

8 Conclusions

The merger situation

8.1. Under the terms of the reference and the relevant sections, in particular section 64, of the Fair Trading Act 1973 (the Act) we are required to investigate and report whether a merger situation qualifying for investigation has been created.

8.2. As is described in paragraph 3.5, the assets purchased by Swedish Match AB (Swedish Match) from Allegheny International Inc (Allegheny) were acquired on 30 March 1987, ie less than six months before the date of the reference. The assets so acquired exceed £30 million in value. The assets are partly situated in the United Kingdom where they include businesses involved in the manufacture and distribution of shaving equipment, domestic and garden equipment, swords and matches. We are satisfied that these businesses include at least one 'enterprise' within the meaning of the Act. In practice the investigation has been concerned with the effect of the merger so far as the businesses within the United Kingdom are concerned.

8.3. The condition set out in section 64(1) of the Act is therefore satisfied. We conclude that, for the purposes of section 64(8) of the Act, a merger situation qualifying for investigation has been created by reason of enterprises formerly carried on by or under the control of Allegheny having ceased to be distinct from those carried on by or under the control of Swedish Match.

Public interest issues

8.4. We have explained that the assets acquired include a number of businesses carried out in the United Kingdom under the direction of the Wilkinson Sword Group. No evidence has been put to us which would lead us to believe that public interest issues arise in respect of the businesses of the manufacture and sale of shaving equipment, domestic and garden equipment and swords. Our consideration has therefore been concerned with the acquisition by Swedish Match of Bryant & May Ltd (Bryant & May), the only substantial United Kingdom manufacturer of matches and a major distributor of lighters.

The United Kingdom match industry

8.5. The development of the United Kingdom match industry is set out in paragraphs 2.1 to 2.8. It is important to note the degree to which this market has been characterised by the active co-operation of its two leading participants. By 1927, the United Kingdom match market was effectively dominated by Bryant & May's home production and by imports from Swedish Match via J John Masters Ltd (Masters), a wholly-owned subsidiary of Bryant & May. Swedish Match, through the British Match Corporation, was a substantial shareholder in Bryant & May. The close association of the two major participants in the market for matches was considered in one of the first reports of the Monopolies and Restrictive Practices Commission in 1953¹ and as a result of criticisms contained in that report the terms of the relationship between the two companies were renegotiated. But, in practice, the association continued to be a close one. Swedish Match retained its shareholding in British Match Corporation and, later, in Wilkinson Match, only finally relinquishing this stock to Allegheny in 1980. Masters, until the present merger still a part of the Wilkinson group of companies, remained Swedish Match's sole channel for the importation, marketing and distribution of its matches and lighters. We believe that the long-standing

¹ Report on the Supply and Export of Matches and the Supply of Match-Making Machinery (presented to Parliament on 12 August 1953 as HC paper 161). HMSO.

relationship between Bryant & May and Swedish Match has for many years diminished competition in the supply of matches in the United Kingdom and it is against that background that the present acquisition must be judged.

The lights market

8.6. Swedish Match put it to us that we should consider the impact of the present arrangements on the 'lights market', defined to include all lights obtained from matches, disposable and non-disposable cigarette lighters and automatic ignition devices on, for example, domestic gas appliances. We accept that this is the broad market definition, but we have also focused on the two narrower markets of matches and disposable lighters and on the interaction between them.

8.7. The general trends within the United Kingdom lights market are set out in Table 5.1. This is a market in overall decline and within the lights market as a whole, the fall in the demand for matches is particularly significant. Overall the lights market has fallen by around 6 per cent in the period 1982 to 1986. By 1991, Swedish Match has told us that it predicts a further fall of around ten per cent, representing a decline of over 16 per cent over the decade. Within this, the proportion of lights obtained by automatic ignition systems is expected to rise: it already accounts for 60 per cent of all lights other than smokers'. The proportion of lights obtained from cigarette lighters, disposable and non-disposable, is also expected to rise, a drop in the number of lights struck from refillable lighters being more than offset by a four-fold increase in the use of disposable lighters. By 1991, however, Swedish Match has predicted that the number of lights struck from matches will be less than 40 per cent of the 1982 level.

