

5 Views of third parties

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Introduction

5.1. We invited views from manufacturers and fabricators; distributors; contractors; end-users; trade and consumer associations; trade unions; Government departments; and other interested parties. We also invited views from architects but none of the firms approached was able or willing to comment. Oral hearings were held with Acoustic and Insulation Manufacturing Ltd (AIM), BGI, Encon, FGF, Hodgson and Hodgson Ltd, LGF, SIG and UK Insulation. This chapter summarizes the evidence we received.

Manufacturers and fabricators

Acoustic and Insulation Manufacturing Ltd

5.2. AIM said that it was a manufacturer of fire protection and other insulation products primarily for the construction industry. The company had grown in its ten years of existence and in 1999 had a turnover of around £[88] million. Sales were almost entirely to distributors. AIM's products were in competition with Rockwool's range of fabricated products converted for Rockwool by external companies such as Siderise (Holdings) Limited.

The market

5.3. AIM said that it purchased stone wool from OCBP and was one of its main customers. Glass wool was not suitable for most of AIM's market because its fire resistance qualities were inferior to those of stone wool. AIM emphasized that as well as being competitive on price, OCBP's flexibility was very important—for example, its readiness to accept orders for a smaller minimum load such as the 1.5 tonnes which was economic for AIM, against Rockwool's insistence on minimum orders of 4 tonnes. Quite apart from the larger quantities absorbing working capital, AIM did not have the physical storage space available.

5.4. Though it commented that list prices of the mineral wool manufacturers showed increases every year, AIM added that the prices it paid had tended to be largely unchanged: its increasing purchases as the business grew, which enabled it to obtain higher discounts, had largely offset any price rises. In the wider market for insulation materials, AIM thought, as a broad guess, that in around 80 to 90 per cent of the applications where stone wool was used, substitutes were available should stone wool prices rise significantly and/or the conditions of supply be made less favourable in other respects.

5.5. However, for AIM's market, which was something of a niche, the superior fire and compression resistance properties of stone wool meant that glass wool was not generally usable. Other materials such as calcium silicate which had the necessary fire resistance had other disadvantages, whether of price or their rigidity making them unsuitable for shaping into restricted spaces.

Imports and market entry

5.6. In view of its concern about the possible loss of OCBP as a source of supply, AIM had been looking at the scope for importing stone wool. It had made a test purchase from Slovenia in late 1998, of 11 tonnes, and had been satisfied with both the delivered price and the quality of the material. AIM could not be sure that it had not been offered a favourable deal as a loss leader to attract it. However, AIM thought that, on the experience of that transaction, it would be ready to accept the drawbacks and risks entailed in further such purchases if the merger affected its ability to source at all or on satisfactory terms from within the UK.

5.7. AIM did not believe that another manufacturer would be likely to set up a new stone wool plant in the UK. Partek would continue to have access to the UK market via OCBP whether or not the

merger proceeded. Access to technology was also a problem as Rockwool, Partek and St-Gobain controlled the rights to the methods of producing stone wool. In addition, the high degree of substitutability between insulation materials in the UK market, except for specialist areas such as that in which AIM operated, would not provide a sufficient guarantee of profitable operation to attract a new entrant.

The merger

5.8. AIM was very concerned about the possible implications of the merger proceeding. It would like there to be safeguards available to protect its interests in the event of it being in danger of losing its source of supply and/or having to do business on the more inflexible and less favourable terms normally imposed by Rockwool.

5.9. AIM doubted that remedies of a behavioural nature—such as the control or monitoring of prices—would be effective. The common practice of giving discounts and rebates from list prices for mineral wool would make it too easy to circumvent such requirements.

Bold Nu-tec Insulation Products and Services Ltd

5.10. Bold Nu-tec Insulation Products and Services Ltd (Bold Nu-tec) told us that it purchased its raw material, a stone wool mat, from OCBP. The merger would put it in a very vulnerable position because Rockwool was the only other manufacturer of this material in the UK: Rockwool might either refuse to supply Bold Nu-tec or increase its prices. For this reason it had been seeking an alternative source of supply from abroad but had not yet found one.

5.11. Bold Nu-tec was concerned that it would lose its source of supply should OCBP fail to find a buyer and decide to close Queensferry. It believed that the merger was in its interest, provided it had a guarantee that Rockwool would continue supplying it indefinitely and at the same price.

British Gypsum-Isover Limited

5.12. BGI said that it had been operating since 1979. Originally wholly owned by BPB, in 1996 it had become a joint venture between that company and St-Gobain. BGI operated only in the UK, primarily manufacturing and selling its own glass wool products, although it imported a small amount of glass wool pipe section from a sister company in Sweden. It also imported limited quantities of high density stone wool slabs from St-Gobain, accounting for less than 2 per cent of its sales.

