

4 The views of other parties

4.1. We sought the views of a number of competitors, customers, trade associations and other parties. In this chapter we summarise the views of those who responded.

Competitors

4.2. We received comments from a number of steel foundries within the United Kingdom.

4.3. Glencast Ltd (Glencast), which was formed as a result of a management buy-out of the Lake & Elliot plc Leven foundry in 1983, commended Cook for what it saw as its positive steps in seeking an orderly rationalisation of the United Kingdom foundry industry. Glencast felt that this rationalisation had strengthened the industry and ensured that the remaining steel foundry companies were those which possessed the management skills necessary to ensure their long-term viability. Glencast said that despite the current acquisitions it firmly believed that there was ample competitive steel foundry capacity and capability available to supply current and projected demand for both high integrity and commercial grade castings. Glencast also felt that it was important that there was a United Kingdom organisation of sufficient size (in this case Cook) to tackle the threat of imports from the large European competitors in the steel castings market.

4.4. Goodwin Steel Castings Ltd (Goodwin) said that Cook, by taking over numerous foundries, had rationalised production and saved the industry from complete collapse. Goodwin felt that demand was likely to fall and keen competition would, therefore, continue in the United Kingdom both from home producers and an increasing number of European competitors. The proposed acquisitions would give United Kingdom manufacturers a better chance of competing in world markets.

4.5. Terrill Bros (Founders) Ltd (Terrill Bros) said that Cook had in the past decade taken giant steps to modernise and rationalise an industry that had been in rapid decline. Terrill Bros felt that most of the plants acquired by Cook would otherwise have gone into liquidation. The fact that they had not done so could only be good for the United Kingdom manufacturing industry which could rely on home products rather than imports. The United Kingdom would also benefit from having a manufacturer able to compete in European and world-wide markets.

4.6. Sheffield Forgemasters Ltd, which owns River Don foundry, said that it took a neutral view on the three acquisitions. However, it reminded the MMC that in the steel castings and forging industry United Kingdom companies were subject to considerable competition from the rest of Europe: most of the major users of steel castings and forgings sent enquiries and purchased much of their requirements throughout Europe. As a consequence Sheffield Forgemasters felt that the percentage of United Kingdom capacity was a less significant measure of a monopoly in these sectors than the European market share.

4.7. Dewramet Ltd (Dewramet) said that Cook had brought about enormous changes in the steel foundry industry in terms of efficiency, commitment to customer and quality, without which the industry might not have survived. Competition in the United Kingdom market was severe with competing companies from the rest of Europe and the Far East offering customers a choice at all weights, metal types and specifications. Dewramet felt that the proposed acquisitions would be beneficial to British manufacturing industry.

4.8. *Wilsons Foundry (Wilsons)* said that it welcomed the fact that the Cook organisation was prepared to put energy and resources into the creation of a substantial foundry group that could reverse the previous decline of the industry. However, Wilsons estimated that Cook now effectively controlled nearly 65 per cent of the installed steel foundry capacity of the United Kingdom and it was concerned about the potential abuse of that market leadership. Though Cook had publicly stated the necessity for improved margins if a healthy steel foundry industry was to be re-established in the United Kingdom the danger remained that a short-term price war in selected markets could lead to the elimination of further competitors in the United Kingdom, which would definitely not be in the public interest. Wilsons thought that although the balance between healthy competition and a trade war was very fine, some control now needed to be exercised in the industry.

4.9. Darwins Alloy Castings (Darwins) said that whilst the present three acquisitions did not directly bear on its business it was concerned at the proportion of steel foundry capacity coming under the control of Cook. Darwins felt that this could lead to Cook applying commercial pressure to the remaining smaller foundries resulting in further closures and a reduction in the choice of competitive sources of castings which would not be in the public interest.

Customers

4.10. Many of the 67 castings users who responded to the survey referred to in paragraph 2.51 also gave their views on the mergers. In addition we invited comments by letter from 21 other companies with purchases smaller than those covered by the survey.