8.8. Within the United Kingdom match market, there are effectively only two major distributors of matches, Bryant & May and Masters with, respectively, some 54 per cent and 28 per cent and together around 82 per cent of United Kingdom sales. Samaco, the third largest distributor, has only some ten per cent of the sales. Under the arrangements which are the subject of the present inquiry, it is intended that the management, sales forces and distribution networks of Bryant & May and Masters should be amalgamated into a single organisation.

8.9. Both Bryant & May and Masters are also major distributors of disposable and semi-disposable lighters. Until recently lighters distributed by Bryant & May accounted for around 35 per cent of total United Kingdom sales. If, as Swedish Match has predicted, Bryant & May now loses the Tokai Seiki distributorship, some reduction may occur, but it must be likely that Swedish Match would seek to substitute lighters of its own manufacture for this lost market share. Lighters distributed by Masters account for 21 per cent of United Kingdom sales. The only United Kingdom manufacturer of lighters, IWAX, has suggested to us that a combined Bryant & May/Masters with a single integrated sales and distribution operation may be in a position significantly to increase its market share. As lighters increasingly substitute for matches within the smokers' segment of the lights market, the lighter operations seem likely to become increasingly important for Bryant & May and Swedish Match.

8.10. The substitution of lighters for matches has, we have been told, been held back in the United Kingdom by the disparate rates of excise duties levied on matches and lighters. The duty on matches is approximately 0.7 pence per standard box while all lighters attract a duty of 50 pence. The duty on 1,000 lights from matches therefore is around 16 pence, while that on 1,000 lights from a disposable lighter is 50 pence. The duty on lighters has the effect of more than doubling the retail price of the cheapest lighters to around 90 pence. This compares with some 33 pence in France or West Germany, where, according to the sales director of Samaco, competition between local manufacturers is particularly fierce. In West Germany the very strong competition from cheap lighters has, we have been told, led to the virtual elimination of domestic match production. The evidence we have seen suggests that the decline in match sales in the United Kingdom is likely to continue, and were the 50 pence duty to be reduced or removed (and given moves within the European Community to harmonise Member States' import and excise duties this must be reckoned a possibility) the decline would become more severe.

8.11. We next consider the degree to which various types of matches compete one against another. In particular, safety matches are in competition with strike-anywhere matches. These two types of matches are not regarded by many purchasers as being fully substitutable. There are strong local preferences for particular types of matches: safety in Southern England and Wales, strike-anywhere in the North and Scotland. Indeed, local preferences extend to particular brands of matches. For example, Bryant & May's safety matches are marketed in England generally as Brymay and in Wales as Bo-Peep. The matches and boxes are identical; only the labels are different. Similarly, the red-headed strike-anywhere matches marketed in England, largely under the England's Glory label, are essentially the same product as the blue-headed Scottish Bluebell matches marketed in Scotland and Northern Ireland. The only match to sell equally well throughout the United Kingdom is Swan Vestas, Bryant & May's undoubted market leader among smokers' matches.

8.12. The figures quoted in paragraph 8.8 for shares of the United Kingdom match market refer to the total of strike-anywhere and safety matches. In fact, there are few imports of strike-anywhere matches other than those from Sweden distributed by Masters. The combined market share of Bryant & May and Masters of strike-anywhere matches is, Swedish Match has told us, around 97 per cent. But strike-anywhere matches are manufactured by other European producers in Italy and Spain. Although the numbers of these matches imported into the United Kingdom are at present very small, it is possible that limited imports might be made by independent distributors wishing to challenge for increased market shares.

8.13. We have pointed out in paragraph 5.34 and Appendix 5.2 that the two main exporting countries (other than Sweden and Belgium), Czechoslovakia and the USSR, are subject to quota restrictions. We have noted, though, that the quotas have never been filled. The sales director of Samaco explained to us that the home markets of the state trading nations, where disposable lighters were not generally available, were not declining; local producers gave priority to satisfying local demand and it was unlikely that the numbers of matches available for export would increase significantly above current levels.

8.14. It should also be noted that, while the Eastern European matches compete on price for standard box sizes, they are not competitive in the household size and they do not offer smokers' box size or strike-anywhere matches. Other importers account for no more than seven per cent of the match market and import virtually no strike-anywhere matches. The likelihood of increased competition in the United Kingdom from independent imported matches may, in the absence of significant price increases, be limited.