The market

5.13. BGI considered that some of the glass wool products it sold in the H&V and DIY markets were close substitutes for stone wool products supplied by Rockwool and OCBP. However, stone wool was most suitable for industrial uses requiring high fire resistance or high compressive strength, and for roofing. BGI did not sell its glass wool for applications above 230°C although in some other countries, where stone wool was not much used, glass wool was processed for use at 230°C to 500°C, notably in the USA and perhaps in other countries too. Even though some industrial process applications did not have operating temperatures above 230°C, users and specifiers tended to be conservative in their ways and were not easily persuaded to use materials other than stone wool.

Imports and market entry

5.14. Because of the current sterling exchange rate and the high transportation costs of mineral wool (due to the bulkiness of the products) it was unlikely that mineral wool imports in general would increase. As regards the possibility of another manufacturer entering the UK market, BGI thought that there were three main barriers to entry: the high capital investment needed to build a plant; access to channels of distribution; and the fact that architects specified particular products.

The merger

5.15. BGI was concerned that, if the merger went ahead, Rockwool would be able to use its dominant position in the stone wool market to increase prices in industrial and structural areas where there were no substitute products. It might then cross-subsidize areas where glass wool products were a close substitute and, without the possibility of normal market retaliation, would be able to dominate the whole market. Small distributors could be forced out of business because they would be unable to compete with Rockwool's preferred major customers. Such distributors counterbalanced the power of the large distributors. BGI thought that if Rockwool had an agreement to continue supplying OCBP with stone wool products, these terms should be made available to other suppliers, if necessary by imposing a requirement to that effect as a condition of allowing the merger to proceed.

5.16. BGI said that it might have been interested in, and would still consider, the acquisition of the stone wool business of OCBP but had not been aware that it was being sold.

Gilmour Ecometal

5.17. Gilmour Ecometal (Gilmour) told us that it purchased stone wool from both Rockwool and OCBP. There had been limited competition between the two companies: they set their prices at the same time and by the same amount. The merger would result in a monopoly within the UK. This would severely affect the pricing of fire-resistant insulation products and result in an increase in the use of more hazardous foam products.

5.18. Gilmour said that both Rockwool and Owens Corning had agreements with other European stone wool manufacturers which restricted sales in the UK. Rockwool operated a distribution network that was restrictive and selective in its use: it had blocked the purchase of materials that it considered were outside Gilmour's scope of manufacture. If the merger proceeded Gilmour would be excluded from this business.

5.19. High transport costs made competition from overseas producers practically impossible. If the merger proceeded companies within the UK market would have no other option than to increase their use of foam panel products.

Hodgson and Hodgson Ltd

5.20. Hodgson and Hodgson Ltd (H&H) said that the group of which it formed part was composed of a number of companies engaged in the manufacture, supply and design of thermal and acoustic insulation products and components. The largest company was H&H, which manufactured and supplied thermal and acoustic insulation components mainly for industrial applications, but with some supply to the construction sector. Group turnover was some £16 million, of which H&H accounted for about half. Of the products for the industrial sector, a large part went to the white goods sector, particularly cookers, and another to the transport sector.

The market

5.21. H&H said that it purchased stone wool and glass wool from OCBP (in the proportions of about 3:1). This state of affairs was ascribed by H&H to its having long-standing relationships, of a trading and personal nature, with OCBP and before that with Pilkington Insulation. H&H did not have a trading relationship with Rockwool. H&H did not see LGF as an alternative source of supply of stone wool, partly because there were questions about the suitability of the LGF stone wool for H&H's products and partly because LGF was, at least potentially, one of the 25 or so competitors of H&H in the fabrication of stone wool components.

5.22. H&H doubted whether there would be much scope for switching more of its business to glass wool. This was due partly to the temperature limitations, beyond 230°C, of glass wool and partly to the traditional preferences of many end-users for not mixing stone wool and glass wool even if, in some applications, glass wool was technically an alternative.

5.23. As for Rockwool, it had shown little interest in doing business with H&H. This might be in part due to the two companies being competitors in the fabricated products market, in addition to H&H's close links with OCBP.

5.24. H&H bought directly from OCBP and at net prices negotiated annually, instead of the normal industry pattern of heavily discounted list prices. It said that the prices it paid had probably risen over the last five years or so. It had managed to preserve its trading margins only through cost savings within its factory: the very competitive nature of its market, in which contractors could play off fabricators against each other, meant there was little hope of passing on price rises.

Imports and market entry

5.25. H&H did not think that importing was a real option for it, should prices rise significantly on account of the merger. That was because it used mainly low-density stone wool, the low unit value of which made transport costs relatively high and importing too expensive.

5.26. Nor did H&H believe it was very likely that another manufacturer of stone wool would be ready to enter the UK market. H&H supposed that Partek must have known about OCBP's plans to dispose of Queensferry as it used Partek technology: it could only assume that Partek did not wish to bid for the Queensferry plant. St-Gobain was another possibility but, as a major glass wool producer, was probably not very interested in stone wool. As for other manufacturers, the two-year lead time in setting up a new plant and the high capital costs made it unlikely that anybody was interested in trying to enter.

