

*Case No IV/M.1595 -
BRITISH STEEL /
HOOGOEVENS (see
IV/ECSC.1310)*

Only the English text is available and authentic.

**REGULATION (EEC) No 4064/89
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 15/07/1999

*Also available in the CELEX database
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Brussels, 15.07.1999

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EEC) No 4064/89 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

Subject: Case No IV/M. 1595-BRITISH STEEL/HOOGOEVENS

Notification of 15/06/1999 pursuant to Article 4 of Council Regulation No 4064/89

1. On 15/06/99, the Commission received a notification, under Article 4 of the Council Regulation (EEC) n 4064/89, of a proposed concentration by which British Steel plc and Koninklijke Hoogovens NV will merge completely. In relation to ECSC products this concentration also falls to be considered under Article 66 of the ECSC Treaty.

I. THE PARTIES

2. British Steel was formed in 1988 by vesting the assets of the British Steel Corporation into British Steel plc under the British Steel Act. Its main activities are the production and distribution of ECSC and EEC steel products. British Steel is divided into business units which are grouped together into three manufacturing business portfolios and a single distribution portfolio which distributes steel products world-wide. British Steel also has certain other activities and interests, including investments.
3. Hoogovens is an integrated producer of iron and steel and also produces aluminium. Furthermore, this company is active in several areas connected with the two main activities previously mentioned i.e. the distribution and transformation of steel and aluminium products and technical services..

II. THE OPERATION

4. The merger will be implemented by acquisition of British Steel by BSKH, a holding company specifically formed for the purpose, pursuant to a scheme of arrangement under which all of British Steel's issued ordinary share capital will be cancelled and re-issued to BSKH, and a public offer by BSKH for the Hoogovens ordinary shares. These operations will be completed simultaneously and are conditional upon each other. Shares in BSKH will be issued to both sets of shareholders simultaneously. On completion of the merger, British Steel shareholders will hold approximately 60% of BSKH and Hoogovens shareholders the remaining 40%.

III. COMMUNITY DIMENSION

5. British Steel and Hoogovens have a combined aggregate worldwide turnover in excess of EUR 5,000 million (British Steel EUR 10 257 million and Hoogovens EUR 4 870 million). Each of them has a Community-wide turnover in excess of EUR 250 million (British Steel EUR 7 918 million; Hoogovens EUR 3 837 million), but they do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension.

IV. ASSESSMENT

6. For the markets concerned by the Merger Regulation, the parties' businesses overlap in the following sectors: a) tailored blanks, b) profiles, c) sandwich panels d) tubes.

A. Product markets

a) Tailored blanks

7. Tailored blanks are used exclusively in the automotive industry. These products are manufactured by cutting to size and welding together various individual cold rolled sheets enabling complex shapes embodying steel of different thicknesses to be produced. The welding operation can be carried out either by electric resistance (e.g. with electrodes), or by the use of laser. In previous decisions (e.g. cases N° IV/M.925 - Krupp Hoesch/Thyssen and IV/M.1329 Usinor/Cockerill Sambre), the Commission found tailored blanks to constitute a product market separate from the markets for uncoated or coated cold rolled sheets. In particular, the use of tailored blanks are characterised by its flexibility, allowing the customer to produce single components rather having to produce several components and weld them together. The value added for on average more than 50% of the cost of the raw materials used (uncoated or coated cold rolled sheets). These elements militate for a separate product market.

b) Profiles

8. Profiles are used in the construction industry for cladding, roofing and decking. They are produced by passing coated strip through profiled rollers. In a previous decision (Case N° IV/M.1329 - Usinor/Cockerill), the Commission found that profiles constitute a relevant product market. Profiles can have various sections (corrugated, ribbed etc) according to the type of profiled roll used in their production. It is not necessary to further distinguish markets for the different sections. First there is no great difference in price, secondly there is a high level of supply side substitutability as the same basic equipment can make many different sections merely by changing the rolls.

c) Sandwich panels

9. Most of sandwich panels, like profiles are used in the construction industry as cladding or roofing. Sandwich panels are made of an insulating core, generally of polyurethane foam, covered by two steel facings. In a previous decision (case n° IV/M 1329 Usinor/Cockerill), the Commission found that sandwich panels constitute a separate relevant market. The Commission also suggested that a distinction should be made between standard sandwich panels and refrigerating panels. Indeed, refrigerating panels, which are primarily used in the food and pharmaceutical industries, have specific properties (better insulation and resistance to fire, humidity and chemical agents) and are significantly more expensive than standard sandwich panels. As British Steel and Hoogovens are not active in the production of

refrigerating panels, it is not necessary to decide whether there is one or more than one relevant product market, as the effect of the operation will be examined on the narrow market for standard sandwich panels.

d) Tubes

10. In previous decisions, the Commission has already distinguished between welded tubes and seamless tubes, and between stainless steel and carbon steel tubes (Case N° IV/M.484 - Krupp/Thyssen/Riva/Falck/Tadfin/AST). Within the sector of welded carbon steel tubes, the Commission generally makes a distinction between precision tubes and commodity tubes (Case N° IV/M.906 - Mannesmann/Vallourec). In this decision, the Commission specified that, within commodity tubes, it is also possible to distinguish several categories of tubes (in particular commercial tubes, mechanical tubes and structural tubes) on the basis of their characteristics, distribution systems, prices and end-uses. The parties' activities overlap in the markets for precision tubes and commercial/structural tubes. The competitive analysis will therefore address these markets.

