

# 3 The steel stockholding market

## INTRODUCTION

3.1. Our investigation of the market affected by this merger has been tempered by legal considerations. As explained in Chapter 2, we have had to determine which products supplied by the parties are Paris products and which are not. We have obtained and assessed information about Paris products only to the extent necessary for consideration of the effect of the merger in relation to Rome products. In considering the effects of the merger itself, we have had to take account both of the changes in market concentration in the stockholding sector that the merger might be expected to bring, and of the effects of vertical integration that might be caused by British Steel's central role as a steel producer in the United Kingdom, and as a leading stockholder.

3.2. The various interested parties' submissions on the scope of our inquiry and our interpretation of our terms of reference are set out in detail in Chapter 2. Our first task therefore, as set out in paragraph 2.8, was to determine which products are Paris products and which Rome, and this is discussed further in paragraph 3.4. To establish the importance of Rome products within the merger and within the whole stockholder market for steel products, we obtained estimates of the market for all stockholder products in the United Kingdom by broad product category and for BSD's and Walker's sales within each category. When considering product categories we have mentioned Paris products only in so far as they affect the markets for Rome products. This arose, for example, where Rome products were part of a product category that was generally Paris and it was difficult to obtain separate estimates for the Rome products alone. Another reason for consideration of Paris products was that in some cases Paris and Rome products were complementary and often sold together by stockholders.

3.3. We begin therefore with a general discussion of the categorisation of steel stockholder products depending on whether they come under the jurisdiction of the Treaty of Rome or the Treaty of Paris (paragraph 3.4). We then outline the production process and the uses of the various steel products (paragraphs 3.5 to 3.19). This is followed by a description of the structure of the United Kingdom industry, touching on British Steel's role as a producer and the importance of the stockholding sector (paragraphs 3.20 to 3.26). We then discuss imports and the wider European market and the way the European Coal and Steel Community (ECSC) regime affects the steel industry throughout the EC (paragraphs 3.27 to 3.38). Demand for steel products in the United Kingdom is discussed in paragraphs 3.39 to 3.54, followed by estimates of overall market shares in the stockholder sector as a whole (paragraphs 3.55 to 3.64) and by product groups (paragraphs 3.66 to 3.77). Barriers to entry to the market are discussed in paragraphs 3.78 to 3.81. A description of the operation of competition in the steel stockholding sector follows in paragraphs 3.82 to 3.99 and there is a description of end users of steel products in paragraphs 3.100 to 3.102. Finally prices and pricing policy are discussed in paragraphs 3.103 to 3.119.

## Rome and Paris products

3.4. At Appendix 2.3 there is an extract from the Treaty of Paris listing the steel products which it covers. Products not included in this list are subject to the provisions of the Treaty of Rome and form the subject of our inquiry. In our analysis of markets we use a product categorisation somewhat different from the ECSC list, based on the way products are grouped by stockholders and customers in purchasing in the market and on how market statistics are collected. We set out below a list of product categories with an indication of which fall predominantly under the Treaty of Paris and

which, by non-inclusion in the Paris list, are covered by the Treaty of Rome. Certain product categories present problems because although predominantly Paris they include some products which are Rome. These are also indicated below. These products are discussed in the paragraphs dealing with product and market shares as indicated in brackets.

<i>Product name</i>	<i>Whether covered by Treaty of Rome</i>
Plates and sections	Mainly Paris, some profiles are Rome (3.483.50)
Strip mill products	Mainly Paris, some narrow strip and blanks are Rome (3.513.53)
Merchant bar	Paris
Stainless flat	Mainly Paris, some narrow strip is Rome (3.51)
Tubes	Rome
Bright bar	Rome
Reinforcements	Some Paris, some Rome depending on degree of processing (3.54)

## **BACKGROUND TO THE MARKETS FOR STEEL PRODUCTS**

### **Production processes and nature of steel products**

3.5. The steel products affected by this merger are the result of a number of stages of production. The first stage is the production of liquid steel. This is then cast directly into ingots, blooms, billets and slabs (known as semi-finished products). Rolling mills convert these semi-finished products into various finished steel products such as sections, plates, bar and strip. Tubes are manufactured either by welding hot-rolled strip or by punching and drawing semi-finished steel. Strip can undergo cold reduction and further processing (for example, to make stainless strip or electrical steel) and can also be given a variety of coatings or finishes (eg timplating and galvanising). A diagram at Appendix 3.1 illustrates the different stages of production.

3.6. We give below a brief description of the uses of different categories of steel product. Sales figures for the different categories are given in the section on the United Kingdom market (paragraphs 3.45 to 3.54).

#### *Plates and sections*

3.7. Sections (which include beams, columns, joists and channels) are used principally in the construction, engineering and mining industries. Plates are used in the offshore oil and gas industries, power generation, mining, earth-moving and mechanical handling equipment, shipbuilding, boiler and pressure vessels and structural steelwork. There has been a growing trend in the United Kingdom to use steel instead of concrete in multi-storey buildings at a time when construction activity has increased strongly.

#### *Strip mill products*

3.8. Strip mill products are supplied either uncoated or coated. Coatings may be either metallic, paint or plastic.

#### *Uncoated strip mill products*

3.9. Uncoated strip products comprise hot-rolled and cold-reduced steel; they are sold both in coil form and, cut to length, in sheet form. Hot-rolled coil is manufactured in a wide range of widths and thicknesses as the feedstock for cold-reduced coil and welded tubes. It is also sold for many different industrial applications. Cold-reduced coil and sheet are sold for use in the automotive industry (for example, car body panels) and in the domestic appliance, engineering and metal goods industries, including the manufacture of drums and radiators. Cold-reduced coil is also the basic material for coated strip products.

3.10. Uncoated strip products face competition both from other steel products and from other materials, such as plastics and aluminium. There is a continuing trend towards substituting higher added value steel products, such as coated strip, for uncoated strip products.

### *Coated strip mill products*

3.11. Steels coated with zinc, special alloys, paint or plastic provide the corrosion resistance and decorative finish required by the construction industry and by manufacturers of motor vehicles and consumer durables. These steels, in many different widths, finishes and colours, are used for such applications as roofing, side cladding and decking of buildings, body panels in motor vehicles and the casing of domestic appliances.

3.12. In recent years, metallic coatings have been developed which combine corrosion-resistant properties with the surface and forming advantages of uncoated steel. Painted and plastic coated strip products have been developed for applications where colour, surface texture and appearance, as well as corrosion-resistant properties, are important. The automotive, construction and domestic appliance industries are expected increasingly to use coated rather than uncoated strip products.

### *Stainless flat products*

3.13. Stainless flat products are used, principally in the engineering and metal goods industries, for many different applications. These include pressurised beer barrels, kitchen sinks, the topside of offshore oil production platforms, exhaust and emission control systems for motor vehicles and cladding and internal decoration in high-rise buildings.

3.14. The United Kingdom market for stainless products has been growing substantially faster than general economic activity since 1982, as stainless steel has increased its penetration at the expense of other steel products and other materials. New applications have been found for stainless steel, reflecting its combination of strength, corrosion and heat resistance, formability and visual appeal.

### *Bright bar*

3.15. These are hot-rolled bars, further processed to close dimensional tolerances, and produced in a variety of alloy, non-alloy and stainless forms. They are used in the engineering industries for, among other things, fasteners, couplings, other automotive components and nuts and bolts.

### *Tube*

3.16. Tubes are either welded or seamless. Welded tubes, which can be supplied internally painted and with plastic cladding, are produced for lighting columns, transmission poles for electrical services, ships' masts and derricks, oil, gas, water and air mains and scaffolding tubes. Welded tubes include SHS.

3.17. SHS are available in either rectangular or circular shapes. They have proved highly successful in the construction industry where they compete with concrete and traditional steel sections, and in mechanical handling and engineering. In recent years they have become, in volume terms, the most important of all welded products. Stockholders tend to market SHS alongside sections and plates as part of the overall product range to the construction industry.

3.18. Seamless tubes are manufactured in carbon and alloy steels for a variety of high pressure, mechanical and extreme temperature applications. The main end-user customers are the international oil companies.

## *Reinforcements*

3.19. These are steel bars or rods made by specialist producers and then sold to reinforcement engineering companies which twist or bend them or make them into steel mesh and then sell them on for use in reinforcement, usually in concrete for construction. Reinforcement engineering is a specialist sector, and largely separate from the rest of the stockholding sector.

