

# 6 Views of the main parties

## **Reasons for the acquisition**

6.1. British Steel said that its relationship with Walker was of long standing and directly connected with British Steel's policy of developing its competitiveness and reducing unit costs in the United Kingdom. Over the years Walker had become a major outlet for British Steel's products, which in 1989 took about 26 per cent of all British Steel supplies to stockholders (representing some 90 per cent of Walker's requirements of British Steel stockholder products).

6.2. British Steel pointed out that Walker had come up for sale entirely on the initiative of its owners. It was a profitable business, which had been crucial to British Steel's attainment of market share and cost competitiveness in supply of steel to the United Kingdom. To develop its growing export business, British Steel had to maintain an efficient use of capacity. If Walker was sold to an overseas competitor, British Steel would lose one of its principal channels of distribution which was essential to the ability to compete. Overseas producers in the international steel market represented a competitive threat, and they already had the security of distribution through wholly-owned distributors and processors of steel that British Steel hoped to achieve. It would be irrational and contrary to the interests of British Steel's shareholders and employees not to seize the opportunity to acquire Walker.

6.3. British Steel told us that for a number of years the development of the steel industry had encouraged the growth and increasing sophistication of stockholding. More recently, throughout Western Europe there had been a trend towards greater integration between producers and stockholders, to satisfy the needs of end users. Since 1979, while it remained nationalised, BSC had been largely unable to participate in this trend by the acquisition of stockholding interests in the United Kingdom. It would have acquired GKN Steelstock from GKN in 1985 if permitted. Walker, already at that time the third largest stockholder in the country (after BSSC and GKN Steelstock itself), then acquired it. The relationship between British Steel and Walker was defined by a four-year supply contract, ending in December 1990, under which Walker undertook to purchase an agreed annual minimum tonnage of steel products from British Steel, and British Steel offered rebates based on the annual tonnage purchased.

6.4. Walker told us that in the course of 1988, with the imminent retirement of Messrs Jack and Fred Walker, the owners of the company explored means of realising the value of their holdings. British Steel was seen as an obvious potential buyer, given its close business relations with Walker over the years. The owners wished that the group could be preserved as a whole and remain committed to steel stockholding, so as to safeguard its employees' interests. There had been an expectation on both sides that, if the question of disposal arose, Walker would first approach British Steel.

## **Background to the acquisition**

6.5. British Steel told us that its financial assessment of the acquisition was based on Walker's financial record. Walker had shown significant profit growth in recent years (see Appendix 4.8), reflecting growth in turnover, improved product mix, tightly controlled costs and, in latter years, the strength of the steel market. British Steel regarded the profits earned in 1989 as above trend because of the exceptional buoyancy of steel demand in that year. In assessing the level of Walker's sustainable profits, British Steel had also taken account of forecasts of steel demand, the current market share position and whether it would be sustainable; it had also considered current margins and

whether they would be likely to come under pressure. British Steel stressed that since Walker would trade independently of the other stockholding companies within BSD, the acquisition would not materially affect the sustainable profits of BSD's existing stockholding activities.

## **Consequences of the merger**

6.6. British Steel suggested that the immediate consequence of the acquisition would be the consolidation of British Steel's position as a supplier of stockholder products to the largest stockholder in the United Kingdom. The acquisition would help to maintain the efficiencies previously available to British Steel, without depriving any steel producer of a material volume of business. It was unlikely to cause any serious distortions of competition in the stockholding sector. Vertical integration did not stop the intensity of competition between steel producers, who were able to find plenty of channels of export within the international market, as had British Steel itself. There were some 400 stockholding groups operating over 1,000 depots in the United Kingdom. If British Steel attempted to use its 34 per cent share of the stockholding market to raise its prices above competitive levels, end users would take their business elsewhere. British Steel would be compelled to price competitively and deal with its stockholding subsidiaries at arm's length.

6.7. Commenting in more detail on the possible effects of the merger on competition between steel producers, British Steel pointed out that since 1984 imports of steel products in its range into the United Kingdom market had increased by 64 per cent. Imports of stockholder products in 1989 were estimated at 31 per cent, the volume imported having increased by over 20 per cent in the last three years. This was true in all sectors, most strikingly in tubes, with a rise of 42 per cent in imports from the EC and over 90 per cent from countries outside the EC.

6.8. British Steel added that it could not be in its interest to starve independent stockholders of its products, or to supply them on less favourable terms than those offered to its subsidiaries. Its interest was to ensure that they continued to buy from British Steel and did not turn to imports. In most product sectors there was considerable manufacturing over-capacity; other United Kingdom producers of tubes, for instance, had spare capacity of 42 per cent and 65 per cent respectively for welded and seamless tubes.

6.9. As for the possible effects of the merger on competition between stockholders, British Steel estimated that BSD's and Walker's joint share of sales of all stockholder products would be about 34 per cent; by value it would probably be slightly lower, at about 31 per cent. In the group of Rome products, the joint share would be 26 per cent for tubes and 4 per cent for bright bars (excluding the share of British Steel's associate UES). The joint share was likely to be reduced following the merger, as had been the case with several other recent mergers, such as that of Walker and GKN Steelstock (where the combined share fell from 20 per cent to 18 per cent over 12 months). British Steel claimed that the remaining competition in the stockholder sector would be strong. There would be several major competitors enjoying between 8 and 3 per cent of the market; at the next level below BSD/Walker, some two dozen stockholders, many of them with more than one depot, accounted for the next third of the market. Below that was a multitude of smaller and often specialised stockholders. Since the competition took place primarily at a local level, each of these firms would provide competition for BSD/Walker just as they currently did for the two parties separately.

