it had taken place immediately before the reference.

7.3. On 15 November 1985 BET made an offer to acquire all the SGB ordinary shares which it did not then already own. The offer lapsed when a reference was made to the Commission, but BET told us during the inquiry that it intended to acquire SGB if permitted to do so.

7.4. On 17 April 1986 the Directors of John Mowlem & Company PLC (Mowlem) and SGB announced that terms had been agreed for an offer to be made by Mowlem for the whole of the ordinary share capital, issued and to be issued, of SGB not already owned by Mowlem, and that the Board of SGB had decided that it would recommend acceptance of the offer to its shareholders. BET told us that, despite this offer, it remained interested in acquiring SGB if permitted to do so. Mowlem's offer was made on 28 April 1986.

7.5. We conclude that a merger situation qualifying for investigation will be created if the arrangements in contemplation for the acquisition of the remainder of the ordinary shares of SGB by BET are carried into effect.

The public interest

7.6. The parts of BET's and SGB's businesses in the United Kingdom in which we have considered whether issues of public interest might arise from the proposed merger all fall within the access industry, namely scaffolding, ladders, towers, cradles and powered access equipment. There are also overlaps in the businesses of both companies in the hire of mechanical plant and equipment, and of forklift trucks. We have decided that neither of these overlaps raises issues of public interest, either because the scale of business on one side is minimal, or because the merger would still leave the merged companies with a very small share of the relevant market. There are no overlaps in any other parts of BET's or SGB's businesses in the United Kingdom. We have also taken into account the activities of BET and SGB abroad when it has seemed necessary for us to do so.

The effects of the merger on the structure of the access industry

7.7. We deal first with some points put to us about the effects of the merger on the structure of the access industry. SGB argued that the merger would greatly increase the concentration at higher levels in the industry. It said that some 10 years ago SGB itself, though the dominant company in the industry, faced a number of substantial competitors. Acquisitions by BET and GKN had reduced that number since 1975. The turnovers of some of the other large companies were declining, and some were making losses. The merged companies would be much larger in relation to their next largest competitors than SGB was about 10 years ago. SGB said that, in the period up to 1970, it had been able to act as price leader in the scaffolding market, especially in the hire and sale of equipment; it argued that the merged companies would be able to re-establish the price leadership that it itself had once had. SGB also said that the purchasing power available to the merged companies, their ability to control the supply of scaffolding to the small projects sector, and the technical and financial resources available to support their activities in the major projects sector suggested that their market domination would increase with time.

7.8. The merged companies would indeed be much larger than any other in the access industry, with fewer large competitors than a decade ago. However, the evidence available to us shows that some of the smaller companies in the top group in 1975, such as Deborah and Cape, were able to expand their businesses more rapidly than SGB and other larger companies during much of the past decade, despite their being in the early part of the decade as small in relation to SGB as they would be in relation to the merged companies, and despite the vicissitudes of the market during that period. We note also that some of the merged companies' principal competitors are parts of large and powerful groups, such as the GKN access business within that group, and Palmers within BTR. Cape (within Charter Consolidated) and Deborah also have interests outside the access market. Such companies would have access to group finance to maintain or strengthen their positions in the market. Increased concentration at the top has manifestly not prevented a considerable growth in the number of small competitors in the industry and a general increase in competition. Nor is the access industry one in which expensive technology presents a barrier to the development of smaller companies to grow and compete with the largest. We have seen no compelling evidence of economies of scale being important in access operations themselves. We do not think, therefore, that the increase in concentration at the top level which the merger would bring about should give cause for concern about the structure of the industry and its implications for future competition. We deal later, in our consideration of the separate market sectors, with the questions whether the merged companies would be able to act as price leaders, or become dominant in the market in other ways.

The possible effects of the merger on competition in the access industry

7.9. As explained in paragraph 2.1, there are no independent statistics readily available on the size of the access market. With the assistance of BET, SGB and others we made our own estimates of the market and the market shares of the merged companies. These are summarised in Table 7.1. The estimates need to be interpreted with some caution.

