

**COMMERCE ACT 1986: BUSINESS ACQUISITION
SECTION 66: NOTICE SEEKING CLEARANCE**

Date: 28 November 2006

The Registrar
Business Acquisitions and Authorisations
Commerce Commission
PO Box 2351
WELLINGTON

Pursuant to s66(1) of the Commerce Act 1986 notice is hereby given seeking **clearance** of a proposed joint venture.

EXECUTIVE SUMMARY

- 1.1 Owens Corning ("**OC**") seeks clearance to acquire, directly or through a subsidiary, from Compagnie de Saint-Gobain ("**SG**") assets comprising SG's glass fibre reinforcement activities, as carried out by its Saint-Gobain Vetrotex division. It is proposed that Owens Corning Vetrotex Reinforcements ("**OCVR**"), a joint venture subsidiary of OC yet to be formed, acquire such assets as are necessary to operate OC and SG's combined worldwide fibreglass reinforcement products and composite fabrics business ("**Transaction**").
- 1.2 The Transaction affects the market for the acquisition and supply of glass fibre reinforcement products, in particular, Assembled Rovings in New Zealand, but it will not have the effect of substantially lessening competition in that or any other market due to the increasing global availability of alternative fibreglass reinforcement products, especially out of China, and the ability of distributors and end-users to source supply directly from those manufacturers, as required.

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PART I: TRANSACTION DETAILS

2. THE TRANSACTION

- 2.1 Clearance is sought in respect of the acquisition by OC of the fibreglass reinforcement and composite fabrics assets of SG, and for OCVR to acquire such assets as are necessary to operate the combined current worldwide fibreglass reinforcement products and composite fabrics business of OC and SG ("**Parties**").
- 2.2 The Parties signed a non-binding letter of intent to effect the Transaction on 1 June 2006 ("**LOI**") and jointly announced their intention to form a joint venture on 27 July 2006. A copy of the OC media release is available at <http://www.owenscorning.com>.

Transfer of assets into OCVR

- 2.3 The Parties have agreed to contribute all of their assets used in the operation of their respective reinforcement and composite businesses to the joint venture, OCVR.
- 2.4 It is intended that OC will appoint three of OCVR's five Directors, including the Chairman. SG will not hold veto rights over decisions that would enable it to determine OCVR's strategic behaviour. OC will manage the new entity's business and control its strategic and day-to-day commercial behaviour.
- 2.5 SG will initially retain a minority interest in OCVR, but the LOI includes put and call options exercisable after 4 years, according to which SG has the right to cause OC to purchase its entire interest in OCVR at a calculated exit price and OC holds a reciprocal right to cause SG to sell its entire interest in OCVR. **[CONFIDENTIAL]** The only decisions which are subject to approval by at least one SG representative on the Board relate to the protection of its financial interest as a minority shareholder.

Regulatory approvals

- 2.6 Regulatory approval for the Transaction is being sought in a number of jurisdictions. In addition to this clearance application, similar applications are being made in Australia, the USA, the European Union, Brazil, China, Israel, Japan, Mexico, Russia, South Korea, Taiwan, and Turkey.
- 2.7 Closing of the Transaction is conditional upon the requisite clearances being obtained. It is expected that completion will take place in the first quarter of 2007.

3. NOTICE GIVEN BY OWENS CORNING

- 3.1 This notice is given by:

Owens Corning
 One Owens Corning Parkway
 Toledo, OH 43659
 USA

Attn: John W Christy
 Vice President & Assistant General Counsel
 Ph: +1419 248 7957

- 3.2 All correspondence and notices in respect of this application should be directed in the first instance to:

Russell McVeagh
 Barristers & Solicitors
 P O Box 8
 Level 30, Vero Centre
 48 Shortland Street
 Auckland

Attn: David Clarke/Sarah Keene
 Ph: (09) 367 8133
 Fax: (09) 367 8596

4. CONFIDENTIALITY

- 4.1 Confidentiality is sought in respect of all items deleted from the public copy of this application ("**confidential information**"). The items are either indicated in the non-public version in square brackets ("**[]**"), or contained in **Appendix 2**, the entire contents of which are confidential.
- 4.2 In respect of the confidential information, a confidentiality order is sought under section 100 of the Commerce Act 1986 ("**Act**"), and confidentiality is claimed under section 9(2)(b)(ii) of the Official Information Act 1982, on the grounds that the information is commercially sensitive and valuable information which is confidential to the participants, and disclosure of it is likely to give unfair advantage to competitors of the participants and/or unreasonably to prejudice the commercial position of the persons involved.
- 4.3 Owens Corning requests that it be notified of any request made to the Commission under the Official Information Act for release of the confidential information, and that the Commission seeks its views as to whether the information remains confidential and commercially sensitive, at the time responses to such requests are being considered.

5. DETAILS OF THE PARTICIPANTS

Acquirer

- 5.1 The proposed acquirer is OC.
- 5.2 OC is a U.S. company, incorporated in Delaware and headquartered in Toledo, Ohio, active in the production and sale of building materials and glass fibre reinforcements. The acquisition concerns OC's activities in the glass fibre reinforcements section, and, in particular, the manufacture, marketing, and sale of a variety of glass fibre reinforcement and composite fabrics products. This activity is carried out by OC through:
- (a) wholly owned manufacturing plants located in:
- (i) North America: Amarillo (USA), Anderson (USA), Guelph (Canada), Huntington (USA), Jackson (USA); and New Braunfels (USA);
 - (ii) Latin America: Rio Claro (Brazil), and Mexico City (Mexico);
 - (iii) the European Economic Area "**EEA**": L'Ardoise (France), Battice (Belgium), Birkeland (Norway) and San Vicente (Spain);

- (iv) Asia: Ibaraki (Japan);
- (b) jointly owned manufacturing plants located in:
 - (i) Kimchon (Korea): a plant jointly owned by OC (70%), and LG Chemical (30%);
 - (ii) Taloja (India): a plant jointly owned by OC (60%), Mahindra Holding (22%), and Archway Investment Ltd & IL&FS Trust Co. (18%); and
 - (iii) a 50/50 production joint venture with Saint-Gobain Vetrotex in Mexico, called "Violet I", under which the joint venture's entire production is exclusively purchased by the parent companies, and subsequently autonomously transported and sold by each parent company through their independent sale organizations.
- 5.3 OC supplies glass fibre reinforcements to New Zealand from manufacturing plants in India, Korea, and the USA.
- 5.4 Further information concerning OC's operations may be found at: <http://www.owenscorning.com>.

Target

- 5.5 SG is a French company with its head office in Courbevoie, Paris, France. The Saint-Gobain Group controls a number of companies active in the manufacture and sale of products in five main segments:
 - (a) flat glass;
 - (b) packaging;
 - (c) construction products, including gypsum, mortars, insulation and pipes;
 - (d) distribution of building materials; and
 - (e) so-called "high performance materials," including ceramics and plastics, abrasives and reinforcements.
- 5.6 The acquisition concerns SG's activities in the following sectors:
 - (a) glass fibre reinforcements through Saint-Gobain Vetrotex ("**SGV**"); and
 - (b) composite fabrics through Saint-Gobain Technical Fabrics (none of which are imported into New Zealand).
- 5.7 These activities are carried out by SG through:
 - (a) wholly owned manufacturing plants located in:
 - (i) North America: Brunswick (USA), Cerbay (USA), Wichita Falls (USA) and Ridgeway (USA);
 - (ii) Latin America: Capivari (Brazil);

