



DETERMINATION OF MERGER NOTIFICATION M/07/030 – GDG/AEPL

Section 22 of the Competition Act 2002

Proposed acquisition by Glen Electric Limited of Applied Energy Holdings Limited

Dated 25/09/2007



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SECTION ONE: INTRODUCTION

Introduction

- 1.1 On 6 June 2007 the Competition Authority (the "Authority"), in accordance with section 18(1)(a) of the Competition Act, 2002 ("the Act") was notified, on a mandatory basis, of a proposed acquisition of Applied Energy Holdings Limited by Glen Electric Limited ("Glen Electric"), a Northern Ireland based wholly owned subsidiary of Glen Dimplex Group ("GDG").
- 1.2 Applied Energy Holdings Limited is a holding company for two companies, only one of which is a trading company, namely, Applied Energy Products Limited ("AEPL"). The other company is KABW Limited. The proposed transaction involves the acquisition of sole control of Applied Energy Holdings Limited by Glen Electric.

The Undertakings Involved

The Acquirer

- 1.3 GDG is an Irish based firm in private ownership. It was founded in 1973 as Glen Electric. In 1977, Glen Electric acquired Dimplex, a UK heating brand, to form GDG. GDG manufactures and sells approximately 400 space heating and water heating products to cover domestic, commercial and industrial applications throughout the world.
- 1.4 GDG's domestic heating range covers the Duoheat radiator, storage and panel radiators, towel rails, flame effect fires, fan heaters and portable heaters. For commercial applications, GDG has an extensive range of air-curtains, commercial fan heaters, radiant heat radiator to flame proof heaters for specialised insulations. GDG also supplies water heating solutions and has an extensive range of heat pumps.
- 1.5 GDG manufactures space heating products in its Portadown and Newry plants in Northern Ireland, and flame effect fires and portable fan heaters in its Dunleer, Co. Louth, manufacturing plants.
- 1.6 GDG's subsidiary, Dimpco, is involved at the sales level of the supply chain and sells GDG manufactured products to customers located in the State. GDG also makes some sales of showers in Ireland but these are negligible in amount.
- 1.7 GDG had a turnover of €[...] in the State in financial year 2006/2007.

The Target

- 1.8 AEPL is a UK based company which is involved in the manufacture and supply of air extrusion and shower products and the sale of space heating products primarily in the UK. Approximately [65-75]% of AEPL's turnover is generated in the UK. In the space heating sector, AEPL distributes Creda branded products, the majority of which are manufactured by Seagoe Technologies Limited ("Seagoe"), a wholly owned subsidiary of GDG, on an Original Equipment Manufacturer ("OEM"), basis in Portadown.

- 1.9 With respect to space heating products, AEPL has no staff or manufacturing capability in the State. AEPL has, until July 2007, distributed its space heating products via Electro Diesel Ireland ("EDI") who at that time marketed and sold these products to [...] in the State. EDI recently announced that it will cease trading and AEPL is currently establishing sales of its space heating products [...].
- 1.10 AEPL sells electric radiators and showers to customers in the State. In total, approximately [0-10]% of AEPL's total turnover is generated in the State; [0-10]% of its total turnover represents sales of electric radiators in Ireland.
- 1.11 AEPL's turnover was approximately €[...] in the 12 months to 31 March 2007, of which circa €[...] was in the State.

The Transaction

- 1.12 Glen Electric is the company directly involved in the acquisition of Applied Energy Holdings Limited. Glen Electric is a wholly-owned subsidiary of GDG and its ownership or control will be unaffected by the transaction.
- 1.13 Funds managed by Graphite Capital Management LLP, a UK based private equity fund, have a controlling investment in Applied Energy Holdings Limited. The entire issued share capital of Applied Energy Holdings Limited will be acquired as a result of the transaction and, following the transaction, Applied Energy Holdings Limited will be a wholly-owned subsidiary of Glen Electric.

Rationale for the Notified Transaction

- 1.14 In its notification to the Competition Authority, GDG provides three reasons for seeking to acquire AEPL:
- (a) GDG seeks to maintain economies of scale at its Seagoe manufacturing plant in Northern Ireland where [a significant volume] of output is sold to AEPL;
 - (b) the transaction provides GDG with an opportunity to enter the air extrusion market; and,
 - (c) the transaction will facilitate GDG in developing its presence in the European shower market.
- 1.15 Currently, GDG has no presence in the air extrusion market and makes negligible sales in the shower market in the State.

The Procedure

Phase 1: Preliminary Investigation

- 1.16 The Authority was notified of the proposed transaction on 6 June 2007. An economics report by Indecon International Economic Consultants, *Competition Economics Assessment of Glen Dimplex Group (GDG)'s Proposed Acquisition of Applied Energy Products Limited in the Context of Irish Merger Control* ("Indecon Report"), was submitted along with the notification. During the course of its Phase 1 investigation, the

Authority issued formal requests for information under section 20(2) of the Act to each of the parties.

1.17 The Authority also contacted various third parties:

- Questionnaires were distributed to twelve property developers. As explained in detail in section 2 below, property developers make the final decision as to the type of space heating system that is installed in a new property development. All twelve property developers were selected from a list of the top 150 construction companies in the State for 2006.¹ All twelve developers currently occupy positions in the top 20 of this list;
- Questionnaires were distributed to fifteen builders' merchants and wholesalers.² All fifteen builders' merchants and wholesalers were selected from information provided by the parties concerning: (a) their most important customers; and (b) the largest builders' merchants and wholesalers currently active in the State; and,
- Questionnaires were distributed to nine competitors of the undertakings involved as listed in the notification to the Authority.

1.18 In addition, the Authority spoke to EDI, AEPL's distributor of electric primary space heating products in the State until July 2007.

1.19 The parties provided estimated market shares in a number of hypothetical markets, the narrowest being the hypothetical market for electric (only) primary space heating products in the State. For this narrow hypothetical market the data indicate that the parties are the two largest providers with a combined market share post-acquisition of 55-65%.³ However, for wider definitions of the market which include either (a) other primary space heating products (i.e., oil and gas) or, (b) both other primary space heating products together with secondary space heating products, the combined market share post-acquisition is much lower. Thus, defining the precise product and geographic market in which the parties compete is essential to enable the Authority to examine the competitive effects of the proposed acquisition.

1.20 Although both GDG and AEPL both sold showers the level of overlap was minimal and there are several strong competitors.⁴ As a result the Authority concludes that no competition concerns were raised in this area of overlap and it is not examined further in this Determination.

1.21 Having concluded a preliminary round of market enquiries encompassing all levels of primary spacing heating, the Competition

¹ D&B/BusinessPro Top 150 construction companies in Ireland in association with Construction Magazine. The primary source of information for this list comes from D&B/BusinessPro's comprehensive reports which are compiled using data from a number of sources including the Irish Companies Registration Office, Irish courts, management interviews, trade references and other officially available data.

² As explained in detail in Section 2 below, the parties sell their electric primary space heating products to property developers via builders' merchants and wholesalers.

³ GDG is estimated to have a market share of between 45-50% while AEPL has a market share between 10-15%.

⁴ GDG provided estimated market shares in the market for electric and non-electric showers in the State for 2006. The combined market share of GDG and AEPL is 1.1%. Triton and Mira are the market leaders with estimated market shares of 61% and 30%, respectively.

