

# 6 Conclusions

## THE MERGER SITUATION

6.1. We have explained in Chapter 4 that on 12 May 1989 Coats Viyella Plc (Coats) acquired 25.1 per cent of the equity of Tootal Group plc (Tootal), a move which took Coats' total holding to 29.9 per cent. On the same date Coats and Tootal announced an agreed bid by which Coats would acquire all the issued share capital of Tootal. Coats and Tootal have presented most of their evidence to us jointly. When appropriate we refer to them as the parties.

6.2. Under terms of reference dated 26 June 1989 made under sections 64, 69(2) and 75 of the Fair Trading Act 1973 (the Act) we are required to investigate and report on two merger situations (see Appendix 1.1 for terms of reference).

6.3. The first is concerned with the question whether a merger situation qualifying for investigation, as defined in section 64(8) of the Act, has been created in that enterprises carried on by or under the control of Tootal (being a body corporate in the United Kingdom) had, within the six months preceding the date of the reference, ceased to be distinct from enterprises carried on by or under the control of Coats and that the condition set out in section 64(1)(b) of the Act is also satisfied.

6.4. The assets of Tootal exceed £30 million (see Appendix 3.2, Table 1). The condition set out in section 64(1)(b) of the Act is therefore satisfied. Under the terms of reference, therefore, the condition set out in section 64(1)(a) is excluded from our consideration.

6.5. Under the first reference, therefore, we have to determine whether, in the six months preceding the date of the reference, a merger situation qualifying for investigation was created. In so doing, we have to consider whether Coats' holding of 29.9 per cent of Tootal's shares gave it the ability to control or materially to influence the policy of Tootal. We are satisfied that the holding was built up to this figure during that period of six months preceding the merger. Coats' holding on 26 December 1988 was 4.87 per cent.

6.6. At present, pursuant to an Order made by the Secretary of State, Coats is precluded from exercising 15 per cent or more of voting rights in Tootal. This does not prevent conclusions being drawn from the situation as a whole including what we would expect to happen if the restriction on voting arising from the Order should cease to have effect. In what follows therefore we have discounted the temporary effect of the Order.

6.7. Shareholdings in Tootal are considerably fragmented apart from the Coats holding which is by far the largest single shareholding in Tootal. The parties told us that Tootal would (in the absence of the Secretary of State's Order) expect to receive a request from Coats for Board representation which it would accept and which would give Coats the ability to exert influence on the affairs of Tootal.

6.8. We have considered the voting record at a number of general meetings of Tootal. Support for the Board of Tootal, in terms of proxies given, has varied from about 11 per cent of the voting shares to nearly 40 per cent at the most recent Annual General Meeting (this included the 29.9 per cent holding of Coats in Tootal which was voted in the Board's favour). Tootal's Board has consistently been supported by its shareholders with the most significant number of adverse proxies apparently being no more than about 4 per cent.

6.9. Despite this record of shareholder support, if at some time in the future Coats were in dispute with the Board of Tootal, with a shareholding of more than 25 per cent Coats would be in a

position to prevent the passing of special resolutions which are necessary to provide the Board of Tootal with increased borrowing powers and the authority to issue new shares. We would also expect that on some matters at least Coats would be able to obtain a majority for its own ordinary resolutions, which require a simple majority of votes, and to block and amend resolutions proposed by the Tootal Board. Moreover, with a shareholding of over 10 per cent Coats could convene a meeting of shareholders without the agreement of the Tootal Board.

6.10. These circumstances would provide Coats with considerable influence over the affairs of Tootal. In the longer term, especially if Coats were represented on the Tootal Board, they might allow it effectively to control Tootal's policy. We consider therefore that Coats has the ability materially to influence Tootal's policy.

6.11. We conclude that for the purposes of sections 64 and 65 of the Act, enterprises carried on by or under the control of Tootal have ceased to be distinct from enterprises carried on by or under the control of Coats; and that a merger situation qualifying for investigation has been created ('the merger in being').

6.12. The second merger situation we have to investigate requires us to consider whether arrangements are in contemplation which, if carried into effect, would result in the creation of a merger situation qualifying for investigation as defined in section 64(8) of the Act in that enterprises carried on by or under the control of Tootal would cease to be distinct from enterprises carried on by or under the control of Coats and that the condition set out in section 64(1)(b) of the Act is also satisfied. For the reason given in paragraph 6.4 that condition is satisfied.

6.13. It is clear from evidence given to us during the inquiry that, if it is permitted to do so, Coats will make a further offer for all the shares of Tootal that it does not already own.

6.14. We consider, therefore, that arrangements are in contemplation by Coats for the acquisition of Tootal which, if carried into effect, would result in the creation of a merger situation qualifying for investigation ('the merger in contemplation').

6.15. Consequently, we have to consider whether the creation of either or both of the merger situations which we have identified operates or may be expected to operate against the public interest (section 69(1)(b) of the Act).

## **The international textile industry**

6.16. The production, distribution and retail sale of textiles and clothing are important to the economies of many developed and developing countries. There are a number of stages in the process of bringing textile products to the consumer including spinning the yarn, weaving, dyeing and finishing the fabric, designing and making up the garment and wholesaling and retailing the finished product. There are many different routes through these stages to a particular finished garment or other product. For example, a poly/cotton shirt made in the United Kingdom may include cotton from Egypt and the United States and polyester fibres from any one of a number of producing countries, with the yarn having been spun in one Far Eastern country and woven into fabric in another to a design developed in Europe or the United States, the fabric then being finished in Germany or France. Although many of the higher-value products are still made up in the developed countries from cloth which, increasingly, has been woven in Asia, many garments on sale in the United Kingdom and other developed countries are now produced in the Far East.

6.17. International trade takes place at all levels in the manufacturing processes which are involved in producing and converting raw fibres into clothes and other products intended for sale to consumers. In 1986, the most recent year for which comprehensive data are available, world trade in textiles amounted to \$128 billion of which \$62 billion was clothing. Textiles accounted for some 6 per cent of all world merchandise trade.

6.18. Labour costs are an important factor at many stages of production. Partly because of differences in such costs the textile industries of Europe and the United States of America have, over the past decades, come under increasing pressure from the developing and state trading countries. Despite the existence of the Multi-Fibre Arrangement (MFA), an arrangement made under GATT which sets limits on the quantities of particular textile and clothing products which developing countries can export to developed countries, the textile industries in the developed countries have faced increasing competition from imports from low-cost sources. Some sectors of the industry have been seriously affected by such imports. This is particularly so in relation to spinning and weaving with a very high proportion of the productive capacity in the United States and Europe being closed down in consequence.

