

# OFFICE OF FAIR TRADING

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Anticipated acquisition by Saint-Gobain (BPB United Kingdom Limited) of Celotex Group Limited

ME/5524/12

The OFT's decision on reference under section 33(1) given on 14 August 2012.  
Full text of decision published 28 August 2012.

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**Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.**

## PARTIES

1. **BPB United Kingdom Limited (BPB)** is primarily a manufacturer of plaster-based products (plasterboard and building plasters), although it also manufactures accessories, decorative wall products and suspended ceiling products. BPB's subsidiary Isover manufactures glass mineral wool in the UK. BPB is ultimately controlled by Compagnie de Saint-Gobain (**Saint-Gobain**), the French multinational. The Saint-Gobain group includes businesses in the UK that manufacture, process or distribute glass products, timber, insulation products, mortars, abrasives, pipes, municipal castings, roof trusses, joists and floor cassettes as well as a chain of general builders merchants (GBM) trading under the Jewson and 'Gibbs and Dandy' brands<sup>1</sup> and some specialist distribution businesses in the UK, including Graham (plumbing and heating), Minster (insulation materials), and International Decorative Services (flooring, worktops and surfaces).
2. **Celotex Group Limited (Celotex)** manufactures polyisocyanurate (PIR) insulation in the UK. It is majority owned by AAC Capital UK Limited although a significant minority of its shares are held by individual

<sup>1</sup> In this Decision, references to Jewson should be read to include Gibbs and Dandy except where the context requires otherwise.

managers. Celotex has 170 employees and UK turnover of approximately £[ ] for the financial year ended 31 August 2011.<sup>2</sup>

## **TRANSACTION**

3. Saint-Gobain, through its subsidiary BPB, proposes to acquire the entire issued share capital of Celotex for consideration of approximately £[ ]<sup>3</sup> (the Transaction).
4. The merging parties entered into a share purchase agreement on 6 June 2012. The Transaction was notified to the Office of Fair Trading (OFT) on 19 June 2012 and the administrative deadline is 14 August 2012.

## **JURISDICTION**

5. As a result of this Transaction BPB and Celotex will cease to be distinct. The merging parties submitted that Celotex's turnover in the most recent financial year ending 31 August 2011 was approximately £69.7 million and the turnover attributable to the UK was £[ ] and therefore does not exceed £70 million. Therefore, the turnover test set out in section 23(1)(b) of the Enterprise Act 2002 (the Act) is not met.
6. The merging parties overlap in the supply of prefabricated insulated plasterboard in the UK where the merging parties submitted that their combined share of supply is [20-30] per cent by value and [30-40] per cent by volume and therefore exceeds 25 per cent. As such, the share of supply test in section 23 of the Act is met.
7. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

## **FRAME OF REFERENCE**

8. The merging parties overlap in the supply of insulation materials and prefabricated insulated plasterboard. More specifically, BPB supplies mineral

<sup>2</sup> Celotex's accounts for the year ended 31 August 2011 show turnover of £69,726,000 and [ ] per cent of its sales were made within the UK.

<sup>3</sup> Subject to adjustments.

wool insulation material whereas Celotex supplies PIR insulation material. With respect to prefabricated insulated plasterboard, BPB (through its subsidiary British Gypsum (BG)) manufactures plasterboard to which it bonds foam-based insulation material from third parties. Celotex purchases plasterboard from third parties to which it bonds the foam-based insulation material, which it manufactures. Each of these insulation materials and prefabricated insulated plasterboard is considered in further detail below.

## **Product scope**

### **Insulation material**

9. The merging parties submitted that insulation materials are 'used to reduce heat transfer by conduction, radiation, or convection and are employed in varying combinations to achieve the desired outcome (usually thermal comfort with reduced energy consumption). Insulation may be categorised by its composition (material), by its form (structural or non-structural), or by its functional role (conductive, radiative, or convective)'. The merging parties indicated that insulation materials could be segmented according to (i) technical and building applications, (ii) by type of building application or (iii) by insulation type but that the precise product scope could be left open.
10. The OFT's approach to product market definition is generally to consider first if narrow candidate markets can be widened through substitution on the demand-side.<sup>4</sup> The OFT therefore considers below whether the evidence suggests that the various segmentations proposed by the merging parties should be widened.