Authority was unable to form the view that the result of the proposed transaction would not be to substantially lessen competition (“SLC”) in markets for goods and services in the State. The main reason for this was a low response rate to the questionnaires referred to above by the end of Phase 1 of the Authority’s investigation. As a result, the Authority was unable to form a view as to the precise product and geographic market in which the parties compete.

- 1.22 On 15 August 2007, the Authority determined, in accordance with section 21(2)(b) of the Act, to carry out a full investigation under section 22 of the Act.

Phase 2: Full Investigation

- 1.23 The response rates to the three sets of questionnaires sent out by the Authority are set out in Table 1 below:

**Table 1
Competition Authority Questionnaires,
by Category of Market Participant: Number Issued, Number of
Respondents and Response Rates**

Category of market participant	Number of questionnaires issued	Number of respondents	Response Rates (%)
Property Developers	12	11 ¹	92
Builders’ merchants/wholesalers	15	8 ²	53
Competitors	9	6 ³	66

Notes: 1. Of the eleven respondents (all of whom are listed in the top 20 of the D&B/BusinessPro top 150 construction companies in Ireland for 2006), the Authority carried out follow-up telephone conversations with six seeking clarification concerning comments made in their response to the questionnaire.

2. Three respondents stated that they do not sell electric primary space heating products and therefore had no further comment to make in their response.

3. Two respondents stated that they are not currently active in the provision of primary space heating products in the State and therefore had no further comment to make in their response. One respondent (Baxi) responded by stating that it had no comment to make concerning the Authority’s questionnaire. The remaining three respondents include two of the largest suppliers in the primary space heating market in the State, namely the Quinn Group and Rettig.

Source: Competition Authority.

Third-Party Submissions

- 1.24 During the course of the Phase 2 investigation, the Competition Authority received third-party submissions from [...] and [...].

[...]

- 1.25 [...]

- 1.26 [...]

[...]

- 1.27 [...]

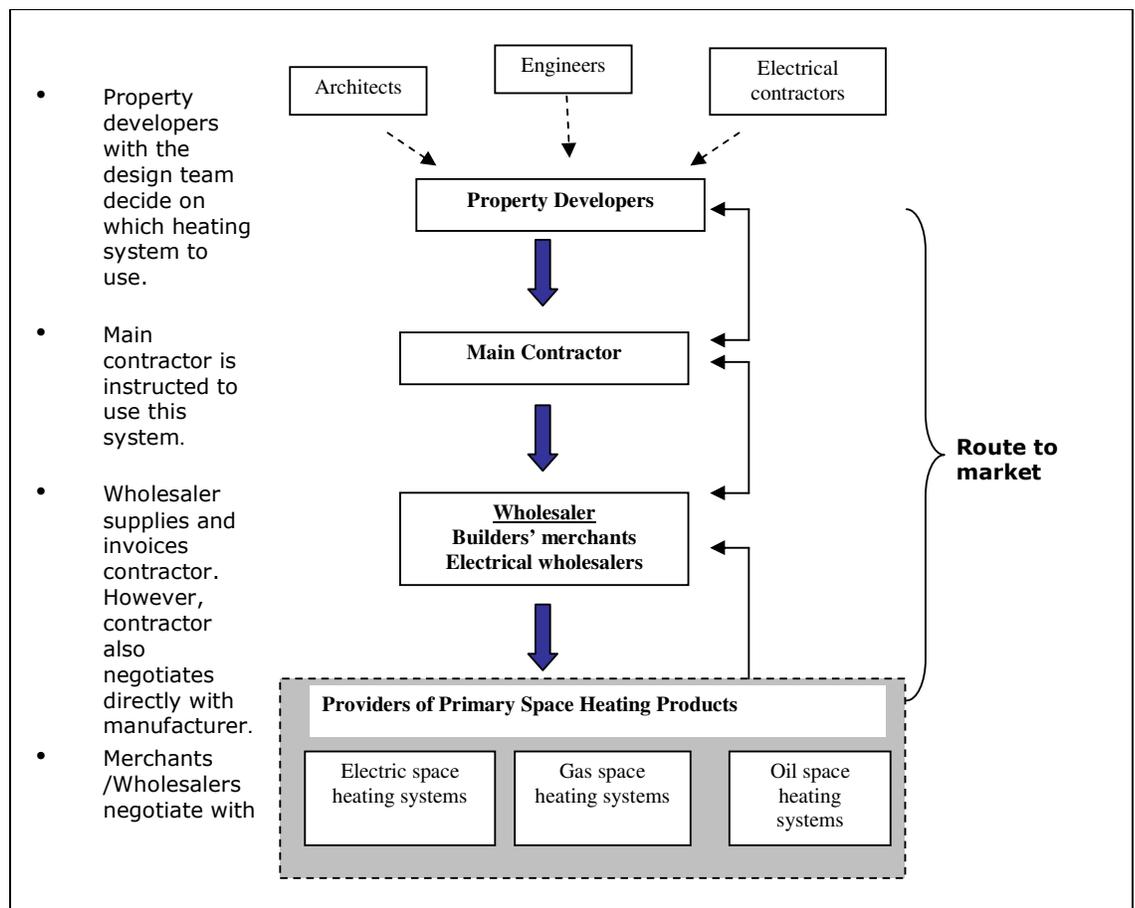
SECTION TWO: BACKGROUND – SPACE HEATING PROVIDERS, PROPERTY DEVELOPERS, AND BUILDERS’ MERCHANTS/WHOLESALERS

Introduction

- 2.1 This section describes the environment in which the proposed acquisition is set to take place. The industry participants involved are primary space heating providers, property developers and builder’s merchants/wholesalers. These are interrelated and operate at different levels of the supply chain: providers of space heating systems supply their products to property developers via builders’ merchants and wholesalers.
- 2.2 Figure 1 below provides an overview of the supply chain relating to the provision of primary space heating products in the State.

Figure 1

Supply Chain relating to the provision of Primary Space Heating Products in the State



Source: Competition Authority

Space Heating Providers

- 2.3 Space heating products are used to provide heat in residential and commercial buildings. They comprise both primary and secondary space heating products. Primary space heating products heat the largest proportion of a building and include the following:
- Central heating systems with radiators or under-floor heating (these include electric, gas-fired central heating, oil-fired central heating, solid fuel boilers, electric boilers and heat pumps);
 - Community heating schemes;
 - Electric under-floor heating;
 - Warm air systems (these include gas-fired warm air systems, oil-fired warm air systems, electric warm air and heat pumps); and,
 - Boilers (gas boilers (mains gas and LPG), combined primary storage units (mains gas and LPG), oil boilers).
- 2.4 While all of these primary space heating products fulfil the same function of providing heat throughout a building, they are differentiated from each other with respect to certain characteristics, including, the cost of installation, the running cost which is determined by the fuel source, and the amount of space each system takes up in a building. For example, electric primary space heating systems do not require the installation of any pipework, thus they take up less space and are cheaper to install than gas-fired and oil-fired central heating systems. However, as will be explained in more detail below, electric primary space heating systems are more expensive to run for end users than gas-fired and oil-fired central heating systems. These factors all influence the property developer's decision as to the type of primary space heating system to install in a new development.
- 2.5 Secondary space heating products include portable heaters and artificial fires. Like primary space heating products, they may be fuelled by gas, oil, electricity or renewable energy products.
- 2.6 From the perspective of an end user, an individual may use a combination of secondary space heating products to heat a building, in which case both primary and secondary heating may be considered to fulfil the same function. However, from the perspective of a property developer with a new residential or commercial building, some form of primary space heating system must be installed. Primary and secondary space heating products also complement each other – the latter are generally used in winter as an addition or "top-up" to the primary space heating systems that hang on the walls of the building.
- 2.7 The first point of contact for a provider of primary space heating products is the property developer, who has the ultimate veto on which type of central heating system is chosen for any particular new development.⁵ The Authority understands that often, in the case of a new residential or commercial development, a primary space heating provider will have a meeting with a property developer where a pitch is

