

TRADEBE/SITA MERGER INQUIRY

Summary of a hearing with Professional Hygiene Ltd held on 27 November 2013

Background

1. Professional Hygiene Ltd (PH) was a small healthcare risk waste (HRW) business which had been operating for just under 14 years. It collected clinical, medical, offensive and sanitary waste and transported it to companies like Tradebe, Ecowaste and Viridor to be processed in their plants either by high temperature (HT) incinerator or alternative treatment (AT). It had grown from nothing to a business with a £1 million turnover.
2. The areas it covered were South Wales, Devon, Cornwall, Hampshire, Dorset, Worcestershire, Swindon, Reading, Slough and Milton Keynes. However, it was a steadily growing business with plans to expand into other areas including Birmingham, Derby, Staffordshire and Stoke-on-Trent. It was currently considering further expansion in London.

Disposal of healthcare risk waste

3. PH explained that the two methods of dealing with HRW were HT and AT. Incineration (HT) was more expensive as it required fuelling a fire to 1,000 degrees centigrade. In the case of AT, HRW was put through autoclaves and then sent to landfill.

Healthcare risk waste collection

4. PH collected HRW from small companies at around 500 sites. Its customers were varied, but it estimated that 80 per cent of the potentially infectious waste it collected was from dentists. Dentists looked for a good service and relationship from an HRW services contractor rather than the cheapest price. PH was able to provide this and obtained most of its work by 'word of mouth'. It had bid for a very small number of hospital contracts, but recognized that it could not compete with the larger companies on price.
5. The categorization of HRW (whether waste should be sent to AT or HT) was carried out by the contractor at each site. PH checked the categorization of the waste as part of the pre-acceptance procedure. The legal obligation for correct disposal was with the contractor until the HRW was incinerated or treated.
6. PH paid Tradebe a higher price (more than twice as much) for disposal by HT than for AT. In September 2013, it had provided Tradebe with half a tonne of waste for HT and 11.5 tonnes for AT. Virador had been sent 2.5 tonnes for HT in Exeter.
7. PH told us that the closest incinerator to its base in Bristol was approximately 85 miles away in Redditch. Transportation costs made this option prohibitive as did using local companies with their own incinerators. This was because the companies would need to increase capacity and would pass on the costs of the larger plant to PH. Transport amounted to 70 per cent of PH's costs.

8. PH did not have depots in any of the areas it operated in. This meant that in some areas it only had 72 hours (which was the maximum amount of time HRW could legally stay on the lorry) in which to dispose of HRW.
9. PH did not collect enough HRW to enable it to negotiate favourable prices with any HRW disposal companies.

Relationship with the parties

10. PH told us that between 70 and 80 per cent of the waste it collected was treated by Tradebe at its Avonmouth plant. Tradebe's plant was located a quarter of a mile from PH which made it financially viable to use it.
11. PH believed its relationship with Tradebe was symbiotic. With its smaller vans, PH could collect waste from smaller sites which Tradebe, with its larger lorries, could not service. If it tried to compete with Tradebe by bidding for the larger hospital contracts, PH would still have to pay Tradebe to dispose of the waste and Tradebe could increase its prices for doing this.
12. HRW collected by PH utilized spare capacity at Tradebe's incinerator. PH regarded Sita as a competitor and did not have a contractual relationship with it.

Competition in the HRW market

13. PH told us that its main competitors were PHS Group, Cannon Hygiene, Initial and SRCL. These companies tended to compete with each other on quality of service and relationship management. PH offered a set price for its services whilst other companies might adjust prices depending on whether it was near the end of the month and targets needed to be achieved. It gained work on its reputation rather than the price it could offer.
14. Tradebe and other larger companies tended not to supply the part of the market that PH specialized in. Tradebe's main markets were hospitals and medical clinics.
15. PH told us that competition with Sita was intense in the Stroud/Gloucester/Cheltenham area. It also said that there was no competition in the Bristol area following the closure of two local incinerators, and its only option in this location was to use Tradebe.

Barriers to entry

16. PH was currently looking at the cost of setting up its own waste transfer station, but believed this would be prohibitive. Setting up an AT plant would cost in the region of £3.5 million and an incinerator would cost between £8 million and £10 million.

Impact of the merger

17. PH said that if the joint venture went ahead it would be concerned about its future and that of other small collection-only companies. It said that Sita had behaved aggressively in the past and could go into places with smaller vans, that Tradebe currently was unable to service. Sita would be able to use Tradebe's depot to store waste and Tradebe would no longer need the small collection-only companies like PH to feed its plants.

18. If the joint venture were to increase its collection prices to the level charged by PH, it could also increase waste disposal charges to PH, forcing PH to increase its collection price further. This was because there was no HRW treatment company, other than Tradebe, that PH could go to locally as transport costs prevented it from using companies further away. The joint venture could also cut its own prices to its customers and take business from the smaller companies such as PH.
19. Another concern was that Sita might purchase other smaller companies until there was no competition left in the area. Small businesses producing HRW would have no choice but to pay whatever price was set by the joint venture.