## **STRUCTURE OF THE UNITED KINGDOM STEEL INDUSTRY**

3.20. British Steel accounts for about three-quarters of crude steel production in the United Kingdom. It is also the main producer of finished steel products within the United Kingdom. In 1989, the total United Kingdom market for finished steel products was 16.1 million tonnes, compared with the market for products within British Steel's range of 11.8 million tonnes. British Steel's total sales of all steel products were 12.97 million tonnes, divided between 4.05 million tonnes for export and 8.92 million tonnes to the United Kingdom market. Of this 8.92 million tonnes, 1.62 million tonnes were sales of semi-finished products to other United Kingdom producers and 7.3 million tonnes were finished products to the United Kingdom market. The latter tonnage was 62 per cent of the total United Kingdom market for finished products within British Steel's range. Associate companies of British Steel supplied 0.1 million tonnes (see paragraph 4.3 for these companies), 0.8 million tonnes were supplied by other United Kingdom producers and 3.6 million tonnes, 31 per cent, were imports.

3.21. The other United Kingdom producers of steel products specialise in certain products and are much smaller than British Steel in terms of turnover. A list is given in Table 3.1 of the largest ten companies by turnover in 1987/88. British Steel associates are indicated.

TABLE 3.1 **Leading United Kingdom steel producers**

<i>Name of company</i>	<i>Turnover 1987/88 £m</i>
British Steel plc	4,038
United Engineering Steels Ltd (British Steel associate)	577
ASW Holdings plc (British Steel associate)	338
Glynwed Steels	167
Sheerness Steel Co plc	101
Firsteel Group	87
Templeborough Rolling Mills Ltd (British Steel associate)	50
William Cook plc	43
DSRM Group plc (British Steel associate)	34
Forgemasters Steels	29

Source: Business Ratio Report.

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## **The stockholding sector**

3.22. Stockholders play a major role in the distribution of steel products in the United Kingdom. Detailed market figures are given in Table 3.8 and show that in many major steel product categories 60 per cent or more of sales are through stockholders.

## **Functions of stockholders**

3.23. All stockholders perform the basic wholesaling function, buying in bulk from the mills and selling on in smaller quantities to customers. The mills benefit from large orders facilitating production planning while the customers can buy smaller quantities and obtain speedier delivery according to their production requirements.

3.24. In addition, many stockholders perform processing on steel products; and this has been a growing trend. This processing can range from decoiling, slitting of strip and cutting to length, as well as various types of surface finishing, to more complex blanking and profiling operations, where shapes are punched or cut out of sheet or plate and can then be subject to further processes such as bending, notching and piercing. Some stockholders are now undertaking blanking and profiling operations which were previously done by end users of steel as the first stage of their manufacturing process. There are also firms specialising in such processing, but not themselves performing a stockholding function, known as 'hire processors'. British Steel estimated that some 68 per cent of steel products sold by stockholders were processed by them in some way. This varies between product categories ranging from strip mill products, which nearly all undergo some form of processing, to tubes, where the proportion which undergo processing is only about 10 per cent and this usually involves no more than sawing to length.

3.25. There are upward of 400 stockholders in the United Kingdom. They include multi-outlet firms operating nation-wide or in various parts of the country, substantial firms with a single large depot operating in a more limited regional area of delivery and small firms operating with one or more depots at a local level. The National Association of Steel Stockholders (NASS), whose membership requirements include minimum turnover, has a membership of about 200. There is some specialisation in stockholding, eg there are some stockists who specialise in tubular products, and stockholders may devote separate depots to groups of products such as general steels or strip mill products. The relative sizes of United Kingdom steel stockholders in particular markets is discussed in more detail in paragraphs 3.66 to 3.77. Several stockholders of substantial size are owned by overseas steel producers and the role of stockholders in importing is illustrated in the market share figures in Tables 3.13 and 3.14. The consensus of opinion of a number of stockholders was that there is considerable overcapacity, particularly in the strip mill product sector. Measurement of this overcapacity is very difficult and perhaps impossible given the difficulty of estimating warehousing capacity and low barriers to entry to the market (see paragraphs 3.78 to 3.81).

3.26. The importance of stockholders has grown markedly in the last 20 years. In 1973 their share of sales of major steel products was 39 per cent as compared with 60 per cent in 1989. A number of reasons have been suggested to explain this growth:

- (a) The introduction of a more differentiated price structure by steel producers in the 1960s and 1970s to reflect more closely the economies of scale in longer production runs and the diseconomies of small orders. This encouraged larger orders of the same quality and size of product and thus increased the demand on stockholders.
- (b) The decline in the United Kingdom of traditional industries (shipbuilding, motor manufacturing and coal mining) which had been major bulk customers. This led to smaller average order sizes from end users and less direct mill-to-customer business.
- (c) The increase in imports. Stockholders gained an advantage from this, since they were better able than end users to manage longer delivery times and were also able to provide customer service at the local level on behalf of the foreign mill.
- (d) The growth of 'just-in-time' (JIT) delivery, consequent upon the wish of manufacturers to lower stock levels in order to make savings in inventory and storage costs.
- (e) The movement of processing functions from manufacturers to stockholders, who could benefit from greater economies of scale in such processing than manufacturers.

## **THE EUROPEAN MARKET AND THE EUROPEAN COAL AND STEEL COMMUNITY**

3.27. Estimates of the share of imports in the United Kingdom market for different product categories are given in Tables 3.13 and 3.14. Export figures are given in paragraph 3.33. This section gives a general description of the activities of overseas steel producers whose products are imported into the United Kingdom and mentions the aspects of the ECSC regime which affect British

Steel and all other EC producers of steel. (A fuller description of the ECSC is given at Appendix 3.2.)

## EC steel production

3.28. There was substantial investment in steel production capacity in the EC in the 1970s but anticipated strong growth in demand for steel products did not materialise. Demand slumped after the second major oil price rise in 1979/80 and by 1980 maximum possible production in the EC was 205 million tonnes crude steel while actual production was only 128 million tonnes.

3.29. In 1980 the European Commission, under the Treaty of Paris, declared a 'manifest crisis' in the industry, and introduced a production quota system for individual producers and mandatory minimum prices on certain steel products. The EC member states also agreed measures to restrict state aids and restrain imports from outside the EC. Measures were also taken to reduce overcapacity. The production quota system was phased out from January 1985 to July 1988 and minimum prices were also discontinued. British Steel estimated that in 1989, a boom year for steel demand, the Europe-wide surplus capacity had fallen to 30 million tonnes, compared with demand for steel in the EC in that year of some 128 million tonnes.

## Imports into the United Kingdom

3.30. Imports into the United Kingdom of British Steel's range of products have increased over the last five years from 2.2 million tonnes in 1984 to 3.6 million tonnes in 1989, a 64 per cent increase. They have also increased as a proportion of the total United Kingdom market, from 25 to 31 per cent. The majority of these imports come from other EC countries.

3.31. The main sources of imports of stockholder products into the United Kingdom in 1989 were as shown in Table 3.2.

TABLE 3.2 Main sources of United Kingdom imports of stockholder products, 1989\*

	<i>KT</i>
West Germany	910
Belgium/Luxembourg	551
France	380
Netherlands	367
Spain	230
Italy	199
Total imports from main source countries	2,635
Total imports	3,285
Imports from main sources as percentage of total	80%

Source: ISSB.

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\*11 months annualised.

3.32. Some imports from outside the EC are governed by a series of Voluntary Restraint Agreements (VRAs). Certain countries outside the EC agree to limit the quantities of their exports to the EC and to keep their prices at a level no lower than 6 per cent less than EC producers' prices (4 per cent for special steels). Countries covered by VRAs in 1989 were: Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Brazil, Venezuela and South Korea. The last three have now ceased to have VRAs. The European Commission intends to phase out all VRAs by 1995. The United Kingdom

also maintains separate import quotas on certain categories of steel product from the USSR, GDR and North Korea. Other countries face Import Reference Prices. These are calculated on the basis of the production costs of the world's most efficient producers. Imports at prices below Import Reference Prices may face anti-dumping investigation by the Commission.

## Exports

3.33. The United Kingdom's exports of steel products are greater than imports. For all semi-finished and finished steel products the figures over the last four years were as shown in Table 3.3.

