

4 The companies concerned

BRITISH STEEL PLC

4.1. The United Kingdom steel industry, first nationalised in 1949, was substantially denationalised from 1953 onwards and then largely renationalised in 1967 when British Steel Corporation (BSC) was formed from 14 of the major steel-producing companies. In December 1987, the Government announced its intention to privatise BSC, and following legislation BSC's business was vested in British Steel on 5 September 1988. On 5 December 1988 the Government disposed of substantially all the equity of British Steel in the London and other international markets.

Organisation

4.2. British Steel is organised operationally along product lines into five divisions:

General steels	—	mainly plates and sections, welded tubes, rails and semi-finished products
Strip products	—	mainly coated and uncoated strip products; also the related businesses of tin plate and electrical steels
Stainless	—	mainly stainless flat products
Diversified activities	—	mainly seamless tubes and narrow strip
Distribution	—	steel stockholding, related processing activities, overseas sales office network, shipping and raw materials

The organisation, and particularly the distribution network, is shown in the chart at Appendix 4.1. British Steel brought together all its distribution activities in the division known as British Steel Distribution on 1 April 1989. This division controls British Steel's distribution interests and in some cases processing in a number of overseas markets, especially within the EC. British Steel has sales offices in 20 countries and a network of more than 200 agents.

4.3. British Steel has equity interests in a number of steel-producing and re-rolling companies formed between 1981 and 1986, by the amalgamation of subsidiary interests of the then BSC and complementary companies in the private sector. The companies thus formed, of direct relevance to the present inquiry, are the following:

	<i>Equity % held by British Steel</i>	<i>Summary of activities</i>
ASW Holdings PLC	20	Reinforcements, merchant bar, wire and wire products
DRSM Group PLC	50	Rolled steel
Templeborough Rolling Mills Ltd	50	Rolled steel
United Engineering Steels Ltd (UES)	50	Engineering steels, bright bar
United Merchant Bar PLC	25	Merchant bar

Production

4.4. British Steel operates five integrated steel works (Llanwern, Port Talbot, Ravenscraig, Scunthorpe and Teesside) which supply steel not only to external customers but also to other British Steel operating sites. There are some 20 such sites, which comprise rolling mills and process lines such as tinplate and coating works (South Wales, Shotton), tube mills (Bromford and Corby), plate and rail mills (Dalzell and Workington) and hot- and cold-rolled narrow strip mills (Brinsworth and Whiteheads).

4.5. At the end of 1989 British Steel had nearly 52,000 employees in the United Kingdom. Nearly 20,000 were employed in each of the two main divisions, General Steels and Strip Products, and over 5,000 in Diversified Products (including tubes). BSD employed 1,924 in the United Kingdom; in addition it has 2,994 employees overseas.

4.6. Appendix 4.2 shows British Steel's overall steel sales in 1989, divided as between stockholder and other products, home and export, and stockholders and end users according to product sectors. British Steel delivered the quantities of stockholder products shown in Table 4.1 to the United Kingdom market in 1989; the percentages of these products delivered to stockholders are also shown.

TABLE 4.1 Deliveries by British Steel of stockholder products in the United Kingdom market in 1989

	<i>KT</i>	<i>Percentage delivered to stockholders %</i>
Sections and plates	1,720	58
Strip products:		
Uncoated	2,276	55
Coated	932	60
Stainless	86	62
Tubes:	725	52
SHS	245	75
Other welded	277	42
Seamless	203	36
	<u>5,739</u>	<u>57</u>

Source: MMC from British Steel data (based on 11 months' actual plus estimate for December).

British Steel does not manufacture bright bar, nor reinforcements.

Exports

4.7. British Steel is the United Kingdom's sixth largest exporter. It has increased its exports by value in the last five years by some 90 per cent, and to other parts of the EC (which accounts for 50 per cent of its overseas sales) by 128 per cent. In the year to 1 April 1989, global exports amounted to £1,658 million.

Distribution

4.8. British Steel's two major stockholding subsidiaries, British Steel Service Centres (BSSC) and British Tubes Stockholding (BTS), have operated for many years. Since 1988 BSD has been enlarged by the acquisition of three stockholding companies: H E Samson, Steel Stockholders (Birmingham) and the Bore Steel Group. In 1988/89 the turnover of British Steel's stockholder

activities in the United Kingdom was about £340 million, which was some 10 per cent of British Steel's total turnover in the United Kingdom.

4.9. Owing chiefly to increased import penetration, British Steel's share of stockholder product sales in the United Kingdom has fallen from 62 per cent in 1973 to 55 per cent in 1989. In the latter year, British Steel's associates accounted for another 6 per cent. In addition associate companies in which British Steel has a shareholding supply products that are generally not produced by British Steel. It is estimated that in 1973 these associate companies would have represented a further 8 per cent of market share which by 1989 had fallen to 6 per cent.

