

**AGGREGATES, CEMENT AND READY-MIX CONCRETE
MARKET INVESTIGATION**

Summary of response hearing with Tata Steel UK held on 18 July 2013

Provisional findings response

1. Tata Steel UK (TS) said that its general position had been relayed in the submission to the Competition Commission (CC), namely [redacted]. TS considered that any anti-competitive issues existed as a result [redacted].
2. TS said it was not in a position to discuss the GGBS market as it had no experience of it.

Current trading

3. TS acquired Corus in 2007 which included both the UK and European assets. In respect of the UK, the two facilities of most interest to the CC were the steel-making facilities at Port Talbot and Scunthorpe.
4. Port Talbot was where TS made and supplied steel, which was used, for example, in the automotive industry. Port Talbot had a capacity to [redacted] tonnes of steel. TS had recently invested significantly in a new blast furnace facility at Port Talbot. There were two blast furnaces at Port Talbot.
5. Scunthorpe predominately produced 'long products' (for example, rail sections and beams). TS was currently producing [redacted] of liquid iron [redacted]. There were four blast furnaces at Scunthorpe although only two were currently operational. TS said that all four blast furnaces were small and if operated concurrently, they would generate the same output as the two blast furnaces at Port Talbot.
6. There were operational differences between the two plants. One of the Port Talbot blast furnaces recently needed to be rebuilt which resulted in operational difficulties leading up to the rebuild. Scunthorpe was producing almost as much with two blast furnaces as it was with three.
7. TS employed approximately 19,000 people directly in the UK. It invested around £[redacted] a year in various capital projects and R&D facilities.
8. [redacted] Regarding the market, TS said that it was difficult to predict its business because it was such a dynamic market. It considered 2007 to be the peak year and relative to that, it considered that the steel market generally was operating at about 75 per cent of that position in the UK. In the EU, there was a greater variation, for example 90 per cent in Germany but only 40 per cent in Spain. The market was also cyclical and the construction sector in particular moved in cycles which had changed a lot since 2007. The structure of the market had also changed from a commodity-type market to a specialized value-added market. [redacted]
9. In terms of costs, TS spent [redacted] per cent on iron ore, [redacted] per cent on carbon and [redacted] per cent on scrap (approximately [redacted] per cent of total costs was spent on raw materials). TS said that there were only four suppliers of iron ore in the world which made TS susceptible to changes in costs if demand suddenly spiked which it had done, most notably in Asia.

10. In terms of its operations, TS had sought to cut costs. Approximately two years ago TS mothballed a blast furnace at Scunthorpe which left it with two operational blast furnaces. It had also invested heavily in the business and considered Tata as an owner and parent to have been extremely supportive. A key element of its operation was the reliability and availability of its machinery and equipment of which the blast furnace operations were core. If a blast furnace stopped, everything stopped. Slag removal was key to the operation in terms of its viability, environmental considerations and safety.
11. Regarding the future, TS was trying to look at how the market was going to move forward. [REDACTED]
12. TS had some ongoing service agreements with SSI further to the sale of Teesside to SSI. TS also had a 50-50 joint venture relating to the Redcar bulk terminal. The agreements related to GBS/GGBS; the contractual situation with Tarmac was still in a state of flux and the contract had not yet been novated to Tarmac.
13. TS said that when one of the blast furnaces at Port Talbot had been rebuilt, it shifted production to a small degree to Scunthorpe although the two operations were focused at different markets so a total switch was not possible. TS traditionally managed a rebuild [REDACTED].

TS contracts with Tarmac

14. The contracts between TS and Tarmac governed the removal, processing and sale of blast furnace slag and other slag essential to the steel-making process which was TS's primary business process and purpose. [REDACTED]
15. TS described how the agreements it now had with Lafarge Tarmac (LT) came about. [REDACTED]
16. The blast furnaces operated constantly and there was no seasonality.
17. There were two granulators at Scunthorpe each serving two of the four blast furnaces. There were also two granulators at Port Talbot, one servicing each blast furnace because the configuration of the plant meant that they were further apart.
18. TS said that slag was processed before being removed. [REDACTED] LT took the slag to its processing facility which was close by.
19. TS explained that as the liquid slag ran out of the blast furnace, it had to be processed. [REDACTED] TS said that once the slag passed through the granulators (to cool it from 1,500 degrees to 800 degrees), it [REDACTED]. In essence, this first stage had to take place at the steel plant. TS considered that running the slag through the granulator was preferable from an environmental perspective [REDACTED].
20. [REDACTED]
21. [REDACTED]
22. TS could not comment upon quality measures for blast furnace slag in terms of its uses beyond a by-product—for example, if there were different grades—but suggested that the CC ask the cement manufacturers.
23. In terms of volumes, [REDACTED].

24. TS said that if both steel plants were operating at maximum capacity, it could produce approximately [REDACTED] million tonnes of slag. Slag accounted for [REDACTED] per cent of the whole metal output. There were variations but approximately the amount was between [REDACTED] per tonne.
25. TS did not know what LT's transport arrangements were for the movement of its GBS and GGBS. [REDACTED] While both plants had railheads, TS did not know if Tarmac had used them in the past.
26. The granulators belonged to LT. [REDACTED]
27. TS said that Hanson did not own anything on its steel plant. Hanson had one grinding plant based at Port Talbot and one at Scunthorpe. [REDACTED]
28. Overall, [REDACTED].
29. The contracts ran until 2029 which afforded considerable protection to TS.

Structural measures to address the adverse effect on competition in relation to GGBS/GBS production in Great Britain

30. TS understood why the CC was looking at both the GBBS and GBS markets although it did not agree with interference with the upstream GBS market as it appeared to be unconnected with remedying any adverse effect on competition in the market. The downstream GGBS market was closer to the cement market. TS considered that the remedy in relation to GBS would damage its business and therefore was disproportionate.
31. The downstream GGBS market created much more value than the upstream. [REDACTED]
32. TS had not discussed the remedy LT had put forward on GBS/GGBS in any detail. It said that this remedy was not very attractive [REDACTED]. Removing the surety of the current contract would not be an attractive option to TS.
33. [REDACTED]
34. [REDACTED] Whilst TS was concerned with the removal of the slag, it was also important that the right party with the right knowledge base and the capital commitment took on that role. Whoever undertook this responsibility would need to be independent of the steel market given the production data that flowed through.
35. [REDACTED]
36. On an operational level it was not important for TS that LT was active in the downstream GGBS market [REDACTED].
37. TS had not considered who might be a potential purchaser of the GBS operations. However, it did not consider that an entity involved in the steel industry would be a suitable purchaser, as it would find out confidential information about TS's business.
38. In respect of a market for shipping GBS to grinding stations away from steel plants, TS considered that the sites that actually processed the granulated slag would have environmental obligations. TS understood that currently massive vehicles were used to transport the slag and that it could be a significant challenge to put these on to the public roads.

39. [✂]

40. [✂]

41. [✂]