



Public Competition Assessment

4 August 2014

BlueScope Steel Ltd – proposed acquisition of Fielders Australia

Introduction

1. On 30 January 2014, the Australian Competition and Consumer Commission (**ACCC**) announced its decision not to oppose the proposed acquisition of certain assets of the Fielders roll forming manufacturing business and other associated entities (**Fielders**) from Hills Holdings Limited by BlueScope Steel Ltd (**BlueScope**) (the **proposed acquisition**). The ACCC decided that the proposed acquisition would be unlikely to have the effect of substantially lessening competition in any market in contravention of section 50 of the Competition and Consumer Act 2010 (the **Act**).
2. The ACCC made its decision on the basis of information provided by the merger parties, information arising from its market inquiries and other relevant industry sources of publicly available and confidential information. This Public Competition Assessment outlines the basis on which the ACCC reached its decision on the proposed acquisition, subject to confidentiality considerations.

Public Competition Assessment

3. To provide an enhanced level of transparency and procedural fairness in its decision making process, the ACCC issues a Public Competition Assessment for all transaction proposals where:
 - a proposed acquisition is opposed;
 - a proposed acquisition is subject to enforceable undertakings;
 - the merger parties seek such disclosure; or
 - a proposed acquisition is not opposed but raises important issues that the ACCC considers should be made public.
4. This Public Competition Assessment has been issued because the proposed acquisition is considered to raise issues of public interest in relation to the steel industry.
5. By issuing Public Competition Assessments, the ACCC aims to provide the public with a better understanding of the ACCC's analysis of various markets and the associated merger and competition issues.

6. Each Public Competition Assessment is specific to the particular transaction under review by the ACCC. While some transaction proposals may involve the same or related markets, it should not be assumed that the analysis and decision outlined in one Public Competition Assessment will be conclusive of the ACCC's view in respect of other transaction proposals, as each matter will be considered on its own merits.
7. Public Competition Assessments outline the ACCC's principal reasons for forming views on a proposed acquisition at the time the decision was made. As such Public Competition Assessments may not definitively identify and explain all issues that the ACCC considers arise from a proposed acquisition. Further, the ACCC's decisions generally involve consideration of both non-confidential and confidential information provided by the merger parties and market participants. In order to maintain the confidentiality of particular information, Public Competition Assessments do not contain any confidential information or its sources.
8. This Public Competition Assessment outlines the circumstances and assessment at the time of the ACCC decision. Events that have occurred post the ACCC decision that are relevant to this matter are clearly identified.

The parties

The acquirer: BlueScope

9. BlueScope is a large vertically integrated steel manufacturer and distributor listed on the Australian Securities Exchange (**ASX**).
10. BlueScope is the only manufacturer in Australia of steel slab through its Port Kembla steelworks. The steelworks has a capacity of 2.6 million tonnes per annum. Through its subsidiary Coated and Industrial Products Australia (**CIPA**), BlueScope processes steel slab into a range of steel products classified as 'flat steel' products. Further information on the flat steel products supply chain is provided below.
11. In addition to CIPA, BlueScope has a number of businesses at various levels of the flat steel supply chain, including in steel products distribution and businesses carrying out additional manufacturing functions.

Lysaght

12. Relevant to the proposed acquisition is the BlueScope subsidiary Lysaght. Lysaght manufactures roll formed steel products. Further information on roll formed steel products is provided below. Lysaght has approximately 30 manufacturing and sales sites across Australia.

The target: Fielders

13. Fielders is a subsidiary of Hills Holding Limited (**Hills**). Hills is also listed on the ASX.
14. Fielders manufactures roll formed steel products, a process commonly referred to as 'roll forming'. Fielders' main roll forming operation is centred at Mile End in South Australia. It also has manufacturing facilities at Wangara in Western Australia, Campbellfield in Victoria and Minto in New South Wales, and sales sites located throughout Australia.

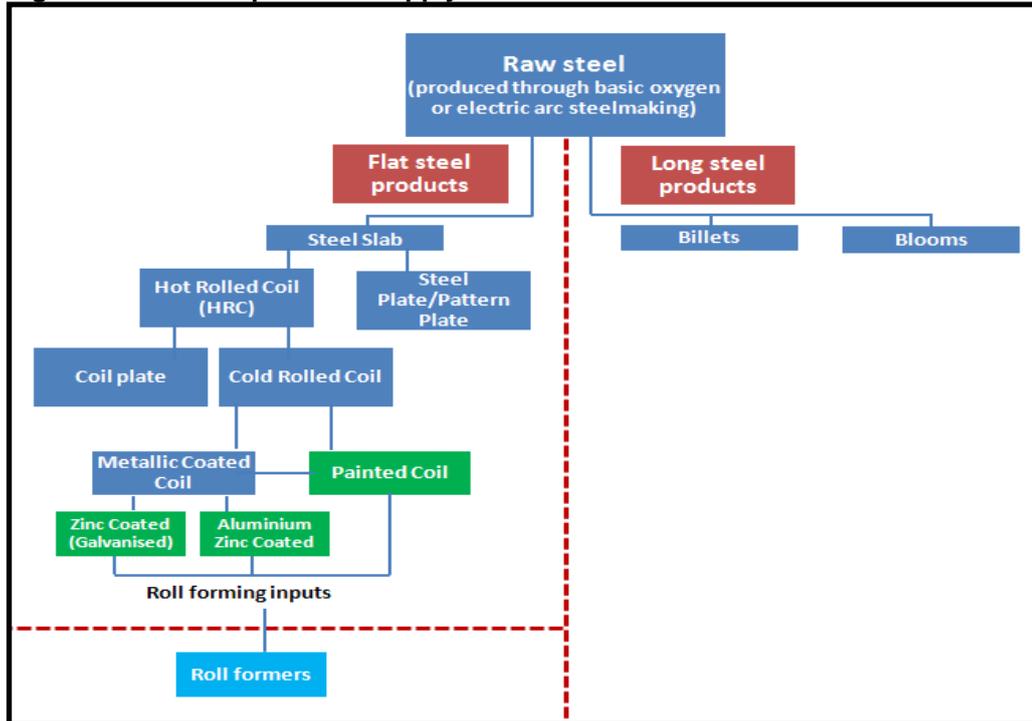
15. Fielders also operates downstream shed building distribution and retail businesses which utilise roll formed steel products. These are its Endurance Structures and Fielders Centenary businesses.