4.10. British Steel has 38 stockholder depots spread throughout the United Kingdom. Table 4.2 shows their distribution by region, together with Walker's and others.

TABLE 4.2 Location of British Steel and Walker stockholder depots in the United Kingdom

	<i>British Steel</i>	<i>Walker</i>	<i>Others</i>	<i>Total</i>
Scotland	5	5	87	97
North-East	8	4	137	149
North-West	1	4	143	148
West Midlands	12	12	264	288
East Midlands				
and East Anglia	2	3	71	76
South-West	4	4	83	91
London and South-				
East	6	4	201	211
Northern Ireland	<u>0</u>	<u>4</u>	<u>14</u>	<u>18</u>
	38	40	1,000	1,078

Source: British Steel and Walker.

4.11. Of the British Steel depots, nine are within BTS and are devoted entirely to the processing and sale of welded and seamless tubes; seven (three of them within the Samson group and three within the Bore group) market stainless steel; 12 specialise in strip products (almost all of which handle coated strip); the remainder deal in general steels, including in some cases merchant bar, engineering steels and bright bar. The general steel depots market SHS as a mainstream product within the available package of constructional steel industry products.

Financial information

4.12. While BSC's business was vested in British Steel on 5 September 1988, for purposes of statutory accounts the vesting was treated as having taken place on 3 April 1988. The following accounting information covers the activities of both BSC and British Steel.

4.13. British Steel prepares its accounts to the Saturday nearest to the end of March each year. In the period to Saturday 1 April 1989 it had a turnover of £4,906 million and a profit on ordinary activities before tax of £593 million, with net assets at the period end of £3,914 million.

4.14. A summary of British Steel's consolidated profit and loss accounts for the last five accounting periods is given in Appendix 4.3.

4.15. An analysis of British Steel's turnover for the year ended 1 April 1989 by product groupings is given in Table 4.3 and by geographical areas in Table 4.4.

TABLE 4.3 **British Steel: 1988/89 turnover by product groupings**

	<i>£ million</i>
Strip products-uncoated	1,069
-coated	<u>932</u>
	2,001
Section and plates	961
Tubular products	477
Stainless products	451
Others	<u>574</u>
Total finished products	4,464
Semi-finished products	<u>442</u>
	4,906

Source: British Steel Report and Accounts.

TABLE 4.4 **British Steel: 1988/89 turnover by geographical area**

	<i>£ million</i>
United Kingdom	3,248
European Community (excluding UK)	817
Europe (excluding EC)	208
USA	164
Rest of North America	131
South America	28
Africa	38
Asia	224
Australasia	<u>48</u>
	4,906

Source: British Steel Report and Accounts.

4.16. Appendix 4.4 summarises British Steel's financial position at the end of each of its last five accounting periods.

C WALKER & SONS (HOLDINGS) LTD

4.17. The business of Walker started trading in 1945 as a sheet metal fabricator. Messrs Jack and Fred Walker, the founder's sons, assumed control in 1951, on the death of their father. They took up steel stockholding in Blackburn, Lancashire, in 1954, purchasing plates and sections and strip mill products in bulk and selling small quantities to local users without any significant processing. The next 20 years saw successive phases of expansion. The amount and variety of stock held increased, together with the range of processing equipment. Operations became national with the setting up of sales offices in five big cities. The first stockholding premises outside Blackburn were developed in the West Midlands and Northern Ireland in the mid-1960s. Further large premises were opened in Scotland and the East Midlands. In the later 1970s the group expanded into the North-East, South-East and Wales, completing a nation-wide network.

4.18. In the early 1980s, Walker acquired several established stockholding firms in the Midlands, North-West, Northern Ireland and the Republic of Ireland, culminating in the purchase of GKN Steelstock, at the time (1986) the largest steel stockholder in the United Kingdom. Walker told us that Steelstock Ltd, as the business acquired then became, has since then traded separately from the rest of Walker's stockholding business, though management, systems and accounting functions of the Walker and Steelstock businesses are being gradually integrated. In May 1988 Walker increased its business in the Republic of Ireland with the acquisition of the Steel Company of Ireland Ltd and Lister Tubes Ltd.

4.19. In the past 15 years Walker has diversified with the acquisition of manufacturing businesses, such as Coated Metal Holdings Ltd and British Guide Rails Ltd (which make aluminised steel and rails for lifts respectively). Amongst other miscellaneous businesses acquired are aviation companies, which are omitted from the merger agreement.

Corporate structure

4.20. All shares in the parent holding company of the Walker group are held by members of the Walker family. There are some 20 trading subsidiaries in the United Kingdom, mostly steel stockholders. Beneath the parent company there are two holding companies in the steel stockholding business: Walkersteelstock Ltd for Great Britain and C Walker & Sons (Steel) Ltd for Northern Ireland and the Republic. A third holding company, Walker Manufacturing and Investments Ltd, comprises the non-stockholding businesses. The fourth direct subsidiary is Walkersteel (NI) Ltd, a stockholding company trading in Northern Ireland and the Republic.