## **The United Kingdom**

6.19. The development of a substantial United Kingdom textile industry dates from the 18th and 19th centuries. In this century, however, as textile industries developed and grew in other countries, in particular those in the Far East, British textile producers found their overseas markets shrinking and their domestic base attacked by imports.

6.20. During the 1970s the pressure of imports intensified and capacity declined. This trend continued until the early 1980s. Since then, however, there has been some recovery in the fortunes of the industry. The United Kingdom is nevertheless now the fourth largest importer of textiles in the world and the tenth largest exporter. The United Kingdom therefore has a large trade imbalance in textiles.

6.21. Coats and Tootal are two of the largest textile companies in the United Kingdom. A merger would result in a group which would be amongst the largest textile companies in the world.

## **Coats**

6.22. The Coats group was formed in a series of mergers carried out in the 1980s which brought together four large textile companies, Vantona, Carrington Viyella, Nottingham Manufacturing Company Ltd and Coats Patons. Coats now comprises about 250 individual businesses world-wide grouped into 13 product divisions which include all aspects of the spinning and weaving of cloth and the making up of garments and other textile products.

6.23. Coats told us that its overall strategy was to operate at all stages of textile production. At the same time Coats did not seek to source from its own plants the whole of its requirements of textile materials at various stages of manufacture and therefore was a net buyer-in of products at each production level. This policy enabled the company to keep abreast of technological or other developments in the United Kingdom or overseas. Where it had been possible to achieve a lower delivered cost by using new technology, Coats told us that it had undertaken substantial capital investment; in the United Kingdom Coats had been investing particularly heavily in areas of high unemployment.

6.24. Coats has some 61,000 employees world-wide with about 36,000 being employed in the United Kingdom. Coats told us that there had been significant increases in productivity in the United Kingdom businesses with output per employee rising by 11 per cent in fabrics between 1986 and 1988 and by 12 per cent in household textiles.

## **Tootal**

6.25. Tootal is a diversified international textile group which operates in over 20 countries and markets in over 60 countries. The main business of the Group is the manufacture and marketing, sourcing and distribution of sewing threads, fabrics, clothing, homewares and specialised materials. Tootal employs about 41,000 people world-wide of whom 15,000 are employed in the United Kingdom.

6.26. The present Tootal Group was created from mergers in the 1960s between the textile companies English Sewing Cotton Company, Tootal and Calico Printers Association Ltd. We were told that the merger of the three companies was intended to produce a greater degree of vertical integration with a view to strengthening the combined Group's position at all levels of production. It was now accepted that the strategy was misconceived as the vertical integration rendered the Group inflexible and ill-suited to meeting the combined threat of competition from low-cost Far Eastern commodity producers and from the improved quality and design of the higher added-value products from Western European competitors.

6.27. Accordingly, we were told, throughout the late 1970s and early 1980s Tootal undertook a major programme of rationalisation, designed to move the Group from the production of basic textile products to concentrate on higher added-value products and to exploit fully the Group's international network, especially in thread operations. This process involved the closure of the majority of the Group's United Kingdom spinning, weaving and fabric capacity, and the development of international sourcing.

6.28. Coats and Tootal therefore have many activities in common and, as set out in Chapter 3, they are both involved in practically all aspects of the textile industry in many parts of the world. One activity, however, stands out from the rest: the production and sale of industrial sewing thread. Coats and Tootal produce and distribute a wide range of thread in many parts of the world and are generally accepted as the largest international industrial thread manufacturers. The proposed merger would therefore result in a company which would be by far the largest and most important producer of industrial thread. We consider the implications of this for competition in the United Kingdom later in this chapter.

## **The companies' aims in the merger**

6.29. As we have explained in Chapter 4, the management of Coats and Tootal had, prior to the reference, agreed on the terms of a merger and recommended it to their shareholders. We were told that the new group would operate in a wide range of product markets within the textile industry from spinning yarns and thread, through weaving and sourcing fabrics to manufacturing garments and other finished products.

6.30. The parties told us that they regarded the merger as a unique opportunity to create a broadly-based and flexible integrated international textile group much better able to compete globally than either group could alone. The parties considered that by combining their activities the merger would assist them in realising the potential of the two companies internationally and in capitalising on their strengths. By enabling the group to compete more effectively throughout the world, we were told, the merger would contribute to the development of a soundly-based United Kingdom textile industry.

6.31. Despite the rather different policies which Coats and Tootal had been individually developing, we were told it was considered that the complementary portfolios of Coats and Tootal in both geographic and product terms provided an opportunity to create a group which would enjoy an established position in the developed markets of Western Europe, in competition with companies in France, Germany and Italy. At the same time the merged group would enjoy strong connections with the lower-cost sources of supply in the developing world in competition with Far Eastern and other developing countries' manufacturers.

## **THE PUBLIC INTEREST**

### **Matters to be considered**

6.32. In many of the individual markets in which it would be operating a merged group would have a relatively small market share. In those markets we do not consider that the proposed merger gives rise to any concerns about the effect of the merger on competition. As we have explained, however, the new group would be the world's largest company in the market for industrial sewing

thread and would have over 40 per cent of the United Kingdom market. It would also have a very significant market share in the sale of domestic thread, be the largest United Kingdom manufacturer of woven shirts and have a share of about 17 per cent of the market for household textiles. There would be some loss of employment in the United Kingdom arising from the merger. We consider that the public interest issues that arise in this investigation relate to the possibility that there may be a reduction of competition in those areas of the textile markets in which Coats and Tootal have significant shares of the United Kingdom market and to the effect of the merger on employment.

### *Industrial sewing thread*

6.33. Thread is essential in the manufacture of practically any product that is made of textile or leather. Clothes, shoes, upholstery for the home and for the motor car, curtains, towels and sheets all depend upon thread which must be strong enough to sustain modern manufacturing methods, durable and pleasing in appearance. J & P Coats and English Sewing Cotton Company, now part of Tootal, were major innovators and pioneers in the introduction of cotton threads in the 18th century and cotton thread was the main product until synthetic fibres were introduced after the Second World War.