TABLE 3.3 United Kingdom imports and exports of semi-finished and finished steel products

	<i>KT</i>		
	<i>Exports</i>	<i>Imports</i>	<i>Balance</i>
1986	5,288	4,233	1,055
1987	6,450	4,391	2,059
1988	6,676	5,224	1,452
1989 (first 11 months)	6,206	5,190	1,016

*Source:* HM Customs and Excise.

3.34. The relative size of the main European producers is shown in Table 3.4.

TABLE 3.4 Production of major EC steel producers, 1988

<i>EC producer</i>	<i>Crude steel production million tonnes</i>
Usinor-Sacilor (France)	18
British Steel	15
Ilva (Italy)	12
Thyssen (Germany)	11
Arbed (Luxembourg)	7
Hoogovens (Netherlands)	5
Hoesch (Germany)	5
Cockerill-Sambre (Belgium)	5
Krupp Stahl (Germany)	4

*Source:* Metal Bulletin and IISI.

3.35. Five out of the seven largest steel producers in West Germany are privately-owned groups, some of which have diversified outside the steel industry, and by far the largest of these is Thyssen. The significant steel producers in Europe outside the United Kingdom are either wholly or partially state-owned. Usinor-Sacilor in France and Ilva in Italy are both state-owned. Belgium's largest producer, Cockerill-Sambre, is virtually wholly owned by the Belgian Government. All Luxembourg steel output is produced by Arbed, which has recently undergone substantial restructuring resulting in an increased shareholding by the Luxembourg Government. Almost all of the Netherlands steel output is produced by Hoogovens in which the Netherlands Government has a 15 per cent shareholding.

3.36. The degree of integration of EC steel producers with stockholders is illustrated in Table 3.5 showing 1988 market shares for major Treaty of Paris stockholder products of millowned stockholders.

TABLE 3.5 European mill-owned stockholders' market shares, 1988

	<i>Stockholder share of total market</i>	<i>Mill-owned stockholders' share of stockholder market</i>	<i>per cent</i>	
			<i>Largest mills with market share of their stockholders' sales</i>	
United Kingdom	59	21	British Steel	15
France	45	84	Cockerill	34
			Usinor	32
			Arbed	12
Germany*	36	88	Arbed	14
			Klockner	13
			Thyssen	13
			Salzgitter	10
Italy	45	53	Ilva	38
Belgium/ Luxembourg	58	54	Cockerill	33
			Arbed	18
Netherlands	56	63	Hoogovens	21
			Cockerill	15
			Arbed	8

*Source:* British Steel.

\*The figures shown understate the importance of stockholders in Germany, where stockholders also act on a commission basis for steel producers for the bulk of sales to end users. If such 'Strecke' sales are included, the stockholders' share of the market exceeds 80 per cent.

3.37. The share of the United Kingdom stockholder market held by British Steel's stockholders in 1988 was 15 per cent. Adding Walker's share would increase this to 34 per cent, which would be similar to the highest market shares of mill-owned stockholders in other EC countries. However, the total market share of mill-owned stockholders in other countries was higher than in the United Kingdom because of involvement by a greater number of producers. For example, in France there is substantial stockholder ownership not just by the French state-owned Usinor-Sacilor but also by Cockerill of Belgium and Arbed of Luxembourg. In Germany there are a number of large domestic steel producers who each have ownership of stockholders.

3.38. Ownership by overseas producers of United Kingdom-based stockholders is shown in Table 3.6. These stockholders account for about 6 per cent of the market. British Steel has itself acquired or invested in stockholding operations in France, West Germany, the Netherlands, Spain and Norway in recent years.

## DEMAND FOR STEEL PRODUCTS IN THE UNITED KINGDOM

3.39. Sales of all finished steel products in the United Kingdom in 1989 were 16.1 million tonnes. 11.8 million tonnes of this total were of products within British Steel's range. In the United Kingdom stockholders play a substantial role in the distribution of most categories of steel products, handling significant proportions of deliveries to end users of plates and sections, strip mill products, stainless steel, merchant bar and bright bar and tubes. We shall henceforth refer to these steel products as 'stockholder products'. Certain types of steel product are never or rarely handled by stockholders (eg pit props and railway tracks).

TABLE 3.6 **United Kingdom steel stockholders owned by non-United Kingdom steel producers**

<i>Stockholder</i>	<i>Parent company</i>	<i>Country of parent company</i>
Ovako United Kingdom	Ovako Oy	Finland
Hammer Steel Co	Usinor-Sacilor	France
James Fairley	Usinor-Sacilor	France
Baxter Fell	Hoogovens	Netherlands
Norsk Jernverk (United Kingdom)	Norsk Jernverk	Norway
SKF Steel	SKF Steel	Sweden
Scandia Steel	Svensk Stal AB (SSAB)	Sweden
Uddenholm Ltd	Uddenholm	Sweden
Sandvik Steel United Kingdom	Sandvik Steel	Sweden
Alloy & Metal	Avesta	Sweden
Crusteel Ltd	Colt Industries Inc	USA
Thyssen Fine Steel	Thyssen Edelstahlwerke	W Germany
Howard E Perry* Sacilor	Klockner & Co/Usinor- W Germany/France	
Krupp Steel Co	Krupp Stahl	W Germany
Joron*	Hoogovens	Netherlands
Downings*	Van Leeuwen	Netherlands
Lion Tube*	Van Leeuwen	Netherlands
Garfield Lewis*	Thyssen**	W Germany
A P Steels	Arbed/Peine Saltzgitter	Luxembourg/Germany
Gwent Steel Ltd***	Hoesch	W Germany

*Source:* British Steel (derived from published trade information).

\*These acquisitions were made in 1988 or 1989.

\*\*Thyssen has a 30 per cent equity interest in Garfield Lewis.

\*\*\*This acquisition was announced in February 1990.

3.40. United Kingdom sales of all steel stockholder products in 1989 were 10,470 KT. Of this total, 6,289 KT sales were actually made through stockholders, ie about 60 per cent. The other 40 per cent (4,181 KT) were direct sales to end users. End users who buy stockholder products direct from producers are usually purchasing large volumes. The majority of customers either do not need products in the volumes which sell at lowest prices or require services and processes not supplied by the mills. Accordingly these customers can only buy the products from stockholders. The total sales of 10,470 KT of stockholder products in the United Kingdom in 1989 had a sales value of approximately £4.5 billion.

3.41. Table 3.7 shows that there has been growth in the total United Kingdom market in each year since 1986.

TABLE 3.7 **Sales of stockholder products in the United Kingdom**

	<i>Total United Kingdom sales in KT</i>	<i>Of which</i>			
		<i>Direct to end users KT</i>	<i>% share</i>	<i>To stockholders KT</i>	<i>% share</i>
1986	7,853	3,385	43	4,468	57
1987	8,724	3,697	42	5,027	58
1988	10,116	4,181	41	5,935	59
1989*	10,470	4,181	40	6,289	60

*Source:* British Steel estimates.

\*Based on 11 months' actual figures plus estimate for December.

3.42. The share of steel stockholder products handled by stockholders has also increased from 57 per cent in 1986 to 60 per cent in 1989. Reasons for this increased share were mentioned in paragraph 3.26; they include the move by end users to reduce the level of their own stocks and rely on JIT deliveries and the increased level of processing services offered by stockholders.

## Prospects for United Kingdom steel demand

3.43. Industry and other forecasts are that United Kingdom demand will fall by 5 per cent in 1990 and a further 5 per cent in 1991. This is because of the general slow-down in United Kingdom growth. The forecasts are that longer-term United Kingdom demand for steel products measured by volume will grow more slowly than GDP because of the general shift in the economy away from the manufacturing sector and the decline in the amount of steel used in the manufacture of goods (a result of greater manufacturing efficiency, improved steel quality and the substitution for steel of other products).

3.44. In the EC market as a whole, British Steel forecast that demand for steel products in the EC will fall by 7 per cent in 1990 and a further 6 per cent in 1991 before recovering slightly in 1992 and 1993. In the longer term growth of EC demand for steel products is expected, like that of the United Kingdom, to be lower than the growth of overall GDP.

