

Completed acquisition by Keystone Lintels Limited of the IG Lintels business of the Expamet Building Products Group

The OFT's decision on reference under section 22(1) given on 7 November 2006. Full text of decision published 14 November 2006.

Please note that the square brackets indicate figures or text which have been deleted or replaced with a range at the request of the parties for reasons of commercial confidentiality.

PARTIES

1. **Keystone Lintels Limited** (Keystone) is a manufacturer and wholesaler of lintels, structural supports and related products, with manufacturing facilities in Northern Ireland and in England.
2. **IG Lintels Business** (IG Lintels) is the lintels manufacturing and wholesale business previously operated through various companies within the **Expamet Building Products Group** (Expamet). In the last financial year, Expamet's UK turnover attributed to IG Lintels was £[].

TRANSACTION

3. On 18 August 2006, Keystone acquired all assets previously employed by Expamet in the manufacture and wholesale of lintels and structural support products, including a transfer of a manufacturing plant in Wales, together with equipment, vehicles, marketing and distribution assets, and all relevant employees.
4. The Office of Fair Trading's (OFT's) administrative deadline for this case is 14 November 2006.

JURISDICTION

5. As a result of this transaction Keystone and IG Lintels have ceased to be distinct. The parties overlap in the supply of steel lintels in the UK, and the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met.
6. The OFT therefore believes that it is or may be the case that a relevant merger situation has been created.

RELEVANT MARKET

7. The parties overlap in the supply of steel lintels. Lintels are products used to provide structural support over windows and door openings.

Product scope

8. In determining the appropriate product scope, the OFT considered the extent of demand and supply side substitution between:
 - methods of building construction reliant on lintels
 - steel and concrete lintels, and
 - (within steel lintels) between different types of lintels.
9. In relation to the first of these distinctions, while some third parties did suggest to the OFT that certain construction methods that do not rely on lintels are becoming more common in UK construction, lintels are a very small proportion of overall construction costs and it is therefore not considered that a 5-10 per cent increase in the price of lintels would be relevant to the decision on the construction method employed.
10. Considering steel and concrete lintels, the parties and a number of third parties considered them to be alternatives. On the whole, however, third party evidence indicated that a small but significant non-transitory price increase of around 5-10 per cent would not be sufficient to induce switching from steel to concrete lintels. Third parties suggested that prices of concrete and steel lintels did not move in tandem, and that different suppliers operated in the two sectors.

11. There are also four different types of steel lintels, each having a particular, though not exclusive, use in construction:
 - Standard steel lintels are used to support brickwork over standard window and door openings in houses and other buildings where cavity wall construction is used
 - Steel box lintels tend to be used when tile hanging is required with solid brick or block wall construction, or at eaves level
 - Special, custom-made steel lintels are employed for aspects of buildings involving non-standard dimensions or more unusual construction designs, and
 - Brickwork support systems form relief supports to brickwork in multi-storey buildings.
12. Most third parties told the OFT that there was some degree of substitution between the different types of steel lintel listed above, although some third parties suggested that brickwork support systems were made of stainless steel which is more expensive, and therefore are less of a substitute, from demand or supply side perspectives, for ordinary lintels.
13. The OFT has not found it necessary to conclude on the relevant product scope, as the competition assessment does not differ by product scope. In its assessment of this transaction, the OFT has taken a cautious approach and examined the transaction on the supply of: i) all steel lintels together (excluding brickwork support systems) and ii) individual types of steel lintels, as outlined above.

Geographic scope

14. The parties submitted that the geographic frame of reference includes both the UK and the Republic of Ireland (RoI), as they and at least some of their major competitors supply in both countries. Because other EU countries tend to use different construction techniques which do not involve extensive use of lintels (or involve the use of different types of lintels), the parties believe that the geographic frame of reference is no broader than the UK and RoI.
15. The parties' information provided to the OFT on supply from their manufacturing plants shows that both parties export around [5–15] per

cent of their production to RoI. The main producer of lintels in RoI, Steelite, does not have any UK sales.