- (iii) the EEA: Alcala (Spain), Andover (UK), Besana (Italy), Chambéry (France), Litomysl (Czech Republic), Hodonice (Czech Republic), Vado Ligure (Italy), Vendôme (France), and Zele (Belgium);
 - (iv) Asia: Bangkok (Thailand), Changzhou (China), Doudian (China), Gunsan (Korea), Hangzhou (China), and Thimmapur (India);
- (b) jointly owned manufacturing plants located in:
- (i) Tsu (Japan), called Vetrotex NSG, and owned by SG (60%) and the Japanese company NSG (40%)
 - (ii) Vercelli (Italy), owned by SG (75.85%) and the Italian company Reverberi (24.15%);
 - (iii) Gus Krystalny (Russia), owned by SG (85%) and a minority shareholder of 15%; and
- (c) as explained above, a 50/50 production joint venture with OC in Mexico, called "Violet I", under which the joint venture's entire production is exclusively purchased by the parent companies, and subsequently autonomously transported and sold by each parent company through the independent sales organisations.
- 5.8 SG supplies glass fibre reinforcements to New Zealand from manufacturing plants in Thailand, China, and India. SG, until September 2006, distributed glass fibre reinforcements in New Zealand through Nuplex. It now distributes in New Zealand directly from its majority owned Australian subsidiary Saint-Gobain RF Pty Limited ("**SGRF**").¹
- 5.9 SGRF is a distributor of composite and construction materials throughout Australia and New Zealand. **[CONFIDENTIAL]**
- 5.10 Contact details for SG are:
- Compagnie de Saint Gobain
Les Miroirs
Avenue d'Alsace
92096 La Défense Cedex
France
- Attn: Olivier Lécroart
Ph: +33 1 47 62 3792
Fax: +33 1 47 62 5130
- 5.11 Further information concerning SG's operations may be found at www.saint-gobain.com.

¹ SGRF is owned 75% by SG and 25% by Cray Valley. SGRF was registered in New Zealand as an overseas company doing business in New Zealand in August 2006. In addition, SG has a wholly owned subsidiary incorporated in New Zealand, Saint-Gobain Abrasives Limited, which is unrelated to this transaction.

6. INTERCONNECTED AND ASSOCIATED PARTIES

Owens Corning

6.1 OC is a public company and is not controlled by any undertaking or person.

6.2 Please refer to paragraph 5.2 above as to the corporate structure of OC.

Compagnie de St Gobain

6.3 SG operates its fibre glass reinforcement activities through SGV. SG is not controlled by any undertaking or person.

6.4 Please refer to paragraphs 5.5 to 5.9 above for details of parties interconnected and associated with SG.

6.5 No other relevant entity is expected to continue to own over 10% of the shares in SG after the proposed joint venture is implemented.

7. BENEFICIAL INTERESTS

7.1 Neither OC nor SG holds any relevant beneficial interest.

8. LINKS BETWEEN PARTICIPANTS

8.1 There are no links between OC and SG which affect markets in New Zealand. In particular, the Violet I Joint Venture in Mexico described above at paragraph 5.2(b)(iii) does not supply the New Zealand markets.

9. BUSINESS ACTIVITIES OF EACH PARTICIPANT

9.1 OC and SG manufacture "glass fibre reinforcements". These are "reinforcing agents" used in the manufacture of reinforced plastics and composites.

9.2 The Parties currently separately produce seven "product categories" of reinforcements. These are:

- (a) CFM (continuous filament mat) fibres ("**CFM**");
- (b) CSM (chopped strand mat) fibres ("**CSM**");
- (c) Assembled Rovings (otherwise known as "conventional rovings");
- (d) Direct Rovings;
- (e) DUCS (Dry Use Chopped Strands) fibres ("**DUCS**");
- (f) WUCS (Wet Use Chopped Strands) fibres ("**WUCS**"); and
- (g) Fabrics.

9.3 Of these products, only the first four, CFM, CSM, Assembled Rovings, and Direct Rovings, are supplied in New Zealand.

The counterfactual

- 9.4 It is difficult to predict the counterfactual with any degree of certainty. However, at the manufacturing level, due to increasing competition internationally (in particular from the “Chinese Big Three”, described further at paragraph 18.1 below) both OC and SG are unlikely to survive as fully fledged competitors in the market in the medium term.
- 9.5 The efficiency savings from the joint venture will allow a lower-cost and more competitive product to be available to the market, which is unlikely to occur in the counterfactual.
- 9.6 At the distribution level, OC has not yet determined how the products will be distributed in New Zealand. **[CONFIDENTIAL]**

10. THE REASONS FOR THE PROPOSAL

- 10.1 The Parties' glass fibre reinforcements businesses' financial performance has been decreasing in recent years, in a global industry characterised by increasing sales by Chinese manufacturers, in terms of both quantity and diversified products. This has had - and will continue to have - a powerful and sustained impact on prices. The formation of OCVR is primarily designed to substantially reduce the Parties' cost bases to enable the combined business to compete more effectively in response to this trend.

The Parties' financial performance

- 10.2 **[CONFIDENTIAL]**
- 10.3 **[CONFIDENTIAL²]**
- 10.4 The proposed joint venture would provide OC and SG with the opportunity to:
- (a) offer stronger competition to other importers, particularly in the face of increased quality and presence by Chinese competitors in markets across the world, including New Zealand;
 - (b) utilise significant available synergies across the businesses to produce the best product and utilise the latest thinking on consumer trends and product innovation;
 - (c) achieve scale efficiencies, such as lower transportation costs and lower raw material costs, from the consolidated position;
 - (d) achieve additional efficiencies in its plant utilisation combining a more modern plant and systems with a wider manufacturing base; and
 - (e) rationalise its manufacturing facilities to create a more efficient business.
- 10.5 The cumulative synergies and efficiency benefits achieved by the proposed acquisition will have the effect of OCVR being able to compete more efficiently in New Zealand, passing on improvements in both innovation and efficiency to New Zealand acquirers of glass fibre reinforcement products.

² **[CONFIDENTIAL]**

The Parties' long term strategies

- 10.6 OCVR is to be formed as a means for reducing costs and improving performance. OC's long-term strategy is to improve its performance as a worldwide supplier in the area of glass fibre reinforcements. For OC, the primary purpose of the joint venture is to consolidate and streamline the Parties' glass fibre reinforcement business, and thereby improve production and sales efficiencies. **[CONFIDENTIAL]**
- 10.7 The contemplated joint venture is the second cooperation project between OC and SG. As explained above at paragraph 5.2(b)(iii), the Parties already operate a common production joint venture, called "Violet I". The Violet joint venture was formed by both Parties in order to realize capital savings while exploiting a better production process jointly. The Violet joint venture has been a test for the current project in that both Parties can rely on past experience to successfully integrate their technologies.
- 10.8 **[CONFIDENTIAL]**

PART II: IDENTIFICATION OF MARKETS AFFECTED
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11. HORIZONTAL AGGREGATION**Market Definition**

11.1 Only four categories of products affected by this Transaction are supplied in New Zealand, as noted at paragraph 9.3 above. These product categories are:

- (a) CFM;
- (b) CSM;
- (c) Assembled Rovings (otherwise known as "conventional rovings"); and
- (d) Direct Rovings.

11.2 OC itself and through its distributor, Aurora Glass Fibre (NZ) Limited ("**Aurora**"), currently supplies 100% of New Zealand's supply of Direct Rovings and CFM fibres. The only overlap products that are supplied by both OC and SG into the New Zealand market are Assembled Rovings and CSM.

11.3 Accordingly, only Assembled Rovings and CSM product markets are considered further in this application.

Product Dimension

11.4 It appears that the Commission has not previously considered markets for glass fibre reinforcements.

Manufacture of Glass Fibre Reinforcement Products Generally

11.5 Glass fibre reinforcement products ("**GRPs**") are manufactured by melting a glass batch formulation³ in a furnace. The molten glass is drawn through a multi-hole surface called a bushing to create thin filaments. The filaments drawn from the bushing are then treated by various chemical and physical processes ("**sizing**") that alter their properties, making them suitable for a wide range of particular reinforcement uses. The treated filaments are then chopped into short pieces, wound onto a spool, or formed into a mat, depending on the desired application. A graphic description of the GRP manufacturing process and products is provided at **Appendix 1**.