6.34. Although synthetic threads had many advantages, not least low cost, they were liable to break and melt under the tension and heat generated by faster industrial sewing machines. To overcome these problems Tootal developed corespun, a thread in which a protective insulating sheath of cotton was spun round a core of continuous synthetic filament producing a thread with the sewing properties of cotton but with the strength and durability of the synthetic core. Corespun was well received by garment manufacturers as it allowed fast production with strong finishes and fine seams. Subsequently corespun with a spun polyester sheath (poly/poly) was developed. Corespun thread with a cotton or spun polyester sheath is still in major use today in the United Kingdom (our survey suggests nearly half of the industrial thread sold is corespun) although other means of adapting synthetic fibres for use as high-speed sewing threads, including new lubricants, have been developed. As a result spun polyester thread has become a major growth product in many parts of the world since it is cheaper to manufacture than corespun thread. Nevertheless some garment manufacturers regard corespun as essential for certain applications.

6.35. Manufacturers of garments and other products require a very wide range of sewing threads and these are available in many thicknesses (known as ticket numbers), colours and finishes as well as the lengths in which they are packaged. The larger producers will offer a range of different types of sewing thread made of cotton, corespun, spun polyester and other synthetic materials. The different types of thread may be available in up to 350 standard stock colours and 12 different ticket numbers. There is also a requirement for special colours to be provided at very short notice, particularly for garment manufacturers.

6.36. Three processes are involved in the production of thread:

- (a) spinning and twisting;
- (b) dyeing; and
- (c) lubricating, final winding and packaging.

6.37. Some producers have the ability to carry out all three processes 'in house'. Others successfully compete by buying in the thread in an unfinished or 'grey' state and carrying out the dyeing and other final stages. While Coats and Tootal told us that they supply some overseas markets successfully by importing from elsewhere, we found that very little finished thread was imported into the United Kingdom (see Chapter 2 and Appendix 2.2 for a survey of suppliers).

### *The industrial thread industry*

6.38. The manufacture and supply of grey and finished industrial thread is an international business with a number of major producers, of which Coats and Tootal are by far the largest. World trade in industrial thread has been estimated by Coats and Tootal at between £2 billion and £2.5 billion per annum. In most of the countries where the parties supply industrial thread, they face a large number of competitors. Some of these are local to the particular country, others compete internationally. While none of these competitors has as large an international spread as either Tootal or Coats, we were told that they offer highly effective competition in many of the markets and constitute potential entrants in others.

### *United Kingdom market*

6.39. The United Kingdom market for industrial thread is of the order of £90 million per annum. In addition to Tootal and Coats with some 23 and 18 per cent of the market respectively, there are two other suppliers each with over 10 per cent: Oxley, a private company, and Donisthorpe which has recently been acquired by the French company Dollfus-Mieg et Cie (DMC) (see Table 2.4 for further information on United Kingdom market share). A Northern Ireland group, Barbour Campbell Threads Ltd, with over 8 per cent of the market specialises in supplying thread mainly to the footwear and automobile industries but nonetheless competes in all parts of the market. The Gütermann group<sup>1</sup> also has a small specialised share of the industrial thread market but more significant participation in the domestic thread market (see paragraphs 6.69 to 6.86).

6.40. Tootal, Coats, Oxley and Barbour have integrated operations, spinning most of the industrial thread which they produce. Donisthorpe and the other suppliers in the United Kingdom market buy in their thread in a grey form to dye and finish at their factories.

6.41. Most of the United Kingdom suppliers will sell their products to all sizes of garment manufacturers and other users. There is some purchase by suppliers of products from other companies to complete their ranges; for instance, Coats and Tootal purchase some finished thread from other suppliers of industrial thread. Many of the smaller garment manufacturers purchase their supplies of thread together with other products they require for their business from wholesalers known in the trade as trimmers. The trimmers obtain their supplies of thread mainly from the United Kingdom manufacturers but may on occasion purchase some thread directly from overseas suppliers, particularly those in the Far East.

6.42. We have assessed the profitability of the parties' industrial thread businesses. The return on capital employed in the United Kingdom industrial thread activities of Coats improved from 11.5 per cent in 1986 to 20.8 per cent in 1988; during the same time the rate of profit on turnover rose from 8.4 per cent to 11.6 per cent. The returns achieved by Tootal's United Kingdom industrial thread activities were better than those of Coats in 1986, but by 1988 had declined to levels below those of Coats. Tootal's return on capital for industrial thread fell from 16.5 per cent in 1986 to 11.1 per cent in 1988 and the rate of profit on turnover fell from 13.1 per cent to 8.9 per cent. These results are good but not exceptional and suggest that at present the market provides no more than a reasonable return to an efficient producer.

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<sup>1</sup>Coats has 20 per cent shareholdings in the Swiss/German Gütermann group, with a seat on the supervisory board of Interfina, the Swiss member of the group, and a right of pre-emption over the remaining sharessee paragraph 3.6.

## *The users*

6.43. There are many thousands of users of thread ranging from large industrial groups, including Coats and Tootal and other major manufacturers, to the very small back-street garment producer. Some users who have long production runs of a particular type of garment, such as jeans manufacturers, require significant quantities of a few types of thread. Others who are working with a wide variety of fabrics and other materials need small quantities of different types and colours of thread. Garment manufacturers are often requested at short notice to meet the demands of retailers who, in modern trading conditions, keep small stocks of garments and insist on fast response times from the makers. This need for quick response can feed back to suppliers of materials including thread. All industrial thread producers therefore seek to provide a quick delivery service aiming to meet most requests in 48 hours and, we were told, for this reason proximity of suppliers to users of industrial thread is regarded as essential.

6.44. The cost of thread is only a small proportion of the total cost of materials, approximately 1 per cent of the cost of a shirt and a good deal less than 1 per cent of the retail price. But there is strong price competition between garment manufacturers and they are very cost-conscious. We have found evidence of significant price competition in the supply of industrial thread. This may be a factor in the relatively low rise of the parties' industrial thread prices (Table 2.5).

6.45. The quality of thread is also an important factor, particularly for the large-scale manufacturer who uses modern sewing machinery at very high speeds. A low rate of thread break is essential for such manufacturers if they are to maintain their rate of production and keep their costs low.

6.46. Competition is therefore in relation to service, price and quality of product. While only the largest suppliers provide a full range of all types of thread, to the extent that different types of thread can perform the same function, most users' needs could in principle be met by one supplier. Many users, partly to maintain the security of a dual source of supply and partly to maintain competitive pressure on thread manufacturers, use two or more sources for their thread and some depend upon a number of different suppliers for different types of thread.