## United Kingdom sales by product group

3.45. At the product level (see Table 3.8) estimates provided by British Steel suggest that the stockholders' share of the market for the main categories classified as Paris products is 62 per cent. For strip mill products, sales of which have made up 60 per cent or more of total sales of Paris products each year, the stockholders' share of the market has been increasing slightly since 1986 to just under 60 per cent in 1989. For plates and sections, merchant bars and stainless flat the stockholders' share has been stable at around two-thirds over the period. Within the Rome product categories, the stockholder share of tubes is 54 per cent and of bright bar 43 per cent. Reinforcements are not included in these tables; as explained in paragraph 3.73, these are distributed by reinforcement engineering companies, and only in rare cases by stockholders. Total United Kingdom sales of reinforcements in 1988 were 1,270 KT.

TABLE 3.8 United Kingdom market for stockholder products, 1986 to 1989, by product group

	<i>Total United Kingdom sales KT</i>	<i>Direct to end users KT</i>	<i>Through stock- holders KT</i>	<i>Stock- holders' share %</i>
<i>All Paris products</i>				
1986	6,431	2,615	3,817	59
1987	7,163	2,873	4,290	60
1988	8,261	3,229	5,032	61
1989	8,708	3,322	5,386	62
<i>All tubes</i>				
1986	1,106	586	520	47
1987	1,235	633	602	49
1988	1,481	737	744	50
1989	1,400	651	749	54
<i>Bright bar</i>				
1986	315	184	131	41
1987	326	191	135	41
1988	374	215	159	42
1989	362	208	154	43
<i>Total stockholder products</i>				
1986	7,853	3,385	4,468	57
1987	8,724	3,697	5,027	58
1988	10,116	4,181	5,935	59
1989	10,470	4,181	6,289	60

Source: British Steel.

3.46. The relative importance of Rome and Paris products in stockholder products in 1989 is indicated in Table 3.9. On the basis of these broad categories Paris products overall make up 83 per cent of the total, with strip mill products alone accounting for 50 per cent. Tubes is the more

important Rome product with 13 per cent of the total. However, these figures overestimate the share of Paris products within stockholder products because certain categories of Rome products are included under the categories of plates and sections, strip mill products and stainless flat.

TABLE 3.9 1989 total United Kingdom sales of stockholder products by product type and share in total

	<i>KT</i>	<i>As % of total sales of stockholders' products</i>
Plates and sections	2,401	23
Strip mills	5,205	50
Merchant bar	923	9
Stainless flat	<u>180</u>	<u>42</u>
All Paris stockholder products	<u>8,708</u>	<u>83</u>
Tubes	1,400	13
Bright bar	<u>362</u>	<u>4</u>
All Rome stockholder products	<u>1,762</u>	<u>17</u>
All stockholder products	10,470	

*Source:* MMC from British Steel data.

3.47. We considered carefully which products within the above general Paris categories should be excluded from the definitions in Annex 1 to the Treaty (paragraph 2.3) and would therefore fall under the Treaty of Rome. We discussed the definitions with officials of the EC as well as consulting those in the industry as to their understanding of the categorisations and their effect in practice.

### *Profiles*

3.48. Steel plates are Paris products. They can be cut into shapes, known as 'profiles'. This is a process often carried out by stockholders. If these profiles are rectangular then they remain Paris products. However, if they are of a more complicated shape, known as 'specialised profiles', then they become Rome products. British Steel commissioned a study of the market for profiles in 1988 which estimated that stockholders, including BSD and Walker, produced 70 KT of profiles in the year, hire processors 140 KT and end users 420 KT, making a total of 630 KT. However, this study did not distinguish between Rome and Paris profiles.

3.49. Evidence we obtained from those in the industry was that there was no distinction made by stockholders between Rome and Paris profiles because the distinction had no practical effect.

3.50. All we can say therefore is that there are some Rome products within the plates and sections category but that in 1988 the upper limit of their volume was probably 210 KT (estimated deliveries by stockholders and hire processors together), a share of 14 per cent in a total sales figure of 1,451 KT. The estimated share of BSD and Walker in this product market is considered in paragraph 3.74.

### *Narrow strip*

3.51. Within the steel strip and stainless flat product groups, 'narrow strip', ie cold-reduced strip of below 500 mm in width, either cold reduced by a producer to this width or slit from wider strip, is a Rome product. We were unable to obtain an estimate of the total stockholder sales of narrow strip. Again stockholders saw no reason to distinguish this particular width of strip in their marketing and collection of statistics.

3.52. It has, however, been estimated that the supply of cold-rolled narrow strip by producers in 1988 was 421 KT. British Steel produced 79 KT of this. Almost all of this narrow strip (94 per cent) was sold direct to end users, with only about 6 per cent going to stockholders. However, this is only part of stockholder sales, since many stockholders slit wider strip to below 500 mm for sale to end users. BSD and Walker made estimates for us of their own sales of such narrow strip; these are considered in paragraphs 3.75 and 3.76.

## *Blanks*

3.53. Blanks are shapes cut from steel strip, which, apart from cold-reduced narrow strip, is a Paris product. Blanks are also Paris products unless they are cut from strip which is less than 500 mm wide, are of a shape more complex than rectangular or involve further processing such as bending, notching or piercing. British Steel told us that because of the difficulties of distinguishing between blanks which fell under the Rome and Paris regimes, it treated all blanks as Paris products. Walker said that some blanks were Rome products and others were Paris products. However, in operational and commercial terms no distinction was made in the market. The great majority of blanks were produced by end users. Walker did not therefore have estimates of the United Kingdom market for blanks (either in total or for Rome blanks alone). Walker, however, carried out an analysis of its sales of blanks over a recent period, from which it estimated that in 1989 its own sales of Rome blanks (included in its sales of strip mill products) were between 6,800 tonnes and 9,400 tonnes (ie less than 2 per cent of its total sales of strip mill products).

## *Reinforcements*

3.54. The market for reinforcements comes partly under the jurisdiction of the Treaty of Rome, partly under the Treaty of Paris. When bars are bent or twisted by reinforcement engineers then the bars become Rome products. Mesh made from rods is also a Rome product. 925 KT of a total 1,270 KT of reinforcement products (73 per cent) were Rome products in 1988.

## **MARKET SHARES**

3.55. Certain steel products are not usually handled by the stockholding sector and not at all by Walker or BSD. Although BSG as a producer makes some of these products, neither BSD nor Walker distributes them. The proposed merger would not, therefore, alter the situation with regard to these products. We concentrate our analysis of market shares in the remainder of this chapter on stockholder products, as defined in paragraph 3.39.

3.56. In order to assess both the horizontal and vertical aspects of the impact of the merger on market shares we obtained estimates of:

- (a) the sales of Walker and BSD as stockholders and their share of the sales of all United Kingdom stockholders;
- (b) the sales of British Steel as a producer of stockholder products to end users and its share in total sales of these products direct to end users in the United Kingdom; and
- (c) the sales of British Steel as a producer of stockholder products to stockholders and its share of total sales of these products to stockholders in the United Kingdom.

3.57. We considered it important to examine separately sales of stockholder products made by stockholders themselves and sales of such products made direct to end users by producers. For the majority of end users direct purchase is not a realistic alternative to purchase from stockholders because of minimum order quantities, longer lead times and further processing requirements.

3.58. As explained above, our investigation is focused on Rome products. However, in some cases, Rome products make up part of a larger product category and the relative proportions of Rome and Paris products in the category are uncertain. There are also cases where Paris products are complements or substitutes for Rome products. For both these reasons some discussion of sales figures for certain Paris products is necessary. Sales figures at the aggregate level (ie Paris plus Rome products) are also discussed. The total level of purchases of steel products affects stockholders' market strength, since price rebates are linked not just to purchases of particular categories of steel product but to purchases in total.

3.59. BSD and Walker stockholder sales of Rome products (as defined in paragraph 3.4) are shown in Table 3.10. Walker's estimates of its sales of cold-rolled narrow strip and Rome blanks are shown alongside its sales of strip mill and stainless products. BSD's estimates are for cold-rolled narrow strip only, because it was unable to estimate its sales of Rome blanks. Estimates of the two companies' sales of specialist profiles are shown alongside plates and sections. Thus although we do not know the total market for all Rome products we do have Walker's estimates of its sales of Rome products and estimates for part of BSD's sales of Rome products. As can be seen, they represent 15.5 per cent of all Walker's stockholder products and 20.8 per cent of all BSD's stockholder product sales.