11.6 Glass fibre reinforcements are intermediate products that are combined with resins (polyester, polypropylene, polyurethane, etc) to form "composites".

11.7 Composites are used in a variety of manufacturing processes to produce products with high mechanical performance, in areas such as stiffness, strength, thermal, or chemical resistance⁴. The degree of a composite's strength is determined by:

³ A "batch formulation" refers to the raw materials used to produce glass, namely a combination of silica, clay, limestone or burned lime and processing aids (eg boron oxides).

⁴ See http://en.wikipedia.org/wiki/Glass_reinforced_plastic. Composites are used to manufacture products in a wide range of industries, including automotive (eg bumper beams and deck lids), buildings (eg panel facings and residential entry doors), consumer goods (eg garden tools and ladders), electronics (eg computer housings and electronic connectors), heavy transportation (eg truck cabs and bus body shells), infrastructure (eg, large

- (a) the type of reinforcing fibre used;
 - (b) its arrangement within the composite;
 - (c) and the percentage of fibre used.
- 11.8 The parties are not active in producing composites or in manufacturing finished products from composites.

Assembled Rovings

- 11.9 Assembled Rovings are continuous glass fibres bonded together into strands without twist. They are produced in a two-step manufacturing process in which the filaments drawn from the bushing are first wound onto an intermediate package called a cake. Subsequently, several cakes are loaded onto a creel, and the strands from several cakes are wound simultaneously onto the assembled roving package. Assembled Rovings are used in a variety of manufacturing processes (eg hand lay-up, spray-up, compression moulding, and filament winding) for various end-use applications, including the manufacture of bathtubs and showers, pick-up truck beds, commercial wall panels, automotive exterior panels, boats, doors, and urban furniture.⁵
- 11.10 Supply-side substitution between product lines within the Assembled Rovings product category is relatively straightforward. Although each Assembled Roving product line is specifically designed for use in downstream manufacturing processes, demand-side substitution between product lines within the Assembled Rovings product category is possible for most applications.
- 11.11 There is also some potential for supply side substitution between categories of GRPs, as described at paragraph 13.7 below. However, on balance, it is likely that demand-side substitution effects require that Assembled Rovings be considered as a distinct product market.

CSM

- 11.12 CSM consists of chopped glass fibres bonded together using a binder. The mats are designed to be compatible with unsaturated polyester, and vinylester. CSM is used as gel-coat backups and standard laminate reinforcements for most contact moulding applications, including boats, surfboards, panels, and tanks.
- 11.13 For the same reasons described at paragraph 11.10 above in relation to Assembled Rovings, demand-side substitution effects are also likely to require that CSM products be considered as a distinct product market.

Functional Dimension

- 11.14 All of OC's Assembled Roving and CSM products are imported and distributed in New Zealand by Aurora. Under the terms of its distribution agreement with Aurora, OC provides technical and marketing support in relation to Aurora's sales of OC product to

diameter pipes and utility poles), marine (eg boat hulls), sporting equipment (eg skis and surfboards), telecommunications (eg tension member reinforcement for fibre optic and copper cables), and wind energy (eg turbine blades).

⁵ Different lines of assembled rovings are produced, again depending on the product's specific intended use: roving for centrifugal casting; panel, perform, and choppable rovings; gun rovings; roving for compression molding (SMC/BMC); roving for glass mat thermoplastic (GMT); and rovings specialties. Producers of assembled roving are capable of producing most or all assembled roving product lines on the same equipment, and switching between lines takes little time once qualified at the purchasing customer. **[CONFIDENTIAL]**

end users, but it does not sell to those end users directly, except where significant volumes justify that approach, [CONFIDENTIAL].

- 11.15 SG distributes its products in New Zealand through its Australian subsidiary, SGRF. New Zealand customers will be supported by the SGRF Auckland branch, which will act as a local stocking point and distribution centre for sales. Some large accounts will be supported by commission based indent sales.
- 11.16 The functional level of the market affected by the Transaction is the market for the acquisition and wholesale supply of Assembled Rovings and CSM fibre in New Zealand.⁶

Geographic Dimension

- 11.17 Assembled Rovings and CSM fibre products sold in New Zealand are imported from countries all over the world so GRP markets are effectively global. Accordingly, for the purposes of the Commerce Act 1986 the relevant geographic market is likely to be no narrower than national in scope, and is subject to significant constraint from international competitors, as described further at paragraphs 12.1 and 16.1 below.

Market Definition summary

- 11.18 Based on the above analysis, OC considers that the relevant markets affected by the Transaction are as follows:
- (a) the acquisition and wholesale supply of Assembled Rovings in New Zealand ("**Assembled Rovings Market**"); and
 - (b) the acquisition and wholesale supply of CSM in New Zealand ("**CSM Market**").

12. CURRENT COMPETITORS

- 12.1 There are a number of major participants competing with OC and SG in the glass fibre reinforcements markets identified above. All are significant overseas producers which supply or import glass fibre reinforcement products in New Zealand.
- (a) **Central Glass:** Central Glass is a Japanese manufacturer with its primary focus on the production of glass and chemicals. Central Glass has positioned itself as a leader in providing state-of-the-art products and technology.

Central Glass competes with OC/Aurora and SG in the supply of both Assembled Rovings and CSM in New Zealand.
 - (b) **Taiwan Glass:** Taiwan Glass is the largest overall manufacturer of glass products in the Greater China region and exports glass fibre reinforcements widely in Asia and to certain export markets across the world.

Taiwan Glass competes with OC/Aurora and SG in supplying both the Assembled Rovings market and the CSM market in New Zealand. Taiwan Glass is currently among the strongest and most established competitors in the New Zealand markets for Assembled Rovings and CSM.

⁶ Analogous functional markets were considered in respect of the wood fibre market in *Decision 431, Nelson Pine Industries Limited & Rayonier MDF New Zealand*; and in respect of wine and spirits distribution markets in *Decision 553, Pernod Ricard/Allied Domecq* (see para 74).

- (c) **Nitto Boseki Co. Ltd. ("Nittobo"):** Nittobo is a Japanese supplier of GRPs, with its glass fibre reinforcements division accounting for approximately 34% of the consolidated Nittobo revenues. It produces both Assembled Rovings and CSM and has seen recent expansion across its glass fibre reinforcement divisions.⁷

Nittobo competes with OC and SG in supply to the Assembled Rovings market. To date, it has only a very small market share. However, as is set out in more detail below, OC considers that there are minimal restraints on Nittobo increasing its capacity and presence in the Assembled Rovings market.

- (d) **Other Chinese Producers:** In supplying both the Assembled Rovings market and the CSM market a number of Chinese producers compete with OC and SG. Although, individually each of these producers presently has a low market share, OC considers that these Chinese producers serve as a significant actual and potential constraint in the relevant markets.
- (e) **Other Suppliers to Australia:** A number of companies currently selling into Australia, such as PPG Industries (USA), and Nippon Electric Glass (Japan), are near entrant competitors in New Zealand.

13. DIFFERENTIATED PRODUCT MARKETS

Extent Of Product Differentiation

Differentiation on the basis of marketing

- 13.1 There is very little brand differentiation in the GRP markets generally, and little brand loyalty, as most of the main acquirers use multiple sources of supply either from different distributors and/or direct supply by producers. Key factors for customers are price and product performance (including the products' adaptability to the processes customers use). After sales service and technical support are also relevant to customer choice.
- 13.2 OC glass fibre reinforcements have been sold in New Zealand for seven years and the brand, and its distribution through Aurora, is well known to users. As the glass fibre reinforcement industry is mature, OC supplies a largely static customer base, and consequently does not specifically market or advertise its brand in New Zealand. Nonetheless, OC does support Aurora in its distribution of its products by providing literature and technical information for the New Zealand markets.

