

EN

***Case No IV/M.563 -  
British Steel / UES***

Only the English text is available and authentic.

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

---

Article 6(1)(b) NON-OPPOSITION  
Date: 17/03/1995

*Also available in the CELEX database  
Document No 395M0563*



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 17.03.1995

PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sirs,

Subject : Case No IV/M.563 - British Steel/UES

Notification of 16.02.1995 pursuant to Article 4 of Council Regulation No 4064/89

1. The proposed concentration involves the acquisition by British Steel plc (BS) of sole control of UES Holding Ltd (UES), a joint venture company in which it currently has a 64 % share holding. The remaining 36 % of UES's shares are held by GKN plc (GKN) which will effectively sell its shares to BS for a cash consideration. This decision is concerned with those products which fall within the jurisdiction of the EC Treaty and which represent about 40 % of the turnover of UES and a negligible percentage of BS's turnover.
2. After examination of the notification the Commission has concluded that the proposed operation falls within the scope of Council Regulation No 4064/89 and does not give rise to serious doubts as to its compatibility with the common market and the EEA Agreement.

**I. THE PARTIES AND THE OPERATION**

3. BS was created in 1988 by the privatisation of the British Steel Corporation whose business was vested in BS. BS is divided into three principal operating business groupings: British Steel Long Products and British Steel Flat Products which manufacture steel products and sell both directly to customers and through British Steel Commercial and Distribution, which also processes and distributes steel products worldwide (including products produced outside BS). BS also controls Avesta Sheffield AB a major Community producer of stainless steel and controls or has shareholdings in a number of steel production and distribution companies in the Community and elsewhere.

4. UES is a British company which holds the entire issued share capital of United Engineering Steels Limited which was formed in 1986 by the combination of BS's Special Steels division and the Brymbo steel works and Forgings divisions of Guest Keen and Nettlefolds plc ("GKN"). UES comprises the following principal businesses: a steel division, a metal recycling operation, a forgings division, a cylinders division, a bright bar division and a specialist stockholding operation. It also owns a number of overseas sales companies.
5. Currently UES is jointly controlled by BS and GKN via their holdings of voting shares in the company and a shareholders agreement dated 1 August 1991.
6. []<sup>(1)</sup>

## **II. COMMUNITY DIMENSION**

7. The operation has a Community dimension. The worldwide turnover of BS and UES in their respective last financial years amounts to more than ECU 5000 million (BS, 7315 million ECU; UES, 848 million ECU). The Community wide turnover of each company exceeds ECU 250 million (BS, 5549 million ECU; UES 708 million ECU). The undertakings involved do not achieve more than two thirds of their aggregate Community-wide turnover within one and the same member state (total Community turnover 6257 million ECU of which United Kingdom 3727 million ECU or 60%).

## **III. CONCENTRATION**

8. As a result of the operation BS will acquire control of USL and directly and through USL control over 100 % of the shares of UES and hence sole control of UES. The operation therefore constitutes a concentration within the meaning of Article 3 of the Merger Regulation.

## **IV. COMPATIBILITY WITH THE COMMON MARKET**

### **Relevant Product Market**

9. A large proportion about 60% of the turnover of UES is made up of sales of ECSC steel products which do not fall to be considered under the Merger Regulation. Its other main products are :
  - forgings
  - bright bar
  - cylinders.

It also distributes both ECSC and non ECSC products through its stockholding operations.

10. British Steel itself produces none of these products. It does however sell bright bar through its own distribution and stockholding companies.

---

<sup>(1)</sup> Deleted business secrets.

11. Each of these three EC products are distinct and there is no overlap either in their production or their use. The relevant product markets are therefore the markets for forgings, bright bar, cylinders and the market for the distribution of EC products, in practice this is the market for the distribution of bright bars.

### **Relevant Geographic Market**

12. Each of the four relevant product markets must be examined separately.
13. From an economic point of view the relevant geographic market for forgings, appears to be at least Western Europe if not the world. Forgings of the type made by UES are made to customer specifications and are generally unique to that customer. The producer therefore provides a sophisticated service to its customers who are typically large multinational companies in the transport industries, automobile, trucks, aerospace. UES exported 31 % of its production in 1994, 19 % are going to Continental Europe.
14. UES's produces high pressure cylinders for which the major customers are the compressed gas, beverage and security industries, companies such as BOC, Air Liquide and Coca Cola which purchase internationally and have considerable buying power. UES is the largest United Kingdom producer and exports over 65 % of its cylinder production. The relevant market for these products would appear to be at least the Community
15. Bright bars are precision products made to national and international standards. They are therefore substantially homogeneous with the product of one supplier being easily substituted for another. Imports into the United Kingdom accounted for over 20% of consumption, while UES which is the major United Kingdom producer exports over 37% of its output, mainly to Western Europe and the USA. Again the relevant market appears to be at least the Community.
16. The only significant EEC product distributed by UES and BS is bright bar. The effect of the proposed concentration must be examined at two levels. First, the combined effect of UES and BS's bright bar distribution operations in the markets where they both operate. Secondly, the vertical effects of UES as a supplier to the bright bar distribution operations of BS.
17. The geographical market in which a given steel stockholding depot operates will be determined by the location of competing stockholders depots. There is also some competition between stockholders and direct sales from producers. Bright bars are a comparatively high value product, therefore transport costs are less important, and a given depot may compete over large distances. In this situation the relevant geographical market for the distribution of bright bar may be considered to be the United Kingdom.
18. Only UES produces bright bars so that it is not necessary to consider the effect of the proposed operation on the manufacture of these products.

### **Assessment**

19. BS produces none of the non-ECSC products made by UES. The proposed operation therefore will not change the competitive position with regard to the production of forgings, cylinders and bright bar. The shares of the European market will remain the same at approximately 13%, 25% and 10% respectively.

20. UES produces nearly all the steel required by its forging, cylinder and bright bar operations in its own electric arc furnaces. Less than 3% of its requirements are purchased from other producers and the bulk of this was from BS (including Avesta Sheffield). There will not therefore be any material foreclosure effects on upstream suppliers.
21. There is an overlap in stockholding. Both UES and BS sell bright bars through their stockholding arms. Of a total market of 180,000 tonnes of bright bar sold through stockholders in the United Kingdom, stockholders belonging to UES sold 17,500 tonnes in 1993 and those controlled by BS 3,500 tonnes. The total amounts to 21,000 tonnes or about 12%. UES has no stockholding operations outside the United Kingdom.
22. BS purchases almost all its requirements of bright bar from UES so there will be no effect on the upstream supply of this product.
23. In view of the market shares resulting from the concentration and the structure of the various markets concerned, the operation will not create or strengthen a dominant position such as to impede effective competition with regard to the products which come within the jurisdiction of the Merger Regulation.

**V. ANCILLARY RESTRAINTS**

24. The Share Sale and Purchase Deed requires GKN, with certain exceptions not to compete with UES in the United Kingdom for a period of [ ]<sup>(1)</sup> years. This condition is directly related and necessary to the implementation of the concentration and is, therefore, ancillary within the meaning of the regulation.

\*

\* \*

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

For the Commission,

---

<sup>(2)</sup> Deleted business secrets.