

**NOTICE SEEKING CLEARANCE OF A BUSINESS ACQUISITION PURSUANT TO SECTION 66 OF
THE COMMERCE ACT 1986**

3 October 2017

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 business acquisition.

EXECUTIVE SUMMARY

- 1.1 Daiken New Zealand Limited ("**Daiken NZ**") seeks clearance to acquire, either directly or indirectly, 100% of the shares of Dongwha New Zealand Limited ("**Dongwha NZ**") (the "**Acquisition**").
- 1.2 Daiken NZ operates a Medium Density Fibreboard ("**MDF**") manufacturing facility at Rangiora (Canterbury), and Dongwha NZ operates a MDF manufacturing facility at Matura (Southland).
- 1.3 Daiken NZ's rationale for the Acquisition arises from its commercial and operational need for additional MDF capacity in New Zealand to meet increased demand in its overseas markets – in particular to meet the increasing demand for 'light coloured' radiata pine MDF in export markets such as Japan.
- 1.4 Through the Acquisition Daiken NZ will be able to better meet that demand, [] to further increase New Zealand production of MDF and to increase export receipts for New Zealand. Accordingly, Daiken sees the Acquisition as pro-competitive, efficiency enhancing, and beneficial to the New Zealand economy.
- 1.5 Beyond that, Daiken NZ is confident that the Acquisition will not give rise to any material lessening of competition in any market in New Zealand. That is because:
- (a) there is no horizontal overlap between Daiken NZ and Dongwha NZ (together, the "**Parties**") in the acquisition of wood fibre inputs given their respective Rangiora and Matura manufacturing facilities are located in separate wood fibre regions;
 - (b) there is no horizontal overlap between Daiken NZ and Dongwha NZ in the supply of melamine faced board ("**MFB**"), as that is not a product that Daiken NZ produces in New Zealand (nor anywhere else in the world); and
 - (c) in relation to the production and supply of raw MDF there will be no material lessening of competition because:
 - (i) as the Commerce Commission ("**NZCC**") has previously recognised, Dongwha NZ is at most a "fringe competitor" in the New Zealand MDF market. Dongwha NZ has long been primarily export focused, and setting aside sales to Laminex, less than [] of Dongwha NZ's MDF output is sold to customers in New Zealand, and that is []. As a result, Dongwha NZ's non-Laminex sales of MDF account for a very small proportion of the New Zealand MDF market [], and Dongwha NZ is at most a *de minimis* competitor;
 - (ii) New Zealand production of raw MDF significantly exceeds New Zealand demand (by a multiple of []), therefore, there will continue to be significant ability for New Zealand manufacturers to divert export production to New Zealand in response to market opportunities. Indeed:
 - (aa) any individual competitor in New Zealand will continue to have more than enough capacity to meet New Zealand's entire domestic demand single-handedly – so there will be no shortage of supply as a result of the Acquisition; and
 - (bb) Nelson Pine Industries Ltd ("**NPIL**") is the largest competitor in the New Zealand market at present, and will continue to exert significant competitive constraint on the merged entity post-merger – including by having the ability to divert significant volumes destined for export to New Zealand customers if market opportunities were to arise;

- (iii) MDF is sold in a global commodity market, and as such prices to New Zealand customers are pinned to conditions in that global market, rather than by standalone competitive dynamics in the New Zealand market (namely pricing tends to be constrained by import / export parity considerations). In that context, it is relevant that:
 - (aa) in the factual all three of Australian manufacturers of MDF will be independent of the New Zealand MDF manufacturers;
 - (bb) significant volumes are exported from Asia and South America around the world,

and those manufacturers could readily divert MDF exports to New Zealand if New Zealand manufacturers were to price MDF above global market levels;
- (iv) in the context of a global commodity market, customers are highly price conscious and will push back in negotiations on uncompetitive price increases, and are willing to switch if they can obtain a cheaper price, including by threatening to switch to alternative suppliers and/or explore options for importing from overseas; and
- (v) in any event, the Acquisition will not materially change the existing degree of competition in New Zealand because ancillary to the Acquisition, Daiken and Laminex will enter into a Product Supply Agreement, conditional on completion of the Acquisition, under which Daiken will supply Laminex []. The overall effect of the Product Supply Agreement is that Laminex will:
 - (aa) have sufficient volumes to satisfy its own internal needs for raw MDF; and
 - (bb) also have sufficient volumes to continue to compete domestically, as market opportunities arise, with Daiken and NPIL in the sale of raw MDF to other customers.

1.6 Accordingly, Daiken NZ is confident that the Acquisition does not give rise to any material lessening of competition in New Zealand – in particular, Dongwha NZ is largely an export-focused company ([]), and therefore the same competitive dynamics that apply in New Zealand at present will continue post-Acquisition.

PART A: TRANSACTION DETAILS

PARTY DETAILS

2. The Applicant

2.1 This notice seeking clearance is given by Daiken New Zealand Limited:

166 Upper Sefton Road
Ashley RD7
Rangiora 7477
Private Bag 1001, Rangiora 7440
Tel: +64 3 313 6819

2.2 The contact person for Daiken NZ is:

Geoff Shea
Finance Director
Daiken New Zealand Limited
166 Upper Sefton Road
Ashley RD7
Rangiora 7477
DDI: +64 3 313 2724
Mobile: +64 21 810 939
Email: geoff.shea@daiken-nz.com

2.3 All correspondence and notices for Daiken NZ in respect of the application should be directed at the first instance to:

Russell McVeagh
PO Box 8
Auckland 1140
Attention: Troy Pilkington (Partner) / Sam Holmes (Solicitor)
Telephone: 09 367 8108 / 09 367 8077
Email: troy.pilkington@russellmcveagh.com/
samuel.holmes@russellmcveagh.com

2.4 Daiken NZ is a wholly-owned subsidiary of Daiken Corporation. A corporate structure chart for Daiken NZ is provided at **Appendix One**.