### **Segmentation by building and technical applications**

11. The merging parties submitted that insulation materials can be made for building applications (for the construction or retrofit of buildings) or for more specialist technical or industrial applications, such as power generation. Technical insulation tends to be produced in different formats (for example, pipe sections) to meet the specific requirements of industrial processors. The insulation has to meet high requirements in terms of

<sup>4</sup> See OFT1254 Merger Assessment Guidelines dated September 2010, paragraphs 5.2.6 to 5.2.19.

temperature resistance, as it is very often in direct contact with extremely high or cold temperatures, which is not the case in building applications (that is, the insulation product is merely intended to insulate interiors from temperature variations on the outside).

12. Additionally, the merging parties submitted that direct customers and end-users of technical insulation differ markedly from those active in the building industry and include manufacturers of consumer goods and of industrial products.
13. Celotex does not produce insulation materials for technical applications. In this case, it is not necessary for the OFT to come to a firm conclusion on the product scope given that no competition concerns arise under any candidate frame of reference. Therefore, on a cautious basis and for the purposes of this assessment, the OFT considers the impact of the Transaction on insulation materials for building applications.

#### Segmentation by type of insulation material and application

14. As noted above, BPB is active in the supply of glass mineral wool insulation material and Celotex in the supply of PIR insulation material. Other types of insulation material include phenolic foam (PF), expanded polystyrene (EPS), extruded polystyrene (XPS) and rigid polyurethane (PUR). Mineral wools are glass wool or stone wool. One third party indicated that mineral wool insulation materials can be purchased in various forms such as granular, rolls and boards whereas PIR is mainly manufactured as a rigid board.<sup>5</sup>
15. Different insulation materials have different properties (such as thermal performance, flexibility and load bearing strength), which make them more or less suitable for different applications. For example, PIR and phenolic insulation have better insulation properties than other commonly used insulation materials, which means a thinner layer of insulation material can be used for specified insulation performance levels.<sup>6</sup> Insulation materials

<sup>5</sup> See also OFT1433 'Home insulation. A report on the Call for Evidence carried out by the OFT' dated August 2012 for further information on home insulation.

<sup>6</sup> The 2010 Building Regulations require buildings to achieve a certain level of energy performance (based on total carbon emissions of the buildings) and give guidance on minimum levels of insulation performance, for a range of different types of new buildings that would be consistent with meeting the overall emissions target. Since 2006, there has in effect been a 30

can also act as an acoustic or fire retardant barrier. Further, some types of insulation material, such as PIR, are moisture resistant.

16. The merging parties noted that in previous cases the OFT has focussed on specific insulation materials as relevant based on the merging parties products.<sup>7</sup>
17. All customers responding to the OFT's questionnaire, indicated that if there was to be a five per cent increase in the price of either (i) mineral wool, or (ii) PIR insulation, they would not change their purchasing behaviour. This suggests separate markets for mineral wool and PIR insulation.
18. The merging parties submitted that the insulation materials market need not be segmented by end application in line with a previous European Commission decision.<sup>8</sup> The merging parties indicated that the main applications for insulation materials include the following:
  - pitched roof (61 per cent of which is made up of glass wool)
  - flat roof (85 per cent PIR/PUR)
  - cavity wall (37 per cent PIR/PUR)
  - solid wall (39 per cent PF)
  - partition wall (80 per cent glass wool)
  - floor (thermal) (74 per cent PIR/PUR)
  - floor (acoustic) (33 per cent mineral wool) and
  - building insulation (39 per cent PIR/PUR).
19. One third party indicated that products competing with their type of insulation material differ based on type of application and another indicated all insulation materials compete with their type but the extent depends on the application of the insulation material. Thus, PIR and mineral wool may

per cent increase in the minimum level of insulation required to 2010. In practice, this means increasing the thickness of insulation materials or using more thermally efficient materials.

<sup>7</sup> Case ME/4807/10 Anticipated acquisition by Kingspan Group plc of CRH Insulation Europe, a division of CRH plc dated 21 March 2011 (PIR insulation). The OFT also notes the Competition Commission Report on the proposed acquisition of Superglass Insulation Limited by Knauf Insulation Limited dated November 2004 (glass wool manufacturers), Report on Rockwool Limited and Owens-Corning Building Products (UK) Limited dated 1999 (stone wool manufacturers) and ME/1413/02 Completed acquisition by Kingspan Group plc of certain assets of Thermal Ceramics Benelux B.V. dated 26 September 2002 (phenolic foam manufacturers).