TABLE 7.1 United Kingdom access industry, 1984

	Total market £m	Combined sales of BET and SGB £m	Combined market share of BET and SGB %
Overall access industry	565.3	127.0	22.5
A. Total scaffolding market* within which:	438.3	95.2	21.7
(a) Offshore scaffolding projects	11.2	5.2	46.4
(b) Industrial and petrochemical projects	51.5	9.3	18.1
(c) Other 'major projects' (over £50,000)	70.0	19.3	27.6
(d) Remainder of scaffolding market (projects below £50,000)	305.6	61.4	20.1
Sale of scaffold fittings (included in above)	12.2	4.0	32.8
B. Hire and sale of ladders and towers within which:	80.0	28.1	35.1
(a) Sale of industrial ladders	22.5	7.2	32.0
(b) Sale of domestic ladders	17.5	6.2	35.4
(c) Sale of towers	12.6	5.0	39.7
C. Other access equipment (cradles, powered access)	47.0	3.7	7.9

Source: MMC.

* Includes the hire and sale of scaffolding equipment, for which no separate estimates are available.

The market as a whole

7.10. In 1984 the turnover of the United Kingdom access industry as a whole (including the in-house operations of the construction companies) was some £565 million. Of this, the merged company would have had about £127 million (22.5 per cent), making it the largest company in the industry, about twice the size of the next largest company, GKN, and eight times the size of the third and fourth largest, Palmers and Deborah. However, although only a limited number of companies compete on a national scale, well over a thousand companies compete locally or regionally, some of which do so with considerable success for relatively large and complex projects. Traditional scaffolding, with a total turnover of £438 million in 1984, continues to account for over 75 per cent of the access industry; of this, the merged companies would have had 21.7 per cent (nearly the same as its share of the total access market). Their shares of different sectors of these markets vary considerably, from some 18 to 46 per cent (as shown in Table 7.1 above). Some substitution can take place between traditional scaffolding and the other forms of access mentioned in paragraph 7.6, but it appears to us that in practice such choice is still fairly limited. We have considered the possible effects of the merger on competition on a regional and local basis, and on the basis of the various individual market sectors as well as in the access market as a whole.

The scaffolding market—major projects

(a) Offshore scaffolding projects

7.11. We estimated the market for offshore projects at £11.2 million in 1984. The merged companies would have had some 46 per cent of this market. However, because of the large scale of some of these projects, market shares may be expected to vary from year to year to a greater extent than for the general run of major projects; too much reliance should not be placed on the figure for any one year.

7.12. SGB argued that the merged companies would have a share of the market that would normally imply a considerable degree of market power and would be able to increase prices. However, there are reasons for viewing this situation with less concern than might otherwise be aroused. The number of customers is not large, and they are mainly of such a size and with such purchasing power as to be able to resist any attempts by the merged companies to increase prices. Each customer places only one or two contracts per year. There are about a dozen active competitors to BET and SGB at present and others who have competed recently. A substantial proportion of the competitors are companies specialising in offshore servicing, where a very high level of performance and safety is required. For all these reasons we believe that the merger would not have any significant effect on competition, prices or standards of service in this comparatively small part of the market.

(b) Industrial and petrochemical scaffolding projects

7.13. We estimated this sector at £51.5 million in 1984; the merged companies' share would have been about 18 per cent. The projects mainly involve repair and maintenance work on industrial installations. Because some of them are very large and take a long time to complete, some caution is needed when considering market statistics for a particular year. Nevertheless, the merged companies would not be dominant suppliers. They would face strong competition at two levels. First, the other four main scaffolding companies (GKN, Palmers, Deborah and Cape) together hold about half of this market sector (see Table 2.6 in paragraph 2.17); and all give high priority to this part of their business. Second, there is a large number—some 30 or more—of smaller scaffolding companies competing mainly on a regional or local basis to hold some third of this market. We do not think that in this situation the merged companies would be able to raise prices arbitrarily (as SGB itself substantially acknowledged—see paragraph 5.71).