## **The merger and the industrial thread market**

6.47. In assessing the effects of the proposed merger on the market for industrial thread the Commission were confronted with conflicting arguments. Donisthorpe, which we believe has a 10 to 11 per cent share of the market, argued that the merger would give the combined company a dominant place in the United Kingdom market similar to the position occupied by DMC in the French market. Moreover, the opportunities open to existing or would-be competitors to challenge the merged company would be circumscribed: technological barriers to entry were formidable, the importance of proximity to the main buyers of thread ruled out imports, and the static nature of the market meant that gaining a foothold, or the achievement of increased sales, had to be at the expense of existing suppliers.

6.48. DMC/Donisthorpe argued that the position was especially worrying in relation to corespun. The combined market share of the merging companies would be 60 per cent, corespun remained essential for many purposes, and, it said, there was evidence of a world-wide shortage for capacity of this particular variety of thread.

6.49. Worries about the merger were also voiced by a major United Kingdom garment manufacturer who told us that he relied on thread supplied by Coats and Tootal and to a lesser extent Gütermann. They alone could fully meet the company's requirements for thread quality and colour. In regular tests of thread from other suppliers the company told us that it had found unacceptably high rates of breakage on the sophisticated machinery in which it had invested. In particular the company had been unable to find a satisfactory substitute for supplies of corespun bought from Coats and Tootal. The company believed that the merger would lead to higher thread prices. While this was only a small part of overall garment production costs, margins for United Kingdom garment makers

were very small. This and the company's inability to play off Coats and Tootal could have a serious effect on its ability to compete, particularly with garments from the merged group.

6.50. More general objections to the merger were also voiced by another garment manufacturer and a substantial wholesaler. Both believed the merged company would have a dominant position in the United Kingdom thread market which it would be able to exploit by reducing competition and increasing prices. The garment manufacturer was also concerned over his company's ability to compete with garments manufactured by the merged group and difficulties he foresaw in securing alternative sources for the proportion of thread currently supplied by Coats (which his company would wish to do if the merger went ahead). The wholesaler who purchased about 80 per cent of his supplies from Coats and Tootal expressed a similar concern but believed that he would have to look to non-United Kingdom sources of finished thread notwithstanding the risks involved in accurately and swiftly meeting customers' requirements, particularly in colour, from imports.

6.51. The DMC/Donisthorpe view of the merger was not shared by other suppliers. In particular Oxley, the largest independent United Kingdom producer, generally supported the views of Coats and Tootal. Oxley told us that it had a fully-integrated and modern production facility and claimed to have as wide, if not a wider, range of products than either Coats or Tootal. The company, despite currently operating three shifts, had some spare capacity and room on its site to expand. It told us it believed that in general its current prices might be somewhat lower than those of the two major suppliers. Oxley therefore expected that the merger would provide it with further opportunity for expansion as some of its existing, and it hoped new, customers would look to it to provide a competitive source of thread.

6.52. Oxley told us that in its view United Kingdom suppliers were in a position to match the prices and service that could be obtained from importing thread. It considered that the United Kingdom quality was higher than that in the rest of Europe, the United States and certainly the Far East.

6.53. Oxley expected that the merger would be likely to make the combined group more competitive. The merged company would be able to reduce costs in distribution and in manufacture as it would be producing larger quantities of thread. If the merger took place there was a possibility that prices would rise but Oxley doubted whether price rises would be very great as this would risk bringing in imports from the rest of Europe and the Middle East despite their lower quality.

6.54. American & Efird, which is a major United States supplier of industrial thread (and the third largest supplier in the world after Coats and Tootal) and which has a subsidiary in the United Kingdom, told us that if the merger took place the new company would possess a very large share of the thread market in the United Kingdom and in many other markets. American & Efird took the view that this size in itself was not harmful to the industry. The company told us that it had found no great obstacle to acquiring a United Kingdom manufacturer in order to enter the United Kingdom market. The cost of establishing a new thread-dyeing and finishing operation was not in its view a prohibitive barrier although, from a business growth standpoint, it had found the United Kingdom market a difficult one.

6.55. Among users there were similarly a number of views not opposed to the merger. Courtaulds, the largest United Kingdom user of industrial thread, told us that, although it had a small thread company itself, it purchased approximately half of its supplies from either Coats or Tootal. In Courtaulds' view this market was largely dominated by United Kingdom-based suppliers. An essential element of the sewing thread business was the speed at which the supplier could respond to the colour requirements so that dyeing to customers' specification had to be quickly available. In these circumstances, in Courtaulds' view, it would be impossible for an overseas supplier to provide such flexibility and service without facilities in the United Kingdom. The suppliers used by Courtaulds, which included Oxley and Gütermann, could all offer the colours that Courtaulds needed quickly and flexibly. Courtaulds had found their quality was very comparable. The only difference between the suppliers had been in price but Courtaulds had been able, from its strength in the market, to negotiate comparable prices from all suppliers. It did not consider that the merger would provide an opportunity for the merged group to increase prices unreasonably.

6.56. A similar view of the merger was taken by Marks & Spencer, the largest garment retailer in the United Kingdom and a major customer for Coats' and Tootal's products. Marks & Spencer told us that it did not believe the concentration of market share of industrial thread in a merged company would be against its interests as thread was traded internationally and represented a very small proportion of the cost of a garment. Generally, Marks & Spencer told us, it took a neutral view of the proposed merger.

6.57. The parties themselves, not surprisingly, did not accept the validity of the various objections which had been raised. In particular, they referred to:

- (a) the probability that some of their customers would wish to maintain at least a dual source of supply and would seek alternative suppliers, causing demand to shift away from the merged company;
- (b) the availability of spare capacity among existing suppliers to meet such additional demand, and also to offer any further supplies if Coats/Tootal were to behave anti-competitively;
- (c) evidence that some European thread manufacturers were thinking of entering the market and the ease of entry, as demonstrated by DMC and American & Efird, should they wish to do so;
- (d) the aggressive pricing and other commercial policies of the other suppliers and the high quality of their products and service; and
- (e) Tootal's existing arrangements to supply the important Portuguese thread market by regular consignments of thread from its United Kingdom plants, arrangements which demonstrated the feasibility of supplying at any rate much the most important part of any buyer's requirements through imports.