5.27. When asked about possible alternative buyers for Queensferry, H&H said that it did not rule out the idea of purchasing the plant itself in order to safeguard its supply of stone wool. It had not considered the idea in depth and it fully realized that a substantial financial commitment would be entailed. H&H would, however, consider seriously the purchase of Queensferry should the plant be offered to it.

The merger

5.28. H&H believed that the prospect of raising prices must have been a factor in Rockwool's calculations of the commercial attractiveness of acquiring Queensferry. H&H did not know how it would stand with Rockwool as a potential customer but one which was also a competitor in fabricating products. It followed that unless and until it knew its interests could be safeguarded, and how, H&H was bound to view the merger as a matter of real concern.

5.29. H&H did not exclude that some form of control imposed on Rockwool might be workable as a condition for allowing the merger to proceed, for example that prices could not rise by more than the retail price index or an index of building materials prices, or that Rockwool be required to supply a

specified range of products on published terms which did not discriminate between customers. But such requirements would have to be worked out and policed with care if the complex pattern of discounts and rebates prevailing widely in the market were not to make circumvention easy.

Isover Saint-Gobain SA

5.30. Isover Saint-Gobain SA, a subsidiary of St-Gobain, said that it had been, and still might be, interested in acquiring OCBP's stone wool business, but had been told in the summer of 1998 by Owens Corning that it was negotiating with another party.

Kingspan Insulation Limited

5.31. Kingspan Insulation Limited said that the merger would create a monopoly in the supply of stone wool products within the UK. There was no substitute for some stone wool products, particularly those specified by architects and contractors for use in H&V applications. Rockwool would thus be able to increase its profitability and subsidize its other products in the commercial, domestic and industrial markets. This could substantially damage the stability of the insulation market.

Lancaster Glass Fibre Limited

5.32. LGF said that it was a small company which manufactured thermal, acoustic and fire insulation materials and was the only other producer of stone wool in the UK apart from Rockwool and OCBP. Its turnover was around £16 million. LGF's main activity was the supply of stone wool material to the automotive industry for use in exhaust silencers and construction insulation products. It also produced acid-resistant glass fibre used, for example, in battery separators and filter media.

The market

5.33. LGF said that, with its own supplies of mineral wool, it operated mainly through distributors, including SIG. It believed that the basalt used in its stone wool production was of very high quality. That, combined with a difference in the production technique compared with Rockwool's and OCBP's, made LGF products particularly suited to automotive use as well as for gas turbine and aviation applications.

5.34. The company said that competition between LGF on the one hand and Rockwool and OCBP on the other was essentially limited to wired mattress for industrial process use and fire protection blanket. LGF thought its method of producing stone wool was more expensive than that of the other two producers, thus limiting the area in which it could compete with them. The narrowness of LGF's product range was a disadvantage in the construction market when a contractor wished to buy a range of products and LGF could not supply them all, whereas Rockwool or OCBP could. LGF said that, partly for that reason, it tried to offer customers a better and more flexible service, for example in terms of technical support. LGF purchased glass wool from OCBP even though the two were competing in the exhaust and fire blanket markets.

5.35. As for pricing, LGF said that it negotiated discounts and volume rebates from its list prices with distributors in much the same way as Rockwool and OCBP. LGF saw itself as following the market in its prices, which were determined to a large degree by SIG, Rockwool and OCBP, though LGF looked for opportunities to earn a premium for quality where it could.

Imports and market entry

5.36. For the rather specialized and higher-value markets in which it mainly operated, LGF thought that, since transport costs would be proportionately lower, there would be scope for increased imports in the event of a significant rise in UK stone wool prices. A 10 to 15 per cent UK price rise, or equivalent currency appreciation, could be sufficient to trigger higher imports.

5.37. LGF did not think that an increase in stone wool prices would tempt another manufacturer to set up a UK factory. Returns in the stone wool business generally were not high and a substantial investment would be needed—perhaps as high as £50 million—for a plant big enough to have competitive running costs.

The merger

5.38. LGF's main concern was whether the merger might lead to predatory pricing in its less specialized markets, such as fire protection blanket and wired mattress. The viability of these markets was important to LGF as a base on which to develop its specialized niche products. As a small company with limited furnace capacity, it would not be able to respond to a predatory attack by increasing its own output. Provided no such attack occurred, LGF did not see any reason why the merger should not be allowed to proceed.

Distributors

Encon Group Ltd

5.39. Encon said that it was a major distributor of insulation products. It also owned a subsidiary company, Superglass, which manufactured glass wool products which it promoted as capable of use in applications with operating temperatures up to 540°C. Group turnover in 1998 was around £90 million, and insulation distribution was the main trading activity.