Existing competition in the match market

8.15. Though there has been a close and continuing relationship between Bryant & May and Swedish Match for some 60 years, we found that there has been some competition between the two companies. But in practice the competition on price has been muted. Swedish Match has told us (see paragraph 6.22) that it had in the past been chary of competing for an increased market share in the United Kingdom, because it did not wish to risk retaliatory action by Wilkinson Match, or later Allegheny International, in other parts of the world, where Swedish Match might have been vulnerable to predatory pricing by competitors.

8.16. Bryant & May has for many years been the price-setter in the United Kingdom match market with Swedish Match through Masters, content to maintain its long-established market share of 25 to 30 per cent, though with some price competition at the margin. The figures supplied by Swedish Match to which we have referred in paragraph 5.25 indicated that the costs of Bryant & May and Swedish Match products allow for a degree of price competition at the wholesale level, with Bryant & May having an advantage on smokers' and household boxes and Swedish Match an advantage on standard boxes. A number of purchasers of matches, whose views are summarised in Chapter 7, have told us that some

price competition has indeed been in evidence, sometimes even sufficient to persuade purchasers to change their suppliers temporarily or permanently. But this has in our view fallen well short of full price competition designed significantly to increase the share of the market of either party. Prices to the consumer for Bryant & May and Swedish Match products are usually identical.

The position after a merger

8.17. If the merger were allowed, a combined Bryant & May/Masters would manufacture 99 per cent of all matches produced in the United Kingdom. It would manufacture 100 per cent of strike-anywhere matches produced in the United Kingdom. It would distribute 82 per cent of all matches and 97 per cent of strike-anywhere matches sold in the United Kingdom. It would distribute at least 42 per cent of the market for disposable and semi-disposable lighters, and depending upon how successful it was in substituting its own lighters for those of Tokai Seiki, of which it has hitherto been the distributor, this figure might well be exceeded. It would possess the only nationwide marketing and distribution operation for both matches and lighters. This operation would be delivering regularly to purchasers ranging from the largest supermarket chains, cash and carry chains and tobacconists' buying consortia to the smaller confectioner, tobacconist, newsagent although not to the smallest such businesses which would generally get supplies of matches and lighters from intermediary wholesalers or cash and carry outlets.

8.18. The only source of competition in the supply of matches would be imports, principally from state trading nations. These imports would be almost entirely of safety matches, favoured in the South of England and parts of Wales but not elsewhere in the United Kingdom. If consumer preferences remain unchanged, the merged enterprise would enjoy a virtual 100 per cent monopoly outside the South of England in the supply of matches.

Potential detriments of the proposed merger

8.19. The degree of market dominance which this implies could have a number of adverse effects including, we believe, the opportunity to raise prices for matches. Even where competition from current imports exists, it must be doubted whether this would be such as to prevent a combined Bryant & May/Masters from raising prices. Indeed, the sales director of Samaco told us that, for his part, he would respond to any such price increase by raising his own prices; given the limited supplies of matches available to him, he would be unlikely to keep prices down in order to attempt to increase market share.

8.20. We believe, however, that, in the special circumstances of the continuing decline in the market for matches, there are factors which would act as effective constraints on the merged company increasing wholesale prices significantly. Principal among these is that any such increase seems likely to prompt smokers to forsake matches in favour of lighters (and other consumers in favour of automatic lights), accelerating the decline of the match market. Moreover, other manufacturers, for example in Italy and Spain, might find it worthwhile to compete for a significant share of the United Kingdom market were match prices to rise.

8.21. A further factor preventing large price increases is the purchasing power of the largest buyers of matches, the retail multiple chains and cash and carry wholesalers. They would be able, if faced by increased Swedish Match prices, to encourage increased independent imports, either from existing importers or by importing directly themselves, or would be able to promote disposable lighters as an alternative to matches.

8.22. Swedish Match believes that matches will, for the foreseeable future at least, remain the profitable core business of Bryant & May. It told us that large increases in match prices would be counter-productive. Indeed, Swedish Match has given us the following assurance on match prices:

Average price increases for branded products in the United Kingdom will continue to be contained within the retail price index unless there are factors outside Swedish Match's control which lead to cost increases significantly in excess of the increase in the retail price index.

8.23. As to the pricing of lighters, this is a market with a number of strong international participants fighting for market share. It seems unlikely against this background that a merged Bryant & May/Masters would seek to raise lighter prices to any significant degree as a result of the merger. If they did, the supermarkets and wholesalers would have little difficulty in obtaining alternative sources of supply from existing or new distributors at competitive prices.