3. The other merger parties

3.1 The target company is Dongwha New Zealand Limited. Contact details for Dongwha NZ are:

301 Pioneer Highway
4RD Gore
P.O. Box 189 Gore
Tel: +64 3 209 3100

3.2 The contact person for Dongwha NZ is:

WonBae Kim
Manager, New Zealand
+ 64 3 209 3100
wbkim@dongwha.com

- 3.3 All correspondence and notices for Dongwha NZ in respect of the application should be directed at the first instance to:

Craig Nelson
 Partner
 Bay Law Office
 535 Blockhouse Bay Road, Blockhouse Bay, Auckland 0600
 DX DP96001, P O Box 48042, Blockhouse Bay, Auckland 0644
 Phone: 09 626 8055 / Fax: 09 627 2155
craig@baylawoffice.co.nz

- 3.4 Dongwha NZ is a subsidiary of Dongwha International Co. Limited. A corporate structure chart for Dongwha NZ is provided at **Appendix Two**.

- 3.5 As part of the Acquisition, Laminex Group (N.Z.) Limited ("**Laminex**") will sell its 20% shareholding in Dongwha NZ to Daiken NZ.

- 3.6 The contact person for Laminex is:

Leigh Box
 Chief Financial Officer
 Laminates and Panels Division, Fletcher Building
 90-94 Tram Road, Doncaster, VIC 3108 Australia
 PO Box 407, Doncaster, VIC 3108 Australia
 Mob: +61 418 995 805; DDI: +61 3 9840 4304
 Email: leigh.box@formica.com

- 3.7 All correspondence and notices for Laminex in respect of the application should be directed at the first instance to:

Torrin Crowther / Michael Tilley
 Partner / Senior Solicitor
 Bell Gully
 Vero Centre, 48 Shortland Street, Auckland, New Zealand
 DDI: +64 9 916 8621 / +64 9 9168827
 Email: torrin.crowther@bellgully.com / Michael.Tilley@bellgully.com

About the parties

Daiken

- 3.8 Daiken Corporation is a Japanese company specialising in the manufacture and supply of wood-based construction materials, with three main business areas: Industrial Materials, Building Materials, and Engineering.
- 3.9 Daiken Corporation operates manufacturing plants in several different countries, including New Zealand, China, Malaysia, and Japan.
- 3.10 In New Zealand, Daiken Corporation operates through its wholly-owned subsidiary, Daiken NZ. Daiken NZ produces MDF from locally-sourced radiata pine wood fibre, at a MDF plant in Rangiora in North Canterbury. Daiken acquired that Rangiora MDF plant in 2009. The Rangiora MDF plant was built in 1976, and a second production line was commissioned in 1994.
- 3.11 Daiken NZ's current maximum production capacity of saleable MDF is approximately []¹ of MDF per annum (total gross production capacity, including trim and sand-off, could be as high as []²).

¹ [].

² http://www.customwood.co.nz/about_us.php

- 3.12 The significant majority of Daiken NZ's output is exported [], with just [] of its MDF output sold to domestic New Zealand customers – as reflected in **Figure One** below.

[]

Fiscal Year	Total Daiken NZ MDF Sales Volumes (m ³)	MDF export volumes (m ³)	MDF export volumes as % of total sales	MDF domestic volumes (m ³)	MDF domestic volumes as % of total sales
2015	[]	[]	[]	[]	[]
2016	[]	[]	[]	[]	[]
2017	[]	[]	[]	[]	[]

- 3.13 Daiken sells its MDF in New Zealand under the "Customwood" brand.³

Dongwha / Dongwha NZ

- 3.14 Dongwha International Co., Ltd., the ultimate parent company of the Dongwha group, incorporated in Hong Kong, has manufacturing facilities for wood panels, chemical materials, and building materials through its subsidiary companies in South Korea and overseas countries such as in Malaysia, Vietnam, Australia and New Zealand.
- 3.15 In New Zealand, the Dongwha group operates through Dongwha NZ. Dongwha NZ is 80% owned by Dongwha International Co., Ltd. and 20% owned by Laminex, a subsidiary of Fletcher Building Products Limited.
- 3.16 Dongwha NZ operates a production facility in Matura in Southland, and uses locally-sourced radiata pine wood fibre to produce MDF.
- 3.17 The Matura MDF plant was built in 1995 and started production in 1997. The Dongwha group acquired the Matura MDF plant from Rayonier in August 2005. Laminex acquired its 20% shareholding in the business in 2007. Dongwha NZ's current maximum production capacity is approximately [] of MDF per annum. Dongwha NZ sells its MDF under the "Dongwha" brand.⁴
- 3.18 Dongwha NZ has long been primarily export focused – exporting MDF to approximately 16 countries (including Japan, the United States and China, and a number of Southeast Asian countries), with only [] of its MDF output sold in New Zealand (with that proportion continuing to decrease year-on-year, as set out in **Figure Two** below).

[]

Year	Total Dongwha NZ MDF sales volume (m ³)	MDF export volumes (m ³)	MDF export volumes as % of total sales	MDF domestic volumes (m ³)	MDF domestic volumes as % of total sales
2014	[]	[]	[]	[]	[]
2015	[] ⁵	[]	[]	[]	[]
2016	[] ⁶	[]	[]	[]	[]

³ <http://www.customwood.co.nz/>

⁴ <http://www.dongwha.com/nz/resource/data/MDF.pdf>

⁵ [].

⁶ [].

3.19 Even then, most of Dongwha NZ's domestic volumes are sold to a single customer – Laminex. Setting aside sales to Laminex, less than [] of Dongwha NZ's MDF output is sold to customers in New Zealand – as illustrated in **Figure Three** below.

[]

[]

3.20 Dongwha NZ is well located for exporting. The Mataura plant is situated on State Highway 1, the main North-South highway in New Zealand, and on the main North-South rail link to Dunedin/Port Otago (it is 165 km from Port Otago). For export customers, Dongwha NZ's MDF is shipped by rail to Port Otago and stored in the port warehouses for loading on to containers. Containers are then shipped to export destinations around the world.

3.21 Dongwha NZ ships New Zealand-destined MDF by rail to Port Otago warehouses and then, depending on destination, transports it by truck or sea. Dongwha NZ operates a third party warehouse in Auckland to serve the North Island.

