



Public Competition Assessment

4 August 2014

BlueScope Steel Ltd – proposed acquisition of the OneSteel Sheet & Coil business from Arrium Limited

Introduction

1. On 6 March 2014, the Australian Competition and Consumer Commission (**ACCC**) announced its decision not to oppose the proposed acquisition of certain assets of the OneSteel Sheet and Coil business and other associated entities (**OS&C**) from Arrium Limited by BlueScope Steel Ltd (**BlueScope**) (the **proposed acquisition**), subject to a court enforceable undertaking (the **undertaking**) pursuant to section 87B of the Competition and Consumer Act 2010 (the **Act**).
2. The ACCC decided that, with the undertaking, the proposed acquisition would be unlikely to have the effect of substantially lessening competition in any market in contravention of section 50 of the Act.
3. 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

4. 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.
5. 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 and is subject to a court enforceable undertaking.
6. 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.

7. 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.
8. 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 refer to any confidential information or its sources.
9. 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

10. BlueScope is a large vertically integrated steel manufacturer and distributor listed on the Australian Securities Exchange (**ASX**).
11. 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.
12. In addition to CIPA, BlueScope owns and operates a number of businesses at various levels of the flat steel supply chain, including in steel products distribution and processing and steel product manufacturing. Of particular relevance to the proposed acquisition are BlueScope's sheet and coil distribution businesses.

Sheet Metal Supplies and Impact Steel

13. Sheet Metal Supplies (**SMS**) and Impact Steel are BlueScope's sheet and coil processing and distribution subsidiaries. They both process and distribute flat steel products throughout Australia to customers in a range of industries including residential and non-residential construction, mining, transport, automotive components, farming and other manufacturing sectors.
14. BlueScope also has a steel and tube distribution subsidiary called BlueScope Distribution. It distributes mainly long steel products (for example, pipe and tube products) and steel plate.

Arrium

15. Arrium (formerly OneSteel) is an international mining and materials company listed on the ASX. Of most relevance to the proposed acquisition is Arrium's sheet and coil processing and distribution business.
16. The ACCC also notes, although unrelated to the proposed acquisition, that Arrium's OneSteel Manufacturing business is the only manufacturer of long steel products in Australia.

The target: OS&C

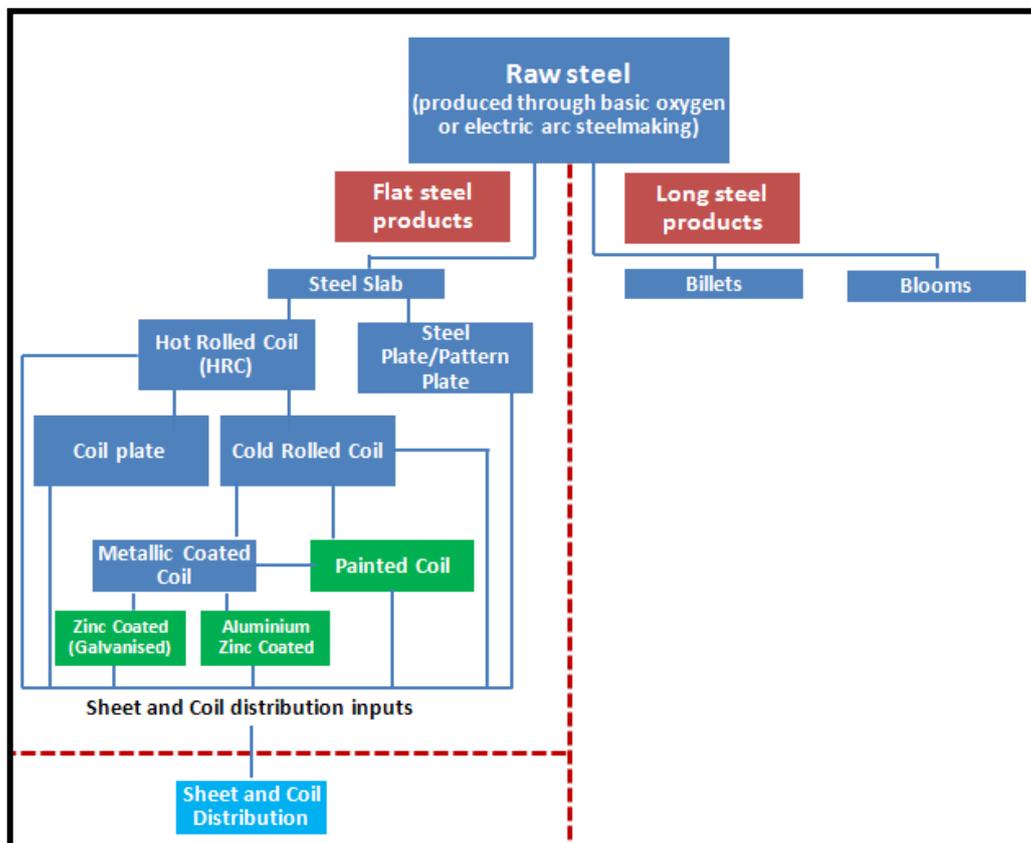
- OS&C is a processor and distributor of flat steel products including hot rolled coil (HRC), plate, cold rolled coil (CRC), galvanized coil, aluminium zinc coated coil, and painted coil. OS&C operates from four sites in Granville (Sydney), Hemmant (Brisbane), Kilburn (Adelaide) and Bibra Lake (Perth).

