

AKZO NOBEL N.V./METLAC HOLDING S.R.L. MERGER INQUIRY

Summary of hearing with Caldicot Metal Decorating Limited held on 19 June 2012

Background

1. Caldicot Metal Decorating Limited (Caldicot) had operated as a metal decorator from its site in Caldicot, South Wales, for the last 109 years. In 1978 the company was purchased by the Linpac Group and in December 2010 was sold to Chamonix Private Equity and so changed its name from Linpac Metal Decorating to Caldicot Metal Decorating, but its business had remained unchanged. It said that it was the largest independent metal decorator in the UK and purchased a wide range of metal packaging coatings.

Market

2. Caldicot said that there were three sub-segments in the metal packaging coatings market: food, beer and beverage (B&B) and general line. Caldicot operated in the general line industry and in its view Metlac did not supply a particularly large amount of metal packaging coatings to this segment in the UK.
3. Historically, there were infinitely more metal packaging coating suppliers in the market than there were today. There had been a lot of market consolidation, particularly in the last five years, and there were now perhaps only three major suppliers in Europe for metal packaging coatings and inks. Valspar was the dominant market player in the UK.

Advances in technology

4. Ink technology had altered quite significantly over the years but basic metal packaging coating technology had not. For example, Caldicot was still using the same metal packaging coatings that were around 30 years ago.
5. Just like the rest of the industry, Caldicot was reviewing the use of epoxy-free technologies such as bisphenol-A (BPA), polyvinyl chloride (PVC) and melamine. It was currently doing trials with AkzoNobel and Grace Davison, and both currently had a number of BPA-free products commercially available. It did not, however, believe that any one supplier was more advanced in the development of epoxy-free technology than another.

Switching

6. Caldicot said that switching suppliers was a complex process that could take up to 18 months. The decision to switch suppliers, and the justification for the switch, needed to be communicated to customers as they had to undertake a change control process which included technical reviews, a large number of tests and extensive trials.
7. Caldicot only required two suppliers of metal packaging coatings to fulfil its needs and so it had put its entire business out for tender. The first supplier catered for 80 per cent of its business and the second supplier was used as a back-up.

AkzoNobel was successful in winning the tender and became Caldicot's number one supplier. DIC was originally Caldicot's back-up supplier but had since sold its metal packaging coating business to Valspar. Valspar had in turn continued to supply it with metal packaging coatings but its service quality was poor and its prices were too high and so it was looking to replace it as a supplier.

8. Caldicot said that it was important that its suppliers had production facilities and technical support based in the UK. It therefore would not consider Metlac as one of its suppliers as it was not a UK-based supplier and due to its size, was unlikely to be able to provide Caldicot with the technical support that larger companies could. It said that AkzoNobel's technical support, in particular, was excellent.

Purchasing process

9. Caldicot based its choice of suppliers primarily on levels of service and quality, and then on price. During the last two to three years, prices for metal packaging coatings had increased significantly but the differences between the prices of different suppliers was currently not that great.
10. If prices were to increase, Caldicot would not seek to switch to an alternative supplier because the prices increase was likely to be a result of the investments made into epoxy-free technology and the cost of the raw materials used to produce this new technology.
11. Caldicot did not place contracts with its suppliers, it instead sought to reach an understanding on supply. Over the years it had established a good relationship with AkzoNobel and it now used Grace Davison as its back-up supplier. Its strategy of dual sourcing across the whole range of its products was important to Caldicot. It meant that there was always sufficient scope for either of its suppliers to satisfy its requirement of a particular product. It did emphasize, however, that it did not just place orders with its back-up supplier when it had a problem, it regularly placed smaller orders with Grace Davison.
12. Caldicot did not have any contracts with its customers either.

Barriers to entry

13. Caldicot said that becoming a supplier of metal packaging coatings to the market was not a straightforward process. It required knowledge and experience of how to produce coatings. The consequences of the production process going wrong could be extremely expensive.

The merger

14. Caldicot was not aware of any Metlac products that were unique to the market. It said that Metlac was a small player and so did not believe it had the facilities or the resources to do the level of research on BPA-free products that companies such as AkzoNobel, Valspar and Grace Davison could.
15. Caldicot did not think that the merger between AkzoNobel and Metlac would have any significant effects on the market. It believed that one of the main reasons AkzoNobel wanted to acquire Metlac was to give it re-entry into the external B&B coatings segment of the market from which it had withdrawn some years ago.