TABLE 3.10 **BSD/Walker United Kingdom sales of Rome products in 1989**

*KT*

	<i>WALKER</i>		<i>BSD*</i>	
	<i>Total</i>	<i>Of which Rome</i>	<i>Total</i>	<i>Of which Rome</i>
<i>Tubes</i>				
SHS	71.6	71.6	68.2	68.2
Other welded	16.5	16.5	15.5	15.5
Seamless	14.2	14.2	10.5	10.5
Stainless	2.6	2.6	0	0
Total	104.9	104.9	94.2	94.2
Bright bar	5.2	5.2	15.0	15.0
Plates and sections	390.0	25.4	219.0	22.0
Merchant bar	122.0	0	68.0	0
Strip mill	513.0	3.9	549.7	67.0
Stainless	28.9	4.6	15.1	2.0
Total stockholder products	1,164.0	180.0	961.0	200.2
Rome products as % of stockholder products		15.5		20.8

*Source:* British Steel and Walker.

\*Includes British Steel associates.

3.60. Estimated values of BSD's and Walker's sales in the United Kingdom market for 1989 are shown in Table 3.11.

TABLE 3.11 **BSD and Walker sales by value in 1989**

*£ million*

	<i>BSD</i>	<i>Walker</i>
Total Paris stockholder products*	358	423
Tubes	46	69
Bright bar	1	3
Total Rome stockholder products	47	72
Total stockholder products	405	509

*Source:* British Steel and Walker.

\*These figures overstate total Paris sales and understate total Rome sales because some Rome products are included in predominantly Paris product categories.

3.61. Measurement of market shares in the stockholder market has to take account of sales between stockholders, especially from the larger stockholders to small local stockholders. One industry analysis suggests that this may be about 15 per cent of total stockholder sales. To avoid any double counting in the estimate of the total stockholder market we have measured the market as total sales from producers to stockholders. We assume that changes in end-year stock levels are insignificant so that this is also a measure of total stockholder sales to end users. When calculating

individual companies' market shares, especially those of large companies such as BSD and Walker, this method does entail a form of overestimation, since some of their sales are to other stockholders, but such sales are not included in the total market estimate. We discuss this in the particular cases of SHS and other tubes at paragraphs 3.66 to 3.69.

3.62. Import sales into the United Kingdom market are made in two ways: first by direct sales from overseas producers to United Kingdom end users, and secondly by sales from overseas producers to United Kingdom stockholders.

3.63. Market shares based on estimates provided by British Steel are shown in Tables 3.12 and 3.13. In 1989 the share of BSD (including associate companies) in the stockholder market was 15.3 per cent while Walker's was about 18.5 per cent, a combined total of almost 34 per cent. The next largest stockholder, according to British Steel's estimates, was ASD Plc with 8 per cent of the market. Samac had 4 per cent, and two other stockholders had 3 per cent each. There was then a 'tail' of 16 other stockholders each with around 1 to 2 per cent of the market. The combined BSD/Walker share has been around 35 per cent since 1987. Walker's share fell slightly while BSD's share grew, principally because of British Steel's acquisition of the Samson Steel Group and Steel Stockholders (Birmingham) in 1988 and the Bore Steel Group in 1989.

TABLE 3.12 **United Kingdom sales by stockholders and market shares**

	<i>Stockholder sales in KT*</i>					<i>% shares of total stockholders' sales</i>			
	<i>BSD</i>	<i>Walker</i>	<i>Combined</i>	<i>Other stockholders</i>	<i>Total</i>	<i>BSD</i>	<i>Walker</i>	<i>Combined</i>	<i>Other</i>
<i>Plates and sections</i>									
1987	140	310	450	712	1,162	12	27	39	61
1988	226	384	610	841	1,451	16	27	42	58
1989***	219	390	609	970	1,579	14	25	39	61
<i>Strip mill products***</i>									
1987	338	465	803	1,671	2,474	14	19	32	68
1988	433	545	978	1,892	2,870	15	19	34	66
1989**	550	513	1,063	2,000	3,063	18	17	35	65
<i>Stainless flat</i>									
1987	12	30	42	71	113	10	27	37	63
1988	15	32	47	90	137	11	24	34	66
1989**	15	29	44	73	117	13	25	38	62
<i>Total Paris products***</i>									
1987	489	806	1,295	2,455	3,750	13	21	35	65
1988	673	962	1,635	2,823	4,458	15	22	37	63
1989**	784	932	1,716	3,042	4,758	16	20	36	64
<i>All tubes</i>									
1987	86	84	170	382	551	16	15	31	69
1988	93	100	193	550	743	13	13	26	74
1989**	94	102	196	553	749	13	14	26	74
<i>Total stockholder products</i>									
1987	575	890	1,465	2,836	4,301	13	21	34	66
1988	767	1,062	1,829	3,372	5,201	15	20	35	65
1989**	878	1,034	1,912	3,594	5,507	16	19	35	65

Source: British Steel.

\*Historical figures for merchant bar and bright bar were not available. (1989 figures for those products are shown in Table 3.13.) The total Paris and total stockholder figures are therefore less than shown in Table 3.13.

\*\*Estimates based on 11 months' actual plus estimate for December.

\*\*\*The figures overstate Paris sales because some Rome products are included in predominantly Paris product categories.

TABLE 3.13 1989 United Kingdom market shares of stockholders' products

		<i>Sources of stockholder products</i>								
		<i>BSD</i>	<i>Walker</i>	<i>Combined</i>	<i>Other stockholders</i>	<i>Total</i>	<i>Imports</i>	<i>Other UK producers</i>	<i>British* Steel</i>	<i>Purchases from British Steel of other stockholders (excluding BSD, Walker)**</i>
Plates and sections	KT	219	390	609	970	1,579	480	58	1,041	465
	%**	14	25	39	61		30	4	66	48
Strip mill products	KT	550	513	1,063	2,000	3,063	1,241	0	1,822	912
	%	18	17	35	65		41	0	59	46
Stainless flat	KT	15	29	44	73	117	62	2	53	29
	%	13	25	38	62		53	2	45	40
Merchant bar	KT	68	122	190	437	627	179	149	299	N/A
	%	11	19	30	70		29	24	47	
Total Paris products***	KT	852	1,054	1,906	3,480	5,386	1,961	209	3,214	N/A
	%	16	20	35	65		36	4	59	
All tubes	KT	94	102	196	553	749	261	77	410	268
	%	13	14	26	74		35	10	55	48
Bright bars	KT	15	5	20	134	154	72	71	11	N/A
	%	10	3	13	87		47	46	7	
Total Rome products***	KT	109	107	217	687	904	333	148	421	N/A
	%	12	12	24	76		37	16	47	
Total all products	KT	961	1,161	2,122	4,167	6,289	2,295	356	3,634	N/A
	%	15	19	34	66		36	6	58	

Sources: MMC from British Steel data.

\*British Steel and associates.

\*\*All percentages are of total United Kingdom stockholder market except in last column on right, where they are given as a percentage of the stockholders' total purchases.

\*\*\*These figures overstate Paris sales and understate Rome sales because of inclusion of some Rome products in Paris product categories.

3.64. Two other aspects of the stockholder market involve BSG as a producer. First, as shown by Table 3.13, which summarises stockholder shares and the shares of BSG and importers as sources of products in 1989, BSG was the source of supply of 58 per cent of products sold by stockholders (including BSD and Walker) in 1989, up from 54 per cent in 1986.<sup>1</sup> Secondly, as shown in Table 3.14 overleaf, BSG supplied 65 per cent of direct-to-customer sales of stockholder products in 1989, up from 61 per cent in 1986. Within this overall total its market share was highest for plates and sections with around 90 per cent; it was around two-thirds for strip mill products and about half for stainless flat and for tubes.

3.65. The share of imports in the stockholder and direct-to-customer markets was as follows in 1989. 36 per cent of sales by United Kingdom stockholders (including BSD and Walker) were imports. Although imports have grown in each year since 1986, imports' share of the total United Kingdom stockholder market has fallen in each year since 1986 when it was 41 per cent. Imports made up 24 per cent of direct-to-customer sales of stockholder products, down from 26 per cent in 1986. Total imports of stockholder products (ie those that went direct to customers plus those to stockholders) have risen in each year since 1986 but fallen as a percentage of the United Kingdom market from 34 to 31 per cent.