Packaging format and customer base

- 13.3 Common to all product categories of GRPs, differentiation in the Assembled Rovings and CSM markets is minimal. This is borne out by the fact that it is common, particularly for large users of glass fibre reinforcement products, to seek supply from more than one distributor or supplier producer. All sales of CSM and Assembled Rovings, either directly by OC to acquirers or by Aurora to acquirers, are made on a business to business basis. Customers tend to purchase varying quantities but on a relatively frequent basis.
- 13.4 Product differentiation can arise in circumstances where customers have ongoing relationships with particular glass fibre reinforcement suppliers and through that

⁷ Net sales in Nittobo's glass fibre reinforcement division increased by 9.3% in the fiscal year of 2005 compared with the previous fiscal year.

relationship are able to develop new applications for the products in conjunction with the supplier. More specifically, in New Zealand, OC has on-going relationships through Aurora with NZ customers including, but not limited to:

- (a) [CONFIDENTIAL]
- (b) [CONFIDENTIAL]
- (c) [CONFIDENTIAL]

13.5 In addition, as mentioned at paragraph 11.14 above, [CONFIDENTIAL].

Supply-Side Substitution Within Each Product Category

13.6 As noted above, glass fibre reinforcement suppliers produce different product lines within the Assembled Rovings category. The investment required for a current supplier to switch lines within a particular product category, including the cost of physically changing the plant setting or configuration to make the alternative product, is in most cases negligible. The up-front investment in the melting and fibre creation process represents [CONFIDENTIAL] of the manufacturing cost and the filaments produced are generic. The main prerequisite for a current supplier to switch production between product lines is the knowledge of the chemical sizings that are applied to the glass fibre, which determine the bonding of the fibre with the resin in the final composite product. In most cases, no equipment changes are needed to switch production between product lines within a category; all that is required is for the supplier to change the chemical formulation that is applied to the fibres immediately after they are drawn from the bushing. For example, assuming a supplier has the relevant sizing, which is currently available in the marketplace, switching between Assembled Roving lines is immediate and costless.

13.7 There is also potential for supply side substitution between categories of GRPs, depending upon the category in question and the processes that the manufacturer has in place. For those suppliers that have made the necessary investments to switch production between different categories, particularly between different categories of "chopped strands" and between different categories of "rovings", such switching is relatively easy, as described below:

- (a) Switching between different categories of Rovings (Assembled and Direct Rovings) can also take place rapidly, as they are made from the same bushing platform.
- (b) Switching from Rovings to CSM can take place within a day as the products are made from the same bushing platform and, provided a plant already has two assembly lines for each of the products, substitution merely requires changing a dial.
- (c) Switching between Assembled Rovings and DUCS or WUCS may be more or less easily accomplished depending upon the production methodology. Production can be shifted more rapidly in lower cost countries, such as China, where a different production method is used.

13.8 There are no relevant barriers to switching (eg patents) and the know-how for producing glass fibre reinforcements is readily available (production processes for different product lines within a category are in any event very similar, and the same equipment is used). Thus, there is virtually unlimited supply-side substitution among product lines within a category.

- 13.9 The effect of this is that, due to down-stream demand, product differentiation may at any one given point in time differ among suppliers. However, due to the high level of supply-side substitutability, product lines can readily and seamlessly be tailored to the specification of different and/or new suppliers' requirements.
- 13.10 Overall, in common with all markets characterised by commodity-like products and relatively little brand differentiation, competition is based mainly on price. Quality is a relevant consideration insofar as producers must be able to meet consistently their customers' specifications, but tends not to drive the customer's choice because most producers are capable of doing so.

14. VERTICAL INTEGRATION

14.1 [CONFIDENTIAL]

15. PREVIOUS ACQUISITIONS AND COMMISSION NOTIFICATIONS

- 15.1 There have been no previous acquisitions involving OC or SG (or any interconnected body corporate or predecessor thereof) as an applicant or target notified to the Commission in the last three years.
- 15.2 OC has not undertaken any other acquisition of assets of a business or shares in any markets material to the Commission's present investigation in the past three years.

PART III: CONSTRAINTS ON MARKET POWER BY EXISTING COMPETITION
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16. EXISTING COMPETITORS IN MARKET*Assembled Rovings*

16.1 Suppliers of Assembled Rovings to the New Zealand market, in addition to OC and SG, include:

- (a) **Central Glass:** Central Glass has a [CONFIDENTIAL] share of supply of Assembled Rovings in New Zealand. In 2005, it supplied approximately 267 metric tonnes of fibre. Established in 1936, Central Glass is an established supplier of glass fibre reinforcements and currently has a total glass fibre reinforcement capacity of 26 kilotons all of which is manufactured in Japan. Central Glass manufactures both CSM and Assembled Rovings, with capacity of 14 kilotons and 10 kilotons respectively.

In New Zealand, Central Glass products are distributed through Chemiplas, a trading house which sells a variety of chemical and related products, predominantly in the South Island. Although market shares are difficult to assess, OC considers that Chemiplas would have a [CONFIDENTIAL] share of the market for distribution of Rovings in New Zealand.

Further information on Central Glass can be found at www.cgco.co.jp

- (b) **Taiwan Glass:** Taiwan Glass has a [CONFIDENTIAL] market share of the Assembled Rovings market in New Zealand. Taiwan Glass is the largest overall manufacturer of glass products in the Greater China region and currently has a total glass fibre reinforcements production capacity of 105 kilotons (including yarns). Of this, 14 kilotons are devoted to CSM, and 10 kilotons to Assembled Rovings. In addition to serving the domestic Taiwanese market, Taiwan Glass also exports throughout Asia and into some export markets further a field.

In New Zealand, Taiwan Glass products are distributed through PJ Hobbs, a privately owned distribution company, which services mostly North Island customers with Rovings and CSM. PJ Hobbs has a [CONFIDENTIAL] share of the market for the distribution of Rovings and CSM.

Further information on Taiwan Glass can be found at www.taiwanglass.com/en

- (c) **Nittobo:** Nittobo currently has a [CONFIDENTIAL] share of supply in New Zealand in the Assembled Rovings market. However, the Japanese company is well resourced and is one of a very few companies worldwide that has coherent facilities spanning from fibre manufacture, to glass cloth processing, to research on composite materials. It also has a Taiwanese affiliate which produces yarn. Nittobo currently has a total glass fibre reinforcements capacity of 124 kilotons (including yarns) of which CSM comprises 9 kilotons, and Assembled Rovings, 40 kilotons.

Further information on Nittobo can be found at www.nittobo.co.jp

- (d) **Nippon Electric Glass:** Nippon Electric Glass ("NEG") has a very small share of supply of Assembled Rovings in New Zealand. Headquartered in Shiga,

Japan, and established in 1949, NEG is a relatively high-tech manufacturer active in the production and sale of speciality glass products. In addition to Japan, NEG has manufacturing facilities operated through subsidiaries in Indonesia, Malaysia, and USA.

In New Zealand, NEG products are sold by Aurora, although only a small amount of Assembled Rovings are currently sold into the New Zealand market by NEG.

- (e) **Other Chinese Suppliers:** A number of players that produce Assembled Rovings in China currently represent a significant proportion of supply to the Assembled Rovings market. One of the main features of the global glass fibre reinforcement industry is the recent rapid growth of Chinese imports and their continuous and potential increase. Particularly in respect of the European market, but also more globally, the amount, quality, and diversity of Chinese imports has accelerated rapidly. This trend is not expected to diminish in the foreseeable future for the following reasons:
- (i) The necessary technology (mainly know-how) is readily available, and IP protection is generally low in the industry;
 - (ii) Chinese firms have wide access to government funding and face low costs of capital (estimated at **[CONFIDENTIAL]**);
 - (iii) Shipping costs do not represent a significant barrier to entry; and
 - (iv) Chinese manufacturers⁸ are increasing capacity.
- (f) Other distributors of Assembled Rovings within New Zealand include:
- (i) **NZ Fibreglass:** NZ Fibreglass is a smaller reseller/distributor which is privately owned. NZ Fibreglass imports and sells a range of products to composites retail & trade customers, including a full range of fibreglass & urethane equipment, materials, technology. Their focus to date has been on low priced end of market. NZ Fibreglass is estimated to have approximately **[CONFIDENTIAL]** of the market for distribution of Rovings.
 - (ii) **Orica:** Orica is a large chemical company and has participated on an ad hoc basis in the composites industry after selling their polyester resin manufacturing to Nuplex Australia a number of years ago. Orica has offered Jushi⁹ products for sale in the past through their Industrial Chemicals Business. While Orica currently has only minor sales in New Zealand and devote limited resources to selling glass fibre reinforcements in New Zealand, if appropriate incentives existed, then Orica would be in a position to expand its operations.
 - (iii) **High Modulus:** High Modulus is a specialist marine industry supplier. It provides design services and sells core materials and fabrics. The Parties believe it likely that High Modulus also distributes some CSM products in New Zealand.