<sup>8</sup> Case COMP/M.3943 Saint-Gobain/BPB dated 9 September 2005.

compete for a number of applications and, in particular, cavity walls and pitched roofs.

20. In this case, it is not necessary for the OFT to come to a firm conclusion on the product scope given that no competition concerns arise under any candidate frame of reference. Therefore, on a cautious basis and for the purposes of this assessment, the OFT considers the impact of the Transaction on all insulation materials for building applications as well as each type of insulation material (where there is no overlap) and end application.

### **Prefabricated insulated plasterboard**

21. The merging parties overlap in the manufacture of prefabricated insulated plasterboard. The merging parties submitted that the manufacture of prefabricated insulated plasterboard should form a separate frame of reference.<sup>9</sup>
22. Prefabricated insulated plasterboard is made up of a slab of insulation material bonded to a sheet of plasterboard. A third party informed the OFT that prefabricated insulated plasterboard tends to be used in the retail and office sectors where retrofitting of existing buildings is taking place. Additionally, it is commonly used in domestic renovations where there are no cavity walls, as an internal solid wall insulation material.
23. The majority of third parties indicated that an alternative to prefabricated insulated plasterboard is to fit insulation materials and fix plasterboard over it. However, all third party customers who responded to the OFT's relevant enquiry indicated that they do not believe they would be likely to switch to other products in response to a five per cent price rise in all prefabricated insulated plasterboard.
24. On a cautious basis and for the purposes of this assessment, the OFT considers the impact of the Transaction on prefabricated insulated plasterboard.

<sup>9</sup> The merging parties referred to *Saint-Gobain/BPB* where the European Commission considered whether prefabricated insulated plasterboard should form a separate product market but whilst the market investigation broadly confirmed this, the European Commission ultimately left the market definition open.

## **Geographic scope**

### **Insulation material**

25. The merging parties submitted that the relevant geographic scope is Great-Britain (GB) wide. The merging parties noted that in Saint-Gobain/BPB the European Commission endorsed a national geographic market definition<sup>10</sup> and the OFT assessed Kingspan/CRH (where both companies were Irish) on a GB and GB/Ireland basis.<sup>11</sup> The merging parties submitted that Saint-Gobain does not vary prices or haulage costs between GB and Northern Ireland.
26. Whilst customers indicated that the majority of their purchases are from UK-based companies, a small majority of third party customers indicated that they may purchase outside of the UK in the event of a five per cent price rise of UK insulation materials.
27. However, it is not necessary for the OFT to come to a firm conclusion on the geographic scope given that no competition concerns arise under any candidate frame of reference. Therefore, on a cautious basis and for the purposes of this assessment, the OFT considers the impact of the Transaction on a national GB and UK-wide basis.<sup>12</sup>

### **Prefabricated insulated plasterboard**

28. The merging parties submitted that the relevant geographic scope is at least GB wide. The merging parties noted that in Saint-Gobain/BPB, the Commission's investigation broadly confirmed that the geographic market was national in scope. The merging parties do not vary prices on a regional

<sup>10</sup> See Saint-Gobain/BPB at paragraph 30 'The view that the geographic market is at least national has been confirmed by the market investigation'.

<sup>11</sup> In prior cases, the geographic scope has either been UK or GB (see Knau/Superglass, Rockwool/Owens-Corning and Kingspan/Thermal Ceramics).

<sup>12</sup> Celotex's sales in Northern Ireland are minimal (£[ ]) and Saint-Gobain's sales in Northern Ireland represent a low proportion of its total UK sales. In addition, the merging parties also indicated that GB represents [90-100] per cent of the UK insulation material sales and their combined shares of supply of insulation materials were [10-20] per cent for the UK and [10-20] per cent for GB. As such, the OFT considers that the shares of supply provided are a reasonable proxy for UK shares of supply. The OFT is of the view that there is no material difference in this case between a GB or UK-wide geographic scope for the purposes of its assessment.

basis and delivery charges are based on the size and timing of the load only such that no additional charge is made based on distance.

