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COMMERCE COMMISSION

DECISION NO. 307

Determination pursuant to the Commerce Act 1986 (the Act), in the matter of an application for clearance of a business acquisition involving:

GERRARD SIGNODE LIMITED

and

CARTER HOLT HARVEY STRAPPING SYSTEMS

- The Commission:** Alan Bollard
Kate Brown
Roger Taylor
- Summary of Proposed Acquisition:** The proposed acquisition by Gerrard Signode Limited, or a related company, of the business of Carter Holt Harvey Strapping Systems (a division of Carter Holt Harvey Limited).
- Determination:** Pursuant to s 66(3)(a) of the Act, the Commission determines to give a clearance for the proposed acquisition.
- Date of Determination:** 16 September 1997

AUT/BA G13/1
M 2350

MEMORANDUM

To: The Chairman
Kate Brown
Roger Taylor

From: Jeff Hamilton
John Preston
Jo Bransgrove

Date: 16 September 1997 (Working Day 10)

Subject: **Commerce Act 1986: Business Acquisition: Gerrard Signode Limited/Carter Holt Harvey Strapping Systems (a Division of Carter Holt Harvey Limited)**

Working Day 8: 12 September 1996 Working Day 10: 16 September 1996

This matter is confidential.

Confidential material in this report is contained in square brackets.

THE PROPOSAL

- 1 Clearance has been sought by Gerrard Signode Limited (Gerrard Signode), or a related company, to acquire the business of Carter Holt Harvey Strapping Systems (CHH Strapping) (a division of Carter Holt Harvey Limited (CHH)).
- 2 CHH has indicated that it wishes to sell the business of CHH Strapping as it does not consider that the business forms part of its core activities. To this end, the company has sought bids by way of a competitive tender process from parties potentially interested in acquiring the business. Our current understanding is that no decision has been made on the preferred tenderer.

PROCEDURES

- 3 The proposal was registered on 2 September 1997 under s 66 of the Commerce Act 1986 (the Act). In terms of s 66 (3) of the Act, the Commission is required to give clearance for the proposal within 10 working days, unless the Commission and the person who gave the notice agree to a time extension. A decision on the notice is due by 16 September 1997.
- 4 In the notice, the applicant sought confidentiality as to the fact of the proposal. However, the applicant stated that it was agreeable to the Commission disclosing the fact that the application had been lodged to the extent that such disclosure was required to enable the Commission to carry out its enquiries.
- 5 Following telephone discussions and correspondence between Commission staff and the applicant's solicitors, and telephone discussions between Commission staff and CHH, it was agreed that exceptions from a confidentiality order would be made to enable certain parties to be contacted by the Commission for comment and information relating to the proposed acquisition. Those parties included manufacturers, importers, distributors and end users of strapping and strapping equipment. We consider that the agreed list of parties who could be consulted was sufficiently comprehensive to allow the proposal to be investigated adequately.

THE PARTIES

Gerrard Signode Limited

- 6 Gerrard Signode is engaged in the manufacture and distribution of polypropylene strapping, and the importation and distribution of steel and polyester strapping, strapping machines and auxiliary equipment in New Zealand. The company operates a production facility at Auckland, distribution sites in Auckland and Christchurch, and sales and service centres in Rotorua, Wellington and Dunedin.
- 7 Gerrard Signode is ultimately 100% owned by Illinois Tool Works Inc (ITW). Apart from its ownership interests in Gerrard Signode, ITW has the following New Zealand-based subsidiaries:

- ITW Ltd, which is involved primarily in the manufacture of fasteners and the sub-assembly of components for the appliance industry;
- Kinnear Ropes Ltd, which manufactures and distributes rope and cordage;
- Nu-Way Energy (NZ) Ltd, which sells and services energy equipment; and
- Jambro Ltd, a manufacturer and supplier of nails, staples, and tools for their application.

Carter Holt Harvey Strapping Systems

- 8 CHH Strapping, which forms part of the Packaging Division of CHH, manufactures and distributes polypropylene strapping in New Zealand and Australia under the “Danband” label. The company has plants in Auckland and Brisbane, Australia. CHH Strapping also distributes woven polyester strapping, polyester strapping, automatic and semi-automatic strapping machines, and related equipment and accessories in New Zealand.
- 9 CHH, which is listed on the New Zealand Stock Exchange, has interests in forest and wood products; pulp, paper and tissue products; packaging; and building products in New Zealand and several overseas countries. Aside from its ownership of CHH Strapping, CHH has an interest in the importation of steel strapping through its Distribution Division. The applicant states that CHH’s Distribution Division may continue to import steel strapping after the completion of the sale of CHH Strapping. CHH’s Distribution Division is also a reseller of a range of strapping products through its nation-wide outlets.