3.22 Dongwha NZ also manufactures MFB at its Mataura plant – MFB being a laminated MDF board. While that MFB business is focused on domestic New Zealand supply, it remains small and Dongwha NZ only produces a limited range of lower-end MFB products. Daiken NZ does not manufacture or resell MFB and so there is no overlap in relation to MFB.

Laminex

3.23 Laminex NZ is part of the Laminex Group, which in turn is part of the International Businesses division of Fletcher Building Products Ltd, the publicly-listed building products and construction business. Fletcher Building operates in more than 40 countries, and has over 20,000 employees.

3.24 The Laminex Group specialises in producing panel products – including manufacturing MDF, particle board, and laminated / decorated MDF and particle board products (i.e. MFB and laminated particle board). The Laminex Group sells products under a range of brands including Formica, Laminex, Melteca, Caesarstone, Seratone and Strandfloor.

3.25 The Laminex Group is a large manufacturer of MDF in Australia with its plant in Gympie, Queensland.

3.26 Laminex NZ owns and operates:

(a) its "Melteca press" in Hamilton, where it produces coated particle board and MDF panels. Laminex has recently expanded its Hamilton site; and

(b) a particle board manufacturing site in Taupo.

3.27 In 2007, following a fire in 2006 that destroyed its MDF manufacturing site in Taupo, Laminex acquired a 20% shareholding in Dongwha NZ to secure raw MDF supply for its wood products distribution business in New Zealand, with a view at that time to potentially acquiring a greater stake in the Target.

3.28 In addition to its laminated panels business, Laminex currently sells small volumes of raw MDF in the New Zealand domestic market to third parties.

THE PROPOSED ACQUISITION

4. Acquisition details

Outline and structure of the proposed Acquisition

The Acquisition

4.1 Daiken NZ proposes to acquire 100% of the shares of Dongwha NZ held by:

- (a) Dongwha International Co., Ltd (which currently holds 80% of the shares in Dongwha NZ); and
- (b) Laminex (which currently holds 20% of the shares in Dongwha NZ).

Rationale for the merger

4.2 The Applicant is making the Acquisition because it has a commercial and operational need for an additional MDF plant in New Zealand to meet demand in its overseas markets. In particular, there is high demand overseas (particularly in Japan) for 'light coloured' MDF made from radiata pine fibre inputs, such as those produced in New Zealand, Australia, and South America. Those light coloured MDF products are particularly popular in Asia as the light colour lends itself well to painting and foil overlays (without the underlying board colour showing through).

4.3 The Acquisition will enable Daiken NZ to approximately double its available MDF production volumes for export.

4.4 As the New Zealand market is already well catered for by significant New Zealand production in comparison to New Zealand demand, Daiken NZ's intention is that any additional output from the Matura plant will be directed towards export. In particular, Daiken's perspective is that there is strong demand for light coloured MDF overseas – in particular in Daiken's native Japan. [].

4.5 Furthermore, [], and [], Daiken has [] the Matura site:

- (a) [].
- (b) [].

4.6 []:

- (a) [];
 - (b) []:
 - (i) []; and
 - (ii) [].
- [].

4.7 [].

4.8 [].

4.9 [].

4.10 Accordingly, Daiken sees the Acquisition as pro-competitive and efficiency enhancing.

Ancillary agreements

4.11 Daiken NZ and Laminex will enter into a Product Supply Agreement, conditional on completion of the Acquisition, under which Daiken NZ will supply Laminex [].

4.12 []:

(a) []; and

(b) [].

4.13 The overall effect of the Product Supply Agreement is that it replicates the status quo, in that Laminex will:

(a) have sufficient volumes to satisfy its own internal needs for raw MDF – []; and

(b) also have sufficient volumes to continue to compete domestically with Daiken and NPIL in the sale of raw MDF to other customers – thus ensuring Laminex will continue to act as a constraint on Daiken and NPIL in the domestic raw MDF market, with Laminex having scope under the Product Supply Agreement to grow volumes over time.

4.14 [].

4.15 [].

5. Copies of transaction documents

5.1 The Parties provide the Agreement for Sale and Purchase of Shares in Dongwha New Zealand Limited (dated 19 September 2017) enclosed as **Confidential Appendix Three**.

5.2 The Parties provide a copy of the term sheet for the Product Supply Agreement that will be entered into between Daiken NZ and Laminex as **Confidential Appendix Twelve**. A copy of the Product Supply Agreement will provided to the NZCC in due course.

6. Notification of other competition agencies

6.1 No other competition agencies will be notified of the Acquisition. The Acquisition is also conditional on (among other things) approval from the New Zealand Overseas Investment Office ("OIO").

PART B: COUNTERFACTUAL**7. The counterfactual**

7.1 [].

7.2 From Dongwha's perspective, if the Acquisition did not proceed, [].

7.3 From Daiken NZ's perspective, if the Acquisition did not proceed, it considers it likely that [].

7.4 Therefore, consistent with the NZCC's *Mergers & Acquisitions Guidelines*, Daiken NZ considers the relevant counterfactual to be [].