The market

5.40. Encon said that OCBP supplied it with foam products but not stone wool or glass wool. This was presumably because Owens Corning saw Encon as a competitor through Superglass and because of the negative reaction from OCBP's existing customers. Encon believed that stone wool had no effective substitute products for applications in the industrial process market. Glass wool had a very small share of that market and other products that were technically acceptable, such as calcium silicate, were expensive to buy and to convert. In the structural and H&V markets glass wool was well positioned and complemented by the wide range of plastic materials available.

5.41. Encon emphasized that, although glass wool was inherently more efficient than stone wool in thermal conductivity, in the industrial market it suffered from its low density and relatively high cost of production. Broadly, stone wool had higher compressive strength, better fire resistance and higher temperature capability than glass wool. Glass wool at a density around half that of stone wool had a similar cost of production. Stone wool had an equivalent thermal performance to glass wool (kg for kg) above around 350°C, but glass wool could match that performance only through a considerable increase in its density. However, glass wool was difficult and costly to manufacture at high densities. Increasing the density to match stone wool's thermal performance in the higher temperature range would make it uncompetitive. The prospects for glass wool providing a wider choice of materials substitutable for stone wool in the industrial process market were, therefore, doubtful. That was in addition to the conservatism of industrial buyers and their preference for not mixing insulation materials within a particular project even where that was technically and commercially feasible.

Prices

5.42. Encon described the process by which the prices at which it bought stone wool from Rockwool were set. Each year, after Rockwool had announced the percentage increase in list prices for the coming year, Encon negotiated a national deal with Rockwool. This comprised a set of basic discounts, varying by product; a target level of rebate to be calculated retrospectively depending on the level of purchases over the year; and a settlement arrangement. As soon as the national deal was concluded, the managers of Encon's various branches started to seek special discounts, on top of the

basic company-wide discount, for particular large orders where they needed price support to fend off competition from another distributor selling OCBP products. This was a continual and highly competitive process.

Imports and market entry

5.43. Encon did not see much scope for increases in imports of stone wool. The product ranges and quantities available from Continental European producers were limited. The high cost of transporting most stone wool products into the UK—other than the small high-value end of the market—also made importing on the whole uneconomic. If, hypothetically, UK stone wool prices were to double then much could change: imports would become more economic though the problem of limited product range would remain. A price rise of up to, say, 30 per cent would not result in much switching to substitute materials. A doubling of prices was, of course, very unlikely but if it did happen then use of glass wool could, irrespective of import price relativities, become economic for a part at least of the industrial process market up to 540°C applications.

The merger

5.44. Encon said that its own interests appeared not to be prejudiced should the merger go ahead. As a major customer of Rockwool and a distributor which bought little from OCBP, Encon could be seen to be largely unaffected. It might even benefit from the merger as Rockwool's policy of insisting on full lorry load orders should mean that some of OCBP's smaller direct customers for partial and/or mixed lorry loads would have to turn to distributors such as Encon. However, despite the prospect of increased business from the smaller buyers of stone wool from Queensferry and its acknowledgement of Rockwool's efficiency, Encon thought that the wider interest in, for example, greater customer choice would be better served by the Queensferry plant remaining separate, whether it was owned by OCBP or a third party.

FGF (Aston) Limited

5.45. FGF said that it was part of the FGF Organisation, a distributor and manufacturer of thermal and acoustic insulation materials. Group turnover was around £24 million. FGF's principal activity was as a distributor, and most of its business was in the building/structural sector. The only significant sales to the industrial sector were to OEMs.

The market

5.46. FGF said that it purchased stone wool from Rockwool, which was one of its major suppliers. It periodically purchased stone wool from OCBP also but had not done so in recent years. FGF also bought materials other than mineral wool, for example calcium silicate and plastics. FGF's largest outlet was in sales to house builders, for insulation of cavities and protection against the spread of fire.

5.47. FGF thought there was a considerable degree of price competition in its markets. Rockwool itself was flexible in its pricing, which went some way to offsetting the rather rigid terms on which it did business such as its insistence on full lorry loads—a condition which made difficulties for FGF in adjusting the ranges and quantities of stock which it held. Stone wool prices had also fallen in the last five to ten years, though not as much as glass wool prices. The reasons were the wide range of products available, rather sluggish demand (with housing the only major growth market) and too many middlemen chasing that demand.

5.48. In some segments of the market, FGF thought that price was not the only consideration. In fire protection, for example, stone wool had a strong position given its better resistance to fire compared with glass wool. There were other products available, such as calcium silicate and plastics, but these were either expensive or did not have the wide range of qualities of stone wool. So prices could be affected if Rockwool became effectively the sole supplier of stone wool in the UK.

Imports and market entry

5.49. Imports of stone wool were not judged practicable by FGF due to the relatively narrow product range available, the preference of UK customers for distributors to stock a wide range not merely of products but also of sizes, and the high costs of transport in relation to the value of many of the products. However, if UK stone wool prices were to rise by anything over 10 per cent, FGF would look seriously at the possibilities of importing.