Industry Background

Flat steel products

16. The steel supply chain in Australia is complex with a number of functional levels, numerous types of steel products, multiple inputs into various manufacturing processes and a global dynamic through imports and exports.
17. Steel producers use inputs such as iron ore, coal and steel scrap to form raw steel either through using a basic oxygen furnace, or an electric arc furnace. Raw steel is then passed through a casting machine which moulds and solidifies the steel into semi-finished steel products known as 'slab', 'billets' or 'blooms'. Steel slab, billets and blooms then undergo further processing to produce a range of 'flat' or 'long' steel products. It is flat steel products which are relevant to the proposed acquisition.
18. To produce flat products steel slab is reheated and passed through a rolling mill to produce Hot Rolled Coil (**HRC**) or a form of steel plate. HRC may be subject to further processing into either coil plate or Cold Rolled Coil (**CRC**). In particular, CRC is produced by passing HRC through rolling mills at low temperature to reduce thickness. This process increases the strength of the steel and enables it to be rolled into coil for transport and storage.
19. Relevant to the proposed acquisition is the further processing of CRC into either metallic coated coil or painted coil. Metallic coated coil is produced by uncoiling the CRC and applying a metallic coating. The most common coatings are zinc (galvanised) and aluminium zinc. Painted coil is produced by painting either CRC or metallic coated coil.
20. As noted above, BlueScope CIPA is the only Australian manufacturer of flat steel products. The other source of flat steel products is via imports, either directly from an overseas steel mill or through an Australian based import trader.
21. **Figure 1** provides a broad representation of the place of roll forming in the flat steel products supply chain which is relevant to the proposed acquisition.

