

Mr. Robin Kunducha
Competition Commission
Victoria House
Southampton Row
London WC1B 4AD

8th August, 2013

Dear Mr. Kunducha,

Re. Competition Commission (CC) investigation into the aggregates, cement and ready-mix concrete markets

I am writing to you in connection with the above and further to your email to me of 17 July. I apologise for not having got back to you sooner.

In your email, you asked Sahavirya Steel Industries UK Limited (**SSI**) to comment on the CC's proposed remedies, as set out in section C7 (paragraph 97) of the report, which section specifically covered GBS and GGBS (as defined in the report). Before our call, I thought it would be helpful to let you have a written response setting out SSI's position.

First of all, I need to correct a few factual inaccuracies set out in the conclusions in this section. The report states that nearly all of the blast furnace slag by-product is processed to produce GBS. This is not correct. As the volume of slag produced is dependent on the volume of iron made, the exact slag production figures will vary. However, as a rule of thumb, for each tonne of iron made, approximately 200-300 kilogrammes (or 20-30%) of slag is produced. Assuming iron making production of 3 million tonnes per annumⁱ and a 30% slag rate, approximately 900,000 tonnes of blast furnace slag is produced each year at the Redcar plant. Of this, approximately 360,000 tonnes or about 40% is processed to become GBS, with the remainder being processed to become Pellite (approximately 180,000 tonnes or 20% of the total) or is simply air-cooled (approximately 360,000 tonnes or 40%). Whilst Pellite can be further processed through grinding to form substantially the same product as GGBS, air-cooled slag cannot. I cannot speak for the Tata processes, but the proportions will likely be similar, although with perhaps more GBS than Pellite. Another small point arises under paragraph 94. This is that blast furnace slag is treated at the iron plant (blast furnace), not the steel plant. Finally, in Appendix A, there is no reference to Hanson's mothballed grinding plant located at Redcar, so I wonder if this is a deliberate omission.

Second, I note from the CC web site that the EU is currently investigating the UK market for cement as well as the CC. Please let me know how this, and any remedies proposed following the conclusion of the EU investigation, will impact upon the remedies implemented by the CC.

Third, let me set out SSI's overall position. [§] the market has for some time been tightly controlled through very long term contracts and specialisation by single companies at various stages of the

supply chain. [☒] Second, SSI sees the granulator as being very much an integral part of the overall blast furnace operation and thus considers it inappropriate for it to be owned by a third party. [☒]

Finally, SSI's answers to the questions and draft remedies set out in Section C7, paragraph 97 (a) to (h). To answer the questions strictly in order:

Paragraph	Question	Answer
A	Is it necessary to intervene at both the upstream and downstream levels in order to achieve an effective remedy to this AEC?	[☒]
B	At the upstream level, how many GBS plants would it be necessary to divest in order to achieve an effective remedy to this aspect of the AEC? How might potential concerns in relation to the continuity of supply of blast furnace slag be mitigated if GBS plants were sold separately?	Ownership of the plants itself does not restrict competition; it is the exclusive supply contracts that do that. However, for operational reasons, ownership of the GBS plants sits best with the relevant blast furnace owner. Separating ownership of the processing plants from the buyers of the raw materials would nevertheless assist in increasing competition. There should be no concerns regarding continuity of supply of blast furnace slag, as the blast furnace operation, being continuous, will constantly generate slag.
C	At the downstream level, how many GGBS plants would it be necessary to divest in order to achieve an effective remedy?	For a competitive market, there need to be several plant owners, probably at least as many as the number of owners of GBS plants. Further, it is important that mothballed GGBS plants are also included in the divestiture process and that the new owners of those mothballed plants be encouraged to compete.
D	If we chose to require divestitures at both upstream and downstream levels, should the same operator be permitted to purchase both a GBS and GGBS plant?	No. Separation of production at the upstream and downstream levels would enhance competition; common ownership would restrict competition for both the sale and purchase of materials, much as the exclusive agreements do at present.
E	What criteria should be applied to the consideration of purchaser suitability for: (i) GBS plants; and (ii) GGBS plants? For example, should only independent operators be considered as potential purchasers of any divested operations?	<ul style="list-style-type: none"> (i) SSI's view is that, because a GBS plant is so integral to the blast furnace operation, then no third party (third party being a non-blast furnace operator) would be suitable as an owner. (ii) GGBS operators should be independent of the GBS operators and the cement makers. Although SSI does not have a particular view on

			the identity of any of these parties, greater competition would likely arise from introducing new players to the market in addition to the Majors. If the plants are merely shuffled around amongst the existing players, the strong likelihood is that the AEC will continue, even though in a slightly different form.
F	What safeguards should be put in place to ensure a timely disposal and an effective divestiture process, in particular: (i) What timescale should be allowed for the implementation of any divestiture the CC may require? (ii) What arrangements should be put in place for holding separate the operations to be divested from those that will be retained and for monitoring any such provisions?	(i) (ii)	A speedy process would be the most acceptable way of achieving the CC's objectives of remedying, mitigating or preventing the AEC identified and a speedy process seems to be expected by the industry players. In the light of (i) above, trusteeship or other arrangements should be unnecessary.
G	Under what circumstances should the CC appoint a divestiture trustee? What costs and benefits would arise as a result of this remedy?		See F above. A trustee should be unnecessary if the CC's decisions are implemented promptly.
H	Whether there are any other relevant considerations to be taken into account in evaluating and implementing this remedy.		Discarded remedy X1: SSI agrees that the importation of cement is unlikely to be a viable option. However, an equally pro-competitive solution would be the encouragement of new cement manufacturers into the UK market, perhaps from overseas, through the purchase of divested plants.

We agree that there should also be an oral response by telephone and to that end, my secretary, Jane Hundley will be contacting you shortly to arrange a time for this to take place. The SSI attendees will be Mr. Phil Dryden, CEO of SSI, myself, as General Counsel and Company Secretary and Mr. Peter Leader, Purchasing Director.

I look forward to speaking to you shortly.

Yours sincerely,

Simon Melhuish-Hancock
General Counsel and Company Secretary

¹ SSI UK Blast Furnace has a capacity greater than 3 million tonnes however this is the approximate current run rate. SSI UK is targeting between 3.6 – 4.2 million tonnes production in coming years. Therefore, actual production could be higher than the current run rate.