7.14. We also considered whether, as SGB argued, the smaller competitors could be weakened or eliminated if the merged companies reduced prices against them on a selective or localised basis. BET denied that it would engage in predatory pricing. We do not think that if it tried it would succeed in eliminating competition from these companies to any significant extent. As shown in paragraph 2.10, the number of these competitors, mostly companies with annual turnover between £500,000 and £10 million, is considerable, and has remained fairly static in the past eight years, but there has also been a considerable growth in the number of still smaller companies. Only a very small proportion of those would need to grow in size to replace any withdrawals from the market that might occur—for any reason—in the ranks of the main regional or local competitors. Repair and maintenance work has been a noticeable growth sector in the past decade, and this sector seems likely to remain attractive to new entrants. The potential cost of a policy of predatory pricing by the merged companies would therefore be considerable, and we do not think that the merged companies would find it profitable to engage in it.

(c) Other major scaffolding projects (projects over £50,000)

7.15. We have estimated the total market for these projects at £70 million in 1984, and the market share of the merged companies about 27 per cent. SGB

and BET together won a similar share, about 30 per cent, of the major contracts which have recently been awarded, and for which we have information. As explained in paragraph 2.19, the definition of this category is to some extent arbitrary, namely all projects above £50,000, excluding the offshore and industrial and petrochemical projects already discussed. It covers not only the general run of access projects, whether more or less complex, but also the most complex projects involving support, shoring or formwork. Some projects come within more than one of these categories.

7.16. BET's current share of this sector is just over 4 per cent. It obtained less than 10 per cent of the major contracts recently awarded, and a negligible proportion of those involving more complex design work. BET told us that it cannot compete effectively for contracts requiring more complex design work, and does not compete at all for contracts solely involving support, shoring or formwork. One reason for this situation, BET said, was that the member companies of BET Access were all comparatively small companies when acquired, undertaking relatively straightforward access scaffolding but not competing for the large and more complex contracts. BET explained that the position had not changed since their acquisition. It considered that the competition in this sector was so intense that the cost of creating the additional design capacity and the resources necessary for success in tendering for the more complex scaffolding projects was not justified in present conditions.

7.17. Because of BET's very small market share the merger would not have a significant immediate effect on competition in this sector. SGB argued (though BET denied) that the merged companies would attempt to increase prices, or increase profits by reducing the quality of service offered. However, while they would face less competition in this than in other sectors from GKN and the other few large scaffolding companies, there is strong competition from the smaller regional or local scaffolding companies, especially for the less complex projects. We think that, because of the importance of the large local projects to these companies, they can be expected not to follow any price increases by the merged companies. SGB argued that these smaller companies are not competitive for the most complex projects, either at the pre-contract stage or later, and we have seen evidence to support that view. But, since BET is also relatively unsuccessful in competing for the most complex projects, the merger would not have a significant impact on the attempt of the group of smaller companies to compete for such projects.

7.18. SGB and others suggested that, alternatively, the merged companies might, by reducing prices, attempt to drive local scaffolding competitors out of the market. We have already discussed this issue in the case of industrial and petrochemical projects (see paragraph 7.14). We think that if the merged companies tried to do this, they would be even less likely to succeed for the general run of the less complex access scaffolding projects in this sector, for which the smaller scaffolding companies are stronger competitors than they are for the somewhat more complex industrial and petrochemical projects. The merged companies might, by reducing prices, cause some building companies to place contracts with rather than use their own in-house resources. But this would not be a profitable course for them to pursue in the long run because, if they raised prices later, the builders could turn back to using their in-house resources.

