

AKZO NOBEL NV/METLAC HOLDING SRL MERGER INQUIRY

Summary of hearing with Valspar held on 29 June 2012

Background

1. The Valspar Corporation (Valspar) is a paints and coatings manufacturer that entered the European packaging coatings industry around 10 to 15 years ago following the acquisitions of a number of established coatings manufacturing businesses. It has since grown organically and through further acquisitions.
2. It previously produced metal decorating inks but discontinued its ink production a couple of years ago in a series of transactions with DIC Coatings (DIC). DIC acquired Valspar's ink business and Valspar acquired certain portions of DIC's coating business. These transactions allowed Valspar to expand its external and internal coatings applications.

Market

3. Valspar said that the rigid metal packaging coatings market could be broken down into five application segments, even though the requirements for each segment were quite similar: beverage two-piece cans; beverage ends; food cans; general line; and tube and monoblock. It was active in all segments of the market and it also manufactured products for flexible packaging such as PET bottles but production of these was only marginal.
4. The food segment was characterized by a large number of niche product markets which were very competitive because there were already several suppliers that operated within these markets (eg Schekolin, Salchi, Actega and Metlac). Can manufacturers therefore had three or four alternatives for each niche product. These niche product manufacturers were very competitive because they all had good technologies, service and credibility.

Switching

5. Valspar had four plants in Europe which were focused on the production of rigid metal packaging coatings. One of these plants was located in the UK, two were in France and one was in Switzerland. Each plant was dedicated to a particular market segment although this was flexible and could change as a result of a requirement to increase production or change the type of product the plant produced.
6. It was easy to switch production from one plant to another if a product was technologically very similar and the batch size was also very similar. If, however, the batch size or the production process were completely different (ie the product required a certain pigment), then this was not possible without purchasing specialized equipment required for the product type(s). Some of its plants had similar technical capabilities and so switching products between them was easy. In general, for each product it produced, it had at least two possible production sites.
7. For the small amount of niche products that could not be switched between plants, it had used toll manufacturers to supplement Valspar's own production capabilities.

8. The reasons for switching products to a different plant varied but the decision was normally based on optimizing costs. It did not think that the geographical location of a supplier's plant was particularly important to a customer because coatings were transported globally. As such, a customer's decision to change supplier would not be triggered by geographical proximity.
9. The process of producing internal and external coatings was similar but the chemical nature and performance of the resin was different. It was possible to switch between internal and external sprays within a plant but the process of preparing and mixing the resin and finishing it for end use was different. The overall switching of production lines from internal to external was more complicated for both food and beverages than switching between different internal products and different external products.
10. Valspar had spare capacity at its plants to accommodate the switching of volumes and/or increases in demand. If there was a demand from a customer for a large amount of a specific product that was not currently produced at a particular plant, it would only take a matter of days to two weeks to switch production. The technology was generally flexible and so the constraint was usually to introduce an additional shift at the plant.

Purchasing process

11. Valspar worked with three main sales and pricing models. The first group of customers preferred to purchase products on an ad hoc basis and therefore did not sign contracts. The reason for this was to keep open the possibility of cost reduction. The second group of customers were more globally focused and more structured, and would submit bids every one to two years. The third group of customers, and the most competitive market, worked with contracts of up to three years.
12. Suppliers of resins were not that involved in the process of attaining certification for coatings. The only exception was if a resin came from outside the European community, in which case the raw material would need to have achieved a REACH registration.
13. There were two parallel processes in achieving product regulatory compliance. The first was achieving compliance of the chemical composition under regulatory agencies such as the Food and Drug Administration (FDA) and the European Food Safety Authority (EFSA). At the same time, products would be undergoing testing by the can manufacturer. Both food and beverage cans were produced and could be left for up to 18 months before being opened and tested for chemical migration or corrosion. The time for general line coatings was usually shorter (around six months). The final approval of a product, however, was taken by the packed content brand owners rather than the can manufacturers.
14. There were some difficulties to overcome as a new entrant to the market. It was easier to enter the external coatings market than it was the internal sprays market mainly because external coatings did not come into contact with food and so the packing tests were not as extensive and the same level of approval from the EFSA and FDA was not required. Therefore, approval times were shorter.
15. The equipment required to produce external coatings was not very expensive but the equipment required to produce internal sprays was more expensive and also required large reactors. It estimated that it would cost a few million euros to build a significant plant with a lot of capacity. Furthermore, beverage internal sprays were produced in vast quantities and therefore the plants needed to be larger.

16. Having a single production plant could be an advantage in terms of managing a business (better communication, speed of decision-making, flexibility) but a disadvantage in that a disruption to production would mean that all a supplier's customers were let down resulting in reputational damage.

BPA-NI technology

17. The successful development and introduction of bisphenol-A non-intent (BPA-NI) technology could change the market in a number of different ways. It could require an adoption of new technologies, suppliers, chemistries and processes. In addition, there was a potential cost to suppliers in terms of approval from the EFSA and FDA in term of transparency on food safe materials, although the industry has demonstrated a capacity to adapt to regulatory and product changes through the years, as regulatory and product changes typically occur with sufficient lead times for the industry to adapt.
18. The progress of BPA-NI products was dependent not only on the technological progress but also legislation. There were ongoing discussions in several European countries (eg France, Belgium, Sweden and Denmark) about adopting stringent BPA-NI legislation. These discussions were focused more on the food segment than the beverage segment.
19. [⊗]

Parties to the merger

20. In the European market, Valspar viewed AkzoNobel and Metlac as separate competitors, each with its own strategy. Because AkzoNobel focused more on inside sprays it was more of a competitor in that product area to Valspar than Metlac was. It did, however, compete with Metlac in almost all markets in which it was active.
21. Metlac was originally a small metal packaging company that first entered the niche product market. As a new entrant and due to its size, Metlac was considered to be an efficient company and able to supply customers with a very quick solution to niche products. This successful entry provided Metlac with the opportunity to expand and enter bigger product markets (eg external white coatings (in which it had probably become the market leader)).
22. Metlac had a strong presence in external beverage coatings; and whilst Salchi and Actega also had some market presence in the external beverage coatings market, Metlac was believed to be larger. All these companies had grown significantly in the last few years and were now seen as legitimate alternatives to AkzoNobel, PPG and Valspar.
23. Valspar did not see Metlac as more innovative than AkzoNobel, Schekolin, Actega or itself.
24. Valspar did not expect the merger to affect the market that much because there were already a number of competitors in rigid packaging and industrial coatings markets and because AkzoNobel was already a shareholder in Metlac and so the two companies were already cooperating with each other to some extent. If anything, the merger might prove to be a positive for both companies in terms of improving synergy with purchasing and also from a technical point of view.