⁵ The Indecon Report, p. iv, states that approximately 90% of sales of space heating products are installed in new buildings.

made to the developer regarding the relative merits of a given type of primary space heating product.⁶

Property Developers

2.8 Given the climate in the State combined with rising incomes and expectations, all new developments require the installation of some form of central heating system to provide heat throughout the building. End users have a preference for central heating systems (i.e., electric, gas-fired and oil-fired radiators) as they offer comfort, reliability and controllability. Thus, property developers have to make a decision as to the type of primary space heating system to install in a new residential development.⁷

2.9 The main factors influencing the decision as the type of primary space heating system to install are:

- The cost of the fuel source used to power the primary space heating product;
- The energy efficiency of the fuel source;
- Space requirements in the new development;
- The cost of installing the primary space heating product;
- Convenience for the end user;
- Aesthetic appearance⁸; and,
- The price of the primary space heating product.

2.10 A majority of property developers informed the Authority that although electric primary space heating products are cheaper to install than gas-fired or oil-fired primary space heating systems⁹, the latter are cheaper to run¹⁰ and are considered more energy efficient than electric space heating products. The Authority also understands from property developers that gas-fired and oil-fired space heating systems are considered more convenient than electric radiators by end users as they offer more controllability over the level and temperature of heat

⁶ GDG informed the Authority that it uses the Construction Information Services weekly reports on new developments to identify contract opportunities with property developers.

⁷ This is also the case in a new commercial development. However, the Authority understands from its discussions with market participants that the decision as to the type of primary space heating system to install in a new commercial development is a joint decision taken between the owner and the property developer.

⁸ Property developers informed the Authority that this factor is more important in new residential developments aimed at the mid- to high-end of the property market.

⁹ This is unsurprising given the need to install piping and storage systems in the case of gas-fired and oil-fired primary space heating products. In contrast, electric primary space heating products only require an electrician to connect the radiator to the electricity supply source. The Authority understands that due to space requirements it would be unusual for a property developer to install an oil-fired central heating system in a new development consisting solely of apartments. Oil-fired space heating systems tend to be predominantly used in new housing developments where more space is available.

¹⁰ In Ireland, electricity prices for domestic use have risen rapidly in recent years relative to gas and oil prices. Between 2001 and 2006, the domestic price of electricity rose by 93% while gas prices rose by 51.4% and oil prices by 50%. Based on data provided in the Indecon Report, Table 2.6, p. 26.

emitted.¹¹ This is reflected in survey evidence which the Indecon Report interprets to mean electric space heating radiators account for only 8.4% of the central heating market in 2007.¹² Furthermore it appears that the share of heating systems accounted for by electric radiators has declined by 23% for all new homes and 27% for all new apartments between 2001 and 2006.¹³

- 2.11 Although the price of the primary space heating product is important in the choice of which central heating system to install, all property developers surveyed by Authority stated that the cost of installation and the views of end users are equally important.
- 2.12 As explained in paragraph 2.7 above, primary space heating providers will generally make contact with a property developer in the case of a new development where a pitch is made regarding the relative merits of a given type of primary space heating product. This is the 'primary' round of negotiations where providers use various arguments relating to price, installation cost, aesthetic appearance, etc to influence the property developer's decision. Once a property developer decides on the type of primary space heating system to install in a new development, a 'secondary' round of negotiations will commence between the primary space heating provider and builders' merchants and wholesalers.¹⁴

Builders' Merchants/Wholesalers

- 2.13 The customers of primary space heating providers in the State are merchants of building products and wholesalers – they account for all of the sales of the parties in primary electric space heating products in the State. The parties provided the following information which describes the relationship between the building contractor and the builders' merchant/wholesaler.
- 2.14 Most orders made by building contractors (working on behalf of the property developer) with builders' merchants and wholesalers are installed within approximately 3-6 months of the original quotation. In many cases, these orders are fitted in single units as the developer or his contractor cannot accommodate bulk supplies of primary space heating products on site. The building contractor draws down the stock as and when it is required. One advantage for the property developer/contractor is that it allows him to spread his credit by purchasing from merchant groups or wholesalers. In addition, wholesalers/merchants structure the delivery of the products to the site in such a way as to offer the optimum level of efficiency.
- 2.15 Once a property developer has made the choice of primary space heating system to install in a new development, the developer (or,

¹¹ However, as explained in detail in paragraphs 5.4-5.8 below, GDG has recently developed a new electric radiator to try to counter the negative perception amongst end users over the controllability of electric space heating products.

¹² Indecon Report, p. 73.

¹³ Based on estimates in the Indecon Report, Table 2.6, p. 26. Some of this decline is due to the rise in the price of electricity relative to gas and oil. See footnote 10 above for details.

¹⁴ In some rare instances, a property developer will agree a price and specification with a primary space heating provider which will include the quantity and type of central heating system to be installed. However, in most cases, a property developer will only make a decision as to the type of central heating system to install in a new development, e.g., electric radiators; the specific supplier will be chosen by the builder's merchant/wholesaler in negotiations with providers of that type of primary space heating system.

more likely, his/her building contractor) obtains the product from builders' merchants and wholesalers. At this stage, a 'secondary' round of negotiations will take place where providers of the type of primary space heating system already chosen by the property developer vigorously engage with the various builders' merchants and wholesalers to ensure that their product wins a particular contract. At this stage, builders' merchants and wholesalers will compare the price charged and discounts offered by each primary space heating provider and the most competitive option will be selected.

- 2.16 Builders' merchants and wholesalers will seek to negotiate a discount from the space heating provider. Approximately [...] of GDG's sales are at discounted prices ranging between [...] off the trade or retail price. The parties claim that builders' merchants and wholesalers possess a high degree of countervailing buyer power such that if they do not receive a sufficiently attractive discount, they will switch to an alternative primary space heating provider. The response of builders' merchants and wholesalers to the Authority's questionnaire confirms this view – the majority of respondents stated that they would switch to imports of electric primary space heating products in response to an attempt made by all suppliers of electric space heating products to raise their prices permanently by 5-10%.

Summary of Choice of Primary Space Heating Products Available to Property Developers

- 2.17 Table 2 below details the choice of primary space heating products available to property developers in new residential and commercial developments, both on and off the natural gas grid. The natural gas grid currently has a distribution network that serves the major population centres in the State including Dublin, Cork, Limerick, Galway, and Waterford.

**Table 2
Choice of Primary Space Heating Products in New Developments, both on and off the Natural gas Grid**

	On the Natural Gas Grid	Off the Natural Gas Grid
Residential Developments	(a) Electric radiators (b) Gas-fired radiators (c) Oil-fired radiators ¹	(a) Electric radiators (b) Oil-fired radiators (c) LPG-fired radiators ²
Commercial Developments	(a) Electric radiators (b) Gas-fired radiators (c) Oil-fired radiators	(a) Electric radiators (b) Oil-fired radiators (c) LPG-fired radiators

Notes: 1. The Authority understands that due to space requirements it would be unusual for a property developer to install an oil-fired central heating system in a new residential development consisting solely of apartments.

