5 Views of other parties

5.1. As well as advertising our inquiry (Appendix 1.1), we wrote to a number of steel producers, stockholders and users of steel products. We also sought the views of the Department of Trade and Industry, the Confederation of British Industry, the Trades Union Congress and several trade associations. We also received views from the European Commission. A list of the parties who submitted evidence is at Appendix 5.1.

5.2. For the most part, the parties who replied to our invitation commented in general terms on the merits or otherwise, as they saw them, of British Steel's acquisition of Walker. They did not distinguish, as we have had to do, the merger's effect on the market for Rome products as against that for Paris products or for steel stockholder products as a whole. Respondents of course provided us with a great deal of information about Paris products, and this we have been able to use where appropriate in considering the effect of the merger on the public interest in relation to Rome products. We have not taken into account nor summarised here comments on the merger as a whole, save where relevant to Rome products.

Steel producers

5.3. Of the steel producers whom we consulted, five are manufacturers of Rome products.

5.4. Burn Tubes Ltd, a long-established West Midlands tube-maker, considered it extremely important to its successful continued survival that large independent steel stockholders should exist in the industry. It said that such a presence ensured that as a small purchaser it could obtain materials at competitive prices. There were several large manufacturers of steel tube which, because of their level of demand, obtained very special raw material prices from British Steel. The presence of independent stockholders within the industry maintained a balance against these advantaged tube manufacturing competitors. Burn Tubes stressed that the importance of this could not be over-emphasised since, in most cases, the raw material content of their product cost was something between 60 and 80 per cent. Independent steel suppliers compelled British Steel to keep its prices competitive for those companies buying smaller quantities of material.

5.5. In Burn Tubes' view the merger into British Steel of a further large independent operator not only removed the competition factor, but enabled British Steel through its pricing policy to determine which companies in the tube industry should continue to survive.

5.6. Burn Tubes believed that many new developments in steel production had been brought to the domestic market by independent stockholders who wished both to expand their market share and to provide an environment in which product designers could be commercially innovative.

5.7. If large independents continued to disappear, the public interest would suffer. Developments of the kind described might not be introduced into the domestic market since they would not serve British Steel's interest.

5.8. Natural Gas Tubes Ltd, a manufacturer of steel tubes, including SHS, and a subsidiary of Caparo Group Ltd, said that it saw no reason to oppose the merger, as there was already substantial competition from imports in the tube and hollow section products it supplied. It had learned to compete with this successfully and expected to continue its progress.

5.9. Senior Tube Ltd, a manufacturer of welded and seamless tubes, which attended a hearing, said that it had no alternative source of strip in the United Kingdom other than British Steel. British Steel also produced tubes and would now be extending its interests further into stockholding, which was obviously of concern to other tube-makers. The strip could be imported from Europe, but that could only be in relatively small quantities. There was besides a remarkable identity of price for the product, wherever it came from.

5.10. Senior Tube said that tube seemed to be a separate market in the stockholding business. There was even some specialisation as between the different types of tube. SHS were of course different altogether. Senior Tube was concerned that British Steel might take steps to ensure that Walker bought its tube internally and that would effectively shut out the independent producer. It would be impossible to assess British Steel's prices, as they would be subject to transfer pricing.

5.11. Sterling Tubes Ltd, a producer of stainless seamless tubing, had no concern about the acquisition. Walker was its major stockist and it hoped that the merger would give British Steel the added resources to gain entry into Europe, which would be to Sterling Tubes' own benefit.

5.12. UES, the largest manufacturer of engineering steels and forgings (including bright bar) in Europe, which is 50 per cent owned by British Steel, was strongly in favour of the merger as part of the necessary restructuring of European steelmaking and distribution. The major United Kingdom steelmaker needed a strong stockholding network, like its European counterparts. A continental purchase of Walker would disturb the market situation; the increased transport costs of the continental products that would be imported as a result would have adverse effects on the United Kingdom customer.

5.13. We also consulted the British Independent Steel Producers' Association (BISPA), which commented that it believed bright bar was the only Rome product produced by its members and stocked by Walker. Walker had only a very small share of the market, in a very competitive stockholding sector. BISPA was concerned that the Treaty of Paris aspects of the merger were to be considered by the MMC. According to the Treaty of Paris, mergers within its jurisdiction were a matter for the European Commission, and BISPA regretted the unfortunate precedent of opening parallel proceedings in the case.

5.14. The British Welded Steel Tube Association (BWSTA) did not wish to make any collective representations. The British Reinforcement Manufacturers' Association gave us useful information.