⁸ See further paragraph 18.1 below for a more detailed description of these Chinese "Big Three".

⁹ See further paragraph 18.1(a) below.

- 16.2 Set out at Table 1 below are the estimated market shares attributable to the various suppliers of Assembled Rovings to the New Zealand market.

Table 1
Assembled Rovings market shares

Supplier	Volume (tonnes) (approx.)	Share
SG	[CONFIDENTIAL]	[CONFIDENTIAL]
OC	[CONFIDENTIAL]	[CONFIDENTIAL]
<i>Combined:</i>	[CONFIDENTIAL]	[CONFIDENTIAL]
Central Glass	[CONFIDENTIAL]	[CONFIDENTIAL]
Taiwan Glass	[CONFIDENTIAL]	[CONFIDENTIAL]
Nittobo	[CONFIDENTIAL]	[CONFIDENTIAL]
China (various)	[CONFIDENTIAL]	[CONFIDENTIAL]
Total (2005)	[CONFIDENTIAL]	[CONFIDENTIAL]

Source: OC and SG internal data

- 16.3 As Table 1 shows, the Parties' combined supply to the New Zealand market is [CONFIDENTIAL]. In those circumstances, the aggregation in the CSM market will fall outside [CONFIDENTIAL] the safe harbours set out in the Commission's Merger Guidelines.
- 16.4 Although OC does not have access to precise value share figures, at an average price of [CONFIDENTIAL]¹⁰ per kilogram, the combined value of the parties' supply to New Zealand is approximately [CONFIDENTIAL] in a total market worth [CONFIDENTIAL].
- 16.5 OC does not consider that the proposed acquisition will give rise to a substantial lessening of competition in the Assembled Rovings market in New Zealand. As described further below, the presence and ease of expansion of existing competitors, the ease with which customers can change suppliers, and, as described further at paragraph 24.1 to 24.8 below, the threat of near-entrants entering or expanding, will continue to act as a significant competitive constraint and will prevent any substantial lessening of competition arising as a result of the proposed acquisition.

CSM

- 16.6 The CSM market is served by a number of competitors, all of whom supply or import the product into the New Zealand market.
- 16.7 Set out at Table 2 below are the estimated market shares attributable to the various suppliers to the New Zealand market.

¹⁰ Source: SG estimate.

Table 2
CSM Fibre market shares

Supplier	Volume (tonnes) (approx.)	Share
SG	[CONFIDENTIAL]	[CONFIDENTIAL]
OC	[CONFIDENTIAL]	[CONFIDENTIAL]
<i>Combined:</i>	[CONFIDENTIAL]	[CONFIDENTIAL]
Taiwan Glass	[CONFIDENTIAL]	[CONFIDENTIAL]
Central Glass	[CONFIDENTIAL]	[CONFIDENTIAL]
China (various) ¹¹	[CONFIDENTIAL]	[CONFIDENTIAL]
Others	[CONFIDENTIAL]	[CONFIDENTIAL]
Total (2005)	[CONFIDENTIAL]	[CONFIDENTIAL]

Source: OC and SG internal data.

16.8 As Table 2 shows, the Parties' combined supply to the market is [CONFIDENTIAL]. In those circumstances, the aggregation in the CSM market will fall within the safe harbours set out in the Commission's Merger Guidelines. The CSM market is also small in revenue terms, at an approximate average price per kilogram of [CONFIDENTIAL]¹², the total market is worth approximately [CONFIDENTIAL].

16.9 OC does not consider that the proposed acquisition would give rise to a substantial lessening of competition in the CSM market, due to strong existing competition and the very real prospect of expansion by those and other competitors in the New Zealand market. Accordingly it does not consider this product market further in this application.

17. CONDITIONS TO EXPANSION BY EXISTING COMPETITORS

17.1 None of the products relevant to this application are produced domestically and so any expansion by existing competitors would be by way of importation and distribution of the products into the New Zealand markets.

17.2 There are very few conditions to expansion by existing competitors. Specifically, expansion by existing customers is feasible because:

- (a) Glass fibre reinforcements are very freight effective and thus shipping costs are low and an increase in volume shipped to New Zealand would likely either be equally cost efficient, or result in even greater economies of scale. This is

¹¹ No single competitor from China has more than 17% of the market.

¹² Source: SG estimate.

particularly true for suppliers importing to the New Zealand markets from China, or elsewhere in the Asia-Pacific region.

- (b) existing competitors already have existing distribution arrangements in place in respect of New Zealand markets;
- (c) existing competitors already have established relationships with New Zealand customers;
- (d) product differentiation is minimal or non-existent and qualification of alternative sources is relatively easy. Accordingly, customers in the New Zealand market can, and do, easily switch between different suppliers; and
- (e) OC and SG understand that Chinese capacity in Assembled Rovings is expanding rapidly and is projected to continue to do so. Accordingly, OC considers that this should ensure that existing competitors have adequate capacity to expand supply and/or importation into the New Zealand market.

17.3 Accordingly, if following the proposed acquisition, OCVR were to attempt to increase the price of Assembled Rovings, existing and new entrants would be able to enter the New Zealand market quickly in response to such an attempt to raise prices. The identity of those near-entrants and their ability to expand is described further in section 24 below.

18. EXAMPLES OF EXPANSION BY EXISTING COMPETITORS

18.1 Over the past four years OC has observed considerable expansion by Chinese producers in the New Zealand markets for glass fibre reinforcements, including the Assembled Rovings market. This expansion has been most prevalent amongst the Chinese "Big Three". Those suppliers are:

- (a) **Jushi Group Co ("Jushi"):** Jushi is the largest China-based manufacturer of glass fibres for the composite reinforcement industry. It produces both CSM and Assembled Rovings, and is particularly strong in the production of Rovings (both Assembled and Direct Rovings). Jushi currently produces over 200 product lines which serve a number of downstream user markets, and are exported to clients in more than 20 countries and regions. At present, Jushi has 8 finished furnaces which provide annual capacity of 275 kilotons of glass fibre reinforcements. Of this total, CSM capacity is 10 kilotons and Assembled Rovings, 110 kilotons.

Jushi is currently in the midst of a concerted phase of expansion. It completed construction of the world's largest furnace (100 kilotons annually) in February 2006, and an even larger 120 kiloton furnace is currently under construction. Also, Jushi is currently targeting financial markets worldwide for a private placement of US\$40 million in a pre-IPO round recapitalization to fund expansion. As noted in paragraph 16.1(f)(ii) above, some Jushi products have in the past already been supplied in small quantities into the New Zealand market by Orica.

Further information on Jushi can be found at www.jushi.com

- (b) **Taishan Fibreglass Inc. ("Taishan"):** Founded in 1997, Taishan produces both CSM and Assembled Rovings. Taishan's general reinforcement capacity is expected to reach 165 kilotons by the end of 2006, with 28 kilotons of capacity devoted to CSM, and 40 kilotons to Assembled Rovings. Taishan

currently exports glass fibre reinforcement products to more than 50 countries and regions and has seven affiliates in China and the USA, and sales offices in Japan, the Middle East and Australia.