2. Primary space heating products fired by Liquefied Petroleum Gas. The Authority understands that due to space requirements it would be unusual for a property developer to install an LPG-fired central heating system in a new residential development consisting solely of apartments. However, most new residential developments located off the gas grid are new housing developments.

Source: Competition Authority

- 2.18 In the case of new residential and commercial developments located off the natural gas grid, property developers do not have the option of installing gas-fired central heating systems. However, in addition to electric and oil-fired radiators, property developers do have the option of using Liquefied Petroleum Gas ("LPG") as a fuel source in their central heating systems in new developments located off the natural gas grid.¹⁵

¹⁵ As with oil-fired radiators where more space is required to store the fuel source, LPG-fired central heating systems are unlikely to be an option in a new residential development consisting of apartments. However, the Authority understands that the vast majority of new residential developments located off the natural gas grid are housing developments rather than apartments.

SECTION THREE: RELEVANT PRODUCT AND GEOGRAPHIC MARKET

Introduction

- 3.1 In this section, the relevant market is defined in terms of its product and geographic dimensions. The views of the undertakings involved will be summarised, the Authority's investigation explained and its analysis and conclusion given.
- 3.2 In considering whether a separate product or geographic market exists, the Competition Authority applies the Small but Significant Non-transitory Increase in Price (SSNIP) Test (also known as the hypothetical monopolist test) where the price increase is between 5-10%.¹⁶ The SSNIP test in merger analysis applies a price increase "above the prevailing level."¹⁷ In some instances, the prevailing price will be the competitive price, in others a price in excess of the competitive level.

Relevant Product Market

Parties Views on Relevant Product Market

- 3.3 The parties claim that the relevant product market affected by the proposed acquisition comprises the provision of space heating products, namely primary and secondary space heating which include gas, oil, solid fuel, electric and renewable energy central heating products ("primary space heating") and portable heating products ("secondary space heating").¹⁸
- 3.4 In support of this view, the parties carried out a survey of property developers. A TNS-mrbi survey carried out on behalf of Indecon in March 2007 of 56 property developers (of which 40 completed the survey) found that 20 would definitely consider switching and 17 might consider switching to other products in the space heating market were the relative cost of electric radiators to increase permanently by 5-10%.¹⁹

Authority's Investigation of Relevant Product Market

¹⁶ The SSNIP Test asks whether a hypothetical monopolist of product A would be able to permanently increase its price by 5-10%. If a sufficient number of consumers respond to the price increase by purchasing another product, say product B, then it is appropriate to include product B in the same relevant market as product A. The test is then reapplied to a hypothetical monopolist of both product A and B and asks if a hypothetical monopolist of both products could profitably increase the price of both products by 5-10%. If a sufficient number of consumers switch to another product, say product C, the test is then reapplied by including product C with products A and B. The test is iteratively applied until a hypothetical monopolist of some group of products could profitably increase the price of all products in the group by 5-10%. This group of products is defined as the relevant product market. Full details of the test are explained in the Competition Authority, 2004, *Notice in Respect of Guidelines for Merger Analysis*, Decision No. N/02/004, hereinafter referred to as Competition Authority, *Merger Guidelines*, which are available on the website, www.tca.ie.

¹⁷ Competition Authority, *Merger Guidelines*, paragraph 2.5.

¹⁸ The Indecon Report, submitted by the parties, supports this view.

¹⁹ Of the 40 property developers that completed the TNS-mrbi survey, only 15 are listed in the Top 150 construction companies in the State for 2006 as compiled in D+B/Business Pro in Construction, Construction Industry Federation, March 2007. For details of the response cited in the text see Indecon Report, Table 2.5, p. 25.

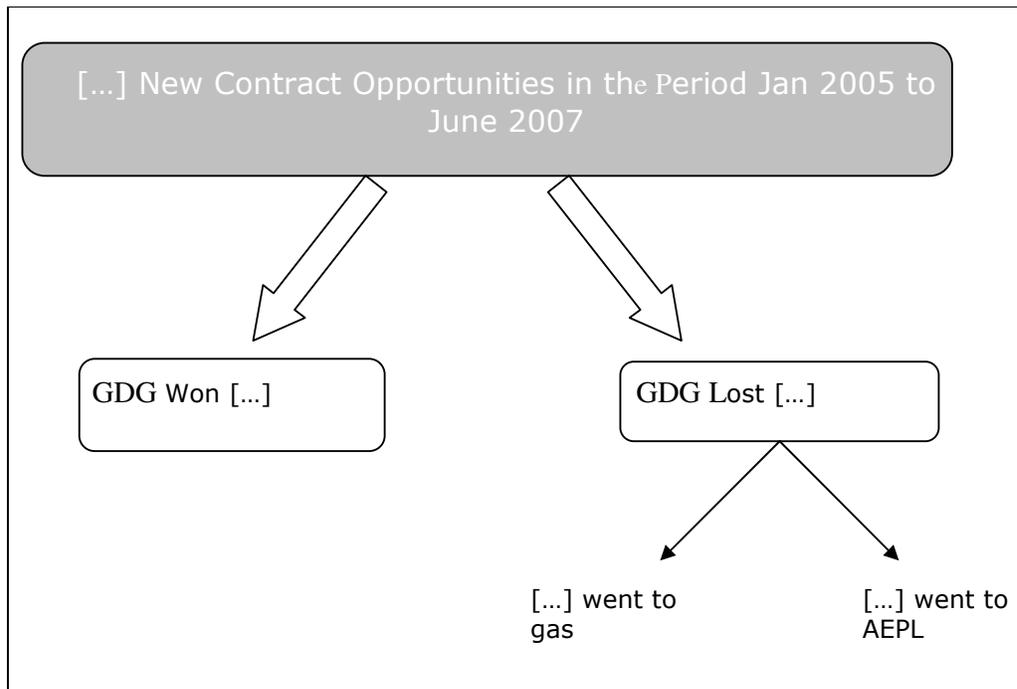
- 3.5 The Authority used a number of different types of evidence and sources in order to inform it as to the appropriate definition of the relevant product market.

Documentary Evidence

- 3.6 GDG submitted internal documentation following formal requests for information issued by the Authority in relation to pitching for new business, the results of which are summarised in Figure 2.

Figure 2

The Outcome of New Contract Opportunities, Primary Space Heating Systems, Pursued by GDG, January 2005 to June 2007



Source: Competition Authority

- 3.7 GDG informed the Authority that it uses the Construction Information Services weekly reports on new developments to identify contract opportunities. Out of approximately [...] new development opportunities where GDG made a direct approach to the property developer between 1 January 2005 and 30 June 2007, GDG was unsuccessful approximately [...] of these opportunities.²⁰ In those instances where GDG was unsuccessful, the data indicates that GDG lost out to providers of gas-fired primary space heating systems [...] of the time.²¹ In the case of the remaining [...] new development

²⁰ The [...] developments where GDG made an approach to the property developer between January 2005-June 2007 consist of residential, commercial, mixed (houses, apartments and duplexes) and mixed use (houses, apartments, duplexes and some commercial space) developments located across the State, including developments located off the natural gas grid.

²¹ In only one development did the property developer choose an oil-fired primary space heating system. This is unsurprising given the fact that the majority of the [...] developments were apartments. The Authority understands that due to space requirements it is unusual for a property developer to install an oil-fired space heating system in a new development consisting solely of apartments.

opportunities where GDG was unsuccessful, GDG lost out to AEPL's electric primary space heating products.