PART C: THE INDUSTRY

8. Background to the industry

Industry dynamics

8.1 As noted above, both Daiken NZ and Dongwha NZ are active in the manufacture of MDF products.

The MDF production process

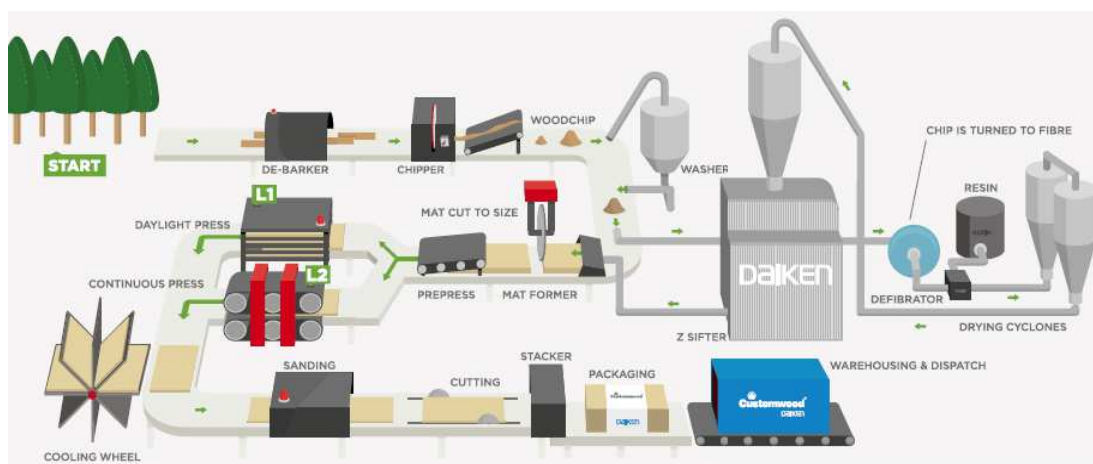
8.2 As the NZCC is aware from its consideration of previous merger applications in this area, MDF is a wood-based panel used in interior construction, chiefly in the areas of furniture, joinery, and cabinetry (including bathroom and kitchen cabinetry).

8.3 The general steps for the production of MDF are as follows:

- (a) **Wood preparation:** Chip logs are debarked and then chipped, or alternatively wood chips are acquired from sawmill residues. These chips are then converted into wood fibre after passing through a refiner.
- (b) **Additives:** Resin (or glue) and wax is then blended with the wood fibre.
- (c) **Fibre bed:** The resin / wax / wood fibre blend is laid as a continuous 'mat'.
- (d) **Press:** The 'mat' is then pressed under extreme heat and pressure to form boards. These are then cut into 'master panels'.
- (e) **Sanding:** The panels are then sanded to give a smooth finish.
- (f) **Finishing:** The panels are then cut to final size, packaged & labelled.

8.4 An overview of the production process is set out at **Figure Four** below.

Figure Four – Overview of the MDF production process at Daiken's NZ facility



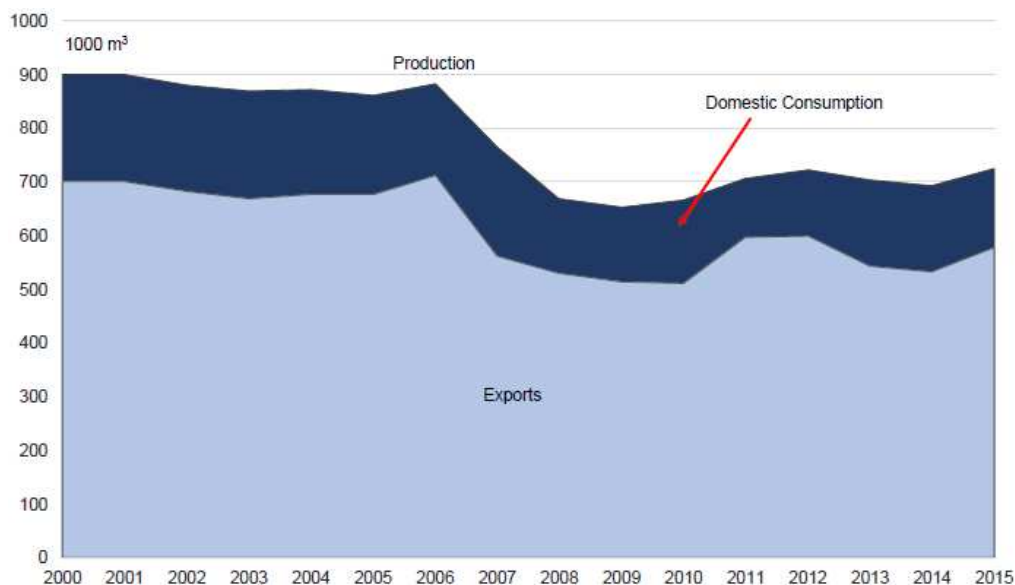
Source: Daiken, 'Customwood Manufacturing Excellence', available at http://www.customwood.co.nz/pdfs/company_profile.pdf.

8.5 Once produced, these finished boards can be sold as is (as 'raw MDF'), or can be painted or laminated before being sold as processed / value-added panels. As noted above, Daiken does not further laminate, decorate, or treat raw MDF before selling it.

Industry trends and dynamics

- 8.6 Between 2015 and 2016, global MDF production capacity increased by [], to approximately []. China is the largest MDF market in the world, where both consumption and production of MDF have grown substantially in the last ten years.
- 8.7 In New Zealand, as depicted in **Figure Five**, domestic consumption of MDF has remained relatively stable since the NZCC previously considered the MDF market in 2008 in Decision 637, and production has consistently and significantly exceeded domestic consumption.

Figure Five – NZ MDF production, consumption and exports, 2000-2015



Source: DANA Consulting. NZ Forest Industry Yearbook 2016.

- 8.8 The availability of raw materials (i.e. wood fibre) is sufficient to meet demand and allow for expansion in most regions in New Zealand. An exception is Canterbury, where fibre availability is balanced with current requirements due to deforestation from dairy farm conversions, and a wind storm in September 2013 that knocked over hundreds of thousands of trees that would have matured during 2016/17.⁷ Daiken nevertheless considers that there is sufficient fibre supply in Canterbury to meet current industry requirements, [].