4.11. One customer told us that Cook produced over 70 per cent of the United Kingdom's 'non-tied' steel castings; within certain sectors, eg defence, railways and agricultural equipment, this figure could be as high as 90 per cent. This customer felt that the increasing dominance of Cook had encouraged, if not forced, United Kingdom valve and construction equipment manufacturers to explore the possibility of identifying alternative castings suppliers overseas, to the detriment of the United Kingdom's balance of payments. One customer of Lloyds (Burton) said that Cook's acquisition of Lloyds (Burton) meant that there was now only one other sizeable United Kingdom alternative supplier for steel castings between 0.5 and 10 tonnes. Such a monopoly would force customers to purchase abroad to restore a normal commercial trading situation and would place them at a disadvantage compared with their international competitors. This would result in a contraction of the steel foundry industry and a loss of jobs both in that industry and amongst customers who would be unable to continue trading when faced with the extra commercial burden due to the removal of competition. This customer also feared that a possible cartel would drive up prices.

4.12. Another customer said that it had had to bear several recent price increases from foundries which were now part of Cook. This customer said that the only defence it had against this unfair practice was to buy supplies from abroad, thus increasing the national balance of payments deficit. One company said that it relied heavily on a varied range of good quality specialist foundries to produce high pressure castings. Cook's past acquisitions had severely restricted its choice of supplier: the present acquisition of the assets of Paramount and its consequential closure meant yet another loss of a supplier and a further restriction of competition. Another customer said that whilst the reduction in competition brought about by the acquisitions had not seriously damaged its trading position, any further contraction of the industry by acquisitions of this nature and the rationalisation and price increases that invariably followed would prove unacceptable and would accelerate its off-shore sourcing of steel castings.

4.13. One major customer of Cook said that the merger presented no particular threat: it consistently checked Cook's performance with both the United Kingdom and world-wide foundry industries. It felt that Cook was extremely attentive in meeting its required standard of commercial castings and it believed that the size and strength of Cook gave it reliable delivery which allowed it (the customer) to compete with the best in the world in its own field. Another customer said that it had no objection to the proposed acquisitions. It said that it would be concerned if the acquisitions resulted in a non-competitive service from Cook. If they did the company would expand its own existing foundries or buy from an overseas source. However, it felt that this was an unlikely result and that a more likely result would be that Cook would become a very cost-effective source of castings for United Kingdom manufacturers.

4.14. One company felt that Cook's acquisition of Paramount and Armadale would prove beneficial to the industry and ultimately to job prospects as neither were viable in their own right. However, its acquisition of Lloyds (Burton) would bring together the two major high volume producers of steel castings. Though Lloyds (Burton) would benefit from Cook's greater efficiency and higher level of investment, limited competition could lead to higher prices for customers. They would face a fall in their profitability, unless they could maintain strong links with foreign suppliers. A further long-term concern was that a decline in the standard of management of Cook would have a very serious effect on the United Kingdom steel castings industry. On balance though this company felt that there were insufficient grounds for it to oppose the merger.

4.15. Several castings users who purchased mainly non-alloy castings showed particular concern about Cook's dominant position in the industry. One said that Cook was particularly expensive. Only one of its traditional suppliers was not a member of the Cook Group, and choice had narrowed now that many foundries had closed. Another company said that there had been massive price increases, a deterioration in quality and service, and a lack of effective competition as a result of Cook's acquisition of Robert Hyde and Catton. This had led it to begin re-sourcing from France, Spain and Portugal. A third company in this group found that the situation where the majority of steel foundries were under the control of one group made it difficult to find alternative competitive sources. It said that Cook's objective appeared to be to raise prices by imposition rather than by negotiation.

4.16. Another non-alloy castings user said that it had encountered difficulties in finding alternative suppliers outside Cook capable of producing certain castings. It had had problems on quoted delivery dates being missed and felt that price increases had been excessive. A valve manufacturing company said that the closure of Paramount meant a significant erosion of its ability to source its castings on a competitive basis. It recognised that the foundry industry had been declining, and through rationalisation and investment had achieved a much greater degree of stability and reliability, but it felt that the pendulum had swung too far, and for high integrity alloys particularly, it no longer had any choice as to its point of supply and was concerned about prices and deliveries in the future. Another non-alloy castings user said that it felt that United Kingdom foundries now had insufficient capacity to satisfy customer demands. It was now very difficult to find a foundry capable of supplying medium/large customers in a satisfactory manner which was not part of Cook. As a result of closure of steel foundries in the United Kingdom, uncompetitive pricing, poor delivery performance, and lack of interest from United Kingdom foundries in low volume requirements, it had been forced to go to foreign suppliers where costs were generally lower.