6.58. In elaboration of their views on the availability of spare capacity among other manufacturers of industrial thread the parties told us that their calculations showed a considerable volume of spare dedicated capacity both for spinning and for dyeing and finishing thread in the United Kingdom. The parties provided figures derived from their calculations which also illustrated their view that there was, in addition, a substantial volume of non-dedicated or occasional capacity for thread spinning and dyeing. Our survey of thread suppliers showed that many of Coats' and Tootal's United Kingdom competitors had some spare capacity within their present production patterns. We have accordingly concluded that there is some spare capacity in the United Kingdom although possibly not as much as the parties' estimates suggested.

6.59. In considering the effect of the merger on competition in the market for industrial thread we have also taken account of the results of a survey of users of such thread carried out by the Commission in the course of the inquiry. The great majority of those who responded, 83 per cent, indicated that they would not consider it necessary to change suppliers if the merger went ahead. The remaining 17 per cent indicated that they would seek to switch; just under half of these (8 per cent of the total) considered that they would have difficulty in doing so.

6.60. In the circumstances in which Coats and Tootal appear to have up to 60 per cent of the supply of corespun thread in the United Kingdom, we considered the question of the substitutability of other types of thread for corespun and more generally how the merger might affect the market for this particular type of thread.

6.61. When we raised the question of corespun with the parties and told them about the concern expressed to us by certain suppliers and users of this type of thread, they responded that when Tootal had introduced corespun that product had very significant advantages for high-speed sewing operations. But developments in manufacturing techniques and lubricants for polyester thread now enabled garment manufacturers to use this thread for most of their operations. Indeed, in the Far Eastern market where Tootal had at one time been supplying corespun in significant quantities from its Hong Kong operations, cheaper polyester spun thread now dominated the market.

6.62. The parties explained to us that in the United Kingdom Coats and Tootal had maintained a market for corespun partly because of the efforts of their sales staff and partly because sewing machines in the United Kingdom were not as finely adjusted as elsewhere. They argued that in the future the cheaper polyester thread would be likely to be increasingly used in the United Kingdom, and the merged group's strong position in corespun thread would not have an adverse effect on competition.

6.63. In view of the parties' arguments about the possibility of substitution of other threads for corespun and the concern of certain users, we asked a range of garment manufacturers for their views. We found that the majority of the manufacturers we approached considered that corespun thread was essential for some applications. Although some of them had tried substitute threads, such as polyester, most of them said that they had not found them satisfactory. Despite this many of these manufacturers, some of whom took a substantial proportion of their present supplies from Coats and Tootal, took a relaxed view of the merger, particularly when they were already obtaining supplies from other manufacturers.

6.64. In the light of the evidence we have formed the view that for many United Kingdom users corespun remains a distinct product, though in a number of applications possibly a growing number there are close substitutes. Corespun of a satisfactory quality can, it appears, be obtained from most, if not all, suppliers of industrial thread to the United Kingdom market. Grey corespun, sometimes from overseas suppliers, of a satisfactory quality is available to dyers and finishers in the United Kingdom.

### **Industrial thread: conclusions**

6.65. Industrial thread producers other than Coats and Tootal recognise that the merger, if it took place, would allow Coats and Tootal to rationalise their operations in the United Kingdom and to use the spare capacity to supply other European and foreign markets with finished thread. A merged group would be able to bring together the research facilities of the separate companies and avoid duplication which may be occurring at present. These factors may give rise to the concern expressed by some other suppliers to the United Kingdom market. From the point of view of the public interest, however, more efficient production of industrial thread would, taken on its own, be a favourable aspect of the merger.

6.66. Users of industrial thread would inevitably face the ending of price competition between the two major suppliers and thus diminished opportunity to 'play off' one thread producer against another on price and quality of service. The fact that some users expressed anxiety about the merger is, therefore, not surprising. Such users would look elsewhere at least for part of their requirements, but some of them see difficulties in doing so, for instance, because of technical requirements such as compatibility with sophisticated machinery.

6.67. By contrast major participants in the industry have explicitly told us that they are not concerned about the merger. The results of our survey of users of thread point in the same direction, as do the views we canvassed on the specific subject of corespun.

6.68. We also attach weight to the evidence of existing spare capacity and of additions that are planned among the rivals to the parties. It is evident that the standard types and shades of industrial thread can be imported from elsewhere in Europe or the rest of the world, and there do not appear to be serious barriers to entry on the part of new suppliers should opportunities for profitable supply present themselves. The fact that the parties have lost market share to some of the other suppliers over the last 10 to 15 years indicates that the market includes firms keen to improve their position, a conclusion supported by most of the general comments which we have received. On balance we believe that these factors will go a long way to counter any effect of the merger on competition in the market for industrial thread, including the market for corespun.

## **Consumer craft and domestic thread**

6.69. The consumer craft market covers a wide range of products intended for domestic use. Product ranges include sewing thread and accessories (zips, needles, pins, elastic, ribbons and scissors), craft products (such as kits and thread for tapestry, embroidery and crochet), and hand-knitting yarns and needles. The total United Kingdom market for these products in 1988 has been estimated by the parties to be of the order of £240 million. The world-wide market may be well over £3 billion. Coats is easily the largest supplier in the United Kingdom and in the world and together with Tootal may have nearly 25 per cent of the United Kingdom market and some 10 per cent of the world market.

6.70. Because the range of products involved is so wide and many of them are relatively slow-moving items, most retailers prefer to deal with wholesalers rather than purchase directly. Coats and Tootal both have their own marketing arrangements in the United Kingdom to sell their consumer craft products (acquired from manufacturers within and outside their respective groups) directly to many retailers and to the wholesalers who supply the smaller outlets. There are a number of other companies which are involved in the wholesaling of consumer craft products, or some part of the consumer craft market. Table 2.8 sets out the main competitors and indicates that a significant part of the market is supplied through small wholesalers or importers.

6.71. There is one part of the consumer craft market in which Coats and Tootal are particularly involved as manufacturers as well as importers and wholesalers. Domestic thread, that is thread sold for use in the home for dressmaking, mending and home furnishings, is a relatively small market in the United Kingdom of only around £10 million (some £19 million at retail prices) but Coats and Tootal together account for some 55 per cent of this market (see Table 2.6), with Tootal, the market leader, having a share of 37 per cent and Coats 18 per cent. The third big supplier is Gütermann with 20 per cent.

6.72. The products sold as domestic thread are straightforward varieties of industrial thread that has been repackaged for domestic sewing. Some of the main international producers of industrial thread referred to earlier supply thread packaged for domestic use. These manufacturers include Gütermann, American & Efird and DMC, although only Gütermann supplies branded domestic thread to the United Kingdom market. In addition, throughout the world, there are many producers who buy in industrial thread, often of the simplest and cheapest polyester variety, and rewind it into smaller packages for use as domestic thread. These may be sold with the producers' or distributors' brand, or unbranded.