6.10. British Steel saw many factors acting to prevent the merged company from policies hostile to the interests of steel users. In every product group, customers' interests were protected by the particular features of the market: the ability to switch business, the effectiveness of competition between the small and large stockholders, the ease of entry into stockholding, and the ability of some major customers to dispense with the services of stockholders (by going direct to the steel producer and/or carrying out the processing of steel themselves).

6.11. British Steel stressed that competition came in different ways from the nation-wide multi-depot companies, large single-depot companies and small single-depot companies. Many large end-user customers tended to multiple-source by purchasing from large single-depot companies. The latter could also sell outside their geographical area. The small single-depot company could meet the

needs of larger customers for small amounts of product in regional markets; in doing so it exerted significant competitive pressure on prices. These companies were especially effective in product sectors where there was little or no need for capital expenditure on processing facilities. British Steel showed us detailed evidence in support of its assertion that throughout the whole country there was sufficient competition in all product sectors for BSD's and Walker's depots.

6.12. Dealing with the competitive situation in relation to SHS, British Steel said that there were some 140 depots serving a market of around 325 KT a year. This market had grown from 171 KT in 1986 to 325 KT in 1989. During that period British Steel's sales as a supplier had increased by 49 per cent and that of other suppliers by 283 per cent. Over the same period, BSD and Walker's combined market share had dropped from 58 per cent to 43 per cent. The competition came in part from some ten large groups with multi-depots or large single depots, all selling in and outside their regions, and in part from the numerous smaller operators selling mainly in their own regions. There was also a strong level of inter-trading between stockholders. In 1989, BTS had sold 68 KT of SHS, of which 2 KT went to major stockholders and 11 KT to other stockholders. The ten largest competing stockholders in this sector had bought about 83 per cent of their supplies from British Steel in 1986, and today only some 65 per cent. Their market share today was 35 per cent, against 27 per cent in 1986. British Steel added that, although SHS were clearly a growing market, they did not predominate in terms of tonnage or in any other way over the weight of the general steels products, which represented much the biggest sale into the construction market. It might well be that the large competing producers of SHS, foreign as well as British, would continue, as they had already started, to acquire stockholders in the United Kingdom for the distribution of their own SHS.

6.13. British Steel claimed that there were no significant barriers to entry into the stockholding sector. The fundamental needs were warehousing space and working capital. Capital to engage in processing activities was not essential, since it could be contracted out to hire processors. Plenty of equipment was anyway available second-hand. Many firms had started this way. The openness of the market was also shown, British Steel asserted, by the large number of acquisitions of United Kingdom stockholders made in recent years, several by foreign steel producers. British Steel accepted that entry on a large scale from the start on a greenfield site was a route less likely to be pursued.

6.14. Walker's views on the consequences of the merger, particularly in relation to the effects on competition, were generally similar to those of British Steel. Walker considered that at the EC level it would make British Steel a more effective competitor to those steel producers which were already integrated into stockholding to a greater degree than British Steel was. It did not think that the acquisition would materially affect competition between steel producers supplying into the United Kingdom market. Walker already sourced from British Steel most of the products within its own range that British Steel produced. There could be hardly any scope for increasing that proportion. So the routes into the United Kingdom market for other steel producers would not be reduced.

6.15. As for competition between United Kingdom stockholders, Walker did not believe that the common ownership of BSD and itself would materially reduce competitiveness. It was a highly competitive market, with many participants, some owned by European producers, in each product sector. Smaller, specialist or local stockholders could compete effectively for any available business. British Steel would still depend upon selling through as many stockholders as possible and international competition would compel competitive pricing.

6.16. In the main Rome product sector, steel tubes, Walker stressed that competition was intense between both large and small stockholders, and the nature of the business was conducive to competition by the smaller stockholder. BSD/Walker's combined share of this market some 26 per cent reflected an aggregation of a large number of businesses serving different end users or geographical areas. Even the 43 per cent share in the case of SHS (35 per cent excluding trade sales) implied no material market power. Within the general steel sector, where a lot of the SHS were sold, there were two major nation-wide stockholders in competition and a further five large ones covering much of the country, aside from over 30 other members of NASS and many other smaller stockholders. In the rest of the tube sector the combined share would be some 14 per cent.

6.17. Elaborating on the position in relation to SHS, Walker also made the point that British Steel was facing a declining share in a market for a product which it had pioneered. Its problem was compounded by the appearance of new competitors in the market and by competition from SHS in cold form, the latter being more competitive in price. There were obvious alternative sources of supply, and although Walker bought the bulk of its SHS from British Steel, it had a standing rule that there should be lines open to alternative sources. In 1989 it bought 11 per cent from other United Kingdom sources and 4 per cent was imported.

6.18. For the remainder of the Rome product sector, Walker pointed out that the combined share of bright bar deliveries would be only 4 per cent. In relation to reinforcements (not part of the stockholding industry) there were several suppliers significantly larger than Walker, whose share was less than 4 per cent of United Kingdom sales. Walker accepted that some products within the strip mill and plates and sections sectors fell within the Rome category. It argued, however, that they amounted to less than 8 per cent and less than 7 per cent respectively of its deliveries in those two sectors. Walker said that it would be impossible to establish market shares in this area, but felt confident that the small quantities involved could not have a significant effect on the market as a whole.

6.19. We asked British Steel if it could provide us with similar estimates of BSD's deliveries of Rome products within the strip mill and plates and sections sectors. In the former sector, British Steel was unable to provide us with any estimate overall, since it could not put a figure on the quantity of blanks cut from narrow strip. However, it estimated that its deliveries of cold-rolled narrow strip (ie Rome) represented about 12 per cent of its total deliveries of strip mill products. In the case of specialised profiles, British Steel estimated that this Rome product represented about 10 per cent of its total sales of plates and sections.