Industry participants

Suppliers

- 8.9 As noted above, the chief input into the production of MDF is wood fibre, produced from wood chips. Depending on the capabilities and organisational preferences of the plant in question, a MDF plant will therefore seek to acquire wood fibre, wood chips (for processing into wood fibre), or pulp logs (for processing into wood chips and then into wood fibre), or a combination of those products. Key suppliers to MDF manufacturers are therefore sawmills and corporate forest owners.
- 8.10 Given its prevalence in New Zealand, and its suitability for use in MDF production, radiata pine is overwhelmingly used as the input wood species. Of the total production forest area, radiata pine accounts for 1.54 million hectares (90%) and Douglas-fir an additional 105,000 hectares (6%). A range of various softwood and hardwood species comprise the remaining 4%.
- 8.11 In respect of the parties:

⁷ <http://www.stuff.co.nz/business/farming/83213280/severe-shortage-of-logs-for-canterburys-sawmills>

- (a) Daiken NZ's Rangiora plant currently utilises pulpwood, wood chips, production thinnings and billetwood (fibre left on logging sites). This fibre is purchased from forest owners, log dealers and sawmills in the Canterbury area, typically pursuant to supply agreements. Daiken NZ's plant is the only plant consuming pulp-logs in any significant volume in the region; and
- (b) Dongwha's Mataura plant currently utilises pulpwood, wood chips, production thinnings and billetwood. This fibre is purchased from forest owners, log dealers and sawmills in the Southland / Otago area, typically pursuant to long-term supply relationships. Dongwha NZ's plant is the only plant consuming pulp-logs in the region.

Customers

- 8.12 All MDF manufacturers in New Zealand export the significant majority of their production. For example, as noted at **Figures One** and **Two** above, [] of Dongwha NZ's MDF output is exported, and [] of Daiken NZ's MDF output is exported.
- 8.13 Export customers are located in numerous countries – primarily Japan, South Korea, China, USA, and other countries in Southeast Asia.
- 8.14 In relation to Daiken NZ, []. For Dongwha NZ, approximately [] of its MDF export sales (representing [] of its total MDF sales) are sales to [].⁸ Combined with sales to Laminex, [].
- 8.15 In New Zealand, Daiken NZ supplies to a []:
- (a) [];⁹
- (b) [];
- (c) [];¹⁰
- (d) [];¹¹ or
- (e) [].¹²
- 8.16 A list of Daiken NZ's top 10 customers in New Zealand, and internationally, is in **Appendix Four**.
- 8.17 A break-down of Daiken NZ's sales by customer type, and their alternative supply options, is set out in **Figure Six** below.

Figure Six – Breakdown of Daiken NZ's customers by customer type

MDF end-used customer type	Customers that Daiken NZ supplies	m3 and % Daiken NZ domestic sales (2017FY)	Customers that Daiken NZ does not supply	Alternative supply options	Other comments
Typically premium MDF					

⁸ For 2016.

⁹ []

¹⁰ []

¹¹ []

¹² []

1	Laminates	[]	[]	[]	[]	<ul style="list-style-type: none"> • MDF from NPIL and imports • Laminex has a MDF plant in Australia, and will have a long-term supply agreement with Daiken • Particle board – both Laminex and NZ Panels have their own particle board supply • Imported “processed MDF” (Imported MFB etc) (see 10.36) 	
2	Mouldings	[]	[]	[]	[]	<ul style="list-style-type: none"> • MDF from NPIL, Laminex, and imports • Natural Wood (Pine, Rimu etc) • Imported “processed MDF” (MDF moulding products) (see 10.36) 	[]
3	Furniture makers	[]	[]	[]	[]	<ul style="list-style-type: none"> • MDF from NPIL, Laminex, and imports • Particle Board • Natural Wood (Pine, Rimu etc) • Imported “processed MDF” (Imported ready-to-assemble furniture etc) (see 10.36) 	[]
4	Doors (skins, Frames, Cores and Door jambs)	[]	[]	[]	[]	<p>All parts (Skins, Frames, Cores, Jambs)</p> <ul style="list-style-type: none"> • MDF from NPIL, Laminex, and imports • Natural wood • Particle Boards • Low Grade MDF from Juken • Imported “processed MDF” (Imported doorjambs etc) (see 10.36) 	[]
5	Joiners and Benchtop Manufacturers (Purchase via building merchants and distributors listed)	[]	[]	[]		<ul style="list-style-type: none"> • MDF from NPIL, Laminex, and imports • Particle board for carcasses (will prefer MDF for faces) • Particle board for Bracing • Ply Wood for Bracing • Building merchants / distributors, could readily establish logistics networks to import from overseas • Imported raw and processed MDF 	
6	DIY (Purchase via hardware stores – such as Bunnings, Mitre 10)						Very small volume

7	Builders (Purchase via hardware stores – such as Carters, PlaceMakers, ITM, Bunnings, Mitre 10)							Very small volume (9mm MDF used as bracing)
Typically downgrade MDF								
8	Packaging /Shelving manufacturers	[]	[]	[]			<ul style="list-style-type: none"> • MDF from NPIL, Laminex, and imports • Natural wood • Particle Boards • Ply wood • Cardboard 	[]
Total		[]	[]					

8.18 A break-down of Daiken NZ's average prices by customer type is set out in **Figure Seven** below.

Figure Seven – Breakdown of Daiken NZ's pricing by customer type

		FY2015			FY2016			FY2017		
		Sales \$	M3	Avg \$/m3	Sales \$	M3	Avg \$/m3	Sales \$	M3	Avg \$/m3
Typically premium MDF										
1	Laminates	[]	[]	[]	[]	[]	[]	[]	[]	[]
2	Mouldings	[]	[]	[]	[]	[]	[]	[]	[]	[]
3	Furniture makers	[]	[]	[]	[]	[]	[]	[]	[]	[]
4	Doors	[]	[]	[]	[]	[]	[]	[]	[]	[]
5	Sales to Merchants and distributors	[]	[]	[]	[]	[]	[]	[]	[]	[]
Typically downgrade MDF										
6	Packaging /Shelving ¹³	[]	[]	[]	[]	[]	[]	[]	[]	[]
Grand Total		[]	[]	[]	[]	[]	[]	[]	[]	[]

8.19 In relation to Dongwha NZ, as noted at paragraph 3.19 above, only a very small proportion of Dongwha NZ's MDF volumes are sold in New Zealand - aside from sales to related company Laminex. Specifically, Dongwha NZ's sales of MDF volumes to New Zealand represent just [] of its total MDF production. Aside from Laminex, Dongwha NZ only has a small number of raw MDF customers. Those customers include:

¹³ [].