6.73. In the United Kingdom Coats and Tootal supply domestic thread to the retail trade through their craft businesses. There are two main types of product, the more important of which is branded thread sold now mainly through the haberdashery departments of department store groups and through specialist outlets. The thread is often sold by use of a display cabinet/merchandise unit which is usually provided by the supplier who will keep it stocked. The only significant competitor to the parties in the United Kingdom for this type of business, with a 20 per cent share of the overall market, is Gütermann, a long-established supplier. The thread is imported from Germany and sold through wholesalers. It is regarded as a high-quality brand. This segment of the market is thus dominated by the three firms with their established brands, and entry appears to be very difficult. The second main source of domestic thread is through outlets such as supermarkets which will sometimes offer unbranded or what is known as promotional thread. Promotional thread is principally made from spun polyester compared with the traditional cotton sewing thread and therefore has a substantial price advantage. We understand that when they were first introduced promotional threads were only offered in a limited colour range, but this range has been extended as the sales of the thread have increased.

6.74. In the United States, where promotional threads have been available for some time, they have made substantial inroads into the sales of the branded thread sector, initially in a limited colour range but now in a larger number of colours. According to the parties sales of promotional thread in Denmark, West Germany and Australia have also been increasing. The parties told us that the growth of this trade in promotional thread had also attracted new suppliers anxious to break into the United Kingdom domestic thread market.

6.75. The parties argued that the introduction of this low-price competition affected the suppliers of branded threads in a number of ways. First, the price of cheaper, readily available alternatives limited the increases that were possible in the price of the branded products. But it also made the retailer more eager to monitor the performance of the cabinets of branded products in terms of return per square foot of floor space.

6.76. In assessing the competitive position in this market, Coats and Tootal argued, account must also be taken of buying power; the large retail outlets which stocked sewing thread exercised substantial bargaining strength in relation to their suppliers. The smaller specialist retail outlets bought mainly from wholesalers who also had buying power in their negotiations with the suppliers.

6.77. Nevertheless we cannot disregard the circumstances in which the merged group would have 55 per cent of the market and are already supplying promotional thread. There is no reason to suppose that given its world-wide production facilities, the merged group would not be able to supply promotional thread as successfully as it currently supplies branded thread. In this respect we have noted that DMC told us that although it has a United Kingdom subsidiary that supplies thread for embroidery, and supplies domestic thread elsewhere in Europe, it would not at present consider entering the United Kingdom domestic thread market.

6.78. The parties have argued that the size of the consumer craft and domestic thread markets are decreasing and there is evidence that some parts of the markets, hand-knitting for example, have declined sharply recently. There is, however, no evidence that these markets, and particularly those for thread, are in a terminal decline. Needlework, including the repair of clothes and furnishings, remains important to many households. Indeed, changes in fashions and economic circumstances may reverse or stem the trend.

6.79. We have also taken into account the current levels of profit earned by the parties in this market. The domestic thread sold by Coats in the United Kingdom is manufactured by a Coats subsidiary company in West Germany and, we were told, is sold at arm's length prices to the United Kingdom subsidiary company responsible for the distribution and sale of domestic thread. The United Kingdom returns on capital from domestic thread activities have been improving from 62.4 per cent in 1986 to 85.1 per cent in 1988; the rates of profit on turnover have risen from 17.8 per cent to 22.8 per cent in the same period. Since 1988 Tootal's United Kingdom distribution activity has been supplied at, we were told, arm's length prices by a Swedish subsidiary company. Return on capital of the Tootal domestic thread distribution activities in the United Kingdom was 67 per cent in 1986/87, 80 per cent in 1987/88 and 60 per cent in 1988/89; and rates of profit on turnover were 8.1 per cent, 10.3 per cent and 8.1 per cent respectively. While it is necessary when considering these returns on capital to take into account the relatively low levels of capital involved in the distribution activity, when the returns on sales are also considered it is evident that the distribution and sale of domestic thread provides at present a good return for the parties.

6.80. We asked a number of wholesalers and major retailers of domestic thread for their views on the present state of competition and the effects of the merger. The evidence, which is summarised in Chapter 5, indicates a market with somewhat limited competition which is dominated by the products of the three companies, Coats, Tootal and Gütermann. The wholesalers, who sell mainly Gütermann threads, were generally satisfied that the merger would be unlikely to change the established position of the present suppliers. Many retailers, on the other hand, who included a number of the large department stores which provide a comprehensive haberdashery range, were concerned that the merger would result in an even less competitive market with adverse effects for the consumer.

6.81. Taking account of the evidence of those involved in the market for domestic thread in considering the effects of the merger, it is evident that, although it is possible that in order to maintain the numbers of brands, Coats and Tootal might retain, at least for a while, separate sales forces, this would not amount to competition. There would be no price competition between these sales forces and no advantage or disadvantage to the merged group if a Tootal display cabinet were displaced by a Coats cabinet. Thus, in the branded market competition would be reduced to that between the merged group and the Gütermann group in which Coats has a 20 per cent share with a pre-emptive right on the remaining shares and a seat on the supervisory board of Interfina, the Swiss member of the group.

6.82. Coats explained to us that this board position did not give it any influence over the management of the group and that competition between Coats and Gütermann existed in both the industrial and consumer thread markets. Gütermann's United Kingdom subsidiary has confirmed that intense competition takes place. We accept that in the United Kingdom industrial thread market (in which Gütermann's share is quite small) competition is not and is not likely to be significantly impeded by Coats' shareholding in Gütermann. We take a different view of the market for branded domestic thread usually sold through merchandising units. Competition is not strong and the business is presently very profitable for Coats and Tootal. If a merger took place there would be a duopoly in the supply of branded thread and in these circumstances it is reasonable to expect that the existence of a cross-shareholding would further diminish the extent of competition.

6.83. We consider therefore that in the circumstances in which the proposed merger would bring together the domestic thread operations of the market leader and one of the other two large suppliers in the United Kingdom market, there can be no doubt that some reduction in competition would occur. In circumstances in which even very large retail stores are currently concerned about the existing degree of competition, it is unlikely that in this particular market the buying power of those retailers will be sufficient to counter this loss of competition.

