

TRADEBE/SITA MERGER INQUIRY

Summary of a hearing with GW Butler Ltd, held on 20 November 2013

Background

1. GW Butler collected, treated and disposed of healthcare risk waste (HRW).
2. In response to the NHS closing down its own incinerator facilities in the early 1990s, GW Butler had operated a high temperature (HT) incinerator in Yorkshire.
3. In the late 1990s, it decided to invest in an alternative technology (AT) method of waste treatment. This resulted in the installation of Tempico Rotoclave technology which sterilized microbiological activity in HRW, rendering it safe.
4. The incinerator was closed down in 2003, the same year as the AT plant opened in Bradford. Since then, GW Butler had established two AT plants in Nottingham and London. The Nottingham plant was acquired following its purchase of Medical Waste Solutions in 2009.

GW Butler and healthcare waste

5. 95 per cent of GW Butler's HRW was collected from NHS hospitals, GP surgeries and clinics. It collected from sites within a 50- to 60-mile radius of its Bradford and Nottingham plants. It had a limited collection service from sites in London due to transportation costs. It would travel up to 75 miles to collect HRW. To make this cost-effective, any contract would have to be of suitable value and length.
6. The remaining 5 per cent came from nursing homes or councils which delivered their waste to GW Butler through collection-only companies. While these companies were competitive due to a small cost base, they were not in competition with GW Butler for large contracts.
7. GW Butler provided HRW services to large private hospitals.. It continued to offer services to small hospices, nursing homes and respite centres that were privately run. It currently held contracts with several NHS trusts.
8. HRW would be suitable for either HT or AT treatment. HT waste would be largely passed to an incinerator operated by Veolia Environmental Services in Birmingham. GW Butler also used HT plants belonging to Sita in Manchester and Redditch, Grundon in Colnbrook and Augean in Kent. GW Butler transported the HRW to these plants.

The healthcare risk waste market

9. Price was the main factor that customers considered when choosing an HRW provider.
10. The cost of operating an AT plant was much less than compared with an HT plant. This was due to an increase in the supply of capacity in the AT market and competitive pricing by Sita. The cost of treating AT waste had fallen by 15 to 20 per cent over the last 12 to 18 months.

11. Sita was offering low prices for AT treatment in the London area which was helping to keep prices low. The prices of Healthcare Environmental Services Group (HES), Tradebe and GW Butler were largely similar to each other.
12. An increase in the amount of plastic HT waste had led to incinerators being more prone to breaking down. This had led to a reduction in the level of capacity in the HT market. Incinerators required a balance of AT and HT waste at a ratio of approximately 75:25 to ensure the incinerator worked effectively.
13. In addition to GW Butler, companies in the market that provided national coverage were SRCL, Sita and HES. National coverage for NHS Trusts was less of a factor compared with cost when considering an HRW provider.
14. NHS Trusts tendered for HRW disposal contracts that lasted for five to ten years. In this period, the market price for HRW services could change and make the contracted price appear more or less competitive. The price set in the contract could not be reduced but could be increased due to changes in landfill tax or VAT for example.
15. GP surgeries and other NHS clinics, following the abolition of Primary Care Trusts, could procure HRW services in a collaborative or on a single site basis.
16. GW Butler did not believe there were significant costs for customers to switch provider.

Barriers to entry

17. The barriers to opening an HT incineration plant included the cost of setting up the plant, daily running costs and the need to have the plant operational 24 hours a day. There were also significant planning and regulatory restrictions.
18. Smaller incineration plants were available for organizations with small amounts of HT waste. These plants cost between £500,000 and £1.25 million. GW Butler had considered setting up a small HT plant as it viewed its lack of internal HT capacity as a potential barrier to further business.
19. An AT plant could be set up within six to nine months, would cost about £1 million and would typically require a 20,000ft business unit. It was also easier to control the amount of hours that an AT plant was operational. New AT plants could be developed in response to new contracts. However, any contract would have to be sufficiently big to cover the development and running costs.
20. The average lifespan of an AT and HT plant was 20 to 25 years. Parts of an AT plant could be replaced on an ongoing basis, thereby increasing the lifespan of the plant.

The joint venture

21. GW Butler noted that Sita had recently lost NHS contracts in Manchester and Liverpool and considered that its business model appeared unsustainable. The Sita plants in Manchester, Redditch and Wrexham were also quite old and would require future investment. It was therefore difficult to understand Tradebe's rationale for entering into the joint venture with Sita.
22. If Tradebe's motivation was to remove the cheapest player in the market, there could be an upward pressure on prices as there would be fewer competitors in the market.

Any efficiencies gained as a result of the joint venture might also drive prices down. However, GW Butler thought that these efficiencies could take time to be achieved and reflected in the prices set by the joint venture. This delay could benefit GW Butler when bidding for contracts over the next 12 months.