## Market shares by product category

### *Tubes*

3.66. In 1989 BSD supplied 12.6 per cent of the total stockholder market of 749 KT for tubes of all types, while Walker supplied 13.6 per cent, a combined percentage share of about 26 per cent of the stockholder market. British Steel estimated that Brown & Tawse Plc had about 9 per cent of the market and Murray International Holdings Ltd about 7 per cent and that there were six other stockholders each with shares of between 2 and 4 per cent of the market. The BSD/Walker combined share has fallen from 31 per cent in 1987. 48 per cent of other stockholders' sales were sourced from British Steel. British Steel's share of the direct-to-customer sales of tube was 48 per cent. Imports had a 35 per cent share of all stockholders' sales, and a 14 per cent share of direct-to-customer sales.

3.67. As noted in paragraph 3.16, tubes can be categorised into three broad groups: SHS, other welded and seamless. Table 3.15 shows the market shares of stockholders for each of these categories.

TABLE 3.15 United Kingdom market shares of major stockholders for tubular products, 1989

	<i>KT</i>				
	<i>SHS</i>	<i>Other welded</i>	<i>Total welded</i>	<i>Seamless</i>	<i>All tubes (excluding stainless)</i>
Total sales by UK stockholders	325	277	602	147	749
BSD	68	16	84	11	95
Walker	72	16	88	14	103
Total	140	32	172	25	197
All others	185	245	429	122	552
	<i>per cent</i>				
Market shares:					
BSD	21	6	14	7	13
Walker	22	6	15	10	14
Total	43	12	29	17	26
All others	57	88	71	83	74

*Source:* British Steel's estimates.

<sup>1</sup>We do not have figures for supplies by BSG (ie with associates) of stockholder products to BSD and Walker. For British Steel alone the percentages are 78 per cent and 74 per cent respectively.

TABLE 3.14 **United Kingdom sales of steel stockholder products direct to end users, 1989**

	<i>Total UK sales KT</i>	<i>British Steel* sales in UK KT</i>	<i>Other UK producers KT</i>	<i>Imports into UK KT</i>	<i>British Steel's market share %</i>	<i>Other UK producers' market share %</i>	<i>Imports' market share %</i>
Total Paris stockholder products**	3,322	2,356	88	878	71	3	26
All tubes	651	315	248	88	48	38	14
Bright bar	208	48	136	24	23	65	12
Total Rome stockholder products**	859	363	384	112	42	45	13
Total all products	4,181	2,719	472	990	65	11	24

*Source:* MMC from British Steel figures.

\*British Steel and associates.

\*\*These figures overstate total Paris sales and understate total Rome sales because some Rome products are included in predominantly Paris product categories.

3.68. The most important of these groups in terms of sales volume is SHS with sales of 325 KT in 1989, 43 per cent of total sales of all types of tube of 749 KT. BSD's share of sales of this product was 21 per cent and Walker's 22 per cent, giving a combined figure of 43 per cent. Of this, 8 per cent was sales by BSD and Walker to other stockholders, so that BSD and Walker sales to end users were 35 per cent of stockholder sales to end users. ASD had about 8 per cent, and Brown & Tawse, Hall Engineering and Van Leeuwen each around 5 per cent. There were two other stockholders each with about 4 per cent of the market. British Steel estimated that the ten largest stockholders of SHS sourced 65 per cent of their requirements from British Steel in 1989.

3.69. Stockholder sales of SHS have expanded faster than for other steel products since 1986, growing by 90 per cent, from 171 KT to 325 KT. Since 1986 the combined market share of BSD/Walker in SHS has fallen from 58 to 43 per cent. British Steel's sales of SHS to United Kingdom stockholders have also grown in this period, from 141 KT to 210 KT, but as a share of sales to the United Kingdom stockholder market there has been a fall from 82 to 65 per cent. While British Steel is the only producer of hot-finished SHS in the United Kingdom, it has told us that it is produced elsewhere in the EC, and other United Kingdom and overseas producers now offer cold-formed SHS, which is an acceptable alternative to hot-finished for many customers. Imports of SHS to stockholders were 75 KT in 1989, 23 per cent of the stockholder market.

### *Bright bar*

3.70. Walker had 3 per cent of stockholders' sales of bright bar in 1989, a small share relative to its share in other product categories. BSD's share was 10 per cent (including the share of British Steel's associate United Engineering Steels Ltd (UES)). According to British Steel's estimates the largest three stockholders in this product were ASD, Glynwed and Lee, each with between 15 and 20 per cent of the market.

3.71. British Steel itself is not a producer of bright bar. In 1989 imports accounted for nearly half the bright bar supplied to stockholders by producers, while UES supplied well under a tenth. If one considers the producers' shares to the bright bar market as a whole (which is nearly twice the size of the stockholder market) imports took over a quarter, and UES well under a fifth.

### *Reinforcements*

3.72. Reinforcements are supplied by companies which are specialists in this product. British Steel has no involvement. It has a 20 per cent shareholding in an associate, ASW Holdings plc, which today deals with British Steel on a wholly arm's length basis. ASW is the market leader in the United Kingdom production of the reinforcement rods and bars at mill level. In 1988 it supplied approximately half of all products in a market of some 1,270 KT. Sheerness Steel Company Ltd is the other main producer, apart from imports which account for about 20 per cent.

3.73. ASW also distributes bars and mesh as a reinforcement engineer, having a share in this market of less than 20 per cent. Walker's involvement in this market is through its specialist reinforcement engineering business at a single plant at Grantham. It had some 4 per cent of the United Kingdom market in 1988. The remainder of the market of 1,270 KT was supplied mainly by six reinforcement engineering companies (BRC Ltd, Express Delivery Services, Helical, Hy-ten, Rom Ltd and Square Grip Industries), and a number of smaller suppliers. 73 per cent of all reinforcement steels sold into the United Kingdom market in 1988 were Rome products. Over 80 per cent of ASW's sales were Rome products, while the proportion in Walker's case was 56 per cent. The market shares of ASW and Walker in reinforcements which are Rome products are the same as for reinforcements as a whole.

## *Profiles*

3.74. As explained in paragraphs 3.48 to 3.50, we could obtain no estimate of the United Kingdom market for specialised profiles, although we have an estimate that the United Kingdom market for all profiles was 630 KT. In 1989 BSD supplied 22 KT specialised plate profiles and Walker 25 KT, which would be 7 per cent of a market of 630 KT. Because we were unable to obtain a separate estimate of the United Kingdom market for specialised profiles we have no estimate of the BSD/Walker share of the specialised profile market, although it must be greater than 7 per cent. BSD's and Walker's sales of profiles as a percentage of their sales of plates and sections were 10 per cent and 6.5 per cent respectively.

## *Narrow strip*

3.75. BSD provided 69 KT of uncoated cold-reduced narrow slit strip to the United Kingdom market in 1989. Walker sold 35.1 KT. As explained in paragraph 3.51, we have no estimate of the total United Kingdom market. Because it is simple for stockholders with slitting machines who already purchase steel strip to supply narrow strip, we considered it relevant to look at the market shares for all strip mill products and for stainless strip. In strip mill products BSD supplied 18 per cent of the United Kingdom market in 1989 while Walker supplied 17 per cent. In stainless flat products, BSD supplied 13 per cent of the market, Walker 25 per cent.

3.76. The relative importance of narrow strip within these categories for BSD and Walker is shown in the following figures. Of a total supply of 550 KT of strip mill products supplied by BSD to the United Kingdom market in 1989, 67 KT (12 per cent) was narrow strip. For Walker narrow strip was 30.5 KT, 6 per cent of a total of 513 KT supplied. In stainless strip in 1989 BSD supplied 15.1 KT, of which 2 KT (13 per cent) was narrow strip. Walker supplied 28.9 KT of stainless strip of which 4.6 KT (16 per cent) was narrow strip.

## *Blanks*

3.77. We have mentioned the absence of any estimate of the United Kingdom market for blanks. BSD was unable to estimate for us the Rome element of its own sales of these products. Walker estimated that its own sales of Rome blanks were between 6.8 KT and 8.4 KT in 1989, ie less than 2 per cent of its total strip products. In 1989, BSD supplied 18 per cent and Walker 17 per cent of all steel strip (the Paris product from which blanks are cut) supplied by stockholders.

## **BARRIERS TO ENTRY**

3.78. Barriers to entry to stockholding at the local level are very low. To carry out a pure stockholding function for non-specialised products the only requirements are storage space and craneage and the capital to buy initial stocks of steel products. British Steel estimated that basic warehousing facilities could be built for between £15 and £20 per sq ft. Existing warehousing can often be purchased for less than this or leased. Financing costs of initial stocks can be offset by suppliers' credit terms and steel stocks are themselves reasonable security for loan finance.