Industry Background

Flat steel products

- 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.
- Steel producers use inputs such as iron ore, coal and steel scrap to form raw steel either through the method of 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 then undergoes further processing to produce a range of 'flat' steel products. Billets and blooms are further processed into 'long' steel products. It is flat steel products which are relevant to the proposed acquisition.
- Flat steel products are steel products produced from steel slab. Specifically, steel slab is reheated and passed through a rolling mill to produce HRC or a form of 'steel plate'. HRC may be subject to further processing to manufacture CRC and coil plate. CRC may be sold 'as is', or may undergo further processing to produce 'metallic coated steel/coil' or 'painted steel/coil'. **Figure 1** shows the place of sheet and coil distribution in the flat steel supply chain, which is relevant to the proposed acquisition.

Figure 1: Sheet and Coil distribution in the flat steel supply chain



21. As noted above, with the limited exception of some painted coil products, BlueScope CIPA is the only Australian manufacturer of flat steel products. These flat steel products are then supplied by BlueScope CIPA to manufacturers for use as inputs to further downstream manufacturing (such as roll-forming, pipe and tube manufacturing, other general manufacturing such as automotive). BlueScope CIPA also supplies these flat steel products to sheet and coil distributors.
22. The other source of flat steel products is via imports, either directly from an overseas steel mill or through an Australian based import trader. Imports may be in a processed or unprocessed form.
23. Relevant to the proposed acquisition is the processing and distribution of sheet and coil products. This industry sector is outlined below.

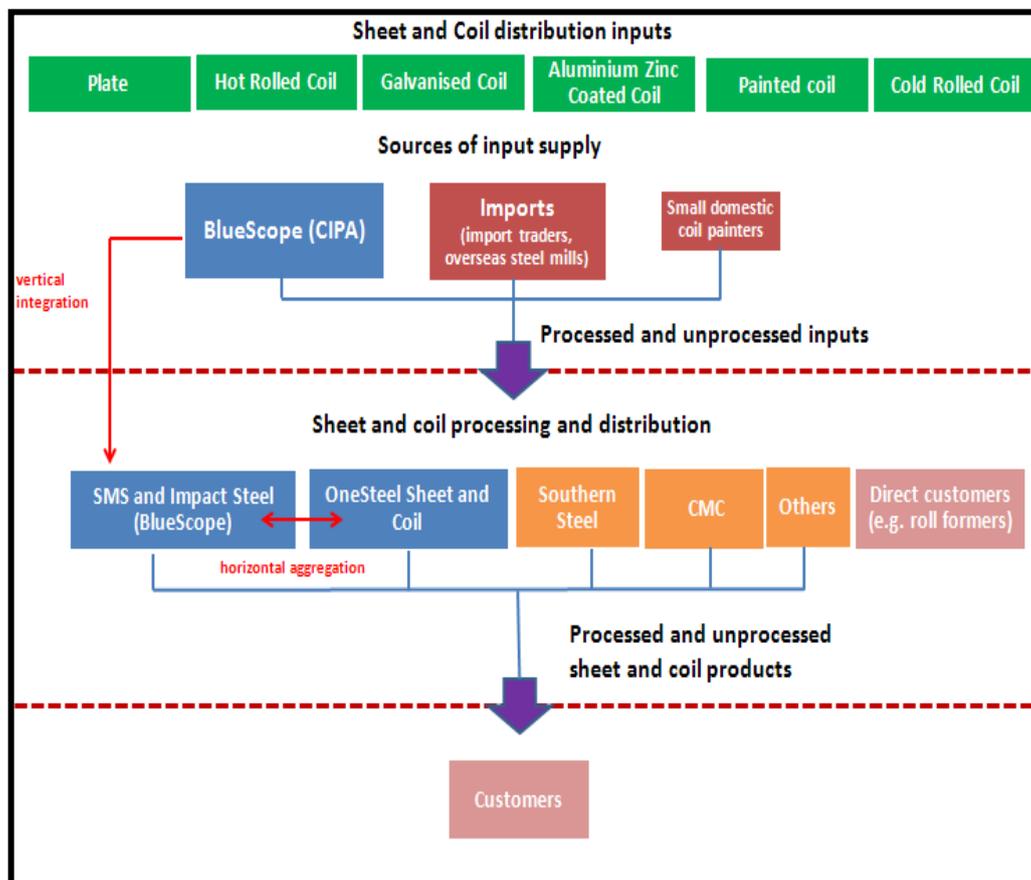
Sheet and coil processing and distribution