7.19. In this sector, the merged companies would also face strong competition from the in-house operations of the building companies, many of whom decide, on the basis of price, whether to undertake their scaffolding in-house or employ the specialist scaffolding companies. Some of the larger building companies undertake the majority of their scaffolding work in-house; while others do not, we think that many could do so if it became desirable or necessary, as a number of them confirmed to us would be the case if the merged companies increased their prices. We were also told that many of the larger building companies were able to undertake the most complex projects, and some did so as a matter of choice (and price). The evidence suggests that building companies have recently put more of their scaffolding requirements out to contract; some witnesses associated that with a tendency for customers to use project management contracts, and SGB suggested other reasons. Although the majority of the building companies who commented on the merger thought that it would lead to higher prices and a deterioration in service, especially for large or complex scaffolding projects, we have no doubt that both the actual use of in-house resources by the builders, and the potential threat of still greater use of them, would be an important factor in limiting the merged companies' ability to increase prices or reduce the quality of service.

7.20. The smaller scaffolding companies and the building companies have about 50 per cent of this market by value (a share which corresponds with their achievement in winning contracts for these major projects recently). This situation shows the strength of the competition facing the large scaffolding companies. We do not think that the merger would lead to a reduction in competition from these sources.

The scaffolding market—smaller projects

7.21. We defined these projects as those below £50,000 in value. The market is estimated to have been some £305 million in 1984, and the merged companies' share about 20 per cent. This part of their business would be very important for the merged companies since their turnover on these smaller scaffolding projects, at £61 million, would be about 65 per cent of their total scaffolding turnover, and about 50 per cent of their turnover in all access operations.

7.22. All the evidence we have received has been to the effect that competition for the smaller scaffolding projects is intense, and has become more intense in recent years (partly from operators in the black economy); and that the largest companies have seen their share of the total market reduced because of the entry into this part of the market of some hundreds of new competitors in the past decade. SGB agreed that, apart from the hire and sale of equipment, the merger would not have any significant effect on competition for these smaller projects (see paragraph 5.74.).

7.23. BET told us that one of its main objectives in seeking to acquire SGB was to reduce costs and be more competitive, in order to halt and if possible reverse the decline in the market shares of the largest scaffolding companies. We do not believe that such opportunities for cost reductions as the merger could provide would have much impact on the prices the merged companies might charge for their smaller projects. Nevertheless BET's intention to do what it can to counter the loss of market share may serve to support the intense competition which can be expected to continue.

The hire and sale of access equipment

7.24. Access equipment (principally scaffolding equipment) is hired or sold by many enterprises. No statistics are available for the hire and sale of equipment as a separate market, but we believe that the greater part of the business is included in the market figures already considered in this chapter for the access market, since they embrace the total turnovers of the scaffolding companies, large and small. At the top end of the market, hire and sale is conducted from some 250 depots supplying a comprehensive range of equipment, belonging to BET, SGB, GKN, Palmers, Deborah, and other larger companies. These companies have depots throughout Great Britain, and are important suppliers to the building industry, and to the small scaffolding companies. In the case of BET and SGB, some three-quarters or more of their hire and sale turnover is to the building industry, and the remainder mainly to small scaffolding companies. Hire and sale of equipment would amount to nearly one-third of the total turnover in the access activities of the merged companies. The smaller scaffolding companies also hire and sell equipment, as do other companies whose business is in the hire and sale of plant and equipment rather than in scaffolding. BET told us that it had found over 600 companies advertising as hirers of scaffolding equipment in 32 locations in which it and SGB both had depots supplying a comprehensive range of equipment. This suggests that there are probably over a thousand such companies in the country as a whole.