Figure 1: Flat steel products supply chain



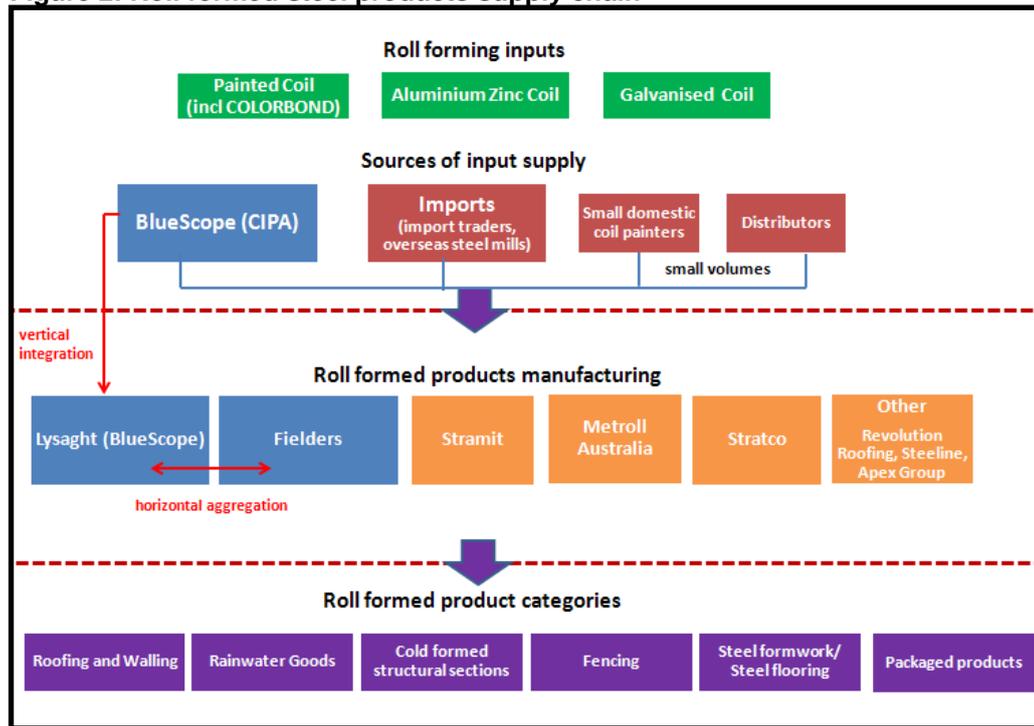
Roll forming

22. Lysaght and Fielders are roll formers. Roll forming is the manufacturing process where steel coil inputs are fed through contoured roller die machinery to form 'roll formed' steel in a particular profile which can then be cut to a particular length.
23. The steel inputs used in the roll forming manufacturing process are galvanised coil, aluminium zinc coated coil, and painted coil. Roll formed steel products include roofing, walling, guttering, fencing and steel formwork. In most cases for each product category specific machinery would be required to produce the relevant products.
24. Roll formers in Australia source steel coil inputs predominantly from BlueScope CIPA and in limited instances through imports or, in the case of painted coil, from smaller domestic manufacturers. Imports are sourced either via locally based traders or directly from overseas steel mills.
25. The type of roll formed steel products supplied, and the end uses they are ultimately suitable for, will depend on:
 - the gauge (thickness) and width of the steel coil being roll formed;
 - the strength grade of the steel coil;
 - the complexity of the cross-section required for the roll formed product (the greater the complexity, the more rollers required); and
 - the speed at which the steel coil is fed through the roll former (the lighter the gauge and the less complex the cross-section, the faster the speed at which the steel can be fed through the machine).
26. Roll formed steel products are used in all types of building structures (residential, commercial and industrial). Customers of roll formers include builders, steel fabricators, roof installers, shed manufacturers, fencing contractors, distributors

and other resellers such as hardware retailers or specialist shed retailers. Customers often source roll formed steel products from multiple suppliers with purchases typically being made on a project basis rather than under long term or exclusive supply arrangements.

27. There are five roll formers that operate nationally: Lysaght, Fielders, Stramit, Stratco and Metroll. In addition, there are roll formers operating in certain Australian states, such as Revolution Roofing (South Australia and Western Australia) and Combined Metal Industries (Western Australia).
28. **Figure 2** provides a broad representation of the roll formed steel products supply chain and the proposed acquisition's place in the supply chain.

Figure 2: Roll formed steel products supply chain



Steel formwork

29. The ACCC's review identified that the manufacture and supply of steel formwork (also called 'structural decking' and sometimes 'steel flooring') was an area of significant overlap between Lysaght and Fielders.
30. Steel formwork is a roll formed product which is used in the construction of suspended concrete slabs in buildings - generally multi-storey commercial buildings. Steel formwork is used to create a deck upon which the concrete is poured.
31. In concrete slab construction, formwork contractors or construction companies utilise either steel formwork or, more often, timber formwork depending on the project and design.
32. The use of steel formwork has advantages over the use of timber formwork in terms of reduced construction time, the requirement for fewer support structures (e.g. props), and it is less labour intensive. Steel formwork has a higher up-front cost than timber formwork and is not reusable. Timber formwork is able to be reused although it is more labour intensive and can add to construction time.

33. In addition, it is possible for steel formwork to offer some ancillary permanent structural support and this is actively marketed by steel formwork suppliers. Through utilising the structural properties of steel formwork, cost savings may be made on the amount of concrete that needs to be poured and/or the amount of reinforcing mesh necessary within the concrete slab.

Other industry participants

34. As mentioned above, there are five major national roll formers. These roll formers generally offer a comparable range of products and have manufacturing facilities in all/almost all Australian states. In addition to Fielders and Lysaght, these are Stramit, Metroll and Stratco.
35. Of these major national roll formers, only Lysaght, Fielders and Stramit supply steel formwork.

Stramit

36. Stramit is a subsidiary of Fletcher Building Limited. It manufactures roll formed steel products for a range of applications, including steel formwork. Stramit delivers these products, along with complementary products and services, through a national network of manufacturing and distribution centres.

Metroll

37. Metroll produces roll formed steel products for most applications, with manufacturing plants in all Australian states. Metroll does not supply steel formwork.

Stratco

38. Stratco is a manufacturer of a large range of roll formed steel products, with plants in all states in Australia (except Tasmania). Stratco also has its own downstream retail outlets for the supply of roll formed steel products such as sheds. Stratco does not supply steel formwork.

Other roll formers

39. There are numerous other smaller roll formers, which focus on the supply of a smaller range of products and which do not supply nationally. These include roll formers such as Revolution Roofing, Apex, Ace Gutters and Combined Metal Industries.
40. Additionally, there are three roll formers which focus on the supply of steel formwork products. These include steel formwork specialists Formdeck Constructions and Formdeck Australia (both based in Victoria), and Big River Timber (which is based in New South Wales and is primarily a supplier of timber products).

The proposed transaction

41. On 19 August 2013, BlueScope publicly announced agreements to acquire the Fielders and Orrcon Steel businesses from Hills. Both acquisitions were conditional on ACCC clearance.
42. The ACCC also publicly reviewed the Orrcon Steel proposed acquisition and announced on 5 December 2013 that it would not oppose the acquisition. The

ACCC has also published a Public Competition Assessment in respect of the Orrcon Steel review.