24. Sheet and coil distributors generally sell the main flat steel product categories being HRC, plate, CRC, galvanized coil, aluminium zinc coated coil and painted coil. Sheet and coil distributors source inputs from either BlueScope CIPA or through imports. Imports are sourced either via locally based traders or directly from overseas steel mills.
25. Sheet and coil distributors can be vertically integrated with a steel mill, as is the case with SMS, or they can be a BlueScope-aligned distributor where they choose to purchase the bulk of their inputs from BlueScope, or they may be independent purchasers of steel products that source from a mix of BlueScope CIPA and imports or solely from imports.
26. Sheet and coil distributors in most cases do not stock long steel products, such as merchant bar and structural pipe and tube products. These products are distributed by what the industry refers to as 'steel and tube' distributors. In some limited cases, particularly in regional areas, a distributor may stock both flat and long steel products, however these instances appear to be rare due to different customer profiles and distinct storage and processing equipment requirements.
27. Sheet and coil products may be distributed as unprocessed (i.e. ex-mill) or processed. The processing function in sheet and coil distribution is outlined below.
28. Distributors form a link between the steel mills and customers who, due to the size of their purchasing, are not able to obtain supply directly from a steel mill. The other features or characteristics of sheet and coil distribution compared to supply from a steel mill are:
 - distributors are located close to customers (there are distribution outlets in each of the major metropolitan centres);
 - distributors provide a wide product range, short order to delivery times, low minimum volumes and other associated services such as product support and less onerous credit terms than if the customer were to acquire steel direct from a manufacturer; and
 - some distributors offer processing services.
29. Customers that acquire sheet and coil direct from steel mills, as opposed to through a distributor, tend to be large manufacturers with the requisite large volume of demand to purchase product direct. These customers also have sizeable warehouse space to store large volumes of sheet and coil products and the cash flow to pay mills for large volumes of sheet and coil.

Processing

30. Some sheet and coil distributors have in-house processing capability through the presence of slitting (cutting steel coil length-wise), and/or shearing (cutting steel coil cross-wise) and/or recoiling equipment. Processing enables the distributor to supply individual customers with sheet and coil products that meet their dimensional requirements. The distributor undertakes the processing function at its site prior to delivery to the customer's premises. It appears that a large proportion of sheet and coil distribution customers require processed sheet and coil in some form.
31. The common industry practice is for sheet and coil distributors without in-house processing capability to enter into 'toll processing' arrangements with rival distributors that do have in-house processing capability, or in some cases standalone processing businesses. Toll processing arrangements enable distributors without in-house processing capability to supply processed sheet and coil products. Processing is discussed further below in the market definition section.
32. Figure 2 provides a broad representation of the sheet and coil distribution supply chain and the proposed acquisition's place in the supply chain.

Figure 2: Sheet and coil distribution and the proposed acquisition



Other industry participants

Southern Steel Group (Southern Steel)

33. Southern Steel is a large privately owned steel distributor. It provides processing and distribution services for a range of flat steel products from sites in Sydney, Melbourne, Brisbane and Adelaide. Brice Metals is a subsidiary of Southern Steel based in South Australia.

CMC Australia (CMC)

34. CMC is part of a global steel recycling, manufacturing, fabricating and trading company (Commercial Metals Company). CMC processes and distributes sheet and coil from sites in Sydney, Melbourne and Brisbane. CMC also distributes sheet and coil products from a site in Perth but does not offer processing services.

Selection Steel Group (Selection Steel)

35. Selection Steel is predominantly an importer of flat steel products and distributor from a number of sites throughout Australia. Selection Steel has processing equipment in Melbourne and utilises toll processing arrangements in other states.

Apex Steel

36. Apex Steel is a sheet and coil distributor with sites in New South Wales, Queensland, Victoria and South Australia. Apex Steel has processing equipment in New South Wales and Victoria and utilises toll processing arrangements in other states.

Vulcan Steel

37. Vulcan Steel is based in Brisbane providing distribution and processing services for a range of flat steel products in Queensland.