7.25. SGB pointed out that the merged companies would own some 40 per cent of all the depots offering a comprehensive range of equipment for hire and sale. It would dominate the supply of all basic scaffolding equipment to the small projects sector, and the terms and price for the supply of such equipment. In the South-West and East Anglia they would own the majority of the depots supplying a comprehensive range of equipment; in these and any other local monopoly situations resulting from the merger, they could increase prices or control the availability of equipment in the small projects sector, thus weakening competition against their own contracting operation. SGB also argued that the merged companies would have such a strong market position that they would be able to withhold supplies altogether to competitors in the small projects sector. SGB did not consider that the numerous other companies advertising the hire and sale of access equipment represented an effective alternative to the larger suppliers, or that the number of outlets would increase if the merger were allowed to proceed.

7.26. BET said that SGB and itself were by no means the only significant suppliers of equipment to other companies in the access industry. In the majority of cases, SGB and BET depots were subject to real local competition. For hire or sale of equipment, the effective operating radius of a depot was greater than the radius for contracting operations, which involved the heavy costs of transporting teams of scaffolders. If large quantities of equipment were hired, distance from the depot was virtually irrelevant. BET suggested that it was immaterial that the very numerous small suppliers might not have the breadth of range of the larger companies; hirers could obtain their requirements from one or a number of depots. Much of the business was on a very small scale. BET did not therefore believe that any companies who hired or bought from SGB or BET would be disadvantaged by the merger. If the merged companies increased prices, they would simply lose business to their

many competitors. If they withheld supply, they would be leaving the field open to them. BET told us that the merged companies would continue to supply equipment to others, including scaffolding companies; it regarded this as an important part of the business.

7.27. We examined the geographical distribution of depots with comprehensive ranges of equipment for hire and sale (which we refer to as 'major' depots) in order to assess the possible effects of the merger on competition between them. The evidence we received suggested that most of the hire and sale business cannot be economically transacted over a distance of more than about 20 miles from the depot. The results of our examination, on that basis, are set out in paragraph 2.27 and Table 2.11. These show that six of the 100 BET and SGB depots are at present more than 20 miles from any other major depot. As a result of the merger, a further eight depots owned by the merged companies would be more than 20 miles from major depots owned by other suppliers. In other locations the merged companies' depots would be within 20 miles of at least one major depot owned by another supplier, and 57 of their 100 depots would be within 20 miles of at least three major depots owned by other suppliers. SGB suggested that the merged companies' depots would be in particularly strong positions in the South-West and in East Anglia. Our examination showed that four SGB or BET depots (of the six mentioned above) in these regions are at present more than 20 miles from any other major depot—a situation which the merger would not change. As a result of the merger a further seven depots owned by the merged companies would be more than 20 miles from major depots owned by other suppliers. The remaining eleven depots of the merged companies in these two regions would be within 20 miles of at least one major depot owned by another supplier.

7.28. Against this background, we then considered the various courses of conduct which the merged companies might pursue; in particular, that they might increase its prices (as SGB and others suggested), or that they might withhold supply altogether. A small number of SGB or BET depots already face no or limited competition, but we have not received complaints that they are pursuing such courses of conduct. If the merged companies raised their prices, or withheld supply, we think they would lose business to their many existing competitors, or encourage others to enter the market. In particular the smallest customers, who might be most vulnerable to such action, would find it easier to satisfy their requirements from the smaller suppliers, either existing ones or new entrants. We accept that the smallest suppliers do not offer such comprehensive ranges of equipment as the main depots, but they would be in a position to exploit any problems which the merged companies might create for customers on price or availability of supplies. We are satisfied that the existence of these alternative means of supply would effectively deter the merged companies from pursuing such courses of conduct.

7.29. SGB also suggested that the merged companies would find it uneconomical to supply both of the ranges of equipment at present stocked by the two companies, with the consequence that a narrower unified range would restrict choice for the smallest companies, leave them with useless stock, or make it uneconomical for them to use their existing stock. The merged companies would also, SGB argued, reduce the total quantity of stock carried; they

would then be unable to meet an upsurge in demand, and would give priority to their own contracting operation or increase their prices. BET told us that it intended to maintain, and indeed expand, the range of equipment which the merged companies would make available. We do not think that the merger would exacerbate to any significant degree the periodic shortages of equipment which we understand are characteristic of the construction sector because of the severity of fluctuations in demand for its products.