Review timeline

43. The following table outlines the timeline of key events in this matter.

Date	Event
04-Sept-2013	ACCC commenced review under the Merger Process Guidelines. Market inquiries commenced.
25-Sept-2013	Closing date for submissions from interested parties.
15-Oct-2013	Former proposed decision date of 31 October 2013 delayed pending receipt of further information from the merger parties. ACCC timeline suspended.
14-Nov-2013	ACCC received further information from the merger parties. ACCC timeline recommenced.
05-Dec-2013	ACCC published a Statement of Issues outlining preliminary competition concerns.
17-Dec-2013	ACCC requested further information from the merger parties.
20-Dec-2013	Closing date for submissions relating to Statement of Issues.
16-Jan-2014	ACCC received further information from the merger parties.
30-Jan-2014	ACCC announced it would not oppose the proposed acquisition.

Statement of Issues

44. The ACCC issued a Statement of Issues (**Sol**) on 5 December 2013. In the Sol, the ACCC identified two issues which raised competition concerns and which required further analysis, and two issues which it considered were unlikely to raise competition concerns.
45. The ACCC considered that the proposed acquisition may raise concerns in relation to BlueScope's ability and incentive to significantly foreclose rival roll formers' access to steel coil inputs. The ACCC noted that BlueScope did not appear to currently engage in a foreclosure strategy, and it was not clear that the proposed acquisition would significantly alter BlueScope's incentive to engage in such a strategy. The ACCC sought further information on this point.
46. The ACCC also considered that the proposed acquisition may raise concerns in relation to the supply of steel formwork on either a national or state basis. The ACCC noted that the merger parties are the main suppliers of steel formwork nationally and in most Australian states, and that the proposed acquisition would result in a significant increase in market concentration. However, the ACCC recognised that the merged firm may be constrained by alternative suppliers, the potential entry of roll formers currently not manufacturing steel formwork and in some cases substitution possibilities with timber formwork.

47. Finally, the ACCC identified that the supply of roll formed steel products (other than steel formwork) and the potential foreclosure of rival distributors' access to customers, were issues which were unlikely to raise competition concerns, but the ACCC invited further submissions on these issues.

Market inquiries

48. The ACCC conducted market inquiries with a range of interested parties, including distributors of steel coil, rival roll formers, customers of roll formed steel products and industry associations.

Future with/without the proposed acquisition

49. Section 50 of the Act prohibits mergers or acquisitions that would have the effect or be likely to have the effect of substantially lessening competition in a market. In assessing a proposed acquisition pursuant to section 50 of the Act, the ACCC considers the effects of the acquisition by comparing the likely future competitive environment post-acquisition if the acquisition proceeds (the "with" position) to the likely future competitive environment if the acquisition does not proceed (the "without" position) to determine whether the proposed acquisition is likely to substantially lessen competition in any relevant market.
50. The ACCC assessed the proposed acquisition against the status quo. Fielders had been the subject of a sale process. In the event that BlueScope did not acquire Fielders, it is likely that Hills would have retained the business or sold Fielders to another independent party or parties.

Areas of overlap

51. Lysaght and Fielders' primary overlap was in the manufacture and supply of roll formed steel products. As outlined below, this overlap was most relevant in South Australia and Western Australia, where Lysaght and Fielders each had a strong presence.
52. Lysaght and Fielders also overlapped in the supply of steel formwork. The ACCC's review of steel formwork was focussed in particular on South Australia where Fielders accounted for a large majority of steel formwork sales, and Lysaght the remainder.

Relevant Markets

53. The ACCC considered the proposed acquisition in the context of the following markets:
- the national markets for the supply of the following inputs to roll formers and other users:
 - painted steel coil (**painted coil**);
 - steel coil coated with a zinc/aluminium alloy or zinc/aluminium/magnesium alloy (aluminium zinc coil);
 - galvanised steel coil (galvanised coil);(collectively, **steel coil inputs**)
 - state markets for the manufacture and supply of roll formed steel products (excluding steel formwork) in each of:

- South Australia/Northern Territory;
- Western Australia;
- New South Wales/Australian Capital Territory;
- Victoria/Tasmania;
- Queensland; and
- either a national market or state-based markets for the manufacture and supply of steel formwork.

54. An overview of these markets is provided below.

Supply of steel coil inputs

Product dimension

55. The ACCC defined separate markets for the supply of painted steel coil, aluminium zinc steel coil and galvanised coil inputs. These inputs are supplied to a wide range of distributors, manufacturers (including roll formers) and other end users.
56. Steel coil inputs utilised by roll formers are differentiated based on chemical properties and other factors which result in specific mechanical properties or grades. These grades are also supplied in numerous thickness and width measurements. Painted coil is further differentiated by colour.
57. The ACCC recognised that the potential for switching between steel coil inputs is limited from the perspective of roll formers. To manufacture specific roll formed steel products (e.g. residential roofing products), roll formers require specific steel coil inputs. For example, a roll former would not generally be able to substitute galvanised coil for painted coil in the manufacture of residential roofing products, due to customer preference for painted coil.
58. However, suppliers of steel coil inputs, such as BlueScope CIPA and overseas steel mills, generally utilise similar manufacturing processes and equipment to supply the full range of steel coil inputs. Further, roll formers often contract to purchase a wide range of products from a single supplier. Therefore, the ACCC did not define narrower markets according to the grades or measurements of steel coil inputs.
59. The ACCC also considered whether to define a separate market for BlueScope's COLORBOND painted steel coil product. Roll formers consider COLORBOND a 'must have' product due to strong customer preferences for its use, particularly in residential applications. However, the ACCC considered that it was preferable to take account of the strong brand loyalty for COLORBOND products within a broader market for painted coil products.