- (a) [];¹⁴
- (b) [];¹⁵
- (c) [];¹⁶
- (d) [];¹⁷
- (e) [];¹⁸ and
- (f) [].¹⁹

8.20 A list of Dongwha NZ's top 10 raw MDF customers in New Zealand, and internationally, is in **Appendix Four**.

8.21 As reflected in the above, the largest customers of raw MDF in New Zealand are:

- (a) **Laminex**: A description of Laminex is set out at paragraph 3.23 *et seq.* above.
- (b) **New Zealand Panels Group Ltd ("NZ Panels Group")**: NZ Panels Group comprises seven business units involved variously in the manufacture and distribution of decorative panels, doors, edging products, and flooring. Notably among NZ Panels Group's business units:
 - (i) Prime Panels, markets itself as "New Zealand's largest independent manufacturer and distributor of interior panel products and architectural finishes. Prime Panels distribute nationwide and export to Australia and the Pacific Islands." Prime Panels' website notes that its MDF inputs are "produced for Prime Panels by Nelson Pine Industries, one of the world's largest single site MDF manufacturers."²⁰ [].
 - (ii) Bestwood "manufactures and distributes a range of interior decorative products including Bestwood Melamine, Bestwood Natural Wood Veneer, and Bestwood Vinyl."²¹
 - (iii) Kopine is a "market leader in the manufacture of Particle Board with much of its production going to its New Zealand Panels Group sister companies, Prime Panels and Bestwood for use in the manufacture of Melamine panels."²² NZ Panels acquired Bestwood (above) and Kopine from Carter Holt Harvey in 2015.
 - (iv) Impey's²³ "is [the] distribution business unit of New Zealand Panels Group that supplies the joinery and furniture industry with known reputable brands such as Prime Panels and Bestwood. Impey's has been a supplier to the industry for over 30 years and are one of the largest distributors in New Zealand of high pressure laminate as well as other products for the furniture and joinery segment."

¹⁴ []

¹⁵ []

¹⁶ []

¹⁷ []

¹⁸ []

¹⁹ []

²⁰ <http://www.nzpanels.co.nz/our-businesses/>

²¹ <http://www.nzpanels.co.nz/our-businesses/>

²² <http://www.nzpanels.co.nz/our-businesses/>

²³ <http://www.impeys.co.nz/>

- (v) Anthony Shearer²⁴ is a distribution business for the furniture and joinery industry. Previously owned by the Luney family, it was acquired by the NZ Panels Group in ~2014.

²⁴ <http://www.nzpanels.co.nz/our-businesses/>

PART D: COMPETITIVE ASSESSMENT

9. Relevant markets

Market definition

- 9.1 Previous NZCC²⁵ (and ACCC)²⁶ decisions have defined the relevant markets in relation to MDF as:
- (a) separate regional markets for the supply / acquisition of wood fibre; and
 - (b) the New Zealand wide market for the manufacture and supply of raw MDF panels.²⁷
- 9.2 While there is substitutability between MDF and particle board in certain applications, and that degree of substitutability has increased since the NZCC previously examined this industry, Daiken is content to adopt the previous market definition in this case.
- 9.3 Beyond the supply of raw MDF there is no horizontal overlap between Daiken NZ and Dongwha NZ. Specifically, there is no horizontal overlap between Daiken NZ and Dongwha NZ in the manufacture and supply of laminated panels (i.e. Daiken does not overlap with Dongwha NZ's production of MFB).

10. No substantial lessening of competition

The supply / acquisition of wood fibre

- 10.1 Daiken and Dongwha NZ do not overlap in the acquisition of wood fibre inputs:
- (a) Daiken produces MDF from locally Canterbury-sourced radiata pine, at its MDF plant in Rangiora in North Canterbury. Daiken sources its wood fibres from chip log and sawmill chip suppliers within the Canterbury region (typically North Canterbury), for example [].
 - (b) Dongwha NZ obtains its wood fibres in the New Zealand Southland and Otago fibre regions. For example, all Dongwha NZ's key fibre suppliers are located in Otago or Southland – such as [].
- 10.2 As noted above, in both 2001 and 2008 the NZCC identified separate regional markets for the acquisition of wood fibre on the basis that due to transportation costs, all wood fibre supplied to MDF plants are purchased from within close proximity to those MDF plants. As outlined above, the same conditions apply today. Therefore, as Dongwha NZ's Matura plant is some 530km from Rangiora, there is no overlap in the acquisition of wood fibre and, consequently, the acquisition of wood fibre is not discussed further in this application.

²⁵ See:

- New Zealand Commerce Commission Decision 431, *Nelson Pine Industries / Rayonier MDF New Zealand* (31 May 2001) at [26].
- New Zealand Commerce Commission Decision No. 637, *Sumitomo Forestry Co Ltd / Carter Holt Harvey Ltd (Building Supplies Division)* (20 March 2008) at [43].

²⁶ See for example *Proposed acquisition of Starwood Australia Pty Ltd by Carter Holt Harvey Ltd* (19 November 2002); *The Borg Group – proposed acquisition of raw medium density fibreboard manufacturing plant located at Oberon, NSW of Carter Holt Harvey Woodproducts Australia Pty Limited* (24 November 2009).

²⁷ NZCC Decision No. 637, *Sumitomo Forestry Co Ltd / Carter Holt Harvey Ltd (Building Supplies Division)* (20 March 2008) at [60].

The manufacture and supply of raw MDF

- 10.3 While both Daiken and Dongwha NZ manufacture and supply raw MDF in New Zealand, Daiken NZ is confident that the Acquisition will not give rise to any substantial lessening of competition in New Zealand.

Dongwha NZ is export focused and only a "fringe" competitor in NZ

- 10.4 As outlined at paragraph 3.19 above, Dongwha NZ's non-Laminex sales of MDF to customers in New Zealand is *de minimis* – representing just [] of its total MDF output. Of this volume, more than [] is considered to be sale of downgrade product. As a result, Dongwha NZ's non-Laminex sales of MDF account for a very small proportion of the New Zealand MDF market [] – as reflected in **Figure Eight** below.