Steel stockholders

5.15. ASD, which came to a hearing with us, is the next largest stockholder in the United Kingdom after British Steel and Walker, holding about 8 per cent of the market. About 10 per cent of its business is in tube and bright bar. It has nation-wide coverage, with a central wholesaling depot in Leeds and some two dozen other depots around the country. It was not against the merger and in fact thought that in view of the uncertainty that it had caused, it ought to be settled and got out of the way quickly. However, safeguards should be considered. An upper limit might be put on British Steel's total stockholding interests. It also believed that there might be monitoring of British Steel's stockholding costings, though admitting that it would be difficult to achieve.

5.16. ASD doubted whether a European steel producer would want to acquire Walker if British Steel's acquisition did not go through. It would be very difficult for anyone to come in suddenly and take over British Steel's supply of steel to Walker. A European steel producer would be looking for a smaller stockholding unit in the United Kingdom.

5.17. Brown & Tawse is a company with about half of its interests in steel stockholding, and nearly half of that in tube. It came to a hearing with us. It said that British Steel had done very well in the production and sale of SHS, which had no direct equivalent in Europe, being made from hot-rolled strip, which had clear advantages. Brown & Tawse felt able to compete with Walker in spite of the latter being so much larger: in these circumstances the present merger would make no significant difference. It assumed that Walker got a better price from British Steel and its own competition was in terms of service, reputation etc. At present it was confident that British Steel as a producer dealt at arm's length with BTS. In the past five years Brown & Tawse had increased its share of the market for general purpose tube, bought from British Steel, while BTS's share had declined substantially; British Steel had not responded to that by giving its own subsidiary better prices, to recover the lost share. Brown & Tawse had gained market share because of its service and range of products. It was not frightened of competing vigorously with a combined BSD/Walker, on the grounds that the latter would have a very large share of the stockholder market and British Steel was also the primary producer. It expected rather to take some business away from the new combined stockholding group, simply because it could tell customers that BSD and Walker were now the same, and the customer ought to split his business. Brown & Tawse believed that whatever was said, BSD and Walker would eventually have to be run together; a Board could not run several different organisations of that size in competition with each other.

5.18. Charles Day (Steels) Ltd, a steel profiler in Yorkshire, advanced the theory that were British Steel to acquire Walker, then British Steel would control steel stockholding interests sufficient to influence the market. Through its stockholding interests it would control profiling capacity sufficient to influence the profile market also. Should the merger go ahead, one would like assurance that British Steel would not sell steel plate, the raw material of profilers, to its profile interests via its stockholding subsidiaries at preferential prices and deliveries or favour its profilers in times of supply shortages. Were the above to be one objective of the merger, then clearly the company would oppose the merger.

5.19. William King Ltd is a strip mill stockholder in the West Midlands. As a new development, this company has recently started a joint venture with the Japanese Mitsui Group (Mi-King Ltd) near the new Nissan plant in Sunderland for the supply of steel for car manufacture and other applications for the North-East of England. William King thought that BSD and Walker probably had a market of more than 50 per cent in narrow coil (less than 500 mm wide) and flat blanks which were Rome products. This was also William King's chief market, and it considered it important that British Steel should promote commercial policies that preserved a sensible balance between mill-owned stockholders and strong independents. The structure of overall quantity price rebates per product that British Steel gave to its own stockholding customers ought not to be such as to exceed those available to the largest independently owned stockholders operating in the same product markets.

The National Association of Steel Stockholders

5.20. Most large and middle-sized stockholders in the United Kingdom (including BSSC and Walker) are members of NASS; they comprise some 90 per cent of the market. NASS gave us a wide range of useful factual information and technical advice, both informal contacts and at a hearing.

Customers

5.21. A wide range of users of steel productscustomers both of steel producers, conspicuously British Steel itself, and of steel stockholdersreplied helpfully to our inquiries. We do not propose to rehearse their evidence individually, since they do not distinguish their purchases as between Paris and Rome products (cf paragraph 5.2)indeed such distinctions are scarcely meaningful to most users of steel. We did, however, receive evidence from, and had a hearing with, the British Iron and Steel Consumers' Council (BRISCC), which was able to summarise the views of its members with these distinctions in mind.

5.22. BRISCC told us that it thought the merger unlikely to have a significant effect on competition in the market for cold-rolled narrow strip, bright bar or steel reinforcements. It noted that British Steel was the sole United Kingdom supplier of most sizes of the seamless and welded steel tube and pipe which it manufactured, including SHS. Imports in 1988 accounted for about half the United Kingdom consumption of seamless tube, but less than a quarter of welded tube consumption. Stockholders supplied over 50 per cent of the market for welded tube, but less than 30 per cent of that for seamless. BRISCC believed British Steel and Walker to account for some 30 to 40 per cent of the tube stockholder market. This was a substantial share of the United Kingdom stockholder market, in the hands of a domestic monopoly producer. The position was of some concern to certain buyers, particularly the smaller ones. Many, on the other hand, believed that it would not in practice result in any significant change from the present situation, or in reduction in existing levels of competition. However, members of BRISCC would be unhappy at the thought of British Steel further increasing its ownership of the stockholder market, in view of the position that it would hold in relation to tube and SHS after the merger.