B. Geographical reference markets

a) Tailored blanks

11. The Commission has already considered the market for tailored blanks as Community wide in scope (see decision N° IV/M 925 Krupp Hoesch/Thyssen and M. 1329 Usinor/Cockerill). Indeed, customers for tailored blanks are primarily car manufacturers who operate on an international basis. Moreover, transport costs are relatively low.

b) Profiles

12. The parties' activities only overlap in the United Kingdom, Ireland, Germany, France and Benelux. In the decision n° IV/M.1329 – Usinor/Cockerill, the Commission considered that the French and German markets constitute two distinct geographic markets on the grounds of, inter alia, the importance of the very short delivery times required, in particular for small and medium sized construction projects, the low level of imports into these countries, prices differences between Member States and, finally, the existence of national standards and regulations. The relevant geographic market can thus be considered as national in scope. However, it does not appear necessary to distinguish between the Benelux countries as there are significant trade flows between Belgium, Luxembourg and the Netherlands (around 30% of the total consumption in each of these countries is imported), transport costs are not significant within Benelux, there are no significant price difference between the Benelux countries and standards are similar in each of the three Member States. Competitors and customers contacted in the Commission's investigation confirmed this conclusion.

c) Sandwich panels

13. The Commission has already considered that the geographic market for standard sandwich panels is Community wide as there are important intra-Community flows (representing approximately a third of total Community consumption) and no substantial price differences between Member States. Furthermore, sandwich panels appear to be more standardised products than profiles. The geographical market can therefore be considered as Community wide in scope.

d) Tubes

14. With regard to the precision tubes, the Commission, in its previous decisions, considered that the relevant market is at least the European Union taking account, inter alia, of the high levels of interpenetration of the markets, of the low transport costs and of the absence of important disparity within the EU in price terms (see in particular case N° IV/M.906 - Mannesmann/Vallourec). The results of the survey carried out by the Commission confirmed this conclusion. Consequently, this geographical delimitation can be retained in the present case.
15. With regard to commodity tubes (commercial, mechanical and structural), the Commission also noted the low transport costs, the importance of intra-Community flows (see Decision N° IV/M 980 Arbed/Aceralia) and the absence of substantial price differences between the various Member States. The vast majority of the companies confirmed that the geographical dimension of these markets corresponded at least to the European Union. This delimitation can therefore be retained.

C Assessment

a) Tailored blanks

16. British Steel does not yet manufacture tailored blanks and Hoogovens accounts for [$<10\%$] of EU sales. If one takes into account the future capacity British Steel intends to instore, the new entity's share of EU capacity would be [$<10\%$]. The largest competitor on this market is Thyssen Krupp with a share of [40-60%]. Other important competitors are also present including Usinor ([5-15%]), Arbed ([5-15%]) and Voest Alpine ([$<10\%$]). This is a rapidly expanding market in which the automobile producers may also produce tailored blanks. Therefore, the operation is not likely to lead to the creation of a dominant position on this market.

b) Profiles

17. As already mentioned, the parties' activities overlap on the five following markets : the United Kingdom, Benelux, Germany, France and Ireland. In these countries, the new entity will have market shares, in volume terms, of respectively [25-35%], [20-30%], [20-30%], [10-20%] and [10-20%]. On all these markets, the new entity will have to face competition from other strong producers such as Usinor, Thyssen Krupp or Arbed. In particular, BSKH will have to face in the UK competition from CA Roofing,[], Euroclad, TAC and Usinor. In the Benelux, the main competitors of the new entity will be Usinor ([10-20%]) and Arbed ([5-15%]). In Germany, BSKH will face competition from Thyssen ([20-30%]) Usinor ([10-20%]) and Salzgitter ([5-15%]). The operation is not likely therefore to create or strengthen a situation of dominant position. This conclusion has been confirmed by a large majority of the replies to the survey carried out by the Commission.

c) Standard sandwich panels

18. The new entity will have a market share, in volume terms, of [$<10\%$] (British Steel [] and Hoogovens []) in the EU and several strong competitors are active on this market such as Usinor ([10-20%]), Thyssen Krupp ([5-15%]) and several other independent companies. The operation does not therefore raise serious concerns on this market.

d) Tubes

19. The parties' activities only overlap for precision, and for structural/commercial tubes. The combined shares of the new entity on these markets will respectively be of [$<10\%$] and [10-20%]¹. The new entity will also have to face competition from strong producers such as Usinor, Rautaruukki or Marcegaglia. The operation does not therefore raise serious concerns on these markets.

V. CONCLUSION

20. For the above reasons, the Commission decides not to oppose the notified operation and to declare it compatible with the common market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EEC) No 4064/89.

For the Commission,

¹ Hoogovens' sales figures do not distinguish between commercial and structural tubes. If all the Hoogovens sales are considered as structural tubes, the market share of the new entity would be around [15-25%] and if all the Hoogovens' sales were considered commercial tubes, the market share of BSKH would be around [10-20%].