

William Cook plc acquisitions

A report on the merger situations



THE MONOPOLIES AND MERGERS COMMISSION

William Cook plc acquisitions

A report on the merger situations

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
August 1990**

Members of the Monopolies and Mergers Commission as at 3 August 1990

Mr M S Lipworth (*Chairman*)
Mr P H Dean¹ (*Deputy Chairman*)
Mr H H Hunt CBE (*Deputy Chairman*)
Mr H H Liesner CB (*Deputy Chairman*)
Sir James Ackers
Mr A G Armstrong¹
Mr C C Baillieu
Mr I S Barter
Professor M E Beesley CBE
Mrs C M Blight
Mr F E Bonner CBE
Mr P Brenan
Mr J S Bridgeman
Mr L Britz¹
Mr K S Carmichael CBE¹
Mr R O Davies
Professor S Eilon
Mr J Evans
Mr A Ferry MBE
Mr P S G Flint
Mr D G Goyder
Mr M R Hoffman
Mr J D Keir QC
Mr A L Kingshott
Miss P K R Mann¹
Mr G C S Mather
Mr L A Mills
Professor A P L Minford
Mr J D Montgomery
Mr B C Owens
Professor J F Pickering
Mr D P Thomson
Mr C A Unwin MBE
Mr S Wainwright CBE
Professor G Whittington
Mr R Young

Mr S N Burbridge (*Secretary*)

¹These members formed the group which was responsible for this report under the chairmanship of Mr P H Dean.

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 omission is indicated by a note in the text.

Contents

	<i>Page</i>
<i>Chapter</i> 1 Summary	1
2 The steel castings industry	2
3 The companies/assets concerned in the mergers	28
4 The views of other parties	38
5 The views of Cook and the other main parties	44
6 Conclusions	49
 <i>Appendices</i>	
(The numbering of the appendices indicates the chapters to which they relate.)	
1.1 The reference and background	58
2.1 Making a steel casting	60
2.2 Steel foundries	66
2.3 Cook: foundry facts	76
2.4 Cook: principal overseas competitors	78
2.5 Steel castings: cost estimating/product costing in Cook foundries	81
3.1 Undertakings given to the Secretary of State by Cook	82
3.2 Cook: financial results	84
3.3 Lloyds (Burton): financial results	85
3.4 The Armadale acquisition: timetable of events	86

1 Summary

1.1. On 22 November 1989 William Cook plc (Cook) purchased assets of the Paramount Foundry (Paramount) from Lake & Elliot Industries Ltd (Lake & Elliot). On 17 January 1990 Cook acquired Lloyds (Burton) Ltd from Triplex Lloyd plc. On 9 March 1990 Cook contracted to acquire assets of the Armadale Steel Works (Armadale) from Australian National Industries Ltd (ANI). On 3 May 1990 we were asked to investigate and report on these acquisitions. The terms of reference are at Appendix 1.1. We were concerned with the supply in the United Kingdom of steel castings.

1.2. Steel castings have a very wide range of uses in all engineering industries chiefly as components to be incorporated into machines, plant or pieces of engineering equipment. They range in size from a few grammes to many tonnes. In 1989 the supply of steel castings in the United Kingdom amounted to at least 116,000 tonnes and was worth about £250 million. Cook was by far the largest supplier in the United Kingdom with at least 35 per cent of the United Kingdom market by tonnage and Lloyds (Burton) was the second largest supplier (between 6 and 8 per cent). Paramount accounted for about 1 per cent of the market and Armadale for about 1 per cent. No other United Kingdom foundry out of the remaining 52 supplied more than 4 per cent of the market. Imports are estimated to have been between 20 and 33 per cent of the United Kingdom market.

1.3. The market for steel castings has declined severely in the last 15 years in the United Kingdom. Despite numerous closures of foundries we believe that there is still a degree of overcapacity in the market and there is also increasing competition from overseas suppliers.

1.4. We analysed the supply of steel castings by reference to end use and to type, quality and size. Although steel castings are very disparate in size and type, all steel foundries compete either directly or indirectly. Each foundry occupies a distinct position in the market but its capabilities overlap with several other foundries each of which in turn overlaps with others. Foundries are able to expand their product range if opportunities appear. We have therefore considered the steel castings market as a whole (excluding rolling mill rolls and centrifugal castings).

1.5. We examined several issues affecting competition including alternative sources of supply, prices, barriers to entry and exit and the development and introduction of new technology. Of those, we judged the most important to be the ability of customers to obtain castings from foundries other than those owned by Cook. We considered competition both from other United Kingdom producers and from outside the United Kingdom.

1.6. The market share created by these acquisitions is undoubtedly high and increases the possibility of monopolistic abuse. We believe, however, that in the case of each of the three mergers the potential threat of price rises is likely to be mitigated by the potential for increased imports of steel castings and by effective United Kingdom competition.

1.7. We concluded that the three mergers between Cook and Paramount, between Cook and Lloyds (Burton) and between Cook and Armadale do not operate, and may be expected not to operate, against the public interest.