Geographic dimension

60. The ACCC considers that the markets for the supply of steel coil inputs are national. BlueScope CIPA and other suppliers, such as import traders, supply roll formers and other users across Australia.

Supply of roll formed steel products

Product dimension

61. Roll formers utilise steel coil inputs to manufacture products in the following categories:

- roofing and walling, including steel sheeting and cladding;
- rainwater products, such as downpipes and gutters;
- purlins and structural sections (structural components that underpin, for example, roofing and walling products);
- fencing;
- steel formwork; and
- packaged products, such as carports, patios and sheds.

62. The ACCC considered whether it was appropriate to define a separate product market for each category of roll formed steel products. From a customer's perspective there is little scope to substitute a product having one function with another. For example, a customer requiring a roofing product would not be able to utilise a fencing product.
63. However, with the exception of steel formwork, discussed below, the ACCC's market inquiries indicated that, from a supply perspective, roll formers substitute between the different categories with relative ease. Production of the different categories of products employs similar manufacturing processes, requires similar expertise, and while additional machinery may be needed in some cases, the incremental investment is typically not significant.
64. Further, the merger parties and other main suppliers each produce and supply a wide range of product categories. As a result, the ACCC defined a broad product market for roll formed steel products with the exception of steel formwork.
65. The ACCC noted that some non-steel products can be used as substitutes for roll formed steel products. In particular, concrete/slate roof tiles appear to be used as an alternative to roll formed roofing products depending on cost, architect, builder or consumer preference, and the prevalence of the material in the particular area. However, the ACCC concluded that the competitive constraint offered by inter-material substitution is generally weak. Customers of roll formed steel products would not generally switch to alternatives in the event of a small but significant price increase. Accordingly the ACCC adopted a market definition limited to roll formed steel products.

Geographic dimension

66. The ACCC's market inquiries indicated that the supply of roll formed steel products tends to be state based. Roll formers generally operate production facilities close to their customers to meet local demand, and interstate supply of roll formed steel products is generally limited due to freight costs, short lead times, customer preference for local supply and the potential for damage during freight. With the exception of some residential sheds, roll formed steel products are generally not imported.

Supply of steel formwork

Product dimension

67. The ACCC considered that there is a separate market for steel formwork that is distinct from other roll formed steel products.
68. Unlike other roll formed steel products, there are additional barriers to a manufacturer commencing the supply of steel formwork. In particular, there are higher costs involved in developing, testing and producing a steel formwork product that are not present to the same extent with other roll formed steel

products. In addition, market inquiries indicated that there is a lengthy timeframe involved in gaining customer acceptance for a steel formwork product.

69. Due to the limited potential for suppliers of other roll formed steel products to switch to the production of steel formwork without investing in new machinery and testing, the ACCC concluded that the supply of steel formwork is a separate market to the supply of other roll formed steel products.
70. As explained in the Industry Background section, steel formwork's primary purpose is to provide an elevated base on which to pour concrete, but on occasion it has the ancillary function of providing a permanent structural support to the building in question. This allows less concrete to be poured and/or less reinforcement of the concrete than would be possible without the formwork. As a consequence, there is a distinction between steel formwork that is used to have a permanent structural purpose (referred to as 'composite action formwork') and steel formwork that is not used or intended to have a permanent structural purpose (referred to as 'lost formwork').
71. The ACCC considered whether there are distinct product markets for composite action formwork and lost formwork. The ACCC understands that composite action formwork requires a particular 'wave/embossing' to enable it to properly bind with concrete, but this element is used in almost all steel formwork products manufactured in Australia, and only minor alterations to machinery are required by the manufacturer to produce this function. Steel formwork manufacturers commonly sell identical products for each function, generally at the same price, and often are not aware for which purpose the customer is utilising the product.
72. As a result, the ACCC determined that steel formwork that is used for composite action is a segment of the overall supply of steel formwork rather than a distinct product market.

Timber formwork substitution

73. The ACCC's market inquiries indicated that some market participants consider that timber formwork is substitutable with steel formwork. From a demand perspective, the ACCC was aware of instances where construction companies or formwork contractors would switch between steel formwork and timber formwork based on changes in price, construction timeframes and labour availability.
74. The ACCC noted though that it is not possible for steel formwork customers to switch to timber formwork when the steel formwork is intended to have a permanent structural purpose i.e. composite action formwork. Based on information provided to the ACCC it is estimated that steel formwork is used as composite action formwork in approximately 20 – 25% of projects, but that these projects typically involve higher volumes and values than lost formwork.
75. The ACCC took a conservative approach and adopted a narrow product market for the supply of steel formwork. However, the ACCC considered that timber formwork does place some competitive constraint on the supply of steel formwork in certain circumstances. This issue is explored further below in the Competition Assessment.