Figure Eight – Market shares of New Zealand MDF manufacturers

Company	Annual sales volume to NZ customers (m ³)	Annual sales volume to NZ customers (%)	Annual maximum capacity (m ³)	Annual capacity (%)
Daiken NZ	[]	[]	[]	[]
Dongwha NZ sales to Laminex	[]	[]	[]	[]
Dongwha NZ sales to other NZ customers	[]	[]		
Merged entity	[]	[]	[]	[]
NPIL	[]	[]	[]	[]
Total	[]	[]	[]	[]

[]

- 10.5 Indeed, Dongwha NZ's position as, in effect, only an exporter of raw MDF has been long-standing – observed by the NZCC as far back as 2008. Furthermore, to the extent Dongwha NZ has any presence in the sale of raw MDF in New Zealand – that is []. Namely, (even including sales to Laminex), Dongwha NZ's sales of raw MDF to customers in New Zealand has []. Accordingly, there are no signs of Dongwha NZ increasing its presence in the New Zealand market and, therefore, the NZCC's observations in 2008 remain accurate today – namely that Dongwha NZ provides very little competitive constraint in the domestic MDF market:²⁸

- (a) "In response to a price increase by the merged entity, Dongwha/Laminex would be unlikely to increase supplies of raw MDF in the domestic market ... the Commission considers that Dongwha/Laminex provides only limited competition on the supply of raw MDF panels in the factual, as it would in the counterfactual"; and
- (b) "The evidence indicates that the majority of the existing competition in the supply of raw MDF panels is between CHH [now Daiken] and NPIL, with Dongwha/Laminex only competing at the fringes."

- 10.6 Dongwha NZ's position as export focussed and, in effect, only a "fringe" competitor in the New Zealand raw MDF market is likely a result of its remoteness from the key domestic New Zealand customers (e.g. in Auckland, Wellington, Christchurch etc) in comparison to Daiken NZ and NPIL. **Figure Nine** below shows an estimate of freight costs to reach customers in Auckland, Wellington, and Christchurch for each of Daiken NZ, Dongwha NZ, and NPIL.

²⁸ Decision 637, at [110] and [111].

Figure Nine – Estimated end-to-end freight costs to Auckland, Wellington, and Christchurch for each of Daiken NZ, Dongwha NZ, and NPIL

Mill Name	Location	Transportation	Auckland	Wellington	Christchurch
Nelson Pine Industries	Nelson	Truck	[]	[]	[]
Daiken NZ	Rangiora	Truck	[]	[]	[]
		Rail	[]	[]	[]
Dongwha	Mataura	Truck	[]	[]	[]
		Rail	[]	[]	[]
		Coastal shipment	[]	[]	[]

Source: Daiken NZ estimates. Includes Daiken NZ's estimates of "loading costs" prior to primary transportation at either end (e.g. transfer MDF from plant to port, port charge at dispatch port, charges at destination port, port-place to devanning, devanning place to customer door).

- 10.7 In addition to freight cost differences, there are also differences in service delivery, lead-time, and flexibility due to distance and transportation type. An example is Daiken NZ's service to Christchurch customers:
- (a) Daiken NZ can deliver products to customers in Christchurch on the same day if it has stock available.
 - (b) For Dongwha NZ to deliver product to customers in Christchurch it may take at least two or three days until an order is delivered.
- 10.8 While those service inconveniences can be mitigated by a supplier establishing warehouses in the main areas of demand, it demonstrates that Dongwha NZ's location in Southland puts it at a disadvantage in comparison to the key New Zealand competitors: Daiken NZ and NPIL.
- 10.9 Finally in any event, as noted above, Daiken NZ and Laminex have entered into the Product Supply Agreement, which would operate to ensure that Laminex is guaranteed sufficient MDF volumes for it to satisfy its own MDF requirements, as well as to continue as an independent competitor to Daiken and NPIL in the supply of raw MDF. Laminex's established nationwide logistics solutions, as well as its warehousing in main markets, should mitigate the locational disadvantage of the Mataura plant.
- 10.10 Therefore, the Acquisition:
- (a) only involves a "fringe" competitor, as previously identified by the NZCC (and in practice, Laminex will be able to continue to act as a constraint in the market due to the Product Supply Agreement);
 - (b) does not affect the competitive dynamics between Daiken and NPIL which the NZCC found in 2008 constituted "the majority of the existing competition in the supply of raw MDF panels"²⁹ (and that is still the case today); and

²⁹ Decision 637, at [111].

- (c) it is unlikely that Dongwha NZ would change its strategy or position to become a more New Zealand-focused competitor in the counterfactual.

10.11 Therefore, competition in the New Zealand domestic MDF market is not materially different to the status quo.

NPIL will remain a significant competitor

10.12 As is clear from **Figure Six** above, NPIL is the largest competitor in the New Zealand market at present, and will continue to exert significant competitive constraint on the merged entity post-merger. NPIL is "one of the world's largest single-site producers of MDF",³⁰ with three operational MDF lines (compared to Daiken's two operational lines, and Dongwha NZ's single line).

10.13 NPIL is ultimately owned by Sumitomo Forestry Co., Limited ("**Sumitomo**"), a Japanese business involved in the forestry industry and related industries such as construction and building materials. Net sales for the Sumitomo Forestry Group surpassed ¥1,000 billion (approximately ~NZ\$12 billion) last year.³¹

10.14 NPIL's primary business operations are the manufacture and sale of:

- (a) MDF and mouldings products, sold under the brand name *GoldenEdge MDF*; and
- (b) Laminated Veneer Lumber ("**LVL**"), a manufactured wood product that is an alternative to solid lumber and steel in structural uses. It is sold under the brand name *NelsonPine LVL*.³²

10.15 NPIL's MDF products are distributed by a number of companies in New Zealand, including Mitre 10, ITM, Carters, Impeys, Shearers, Bay Panel & Hardware Supplies Ltd, Gunnersen, PlaceMakers, Laminex, IBS, and Scooters Plywood & Joinery. It also supplies the laminated MFB company NZ Panels (Prime Panels / Bestwood).³³