7.30. Other witnesses expressed anxiety about the availability of systems scaffolding (such as Cuplok), suggesting that the merged companies might exert pressure on customers who rely on particular brands of systems scaffolding, for example, by increasing prices. The evidence we have received suggests that it would be expensive for a customer companies (whether a building or scaffolding company) holding large stocks of one system to change to another. But while we understand the concern, we do not think that the merged companies would be able to put pressure on customers in this way. For example, SGB's Cuplok system has made only limited inroads into the systems scaffolding market against the GKN product, Kwikstage. Putting pressure on customers who rely on Cuplok would only weaken its competitiveness against Kwikstage. BET told us that it intended to supply Cuplok along with its other systems scaffolding, and we think that it would be in its interest to do so. As for the other kinds of systems or brand equipment, where the scale of use is lower, we understand that there are alternatives to which customers can turn.

7.31. Some building companies and other suppliers also suggested that the merged companies might reduce their prices for hire and sale, in order to eliminate small competitors in the hire and sale business in selected localities. We do not think they could successfully do so, or that they are likely to try. If they did, they would then be assisting the small scaffolding companies who are competing so successfully against BET and SGB. Nor could the merged companies expect to increase hire and sale prices at a later stage, even if price reduction had had some impact on competition, because the remaining competitors could then undercut their prices, or new suppliers could readily enter the market. In our view competition is and will remain strong enough to rule out this course of action by the merged companies on any significant scale.

Other sectors of the access market

Ladders

7.32. The value of ladder sales in 1984 is estimated at £40 million, and the merged companies' share of the market for industrial/trade and for domestic ladders respectively at 32 and about 35 per cent. The respective BET and SGB subsidiaries, Stephens and Carter Ltd and W C Youngman Ltd, are two of the three largest suppliers, but there are some two dozen other small manufacturers. In wooden pole ladders, which we understand are the type used almost exclusively on scaffolding sites, the merged companies' share would be about 60 per cent; the value of this market is estimated at some £3 to £4 million per annum.

7.33. The evidence we have received is that the ladder market is an easy one to enter, particularly in aluminium ladders for which the demand has grown. The technology required is relatively straightforward. The market has become

over-supplied and very competitive. In one sector, domestic aluminium ladders, a considerable part of the supply is to the DIY multiples, which have considerable purchasing power.

7.34. At the time of its offer to acquire SGB, BET said that it was prepared to sell SGB's ladder manufacturing business. It subsequently told us that it did not consider that that step was necessary on competition grounds. We think that, in the situation described in the preceding paragraph, it would not be possible for the merged companies to exercise monopoly power in any part of this market. We therefore see no necessity to recommend that BET's offer, to divest SGB's ladder manufacturing business if the merger were to take place, should be pursued.

Towers, cradles and powered access equipment

7.35. These are comparatively small sectors of the access market (see paragraphs 2.32 to 2.35). In towers and powered cradles the merged companies would have substantial shares of the market: in powered access equipment its share would be minimal. It is not difficult to enter these markets, and competition has been increasing. The merger would have no significant effects on competition in these cases.

Scaffolding fittings

7.36. Although BET argued that forged and pressed steel fittings represent two separate markets, the evidence we have received suggests that for most purposes there is one market. Total sales of fittings were £12.2 million in 1984; the merged companies' share would have been about 33 per cent. SGB argued that that share would enable the merged companies to withhold supplies from small scaffolding competitors, or raise their prices to them, thus weakening competition from them; some scaffolding companies expressed similar concern. Alternatively they could discriminate in their purchasing or reduce their prices so as to weaken or eliminate competition from other suppliers, thus enabling them to raise prices later. But there are three other suppliers of consequence in the United Kingdom. A quantity of fittings is also imported; imports are not at present an important source of supply, but they could increase. Production of fittings does not call for large facilities or involve expensive technology, so that it is not difficult to enter the market. We do not think therefore that the merged companies would be able to exert monopoly power in this market, or do the things which SGB and others suggested it would be able to do.

