

**British Steel plc
and
C Walker & Sons (Holdings) Ltd**

A report on the proposed merger



THE MONOPOLIES AND MERGERS COMMISSION

British Steel plc
and
C Walker & Sons
(Holdings) Ltd

A report on the proposed merger

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
April 1990**

Members of the Monopolies and Mergers Commission as at 16 March 1990

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¹These members formed the group which was responsible for this report (see Appendix 1.1, paragraph 2).

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests. The omission is indicated by a note in the text.

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1 Summary

1.1. On 21 December 1989 the Secretary of State for Trade and Industry referred to the MMC (see Appendix 1.1) for investigation and report the proposed acquisition by British Steel plc of C Walker & Sons (Holdings) Ltd (Walker). Walker and British Steel (through its distribution division, British Steel Distribution (BSD)) are the two largest steel stockholders in the United Kingdom. Together they hold about 34 per cent of the total stockholder market and each supplies the whole range of steel stockholder products. British Steel is a major producer of stockholder products, supplying 58 per cent of total purchases by United Kingdom stockholders and about four-fifths of purchases by both Walker and BSD.

1.2. Most core steel products produced at the mill are subject to the provisions of the Treaty of Paris. Steel products not covered by the Treaty of Paris (in general the more highly processed and fabricated products) fall to be considered under the Treaty of Rome. We established that about four-fifths of the steel products sold by Walker and BSD are Paris products; the remainder are Rome products. It was put to us by the parties that under the Treaty of Paris the European Commission had exclusive jurisdiction to rule on the merger as it related to Paris products and that this Commission was, therefore, unable to investigate and report on the public interest in relation to the merger.

1.3. We consulted leading Counsel. We are advised and accept that to investigate and report on the merger as it affects Paris products would be to intrude on the jurisdiction of the European Commission and thus would be ultra vires this Commission, as the Fair Trading Act may not be applied in a way which conflicts with the Treaty of Paris. This Commission, however, retains jurisdiction under the Fair Trading Act to investigate and report on whether the merger situation, as it relates to Rome products, may be expected to operate against the public interest. In so doing we are able to consider the position of Paris products only to the extent necessary for a proper understanding of our conclusions. We have conducted our inquiry within these constraints.

1.4. Some Rome products occur within all the main groups of steel product handled by stockholders. The definitions used in the Treaty of Paris no longer fully reflect the structure and practices of the industry. The Rome products do not themselves form a coherent group, nor can they be considered individually except as part of the broader product groupings. The Rome/Paris distinction is of little or no practical significance to stockholders in conducting their business, and the products are often handled together so that available market information and the views we received on the effects of the merger generally relate to the wider groupings. Where necessary we have made best estimates of sales and market shares and have only taken account of views expressed on the merger in so far as they relate to Rome products.

1.5. We identified five categories of Rome products: bright bar, some strip mill products, specialised profiles, reinforcement steels and tubes. Reinforcement steels are not normally handled by stockholders and not at all by BSD, although Walker has a small interest; we did not, therefore, consider these further. In relation to the other products we identified issues of

horizontal competition arising from the market share that the combined stockholding group would possess and issues of vertical competition arising from British Steel's position as a major supplier.

1.6. We concluded that for bright bar, Rome strip mill products and specialist profiles the proposed merger would not lessen competition in the stockholder market.

1.7. We looked particularly closely at the tube sector. This comprises structural hollow sections (SHS), other types of welded tube and seamless tubes. BSD/Walker together supply about one-quarter of stockholder sales of all tubes: within this, they together account for 43 per cent of sales by stockholders of SHS (of which British Steel is also the main supplier to the United Kingdom market), 12 per cent of other welded tubes and 17 per cent of seamless tubes. We concluded that competition in these last two sectors of the market would not be adversely affected by the merger.

1.8. SHS, which were developed for use in the construction industry by British Steel, are handled mainly by stockholders together with their sales of general steels, which are Paris products. BSD and Walker both take most of their supplies of SHS from British Steel. The United Kingdom market for SHS has been growing strongly; stockholder sales of SHS grew by nearly 90 per cent between 1986 and 1989. However, British Steel's share of this growing market, and BSD/Walker's share of stockholder sales, have both been declining significantly as other producers, particularly overseas, have developed sales of their competing products through stockholders. Entry costs are low and there is competition throughout the country from established chains and smaller stockholders to supply customers who 'shop around' and are prepared to split orders. Against this background the consolidation of BSD/Walker's market share through the merger is unlikely to reduce competition significantly or to enable British Steel to increase its market share.

1.9. Accordingly, we conclude that in respect of Rome products the proposed merger may not be expected to operate against the public interest.