6.84. Smaller retailers without the market power of the large groups would be also disadvantaged and it seems reasonable to expect that as a result the consumer would suffer in terms of choice and prices.

6.85. Another adverse effect of the proposed merger is likely to be a loss of potential competition in the developing market for promotional threads. There will be no competition between Coats and Tootal and a merged group, from its considerable international manufacturing resources and its distribution channels in the United Kingdom, would be very well placed to take a major role in this market and reduce the potential for entry by other distributors.

### **Domestic thread: conclusions**

6.86. Taking all these factors into account, we consider that the proposed merger may be expected to reduce competition in the supply of domestic thread to the extent that the public interest in maintaining choice and supply at reasonable prices would be adversely affected.

### **Consumer craft: conclusions**

6.87. As we have explained, the merger will also bring together two of the major producers and distributors of other consumer craft products including hand-knitting yarns. We are satisfied that the other sources of supply of these products are such that, while there may be some initial reduction in competition, this will not be such as to have any serious effect on service or prices and that there are sufficient alternative sources of supply to avoid any long-term adverse effects.

### **Garment and shirt manufacture**

6.88. The total value of the United Kingdom market for all garments in 1988 is estimated to have been of the order of £8.4 billion. In some sectors of the garment market there is a very high level of import penetration and in total some 38 per cent or £3.2 billion was accounted for by imports. There is a wide variation in the level of imports depending upon the nature of the garment (Table 2.9). Coats and Tootal are involved in a number of sectors of garment manufacture and supply and have some 4 and 1 per cent respectively of the total market. Mens shirts, ladies skirts, dresses and pullovers are the main areas of overlap between the two companies. We are satisfied that for most garments the existence of other United Kingdom garment manufacturers and the extent of imports indicate that there would be no appreciable effect on competition as a result of the merger. The only area which gave us concern was the shirt market which we consider below.

6.89. The shirt market in the United Kingdom can be considered in relation to two sub- sectors: knitted and woven shirts. Knitted shirts, as the name suggests, are made of knitted fabrics; these are more difficult to handle and are often, but not exclusively, used for sportswear. Practically all the knitted shirts sold in the United Kingdom are now imported, mainly, we were told, because of the labour costs and particular abilities of the workers in the Far East in the sewing operations that are required.

6.90. Woven shirts, which may be made up of cotton, or more usually cotton/polyester fabric, in single colours or of patterns woven into the material, may also be used for casual wear but a high proportion are worn for more formal or office use. Over 50 per cent of woven shirts, especially those having pockets or epaulettes requiring a considerable amount of sewing, are imported but most of the medium-priced shirts are produced in the United Kingdom. Coats is involved in the production of this type of shirt for the branded trade and for the contract market which produces shirts for own-label trades and for uniforms. Tootal has disposed of its brands of shirts for adults but retains a factory producing contract shirts exclusively for Marks & Spencer. We estimate that if the merger took place the merged group would have a share of the total United Kingdom market for woven shirts of 19 per cent.

6.91. Marks & Spencer, which is easily the largest garment retailer in the United Kingdom, is the major customer for Coats' and Tootal's products. Marks & Spencer told us that the combined group would have about 12 per cent of its overall garment supply and as much as 50 per cent of its supply of woven shirts. Nonetheless, as indicated in paragraph 5.34, Marks & Spencer did not expect the merged company to be in a position to exert pressure upon the relevant Marks & Spencer departments or its organisation as a whole. Overall it took a neutral attitude to the merger.

6.92. A competitor of Coats and Tootal in the making up of garments, particularly shirts, took a rather different view and was concerned about the effect of the merger on the market for branded shirts produced in the United Kingdom. This company considered that the merged company would have a very strong position in this part of the shirt market and would be able, particularly if for any reason Marks & Spencer reduced its shirt orders, to seek larger sales elsewhere by pricing at very low levels, perhaps lower than production costs, as indeed it suggested Coats had already been doing.

6.93. It is clear from the evidence we have received that the shirt market is a very competitive one. The United Kingdom shirt manufacturers which have remained in business have made considerable efforts to introduce modern machinery and methods in order to improve their productivity to reduce their costs and offer a more flexible service to the retail trade. By these means, with some assistance from Marks & Spencer and other major retailers who have continued to buy United Kingdom products, they have maintained shirt production in the United Kingdom. In circumstances in which we understand at present there is excess capacity in the United Kingdom for the production of shirts and considerable continued pressure from imports, we would expect to find very keen pricing, particularly to meet the retailers' needs for seasonal sales. Coats, with its Peter England and other branded shirts, is already the major producer. A merger would not directly affect the branded shirt market as Tootal has only a single factory which is totally dedicated to supplying Marks & Spencer. In these circumstances we do not consider that the merger is likely to affect directly the nature of competition in the branded shirt market.

6.94. We have examined evidence provided at our request by Coats in relation to the costs and prices of its major brands of shirts and are satisfied that, on the basis of that evidence, Coats has not been trading below the cost of production. If for any reason after a merger any manufacturers considered that the merged group was engaging in unfair trading practices or pricing, it would be open to them to put the matter to the Director General of Fair Trading who has powers to investigate under the Competition Act 1980.

## **Household textiles**

6.95. Household textiles include bed linen, towels, kitchen and table linen, curtains and soft furnishings. The total United Kingdom market for household textiles in 1988 was about £1.2 billion with exports amounting to some 20 per cent of that figure. Coats' share of the market was about 15 per cent and Tootal's no more than 2 per cent. The companies have tended to operate in somewhat different segments of the market, and although both are involved in the soft furnishings sector, where after the merger a combined group would have a share of nearly 20 per cent, their involvement is to some extent in different product areas.

6.96. One of the other major competitors in this field, Lonhro Textiles, told us that the merger of the two companies would enhance the parties' already strong position to the detriment of other United Kingdom manufacturers and provide the opportunity for even greater import penetration.

6.97. We do not consider that the addition of the relatively small share of Tootal to Coats would make much difference to the competitive position. The market power of the major retailing groups, and the existence of imports, would avoid the possibility that any reduction to competition would arise from the merger.

## **The effects of the merger on employment**

6.98. The parties told us that the proposed merger would create opportunities for rationalisation of the activities of the two groups which would provide greater efficiency internationally and permit substantial economies to be achieved. The parties told us that they estimated that the net savings would be substantial, greatly strengthening the merged group's ability to undertake the investments required to maintain and increase its competitiveness in international markets.