The proposed transaction

38. On 14 October 2013, BlueScope announced that it proposed to acquire from Arrium certain assets of the OS&C processing and distribution business.
39. At that time, the ACCC was also conducting simultaneous public reviews of BlueScope's proposed acquisitions of certain assets of:
- the Orrcon Steel pipe and tube manufacturing and steel and tube distribution businesses; and
 - the Fielders roll formed products business,
- both from Hills Holdings Limited.
40. The ACCC announced on 5 December 2013 that it would not oppose the Orrcon Steel proposed acquisition. The ACCC published a Statement of Issues in respect of the Fielders acquisition on 5 December 2013 and announced that it would not oppose the proposed acquisition on 30 January 2014. The ACCC has published Public Competition Assessments in both these matters.

Review timeline

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

Date	Event
15 October 2013	ACCC commenced review under the Merger Review Process Guidelines.
1 November 2013	Closing date for submissions from interested parties. ACCC assessing information provided during market inquiries and consulting with merger parties on any relevant issues or concerns arising.

14 November 2013	ACCC requested further information from merger parties.
3 December 2013	ACCC received further information from the merger parties. ACCC amended former provisional date for announcement of findings (5 December).
19 December 2013	ACCC published a Statement of Issues outlining preliminary competition concerns.
24 January 2014	Closing date for submissions relating to Statement of Issues. ACCC assessing information provided during market inquiries and consulting with merger parties on relevant issues or concerns arising.
7 February 2014	Draft s87B undertaking proffered by BlueScope.
11 February 2014	ACCC commenced market inquiries on draft s87B undertaking.
12 February 2014	Closing date for submissions regarding BlueScope's draft s87B undertaking.
6 March 2014	ACCC announced it would not oppose the proposed acquisition subject to an undertaking accepted by the ACCC.

Statement of Issues

42. The ACCC issued a Statement of Issues (**Sol**) on 19 December 2013. In the Sol, the ACCC identified one issue which raised significant competition concerns, and three issues which it considered were unlikely to raise competition concerns.
43. The ACCC considered that the proposed acquisition was likely to result in a substantial lessening of competition in the sheet and coil processing and distribution market in Western Australia. The ACCC noted that BlueScope and OS&C were each other's closest competitors in Western Australia. In particular, market inquiries indicated that BlueScope and OS&C were the only significant distributors with processing capability. Due to this processing capability, for a large pool of customers, the merger parties were considered the only viable alternatives for the distribution of sheet and coil products.
44. In the Sol the ACCC expressed the preliminary view that the merged firm would be unlikely to be constrained by alternative distributors, such as CMC, and the ability of customers to utilise direct imports of processed sheet and coil products.
45. The ACCC identified in the Sol that the proposed acquisition was unlikely to raise competition concerns in regard to:
 - sheet and coil distribution in other markets;
 - rival sheet and coil distributors' access to inputs; and
 - rival sheet and coil distribution input suppliers' access to customers.

Market inquiries

46. The ACCC conducted market inquiries with a range of interested parties, including rival distributors, customers of distributors and industry associations. Following the release of the Sol and the provision of the draft undertaking by BlueScope, market inquiries focused on customers and distributors in Western Australia and whether the undertaking would remedy the ACCC's competition concerns.

Future with/without the proposed acquisition

47. 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.
48. Arrium publicly indicated its intention to divest its non-integrated steel businesses, including OS&C. The ACCC considered that absent the proposed acquisition Arrium would look to divest OS&C in its entirety to another purchaser or would sell individual sites and associated assets (e.g. processing equipment) to other purchasers. As a consequence, the ACCC concluded that in the absence of the proposed acquisition, the OS&C business and its associated assets would remain in the relevant markets as an independent alternative to BlueScope's sheet and coil distribution businesses.

Areas of overlap

49. BlueScope and OS&C overlapped in sheet and coil processing and distribution in the following regions:
- North-Eastern Australia (centred in Brisbane);
 - Central-Eastern Australia (centred in Sydney);
 - South Australia (centred in Adelaide); and
 - Western Australia (centred in Perth).

Relevant Markets

50. The ACCC considered the proposed acquisition in the context of the following markets:
- regional markets for sheet and coil processing and distribution in:
 - North-Eastern Australia;
 - Central-Eastern Australia;
 - South Australia; and
 - Western Australia.
 - national markets for the supply of each of the following sheet and coil distribution inputs:
 - plate;
 - HRC;
 - galvanised coil;

- aluminium zinc coil;
 - CRC; and
 - painted coil,
- (collectively, **sheet and coil distribution inputs**).