4.17. Among those mainly purchasing 'other alloy' (ie excluding stainless or heat resisting alloys) castings a number commented on loss of competition in the industry. These included both large and small users. One large company said that, with the general demise of United Kingdom foundries, the workload of the remaining businesses had been high, but this had led to a reduction in the service level. It foresaw less effective competition with so many of the foundries used by them being in the same group, and Cook would have a virtual monopoly of the steel castings market in one area of the market. It noted that with the closing of Paramount competition was severely limited in the range up to 15 kg. A small 'other alloy' castings user said that choice was becoming very limited and they found that the bigger foundries preferred volume business. Since the closures under the Lazard scheme the foundries which were left were able to pick and choose their customers and having done so to dictate their terms and conditions. Another noted that Cook's acquisitions had reached the point where in certain areas the only competition came from overseas.

4.18. Apart from the major 'non-alloy' and 'other alloy' users groups mentioned above, other castings users tended to be less concerned about the state of competition. However, one large company said that it was seriously affected by Cook's acquisitions, and that it was seeking an alternative source of supply because of attitudes and price changes. The reduction in competitive foundries was creating major pricing and loading problems. It was currently considering Spanish, Portuguese and Belgian sources of supply. Another company said that the closure of Armadale would have the effect of further limiting the number of high integrity foundries capable of producing large steel castings. Over the past two years Cook had significantly increased in price levels and, more significantly, extended deliveries. However, if it was Cook's intention to control all the large capacity high integrity foundries, with a view to investing in and developing a stronger, more

competitive, and quality-conscious United Kingdom foundry base, as well as making a healthy profit for an assault on Europe in 1992, then it should be encouraged.

Associations

4.19. We wrote to 80 trade and user associations and institutes which might have an interest in the mergers. Twenty-three replied: 17 had no comments to make, and six had comments to make mostly in favour of the acquisitions.

4.20. The Engineering Equipment and Materials Users Association (EEMUA) said that it was concerned that as Paramount appeared to be one of very few suppliers of cast furnace headers this line of business should not be discontinued as a result of the acquisition. EEMUA also said that concern had been expressed by its members at a loss of competition and a consequent possible increase in prices.

4.21. The Engineering Employers' Sheffield Association (EESA) said that it was not aware of any objections from its members to the proposed acquisitions. Furthermore, EESA felt that in view of the high degree of import penetration into the United Kingdom market there was every reason for supporting a major United Kingdom company which could compete world-wide.

4.22. The Scottish Steel Founders Association (SSFA) said that it was disappointed that Cook's acquisition of Armadale would lead to one less steel foundry operating in Scotland. However, the SSFA said that it was important to note that there was ample competitive steel making and steel foundry capacity available for the foreseeable future to cope with current and projected demand for both high integrity and commercial grade castings.

4.23. The Scottish Plant Owners Association said that the proposed acquisitions were unlikely to have any adverse or prejudicial effects on the plant hire industry.

4.24. The Silica and Moulding Sands Association (SMSA) said that it supported any moves which would strengthen the United Kingdom steel industry. The proposed acquisitions appeared to be a move in this direction and would therefore meet with the SMSA's approval.

4.25. The Steel Castings Research and Trade Association (SCRATA) provided a great deal of helpful information to assist the MMC in their understanding of the steel castings industry but felt it inappropriate for it to comment on the acquisitions.

Comments on the Armadale acquisition

4.26. Mr A D Harris and Mr W G Menzies told us that at various times since July 1988 they had expressed to its various owners an interest in the purchase of the Armadale facility, as a going concern. These attempts failed to generate a positive response. However, Messrs Harris and Menzies said that in early February 1990 they were finally successful in obtaining permission to open discussions with local ANI representatives about a possible purchase of Armadale and some additional equipment from the Bathgate foundry. Nevertheless, Messrs Harris and Menzies said that they were hindered in furthering their proposal by a lack of available information from ANI, by ANI's refusal to meet and negotiate and by the imposition of an unrealistic deadline on their presentation of a formal offer. Interventions by the Amalgamated Engineering Union (AEU), West Lothian Enterprise, the Scottish Office and Mr Tam Dalyell MP all failed to win an extension to the deadline. Messrs Harris and Menzies said that they were then indirectly informed that, notwithstanding their proposal for the continuation of Armadale as an operating business, Armadale had been sold as an asset purchase to Cook, for an undisclosed sum. Messrs Harris and Menzies thought that as well as Armadale, Cook's acquisition of Paramount and Lloyds (Burton) were worthy of scrutiny. A full table of the events leading to the Armadale purchase by Cook is shown at Appendix 3.4.