6.99. Most of the opportunities for rationalisation would arise, we were told, in the thread business and overseas where the two groups had duplicated facilities in a number of countries.

6.100. Within the United Kingdom, on the basis of current information, the companies expect that the reduction in the number of jobs would be likely to be around 500 out of the total workforce at the present time of some 44,000. This reduction in manpower would take place over a period of two years and would be accounted for by natural wastage and redundancy. The trades unions had already been consulted and would be kept informed.

6.101. The parties suggested that the merger would increase job security for the workforce of the two groups by creating a merged group that would be a more effective international competitor. They also told us that over time they expected the merger to lead to the creation of new jobs particularly through the eventual substitution of imports and the creation of new export opportunities, especially to the rest of Europe. The merger was supported by most of the trades unions which gave their views (paragraphs 5.42 to 5.45), the NUTGW in particular taking the view that it would help to maintain employment in unemployment 'black spots'.

6.102. In a merger of two companies of this nature it is inevitable that in seeking greater efficiency some job losses will occur. We do not consider that the extent of these losses gives rise to any public interest detriments.

## **CONCLUSIONS**

### **The merger in contemplation**

6.103. The merger in contemplation would bring together two of the largest United Kingdom textile companies. Both companies operate throughout the world as well as in the United Kingdom. We have examined those markets in the United Kingdom where the combined group is likely to have significant market share. In the case of industrial sewing thread users would inevitably find that competition between the two leading firms would cease. But there are other strong competitors in that market with comparable products and spare capacity (and supported in some cases by overseas textile groups) who would be well able to counter any attempts by a merged group to take advantage of its market position. Barriers to entry appear to be low. We therefore do not think that the merger would have any serious effect on competition in the industrial thread market.

6.104. We have also noted that the merger would allow some rationalisation of the group's United Kingdom and world-wide industrial thread operations which would provide the opportunity for more effective research and development. There might be better utilisation of the United Kingdom production facilities with an expectation of increased exports. The proposed merger should also allow the merged group to maintain and perhaps enhance its position in what appears to be a very competitive world market for the supply of industrial thread. Taking these factors into account we do not consider that any effects adverse to the public interest would arise from the merger in relation to industrial thread.

6.105. The merged group would have a large share of United Kingdom shirt manufacturing capacity in a market heavily penetrated by imports. There is evidence of spare capacity in United Kingdom shirt manufacturing and we do not believe that the merger would be likely directly to affect competition in this market.

6.106. Some loss of employment in the United Kingdom would result from the merger. The parties estimate this at 500 job losses over two years from a combined workforce of 44,000. If this estimate proves accurate it should be possible, as the parties have claimed, to meet much of it through natural wastage.

6.107. We have accepted that in a merger of the kind under contemplation where substantial economies are looked for some job losses will occur but consider that the extent of the expected losses does not give rise to any public interest detriments.

6.108. We have identified the market for domestic thread as the one area of the markets we have examined where, due to the reduction in competition that will occur, the merger may be expected to have an effect which will be adverse to the public interest. As we have found no benefits arising from the merger which would alleviate the detriment, we conclude that the merger in contemplation may be expected to operate against the public interest with the particular effects adverse to the public interest specified in paragraph 6.86.

### **The merger in being**

6.109. We have found (paragraph 6.10) that Coats' 29.9 per cent shareholding in Tootal would give Coats considerable influence over Tootal's policy and in the longer term might allow it effectively to control Tootal's policy. Coats told us that if, for some reason, it was unable to proceed with the full merger it would not wish to retain the shareholding.

6.110. While we accept that it is Coats' present intention to sell the holding in Tootal, circumstances can change and we must, for the purpose of our conclusions, have regard in respect of domestic thread to the position that would exist if the shareholding was retained.

6.111. Unless a full merger takes place, it is unlikely that Coats' and Tootal's United Kingdom domestic thread operations would be combined; but it would be to neither company's interest to engage in full competition. We consider that the adverse effects we have identified in paragraph 6.86 may therefore be expected to occur and accordingly conclude that the merger in being may be expected to operate against the public interest.

## **RECOMMENDATIONS**

### **The merger in contemplation**

6.112. We are required by section 72(2) of the Act, where we have found that a merger situation operates or may be expected to operate against the public interest, to consider what action (if any) should be taken for the purpose of remedying or preventing the adverse effects and if we see fit include suitable recommendations in our report. In this investigation the detriment we have identified is related to only one segment of a very large market and we consider it is not necessary for the merger to be prohibited, because we believe it is possible by a divestment in that segment for the detriment to be removed.

6.113. Coats and Tootal are both major participants in the market for domestic thread but Tootal's share at 37 per cent is much greater than Coats' at 18 per cent which is less than the share of the second largest competitor, Gütermann.

6.114. We consider that, in order to retain a reasonable level of competition in the supply of domestic thread, after a merger the combined share of the parties in relation to the supply of domestic thread should not be greater than the share of Tootal prior to the merger. This is particularly important in circumstances in which the parties, from their considerable overall strength, will be able to take a major part in the growing market for promotional threads.

6.115. We therefore recommend that prior to the merger taking place, Coats should be required:

- (a) to dispose of its existing United Kingdom business in relation to domestic thread as a going business to a viable purchaser other than the Gütermann group; and
- (b) in order to ensure that the Gütermann group is competing wholly independently, to undertake to dispose of its holdings in the Gütermann group and to relinquish the pre-emptive right over Gütermann shares. The disposal should take place as soon as possible and in any event not later than 12 months from the publication of the report. Coats should further undertake, as far as is permissible under applicable law, not in the meantime to exercise its voting rights or to be represented on a supervisory or other board of a company in the Gütermann group.

### **The merger in being**

6.116. If for some reason the merger in contemplation does not take place, we recommend that to prevent the adverse effects we have identified, Coats should be required to undertake that it will either:

- (a) dispose of its existing United Kingdom business in domestic thread and holdings and pre-emptive right in the Gütermann group as set out in paragraph 6.115; or
- (b) within a period of 12 months from the date of publication of our report or such longer period as the Secretary of State may decide is appropriate, reduce its holding in Tootal to not more than 9.9 per cent of the total shareholding.

Until such time as either disposal takes place Coats should undertake not to exercise its voting rights in more than 9.9 per cent of the total shareholding of Tootal.

H H LIESNER (Chairman)

A FERRY

J D KEIR

P K R MANN

S WAINWRIGHT

S N BURBRIDGE (Secretary)

25 September 1989