51. An overview of these markets is provided below.

Sheet and coil processing and distribution

Product dimension

52. Sheet and coil distributors supply a range of flat steel products, including HRC, CRC, galvanised coil, aluminium zinc coil, and painted coil in both processed and unprocessed forms. To the extent that distributors do not offer a certain product category, it appears they can readily expand utilising their existing warehousing and equipment to offer a wider range. These products can be sourced with relative ease from either BlueScope CIPA or through imports.
53. The ACCC considered that distributors can be distinguished by whether they have in-house processing capability (e.g. shearing and slitting equipment) or not. Distributors that have in-house processing capability distribute processed and unprocessed products, and may offer toll processing to distributors that do not have processing capability. Distributors that do not have in-house processing capability supply unprocessed products, and may also supply processed products through utilising a toll processing arrangement.
54. The equipment necessary to offer processing services (e.g. a shear line) is capital intensive, involves economies of scale such that minimum efficient scale may be large relative to market size, takes a lengthy period to source and install and also consumes a significant area of land. For these reasons, smaller distributors often enter into toll processing agreements with distributors that have processing equipment (or standalone processing businesses). The ability of distributors to enter a toll processing agreement on competitive terms will be dependent on the number of parties that offer such services in the geographic area.
55. In most markets customers generally do not distinguish between distributors that have processing capability and those that do not. The industry practice of entering into toll processing arrangements means that distributors without processing capability may often be substitutable from a customer perspective with distributors that do have processing capability.
56. Due to specific end-use requirements, there is little scope for demand side substitution between various sheet and coil products (e.g. HRC and CRC), and further between specific grades and dimensions of products. In addition, there is no scope to substitute between processed sheet and coil products and unprocessed sheet and coil products. A customer that requires coil to be slitted to a particular dimension would not consider non-slitted coil to be an alternative.
57. In addition, in most cases direct imports by customers of unprocessed, and in particular processed, products are not a substitute for domestic sheet and coil products distributed by companies such as OS&C. Customers in most cases do not have the volume requirements to make direct purchases from a steel mill or via an intermediary (e.g. import traders) viable. Further, direct imports by customers face other barriers such as the lengthy timeframes for delivery, difficulty matching supply volumes with demand, and the risk of damage to product during shipment.

58. The ACCC concluded that for the purposes of considering the proposed acquisition, a broad market encompassing distributors with and without processing capability was appropriate. Nonetheless, the ACCC noted that BlueScope and OS&C had processing capabilities at all sites and as a consequence the focus of the ACCC's review was on whether the removal of OS&C as a distributor with processing capability, including offering toll processing arrangements to rival distributors, would impact on the large set of customers that require processed sheet and coil products.

Geographic dimension

59. As noted above BlueScope and OS&C overlapped in four separate regions of Australia (Western Australia, South Australia, North-Eastern Australia and Central-Eastern Australia). The ACCC considered that these regions represent relevant geographic markets for considering the proposed acquisition. Market inquiries indicated that due to high transport costs and the need for short delivery times, customers did not consider that distributors located in another region are alternatives to a closely located distributor.

Supply of sheet and coil distribution inputs

Product dimension

60. The following flat steel products are the key product inputs into sheet and coil distribution:
- plate;
 - HRC;
 - galvanised coil;
 - aluminium zinc coil;
 - CRC; and
 - painted coil.
61. Due to the specific end use requirements of their customers, distributors are not able to substitute between the different types of input (e.g. HRC and galvanised coil) and grades and dimensions of coil.
62. Most suppliers of inputs (BlueScope CIPA, import traders, overseas steel mills) supply a wide range of the flat steel inputs in the grades and dimensions required by Australian sheet and coil distributors. As a consequence, the ACCC concluded that it was appropriate to define separate product markets for each of the main sheet and coil distribution inputs as opposed to narrower markets based on other factors, such as grade or dimension. In the competition assessment below the ACCC has referred to these separate product markets as collectively 'sheet and coil distribution inputs'.

Geographic dimension

63. The ACCC concluded that the geographic scope of the sheet and coil distribution input markets is national. BlueScope CIPA from its Port Kembla steelworks and other suppliers, such as import traders, supply sheet and coil distributors across Australia.

Competition Assessment

64. As noted above, BlueScope and OS&C overlapped in sheet and coil distribution in four regions. As a consequence, the ACCC considered whether the aggregation of BlueScope and OS&C would provide the merged firm with the ability to unilaterally

increase the price and/or decrease service in sheet and coil distribution in each of these regions.