Other issues of public interest

7.37. We turn now to consider the possible effects of the merger on other issues of public interest.

The possible effects of the merger on efficiency

7.38. Two aspects of efficiency are involved. First, BET said that it would be able to rationalise some depots and the two Head Offices of the access operations, as well as making some other economies. It estimated the cost savings from this at around £3 million per year. SGB gave us a much higher estimate of redundancies from the merger (see paragraph 7.41); if that estimate

proved to be accurate, there would be significantly higher cost savings. We accept that some gains in efficiency might be made, and to the extent that they are, competition in the industry could be sharpened.

7.39. Second, there is the question of how the large SGB scaffolding operation would be combined with the group of smaller BET scaffolding companies. BET told us that it had not decided precisely how to do that, and wanted to examine the task carefully with the SGB management after the acquisition had been made; it would want to preserve and build on those areas where SGB's performance was strong. BET also said that, being a large group, it would be able to make available sufficient management resources to ensure that the merger was efficiently implemented. SGB suggested that, in the absence of any indication from BET as to how the merger would be implemented, some difficulties over the integration of the two companies could be foreseen; for example, how depots would be rationalised and operations integrated while preserving the value of the names of SGB and the BET companies. While acknowledging that difficulties may arise, we do not think that a carefully planned merging of the activities of the two access activities need lead to inefficiency or to loss of competition with third parties.

R & D and product development

7.40. BET argued that the merger would assist the process of introducing new technology and new products into the industry, such as in developing the use of powered access as was happening in the USA. BET also argued that a greater expenditure on R & D might be justified because of the larger base of operations which the merged companies would have. SGB, on the other hand, argued that BET's stated objectives were to achieve market domination and maximise profits; these objectives were not, in its view, consistent with spending adequate amounts on R & D and product development. Indeed, in its latest report and accounts BET Access had said that it had no direct involvement in R & D. BET told us that it devoted some effort to scrutiny of developments in the access market, and to product development. The evidence we have received supports the view that SGB has been a leader in the industry in R & D and product development. BET itself acknowledged SGB's efforts, and assured us that it would continue with, and build on, the efforts of both companies in these fields. While we think that the merger is not necessary in order for the two companies to invest as much as is required in R & D and product development (bearing in mind that no expensive technology is involved), it would clearly be in BET's interest to see that the merged companies does not fall behind in these matters, and we do not think that the merger would lead to that happening.

Possible effects of the merger on employment

7.41. BET gave us an estimate of some 200 redundancies arising from the amalgamation of the two Head Offices and some depots; it expected that a large part of such redundancies would be achieved by means of natural wastage. SGB gave us a much higher estimate of redundancies, approximately 600 plus those arising from combining the two ladder manufacturing units. The main reasons for the differences between BET's and SGB's estimates were as follows. First, SGB suggested a much higher total for redundancies at the Head Offices. Second, SGB argued that its ladder manufacturing unit would be

transferred to BET's unit, whereas BET said that the two units would be maintained separately. Third, BET took a much more cautious view of the extent to which rationalisation of depots and contracting operations in the regions would be justified.

7.42. We accept that the merger would lead to some redundancies. We think that it would lead to a greater number of redundancies, especially in the Head Offices, than would be likely to occur if SGB and BET remained separate, and continued—as they would need to do—to improve their efficiency in the use of manpower, and were able to take greater advantage of natural wastage. It is difficult to gauge how many redundancies the merger may create, because BET has not been able to give us any indication in detail of how it would integrate the two access businesses and what rationalisation might be achieved. It seems to us, however, unlikely that the number of redundancies would be as large as SGB has suggested. Bearing in mind the improvements in efficiency that the merger might provide, we do not think that the effects it may be expected to have on employment would operate against the public interest. We refer in paragraph 7.45 below to the possible effects on employment in the United Kingdom of increased imports as a result of the merger.

