

**Rockwool Limited  
and  
Owens-Corning Building Products (UK) Limited**

A report on the proposed merger



COMPETITION COMMISSION

# **Rockwool Limited and Owens-Corning Building Products (UK) Limited**

A report on the proposed merger

**Presented to Parliament by the Secretary of State for  
Trade and Industry by Command of Her Majesty  
May 1999**



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<sup>1</sup>These members formed the Group which was responsible for this report under the chairmanship of Mrs D P B Kingsmill.

## **Note by the Department of Trade and Industry**

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests.

**The omissions are indicated by a note in the text or, where space does not permit, by the symbol ✂.**

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Part I

# **Summary and Conclusions**

# 1 Introduction and summary

## Introduction

1.1. On 21 December 1998, the Secretary of State referred to the Monopolies and Mergers Commission (MMC) the proposed acquisition of the stone wool manufacturing business of Owens-Corning Building Products (UK) Limited (OCBP) by Rockwool Limited (Rockwool) (see Appendix 1.1 for the terms of reference). Section 45 of the Competition Act 1998, which came into force on 1 April 1999, dissolves the MMC and transfers its functions to the Competition Commission. Those functions are to be carried out by reporting panel members of the Competition Commission, and existing members of the MMC become reporting panel members of the Competition Commission. Thus, although the investigation was carried out by the MMC, this report is submitted by the Competition Commission. For convenience, in this report we use the term the Commission to refer to the Competition Commission or the MMC as the context requires.

## Summary

1.2. Rockwool is the UK subsidiary of Rockwool International A/S, a Danish company which is the world's largest producer of stone wool, a kind of insulation material. Rockwool has one factory, at Bridgend in South Wales, which has a capacity of 84,000 tonnes a year and employs 450 people. Its sales in 1997 were £51.2 million.

1.3. OCBP is a subsidiary of a US company, Owens Corning, which manufactures building materials and glass composites and was a pioneer in the development of glass wool, another kind of insulation material. OCBP has two factories manufacturing glass wool and one, at Queensferry in North Wales, manufacturing stone wool. The Queensferry factory has a capacity of 23,000 tonnes a year and employs 115 people. OCBP's sales of stone wool in 1998 were £14.3 million of which 20 per cent comprised imports from two overseas companies with which OCBP has supply agreements.

1.4. Owens Corning decided to sell the stone wool manufacturing business of OCBP, which was making inadequate returns, and on 30 September 1998 it entered into an agreement—conditional on clearance by the competition authorities—to sell the business to Rockwool for £[∞] million. Owens Corning did not conduct an auction for the business but negotiated solely with Rockwool which, it said, could be expected to offer the best price because the acquisition would enable Rockwool to increase capacity at lower cost than by expanding its Bridgend plant and to achieve synergies in production and delivery costs. There are indications in the companies' internal papers, however, that Owens Corning expected Rockwool to benefit from being the only stone wool producer in the UK, whilst Rockwool saw the acquisition as preventing anyone else from penetrating the UK stone wool market for some years.

1.5. Rockwool already has 78 per cent of all UK sales of stone wool by manufacturers and importers. OCBP has 18 per cent. We found that, whilst OCBP's position is in some respects weak, the company represents a significant source of competition to Rockwool in the supply of stone wool. Following the merger OCBP would continue to sell some stone wool products imported from its overseas suppliers and some purchased under a supply agreement with Rockwool. Owens Corning made these arrangements because it believes that the ability to supply stone wool is valuable to the success of its core glass wool business. Its sales of stone wool would, however, fall to around one-third of the 1998 level and we do not consider, given its sourcing arrangements, that OCBP would be in a position to present price competition to Rockwool.

1.6. The parties argued that various factors would constrain Rockwool's pricing: customers' ability to switch to other cost-effective materials; Rockwool's inability to differentiate in pricing between customers which could easily switch and those which could not; the potential for imports at the high density/high-value end of the product range; and the power of the big distributors which are the main direct customers. We identified a number of areas, however, where the merger would give Rockwool scope to raise prices: flat roofing, certain structural projects for which special discounts are negotiated, industrial process applications and supplies to fabricators. These represent a significant minority of Rockwool's sales. Internal evidence from Rockwool lends support to our view that Rockwool may be expected to raise prices in some areas as a result of the merger.

1.7. In addition, we believe some OCBP customers would face less favourable terms from Rockwool and would either incur higher costs or pay higher prices because they would have to buy through distributors. These effects, and the loss of customers' ability to choose between two UK producers of stone wool, would in our view impair competition in the distribution and fabrication sectors.

1.8. If the merger did not go ahead it is possible that OCBP would continue to run the Queensferry plant at a reduced level or, after a time, close it but we believe it is most likely that Owens Corning would sell the plant to another party. Such an outcome would not have the adverse effects on competition and prices that we believe the merger would have.

1.9. The merger would lead to an improvement in the efficiency of production and distribution of stone wool in the UK but we would not expect the benefits to be passed on to consumers. There would be certain environmental benefits.

1.10. On the balance of these factors we believe that the merger may be expected to operate against the public interest because prices for stone wool would be higher than otherwise, costs incurred by customers would be increased and competition in the distribution and fabrication sectors would be impaired.

1.11. Bearing in mind that the areas where Rockwool could be expected to raise prices represent a minority of its sales, we considered whether a form of price control would be a satisfactory remedy but concluded that it would not. Nor have we been able to identify any other remedy, behavioural or structural, which would deal with the adverse effects which we identified. We therefore recommend that the merger be prohibited.