29. It is not necessary for the OFT to come to a firm conclusion on the geographic scope given that no competition concerns arise under any candidate frame of reference. Therefore, on a cautious basis and for the purposes of this assessment, the OFT considers the impact of the Transaction on a national UK-wide basis.

## **Conclusion**

30. The OFT has considered the impact of the Transaction on:

- all insulation materials for building applications, each type of insulation material (where there is no overlap) and end application in GB and the UK, and
- prefabricated insulated plasterboard in the UK.

## **HORIZONTAL ISSUES**

### **Shares of supply**

#### **Insulation materials**

31. The merging parties submitted that their combined share of supply (by value) of all insulation materials is [10-20] per cent, [10-20] per cent of all building insulation materials and [10-20] per cent of building insulation materials (excluding metallic buildings) in GB. In each case the increment is low, namely [0-five] per cent for all insulation materials and building insulation materials and less than five per cent with respect to building insulation materials (excluding metallic buildings).
32. With respect to all building insulation materials, the merging parties indicated that there are a number of competitors including Kingspan ([20-30] per cent share of supply in GB), Knauf ([20-30] per cent share of supply), Rockwool ([five -10] per cent share of supply) as well as

Xtratherm, Recticel, Quinn, Superglass and Ursal.<sup>13</sup> Thus, the merging parties will continue to face strong competition post-merger.

33. As noted above, Celotex manufactures PIR insulation material and BPB mineral wool insulation material thus there is no overlap with respect to the type of insulation material. The merging parties submitted shares of supply by type of application, which indicated that they only overlap with respect to pitched roof ([20-30] per cent share of supply), external (cavity) walls ([five-10] per cent share of supply with a low increment of [0- five] per cent) and external (solid) walls ([20-30] per cent share of supply with a low increment of [0- five] per cent). These combined shares of supply do not exceed 25 per cent on any type of application and suggest that the merging parties will continue to face strong competition post-merger. In particular, when third party competitors were asked who they considered to be their closest competitor for each type of insulation, all those who named competitors listed Celotex or both the merging parties. One third party indicated it competes with Isover with respect to cavity walls, lofts, slab and Celotex with respect to roof applications.

#### **Prefabricated insulated plasterboard**

34. The merging parties submitted that they have a [20-30] per cent share of supply by value (with a [five-10] per cent increment) and [30-40] per cent share of supply by volume (with a [five-10] per cent increment) of prefabricated insulated plasterboard in the UK. The merging parties indicated that a number of other players supply prefabricated insulated plasterboard with Knauf being the largest with a [40-50] per cent share of supply. Other competitors include Kingspan (10 to 20 per cent share), Lafarge/Etex (up to 10 per cent share) as well as Xtratherm, and Quinntherm.
35. The Transaction would therefore bring together the second and fourth (or fifth) largest manufacturers of prefabricated insulated plasterboard. Knauf will continue to have a larger share of supply than the merged entity and will therefore continue to provide a strong competitive constraint post-merger.

<sup>13</sup> The competitors' shares of supply that the merging parties provided are consistent with those that the OFT received from third parties.

## **Closeness of competition**

### **Insulation materials**

36. The merging parties submitted that they manufacture different types of insulation materials and thus they are not close competitors. This is supported by the shares of supply by applications which show that for a number of end applications, namely partition wall, floors (both thermal and acoustic) and other, the merging parties do not overlap. In addition, the merging parties also submitted a Saint-Gobain board paper for internal approval of the Transaction,<sup>14</sup> which refers to the complementarities between the products.
37. Third parties' responses suggest that whilst the merging parties are active in the same frame of reference, they manufacture different products (that is, mineral wool and PIR insulation). Nevertheless, three third parties indicated that the merging parties were close competitors, one at specification level and the other two with respect to cavity wall (as well as loft insulation according to one of them). However, the OFT understands that PIR and mineral wool have different applications within the cavity wall market. In particular, PIR is not used for full fill cavity walls and PIR tends to be used over mineral wool for partial fill cavity walls. The OFT has not received any evidence which suggests that the merging parties are closer competitors than suggested by their shares of supply. Additionally, no third parties raised concerns over unilateral effects.
38. In conclusion, the combined shares of supply are not high, there are a number of other competitors post-merger to constrain the merged entity, the merging parties supply different types of insulation material and no third parties raised concerns over unilateral effects. Therefore, on the basis of the above evidence, the OFT considers that the Transaction does not give rise to a substantial lessening of competition (SLC) in the manufacture of all insulation materials for building applications or building insulation material by end application in GB or the UK.