- 3.8 In addition to information concerning new contract opportunities with property developers, GDG also submitted copies of trade brochures produced in recent years to market its primary space heating products. A review of these trade brochures indicates that GDG perceives its products to be competing with other types of primary space heating systems.
- 3.9 For example, in its November 2005 trade brochure entitled "Space & Water Heating Solutions for Developers", GDG begins by outlining why a property developer should choose electric heating. GDG states on page 4 that "Electric heating has become the heating solution of choice in modern new build flats and apartments, due to levels of versatility unmatched by other heating fuels". GDG goes on to state, "Compared with other heating systems, electric heating appliances offer extremely low capital costs and because there is no pipework to install, installation costs are also low. In addition, savings can often be made on infrastructure, as no gas services need to be provided to the building". GDG further states that its electric heaters require "...no plumbing, no pipework..." and are 100% efficient at the point of use "...unlike boiler based systems where 15% or more energy is wasted through the flue".
- 3.10 These views, expressed in writing pre-acquisition by GDG and specifically aimed at property developers, combined with the data described in paragraph 3.7 above, are consistent with the view that electric primary space heating systems produced by the parties compete with gas-fired and oil-fired primary space heating systems.

Survey Evidence: Property Developers

- 3.11 Since the property developer makes the final decision as to the type of space heating system that is installed in a new development, the Authority carried out a survey of property developers. The Authority sent a detailed questionnaire to twelve leading property developers in the State, of which eleven responded.²²
- 3.12 One of the questions posed in the survey related to the SSNIP test: "If the price of electric radiators increased permanently by 5-10%, would you switch to any other space heating products. If so, why and which space heating products would you switch to?"
- 3.13 Five of the 11 property developers that responded to the question indicated that they would switch to other space heating products such as gas-fired and oil-fired primary space heating systems as a result of a permanent rise of 5-10% in the price of electric radiators. Three property developers indicated that they would not switch in response to the permanent price increase. Two developers indicated that they no longer use electric space heating systems in new developments. Finally, one developer stated that the price of the space heating product is irrelevant; the decision is based solely on

²² The net sales of these eleven property developers accounted for approximately 36% of the total net sales of the top 150 construction companies in the State in 2006.

the energy efficiency of the fuel source. On this criteria electric space heating does not score highly.²³

- 3.14 Of the three developers that indicated that they would not switch, two explained that because the installation cost of electric space heating systems is much lower than the cost of installing gas-fired or oil-fired space heating systems,²⁴ a 5-10% permanent increase in the price of electric radiators would not be sufficient to induce the developer to switch. Both of these property developers indicated that the price would need to rise permanently by approximately 20-30% to induce a switch to gas-fired or oil-fired primary space heating systems.²⁵
- 3.15 The issue thus becomes how to interpret this evidence. The hypothetical monopolist of electric radiators is concerned only with those firms that currently purchase electric radiators. For those that do not purchase these radiators the price is – at least within the SSNIP test range of 5-10% - irrelevant. Hence the hypothetical monopolist in considering whether it is profitable to raise price will only pay attention to the eight firms that currently purchase electric radiators. On this basis five of the eight (62%) indicated that they would switch to other space heating products such as gas and oil-fired heating systems as a result of a permanent rise of 5-10%. The remaining three property developers (38%) indicated that they would not switch in response to the permanent price increase. This suggests that it is likely to be unprofitable for a hypothetical monopolist to raise the price of electric radiators since developers would switch to other space heating products such as gas-fired and oil-fired primary space heating systems.
- 3.16 Taken together with TNS-mrbi's survey on behalf of Indecon of 56 property developers in March 2007, these two surveys suggest that property developers view gas-fired and oil-fired primary space heating products as substitutable for electric primary space heating products.²⁶

Survey Evidence: Competitors and Builders' Merchants/wholesalers

- 3.17 The Authority also carried out a survey of competitors and builders' merchants/wholesalers.²⁷ As illustrated in Figure 1 above, providers of primary space heating systems supply their products to property developers via builders' merchants and electrical wholesalers. The merchant/wholesaler negotiates with providers to source primary spacing heating systems at the most competitive price.

²³ See para 2.10 above.

²⁴ Information provided to the Authority by the parties indicates that the cost of installing a gas-fired primary space heating system was on average 48% higher than the cost of installing an electric primary space heating system over the period 2004-2006 while an oil-fired primary space heating system was on average 66% more expensive to install than an electric primary space heating system over the same period.

²⁵ It should be noted that one of these two property developers also indicated that his company has significantly reduced its use of electric primary space heating systems because of a recent change in market preferences away from electric primary space heating systems. He stated that electric primary space heating systems are generally perceived by end users as being expensive to run relative to gas-fired or oil-fired primary space heating systems and bad for the environment. This view was expressed by a majority of property developers in their response to the Authority's questionnaire.

²⁶ The Authority's survey is complementary to the TNS-mrbi survey as the Authority survey concentrated on the larger developers while the TNS-mrbi referred to a wider sample of property developers.

²⁷ For a description of how these were chosen by the Authority, please see paragraph 1.17 above.

- 3.18 Six competitors responded to the survey but only three are currently active in the provision of primary space heating systems in the State.²⁸ All three competitors active in the provision of primary space heating systems in the State stated in their response that electric primary space heating products compete with gas-fired and oil-fired primary space heating systems.
- 3.19 Five builders' merchants and wholesaler responded to the Authority's questionnaire. In response to the question "If attempts were made by all suppliers of electric space heating products to raise their prices permanently by 5-10%, how would your company react to this", four out of five stated that they would switch to imports of electric primary space heating products.

Do Primary Space Heating Products fired by Renewable Energy Sources Compete with Primary Space Heating Products fired by Gas, Oil and Electricity?

- 3.20 GDG argues that primary space heating products fired by renewable energy sources compete with primary space heating products fired by gas, oil and electricity. Renewable energy resources are readily available in the State and include solar energy, wind energy, geothermal energy and biomass fuels.
- 3.21 Sustainable Energy Ireland ("SEI") promotes and assists the development of sustainable energy in the State and its website highlights the number of renewable energy heating products currently sold in the State.²⁹ Grants are available from SEI to cover some of the installation costs associated with using primary space heating systems fired by renewable energy sources. The number of applications to SEI for these grants has been growing over the past two years.
- 3.22 In follow-up calls, the Authority sought the views of six property developers who responded to the Authority's questionnaire as to whether primary space heating systems fired by renewable energy sources are considered an alternative to electric, gas-fired and oil-fired primary space heating systems. Four out of six property developers expressed the view that although primary space heating systems fired by renewable energy sources are likely to become an alternative in the future, they are currently not an alternative to electric, gas-fired and oil-fired primary space heating systems and will not be in the next two years. The other two property developers consider primary space heating systems fired by renewable energy sources to be an alternative but they currently install few of these systems in new residential and commercial developments.
- 3.23 Draft Building Regulations published by the Government in September 2007 propose that all new homes will incorporate at least a minimum level of renewable energy such as solar heating systems or biomass systems.³⁰ The intention is that these new regulations will apply to all new housing planning applications from July 2008. The Government intends to sign the new regulations in December 2007.

²⁸ One respondent, Baxi, stated that they had no comments to make concerning the questionnaire.