MARKETS

Market Definition

Product/Function Markets

- 10 In the notice, the applicant contends that the relevant market is the national market for the supply and servicing of packaging systems and consumables which are used in the closing, reinforcing or bundling of products.
- 11 The applicant also submits that there is a variety of packaging systems which are available in the commercial and industrial sectors, including:

- film wrapping (stretch-wrap and shrink-wrap);
- strapping (polypropylene, polyester or steel);
- baling (twine and string); and
- glue/adhesives.

12 The following activities of the parties to the proposal have been identified as those in which there would be aggregation, if the acquisition were to proceed:

- the manufacture and distribution of polypropylene strapping;
- the importation and distribution of polyester strapping; and
- the importation, distribution and servicing of manual and power strapping machines and equipment for the application of strapping.

13 There would be no aggregation of market share in respect of the distribution of steel strapping.

14 Our enquiries have revealed that the demand for the various types of strapping will depend on a range of factors, including the nature of the product being packaged, the destination of the product (export or local market), the weight of the product, the method of transport to be used, and the preference of the purchaser of the product.

15 Generally speaking, polypropylene strapping represents a relatively inexpensive product which is suitable for a wide variety of light and medium-duty applications (e.g. bundling, palletising, unitising and carton closure). These include requirements for low volume general purpose strapping for smaller end users and large volume product for large scale end users (e.g. manufacturers of primary products, such as dairy products, meat and berry fruit).

16 For packaging which involves heavier loads, and where there is a requirement for a higher retained tensile strength, steel strapping is often the preferred choice. Steel strapping is significantly more expensive than polypropylene strapping. More recently, polyester strapping has been introduced, and because of its high tensile strength is viewed as a substitute for steel strapping. As a result, polyester strapping is replacing steel strapping in some applications, and the applicant expects over time that polyester strapping will replace many steel strapping applications.

- 17 Strapping machines comprise a wide range of manual and power-operated devices for use in the application and tensioning of each of the various categories of strapping described above.
- 18 Taking into account the above factors, we consider that when analysing the likely competitive impact of the proposal, it is appropriate to delineate separate product and function markets for each of the individual types of strapping (i.e. polypropylene, steel and polyester), as well as for strapping machines. We acknowledge, however, that alternative forms of packaging can, and do compete with strapping in many applications. For example, we understand that timber and timber products are now frequently packaged in plastic film, whereas in the past steel or other types of strapping were employed. Additionally, stretch-wrap, and in some instances shrink-wrap, are being used on an increasing basis in a number of other applications in which polypropylene or polyester strapping might be employed.

Geographic Market

- 19 Given that local manufacturers of polypropylene strapping supply product on a nation-wide basis, and that imports of strapping can be imported into various locations throughout the country with relative ease, we consider that the relevant geographic market is a national one.

Conclusion on Market Definition

- 20 For the purpose of analysis, we propose to define the relevant product and function markets in this report as follows:
- the manufacture and distribution of polypropylene strapping;
 - the importation and distribution of steel strapping;
 - the importation and distribution of polyester strapping; and
 - the importation, distribution, and servicing of strapping machines and related equipment for the application of strapping.
- 21 The geographic dimensions of each of the above markets is national.

COMPETITION ASSESSMENT

Polypropylene Strapping Market

Existing Competition

- 22 There are three manufacturers of polypropylene strapping in New Zealand. CHH Strapping is the largest supplier, with Gerrard Signode and Benard Packaging Co Ltd (Benard), a Christchurch-based company, being the other major producers of this product. All three produce strapping from granules which are then extruded and converted into strapping of various widths and other specifications. While each of the manufacturers of polypropylene strapping distributes nation-wide, most of Benard's sales take place in the South Island.
- 23 Apart from the manufacturers outlined above, there is competition from various importers and distributors of polypropylene strapping. Statistics New Zealand data provided by the applicant shows that the volume of polypropylene strapping imports increased from around 41,000 kgs in the 12 months ending 31 December 1992, to around 218,000 kgs in the corresponding period ending 31 December 1997. The major importers of the product appear to be Packaging Solutions Ltd (a wholly owned subsidiary of the Blue Star Group Ltd), and certain packaging suppliers (e.g. Snell Packaging and Stationery Ltd).
- 24 The major purchasers of polypropylene strapping include general packaging suppliers, meat processing companies, dairy companies, corrugated board producers, horticulturalists, and fish processors. Although the three major suppliers sell polypropylene strapping to all the major end user groups, it is noted that CHH Strapping sells primarily through distributors, while Gerrard Signode currently sells most of its product directly to end users. Benard supplies to a range of end users and packaging suppliers.