3.79. For processing of steel products equipment is relatively inexpensive. For example, to set up a tube depot the capital equipment would be limited to a warehouse with craneage and saws for cutting to length (costing between £10,000 and £20,000). To set up as a stockholder of strip mill products could be done with the minimal equipment of a guillotine (costing somewhere between £3,000 and £25,000) and buying in decoiled and slit strip. There are a number of stockholders of this type operating, for example, in the West Midlands selling in the region of 5,000 tonnes of product annually. A firm which had reached turnover of 15,000 tonnes per annum could justify the purchase of decoiling and slitting facilities. The cost of basic profiling equipment would be around £150,000 while sophisticated blanking machinery would cost around £600,000. Alternatively, stockholders can have processing done for them as there are numerous hire processors in the industry.

3.80. Walker provided us with a list of around 200 names of new stockholding businesses established in the United Kingdom since 1985. British Steel provided the estimate that since 1987 new investments in the stockholding industry have added about 400 KT to the total annual processing capacity of the industry.

3.81. In relation to the steel products that stockholders deal in as such, barriers to entry into the stockholding business are virtually non-existent, in the sense that stockholders can move into dealing just by placing an order. For the processing needed for certain products, existing stockholders who lack equipment can use hire processors or purchase equipment. If they already have equipment, then to move into a new product area may require no more than resetting a machine. For example, a stockholder supplier of wide strip with slitting equipment could provide narrow strip whenever there was demand for it.

## COMPETITION IN THE STOCKHOLDING SECTOR

3.82. To complement the data on market shares and prices, we now give a description of the way competition works in the stockholding sector. As a general introduction to this, all the stockholders we talked to, as well as NASS, considered the stockholding sector to be highly competitive.

### Geographical dimension

3.83. We have already indicated that there are around 400 stockholders in the United Kingdom, with the total number of depots somewhat higher than this. Evidence from the industry was that many end users preferred to deal with a stockholder with a local depot, and a number of single depot firms talked of operating within a radius of about 50 miles. However, we also heard of instances of deliveries made over much longer distances. Transport costs play a part in this pattern. Some indication of the level of transport costs is given by estimates provided by British Steel. The cost of transport as a proportion of sales revenue for BSD deliveries of various products was as follows:

	%
Plates and sections	3.1
Strip mill products	2.2
Stainless flat	1.5
Tubes	<u>3.6</u>
Average	<u>2.6</u>

3.84. Because transport costs fall with the size of load, it is generally more economic for customers, especially for relatively small volumes, to buy from local stockholders. The transport costs that stockholders pay for their own purchases will, of course, be passed on in their prices to end users but the aggregate transport cost paid by end user (the charge included in stockholders' prices for mill-to-stockholder transport plus the charge for stockholder-to-end user delivery) is likely to be lower when customers buy from local stockholders because of the load economies mentioned above.

3.85. There are also some advantages in faster delivery times from local stockholders, and end users, especially smaller ones, prefer to deal with local stockholders.

3.86. For the above reasons the stockholding market has a tendency to form into regional or local markets. These are by no means distinct since stockholders can and do supply to customers more than 50 miles away. But for small and medium-sized customers local suppliers are considered to have a certain advantage in competition with more distant sources.

3.87. Depots belonging to multi-depot firms do not appear to have significant advantages over single depot firms of similar size. There are not significant economies of scale in the pure stockholding function once a minimum scale has been reached. There are economies of scale in some of the more complex processing functions, where considerable capital expenditure on machinery is required. However, the services of hire processors enable stockholders to compete without owning

equipment. Multi-depot firms may obtain lower overall purchase prices because of the volume of their total purchases.

3.88. Smaller firms do not always compete head-on with larger firms and there are some grounds for seeing the stockholding sector as two tiered, with the smaller companies purchasing from the larger stockholders and serving smaller local customers, so fulfilling the traditional stockholding function of bulk-breaking but one level further down. However, there is no clear division between large and small depots and the major depots are often in competition with medium-sized depots in particular locations or for particular products.

3.89. To investigate whether there were any geographical areas where the proposed merger would lead to increases in local market power we obtained a number of maps from British Steel, showing competing depots at locations throughout the United Kingdom (see Appendix 3.3).

3.90. These maps show the location of stockholders' depots in the United Kingdom. The depots (other than BSD and Walker) have been classified into 'major' (large depots of single-site companies or depots which are part of a multi-site company) and 'others'. The stockholders are further categorised according to the products they stocktube, general steels, strip mill products and stainless steel. The first map, which shows tube stockholders' locations, also shows the multi-product depots.

3.91. The maps illustrate that it is difficult to find any location where BSD and Walker depots do not have at least some local competition within 50 miles.

## **Tube depots**

3.92. There are a total of 312 tube stockholders in the United Kingdom. BSD has 14 and Walker 26. There are 141 other major depots and 131 others. There are several areas where both BSD and Walker have depots. At Bellshill, within 30 miles of Glasgow, BSD has two depots, Walker one. Walker has another depot in Glasgow. There is a competing major depot at Bellshill, two others in Glasgow and one at Inchinnan within 25 miles of Glasgow. There are eight smaller depots in Glasgow. In Leeds BSD has two depots, Walker one. There are five other major depots and three smaller. There are also other major competitors at Dewsbury and Barnsley within 25 miles. BSD and Walker have a depot each in Birmingham but there are many competing major depots in Birmingham and in the West Midlands generally. At Newport in South Wales there are two BSD depots and a Walker depot. There are three competing major depots in Cardiff, within 25 miles. Both BSD and Walker have a depot in Grantham, but there is a competing major depot there, as well as two others in Nottingham about 25 miles away. BSD has a depot in Newcastle, Walker in Blaydon; but there is a competing major depot in each location as well as another at Gateshead. Blaydon, Newcastle and Gateshead are all within 25 miles of each other.

3.93. In general steels, BSD has 9 depots, Walker 23. There are 103 other major depots and 135 smaller ones. The proposed merger would bring together BSD and Walker depots in Newport, South Wales, but there are other major stockholders within a 25-mile radius in Cardiff and Cross Keys as well as smaller stockholders in Cardiff. At Grantham, the only two depots are BSD's and Walker's, but there is a major rival within 50 miles at Nottingham and other depots at Nottingham and Boston.

3.94. BSD has a total of 12 strip mill product depots, Walker 15. There are 108 other major depots and 221 smaller depots throughout the United Kingdom. There are no areas where the merged BSD and Walker group's depots would not face competition from other major and smaller depots. BSD has seven depots in the Birmingham area and two in the London area. Walker has five in the Birmingham area and one in the London area. In the Birmingham area there are about 25 major depots and around 50 smaller ones in competition, and in the London area seven major depots and around 15 smaller depots.

3.95. BSD has seven stainless steel depots in the United Kingdom, Walker eight. There are 133 other major depots, and 108 smaller ones. Areas where BSD and Walker both have depots are Leeds, Birmingham, Slough and the Glasgow area. In all these areas there are competing major and smaller depots.

3.96. Northern Ireland is the one region in which BSD has no depots. Walker has three depots there, which deal in all the product groups mentioned above. There are two other major tube depots, two other major stainless depots, four smaller general steels stockholders and four smaller strip mill product stockholders.

## Alternative supplies to British Steel for stockholders

3.97. We describe price levels and price setting in paragraphs 3.103 to 3.119. One aspect of competition in stockholding is whether sources other than British Steel can be considered competitive. We obtained the views of a number of stockholders on this question (see Table 3.16).

TABLE 3.16 Answers by stockholders to the question: 'Are there sources of supply for the product, other than British Steel, which you consider competitive?'

Product	Responses	Yes	No	Qualified	Sales of all respondents as %
					of total purchases of products by non-BSD/Walker stockholders
SHS	8	4	1	3	26
Other welded tube	6	6	0	0	13
Seamless tube	4	4	0	0	16
Bright bar	7	7	0	0	36
Reinforcement	6	6	0	0	8

Source: MMC.

3.98. For all the Rome products except SHS all responding stockholders dealing in the products said that alternative sources were competitive. Imports were most often named as the competitive alternative to British Steel.