4.21. Directly under Walkersteelstock are the two main steel stockholding companies operating in Great Britain, Walkersteel and Steelstock. A number of subsidiaries in Northern Ireland and the Republic also operate under the control of C Walker & Sons (Steel) and Walkersteel (NI). The principal features of the corporate structure are shown in the diagram at Appendix 4.5.

Organisation and management structure

4.22. The parent company in Blackburn controls overall group strategy and policy. Mr Fred Walker has been Chairman since 1974, when he succeeded Mr Jack Walker, who now acts as a consultant to the Board through a Jersey company, Interserco Ltd.

4.23. Walker's steel stockholding operations in Great Britain are divided into four product group divisions: Plates and Sections, Strip Mill, Stainless, and Tubes. The businesses of the divisions overlap, since many depots supply products from more than one product group. Some products, notably SHS, are common to two or more groups. The Irish stockholding business is managed on a company basis without an equivalent product group structure; it is operationally responsible to Walkersteelstock. A Managing Director for each of the product group divisions sits on the Walkersteelstock Board, together with Managing Directors for finance, operations and the Irish operating subsidiaries.

4.24. The management structure of operations in Great Britain is based on the product group divisions. Walkersteel has its own product group directors for each of the four product groups, reporting to their respective Managing Directors on the Walkersteelstock Board. Each of these directors has a number of General Managers at depot level. Steelstock's comparable structure is for two directors responsible for two combined product groups, strip mill/profiles and general steels (which comprises plate and sections, stainless and tubes). Walkersteel and Steelstock each has a Finance Director on its Board.

4.25. The Irish stockholding operations are managed on a company basis, with two companies in Northern Ireland and one in the Republic. All three trade in all stockholding products throughout Ireland. The Managing Directors of all three report to the overall Managing Director for Ireland on the Walkersteelstock Board.

Operations

4.26. At the end of 1989 Walker had a total of over 3,400 employees, of whom 2,900 worked in the stockholding businesses. It has a large number of customers: in 1989 alone over 30,000 accounts with separate customers, of whom over 97 per cent made annual purchases of less than £100,000.

4.27. The distribution of Walker's service centres in Great Britain is given in Table 4.2. There is considerable variation in size. To these should be added two sales offices. Of the 40 depots, 15 market one product group only, five of them being devoted to tubes. The remainder supply products from two or more groups.

4.28. Walker has for many years sourced the great bulk of its stockholding supplies from British Steel (and of course an even higher proportion of British Steel stockholding supplies). Table 4.5 shows the proportions of stockholding supplies purchased from British Steel in 1989.

TABLE 4.5 Walker's proportion of stockholding supplies purchased from British Steel in 1989

	%
Plates and sections	62
Strip mill products	85
Stainless steel	55
Tubes:	
SHS	85
Other welded tubes	56
Seamless tubes	67
Flanges and fittings	None
Stainless steel tubes	None

Source: Walker.

Overall, Walker purchased 75 per cent of stockholder products from British Steel in 1989, and 89 per cent of British Steel stockholder products. For Rome products alone, the comparable figures were 73 per cent and 91 per cent respectively. (These figures exclude reinforcements, which British Steel does not make nor sell through BSD and which is not a stockholder product. Walker has about 4 per cent of the market for reinforcements.)

Financial information

4.29. Walker prepares its accounts to the Saturday nearest to the end of May each year. In the period to Saturday 3 June 1989 it had a turnover of £638 million and a profit on ordinary activities before tax of £43 million, with net assets at the period end of £118 million.

4.30. A summary of Walker's consolidated profit and loss accounts for the last five accounting periods is given in Appendix 4.6.

4.31. An analysis of Walker's turnover and profit before tax for 1989 by business segment is given in Table 4.6 and of its turnover by geographical area is given in Table 4.7.

TABLE 4.6 Walker: 1989 turnover and profit before tax by business segment

	<i>£ million</i>	
	<i>Turnover</i>	<i>Profit before tax</i>
Steel stockholding and processing	596.1	45.1
Manufacturing	26.0	(0.5)
Airline operation, insurance and property	<u>16.3</u>	<u>(1.6)</u>
	638.4	43.0

Source: MMC from Walker accounts.

TABLE 4.7 Walker: 1989 turnover by geographical area

	<i>£ million</i>
United Kingdom	561.3
Europe	70.9
Middle East	0.3
Africa	1.0
Australia and Asia	4.3
The Americas	<u>0.6</u>
	638.4

Source: MMC from Walker accounts.

4.32. Appendix 4.7 summarises Walker's financial position at the end of each of its last five accounting periods.

4.33. Walker's returns on average capital employed for its last four accounting periods are shown in Appendix 4.8.