5.50. FGF did not think that any other stone wool producer would be ready to build a new plant in the UK. This was because of the high capital cost of construction and the problem in earning an adequate return in the competitive UK insulation market.

The merger

5.51. FGF thought the merger might lead to higher stone wool prices, at least in segments such as fire protection where stone wool's qualities were sufficiently superior to those of glass wool to give it a measure of protection against, for example, the possibility of increased imports. If there were price rises FGF would have to try to pass at least some of these on to its customers. The loss of OCBP's Rocksil brand would tend to weaken competitive pressures on Rockwool. Against that, FGF's main business was in the building/structural sector where the widest range of substitutes was available.

5.52. When asked if any behavioural remedies such as price controls might reasonably be considered for dealing with hypothetical detriments to the public interest in the event of the merger proceeding, FGF thought something of that kind was worth considering. FGF's uncertainty (apart from the mechanics of controls) was the scale of price rises in stone wool which would be likely to lead to substantial switches to glass wool or other products.

5.53. On balance, FGF did not believe that the merger would cause major problems.

Independent Insulation Distributors Association

5.54. The IIDA said that it had been formed in the early 1990s by a number of independent distributors in response to the increasing growth and dominance of insulation manufacturers and distributors in the late 1980s. Its members specialized in the distribution of insulation and ancillary materials to H&V and industrial contractors. The IIDA believed that, after Kitson's, it was OCBP's second largest insulation distribution customer for stone wool. Apart from one member company in the Republic of Ireland, it did not buy from Rockwool.

5.55. The IIDA said that since its formation the polarization of the industry had continued and the large distributors' buying power had increased. Manufacturers of glass wool and of stone wool applied the same price increases at approximately the same time, with Rockwool taking the lead. Large distributors were able to persuade the manufacturers to delay the implementation of such increases and sometimes to waive them completely. The IIDA did not have this ability and when its customers resisted the increases its distribution margins were squeezed.

5.56. The IIDA said that there were many applications where stone wool was the only economic insulation material and others where it was specified on the contracts and could not be substituted by other materials. In addition some contractors demanded stone wool rather than glass wool where either product would do. The IIDA had also been told by OCBP that certain fire protection products would cease to be manufactured following the sale of the Queensferry plant. It had been given no assurance by Rockwool that such products would be available to it on comparable terms if the merger went ahead.

5.57. After the merger Rockwool would be the only UK manufacturer of stone wool and the IIDA and its customers would be placed at a significant competitive disadvantage. This would inevitably

lead to higher prices for the consumer. The IIDA believed that this would be against the public interest and that the merger should be prohibited.

Insulation Distributors Limited

5.58. Insulation Distributors Limited (IDL), a subsidiary of SIG which operated only in Northern Ireland and the Republic of Ireland, said that competition between OCBP and Rockwool had ensured that prices remained competitive and customers had a choice of supplier. IDL was concerned about the effects the merger might have on the pricing and supply of stone wool and believed that it should not be allowed to proceed.

5.59. IDL obtained its stone wool products from Great Britain because there were no manufacturers in Northern Ireland or the Republic of Ireland. It had investigated the feasibility of importing stone wool from Continental Europe but found that shipping costs were much higher than from Great Britain. Furthermore, the lightweight rolls it required were not available from European manufacturers.

Kitson's Insulation Products Ltd

5.60. Kitson's, a subsidiary of SIG, said that the merger would create a monopoly in the manufacture of stone wool within the UK. For some purposes there were no substitutes for stone wool and the existence of two sources of supply was important to maintain competition.

5.61. Kitson's said that most of the stone wool products it stocked were from the OCBP range and if the merger proceeded it would lose a major supplier in an important business sector. This would have serious consequences for Kitson's market position because many of its customers saw Rocksil as an alternative to the brand leader, Rockwool. The removal of OCBP would change Kitson's buying position, and change what it was able to offer its customers. Because many of its customers purchased other products in addition to stone wool the effects could go beyond this product range.

J S Miller & Co Ltd

5.62. J S Miller & Co Ltd was concerned that the merger would leave Rockwool as the only manufacturer of stone wool in the UK. It told us that Rockwool had refused to offer terms to the members of the IIDA, of which J S Miller & Co Ltd was one.

SIG plc

5.63. SIG said that it was a limited company previously known as the Sheffield Insulation Group (one of the main operating companies in the group was still known as Sheffield Insulation Ltd). It supplied both stone wool and glass wool products and a range of other insulation materials including polyurethane and phenolic foams and calcium silicate. SIG was a specialist distributor and did not itself fabricate products from mineral wools or other insulation materials. SIG said that it was the largest UK insulation distributor, with a 1997 worldwide turnover of £670 million. It had a number of subsidiaries in other countries, including France and Germany.