65. The ACCC also considered the potential competition issues resulting from the proposed acquisition by virtue of BlueScope being the only Australian manufacturer of almost all sheet and coil distribution inputs. The acquisition of OS&C would increase BlueScope's vertical integration into sheet and coil distribution. This increased vertical integration raised two potential theories of harm which were considered by the ACCC:
- whether BlueScope would have the ability and incentive to raise rival distributors' costs by foreclosing the supply of these inputs, potentially reducing competition in sheet and coil distribution in the relevant regional markets; and
 - whether BlueScope may have the ability and incentive to significantly foreclose competing suppliers' (i.e. import traders) access to customers, potentially resulting in a substantial lessening of competition in the supply of sheet and coil distribution inputs.
66. These potential competition issues are considered below.

Reduced competition in sheet and coil distribution in Western Australia

67. Market inquiries prior to the publication of the Sol indicated that the horizontal aggregation of BlueScope and OS&C was most likely to raise competition concerns in the sheet and coil distribution market in Western Australia. The Sol considered that the removal of OS&C as a distributor with processing capability would likely provide BlueScope with unilateral market power to increase prices and/or decrease service in that region.

Closeness of competition and alternative distributors

68. The ACCC's investigation found BlueScope and OS&C to be each other's closest competitors in sheet and coil distribution in Western Australia. In particular, the merger parties competed closely in respect of pricing, service, range of products and terms of delivery for the processing and distribution of sheet and coil products.
69. Importantly the merger parties were the only two significant sheet and coil distributors in Western Australia with processing capability. For a large pool of customers the merger parties were considered the main alternatives for sheet and coil distribution.
70. Market inquiries indicated that OS&C was considered by many customers as a strong competitor which regularly offered sheet and coil products at lower prices than BlueScope and on more favourable terms of supply, including longer payment periods. In addition, OS&C offered customers imported sheet and coil products, including products requested by individual customers. The ACCC considered that post-acquisition BlueScope would be unlikely to offer imported sheet and coil products due to its vertically integrated sheet and coil manufacturing operations in BlueScope CIPA.
71. The ACCC concluded that post-acquisition alternative distributors were unlikely to impose a strong competitive constraint on the merged firm's sheet and coil distribution business in Western Australia. Alternative sheet and coil distributors in Western Australia, including CMC, West Coast Steel and Brice Metals, do not have their own processing capability and would be dependent on the merged firm for access to toll processing arrangements. This would limit their ability to compete for the large pool of customers who require processed flat steel products. In addition, customers expressed the view that these alternative distributors were not competitive with the merger parties in terms of price and product range.
72. Smaller distributors and new entrants in regions other than Western Australia often rely on toll processing arrangements in order to offer processed sheet and coil

products. In these regions there are a number of distributors that offer toll processing. However, in Western Australia it is only the merger parties that offer toll processing arrangements to other distributors. Post-acquisition the ability of rival distributors without processing capability, such as CMC and West Coast Steel, to provide a constraint on the merged firm would be further restricted through only having the merged firm as an option for a toll processing arrangement.

Imports as an alternative

73. The ACCC concluded that direct imports of processed and unprocessed sheet and coil products would not be a strong alternative to the merged firm post-acquisition.
74. The ACCC was aware of instances where large customers in Western Australia directly imported unprocessed and processed sheet and coil products. Imports are often managed on the customer's behalf by an import trader or distributor, such as Brice Metals, and are transported to Perth and then delivered to the customer's site.
75. The ACCC found that direct imports by customers tend to be only feasible for customers that utilise large volumes of sheet and coil products and have predictable manufacturing operations and downstream demand for their products. The lengthy lead time (3 – 4 months) associated with the delivery of imports means they are not suitable for customers that utilise the sheet and coil products in the manufacture of items that have variable demand or short lead times for delivery, such as project based work.
76. Market inquiries with large customers also indicated that barriers to utilising direct imports include the need for additional warehousing at the customer's site to store the coil and the cash flow implications of having to order large volumes of inventory that have a long lead time for delivery.
77. To the extent that processed sheet and coil products are imported it tends to be by large customers that import in standard dimensions, not customised dimensions which often requires further processing. Imports of processed products appear to be sporadic in nature and often on a spot basis. The ACCC understands that imported processed product is much more susceptible to damage than unprocessed product. The ACCC considered that direct imports would not represent a competitive alternative to the supply of processed sheet and coil products from the merged firm.