<sup>14</sup> 'Demande d'Autorisation Compagnie (DAC) Project 'Marrero' – Celotex – GB'

### **Prefabricated insulated plasterboard**

39. The merging parties submitted that their prefabricated insulated plasterboards are produced using different insulation materials and are therefore not close competitors. Saint-Gobain produces prefabricated insulated plasterboard using XPS, EPS or PF insulation board, whereas Celotex exclusively uses PIR insulation.
40. Only one third party indicated that Celotex and Saint-Gobain are close competitors in relation to prefabricated insulated plasterboard given they offer the product for the same applications. However, the OFT does not have any information to suggest that the merging parties are closer competitors than indicated by their shares of supply, and no third parties have expressed concerns about unilateral effects in this market.
41. Given the fact that prefabricated insulated plasterboard can be substituted for normal plasterboard and insulation materials assembled on site, the OFT is of the view that there is likely to be some degree of substitution between prefabricated insulated plasterboard and insulation and plasterboard purchased separately, such that prefabricated insulated plasterboard is constrained to some degree by insulation sold separately.
42. On the basis of the above evidence, the merging parties combined shares are not so high as to raise *prima facie* competition concerns, the merged entity will continue to be constrained by Knauf in particular and no third parties raised concerns over unilateral effects, the OFT considers that the Transaction does not give rise to a SLC in the manufacture of prefabricated insulated plasterboard in the UK.

### **Barriers to entry and expansion**

43. Third party responses to the OFT's enquiries suggest that barriers to entry vary considerably depending on which insulation material entry is to occur. All third party competitors indicated they had spare capacity.
44. With respect to prefabricated insulated plasterboard, one third party indicated that it would cost around £10 million to prepare and automate their manufacturing line to enter this market.

45. However, as the Transaction does not give rise to concerns over unilateral effects, there is no need for the OFT to reach a firm conclusion regarding barriers to entry and expansion.

## VERTICAL ISSUES

46. As noted above, Celotex manufactures prefabricated insulated plasterboard by purchasing plasterboard from Knauf. However, Saint-Gobain, through its subsidiary BG, manufactures plasterboard.
47. Similarly, Weber offers an external wall insulation (EWI) system for which it purchases amongst other products PIR insulation material from Celotex.<sup>15</sup> Thus, the merging parties have a vertical relationship in this respect.
48. Finally, Saint-Gobain Building Distribution (SGBD) owns Jewson (GBM outlets) and Minster (specialist insulation outlets), which purchase and sell insulation material and prefabricated insulated plasterboard, amongst other products, to professional customers. Thus the merging parties have a vertical relationship as Celotex supplies insulation material to SGBD.
49. Each of these is analysed in more detail below. The OFT typically frames its analysis of non-horizontal mergers by reference to (i) the ability of the merged firm to harm rivals, typically through an increase in price or a withholding of supply, (ii) the incentive of the merged firm to do so, and (iii) whether the effect of any action of the merged firm would be sufficient to reduce competition in the effected market to the extent that it gives rise to a SLC.<sup>16</sup>

### Celotex/BG plasterboard

50. Whilst BG has a [50-60] per cent share of supply of plasterboard, as submitted by the merging parties, Celotex's purchases of plasterboard represent [0-five] per cent of all UK plasterboard sales. In addition, the merging parties estimated that only [0- five] per cent of all plasterboard that is sold is used to manufacture prefabricated insulated plasterboard.

<sup>15</sup> EWI is an on-site applied system of prefabricated products which comprises (at the very least) adhesive mortar and/or mechanical fixing devices, thermal insulation material (which accounts for 35 per cent of the system), a layer base coat, reinforcement and finished rendering. Weber uses a range of different types of insulation material in its EWI system including EPS, mineral wool, PIR and PF.

<sup>16</sup> See OFT1254 Merger Assessment Guidelines dated September 2010, paragraph 5.6.6 onwards.

