

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

Summary of hearing with Salchi Metalcoat S.r.l. held on 20 June 2012

Background

1. Salchi Metalcoat S.r.l. (Salchi) told us that it was a family-owned business that entered *ex novo* the packaging market in 1994. It was previously named Salchi Rhenacoat and established as a joint venture between Salchi S.p.A. (a leading Italian industrial and coil coatings manufacturer) and Rhenania Chemische GmbH (part of the German Altana Group and a leading packaging and coil coatings manufacturer). In 2004, the former private shareholders of Salchi bought out Altana and continued Salchi Rhenacoats' activities as an independent manufacturer. In 2006, Salchi Rhenacoat S.r.l. changed its name to Salchi Metalcoat S.r.l.

Market

2. Salchi was active in the caps and closures, general line and food segments of the metal packaging coatings market. Salchi did not, however, compete in the two-piece beer and beverage market. In 2011 Salchi had a turnover of €47 million (€[redacted] million (£[redacted] million) from packaging coatings). The majority of its sales were to Italy because this was the second largest European market after Germany. Salchi exported [redacted] per cent of its packaging coatings outside of Italy.
3. Salchi had expanded its sales to Europe, the Middle East and Africa (EMEA) ever since Altana was bought out in 2004. In 2010, Salchi acquired the small packaging coatings business developed by Rembrandtin which was active in the Central and Eastern European market. It viewed the UK as a small market (not including the beer and beverage sector) and so it currently only supplied to [redacted] customers in the UK.
4. Prior to re-entering the packaging market in 1994, Salchi was active for 20 years in the packaging business under the Salchi brand. This business mainly consisted of beer and beverage internal coatings, which were manufactured in Salchi's own resin facility. (The packaging business was sold to ICI in 1989.) When Salchi Metalcoat re-entered the packaging coatings market, it decided not to re-enter the beer and beverage internal coatings sector. It said that it could, however, have the resin technology capacity required to re-enter this sector but it no longer had the resin manufacturing capacity. Whilst currently not under consideration, it did not rule out re-entry into the beer and beverage external coatings sector in the future.

Switching

5. Salchi said that of its customers, [redacted] all went through a relatively formal tender process.
6. If a customer approached it with a request to develop a new product, it would always try to meet the request, especially if the size of the order or the customer a particular request came from was significant. The constraint on Salchi would be dictated by economics and resources rather than technology. It would almost certainly already have the technology in place and so it was a question of dedicating the resource to develop the new product.

7. Salchi told us that it was currently selling about [X] tonnes of coatings, coil and packaging and had the capacity to increase this by 20 to 25 per cent with relatively short notice. Such expansions in output would require hiring additional staff but would not require further capital investment. Salchi planned to build a new plant on its existing land (and this decision was independent of the AkzoNobel/Metlac merger).

Barriers to entry

8. Salchi said that it might have been lucky, but it did not believe that the barriers to entry were substantial. Salchi Metalcoat's development in a relatively short space of time was an example of this. Its growth had been achieved despite the many difficulties it had to overcome including starting the company without a plant and also with the Italian shareholder Salchi originally being responsible for production.
9. Entry into the general line and the caps and closures sectors of the market were easier than the food sector.
10. [X] per cent of the products in the industry were well known and established technologies. Companies made important yet incremental improvements to the technology to put them ahead of the competition. They also lowered costs or adapted to the special needs of the customer but, whilst these were necessary elements for success, they were not sufficient. Technical knowhow was important. The coil coating and metal coating production process was similar and so Salchi was able to draw upon the experience and knowledge it had previously gained and the reputation it had already established in the coil coatings industry.
11. The development of a new product could take a few months, followed by 12 to 18 months to get the coatings qualified with customers. However, the length of time depended largely on the interests of the customer: if for whatever reason the customer needed to have a new supplier or product it could easily shorten this to a few months.
12. Salchi said that from both a technical and production perspective, it was certainly possible for new competitors to enter the market within the next five years. It cited the possibility of companies such as Diostyl, VPL Coatings and Rembrandtin, as well as other companies in Spain (Jallut) and Italy.

Parties to the merger

13. [X] Salchi fully agreed with the conclusion of the Bundeskartellamt to allow the AkzoNobel-Metlac merger to proceed. Salchi also noted that Metlac was a very good and quick imitator.
14. It said that Metlac was a very efficient and very profitable company but it was not a unique company. Furthermore, Metlac's prices were competitive because [X].
15. Salchi believed that the reason Metlac was not currently in the beer and beverage internal coatings sector was because it also did not have the resin manufacturing capacity (eg Metlac did not own a resin plant).
16. AkzoNobel's acquisition of Metlac would create space in the market and customers would look for alternative suppliers. If customers needed to source more products from Salchi, as a consequence of the merger, Salchi would try to meet this demand and, if needed, consider moving capacity.

17. The problem customers would face as a result of the merger was that they would not be substituting Salchi for Metlac and vice versa, but instead they would be substituting Salchi for AkzoNobel and some customers might prefer an independent supplier like Metlac rather than a multinational.
18. [✂]
19. Salchi would not be interested in buying Metlac for a number of reasons:
 - (a) First, because Metlac was also active in Italy, [✂].
 - (b) Secondly, Salchi was not part of a big multinational but instead a family-owned business and wished to remain as such. [✂]