CMA
Competition & Markets Authority

SONOCO/WEIDENHAMMER MERGER INQUIRY

Summary of hearing with Japan Tobacco International on 10 March 2015

1. Weidenhammer was one of Japan Tobacco International's (JTI) global packaging suppliers, supplying it with 99 mm diameter composite cans in 95, 130, 180 and 240 mm heights and with labelling applied.

2. JTI had started procuring composite cans from Weidenhammer in 2008. Following natural growth in JTI's sales and the integrating of brands, the scale of supply from Weidenhammer had increased. Current annual purchase volume of JTI was 70 million composite cans from Weidenhammer, with approximately half of these being supplied from the UK plant. Based on the latest sales forecast for JTI's products in composite cans (loose leaf tobacco) it was estimated to keep approximately 3 to 5% growth per year.

3. Weidenhammer currently supplied JTI with composite cans from its sites in the UK and Germany, despite the manufacturing of JTI's products having moved to Germany. JTI's current agreement with Weidenhammer allowed for the gradual reducing of its supply from the UK and the increase in supply from Germany. This was because JTI could save on transportation costs and it was more efficient and afforded it greater flexibility to source composite cans closer to its German manufacturing site.

4. Every two years, JTI re-audited its packaging suppliers to assess their manufacturing facilities' conditions. While during the initial qualification of the printers the quality of the packaging supplied was carefully checked, JTI also tested the packaging in terms of its compatibility with JTI's packaging machinery.

5. Were JTI to consider switching supplier, it would be important that the new supplier could supply packaging that was compatible with its existing packaging machines. This included the diameter of the can and also the type of sealing required for the bottom of the cans, which could differ between suppliers. The different diameters and sealing wouldn't necessarily discount switching to a particular supplier, as JTI could modify its machinery. The cost of this modification and time it would take (up to two months) depended on the extent of modification required and whether existing JTI machinery could be utilised.

6. [✂]

7. JTI generally preferred to have two different suppliers for its global packaging needs. However, this wasn't the case with its purchasing of composite cans. JTI did have conversations with Sonoco about supplying composite cans [✂]. Sonoco was, therefore, always a back-up solution [✂].

8. [✂]

9. [✂]

10. [✂]

11. JTI considered that whilst the competitiveness of the industry post-merger might be reduced, its long-term relationships with suppliers (both in terms of a contract and a working relationship/understanding with suppliers built up over a number of years) would help to offset any particular concerns.

12. JTI also didn't expect to have any problems post-merger with negotiations over price. Its main concern when renegotiating was to have flexibility in the volumes being supplied but the merger shouldn't have any bearing on this issue.