Further, those manufacturers of prefabricated insulated plasterboard who do not manufacture plasterboard only account for [0- five] per cent of total plasterboard purchases.

51. One third party noted that Saint-Gobain owns the largest plasterboard company. However, no third parties specifically raised any concerns with respect to the potential vertical relationship between BG and Celotex.
52. Given the above, the OFT is of the view that the Transaction will not increase the merging parties' ability to foreclose plasterboard competitors upstream as Celotex's purchases of plasterboard are minimal.
53. In addition, the merged entity will not have the incentive to foreclose prefabricated insulated plasterboard manufacturers downstream. Celotex only accounts for less than 10 per cent of all prefabricated insulated plasterboard (paragraph 34) and, other plasterboard competitors will be able to supply the downstream competitors if the merged entity did refuse to supply them. Therefore, the merged entity would lose sales to downstream competitors, without gaining an extra share of supply for Celotex.

#### **Celotex/Weber EWI systems**

54. The merging parties submitted that Weber has a share of supply of EWI systems of approximately [10-20] per cent. Weber faces a number of competitors including Sto, Alumasc, Wetherby and Stuctherm. Celotex's share of supply of PIR is [20-30] per cent by value. The OFT did not receive any merger specific concerns about foreclosure due to EWI from third parties although one third party did note that Saint-Gobain has a strong presence and influence in the market owing to their plasterboard company and external render manufacturer.
55. Given the above, the OFT is of the view that the Transaction will not give the merged entity the ability to foreclose insulation manufacturers (as EWI sales only account for a small proportion of insulation material sales and Weber's share of supply is not high so there would be no effect on insulation manufacturers even if Weber were supplied solely internally) or EWI competitors downstream (the merging parties share of supply in the insulation market is not sufficiently strong and thus other insulation manufacturers will be able to ensure supplies).

## Celotex/Jewson and Minster distribution outlets

56. The OFT notes that Saint-Gobain's insulation material business (Isover) relies heavily on sales to third party distributors, as it only sells around [20-30] per cent of its output to Saint-Gobain companies. In addition, SGBD sources insulation material from other manufacturers.
57. The merging parties submitted that SGBD has a share of purchases of insulation material of [five-10] per cent in GB and [10-20] per cent in relation to PIR. Downstream, in Saint-Gobain/Build Center<sup>17</sup> the OFT found that Saint-Gobain would have a share of supply of GBMs of [10-20] per cent post-merger.
58. In the event that SGBD stopped purchasing insulation materials from other manufacturers, a couple of third party competitors indicated to the OFT that they would have to find alternative distribution routes. However, the majority of insulation material manufacturers did not express any concerns about a vertical effect from the Transaction involving Celotex and SGBD, beyond the costs associated with switching to another downstream stockist.
59. Given SGBD's share of supply downstream, insulation material manufacturers would still have a route to market through other distributors should Saint-Gobain refuse to stock their products or do so at a disadvantageous price such that post-merger, the merged entity will not have the ability of foreclose insulation material manufacturers upstream.
60. The OFT notes that Celotex's share of supply does not exceed [20-30] per cent. This suggests that other insulation manufacturers including Kingspan could supply downstream rivals in the event that the merged entity attempted to foreclose.
61. The OFT considered whether the Celotex brand is sufficiently strong to give the merged entity the ability to foreclose downstream rivals and the effect of architects specifying particular brands/products. Some third parties have indicated that Celotex is a strong brand and is often specified by architects. Once architects have specified a product, building contractors are unable to switch to an alternative product to avoid any price rise for example. However, the OFT is of the view that if Saint-Gobain

<sup>17</sup> Case ME/5252/11 Completed acquisition by Saint-Gobain of Build Center dated 8 February 2012.

disrupted the supply of Celotex by supplying solely through its own distribution network or increasing the price to others, there is likely to be pressure put on architects to specify alternative products that are more widely available or the required performance level of insulation rather than a specific brand. Additionally, share of supply would suggest that Kingspan is more often specified, and as such if Celotex were to be exclusively supplied through Jewson, it is likely that Kingspan would then be supplied by other GBMs (as Celotex would displace Kingspan products at Jewson), so some customers would switch.