²⁹ www.sei.ie

³⁰ <http://www.ireland.com/newspaper/ireland/2007/0922/1190324527910.html>

The Authority therefore recognises that primary space heating systems fired by renewable energy sources may become more competitive with primary space heating products fired by gas, oil and electricity over the coming two years.

- 3.24 The Authority has therefore concluded that primary space heating products fired by renewable energy sources do not compete with primary space heating products fired by gas, oil and electricity.

Are Secondary Space Heating Products in the Same Market as Primary Space Heating Products?

- 3.25 As explained in Section 2 above, secondary space heating products include portable heaters and artificial fires. Like primary space heating products, they may be fuelled by gas, oil or electricity. From the perspective of the end user, a person could in theory use a series of secondary space heating products to heat a residential or commercial building. However, from the perspective of a property developer with a new residential or commercial building, some form of primary space heating system must be installed. Primary and secondary space heating products complement each other – the latter are generally used in winter as an addition or “top-up” to the primary space heating systems than hang on the walls of the building. This view was confirmed in the Authority’s survey of competitors where two out of the three respondents stated that primary space heating products do not compete against secondary space heating products. Thus, from a demand-side perspective, primary and secondary space heating products are not substitutable.

- 3.26 During the course of the investigation, GDG put forward the view that if a hypothetical monopolist supplier of all primary space heating products in the State attempted to impose a SSNIP on that collection of products, existing suppliers of secondary electric space heating products in the State would be likely to begin supplying primary electric space heating products within one year and at low cost. Furthermore, existing suppliers of secondary gas-fired and oil-fired space heating products in the State would be likely to begin supplying primary gas-fired and oil-fired space heating products within one year and at low cost.³¹ Thus, it is argued by GDG that the relevant product market comprises primary and secondary space heating systems.

- 3.27 The Authority accepts that supply-substitutability considerations may mean that the relevant product market may be wide enough to include primary and secondary space heating products.

Conclusion on the Relevant Product Market

- 3.28 On the basis of the evidence set out in paragraphs 3.7-3.26 above, the Authority has concluded that the product dimension of the relevant market affected by the proposed transaction is at least the market for the provision of electric, gas-fired and oil-fired primary

³¹ GDG expressed the view in discussions with the Authority that the manufacturing process required for the production of electric (primary and secondary) space heating products is quite different to the process required for the production of gas-fired and oil-fired (primary and secondary) space heating products. GDG stated that it would not be easy for a supplier of gas-fired and oil-fired (primary and secondary) space heating products to switch production quickly and cheaply to electric (primary and secondary) space heating products.

space heating products in the State. It may include, because of supply side considerations, secondary space heating. It may also include primary space heating systems fired by renewable energy sources. However, the Authority does not need to come to a view on this because the Authority's conclusions concerning the competitive effects of the proposed acquisition, outlined in Section 5 below, will be unaffected if the relevant product market encompasses not only primary but also secondary space heating products.

Relevant Geographic Market

Parties Views on Relevant Geographic Market

- 3.29 The parties claim that the relevant geographic market is likely to be the European Union single market.

Authority's Investigation of Relevant Geographic Market

- 3.30 The Authority recognises that the following facts suggest the relevant geographic market may be wider than the State:

- Transport costs appear to be low – GDG estimates that the typical cost of transporting electric radiators from Europe to the State to be 1-2% of the purchasing price;
- There are no regulatory barriers to trade in primary space heating products in the EU;
- Providers of primary space heating products operate under common standards in the EU;
- The larger providers of primary space heating products are internationally-recognised brand names (e.g., the Quinn Group, Baxi, Rettig, Caradon) and they sell their products on a worldwide basis;
- Most primary space heating products sold in the State come from Northern Ireland, Great Britain, Spain, France, Turkey, China, Russia, US and other countries; and,
- On average over the period 2004-2006, 97% of GDG's total sales of central heating radiators were accounted for by sales outside the State.

Conclusion on the Relevant Geographic Market

- 3.31 Despite these considerations, for the purposes of examining the competitive effects of the proposed acquisition, the Authority has taken the view that the relevant geographic market is at least the State. However, it does recognise that the relevant geographic market may be wider than the State. The Authority does not need to come to a view on this because the Authority's conclusions concerning the competitive effects of the proposed acquisition, outlined in Section 5 below, will be unaffected if the relevant geographic market encompasses not only the State, but also Northern Ireland or the rest of the EU.

SECTION FOUR: MARKET STRUCTURE

Introduction

- 4.1 Market structure can be characterised as the number and size distribution of firms. The initial impact of any merger is felt on market structure as two firms pre-merger become one firm post-merger. In this section, the pre- and post-acquisition market shares of GDG and AEPL are considered.

Measuring Concentration

- 4.2 Market concentration refers to the degree to which production in a particular market or industry is concentrated in the hands of a few large firms. It refers in particular to the number and size distribution of firms in the relevant market: the fewer the number of firms and/or the more disparate the firms are in terms of their sizes, the more concentrated the market. The significance of concentration in competition analysis is that in highly concentrated markets in which barriers to entry are also high, effective competition is likely to be weak.
- 4.3 The most commonly used measure of concentration is the *Herfindahl-Hirschman index* (HHI), which is defined as the sum of the squares of the market shares of all firms participating in the market. According to the Competition Authority's *Merger Guidelines*, a HHI in excess of 1800 indicates a situation where "mergers occur in already highly concentrated industries" (paragraph 3.10). Therefore, if the HHI is above 1800, this indicates that firms in that market may be able to exercise market power.
- 4.4 As the Competition Authority's *Merger Guidelines* make clear, in order to accurately characterise the competitive conditions in a market, attention has also to be paid to factors such as barriers to entry and exit, buyer power, switching costs, and so on. Thus, while market shares and the HHI index are used as screening mechanisms, reference to other market characteristics is necessary in order to determine the presence of market power.

The Impact of the Merger – the Market for Primary Space Heating in the State

- 4.5 As described in Section 3 above, the relevant market affected by the proposed transaction is the market for the provision of primary space heating products in the State. Precise data on the market shares of each market participant is not available. However, the Indecon Report provided estimated market shares of the eighteen leading competitors in the primary space heating market in the State for 2006.³² These are presented in Table 2 below. Indecon constructed a dataset from three

³² GDG's market definition of primary space heating in the State includes primary space heating products fired by renewable energy sources. As outlined in Section 3 above, the Authority has concluded that primary space heating products fired by renewable energy sources do not compete with primary space heating products fired by gas, oil and electricity. Thus, the market share figures presented in Table 2 below will understate the actual market shares of primary space heating system providers fired by gas, oil and electricity. However, given that primary space heating systems fired by renewable energy sources are a relatively new development in the industry, their combined sales are small relative to sales of electric, gas and oil radiators.

sources, namely the Consult GB Report³³, data from GDG³⁴ and data from SEI on the number of registered providers of renewable energy space heating products in Ireland. The measure of size in Indecon's dataset is volume (i.e., units of space heating products sold).