Geographic dimension

76. The ACCC considered whether the supply of steel formwork, in contrast to the supply of other roll formed steel products, is a national market. While interstate supply of steel formwork is more common than for other roll formed product categories, it represents a small proportion of overall steel formwork sales, with

contracts generally being won by steel formwork suppliers located in the relevant state.

77. The ACCC did not consider it necessary to form a concluded view as to whether the supply of steel formwork is more appropriately defined as state-based or national. The ACCC considered the potential competition effects of the proposed acquisition on both state-based and national markets. To the extent that interstate supply plays a role in state-based markets, the ACCC examined this as a potential constraint in its competition assessment.

Competition Assessment

78. BlueScope is currently the major Australian producer of steel coil inputs, and the acquisition of the Fielders roll forming business increased its vertical integration into the downstream manufacture and supply of roll formed steel products.
79. The ACCC's review found that BlueScope was likely to already have market power in the supply of painted coil inputs to roll formers. The ACCC's review also identified extensive rebate arrangements in place between BlueScope CIPA and roll formers, which require roll formers to source a high overall threshold of steel coil inputs from BlueScope in order to obtain the rebates. However, these rebate arrangements and BlueScope's market power in the supply of painted coil inputs existed prior to the acquisition of Fielders. The acquisition is unlikely to increase any ability or incentive for BlueScope to engage in anti-competitive bundling.
80. The ACCC therefore focussed on two potential theories of harm arising from BlueScope's increased vertical integration:
- whether BlueScope would have the ability and incentive to leverage any market power in the supply of steel coil inputs to raise rival manufacturers' costs by significantly foreclosing the supply of these inputs, potentially reducing competition for the supply of roll formed steel products; and
 - whether BlueScope may have market power in the relevant roll formed markets that it could use to significantly foreclose competing suppliers' (i.e. import traders) access to customers, potentially resulting in a substantial lessening of competition in the supply of steel coil inputs.
81. In addition, BlueScope, through Lysaght, overlapped with Fielders in the manufacture and supply of roll formed steel products, including steel formwork. The ACCC considered whether the aggregation of BlueScope and Fielders would provide the merged firm with the ability to unilaterally increase the price and/or decrease service associated with the supply of:
- steel formwork products on a national or state basis; and
 - roll formed steel products in each geographic market.
82. These theories are considered below in the order that they appeared in the Sol.

Foreclosure of rival roll formers' access to steel coil inputs

83. The ACCC considered whether the proposed acquisition would result in BlueScope having the ability and incentive to significantly foreclose rival roll formers' access to steel coil inputs, or to supply them on discriminatory terms (such as price, service or other terms of supply). Such conduct would raise rival roll formers' costs.

BlueScope's ability to foreclose

84. The ACCC concluded that BlueScope was likely to already have market power in the supply of painted coil inputs to roll formers, prior to the acquisition of Fielders. The ACCC's market inquiries identified that market participants generally considered that alternative painted coil products, including imports, are not a strong substitute for BlueScope's COLORBOND painted steel coil products utilised in residential applications.
85. End-use customers of roll formed steel products, such as builders often do not accept non-COLORBOND products for residential applications and architects and/or engineers often specify the use of COLORBOND in construction plans. Also, unlike other steel coil inputs, BlueScope's pricing of the key COLORBOND product utilised in residential roll formed steel products is not affected by the import prices of alternative painted coil products
86. As a consequence, the ACCC's assessment of the potential for the proposed acquisition to raise rival roll formers' costs focussed on the extent to which the proposed acquisition would alter BlueScope's *incentive* to foreclose supply of steel coil inputs or to supply them to rival roll formers on discriminatory terms, as discussed below.

BlueScope's incentive to foreclose

87. BlueScope is already vertically integrated into roll forming through its subsidiary Lysaght. The ACCC concluded that BlueScope CIPA does not currently discriminate against roll forming competitors of Lysaght by offering materially less favourable prices or other terms for the supply of roll forming inputs than those on which it supplies these inputs to Lysaght.
88. The ACCC received mixed feedback from the market as to whether BlueScope's incentive to engage in a foreclosure strategy would increase as a result of the proposed acquisition. While some parties expressed concern that BlueScope would have an increased incentive to engage in a (partial) foreclosure strategy by increasing the price of steel coil inputs, others submitted that the proposed acquisition would not alter BlueScope's incentives and it would continue to supply its downstream rivals with steel coil inputs at competitive prices and terms.
89. The ACCC found that the proposed acquisition would result in a significant increase in BlueScope's share of roll forming volumes in South Australia and Western Australia. The ACCC considered whether the increase in the size of BlueScope's roll forming business in Western Australia and South Australia could increase its incentive to engage in such a foreclosure strategy, as BlueScope would have a higher sales base over which to enjoy higher margins should it be successful in raising its competitors' prices and/or because it would capture a greater share of customers lost by its rivals
90. The ACCC considered this potential competition issue was less likely to be a concern in other Australian states, such as Victoria and New South Wales, where Fielders had a relatively small market share.
91. The ACCC concluded that BlueScope's incentive structure appeared to be aligned to maintaining competitive supply to rival roll formers, even in states where its market share increased significantly, due to the following factors:
 - the fixed nature of production at BlueScope's Port Kembla steelworks;