Barriers to entry and expansion

78. The ACCC concluded that barriers to entry and expansion in sheet and coil distribution are high and the merged firm would not be constrained by the threat of entry.
79. In order to provide a viable constraint on the merged firm the ACCC considered that any new entrant or expanding incumbent would require processing capability either by buying processing equipment or entering into tolling arrangements with a third party.
80. Distributors submitted to the ACCC that the cost of new processing equipment (shear and slitting lines) is capital intensive, approximately \$4–5 million, particularly in a market of low or declining demand. The market for second hand equipment appears to be limited. Further, market inquiries indicated that a distributor would be reluctant to invest this capital, adding significant additional capacity to a market which is experiencing negative sales growth and low profitability, and with incumbent distributors currently having significant excess capacity that could be deployed against any new entrant or expanding distributor.
81. The timeframe for installing and making operational the processing equipment would be approximately 12 – 18 months and the equipment requires a significant area of land at a distribution site.

82. Based on market inquiries, the ACCC considered that if the merged firm were to increase prices and/or decrease service, it would be unlikely that rival distributors or potential new entrants (e.g. distributors based in other regions) would invest in the processing capability and incur the other associated entry/expansion costs necessary to constrain the merged firm.
83. The ACCC also considered that the proposed acquisition was likely to raise barriers to entry and expansion for sheet and coil distribution in Western Australia. Some sheet and coil distributors have previously utilised toll processing arrangements as a means to facilitate entry in other markets and build up a critical mass of customers prior to making a decision on whether investment in processing capability is warranted.
84. The merger would result in BlueScope being the only significant provider of toll processing arrangements in Western Australia and would decrease its incentive to offer a new entrant competitive toll processing services. As a consequence, a new entrant in Western Australia would likely have to enter with processing capability which would significantly increase the investment associated with entry as opposed to utilising toll processing to facilitate entry.

Conclusion – sheet and coil distribution in Western Australia

85. The ACCC concluded that absent the undertaking offered by BlueScope the proposed acquisition would likely have resulted in a substantial lessening of competition in the market for sheet and coil distribution in Western Australia. The ACCC's assessment of the undertaking is provided later in this Public Competition Assessment.

Sheet and coil distribution in other regional markets

86. The ACCC also considered whether the aggregation of BlueScope and OS&C would enable the merged firm to unilaterally raise prices or decrease customer service in sheet and coil distribution in the North-Eastern Australia, Central-Eastern Australia and South Australian regional markets.
87. The ACCC concluded that in each of the three markets the merged firm would be constrained by a number of alternative distributors which offer a similar range of sheet and coil products and have excess capacity to expand were the merged firm to attempt to increase price or degrade service levels.
88. The ACCC noted that in each of these regional markets there are a number of alternative distributors with in-house processing capability. These alternative distributors offer processed sheet and coil products to customers and additionally enter into toll processing arrangements with other sheet and coil distributors.
89. Switching costs are low for customers wishing to move between distributors as formal supply agreements or contracts are not common. Indeed, large customers often have a dual sourcing strategy. In addition, a number of customers often obtain sheet and coil products on a spot or project basis and are able to obtain quotes from a number of distributors before selecting the supplier based on price, service and product availability.
90. Market inquiries identified that customers were not concerned with the effect of the acquisition on sheet and coil distribution in South Australia, North-Eastern Australia and Central-Eastern Australia.
91. As with Western Australia the ACCC is of the view that barriers to entry are high and the merged firm is unlikely to be constrained in the foreseeable future by the threat of entry in these markets. Nonetheless, the merged firm would be constrained by the presence of alternative distributors with in-house processing capability in all states, which also offer toll processing arrangements.

Foreclosure of rival sheet and coil distributors' access to inputs

92. As outlined above, BlueScope's CIPA subsidiary is, with the exception of painted coil, the only domestic manufacturer of sheet and coil distribution inputs. As a consequence, the ACCC investigated whether the proposed acquisition would provide BlueScope with an increased ability and/or incentive to leverage any market power it may have in the supply of these inputs to raise rival distributors' costs by foreclosing access to sheet and coil inputs or supplying at discriminatory prices (and/or other terms of supply).
93. The ACCC's review focused on the extent to which imports represented a viable alternative to BlueScope CIPA in the supply of sheet and coil distribution inputs and thereby an option for sheet and coil distributors in the event that BlueScope pursued a foreclosure strategy.
94. The ACCC considered that imports represent a strong alternative source of supply to BlueScope CIPA and therefore a close competitive constraint. The ACCC concluded that the constraint that imports provide on BlueScope CIPA's supply is represented by the significant volumes of imports over a number of years.
95. Imports of aluminium zinc and galvanised coil have represented 35% – 40% over the past three years for the overall supply of these products, including supply to sheet and coil distributors. The ACCC was aware of a number of sheet and coil distributors that rely predominantly on overseas steel mills or domestic import traders for their supply of inputs.
96. In addition, the ACCC received information that indicated a strong correlation between BlueScope CIPA's price of most sheet and coil distribution inputs and import prices for the respective inputs.
97. Market inquiries and other information received by the ACCC indicated that BlueScope's applications for anti-dumping and countervailing duties in respect of certain steel products, including sheet and coil distribution inputs (e.g. HRC and galvanised coil) have had an impact on the competitive constraint imposed by imports on BlueScope CIPA. This impact appears to be reflected in lower volumes and higher pricing of imported steel products following the lodgement of a number of anti-dumping applications since May 2012. Nevertheless, the overall import levels of the major sheet and coil distribution inputs remain significant.
98. The ACCC recognised that importing sheet and coil distribution inputs imposes additional logistical challenges, particularly through longer lead times. However, the ACCC considered that these challenges can be overcome as evidenced by the volume of sheet and coil distribution inputs that are imported.
99. Consistent with the review of BlueScope's proposed acquisition of Fielders, the ACCC found that BlueScope's COLORBOND range of painted coil products enjoy strong customer loyalty and a dominant share of the painted coil products supplied in Australia. However, for sheet and coil distributors painted coil products represent a small proportion of the overall value and volume of sales and the acquisition is unlikely to increase BlueScope's ability or incentive to engage in anti-competitive bundling.
100. The ACCC concluded that imports represent a viable alternative source of supply for the majority of sheet and coil distribution inputs and that were BlueScope to attempt to pursue a foreclosure strategy then rival sheet and coil distributors would be able to defeat it through utilising imports.