Table 2
Estimated Market Shares of Eighteen Leading Competitors in the Primary Space Heating Market in the State, Pre & Post-acquisition, 2006¹

Provider	Estimated Market Shares Pre-acquisition (%)	Estimated Market Shares Post-acquisition (%)	Change in Summary Measures
Quinn Group	25	25	
Biasi	15	15	
Rettig	15	15	
DeLonghi	3	3	
GDG	3	6	
Caradon	3	3	
Beaumarck Ltd.	3	3	
KOC	3	3	
Argos	3	3	
Baxi	3	3	
Firebird Boilers	3	3	
Grant Engineering	3	3	
Zehnder	3	3	
Elginkan	3	3	
AEPL	3	-	
Heatmaster	3	3	
B&Q	3	3	
Riello	3	3	
Total	100	100	
Summary Measures			
C ₂	40	40	0
HHI	1210	1228	18

Notes: 1.The Indecon Report presents ranges for the market shares of the undertakings. It was assumed for the purposes of the table that for the leading three undertakings that their market share was the mid-point of the range. For all the remaining undertakings the range was 0-10% and 3% was used by the Competition Authority as the market share.

Source: Indecon Report, Table 2.10, p. 42.

4.6 Based on the market share figures in Table 2 above for 2006, the merged entity post-acquisition will have a market share of 6%, the

³³ Consult GB, "The European Heating Product Markets 2005 Update Ireland", July 2005. Indecon states in its report that since it completed its analysis, a more recent Consult GB report has become available but the more recent figures (for 2005) do not lead to any significant change.

³⁴ The GDG data gives estimates of the numbers of units of electric radiators provided in the State.

HHI index for the primary spacing heating market will increase from 1,210 to 1,228, an increase or delta of 18.

- 4.7 The Authority's merger guidelines set out a series of thresholds that can be used as a rough and ready method of screening mergers. The negligible increase in the HHI between the pre- and post-acquisition environments (i.e., a 'delta' of 18) combined with a post-acquisition HHI of 1,228 indicates that the proposed acquisition would give rise to a merger Zone A situation. Mergers cases falling in Zone A are characterised by the Authority's *Merger Guidelines* as those that are less likely to give rise to any adverse effects on competition.
- 4.8 The analysis above suggests that the proposed acquisition will not have any adverse effect on the structure of the relevant market, in terms of market concentration. The competitive effects of the proposed acquisition are assessed in the following section.

SECTION FIVE: COMPETITIVE ANALYSIS

Introduction

- 5.1. In this section, the issue of whether or not the proposed acquisition will result in a substantial lessening of competition (SLC) is addressed. Both unilateral and co-ordinated effects are considered.

Unilateral Effects

- 5.2. Unilateral effects refers to a situation where the merged entity has the ability post-acquisition to unilaterally exercise market power by, for example, raising price or reducing output. The Authority first considers factors that operate within the primary space heating market that might constrain the merged entity from raising price before examining those constraints that operate outside this market.

Number of Competitors and Merged Entity's Market Share

- 5.3. Given the large number of competitors active in the provision of primary space heating products in the State, the negligible increase in market concentration post-acquisition (as highlighted in Section 4 above), and the ability of builders' merchants and wholesalers to source primary space heating products from abroad quickly and without incurring significant transport costs³⁵, the Authority has formed the view that the merged entity will not have the power to unilaterally exercise market power. Any attempt by the merged entity to increase the price of its electric primary space heating products post-acquisition will lead property developers to switch in the first instance to either imports of electric primary space heating products or other providers of electric space heating products or following that to providers of gas-fired and oil-fired primary space heating products.^{36 37 38}

Dynamic Market Environment – Product Innovation

- 5.4. GDG and AEPL currently compete in a very dynamic primary space heating market in the State. Information submitted to the Authority by the parties and discussions with property developers indicate that

³⁵ GDG estimates that the typical cost of transporting electric radiators from Europe to the State to be 1-2% of the purchasing price.

³⁶ The evidence in the Inecon Report suggests that capacity constraints will not prevent competitors of the merged entity from responding with increased output. Furthermore going forward the level of construction of homes and apartments is expected to decline from recent record highs. The Department of the Environment's *Review of the Construction Industry 2006 and Outlook for 2007-2009* published in September 2007 predicts that construction output will fall by 1.5% in 2007 with approximately 20,000 building workers losing their jobs.

³⁷ Annex A below details those firms among the leading eighteen primary space heating firms that sell the various primary heating systems.

³⁸ Only one property developer surveyed by the Authority raised any concerns about the proposed acquisition by arguing that competitiveness may suffer if the proposed acquisition results in a large portion of the market being controlled by one undertaking. However, this view is contradicted by the property developer's response to the SSNIP question where he stated that he would switch to either gas-fired or oil-fired primary space heating systems in response to a 5-10% permanent rise in the price of electric radiators. This indicates that the property developer views the relevant product market as encompassing electric, gas-fired and oil-fired primary space heating systems. It should also be noted that none of the other 10 property developers surveyed by the Authority raised any concerns about the proposed acquisition; indeed, three respondents stated that it would be good for the market as it may lead to the development of more cost effective electric primary space heating systems.

electric primary space heating products face competitive disadvantages compared with gas-fired and oil-fired primary space heating products. The former are generally perceived by property developers and end users as:

- Offering poor controllability over the level and temperature of the heat emitted from the radiators³⁹; and
- Expensive to run relative to gas-fired and oil-fired radiators.

5.5. In addition to this negative perception of electric radiators, the Authority understands that during the period 1999-2002, providers of gas-fired and oil-fired primary space heating products (most notably Bord Gais) invested heavily in product development, in particular in heating control systems and the aesthetics of the products. GDG informed the Authority that it noticed that during the period 2000-2003 it was losing mid- to high-end apartment development contracts to gas-fired and oil-fired radiators.⁴⁰

5.6. In response to these developments, GDG invested heavily in developing a new electric space heating system called "DuoHeat" in 2004. It offers the end user more controllability and addresses the over/under-heating issues of traditional electric storage radiators. In the past year, GDG has made further investments in the DuoHeat product. The development and introduction by GDG of more innovative primary electric space heating systems was a direct response to the competitive threat posed by gas-fired and oil-fired radiators.

5.7. Despite recent product innovation by GDG, a majority of property developers surveyed by the Authority stated that their purchases of electric primary space heating products have declined in recent years relative to purchases of gas-fired and oil-fired radiators. According to property developers, this reflects a growing preference amongst end users for gas-fired and oil-fired radiators.⁴¹

5.8. The investment made by GDG in recent years in developing more sophisticated electric primary space heating products illustrates the intense level of competition that exists in the primary space heating market in the State and the inability of the merged entity to unilaterally increase price post-acquisition.

Low Barriers to Entry

5.9. Barriers to entering the primary space heating market in the State do not appear to be high. The Indecon Report argues that entry is more likely to occur at the distribution stage rather than the manufacturing stage of the primary space heating supply chain in the State. Entry by a new competitor could be undertaken by simply selling direct to

³⁹ This is especially the case with traditional electric storage radiators.

⁴⁰ GDG informed the Authority that during this period it mainly won contracts in lower end property developments where price is a key factor in the decision making process and product design/functionality are less important.

⁴¹ This is mainly because gas-fired and oil-fired primary space heating systems are cheaper to run than electric primary space heating systems.

existing distributors. Indeed, until EDI ceased trading in July 2007, this was the approach undertaken by AEPL.⁴²

- 5.10. There have been a number of new entrants in the primary space heating market in the State in recent years. The most notable entrant was the Quinn Group in 2004 with its acquisition of the Barlo and Veba brands.⁴³ As shown in Table 2 above, the Quinn Group is the market leader with a market share of approximately 25%. Other recent entrants include CEF, which sells radiators under the Levante brand, and B&Q, which sell electric panel radiators under the B&Q and Air Force brands.⁴⁴

Countervailing Buyer Power and Price Discounting

- 5.11. Countervailing buyer power is manifested when users are large and when price discounting is a salient feature of the relevant market reflecting the fact that buyers have alternative sources of supply to which they can easily switch. Both features are prevalent in the market for primary space heating products in the State and reflect the power of large property developers, builders' merchants and wholesalers. As described in paragraphs 2.15 and 2.16 above, builders' merchants and wholesalers will switch to alternative providers of primary space heating products (including imports) if they do not receive attractive prices/discounts from current providers. Hence if the merged entity were to raise prices post merger these buyers would switch to alternative sources of supply.