62. Some third party customers expressed concerns about the effect that either partial foreclosure or refusal to supply would have on their business. One third party expressed a concern over whether other manufacturers would be able to fulfil their demand. However, as noted above, all insulation manufacturers have spare capacity and the information received by the OFT suggests competitors are likely to be able to fulfil their PIR insulation requirements.
63. The OFT is of the view that the merged entity will not have the ability to foreclose downstream distribution competitors given Celotex's shares of supply upstream as they will still have access to competitors' PIR insulation materials including those of Kingspan, who is the number one supplier in the UK.

## THIRD PARTY VIEWS

64. Third party comments have been taken into consideration and discussed above where relevant. Other concerns raised by third parties about potentially anti-competitive practices are discussed below.
65. A minority of third parties raised concerns of bundling products. Whilst the OFT notes that Saint-Gobain has a share of supply of [90-100] per cent in plasters in the UK, the OFT is of the view that the Transaction will not enhance the incentive to bundle and thus foreclose other insulation material manufacturers. This is because a third party indicated that plaster and insulation are required on building projects at different times by different contractors. It is therefore not clear that plaster and insulation are complementary products.<sup>18</sup> In *Saint-Gobain/Build Center*, the OFT found

<sup>18</sup> See OFT1254 Merger Assessment Guidelines dated September 2010, paragraph 5.6.13: the authorities' approach to assessing the competitive impact of bundling involves 'analysing the

that customers have a preference for multi-sourcing products to increase the amount of credit available to them. Therefore, any bundled discount would be offset against a reduction in available credit through single-sourcing. In addition, the OFT is not aware of Saint-Gobain currently bundling products, which it sells to distributors downstream and whilst Celotex is a strong brand its shares of supply suggest that it is not the leading brand.

66. One third party raised concerns that a warranty provided by Saint-Gobain (BG Specsure) means contractors will purchase BG and Isover/Celotex products so as to get the benefit of the warranty. However, the merging parties confirmed that all BG products are covered by a standard warranty for the Saint-Gobain products even if they use insulation materials from a competitor. Further, the merging parties indicated that Knauf and Lafarge offer similar warranties. The OFT therefore considers Saint-Gobain's warranties do not tie customers into buying their products and therefore cannot result in leveraging.
67. One third party also raised concerns around Saint-Gobain group companies combining involvement with various industry associations. However, no specific harm was identified. A further third party expressed concern that PIR would be sold to BG as input material for prefabricated insulated plasterboard but the OFT did not receive any evidence to suggest that Celotex would solely supply BG or would have any incentive to do so.
68. A couple of third parties expressed that they were in favour of the Transaction: one felt this will assist with competing against Kingspan who were considered to be market leader and one considered insulation manufacturers need to strengthen their position with respect to builders merchants.

## **ASSESSMENT**

69. The merging parties overlap in the manufacture and supply of insulation material albeit that each focuses on a different type, with Celotex ability, incentive and the effect of this strategy. This takes into account the following factors: (i) whether customers have a demand for more than one of the products, and whether the products are complements; (ii) customer preferences for variety and one-stop shopping; and (iii) the costs to rivals of providing variety and one-stop shopping at a scale to enable them to compete effectively with the merged firm'.

manufacturing PIR and Saint-Gobain manufacturing mineral wool insulation material. In addition, both of the merging parties manufacture prefabricated insulated plasterboard.

70. The merging parties have a share of supply of insulation material to the building industry of [10-20] per cent ([10-20] per cent when excluding metallic buildings) in GB. When split by end application, their combined share does not exceed 25 per cent on any segment. The OFT found that the merging parties supply different types of insulation. In addition, the merging parties will be constrained by a number of insulation manufacturers post-merger including Kingspan, Knauf and Rockwool and no third parties raised concerns over unilateral effects.
71. The merging parties' combined share of supply of prefabricated insulated plasterboard is at most [30-40] per cent in the UK. In addition, the merged entity will continue to be constrained by Knauf in particular and no third parties raised concerns over unilateral effects.
72. The OFT has not found any ability either to foreclose insulation material manufacturers, plasterboard manufacturers upstream or EWI system manufacturers, insulation manufacturers or distributors downstream. In addition, the OFT did not find any evidence to suggest that the Transaction will result in harm to competition via bundling.
73. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

## **DECISION**

74. This merger will therefore not be referred to the Competition Commission under section 33(1) of the Act.