Taishan has an established presence in the Australian markets for Assembled Rovings and also Direct Rovings. Accordingly, it is considered that Taishan in particular has strong potential to enter the New Zealand market if following the proposed acquisition OCVR attempts to exercise market power.

In particular, Taishan is considered a prime candidate for expansion into the New Zealand market due to its strong forecast growth. An estimate of Taishan's current and future glass fibre reinforcements plant capacity is set out below:

Table 3 - Taishan GFR Capacity¹³

GFR Capacity	2006	2007	2008
# of furnaces	11	11	11
Total (Tons/year)	165,000	198,000	213,000
Breakdown By Category:	2006	2007	2008
CSM	28,000	35,000	35,000
Direct Rovings	62,000	72,000	70,000
DUCS	22,000	27,000	34,000
Assembled Roving	40,000	51,000	56,000
CFM	3,000	3,000	3,000
WUCS	10,000	10,000	15,000
Total(Tons/year)	165,000	198,000	213,000

Source: GIS database

Further information on Taishan can be found at www.ctgf.com.

Taishan's perspectives for expansion into the New Zealand markets are further enhanced by the pending acquisition of its Australian distributor, Huntsman Composites, by the Australian subsidiary of Nuplex Industries Ltd. Through Huntsman Composites, Taishan will be able to benefit from Nuplex's client contacts, established while Nuplex was SG's distributor in New Zealand, to enter the New Zealand market. The lack of product differentiation facilitates consumer switching from SGRF back to Nuplex/Taishan. This is consistent with SG's view that whilst Nuplex was its New Zealand distributor, it was also sourcing and distributing Chinese glass fibre reinforcements to its New Zealand customers.

Moreover, Taishan and Huntsman Composites' approach to the Australian market has been particularly aggressive. They have gained market share at the expense of other suppliers in Australia, with Taishan acting as the leading discounter. A similar strategy could be adopted on the New Zealand market and Nuplex's contacts and experience on the market could be used to "kick-start" entry in New Zealand.

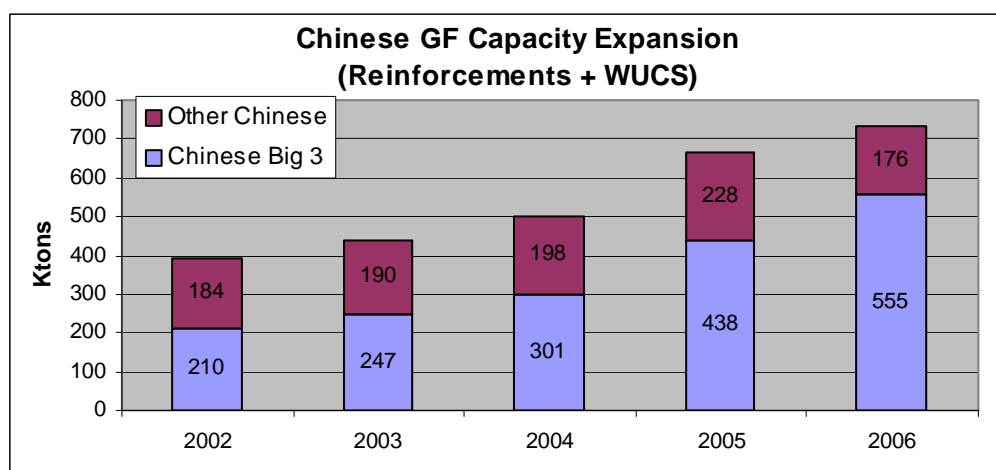
¹³ Yarns not included. As far as New Zealand is concerned, there is limited supply-side substitution between yarns and other glass fibre reinforcement products.

- (c) **Chongqing Polycomp International Corp ("CPIC"):** CPIC produces both CSM and Assembled Rovings. Founded in 1991, CPIC has rapidly expanded to be regarded as the quality leading Chinese glass manufacturer worldwide. By the end of 2006, its total glass fibre reinforcement capacity will reach 161 kilotons (including yarns), 70% of which is exported to the rest of Asia, North America, and Europe. Of its current capacity, 14 kilotons is committed to CSM, and 31 kilotons to Assembled Rovings. CPIC is currently active in capacity expansion, with its total capacity in fibreglass and fibreglass products expected to reach 300 kilotons annually by 2010.

Further information on CPIC can be found at www.cpicfiber.com.

- 18.2 Table 4 below quantifies the expansion of Chinese imports into glass reinforcement markets in New Zealand, in product categories other than Assembled Rovings:

Table 4 - Chinese glass fibre capacity expansion in NZ



Source - Owens Corning GIS Database

- 18.3 Imports of Rovings into the New Zealand market have seen more prolonged and consistent expansion by Chinese suppliers. Between 2003 and 2005, Chinese imports of Rovings into the New Zealand market increased from 62 tonnes in 2003, to 240 tonnes in 2004, and further to 353 tonnes in 2005.¹⁴

¹⁴ Information provided by Owens Corning.

Table 5 - Chinese Exports to New Zealand (metric tons), 2001-2005

Year	Country	Rovings (Direct and Assembled)
2001	New Zealand	58
2002	New Zealand	33
2003	New Zealand	62
2004	New Zealand	240
2005	New Zealand	353

Source: TradStat Chinese Exports to New Zealand

19. CONCLUSIONS ON CONSTRAINT BY EXISTING COMPETITION ON EXERCISE OF UNILATERAL MARKET POWER

19.1 OC is currently constrained in all of the markets in which it competes by supplying to them, and OCVR will remain so after the proposed Transaction. None of the factors that generate the current intensity of competition would be altered as a result of OC acquiring the assets of SG. In summary, these factors are:

- (a) **High likelihood of growth and expansion in glass fibre reinforcement products:** In the Assembled Rovings market the global expansion of suppliers of glass fibre reinforcement products, particularly that of Chinese suppliers, will result in an increased international presence, which OC considers likely will, in the medium or long term, expand to characterise the New Zealand market. In particular, OC considers that the substantial market share currently comprised of Chinese Suppliers in the Assembled Rovings market provides the potential for considerable expansion. Moreover, looking to recent activity in European markets indicates the ability and intention of Chinese suppliers to make inroads into previously uncontested markets, or less occupied markets.
- (b) **Ease of entry and expansion:** As evidenced above, the individual markets for glass fibre reinforcement products have low barriers to entry and expansion, and there exists strong existing international competitors. These neighbouring markets act as a constraint on the pricing of Assembled Rovings which will be supplied by OCVR.
- (c) **Countervailing power of end-users:** Given that there is minimal product differentiation, buyers can switch between suppliers and/or distributors with ease and at minimal or no cost. Moreover, OC considers that the New Zealand market is characterised by a number of large end users who enjoy considerable countervailing power against suppliers and distributors. Consequently, any attempt by OCVR to exercise market power will result in buyers resisting the use of market power by seeking supply from OCVR's competitors.

20. MARKET CHARACTERISTICS FACILITATING OR IMPEDING COORDINATION

20.1 As neither OC nor SG is present in New Zealand co-ordination between them in New Zealand is not a relevant consideration. Furthermore, the Assembled Rovings market has a number of characteristics which would impede coordination effects post-acquisition, including:

- (a) The fact that the market is entirely comprised of imports;
- (b) Low barriers to entry and expansion;
- (c) Innovation and research initiatives;
- (d) The asymmetry of market shares and of costs; and
- (e) The countervailing power of acquirers.

20.2 The acquisition does not effect any of these factors and therefore cannot be said to facilitate coordination.

21. NO EVIDENCE OF PRICE CO-ORDINATION, PRICE MATCHING OR PRICE FOLLOWING

21.1 OC is not aware of any past or current co-ordination of its activities with any other competitors in supply to the New Zealand market.