16. The OFT also considered whether Northern Ireland ought to be considered as being a separate geographic scope from either Great Britain, or RoI. Transport costs between Great Britain and Northern Ireland do not appear to be significant, and the extent of exports by IG Lintels into Northern Ireland ([0–10] per cent of production), and larger still, exports from Keystone's Cookstown plant onto mainland UK (around [44–55] per cent of production) suggest that it is not appropriate to classify Northern Ireland as being in a geographic market separate from Great Britain. While one competitor told us that it has a very limited customer base in RoI and Northern Ireland, the parties told the OFT that the company in question has only begun supplying into Northern Ireland again in 2005.
17. For the purposes of its competition analysis, the OFT has taken a cautious approach and considered the supply of steel lintels in the UK.

HORIZONTAL ISSUES

Shares of supply

18. Currently, there are four large suppliers of steel lintels in the UK: Keystone, IG Lintels, Birtley Building Products Limited (Birtley) and Corus Catnic (Catnic) – a subsidiary of Corus Group plc – as well as a number of smaller suppliers (with less than 5 per cent of supply).
19. The parties' combined share of supply of all steel lintels excluding brickwork support systems is over [35–45] per cent (increment under [15–25] per cent). Birtley and Catnic supply around 15–25 per cent each. If standard steel lintels are taken separately, then the parties share of supply is around [40–50] per cent (increment around [15–25] per cent), and Birtley and Catnic supply [15–25] per cent each. For steel box lintels, the joint share is around [45–55] per cent (with approximately [15–25] per cent increment) – Birtley and Catnic supply around [15–25] per cent each. The parties supply around [20–30] per cent of custom made steel lintels where both Birtley and Catnic do not have a strong presence, but there is a long tail of smaller competitors. The parties do not overlap in the supply of brickwork support systems.

20. Despite the parties' relatively high combined shares of supply, third party enquiries indicate that the competition is effective. For example, lintel manufacturers struggle to pass on the entirety of steel price rises on to their customers. Moreover, most customers contacted by the OFT considered that the merged entity will continue to be constrained by the remaining competitors, in particular by Birtley and Catnic, and (albeit to a somewhat lesser extent) by smaller competitors such as Stressline and Harvey.
21. Third party comments to the OFT also suggest that there is significant excess capacity in the steel lintels market, brought about in part by significant investment in automated equipment by the major suppliers in recent years. The OFT has been told by the parties and by some competitors that some manufacturers are operating at levels 25–40 per cent below that which their plants allow. Such levels of excess capacity suggest that competitors would be able to expand easily in the event of a price increase or a service quality reduction by the parties post-merger.

Barriers to entry and expansion

22. Third party responses indicate that barriers to entry in the supply of steel lintels are low. The OFT has been told that main barriers to entry are manufacturing know-how and working capital, but neither of these was seen by third parties to be particularly important. While significant spare capacity among existing players may act as a barrier to new entrants, expansion by existing players is considered to be relatively easy.
23. Keystone itself is an example of successful entry and expansion, having entered the market in the last ten years and grown organically to become the industry leader.

THIRD PARTY VIEWS

24. Most third parties were unconcerned about the merger, and considered that the merged entity would be subject to sufficient competitive constraints. One competitor and one wholesaler expressed concerns, but evidence they presented was not consistent with that presented by the majority of third parties. Their concerns have been dealt with above.

ASSESSMENT

25. The parties overlap in the manufacture and supply of steel lintels in the UK.
26. While the merged entity may have relatively high shares of supply in certain segments - of around [35–45] per cent - a number of competitors remain post-merger which are considered by the OFT to be a sufficient competitive constraint. In addition, there is excess capacity in production, and no evidence that customers find it difficult to switch suppliers. Barriers to entry and expansion are low.
27. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

28. This merger will therefore not be referred to the Competition Commission under section 22(1) of the Act.