

CLARIANT/KILFROST MERGER INQUIRY

Summary of hearing with LNT Solutions on 23 March 2016

Background

1. LNT Solutions (LNT) was one of five businesses of the privately owned LNT Group. Each business was run entirely independently. The solutions business was based more in North America than Europe and the UK. The business initially supplied various chemical products at retail level and subsequently supplied different products to the rail industry from which it developed and supplied aviation de-icing. It no longer supplied retail products. Current turnover was [REDACTED].
2. LNT had been active in aircraft de-icing fluid (ADF) for just under five years. It initially concentrated in Canada [REDACTED]. Weather was a feature as a Canadian winter was more consistent than a European winter in that the difference between a bad and mild winter in Canada was much less than the difference between a bad and mild winter in Europe. The de-icing business, be it runway or aircraft, had to be prepared for the worst case scenario and be able to supply an almost unlimited supply of fluid to the customer base. This was more difficult in Europe with recent milder winters and minimal snow fall leading to high variability in demand.
3. In the past year LNT sold [REDACTED] tonnes (approx) of ADF [REDACTED] from stock it held in [REDACTED] and supplied [REDACTED] (approx) to customers in [REDACTED]. A lot of the ADF sold in Canada used a recycled glycol system whereby LNT sold an additive package so the customer manufactured the ADF on-site. The customer used both virgin and recycled glycol depending on how much recycled glycol they had ready. LNT did not sell the finished product.
4. LNT said that it spoke to a number of airports in [REDACTED] about doing a similar recycling project that could be used for runway or aircraft de-icing. It did some small-scale trials offsite for [REDACTED] where it purified glycol. It achieved the necessary purity levels and yields to make it a cost effective programme.
5. LNT said that all airports were under a lot of pressure to get rid of used glycol. They had to pay to get rid of it so recycling was a good opportunity to re-use it. In Europe, the biggest difficulty was the variability of the weather, the location of the ADF supplier and the requirement and costs with holding and storing stocks to cover any weather eventuality.

6. [REDACTED]
7. LNT said that it continued to seek approval for [REDACTED] product in Europe while it sought innovative solutions which benefited an airport in terms of disposal and also benefited LNT in terms of not having to hold large quantities of blended product or buy large quantities of glycol.
8. LNT confirmed [REDACTED]. [REDACTED] It had other manufacturing facilities in [REDACTED] with a company called [REDACTED] and worked with [REDACTED] in the UK. [REDACTED] was licensed to manufacture ADF and runway de-icing fluid for LNT in [REDACTED] and to manufacture runway de-icing fluid for LNT in the UK. It had approval to manufacture ADF type I. [REDACTED].
9. LNT said that recycling solutions could be capital intensive for an airport depending on how they were implemented. It was more expensive to build an on-site pad and facility than to move the waste fluid offsite for somebody else to purify and distil it. However in moving offsite, there was also the cost of paying someone else to do the necessary work. In Canada (Montreal) it became financially prudent to build a recycling facility rather than pay for disposal of the runoff glycol. It also allowed the airport to protect itself again movements in the price of glycol and payback could be relatively short.
10. LNT said that at [REDACTED], de-icing took place at the gate and at the point of departure. LNT worked with a third party who had the capability to remove the waste fluid and recover the glycol off site to a very high purity. It could then be returned to [REDACTED] in a re-blended form or re-blended on site at [REDACTED].
11. LNT confirmed it had an approved type I product [REDACTED]. Traditionally people started with a type I and then moved to type II and IV because of performance criteria. [REDACTED]
12. LNT said that the cost of development of an ethylene glycol (EG) type I from the beginning to first sale was [REDACTED] and the time and cost for a propylene glycol (PG) type I would be similar. However, there were some synergies meaning that the development of both would likely cost closer to [REDACTED]. The equivalent costs for types II and IV were [REDACTED].
13. LNT said that there were synergies with regard to development between a PG and EG type I product but there were none between a type I, type II or type IV. Costs for testing and approval were high.
14. LNT said [REDACTED] for type II and IV, its strategy was [REDACTED]. In Europe it planned [REDACTED].

15. In [REDACTED] LNT used an ADF manufacturing facility [REDACTED] and so could compete with airports close by [REDACTED].
16. LNT had the capability to supply [REDACTED] from their site in [REDACTED].
17. Scandinavia was a market that was difficult to enter [REDACTED].
18. LNT did not supply to France. [REDACTED]
19. LNT said [REDACTED] was the only UK airport that had a large storage facility. [REDACTED]

Switching

20. [REDACTED]
21. LNT said [REDACTED]. Normally a competitor competed with the incumbent supplier and so it resulted in a head to head between the best-selected new player and the existing supplier. The customer always asked for a competitive quote and then judged whether it was worthwhile taking the risk to change.
22. LNT said in [REDACTED] there was a tendering system which was very open and transparent. Marks were awarded under different categories such as security of supply, logistics and quality of product. In other countries, bids were requested and received by email and were private to the customer, who if there was a price difference, would revert to the incumbent supplier and request a price reduction, if necessary.
23. LNT said that one of the risks to the customer in switching was security of supply. A supplier was required to provide references from other customers to demonstrate the strength of its logistics. LNT said [REDACTED] in Canada where there was consistency of demand at a reasonable level and significant pressures in terms of logistics. It was based on a history of supplying a customer and the Canadian references had helped LNT enter the European market for non-ADF products. [REDACTED] reputation was important and word spread about who could and who could not supply. The aviation industry was a small industry in terms of personnel.
24. [REDACTED] was a particularly attractive market for sale of ADF due to the large number of airports and the climate – even in mild weather, there was demand for ADF.
25. [REDACTED], as part of the tendering process, a customer released maximum demand figures and a supplier then provided a detailed plan of its [REDACTED] capabilities, [REDACTED] to get product to the customer. The scoring allocated to security of supply was generally of the order of 35%, [REDACTED].

26. LNT said that customers could split supply between two suppliers but generally if you supplied type I, you also supplied type II or type IV. This was done for possibly both commercial and operational reasons.

Impact of the merger

27. LNT said [✂].