Market Shares

- 25 On the basis of sales turnover figures provided by the three manufacturers of the product, market shares for polypropylene strapping are estimated as follows:

% (Approx)

CHH Strapping	[]
Gerrard Signode	[]
	[]
Benard	[]
Imports	[]
	100

New Entry

- 26 On the basis of our enquiries, there appear to be two potential sources of competition to the existing suppliers of polypropylene strapping: imports and *de novo* entry.

Imports

- 27 There are no major impediments to the importation of polypropylene strapping, with the product being available from a wide range of sources, including Australia. While Gerrard Signode is a manufacturer of polypropylene strapping in Australia, and would acquire CHH's strapping manufacturing business in that country, we have been told by the applicant that there is one other Australian manufacturer of the product.
- 28 Imports of polypropylene strapping from Australia are duty free, but currently attract a normal duty of 9%. This duty does not appear to inhibit the competitive importation of the products, and we have been told that one packaging supplier is importing product from China at competitive prices. However, another party we spoke to considered that strapping imports are often of an inferior quality.

De Novo Entry

- 29 Our enquiries reveal that entry into this market might result from a firm commencing manufacturing operations. This could be achieved by a company with an existing involvement in plastics extrusion, diversifying into the manufacture of strapping. Alternatively, it appears that greenfields entry could be achieved with relative ease. The capital outlay for such entry appears relatively modest (around \$500,000 for the plant), and the technology and expertise appear to be widely available within New Zealand.

Assessment of Dominance in the Polypropylene Strapping Market

- 30 If Gerrard Signode were to acquire the business of CHH Strapping, the principal effect would be to increase the share of the combined entity to around [] in the market for the manufacture and distribution of polypropylene strapping. However, staff consider that the market would continue to be subject to the competitive discipline of one other major manufacturer of polypropylene (Benard), actual and potential import competition, and to a lesser extent, *de novo* entry.
- 31 As noted above, Benard accounts for around [] of national polypropylene strapping sales. Some of the purchasers of strapping whom we spoke to, and especially the large volume purchasers based in the North Island, were not familiar with Benard, while some of those who were consider that Benard is primarily a South Island-oriented business, and that it might not be capable of meeting service and other requirements.
- 32 While the South Island accounts for around 80% of Benard's total sales, the company does have a presence in the North Island through an Auckland-based agent, and its product is sold through some packaging distributors in the North Island. The company told us that it has spare capacity, and that if the combined entity were to attempt to use its market power, it could expand its sales in the North Island by opening a warehouse in Auckland and establishing a sales team. Benard considers that this could be accomplished relatively quickly.
- 33 In regard to service requirements, Benard indicated that it could meet the necessary requirements of end users, and would be willing to do so if it received the appropriate commercial incentives. The company has the manufacturing capability to produce a similar range and quality of polypropylene strapping to that supplied by the parties to the proposed acquisition. Indeed, the company is already supplying strapping to two major South Island meat processing companies (PPCS and Alliance) to the prescribed quality and other specifications.
- 34 Apart from Benard, we consider that if the proposed acquisition proceeds, the combined entity would continue to face competition from imports. Already, there is a number of companies supplying imported product, and there do not appear to be any major obstacles to those parties, or others, from securing supplies from offshore. Indeed, as the normal duty rate falls progressively, it is likely that imports

of polypropylene strapping will impose a stronger competitive constraint in this market.

- 35 Further, entry conditions into the manufacture and supply of polypropylene do not appear onerous. In particular, it would appear to be relatively straightforward for a company with manufacturing activities in the plastics industry to commence producing the product, if the market circumstances were to warrant it. Also, there appears to be some scope for other firms to enter the market with relative ease.

Countervailing Power of Purchasers

- 36 Some of the large purchasers of polypropylene whom we spoke to, consider that Gerrard Signode and CHH Strapping represent the only viable domestic sources of supply for polypropylene strapping. However, for the reasons outlined in paras 32 and 33 above, we consider that Benard represents an alternative source of supply, and that imports represent another option for certain end users and distributors.
- 37 In our view end users and resellers of polypropylene strapping have a wide range of outlets from which to source their existing requirements of polypropylene strapping. Additionally, we consider that the range of choice is unlikely to diminish to any significant extent if the proposed acquisition proceeds.

Conclusion on Dominance in the Polypropylene Strapping Market

- 38 Having regard to the above factors, we conclude that if the proposed acquisition were to be implemented, it would not be likely to result in any person acquiring or strengthening a dominant position in the market for the manufacture and distribution of polypropylene strapping.

