Third party response to the provisional findings report from Salchi Metalcoat S.r.l

Dear Competition Commission (CC),

I went through the more than 100 pages long provisional findings document eager to find reasons for the astonishing provisional conclusions.

I arrived at the end with the belief that despite all the efforts of the CC the provisional conclusion -substantial lessening of the competition in the market for supply of metal packaging coatings - are from the point of view of Salchi wrong.

I'm going to limit my remarks solely on the final markets situations:

1) B2
a) B2I (0% of Metlac (M) sales)
- no sales of M in the B2I market
- consequently the merger isn't having any impact on this portion of the market!
- M's statement to have the intention to enter into this market is instrumental to impress the CC with the purpose to have the deal blocked. It is not to be believed!
- M successfully entered into the B2E market because the products required are basically of the same technology as the ones required by the FCG market; only the level of technical assistance is much more important.
- However B2I is not B2E! To enter the B2I market you need a big & modern & highly sophisticated resin plant to be quickly filled only with B2I products; the financial resources for such an investment are in excess of 30mioeur and after having spent this amount there is no warranty for success!

b) BE (0% of M sales)
- no sales of M in the BE market.
- consequently the merger isn't having any impact.

c) Provisional conclusion on the impact of the deal on the B&B market
- no impact at all on BE and B2I market: M isn't present in these markets.
- the potentially biggest losers for the disappearance of M from the B2I market do not seem to express big concern (Ball & Crown) in the statement provided in the enquiry.

2. FCG
a) Italian FCG Market (40-50% of M sales)
- the Italian market is basically divided between M and Salchi whereby M should be roughly double the size of Salchi, the big players (Valspar (V) &Akzo Nobel (AN)&PPG (P)) are sporadically aggressively present and the little players only with specialities;
- Merger isn't changing the structure of the supply: instead of Bocchio controlling M you will have AN owning M. It is just a simple change of ownership without immediate market share change; this is an not to be discussed fact.
- on top of that if AN would raise the prices following the merger, the immediate reaction of the customers will start with the effect within weeks all other suppliers will gain considerable market share with the effect to cool down the market and limit or offset any unjustified price increase.
- the products of these suppliers are all homologated by the Italian customers as these suppliers are or have been very active in Italy in the recent past and it is simply a matter of decision of the customers or of them that they start to sell again in Italy. There are no entry barriers!
- moreover AN will not raise the prices more than the prices need to be risen because the price level is currently not acceptable for the suppliers being the profitability since 2010 at an unacceptable and unsustainable level. The CC statement that "the margins are not low" is

not substantiated and wrong: how can CC state this? Cherry-picking the packaging figures from the annual report of P and V or AN? CC needs to be magician to state this!
- As a matter of fact the profitability of this business is at a not sustainable level and need to be restored before suppliers start to withdraw from the most unprofitable segment of the market. This is not depending from the AN-M deal!

b) NON-Italian FCG Market (presumably 25-35% of M sales)
- Can 25-35mioeur of sales on a 600-700mioeur market pose a competition problem? Is a shift of 5%-6% of market share in favour of AN a valid reason to block the merger?
- Is the CC concerned because the (very small) UK market share of M will be added to the existing very high market share of AN (80-90%)?
- If CC believes that the deal is detrimental to the UK market it should make the deal conditional to AN reducing the UK market share by selling M's UK business! The problem of the UK market isn't the deal but the too high AN market share. CC should have been active with past take-overs (e.g. PPG-Courtaulds-International Paints).

3. Conclusion
The deal has NIL impact on the (i) B2I, (ii) BE, (iii) FCG Italian and little impact on the FCG UK segments of the packaging coatings markets.

A deal cannot be blocked based on vague statements of Bocchio that he is thinking may be to enter into the B2I market. This is a simple intention expressed with the sole purpose to have the deal stopped by the CC: it is not credible that M will ever enter the B2I market!

As a matter of fact CC threats to block the deal because of the competition impact of it on the (i) B2E, (ii) FCG NON-UK and FCG NON-Italy markets! We are talking of 40-60mioeur of sales on the European market!

Salchi doesn't think at all that the deal will harm competition, at the contrary it will have on all the minor players or specialists a positive one. Also V & P, very competitive companies, will counteract any unjustified price increase decided by AN simply increasing their existing European unutilised capacity without additional investments and starting to become again very aggressive.

If under pressure because of unjustified price increases the customers will within short start to purchase again higher volumes of products from P and V and from the other minor suppliers bringing these suppliers to the market share they used to have a few quarters ago and cooling down any price increase.

If the concern of the CC is the UK FCG market, the CC can make the deal conditional to AN selling M's FCG UK business to some other competitor absent from such territory.

For all these reasons I see no reason to block this deal.

With best regards

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SALCHI METALCOAT S.r.l.