- the greater profit margins BlueScope earns on the supply of steel coil inputs to roll formers compared to the margins on its supply of roll formed steel products; and
 - BlueScope's current national pricing strategy.
92. The ACCC considered that BlueScope would maintain strong economic incentives to maximise domestic sales volumes of steel coil inputs due to its raw steel production volume at its Port Kembla steelworks being fixed. The nature of steel production means that it is not possible to lower raw steel output without shutting down the blast furnace(s). As BlueScope's Port Kembla steelworks currently has one furnace in operation it produces a fixed volume of steel slab per year which is either transformed into steel products to be supplied domestically or exported.
93. BlueScope earns greater margins on the supply of domestic steel products, including steel coil inputs, than it does through exporting steel slab. Further, it earns greater margins supplying steel coil inputs to roll formers than it does on Lysaght's supply of roll formed steel products.
94. Furthermore, BlueScope generally prices its steel coil inputs, including painted coil inputs, on a national basis when supplying to the large national roll formers. As a consequence, were it to attempt to exploit any increased incentive to foreclose in states where it would experience a significant increase in market share, such as South Australia and Western Australia, it would need to alter its pricing strategy. Any such change in pricing may be defeated by national roll formers sourcing inputs from interstate.

Conclusion – foreclosure of rival roll formers' access to steel coil inputs

95. The ACCC considered that BlueScope already had market power in respect of the supply of painted coil inputs to roll formers. However, the ACCC concluded that the proposed acquisition would not increase this level of market power. Further, the ACCC was of the view that the proposed acquisition was unlikely to materially increase BlueScope's incentive to foreclose rival roll formers' access to inputs.
96. The ACCC found that BlueScope does not currently discriminate against rival roll formers, including in states where Lysaght currently has a high market share and BlueScope's incentives are likely to be aligned with maintaining competitive supply to rivals.

Supply of steel formwork

97. The ACCC considered whether the horizontal aggregation of Lysaght and Fielders would result in a substantial lessening of competition in the supply of steel formwork on either a national or individual state basis.
98. The ACCC's market inquiries identified that the merger parties are the two largest suppliers of steel formwork nationally and in all states with the exception of Victoria. The proposed acquisition would result in a significant increase in market concentration in all states, and particularly in New South Wales, Western Australia and South Australia.

Alternative suppliers

99. Based on information provided by market participants and the merger parties, the ACCC determined that Lysaght and Fielders were close competitors in the supply of steel formwork. Some market participants considered that Fielders and

Lysaght were particularly close competitors in the supply of steel formwork used as composite action formwork.

100. Nevertheless, the ACCC's market inquiries identified alternative suppliers which would competitively constrain the merged firm, particularly in certain states.
101. The presence of alternative suppliers of steel formwork varies depending on the state in question, with Stramit the only alternative supplier with a national presence (with the exception of South Australia). The ACCC's market inquiries indicated that Stramit, with its Condeck steel formwork product, would continue to provide a viable alternative to the merged firm in the states it supplies including when steel formwork is utilised as composite action formwork.
102. In addition to Stramit, there are a small number of alternative suppliers in some states. In New South Wales, Big River Timber appears to be a viable alternative. In Victoria, both Formdeck Construction and Formdeck Australia appear to be strong competitors and are used regularly by large construction companies in significant developments. Further, these alternative suppliers' steel formwork products are accepted as comparable or fit for purpose when used as composite action formwork and are regularly supplied to customers as an alternative to BlueScope and Fielders.
103. The ACCC considered that in these relevant states the alternative suppliers would provide an effective competitive constraint on the merged firm.

South Australia and interstate supply

104. On a state market basis, the ACCC considered in detail the potential competition issues in South Australia. Fielders accounted for the large majority of steel formwork sales in South Australia with Lysaght comprising the remainder. Lysaght does not manufacture steel formwork in South Australia and supplies customers by transporting products from its Melbourne site.
105. While Lysaght supplies relatively small volumes of steel formwork into South Australia, it appears that Lysaght has been active in competing for projects. Alternative providers based in other states appear to supply into South Australia on limited occasions.
106. Based on the ACCC's assessment of transport costs and examples of steel formwork manufacturers supplying interstate customers (in particular, Lysaght into South Australia) the ACCC concluded that were the merged firm to attempt to increase price then rival suppliers would consider supply into South Australia. This would particularly be the case with larger construction projects where the volumes of steel formwork involved would result in savings per tonne in terms of transport costs.
107. Further, as explored below, the likelihood of entry from national roll formers and the ability of steel formwork customers to substitute with timber formwork in a proportion of cases would continue to provide a degree of competitive constraint on the merged firm in South Australia.

Likelihood of entry

108. The ACCC considered that the threat of new entry, particularly from national roll formers, is likely to place some constraint on the merged firm.
109. Market inquiries on the barriers to entry to supplying steel formwork were mixed. The costs involved in developing, testing and producing a steel formwork product are higher than other roll formed steel products. This is particularly the case with supplying steel formwork that is accepted by most customers as being suitable

for use as composite action formwork. However, the ACCC was aware of instances where small steel formwork suppliers have entered based on a low cost model without the product development costs incurred by larger roll formers.