8.24. A further possible adverse effect of the merger arises from the domination of the match market of the merged concern. As detailed in paragraphs 5.22 and 5.33, Bryant & May and Swedish Match between them produce matches under 22 labels for the United Kingdom market. As we noted in paragraph 8.11, there are strong regional and local preferences among consumers for particular types and brands of matches. It would be open to a merged Bryant & May/Masters, secure in its market dominance from the effects of public disapproval, to reduce its range of matches to, say, one brand of safety matches, one brand of red-headed and one of blue-headed strike-anywhere matches, plus household sizes of each type of match and, of course, Swan Vestas, with, no doubt, some savings in packaging costs. This is a fear which has been put to us by the Retail Confectioners and Tobacconists Association.

8.25. We put this point to Swedish Match, and were told that inter-brand competition was an important part of the marketing of matches in the face of competition from lighters especially for strike-anywhere matches. Swedish Match believed it had to take account of consumer preference for particular brands of match, for fear that consumers, deprived of their favourite brand, would cease to use matches altogether. They told us that the existing strike-anywhere brands marketed by Bryant & May and Masters would all be retained (except for one—see paragraph 8.26) for as long as the market volumes of the brands justified the small additional costs involved. For safety matches there is little brand loyalty among consumers and the need to conserve brand names does not arise to the same extent.

8.26. It is our view that, because it accords with the best marketing policies available to Swedish Match, a wide variety of brands of matches will continue to be available to consumers from Swedish Match. Moreover, Swedish Match gave us a written assurance that it would supply directly or through third parties all the strike-anywhere brands currently supplied in the United Kingdom by Bryant & May and Masters, save the 'Punch' brand, and would continue to supply directly or through third parties each such brand for so long as consumer and trade demand for the brand was sufficient to make it economic to do so.

8.27. A further possible adverse effect, raised by the Retail Confectioners and Tobacconists Association, concerned the distribution and delivery services at present supplied by Bryant & May and Masters. Quality of delivery service is an area in which the two companies have competed. The Retail Confectioners and Tobacconists Association was concerned whether the service would remain at present levels once the competition between the two market leaders had been removed. In particular, the Association questioned whether the merged distribution network would be willing to undertake the comparatively small deliveries to local businesses which at present characterise the distribution of matches by Masters. It feared that in future only major customers, ordering by the container load, would be supplied direct, with smaller outlets compelled to go through wholesalers or cash and carry outlets at extra cost to them.

8.28. We put these points to Swedish Match, which told us that quality of delivery service was unlikely to be affected adversely by a merger. Bryant & May had for some years tended not to supply CTNs direct; deliveries were made to the central warehouses of wholesalers, cash and carry operators, CTN chains, supermarkets and syndicates and buying consortia of smaller CTNs. Masters had until recently provided a direct delivery service to some smaller CTNs but, before the question of the present merger had arisen, the decision had been taken and in part implemented to reduce Masters' sales and distribution workforce from 125 to 22 (see paragraph 4.11). This reduced sales force would not have been equipped

to continue 'small drop' deliveries to individual CTNs. Thus, while Swedish Match agreed that smaller CTNs might find it more difficult than in the past to obtain direct deliveries of matches and lighters, it argued that this could not be attributed to the arrangements under investigation.

8.29. We believe that standards of delivery service to the customers of the merged company are unlikely to decrease significantly as a direct result of the proposed merger. But in any event, Swedish Match gave us an assurance that in so far as Masters had delivered to customers in drop sizes below Bryant & May's minimum (of £250 or the equivalent of five cases), Swedish Match would continue to make such deliveries available to those customers for so long as they were required. Bryant & May would continue to maintain its minimum drop size in volume terms.

8.30. In the preceding paragraphs we have considered certain aspects of the markets for matches and lighters and explained our views that we do not consider that the merger would enable Swedish Match to increase prices significantly or to reduce its present standards of service. Nevertheless, there is no doubt that after the merger there would be a substantial element of additional concentration in the markets we have described. We therefore next consider the benefits which might be held to arise from the merger.