Foreclosure of rival steel coil suppliers' access to customers

101. The ACCC considered whether BlueScope's rival sheet and coil distribution input suppliers (i.e. import traders) would lack sufficient alternative customers following the loss of OS&C as an independent customer. This could reduce rivals' economies of scale, thereby increasing their costs and reducing competition to BlueScope in the supply of these inputs.
102. The ACCC concluded that the acquisition was unlikely to cause a substantial lessening of competition in the market for the supply of sheet and coil distribution inputs. While OS&C is a significant acquirer of sheet and coil distribution inputs, from BlueScope CIPA and via imports, rival suppliers would continue to have a large pool of potential customers post-acquisition. These potential customers include other sheet and coil distributors and the large pool of other contestable customers of steel products present in other markets, including downstream manufacturing of various steel products.

Undertaking

103. In order to remedy competition concerns identified by the ACCC in respect of sheet and coil distribution in Western Australia, BlueScope proposed to divest its processing equipment, associated assets and transfer the lease of its sheet and coil distribution site in Western Australia (**divestiture assets**) to a purchaser to be approved by the ACCC. BlueScope offered the ACCC a court enforceable undertaking, pursuant to section 87B of the Act, to commit to this divestiture.
104. The ACCC investigated whether the court enforceable undertaking proposed by BlueScope would address the competition concerns identified by the ACCC in sheet and coil distribution in Western Australia.

Proposed Purchaser – Selection Steel

105. The ACCC considered that Selection Steel Trading Pty Ltd (**Selection Steel**) would be able to operate the divestiture assets effectively in Western Australia and that following the divestiture of the assets and transfer of the lease to BlueScope's sheet and coil distribution site in Perth, would represent a standalone, long term, independent and effective competitor in sheet and coil distribution in Western Australia.
106. In its assessment of Selection Steel as the proposed purchaser of the divestiture assets the ACCC noted:
 - Selection Steel is an experienced distributor of sheet and coil steel products in Western Australia and a distributor of sheet and coil steel products, including with processing capability, in other states;
 - customers of Selection Steel in Victoria provided positive feedback regarding Selection Steel's price competitiveness, service, delivery times and product quality; and
 - processing and distribution customers in Western Australia indicated a willingness to switch to obtaining supply of processed sheet and coil steel products from Selection Steel if Selection Steel is price competitive.
107. The ACCC was satisfied that the scope of the divestiture package was sufficient to provide Selection Steel with the assets, technical assistance, and interim supply of sheet and coil products necessary to establish itself as a viable, independent and long term competitor to BlueScope in sheet and coil distribution in Western Australia. The divestiture package included BlueScope's shear line and slitter, and the lease over the site at which these machines are installed.

108. The ACCC considered that Selection Steel was sufficiently independent of BlueScope and the fact that Selection Steel purchases small volumes of flat steel products from BlueScope was unlikely to result in Selection Steel having a reduced incentive to compete with BlueScope in sheet and coil distribution in Western Australia.
109. Accordingly, the ACCC was satisfied that Selection Steel was a suitable purchaser of the divestiture assets.

Conclusion

110. On the basis of the above, including taking into account the proposed undertaking, the ACCC formed the view that the proposed acquisition of OS&C by BlueScope would be unlikely to result in a substantial lessening of competition in any market in contravention of section 50 of the Act.