TRADEBE/SITA MERGER INQUIRY

Summary of a hearing with SRCL Ltd, held on 21 November 2013

Background

1. SRCL Ltd (SRCL) was a provider of healthcare risk waste (HRW) services in the UK.

2. It had high temperature (HT) incinerators and alternative treatment (AT) plants across the UK. It also had a waste transfer station in Salford. The Salford site was used to consolidate collected waste and then transport it on for treatment at SRCL's AT facility in Staffordshire in a more cost-effective way.

Relationship with the parties

3. SRCL supplied Sita with waste at its Wrexham HT plant. It did not supply waste to Tradebe. It did not receive waste from either party.

SRCL in Merseyside

4. SRCL was constructing a new AT plant to process waste from 16 NHS Trusts in the Greater Merseyside area (the Merseyside consortium) with whom it had recently won a contract to provide HRW services. This was a three-year contract with the possibility of an additional year. The volume of waste to be treated was 4,500 to 5,000 tonnes a year. 85 per cent of waste would be processed by an AT plant and 15 per cent by a HT incinerator. The plant had a capacity of approximately 12,000 tonnes a year.

5. The rationale for building the plant came from a desire of the Merseyside consortium to have a local plant and reduce waste transportation costs. The furthest SRCL would have to travel to service the contract was 20 to 25 miles.

Competition in the healthcare risk waste market

6. SRCL's large quantity generator (LQG) customers included NHS Trusts and private hospitals such as the [✂]. Its small quality generator (SQG) customers included individual GPs, tattoo parlours and small chemists. SRCL faced competition from different organizations for its LQG and SQG business. It competed with Tradebe, Sita and Healthcare Environmental Services Group (HES) for LQG business and with the PHS Group, Cannon Hygiene, Rentokil Initial and smaller, local companies for SQG business. SRCL did not consider that competitors without their own waste treatment facilities faced any significant disadvantage over those that had.

7. Price was the main factor that customers took into account when deciding on their provider of HRW services. Other factors included sustainability, reliability of service and compliance. SRCL noted that providers of HRW services varied considerably on these non-price factors and it had invested to try to score highly on these factors.

8. SRCL identified three key changes in the industry over the last few years. One was the increasing use of consortia—combined with a move towards larger consortia—to tender for HRW services. The second was the increasing use of procurement bodies. HealthTrust Europe and the London Procurement Partnership were active in seeking

cost savings for NHS Trusts by procuring through multi-trust consortia. Alongside the Merseyside consortium, NHS Trusts in the West Midlands, Staffordshire and Shropshire procured in this way. This had facilitated greater transparency and uniformity of pricing which in turn had contributed to driving down prices in the HRW market. The third change was the increase in offensive waste which had come about as a result of better waste segregation. Offensive waste did not require treatment and this helped reduce the volume of clinical waste in the market.

9. The tendering for NHS contracts took six to nine months from the pre-qualification questionnaire to the award of the tender.

10. SRCL considered that customers could switch between HRW service providers easily and at minimal cost.

11. SRCL's HT plants were working at a high capacity. Some capacity existed at SRCL's AT plants.

Market entry

12. There was always a chance that competitors might choose to build a new treatment plant in response to the opportunity of a new contract. There would need to be sufficient contractual volume to make this worthwhile.

13. SRCL's Merseyside AT plant would cost [✂] to develop with additional costs required to rent the land and prepare the building. It was anticipated to take a year to make the plant operational (including obtaining planning permissions). Moving an AT plant from one location to another would take three to four weeks.

14. An HT plant would take five years to make operational due to regulatory, planning and environmental issues. Moving an HT plant from one location to another would take up to six months.

15. SRCL did not expect any new entrants in the Sheffield, Gloucester or Birmingham areas in the next two to three years. It was not aware of any recent entrants to the market apart from an HT plant belonging to HES in Scotland.

Impact of the merger

16. The joint venture, by bringing together Sita's HT plants and Tradebe's AT plants, would allow the merged body to treat all types of waste without contracting treatment to a third party. This would enable the joint venture to offer a fuller package when bidding for new contracts. SRCL did not believe the joint venture would have a negative impact in Birmingham, Gloucester or Sheffield as the market was already operating well with competitive pricing.

17. SRCL had not considered entering into merger or joint venture arrangements with either Tradebe or Sita.