4.27. Messrs Harris and Menzies said that in national economic terms the closure of Armadale would result in increased imports of heavy duty high integrity castings and a reduction in the level of similar castings being exported. Armadale was one of the few steel foundries left capable of producing castings of up to 25 tonnes; its loss would be particularly hard felt by manufacturers of cast pressure vessels, power turbines, specialised valves and pumpsall areas in which Messrs Harris and Menzies thought Armadale could compete viably and gain a large market share. Armadale also provided a necessary alternative source of supply to Cook which was becoming increasingly dominant in many areas of the steel castings industry.

4.28. Messrs Harris and Menzies were also concerned that the closure of Armadale would mean the loss of over 200 jobs in an area which already had high unemployment. A further 150 jobs were being lost at the nearby Bathgate foundry. Messrs Harris and Menzies added that, as many of the redundant foundry workers had skills unsuited to the employment requirements of the new companies opening in West Lothian, they were unlikely to be re-employed without significant retraining.

4.29. The (AEU) supported the views expressed by Messrs Harris and Menzies concerning the Armadale foundry. The AEU said that despite the assurances given to it by ANI one of which was to encourage and support another company's bid to ensure that the Armadale foundry would continue the criteria or timetable ANI had dictated for bids was inflexible and had created concern amongst potential buyers. The AEU said that Armadale was one of the few alternatives to Cook as a supplier of large-size single castings. During negotiations veiled threats were made that Cook would be more than anxious to purchase the foundry in order to close it and strengthen its monopoly within the United Kingdom steel castings industry.

4.30. The AEU felt that the closure of Armadale would be a loss not only to Scotland but to the whole of the United Kingdom. In particular the AEU stressed that its loss would create a number of local problems in an area of high unemployment. The experience and skills of its workforce would be lost forever unless a decision was taken to divest Cook of the foundry.

4.31. The AEU also expressed concern for its other members throughout the industry. It felt that though Cook's rationalisation and reorganisation had brought a new stability to the steel castings industry, and that prices might rise as a result of it, it was apprehensive that the monopoly exercised by Cook would force more manufacturers to buy abroad and could lead to a further contraction of the industry.

4.32. Mr Tam Dalyell, Member of Parliament for Linlithgow, the constituency in which Armadale is located, supported strongly the views expressed by Messrs Harris and Menzies and the AEU. Mr Dalyell said that he was angered by the scant consideration that had apparently been given to the Harris and Menzies bid for Armadale, a bid which Mr Dalyell believed should have succeeded and, if so, would have ensured the continued livelihood of a large part of the existing workforce. Mr Dalyell also felt that Cook's interest in Armadale might have been prompted purely by its wish to eliminate a competitor. He felt that manufacturers, faced with a near monopoly in certain types of casting, were increasingly likely to turn to foreign companies for their supplies. Mr Dalyell urged that Cook be divested of its ownership of Armadale.

4.33. The Industry Department for Scotland (IDS) provided a sequence of the events leading up to the Armadale sale to Cook (included in Appendix 3.4). There had been the prospect of a sale which would have maintained employment at the works.

4.34. The IDS felt that on competition grounds Cook's purchase might be against the public interest. Both competitors and customers had expressed concern about Cook's rapid increase of market share. The IDS said that there was no clear view whether European sources of supply were suitable alternative sources of castings and would provide sufficient competition to prevent Cook from exploiting its dominant position in the United Kingdom. Acquisition by Cook excluded the possibility of sale to any other party which might wish to maintain Armadale as a going concern.

4.35. As to employment, the IDS thought that the acquisition was not in the public interest in that the closure of Armadale seemed neither to be conducive to maintaining and promoting effective competition generally nor to maintaining and promoting the balanced distribution of industry and employment in the United Kingdom.