22. NO RISK OF CO-ORDINATED BEHAVIOUR

22.1 In summary, OC currently competes vigorously with all of its competitors in supplying the New Zealand market for Assembled Rovings, and OCVR will continue to do so after the Transaction. In particular, the constantly shifting product lines supplied to downstream acquirers, the presence of fringe competitors, the current and predicted increases in international capacity, and the presence of a number of new entrants who could expand into the markets, together with the ability of acquirers to monitor and react to any attempt at coordination, all indicate that the exercise of coordinated market power is unlikely to occur.

PART IV: CONSTRAINTS ON MARKET POWER BY POTENTIAL COMPETITION**23. CONDITIONS OF ENTRY**

23.1 In order to supply the New Zealand market such new entrants would need to set up a distribution business or network in New Zealand. This would then put them in a position to be able to import Assembled Rovings into that distribution business or network and supply the New Zealand market in competition with OCVR.

Distribution

23.2 The only material condition of entry into the New Zealand market for Assembled Rovings is the requirement to establish or contract for a distribution function.

23.3 As noted at paragraph 11.14 above, in the Assembled Rovings market OC currently supplies Assembled Rovings through Aurora, which in turn imports and distributes the product to downstream users. SG supplies Assembled Rovings direct through its Australian-based subsidiary.

23.4 **[CONFIDENTIAL]** It would be possible for a large customer for Assembled Rovings to be supplied directly in this way, by the merged entity or by other competitors.

23.5 Given the inroads made by Chinese suppliers into the business of Aurora and SGRF, it is also possible that downstream users may opt to source Assembled Rovings from suppliers without the need to purchase through a distributor. All of OC's and SG's major customers, **[CONFIDENTIAL]**, have the resources to look beyond New Zealand to secure Assembled Rovings for their businesses. Indeed, a number are already importing components and other materials for downstream use in their businesses.

Other conditions

23.6 New Zealand is a highly deregulated import market with few or no import barriers. Furthermore, glass fibre reinforcements are inert products and as such no environmental or health and safety issues arise in respect of the storage of them.

23.7 Other conditions of entry into the Assembled Rovings market are described in paragraph 17.2 above.

23.8 In summary there are no relevant impediments to entry or expansion in the Assembled Rovings market.

24. POTENTIAL NEW ENTRANTS

24.1 The most immediate threat from potential new entrants arises from suppliers to the Australian market, which would be well placed to enter the New Zealand market in a timely manner. In particular, these include:

- (a) **PPG Industries:** A US producer which currently supplies into the Australian market from manufacturing facilities in China. PPG Industries is one of the world's largest manufacturers of GRPs, with 12 manufacturing facilities worldwide (located in China, the USA, the EU, and Venezuela). PPG Industries is a key global player in the supply of Glass Fibre Reinforcements, with a growth strategy centred on expansion in China and Eastern Europe.

This is evidenced both in PPG Industries' recent formation of a joint venture with Sinoma Jinjing Fibre Glass Co Ltd in China, and in its plans to build additional capacity in China in the medium term; and

- (b) **Taishan Fibreglass Inc. ("Taishan"):** One of the three main Chinese suppliers of glass fibre reinforcements, described more particularly at paragraph 18.1(b) above. Taishan has approximately 25% of the Assembled Rovings market in Australia.

24.2 There is also the potential for smaller Korean suppliers in the Australian Assembled Rovings market to enter the New Zealand market. Two key Korean suppliers that do not currently supply the New Zealand Assembled Rovings market are:

- (a) **Hankuk Fibre Glass Co Ltd ("Hankuk"):** Hankuk is an established Korean composite company which has been producing glass fibre reinforcements since 1972. Hankuk have a reputation as a pioneer in the industry and a leader in quality thanks to its success in supplying downstream users in the aircraft and defence industries. Hankuk currently has a total reinforcement capacity of 6 kilotons, 1 kiloton of which is comprised of CSM.

Further information on Hankuk can be found at www.fiber-x.com

- (b) **KCC - Kumgang Korea Chemical Co Ltd ("KCC"):** KCC was formed by the merger of Kumgang and Korea Chemical in April 2000. Amongst a diverse portfolio of products, KCC ranks as one of the larger Korean glass fibre reinforcement producers, producing both CSM and Assembled Rovings at its plant in Ansong, Korea. Current total capacity for glass fibre reinforcements is 26 kilotons annually, with CSM comprising 8 kilotons of output, and Assembled Rovings 7 kilotons. Aurora has supplied other KCC product into New Zealand in the past so it would have an ability to expand that supply as required in Assembled Rovings.

Further information on KCC can be found at www.kccworld.co.kr/english

24.3 However, over the medium term, OC considers that the greatest threat of potential competition is from the three main Chinese suppliers of glass fibre reinforcements. The impact of Chinese imports is a significant constraint as it has previously evidenced customers in the European markets switching significant requirements from established suppliers in Europe to Chinese suppliers. OC has also observed that the increased presence of Chinese imports in the European market has substantially decreased prices over the past five years. The potential for entry or expansion into the New Zealand market is heightened by OC's understanding that the main three Chinese suppliers plan to add new capacity between 2006 and 2008.

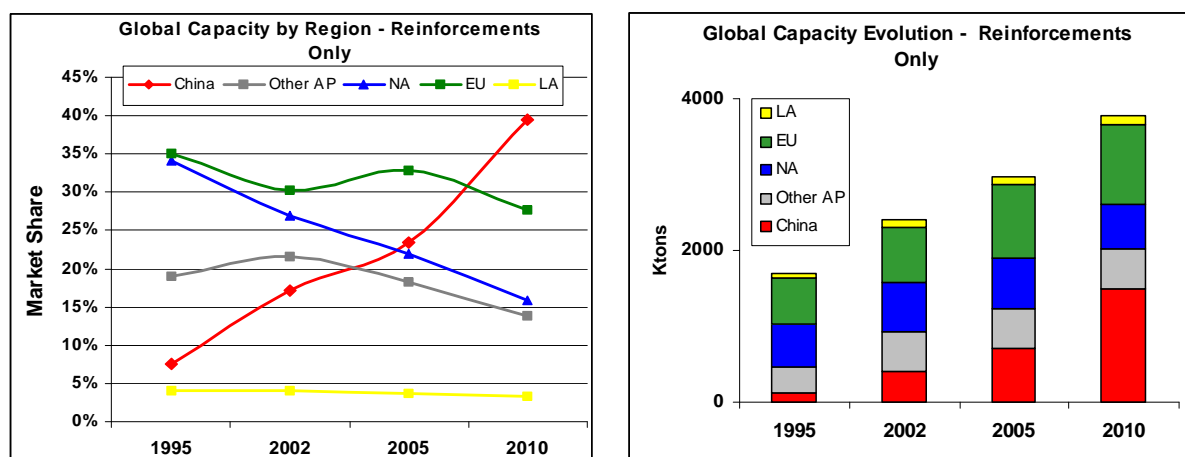
24.4 In 2002 the three main Chinese suppliers represented around the same Asia-Pacific production capacity as OC, SG, and PPG combined. By 2005, the Chinese suppliers had doubled their 2002 capacity, and this amount is expected to double again by 2010, dwarfing the activities of the Western-based suppliers.

24.5 Other international competitors are placed to potentially supply to and/or enter the Assembled Rovings market in New Zealand. Currently, OC imports glass fibre reinforcement products from production facilities in India, Korea, and the US, while SG imports from production facilities in Thailand, China, and India into the New Zealand markets. Accordingly, subject to capacity, which based on current patterns looks set to continue to increase, it is viable for any producer of Assembled Roving to expand to supplying or entering into the New Zealand markets. The costs involved in expansion

and serving the New Zealand market are not likely to differ from those currently encountered by participants supplying and/or importing and distributing Assembled Rovings in New Zealand.