Possible effects of the merger on safety and training

7.43. SGB told us that it had long been a leader in attempts to improve safety in the industry and the training of the workforce. It contended that BET had given less priority to these matters. BET gave us information which showed, in its view, that it took full advantage of the training opportunities offered by the Construction Industry Training Board. It acknowledged the strength of SGB's internal training, and assured us that it would continue with, and develop, SGB's training facilities and programmes, together with its own, in the merged companies. It would be in the interest of BET and the merged companies to pursue such a course, and we accept that it would do so.

7.44. The evidence we have received suggests that both BET and SGB have made adequate contributions to the work of the industry on such matters as safety and training, and have provided their due shares of representatives on the NASC committee dealing with these and other industry-wide matters. BET assured us that it would maintain that contribution, after the merger, pro rata the size of the merged companies, and would not reduce the contribution because one of the two major companies had ceased to exist separately.

Possible effects of the merger on imports

7.45. SGB and others suggested that the merger would lead to increases in imports of steel tubing. SGB has in recent years obtained nearly all its supplies from the British Steel Corporation (BSC), whereas BET has met its needs largely by imports. SGB said that, if BET's purchasing policy was extended to cover SGB's requirements, imports would increase. BSC expressed concern at the possibility that BET would decide to import to cover SGB's needs as well as its own, thus endangering jobs in the United Kingdom. BET thought that SGB obtained better terms from United Kingdom suppliers for its larger requirements, whereas BET itself was able to buy tubing more cheaply abroad. BET said that it expected that the merged companies, with their increased requirements, would be able to obtain still better terms in the United Kingdom; if so,

BET would use the domestic product which, all things being equal, it preferred to do as being more convenient. We do not think, therefore, that the merger is likely to lead to an increase in imports.

7.46. SGB also argued that the purchasing power of the merged companies would enable them to obtain preferential rates for steel tube, thus giving them an unfair advantage over other contractors and suppliers. Large customers can generally obtain better purchasing terms, and we do not think that it would be against the public interest if the merged companies managed to do so.

7.47. SGB also suggested that the merger would lead to a reduced range of equipment being stocked and supplied, which would enable foreign system scaffolding ranges to penetrate the United Kingdom market, a result they had up to now failed to achieve. BET said that it intended to maintain and indeed expand the range of equipment which the merged companies would have available. We think it unlikely that the merger would of itself lead to any significant changes in the range of equipment available to customers. As for potential imports, we see nothing against the public interest in foreign equipment providing competition to domestic products (just as BET and SGB are at present attempting to sell their equipment abroad); indeed such additional pressure to preserve the level of competition in the access market is to be welcomed.

The possibility of obtaining more business abroad

7.48. Both BET and SGB have business interests abroad. BET's are larger across the range of that group's business, but quite small in scaffolding. SGB has reduced its overseas interests, but still has a larger presence than BET in scaffolding overseas. BET suggested that its wide experience overseas, and its greater financial strength, while not a major part of its case for the merger, would enable the merged companies to develop their access activities overseas, especially in offshore scaffolding. We accept that the merger might produce a limited benefit in this way.

Summary

7.49. We have concluded that the merger would not have any significant adverse effects on competition in the various sectors of the access market, nor upon R & D and product development, employment, safety and training, or imports. The merger could produce some gains in efficiency, which if achieved could sharpen competition in the industry.

Conclusion

7.50. We therefore conclude that the arrangements in contemplation by BET Public Limited Company for the acquisition of SGB Group PLC may be expected not to operate against the public interest.

D G RICHARDS (*Chairman*)

M B BUNTING

P S G FLINT

S C LITTLECHILD

SIR RONALD SWAYNE

C A UNWIN

S N BURBRIDGE (*Secretary*)

12 May 1986