- 5.12. This inference is consistent with the response of the developers to the merger. None of the developers surveyed raised concerns about the merger. Three developers said that the merger would be beneficial because according to one it might lead to lower costs while another stated that the merged entity might develop more innovative and cost effective electric primary space heating products which have been lacking in the market.

Does the Competitive Process Differ for New Developments Located off the Natural Gas Grid?

- 5.13. For new residential and commercial developments located off the natural gas grid, property developers do not have the option of installing gas-fired radiators. This raises the question of whether post-acquisition the merged entity will have any form of market power such that it may raise the price charged for electric primary space heating systems to property developers in developments located off the natural gas grid.

- 5.14. The Authority is of the view that the merged entity will have no such market power post-acquisition. Information provided by the parties and discussions with property developers indicate that, in addition to

⁴² AEPL has no staff or manufacturing capability in the State. Since EDI ceased trading in July 2007, AEPL has been establishing sales of its electric radiators via EDI's former customers which include a range of distributors.

⁴³ The Quinn Group manufactures radiators connected to wet (i.e. gas and oil) central heating systems.

⁴⁴ GDG has also informed the Authority that two UK based manufacturing companies have recently launched a range of primary electric space heating products, namely Heatrae Sadia which is part of the Baxi Group and Consort Claudgen. Although neither of these companies currently sells their products in the State, GDG anticipates that both companies will commence selling their products in the State in the near future.

electric and oil-fired radiators, property developers also have the option of using Liquefied Petroleum Gas ("LPG") as a fuel source in their central heating systems in new developments located off the natural gas grid.⁴⁵ Thus, any attempt by the merged entity to raise the price of electric radiators in developments located off the gas grid will see property developers switch to installing either oil-fired radiators or LPG-fired radiators.

5.15. In conclusion, for the reasons set out above, the Authority has concluded that the merged entity will not have the power to unilaterally exercise market power post-acquisition.

Co-ordinated Effects

5.16. Co-ordinated effects is where the proposed transaction changes the nature of competition in the relevant market by making it more likely that the merged entity and some or all of its competitors will engage in co-ordinated interaction to raise prices or decrease output. Such interaction refers to actions that are profitable only as a result of each firm accommodating the reactions of others.

5.17. The Authority's analysis indicates that the proposed acquisition will not change the prevailing market conditions that serve to make it difficult for competitors to be able to reach a common understanding to lessen competition. This is because:

- The relevant market will continue to be served by a large number of competitors, that are quite varied in size pre and post merger;
- The relevant market will continue to be characterised by low barriers to entry and strong potential competition;
- Price discounting will remain a strong feature of the competitive process; and,
- Cost structures greatly differ between competitors.⁴⁶

5.18. In addition, the proposed acquisition does not change the features of the relevant market that make it difficult for competitors to be able to detect and punish any common understanding to lessen competition. This is because:

⁴⁵ GDG provides anecdotal evidence in its notification of Bord Gais subsidising the cost of installing LPG in developments off the natural gas grid in the hope that when gas eventually comes on stream, end users will switch to gas-fired radiators.

⁴⁶ Two points are important to note in this regard:

First, GDG expressed the view in discussions with the Authority that the manufacturing process required for the production of electric (primary and secondary) space heating products is quite different to the process required for the production of gas-fired and oil-fired (primary and secondary) space heating products. This is unsurprising given the need to install piping and storage systems in the case of gas-fired and oil-fired primary space heating products. In contrast, electric primary space heating products only require an electrician to connect the radiator to the electricity supply source.

Second, as noted in paragraph 5.9 above, entry into the primary space heating market in the State is possible at both the manufacturing and distribution stage. Entry by a new competitor could be undertaken by simply selling direct to existing distributors. This, indeed, has been the approach of AEPL in the State. Clearly, cost structures will vary considerably between manufacturers and distributors in the primary space heating market in the State, thereby making it difficult for competitors to be able to reach a common understanding to lessen competition.

- Low price transparency (due to pervasive price discounting) will continue to be an important aspect of the competitive process, thereby making it difficult for rivals to detect any deviations from a common understanding to lessen competition; and
- The combination of a large number of firms and strong potential competition mean that it is unlikely that firms would be able to institute any credible punishment mechanism that they might use to maintain a common understanding to lessen competition.

5.19. The Authority has therefore concluded that the proposed acquisition will not change the prevailing market conditions that serve to make it difficult for competitors to be able to reach a common understanding to lessen competition.

Conclusion

5.20. For the reasons set out above, the proposed acquisition will not alter the competitive process in the market for primary space heating products in the State. Therefore, the proposed acquisition will not result in a substantial lessening of competition in the relevant market.

SECTION SIX: DETERMINATION

- 6.1. In light of the foregoing conclusions, and having completed its full investigation in relation to the proposed transaction, the Authority, in accordance with Section 22(3) (a) of the Act, has formed the view that the result of the proposed acquisition of Applied Energy Holdings Limited by Glen Electric Limited will not be to substantially lessen competition in markets for goods and services in the State and, consequently the Authority hereby determines that the acquisition may be put into effect. Before making a determination in this matter, the Authority, in accordance with Section 22(8) of the Act, considered whether any relevant international obligations of the State existed, concluding that there were none.

For the Competition Authority

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ANNEX A: LEADING SUPPLIERS OF PRIMARY SPACE HEATING PRODUCTS IN THE STATE

Table A.1

Eighteen Leading Firms, Primary Space Heating Market, the State, 2007

Provider	Electric	Gas	Oil	Primary	Secondary	Manufacturer	Distributor
Quinn Group	Yes	Yes	No	Yes	No	Yes	Yes
Biasi	Yes	Yes	No	Yes	No	Yes	Yes
Rettig	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Delonghi	Yes	No	Yes	Yes	Yes	Yes	Yes
GDG	Yes	No	No	Yes	Yes	Yes	Yes
Caradon	No	Yes	Yes	Yes	No	Yes	Yes
Beaumont Ltd.	Yes	No	No	No	Yes	No	Yes
KOC	No	Yes	Yes	Yes	No	Yes	Yes
Argos	Yes	No	No	No	Yes	No	Yes
Baxi	No	Yes	Yes	Yes	No	Yes	Yes
Firebird Boilers	No	Yes	Yes	Yes	No	Yes	Yes
Grant Engineering	No	Yes	Yes	Yes	No	Yes	Yes
Zehnder	No	Yes	Yes	Yes	No	Yes	Yes
Elginkan	No	Yes	Yes	Yes	No	Yes	Yes
AEPL	Yes	No	No	Yes	Yes	No	Yes
Heatmaster	No	Yes	Yes	Yes	No	No	Yes
B&Q	Yes	Yes	Yes	Yes	Yes	No	Yes
Riello	No	Yes	Yes	Yes	No	Yes	Yes

Source: GDG