The market

5.64. As a substantial purchaser of stone wool from Rockwool and of stone wool and glass wool from OCBP, SIG thought that there was genuine competition between Rockwool and OCBP over a significant range of products. Stone wool had clear advantages over glass wool for the major industrial process applications due to its higher-temperature and fire resistance capabilities. Stone wool was also well suited to specialist fire protection and acoustic requirements. Whilst there were substitutes for

stone wool in the higher operating temperature ranges, for example calcium silicate and ceramic fibre, SIG said that these materials were expensive and difficult to work with.

5.65. Despite its size in the market, SIG believed that it was as subject to significant commercial pressures as other distributors: contractors or fabricators could bargain with it using the threat of giving business to other distributors.

Prices

5.66. SIG said that, like other distributors, it had annual negotiations with its suppliers about the basic discounts off list prices which it would receive and a volume rebate, the value of which would be calculated retrospectively based on the value of purchases (see paragraphs 4.112 to 4.121). The buying process was very fluid; however, SIG frequently sought to renegotiate prices to take account of market pressures for special discounts, above the basic discounts settled annually, in relation to individual large orders. These negotiations took place both centrally within SIG and at branch level.

Imports and market entry

5.67. SIG did not think that imports were a major safety valve against (hypothetical) rises in stone wool prices if the merger proceeded. Not even a large distributor like SIG could stock from imports anything like the product range it could keep based on UK supplies, the breadth of which was an important element in the working of the UK market. As well as product range, transport costs and differences in product quality could also be important. There was also a perception in the market, though hard to verify, that some European manufacturers of mineral wool were unwilling to see products they produced in one market being sent to others.

5.68. SIG thought, nonetheless, that if UK stone wool prices were to rise by around 20 per cent then it would have to look seriously at the prospect of increasing imports.

5.69. SIG did not believe that there was much prospect of new producers entering the UK market in view of the high capital costs of setting up a new plant at a size which would be viable.

The merger

5.70. SIG believed that a hypothetical sole supplier of stone wool products would be aware in a considerable number of cases that an order was destined for an industrial process application for which there were few, or effectively no, substitute materials available. Indicators that an order was of this kind could include pipe section size (measured by pipe outer diameter), thickness of the insulation and whether it was supplied with factory-applied covering. In such cases there would be little to prevent a sole supplier from securing a price increase.

5.71. In addition, the departure of OCBP from a large part of the market it had previously supplied would mean a danger of stone wool prices rising more generally. Given the complex and varying range of modifications to list prices, such a general increase could be achieved through the reduction of discounts or rebates to distributors without open rises in manufacturer list prices.

5.72. SIG believed that even though it was the largest distributor it would not be able to pass on price increases. That was particularly so for industrial process applications, where major contractors would be able to play off one distributor against others and end up with the distributors absorbing all or most of the price increases.

5.73. Asked about hypothetical remedies such as controlling the prices of a sole supplier by reference to movements in an index of building material prices, or imposing a requirement to supply a range of specified products on published terms which did not discriminate between customers other

than by reference to the volume of their purchases, SIG thought that price controls would not be workable but that a supply requirement would be a possibility.

5.74. SIG acknowledged that as the largest distributor it could be seen as capable of protecting its position in the event of the merger proceeding. However, and despite the fact that Rockwool was an efficient company with good products and customer support, it thought that the public interest in wider choice of supply and the maintenance of competitive incentives to innovate would be best served if the merger were not to proceed.

Tennants Building Products Ltd

5.75. Tennants Building Products Ltd, of Dublin, which operated in the UK market, was opposed to the merger because it would result in a monopoly for Rockwool. This would seriously damage the competitive supply and pricing of stone wool products in the UK.

UK Insulation Supplies Ltd

5.76. UK Insulation said that it distributed H&V products and some heavy industrial supplies to industrial users. The company had commenced trading in October 1995 and had expanded its market share by increasing its turnover from £200,000 to £10 million. It now had six depots across the country. UK Insulation said that it supplied both stone wool and glass wool, purchasing equal amounts of both, and a range of other materials including calcium silicate. It also carried out some fabrication itself. The company bought from both Rockwool and OCBP. Most of its sales were in the UK but in 1998 it had exported a small amount to Russia.

The market

5.77. UK Insulation said that H&V accounted for about 60 per cent of its business. Heavy industrial customers purchased only stone wool and a small amount of calcium silicate, which had the properties of stone wool but was labour intensive and expensive because of its fragile nature. Glass wool insulation was used mainly in light industry and could not compete with stone wool because it could not withstand high temperatures. UK Insulation estimated that 80 per cent of its current stone wool customers could switch to glass wool providing the glass wool could match the same temperature range as stone wool.

5.78. UK Insulation said that manufacturers published price lists but negotiated additional discounts with distributors annually. Although the list prices had increased significantly over the last five years, prices to contractors had changed little. This meant that small distributors' margins over that period had dropped from 40 to 27 per cent. When Rockwool increased prices, OCBP followed. UK Insulation believed that an increase in industrial stone wool prices would lead to increased prices of all insulation materials in the industrial and H&V markets.