3.99. For SHS there were four respondents who thought that there were competitive alternatives, three respondents who gave qualified answers, and one who thought not. The four respondents who considered that there were competitive sources other than British Steel had purchases of SHS in 1989 which represented about 5 per cent of the total purchases of SHS by stockholders other than BSD and Walker. Two of the stockholders who gave qualified answers said that there was no alternative to British Steel for hot-rolled SHS and that cold-rolled SHS was not always acceptable as a substitute for hot-rolled SHS. One of these respondents added that this was especially true for larger sizes of tube. The purchases of these two respondents together made up 6 per cent of total purchases of SHS by all non-BSD/Walker stockholders. The third stockholder qualifying his answer said that there were only competitive alternative sources to British Steel for SHS at the smaller end of the size range. His purchases represented 11 per cent of non-BSD/Walker purchases of SHS. The respondent who said that there were not competitive sources other than British Steel had purchases of SHS which made up about 2 per cent of the total non-BSD/Walker stockholder purchases in 1989.

## END USERS OF STOCKHOLDER STEEL PRODUCTS

3.100. We have already discussed the uses to which finished steel products are put. These uses cover all the main manufacturing sectors of the United Kingdom and, not surprisingly, the largest customers of BSD come from the range of industrial sectors. BSD estimated that the purchases of its top 20 customers, each purchasing at least £1.8 million steel products in 1988/89, accounted for 21 per cent of its total purchases.

3.101. Walker estimated that in the second half of 1989 its top 11 customers accounted for 9.7 per cent of its total sales in Great Britain while its top 28 customers accounted for just over 15 per cent of its sales. It had over 30,000 customers in total, and just over half of its sales were accounted for by about 29,500 of these customers, who each had annual purchases of less than £100,000. In the tubes section the weighting toward smaller customers was even more pronounced.

### **Purchasing behaviour of customers**

3.102. Evidence we obtained from the stockholding sector indicated that customers are very price conscious in buying from stockholders and shop around before placing orders. Larger customers have the choice of purchasing either from stockholders or direct from producers. Stockholders have to provide instant price quotations by telephone or fax to compete in the market. The quality standard of steel is essential but this is not usually a problem, certainly not with European-sourced steel. Given the increased importance attached to JIT delivery, reliability and speed of delivery are important for customers as well as price in making purchasing decisions.

## **PRICES AND PRICING POLICY**

### **British Steel prices and pricing policy as a producer**

3.103. British Steel's pricing policy on Rome products generally follows the Treaty of Paris rules on prices. These are based on the principle that companies are free to set their own price levels but that, in general, no discrimination should take place in the prices charged to customers for the same type of order. Producers are obliged in general to publish price lists and carriage tariffs for Paris products. Discounts or rebates may be given based on volume, or to particular sectors or for steel products used in goods for export to countries outside the EC and EFTA. These discounts or rebates must be notified to the European Commission. Prices for non-comparable transactions (eg for certain major customers or projects or intra-industry transfers) need not be published although details must be furnished to the European Commission on request. Producers may also align their prices on prices offered by competitors.

3.104. For Rome products there is no obligation to publish prices. However, British Steel publishes prices for tubes and cold-rolled strip. These prices are generally on a uniform delivered basis for sales throughout the United Kingdom, unlike the Paris price lists which show carriage charges separately. For welded steel tubes there are also extras charged for sales ex-warehouse.

3.105. British Steel informed us that to give its customers the benefits of price stability it attempts to limit the frequency of price changes, generally to once a year. Its price structures are designed to reflect the fact that its mills are not equipped to produce or handle significant volumes of small quantity orders. British Steel has 'basis quantities' for orders, below which prices are higher. These vary as follows:

	<i>tonnes</i>
Strip mill products	100
Sections and plates	20
SHS	10

3.106. For end users able to buy in basis quantities prices do not differ from prices to stockholders. Further price rebates are available for end users or stockholders buying in quantities above the basis volumes.

3.107. British Steel considered that the prevailing level of EC prices had a significant impact on the prices it could charge and that prices in the West German market were a major determinant of the general EC level.

3.108. In most trading conditions import prices tend to be lower than those of British Steel and other United Kingdom producers. British Steel told us that this differential was usually less than 5 per cent for imports from other EC producers and that it reflected the transport costs of importation and other disadvantages such as longer delivery lead times and larger minimum order quantities. But prices of British Steel and other United Kingdom producers could not move much above this premium without leading to customers, notably stockholders, increasing their imports. Another factor linking British Steel prices in the United Kingdom and import prices was that major United Kingdom customers bought across Europe from a network of European manufacturing plants, or sold their products in European markets. Their knowledge of European steel prices and ability to source throughout Europe increases the degree to which British Steel must compete directly with European steel price levels.

3.109. An index of British Steel prices (for all products) compared with input costs and with the United Kingdom Retail Prices Index is shown in Table 3.17. Since 1978 British Steel prices have fallen in real terms and have increased by less than the increase in input costs.

TABLE 3.17 **Indices of British Steel steel prices, British Steel input costs and the United Kingdom RPI**

	<i>British Steel steel prices</i>	<i>British Steel input costs</i>	<i>United Kingdom RPI</i>
1978	100	100	100
1986	129	168	196
1987	130	170	204
1988	139	183	214

*Source:* British Steel and Economic Trends.

## **British Steel prices to stockholders**

3.110. British Steel operates a three-tier rebate system in prices to stockholders:

- (a) a basic stockholder sector rebate scaled according to volume but reviewed annually;
- (b) additional rebate to recognise short-term (quarterly) changes in market prices; and
- (c) for some medium/major stockholders an ongoing rebate related to contract obligations.

3.111. British Steel offers rebates on the annual tonnage purchased as well as quantity rebates on individual orders and, in certain circumstances, the proportion of a customer's requirements purchased from British Steel. Prices to companies within BSD are set on an arm's length basis. The total rebate offered to different customers varies widely reflecting the different factors mentioned above. British Steel provided us with information on the total rebates on Rome products offered to Walker and to companies within BSD. These rebates were similar to those offered to other large stockholders in comparable circumstances.

3.112. For most products rebates are paid quarterly in arrears. Exceptions are rebates given on stainless flat products and welded tubes where they are generally deducted from invoice. Rebates for steel destined by the customer to be exported as a manufactured product outside the EC (known as IEA) are subject to British Steel audit that the goods were in fact exported.

## **Credit terms**

3.113. British Steel's published standard terms are for payment to be received by the last day of the month following the end of the month in which the steel was despatched, equivalent to an average of 45 days' credit.

3.114. British Steel's competitors in the United Kingdom and elsewhere will normally grant 60/90 days' credit although their published terms are either the same as British Steel or in some cases give shorter periods of credit. British Steel told us that it opposed the use of credit as a means of giving rebate, but that in weak market conditions it had been compelled to extend credit periods.

## **Long-term agreements**

3.115. British Steel defines 'long-term' as being an agreement of more than 12 months' duration. On this basis British Steel currently has one such agreement with an end user which is due to expire at the end of March 1990 and which may be renewed. In the case of stockholders, excluding BSD, there are three agreements, one of which is with Walker. The essential feature of all three stockholder agreements is that British Steel is the primary source of supply and the stockholder receives an ongoing tonnage rebate.

## **Stockholder prices of BSD and Walker**

3.116. There are no regulatory controls on the prices charged by stockholders to their customers. Both BSD and Walker told us that their prices were established by individual negotiation. Stockholders generally use the relevant British Steel producer price list plus a mark-up as a basis for negotiation. British Steel told us that the BSD companies had freedom to determine their own pricing policies and negotiate their prices accordingly. British Tubes Stockholders has a published price list. Walker has centrally determined internal price lists to guide its sales personnel in negotiation. In some products Walker's price lists give lower prices for trade sales so as to attract the business of small stockholders.

3.117. Both BSD and Walker aim in their prices to cover all the costs of stockholding and earn a return on assets. In any particular negotiation salesmen would take into account some or all of the following:

- the size of the order;
- the importance of the customer;
- the customer's previous payment history;
- capacity utilisation on processing equipment;
- availability of stock; and
- the pressure of competitive offers.

3.118. Walker has very few long-term supply agreements with its customers. It has agreements of up to three years with three customers and annual or six-monthly agreements with fewer than 20 customers.

3.119. BSD told us that it had very few contracts of over 12 months and that they counted for an insignificant proportion of its total sales. With some large customers it has agreements over three to six months with prices fixed, but usually subject to changes in the British Steel published price list. Such agreements may include provision for rebates if agreed volume targets are reached.