110. The ACCC considered that the costs of entry would not be prohibitive for national large roll formers such as Metroll and Stratco. In particular, these roll formers would be able to leverage off established facilities, product development capabilities, staffing and customer awareness to credibly threaten entry in the event the merged firm attempted to increase prices and/or decrease service. These national roll formers would likely represent a credible threat of entry and provide a competitive constraint on the merged firm.

Constraint provided by timber formwork

111. The ACCC's market inquiries identified that timber formwork may be used as an alternative to steel formwork when it is not intended to have a permanent structural purpose. The ACCC's market inquiries indicated that formwork installers sometimes switch between timber formwork and steel formwork based on price, availability of labour and the construction project in question. Some customers submitted that in most cases, in the event of a price rise from the merged firm, they would switch to timber formwork. Accordingly the ACCC recognised that the availability of timber formwork would exercise some competitive constraint on the merged firm's supply of steel formwork.

Conclusion – supply of steel formwork

112. The ACCC noted that Lysaght and Fielders are the main suppliers of steel formwork on a national and state basis and the proposed acquisition would remove Fielders as a significant alternative supplier for steel formwork customers. However, the ACCC concluded that this would be unlikely to result in a substantial lessening of competition.
113. The ACCC considered that the merged firm is likely to be constrained in the supply of steel formwork by:
- the presence of alternative suppliers, in particular Stramit, and in most states smaller locally based suppliers;
 - a credible threat of entry from other nationally based roll formers; and
 - a degree of inter-material substitution with timber formwork.

Supply of roll formed steel products

114. The ACCC considered whether the aggregation of Lysaght and Fielders would enable the merged firm to unilaterally raise prices or decrease customer service in the supply of roll formed steel products other than steel formwork.
115. The ACCC considered the effect of the proposed acquisition on state-based markets. Market inquiries generally identified that customers were not concerned with the effect of the proposed acquisition on the supply of roll formed steel products in Queensland, New South Wales and Victoria/Tasmania. In these states, Fielders currently has a relatively small presence.
116. However, the proposed acquisition would significantly increase market concentration in South Australia and Western Australia, as Fielders is one of the largest suppliers in both these states.

Alternative suppliers

117. Nevertheless, the ACCC determined that a number of competitors would constrain the merged firm in South Australia and Western Australia. Some customers of roll formed steel products in these states submitted to the ACCC that Lysaght and Fielders are each other's closest competitors. However, the ACCC identified multiple alternative manufacturers that would continue to compete against the merged firm with similar product ranges.
118. In particular, the ACCC found that competing roll formers, such as Metroll and Stratco, are likely to constrain the merged firm as they have substantial excess capacity due to weak demand both currently, and in the foreseeable future.
119. In addition, switching costs are low for customers. As there is little product differentiation between suppliers, products from different roll formers are substitutable. Customers indicated that they generally have accounts with several roll formers, and regularly switch between suppliers on a project by project basis, based on cost and availability.
120. In the ACCC's market inquiries, some market participants suggested that Fielders generally offers competitive pricing and service. However, other market participants did not identify any material differences between Fielders and other major national roll formers. The ACCC found that all major roll formers compete strongly for customers due to an environment of excess capacity, limited product differentiation and low switching costs.

Likelihood of entry

121. The ACCC's market inquiries indicated that there are no significant barriers to entry in terms of sunk costs, technical expertise, regulatory compliance or distribution. The ACCC identified examples of successful small-scale entry and expansion to roll forming markets in South Australia and Western Australia in the last five years.
122. Nevertheless, the ACCC decided that the threat of new entry would be unlikely to constrain the merged firm. In particular, incumbent suppliers have significant excess capacity, at least in the context of current customer demand and in the foreseeable future. This is likely to represent a significant strategic barrier to entry given the potential threat of retaliation, in terms of pricing, by incumbents in response to a new supplier.

Conclusion – supply of roll formed steel products

123. The ACCC concluded that the proposed acquisition would be unlikely to result in a substantial lessening of competition for the supply of roll formed steel products in the relevant markets. The existence of significant alternative suppliers, such as Stramit, Stratco and Metroll, with excess capacity is likely to constrain the merged firm from unilaterally raising prices or decreasing service.

Foreclosure of rival steel coil suppliers' access to customers

124. The ACCC considered whether BlueScope's rivals for the supply of steel coil inputs (i.e. import traders and distributors) would lack sufficient alternative customers following the loss of Fielders as an independent customer for steel coil inputs. This could reduce rivals' economies of scale, thereby increasing their costs and reducing competition to BlueScope.

125. The ACCC concluded that the acquisition was unlikely to cause a substantial lessening of competition in the markets for the supply of steel coil inputs. This conclusion was informed by the potential for rival suppliers to supply other Australian roll formers, including smaller local roll formers, or to supply steel products directly to end users other than roll formers. The ACCC also noted that Fielders was already sourcing the vast majority of its steel coil inputs from BlueScope, and was likely to continue to do so regardless of the proposed acquisition due to BlueScope's rebate arrangements.

Conclusion

126. On the basis of the above the ACCC formed the view that BlueScope's proposed acquisition of Fielders would not be likely to result in a substantial lessening of competition in any market in contravention of section 50 of the Act.