5.79. UK Insulation's main competitors were SIG and Encon. It was able to compete in sales of H&V products but found it difficult to increase sales in the heavy industrial market, for which it needed to buy Rockwool's products because they were technically better than those of OCBP. This was because Rockwool gave more favourable terms to the large distributors. Since January 1999 UK Insulation had obtained some stone wool sections made by Partek and imported from Sweden via OCBP. However, the amount available was limited and could stop at any time.

Imports and market entry

5.80. UK Insulation said that imports from Continental Europe were limited partly because suppliers did not offer the full range of insulation products. Partek, which manufactured stone wool, and St-Gobain, which manufactured glass wool, had not always been competitive on price because of the costs of transporting the products into the UK. Partek had previously had a distribution network in

the UK but had been unable to compete. Greenfield site entry was unlikely because of the cost of setting up a facility.

The merger

5.81. UK Insulation had no objection to OCBP selling the Queensferry plant but could not see how it could be in the interests of itself or its customers for the plant to be sold to Rockwool, which would then control the process market. Small distributors would be kept out of the heavy industrial market on price. Asked about hypothetical remedies, UK Insulation said that Rockwool should undertake not to price discriminate between customers, although it recognized that this remedy would be difficult to police.

Contractors

Bechtel Limited

5.82. Bechtel Limited (Bechtel) said that the merger would only affect its construction projects within the UK. It said that competition between Rockwool and OCBP had ensured that a wide range of good-quality products had been available. Bechtel suspected that Rockwool would rationalize its product range and increase its prices following the merger. It considered that product quality and delivery would also suffer.

Cross Electrical (Nottingham) Ltd

5.83. Cross Electrical (Nottingham) Ltd (Cross) said that it operated within the industrial process market. Both stone wool and glass wool were used in the building products, H&V and industrial process sectors. For many applications either product could be used. However, Cross said that stone wool was, in most cases, the only suitable material for use in the industrial process market because it had a higher operating temperature and a greater compressive strength than glass wool.

5.84. Cross was strongly opposed to the merger because it would leave Rockwool with a monopoly in the supply of stone wool, thereby enabling it to increase its prices. This, combined with the unrivalled purchasing power of SIG, was a cause of concern for every contractor. Cross had undertaken research with a few distributors which indicated that the cost of importing alternative supplies was prohibitive.

R & S Fire Protection Ltd

5.85. R & S Fire Protection Ltd said that it was not opposed to the merger: there were alternative suppliers of similar products within the UK.

Western Thermal Limited

5.86. Western Thermal Limited (Western) said that stone wool was the main insulant used in the industrial process sector. Western was opposed to the merger because it would enable Rockwool to dictate the price of stone wool products to contractors: they would be unable to obtain these elsewhere. Western could import mineral wool products but they did not meet British Standards for water repellence. Only Rockwool and OCBP manufactured a suitable product.

Another contractor

5.87. Another contractor said that Rockwool and OCBP had, through their various suppliers, maintained recommended price lists which were almost identical to each other's for the past 15 to 20 years. List prices had increased by 131 per cent over the last ten years. The contractor could only accept these increases and pass them on to its clients. It did not believe that the merger would change this situation unless the increases were capped in line with inflation.

End-users and other customers

BP Amoco plc

5.88. BP Amoco plc (BP) thought that care was needed in generalizing about projects and materials. It said that it did not normally deal directly with insulation suppliers. That was all done by the contractors. The insulation standards to be met would be defined by BP's engineers, from which the pipe sizes and specifications would be determined. The matter would then be handed over to the contractors for them to do their best in terms of price and choice of material. The whole question of the insulation material would not go beyond the project engineer/contractor interface unless there was a problem. In typical refinery operations there were lots of reactors and piping up to the 500°C to 800°C range though around 80 per cent of the actual operations would be at temperatures below 500°C.

5.89. BP said that there were plenty of substitutes for stone wool—such as calcium silicate, ceramic fibre and perlite. It used them all, as well as stone wool. Insulation material, as a broad generalization, accounted for less than 1 per cent of the capital cost of a project, although the labour costs of installing this material could be rather higher than that.

5.90. BP commented on whether or not a hypothetical sole supplier of insulation material would be able to infer that a particular order, even if received via a distributor, was destined for a high-temperature application, and thus in principle open to a differential price rise on account of there being fewer substitutes available. It believed that in some cases it would not be difficult for the supplier to make this inference.

5.91. BP did not think that the merger had any significant implications for it.

ICI plc

5.92. ICI plc (ICI) said that it supplied specifications for insulation materials to plant contractors and design houses working on its projects or, in the case of direct ICI purchases, to insulation contractors. Specifications tended to be framed in generic terms, for example stone wool, but without specifying an exact material or manufacturer. Thickness and density of the insulation material and installation requirements were also specified.