Steel and Polyester Strapping Markets

- 39 There is no steel or polyester strapping manufactured in New Zealand. As noted previously, Gerrard Signode and CHH Strapping are both involved in the importation and distribution of polyester strapping. However, the proposed sale of CHH Strapping does not include the steel strapping business of CHH, with that business likely to be continued by CHH's Distribution Division.

Steel Strapping

- 40 On the basis of information provided by the applicant, Gerrard Signode is the largest importer of steel strapping, with an estimated market share of around []. The other major competitor is Randspak Strapping Systems (Randspak), a division of Russell and Somers Shipping Ltd, which accounts for around [] of the market. The other suppliers are CHH's Distribution Division (around []), and several smaller businesses. One party (Randspak) has queried the basis on which the above figures have been compiled, but we do not consider that this materially affects the conclusion reached in this report.

Polyester Strapping

- 41 Gerrard Signode, and to a lesser extent CHH Strapping, are significant importers of polyester strapping. However, there are several other suppliers of this product, including Packaging Solutions, Randspak and Strapping Systems NZ Ltd, although the latter imports this product primarily for use in conjunction with strapping machines the company rents to end users.

New Entry

- 42 In the notice, the applicant states that it is considered unlikely that a manufacturing operation for steel or polyester strapping would be established in New Zealand. The reason given is that the cost of establishing a local manufacturing operation would be prohibitive because of the small size of the size of the New Zealand market relative to demand, and because of the ease of importation. Our enquiries confirm that there are no difficulties associated with the importation of either polyester or steel strapping.

Assessment of the Likely Competitive Impact of the Proposed Acquisition in the Steel and Polyester Strapping Markets

- 43 The proposed acquisition, if implemented, would not involve any horizontal aggregation of market share in respect of the market for the importation and distribution of steel strapping. Further, we consider that the combined entity would continue to be adequately constrained by a number of other suppliers, including Randspak and CHH's Distribution Division.
- 44 While the proposed acquisition would result in some aggregation of market share in relation to the market for the importation and distribution of polyester strapping, our view is that the market will remain highly competitive with a number of other players active (e.g. Packaging Solutions and Randspak).

Conclusion on Dominance in the Steel Strapping and Polyester Strapping Markets

- 45 We conclude that implementation of the proposal would not result in any person acquiring or strengthening a dominant position in each of the markets for the importation and distribution of steel and polyester strapping.

Strapping Machine Market

- 46 Although both Gerrard Signode and CHH Strapping Systems are involved in the importation, distribution and servicing of strapping machines and related equipment, there are several other local companies which import these machines. The products are readily available from various overseas sources, and are not subject to any duty protection. Nor do there appear to be any difficulties associated with servicing strapping machines, with many repair service outlets available throughout the country to undertake this work.
- 47 We consider, therefore, that if the proposed acquisition were to proceed, no person would acquire or strengthen a dominant position in the market for the importation, distribution and servicing of strapping machines and related equipment.

OVERALL CONCLUSION

- 48 We consider that implementation of the proposal would not lead to the combined entity acquiring or strengthening a dominant position in any of the relevant markets identified above. In our view, the combined entity would continue to be effectively constrained by alternative suppliers of strapping and strapping machines, and that imports (actual and potential) and *de novo* entry would impose an additional competitive discipline. Furthermore, we consider that in some instances alternative strapping systems, including stretch-wrap and shrink-wrap, may act as a constraint on the behaviour of the combined entity post-acquisition.

RECOMMENDATION

- 49 We recommend that you give clearance to the proposed acquisition under s 66 (3) (a) of the Act.

Investigator

Chief Investigator

Manager

**DETERMINATION TO GRANT NOTICE OF CLEARANCE:
GERRARD SIGNODE LIMITED/CARTER HOLT HARVEY STRAPPING SYSTEMS**

We agree/disagree with the recommendation.

We are satisfied/not satisfied that implementation of the proposed acquisition would not result, or would not be likely to result, in any person acquiring or strengthening a dominant position in a market.

Accordingly, pursuant to s 66(3)(a) of the Commerce Act 1996 (the Act), we hereby give clearance for Gerrard Signode Limited, or a related company, to acquire the business of Carter Holt Harvey Strapping Systems (a division of Carter Holt Harvey Limited).

In terms of s 66(5) of the Act, this clearance shall expire twelve months after the date of this notice. Brief particulars of this clearance will appear in the Commission's public register.

This clearance is given only to the proposed acquisition described in the notice seeking clearance dated 2 September 1997.

Dated at Wellington this day of 1997

A E Bollard
Chairman

K M Brown
Member

R N Taylor
Member

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