5.23. We asked BRISCC whether a customer in the construction industry would distinguish the purchase of SHS, a Rome product, and of other steel products from the general steel sides of the business, which would be Paris products. BRISCC confirmed that in such a case the market for Paris products would have a direct bearing on that for Rome products, since they would both be sold through the same organisation, so that the Rome products would be sold virtually as Paris products rather than as a separate category. British Steel published price lists in the same sort of way for both categories. It was not actually required to publish prices under the Treaty of Rome, but in fact did so; in practice there was no significant difference of treatment. Price lists under the Treaty of Paris had to be lodged with the European Commission, and it was the practice of producers to send copies of price lists for Rome products to Brussels too, just to keep the Commission informed.

5.24. The British Constructional Steelwork Association Ltd (BCSA), which attended a hearing together with BRISCC, of which it is a member, represented the views of the steelwork fabrication industry; many of its members are small and medium-sized companies. These companies buy structural sections, including SHS, and design, fabricate and erect them into the frames for buildings. British Steel currently manufactures almost all the steel sections and (following the merger) would directly control about 75 per cent of their supply and distribution. BCSA understood British Steel's strategic objectives, but members needed British Steel to ensure that steel sections were competitively priced in the future and not to encroach on their own business areas, such as fabrication. As a near monopoly supplier British Steel had a special responsibility placed upon it.

5.25. BCSA accepted that there was a freer market for SHS than for some other steel products used in the construction industry, since there was an international dimension range for SHS, so that imports were not limited by a difference in measurements as between United Kingdom and the rest of Europe.

European Commission

5.26. The EC suggested that if we were to conclude that the merger, in so far as it concerned Rome products, was against the public interest, we should make whatever recommendations we thought appropriate concerning those products. If the EC were ultimately to decide to authorise the merger under Article 66 of the Treaty of Paris, then our recommendations would presumably be for divestiture of some or all of the Rome operations.

5.27. The EC also gave us some comments in relation to Rome products, based on its inquiries into the merger as a whole. Its inquiries indicated that for most Rome products, BSD/Walker's market share was too small to raise problems of competition and that SHS were the only product which needed careful consideration. In the SHS and other tube sector, as with strip products, there were more than 20 competitors, many having multi-depot operations. In the bright bar sector there were two competitors of the same size and one larger than BSD/Walker would be. The important factor in assessing this competition was the number of competing stockists in a given area, not their size. There did not seem to be any areas where the merger would result in significant reductions in competition or choice.

5.28. The EC noted that BSD/Walker would account for less than 30 per cent of sales of Rome products through stockholders. British Steel would presumably not want to alienate the remainder of the stockholding industry, as a major outlet for its production. There had recently been substantial investment in the industry, particularly in the tubes sector. As a capital-intensive industry, British Steel would need to maintain its deliveries to the stockholding industry at as high a level as possible. Restricting supplies to BSD/Walker's competitors was unlikely to give rise to substantial gains. It would tend to create a situation in which other United Kingdom producers or importers with excess capacity could expand their sales at British Steel's expense. British Steel's position in the stockholding market following the merger would be unlikely to enable it to deny other producers access to distribution outlets in the United Kingdom. Given the overcapacity in the steel industry, one company could hardly prevent competing stockholders from obtaining supplies from other sources.

Department of Trade and Industry

5.29. The Department itself did not comment. The Industrial Materials Market Division, however, noted that amongst Rome products the most significant product in terms of market share, and the only product where British Steel had a significant manufacturing interest, was tubes. But British Steel and Walker together only held about 27 per cent of the stockholding market (within which British Steel had a higher share in SHS) and some 85 per cent of Walker's tube products already came from British Steel. So after a merger British Steel would have nothing to gain by abusing its market position. There had besides been a significant overcapacity in tubes for some years, both in the United Kingdom and Europe. Demand for tubes in the United Kingdom had been decreasing for over a year. The already strong competition was likely therefore to be maintained or intensified.

Trades unions

5.30. The Iron & Steel Trades Confederation, supported by the Boilermakers' section of the General Municipal and Boilermakers' Union, strongly backed the merger on employment grounds. It made no distinction between Paris and Rome products.