5.93. ICI used a range of materials. For the external insulation of mechanical equipment, stone wool was mainly used for applications up to around 350°C. At higher temperatures other materials were mostly used, such as calcium silicate for up to 600°C and ceramic fibre for higher temperatures. Purchases for applications over 600°C were very small: these temperatures occurred in only a few items of equipment and in them internal insulation with refractory materials was often used.

5.94. For building insulation stone wool tended to be used most frequently due to its dual characteristics of insulation performance and better fire resistance properties.

5.95. Supply through imports seldom occurred but could increase if UK prices rose significantly.

5.96. ICI thought that in some cases it would be apparent to a manufacturer that, for example, thicker and larger diameter preformed pipe sections were probably for use in process plants. But over quite a wide area that would not be the case as pipe purchases for H&V applications would not differ from those for the process sector where operating temperatures were very similar.

Tarmac Construction Ltd

5.97. Tarmac Construction Ltd (Tarmac) said that it would be concerned about the merger only if the products currently manufactured by OCBP were discontinued. Even if substitutes were available, specifications would need to be changed and alternative products tested for suitability.

A small customer

5.98. A small insulation company, which traded with both Rockwool and OCBP, was concerned that the merger would result in a monopoly in the manufacture of stone wool commodity products. The only other UK-based stone wool manufacturer produced specialist products.

5.99. The company said that there were two separate markets and two different sets of end-users for stone wool and glass wool. In some instances the two products competed, though the prices generally differed owing to stone wool's greater density.

5.100. The company believed that it had been severely disadvantaged by the buying terms of the market leader, Rockwool, which discriminated in favour of large distributors. On occasions the company had found it could compete only by buying the less acceptable but cheaper OCBP brand. The majority of the company's smaller competitors traded in this way. If OCBP's product disappeared this company would probably, to some extent, have to withdraw from the commodity product part of the stone wool market.

Trade associations

British Rigid Urethane Foam Manufacturers' Association Limited

5.101. The British Rigid Urethane Foam Manufacturers' Association Limited (BRUFMA) told us that it represented manufacturers of insulation products. BRUFMA said that the merger would create a monopoly in the manufacture of stone wool products within the UK. It was concerned that Rockwool might increase the prices of its products, particularly those used in H&V applications and for which there were no substitutes. Rockwool could exploit its position by using its increased profitability to subsidize those of its products competing with the cellular plastic products manufactured by BRUFMA members.

Thermal Insulation Contractors Association

5.102. The Thermal Insulation Contractors Association was concerned that the removal of another competitor might enable Rockwool to exploit its position by increasing prices. Although recognizing that such a remedy would be difficult to regulate, the association said that it would not be opposed to the merger if a form of price control could be imposed on Rockwool.

Government departments

Department of the Environment, Transport and the Regions

5.103. The Department of the Environment, Transport and the Regions (DETR) told us that it had published a consultation paper about climate change in response to the Kyoto agreements on global warming. This paper identified improved energy efficiency as a way of reducing climate change.

5.104. The DETR was concerned that the merger might enable Rockwool to increase the price of its stone wool products used in cavity wall insulation. This could adversely affect the Department's objective of achieving greater energy efficiency in the home.

Welsh Office

5.105. The Welsh Office was concerned whether the merger would result in a reduction in competition and employment; whether it was the only way of securing improved productivity (as the main parties claimed); and about product substitutability.

Trade union

Transport and General Workers Union

5.106. The Transport and General Workers Union (T&G), the recognized trade union at Queensferry, strongly supported the merger. It said that the Queensferry plant had never fitted with Owens Corning's other activities and its investment and commitment there had been limited. The merger made sound economic and industrial sense. Meetings with the management of Rockwool had already resulted in total commitment to T&G's existing recognition and collective agreement and had received the support of the workforce.

Others

British Board of Agrément

5.107. The BBA was asked for general background information. It said that glass wool products could be substituted for stone wool products in almost all structural applications except where high mechanical strength was required, for example roof or floor insulation that was exposed to foot traffic, or where high temperatures were involved.

British Standards Institution

5.108. The BSI had no views on the merger. It told us that standards were now largely set on an international basis with input from end-users, trade bodies and manufacturers under the guidance of a national or international standards body. This had diminished the ability of any one party to affect the standards or the purposes they sought to serve. Any reduction in the number of manufacturers resulting from the merger would therefore have only a very secondary effect on standards.

Health & Safety Executive

5.109. We asked the Health & Safety Executive for background information on the health and safety considerations and requirements that applied to the main insulation materials, particularly glass wool and stone wool. It said that there were no significant safety differences between glass wool and stone wool.

5.110. The Health & Safety Executive told us that, as a category of machine-made fibre, glass and stone wools were covered by The Control of Substances Hazardous to Health Regulations 1994 because of their potential to cause adverse health effects. Under the Regulations, employers were required not to carry out any work which was liable to expose their employees to any hazardous substance without making a proper assessment of the health risks created by that work. Regulations also required that exposure to these substances should be reduced to as low a level as was reasonably practicable.