Possible benefits of the proposed merger

8.31. It has been put to us that the decline in the market for matches identified in Chapter 5 and in paragraph 8.7 shows no sign of reversal and that it is against this background that the merger must be judged. Swedish Match has described the decline as secular and has confirmed its belief that the decline is irreversible. We are not inclined to accept that the demand for matches will cease entirely. It seems to us that matches will always be required for functions for which lighters cannot adequately substitute. But it does seem to us likely that the domestic and smokers' use of matches will continue to decline and this decline could accelerate rapidly if the duty on lighters was to be reduced or removed.

8.32. With the match market in the Western world as a whole in decline, Bryant & May has been faced for several years by a falling home market and few export prospects. It has now found itself in the unenviable position of being one of the world's most efficient producers of matches, but with spare capacity and little prospect of large export orders. Moreover, as a result of the acquisition by Swedish Match of assets from Allegheny outside the United Kingdom, Bryant & May is now, even more than in the past, crucially dependent upon Swedish Match for supplies of chemicals, splints, machinery and spare parts. It is now, in our view, difficult to imagine an independent existence for Bryant & May since it must look to Swedish Match for so much of its raw material and machinery. In this context, we noted that the management of Bryant & May told us that at no point had they thought a management buy-out feasible.

8.33. Swedish Match has told us that, if the merger is allowed, it intends to concentrate all its main European manufacturing operations in two factories, one in Sweden and the other in Liverpool. To do this, Swedish Match would be closing one factory in Sweden. The Liverpool factory would produce all of Swedish Match's European requirements of strike-anywhere matches. Swedish Match initially told us that Bryant & May would lose some of its production of safety matches to the Swedish factory but that the overall effect of increased strike-anywhere and decreased safety match production at Liverpool would have been to increase overall match production by around 10 per cent. However, at a later stage of the inquiry Swedish Match told us that it is now intended that Bryant & May should continue to produce safety matches in the quantities planned by Bryant & May's management before the merger was in prospect. The increased strike-anywhere production and the retention of current volumes of safety matches would have the effect of increasing the planned 1988 output of matches at Liverpool from some 24 to 25 billion to around 31 billion, an increase of around 25 per cent. This increase would safeguard the work of two shifts at the Liverpool factory which might otherwise have been at risk during 1988. Beyond 1988,

Swedish Match has told us that it intends to maintain the Liverpool factory as an operating unit for as long as that is economically feasible. In these circumstances Swedish Match has told us that it is confident that it is thereby securing the future of the Liverpool factory for significantly longer than would otherwise be the case.

8.34. We regard the maintenance of match making in the United Kingdom and the consequent level of employment in Bryant & May's Liverpool factory as important. The only alternative source of supply for woodstick matches would appear to be imports. During a visit to the factory we met representatives of the workforce and learned of informal discussions which had taken place between them and the management. Subsequently, the regional organiser of the General, Municipal, Boilermakers and Allied Trades Union, which is the most heavily represented union among the workers at the Liverpool factory, wrote to Bryant & May's operations director requesting certain written assurances. Swedish Match has shown us a copy of the letter which it has sent in response. The letter includes assurances on short-, medium- and long-term prospects of the factory and its workforce, and on the volumes of matches to be produced by the factory, together with a commitment to honour present terms, conditions and agreements negotiated with the unions and to discuss future investment plans at the factory with union representatives. The full text of the letter is reproduced as Appendix 8.1.

8.35. We are satisfied that, in an industry in continuing decline, Swedish Match's plans for the Liverpool factory offer a better prospect of continuing employment in an area of high unemployment than would be likely were the merger not to go ahead. Moreover, while exports of matches have not in recent years been important for Bryant & May, we believe that, as one of only two main Swedish Match factories in Europe, the potential for exports of matches from the United Kingdom might be improved were the merger to go ahead.

Conclusion

8.36. This is a merger which would lead to a substantial degree of additional concentration in an already highly concentrated market. We believe, however, that, in the exceptional circumstances of the declining market which we have described, it is unlikely that a merged Bryant & May/Masters would raise prices unreasonably, or materially reduce the number of brands available or the standards of service to customers. We believe that this merger would provide a greater degree of job security at Bryant & May's Liverpool factory and would secure the continuation of match making in the United Kingdom for a longer period than might otherwise be the case.

8.37. On balance, therefore, we conclude that the creation of a merger situation qualifying for investigation which we have identified does not operate and may be expected not to operate against the public interest.

D G RICHARDS (*Chairman*)

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S N BURBRIDGE (*Secretary*)

2 October 1987