- 24.6 Finally, in addition to the near-entrants described above, Johns Manville is the Parties' closest competitors on a worldwide level. Johns Manville is a diversified supplier of products for building insulation, commercial roofing, roof insulation, and specialty products for commercial, industrial, and residential applications including fibre glass reinforcements, fibre glass building insulation products, commercial roofing membranes and roof insulations, filtration media, and other products. Johns Manville is headquartered in the US and has worldwide operations. OC considers Johns Manville's capacity, size and vast resources deem it suitable for expansion into the New Zealand market.
- 24.7 It is difficult to estimate the present capacity of the above new entrants to enter the New Zealand market. However, international suppliers of Assembled Rovings have substantially expanded capacity recently, and continue to do so.
- 24.8 The following figure illustrates the increase in global capacity for glass fibre reinforcements, and captures the strong inroads made by Chinese suppliers at the expense of other suppliers.

Table 6 - Glass Reinforcements Capacity by World Region



25. CONCLUSION ON POTENTIAL ENTRY

25.1 In summary:

- there remain a number of strong international suppliers which are not yet in the New Zealand Assembled Rovings market which could either commence supply or enter into the importation and distribution of Assembled Rovings to supply the New Zealand market in a timely fashion with minimal barriers to entry.
- The "big three" Chinese suppliers of Assembled Rovings are well placed as potential suppliers or entrants into the New Zealand market due to their low cost structures and current and proposed expansion of capacity on a global basis.

PART V: OTHER POTENTIAL CONSTRAINTS
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26. CONSTRAINTS ON MARKET POWER BY THE CONDUCT OF ACQUIRERS

- 26.1 The two largest acquirers of Assembled Rovings in the New Zealand market are the specialist distributors, including Aurora. After those distributors, the largest acquirers of Assembled Rovings in New Zealand are:
- (a) **Maskell Productions Limited.** [CONFIDENTIAL]
- [CONFIDENTIAL]
- (b) **Alsynite NZ Limited.** Alsynite NZ Limited acquired [CONFIDENTIAL] tonnes of Assembled Rovings in 2005 from Nuplex (SG's former distributor). In August 2006, they had acquired [CONFIDENTIAL] tonnes of Assembled Rovings year to date from Nuplex and also recently from Chinese suppliers, believed to include Jushi.
- 26.2 The Assembled Rovings market will continue to be characterised by frequent, relatively small quantity sales. This heightens the practical viability of both distributors and downstream acquirers switching suppliers in a short amount of time, increasing the countervailing power of those acquirers. Switching may be leveraged by way of a complete switch or a partial switch in supply under the current market characteristics.
- 26.3 In addition, multiple sourcing, cross-qualification, and ease of switching act as a constraint. A number of the larger glass fibre reinforcements customers are dual- or multi-sourcing their requirements. This has two main implications for the market. First, multi-sourcing customers may switch significant portions of their requirements from one supplier or distributor to another (and therefore, may realistically threaten to do so in the course of negotiations for supply contracts). Second, because customers are generally qualified to receive supplies from at least two different suppliers or distributors, customer qualification requirements necessary to receive product from a different supplier or distributor, do not constitute a significant barrier to switching demand from one supplier to another.
- 26.4 This constraint is heightened by the fact that product lines are generally standardised and as such the final composite product is not discernibly affected by the use of glass fibre reinforcements from one supplier or another. As such, customers can easily dual or multi-source in the first place, and competitors are able to easily capture demand through price competition.
- 26.5 OC considers that this not only strengthens customers' buyer power, but also reinforces competitive constraints exerted by other competitors on the Parties.
- 26.6 Essentially, in New Zealand a few acquirers account for very large volumes of product. This high concentration affords acquirers a degree of countervailing power. This is particularly true in the Assembled Roving market. High volume customers therefore have an incentive to exercise buyer power in negotiations with suppliers.
- 26.7 A list of the main Aurora customers is attached at **Appendix 2**. It would be a simple matter for many, if not all, of those customers to source Assembled Rovings direct from other suppliers, including from China.

27. CONSTRAINTS ON MARKET POWER BY THE CONDUCT OF SUPPLIERS

- 27.1 The Parties do not consider that any additional relevant constraints are imposed by suppliers in the Assembled Rovings market.

This Notice is given by Owens Corning

The company hereby confirms that:

- (a) all information specified by the Commission has been supplied;
- (b) all information known to the applicant/s which is relevant to the consideration of this application/notice has been supplied; and
- (c) all information supplied is correct as at the date of this application/notice.

The company undertakes to advise the Commission immediately of any material change in circumstances relating to the application/notice.

Dated November 2006.

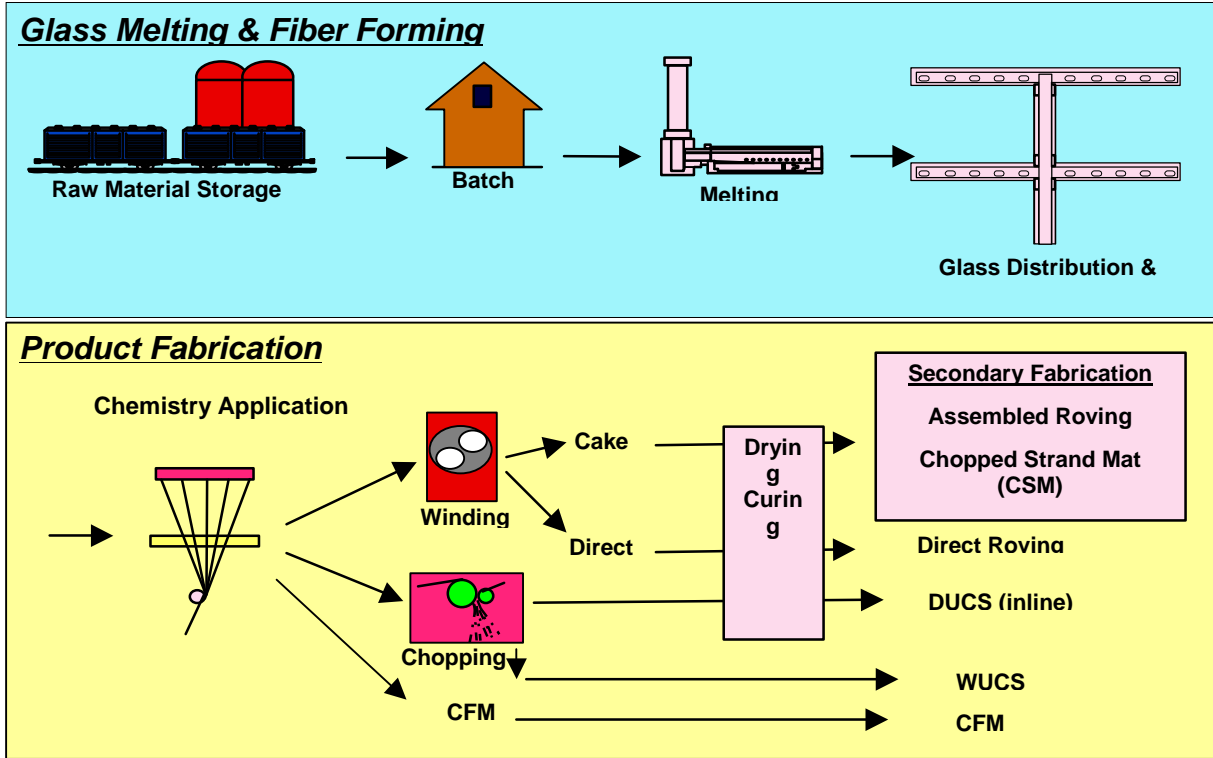
Signed by Owens Corning Limited

John W Christy
Vice President & Assistant General Counsel

I am a director/officer of the company and am duly authorised to make this application/notice.

APPENDIX 1

GLASS FIBRE REINFORCEMENTS - MANUFACTURING PROCESSES AND PRODUCTS



APPENDIX 2 - LIST OF AURORA CUSTOMERS

[CONFIDENTIAL]