

5 The views of Glynwed International plc

5.1. In this chapter we give Glynwed's views. As noted earlier, Lees is a dormant company, and Lees had no comments to offer.

Reasons for the merger

5.2. Glynwed referred to the very small proportion of Lees' turnover accounted for by H & T strip; moreover H & T was the least profitable of all Lees' products, with the lowest value added. Glynwed's policy was to develop and increase the product range of its specialist steel strip business. It was mainly for this reason that Glynwed became interested in Lees, and particularly in Lees' metal cutting bandsaw and bimetallic strip, which Glynwed did not manufacture and which accounted for 60 per cent of Lees' turnover.

5.3. Glynwed also needed Lees to compete effectively in specialist steel strip, which had a world market. The merger would help to protect the existing investment and justify new investment to attain the wide product ranges, overall volumes of production and low unit costs and prices needed to meet growing pressures from the large overseas manufacturers both in the home market and export markets. Particular advantages are shown below.

5.4. Firth and Lees both used hot-rolled narrow strip as a basic raw material, and they should be able to achieve better terms by common purchasing. Indeed they had already done so, and this had helped keep price rises for the current year below the rise in the Retail Price Index. They had complementary product ranges and methods of production. They would be able to pool technological expertise and know-how to improve manufacturing efficiency (for example, through Firth adopting the more economical pickling process followed by Lees) and the quality of their products. The merger of Lees into the Glynwed Group created the opportunity for economies in selling and distribution costs to allow further penetration into various export markets. There had been no redundancies, and none were contemplated. Glynwed expected that employment would increase.

The merger situation and the market for carbon steel strip and H & T strip

5.5. Glynwed stated that it supplied considerably more than one-quarter of total United Kingdom supplies of narrow carbon steel strip sold pre-hardened and pre-tempered in coil form by the strip manufacturer.

5.6. Before giving us its opinion on the market to which this product belonged, Glynwed emphasised the different ways in which carbon steel strip was converted to the hardened and tempered condition. H & T strip supplied in coil form by the manufacturer of carbon steel strip formed only one part of total supplies of hardened and tempered products. The remainder was either processed in coil form by the manufacturers' customers or their subcontractors or batch hardened by them or their subcontractors as components made out of strip. Glynwed estimated that approximately 75 per cent of the narrow carbon steel strip used in the United Kingdom was hardened and tempered at some stage. Of such products, the majority was converted in batch form by consumers or their subcontractors.

5.7. Glynwed quoted a statement by the Iron and Steel Statistics Bureau that it collected no statistics for H & T strip as the steel industry had no interest in identifying the hardening and tempering process, which might equally be undertaken by the steel consumer. Glynwed told us that H & T strip could most

appropriately be considered as part of the narrow carbon steel strip market. Glynwed supported this opinion by the fact that all the products manufactured by Firth from cold-rolled narrow steel strip went through the same earlier processes. H & T strip required only the additional process of hardening and tempering. As explained above, there were a number of routes for this last process, and only one passed through the strip manufacturer.

Effects of the merger on the supply of H & T strip

5.8. Glynwed told us that the sales performance in H & T strip achieved by Firth and Lees had been brought about and could only be maintained by competitive pricing, quality and service against competition from imports and from the alternative process routes. The general advantages of the merger described in paragraphs 5.3 and 5.4 all applied to H & T strip, and would help to maintain the sales of it.

5.9. Firth had held a dominant position in the supply of H & T strip before the merger, and had not exploited that. Competition would not be affected in the types of H & T strip produced only by Lees and not by Firth, and vice versa. Where production overlapped, the customer had the alternatives of imports, supplies from the other United Kingdom manufacturers of H & T strip or use of the routes of batch or strip processing by themselves or through subcontractors. Stockholders, who were able to source internationally, also provided effective competition. A few of these were capable of sub-processing H & T strip stock into the widths requested by consumers and in this way provided Firth and Lees with direct competition.

5.10. We discussed with Glynwed the instances in which strip or batch processing other than by the strip manufacturer are not feasible or undesirable technically or uneconomic. Details are in Chapter 2. Glynwed told us that there remained a substantial number of instances where an alternative route could be used. Some customers processed strip themselves, and there was a small but thriving subcontracting industry which processed strip supplied both within the United Kingdom and from abroad. Batch processing plant was available off the shelf for users, and a number of Glynwed's customers used this route. The recent development of cheap reliable process control systems had made it considerably cheaper. Numerous subcontract batch hardening specialists provided a competitive service. They might offer savings because batch processing avoided the extra processing cost of the scrap material.

5.11. Imports were the strongest actual and potential source of competition. As Firth's and Lees' own export achievements showed, steel was an internationally-traded commodity. Glynwed believed that the delivered prices of a number of West German manufacturers were comparable with those of Firth. There had recently been substantial installation in the continental EC of new plant for hardening and tempering strip, with the intention of supplying the Eastern Bloc, and in particular the USSR. The USSR had then installed its own plant, so the new plant was denied the market for which it had been designed and it had spare capacity.

5.12. Glynwed illustrated the reality of the threat from imports by the recent entry to the wood bandsaw strip sector by the French manufacturers Paturle and Uguine. Virtually all imports in this sector had previously come from Uddeholm of Sweden. Uddeholm's prices were [*] to [*] per cent above those of the United Kingdom manufacturers, but its quality was generally believed to be superior. The two French manufacturers' prices were up to [*] per cent below United Kingdom manufacturers' prices (up to [*] per cent below Uddeholm prices). Both now held stocks in the United Kingdom. Their strip was reputed to be close to Uddeholm's in quality, and they had replaced Uddeholm as the major supplier in the United Kingdom. Glynwed saw their entry to the United Kingdom market as a major threat; unlike Uddeholm they also produced a full range of products to cover the automotive, woodsaw, hand tool, doctor blade and springmaker sectors which formed the major part of the market. Glynwed also pointed to the recent appointment by Theis of West Germany of a full-time United Kingdom representative.

* Figures omitted. See note on page iv.

5.13. Glynwed estimated that imports over the last five years have been static. When we discussed future trends in imports of H & T strip with the company, Glynwed first referred to its view that H & T strip was part of the narrow cold-rolled strip market. During the early 1980s imports of mild steel strip had increased, followed in 1983/84 by increased imports of carbon strip. Experience of the customers' needs for these products and for H & T strip would lead to import penetration in H & T strip.

5.14. Availability would be unaffected. Any H & T product could be imported. Glynwed told us that although Firth was the price leader, Lees' prices for H & T before the merger were generally higher than Firth's. Firth was the recognised United Kingdom producer and Lees could maintain its prices because of its value to consumers as a second source. Firth's price increases were in line with rises in raw material costs. Firth's price list was not published, and in negotiating prices the main factor in moderating price rises had been and would remain the prices offered by manufacturers on the Continent. Another restraint on price increases lay in the large imports of tools incorporating hardened and tempered steel; it would be against Glynwed's interests to impose prices which would make the finished products of consumers of hardened and tempered steel uncompetitive with imports. These factors ensured that Firth would no more exploit its dominance after the merger than previously.