10.16 As we note in greater detail at paragraph 10.5 above, in Decision 637 the NZCC considered NPIL to be one of the two largest competitors in the New Zealand market, with Dongwha / Laminex representing, at best, a "fringe" competitor.³⁴

10.17 Since that decision, NPIL has further strengthened its position in the New Zealand market, including through the investment by Sumitomo of the timberlands and related assets of Tasman Bay Forests Company of New Zealand in 2015. This acquisition, which included a radiata pine plantation of approximately 30,000 hectares in Nelson, enhances Sumitomo's vertical integration in New Zealand, and provides surety of supply of raw materials to NPIL's MDF operations. As Sumitomo notes in its 2016 Annual Report when discussing the acquisition of the timberlands in Nelson:³⁵

Radiata pine is highly versatile, which contributes to its price competitiveness, because of its fast growth, stable supply, uniform wood quality and so forth, and the Company can expect steady income over the long term. Also, the land has a competitive edge due to its site location, and the Company can also expect a synergies with the Group's manufacturing and distribution business.

³⁰ <http://www.stuff.co.nz/nelson-mail/news/10579961/Nelsons-forestry-giants>

³¹ <http://sfc.jp/information/ir/library/annual/pdf/ar2016eng.pdf> at p 4.

³² <http://www.nelsonpine.co.nz/nelsonpine-lvl/product/>

³³ <https://www.nelsonpine.co.nz/goldenedge-mdf/products/>

³⁴ Decision 637, at [111].

³⁵ <http://sfc.jp/information/ir/library/annual/pdf/ar2016eng.pdf> at p 77.

10.18 Unlike NPIL, neither Daiken NZ nor Dongwha NZ is vertically integrated into the ownership of forestry assets in New Zealand.

NZ production greatly exceeds demand, and will continue to do so

10.19 There is no risk of the Acquisition leading to tight domestic supply conditions:

(a) The target is a company [], with just [] of Dongwha NZ's output sold as raw MDF to other New Zealand customers.

(b) As set out at 8.7, demand in New Zealand is flat, with domestic consumption in 2015 estimated at [], and the Parties do not expect []. To put this number in context, any individual manufacturer in New Zealand has more than enough capacity to meet New Zealand's entire domestic demand single-handedly. For example, NPIL's New Zealand capacity alone is more than double New Zealand's entire domestic consumption (at []).

(c) [] [] [] [].

10.20 Accordingly, there will always be an excess of capacity of raw MDF in the New Zealand market to drive significant competition between Daiken and NPIL (with Laminex obtaining access to sufficient volume to continue to compete, and to expand in response to any market opportunities).

10.21 In relation to competition in the New Zealand MDF market, as requested by the NZCC in the pre-filing meeting, **Figure Ten** below sets out for the NZCC examples of where Daiken NZ has competed against other MDF suppliers in New Zealand. As outlined in this application, Daiken NZ sees NPIL as its key competitor, but Daiken NZ has sought to specifically include examples of customers switching to/from Dongwha NZ and Laminex, to assist the NZCC in identifying which customers it may wish to market test the Acquisition with.

Figure Ten – Examples of customers switching to/from Daiken NZ

Customer	Switch to/from	Description
[]	[]	[]
[]	[]	[]
[]	[]	[]
[]	[]	[]
[]	[]	[]
[]	[]	[]
[]	[]	[]
[]	[]	[]
[]	[]	[]

MDF is sold in a global commodity market, and so domestic prices are set at import/export parity pricing

10.22 MDF is sold in a global commodity market. As such, prices to New Zealand customers are pinned to conditions in that global market – rather than by competitive dynamics in the New Zealand market. For example, as set out in **Figure Eleven** below [].

[]

[]

10.23 This is also reflected in the general commonality of Daiken NZ's prices to its customers in New Zealand and other countries, as set out in **Figure Twelve** below.

Figure Twelve – Daiken NZ prices to customers in various destinations

	FY2013			FY2014			FY2015			FY2016			FY2017		
	Sales (NZD)	Volume (m3)	Price (NZD/m3)	Sales (NZD)	Volume (m3)	Price (NZD/m3)	Sales (NZD)	Volume (m3)	Price (NZD/m3)	Sales (NZD)	Volume (m3)	Price (NZD/m3)	Sales (NZD)	Volume (m3)	Price (NZD/m3)
CN China	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
TW Taiwan	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
ID Indonesia	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
MY Malaysia	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
PH Philippines	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
SG Singapore	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
TH Thailand	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
VN Vietnam	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
JP Japan	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
US USA	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
NZ New Zealand	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
KR South Korea	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

NB: Some countries have been excluded as Daiken NZ predominantly sells downgrade products to those countries ([]), and/or the volume is too small ([]).

- 10.24 Given there is a significant excess of production of MDF in NZ resulting in estimated exports of around []% of total NZ MDF output, any attempt by the merged Daiken NZ / Dongwha NZ entity to increase prices above export parity would readily be defeated by NPIL diverting export volumes back to domestic customers.
- 10.25 Furthermore, the threat of raw MDF imports would also constrain any ability of the merged Daiken NZ / Dongwha NZ entity to increase prices above those competitive global market levels. In particular, the threat of MDF imports was observed by the NZCC as a competitive constraint in *NPIL / Rayonier* in 2001. While the NZCC did not accept the threat of MDF imports as a competitive constraint in *Sumitomo / CHH* in 2008, that was because it considered Australian MDF was of the most similar quality / colour to New Zealand MDF, and at that time there were no Australian MDF manufacturers that were independent of the NZ competitors "thus removing potential Australian exporters that were not independent of New Zealand market participants". Since that time, dynamics in the Australian MDF market have materially changed. In particular, in the factual all three of the Australian players would be independent of the New Zealand MDF manufacturer players, meaning that they would represent competitive import constraint that did not exist in 2008. This is depicted at **Figure Thirteen**.

Figure Thirteen – Relationship between MDF players in Australia and New Zealand in the factual

	Australia	New Zealand	Relationship
2008	Alpine (Sumitomo)	Nelson - NPIL (Sumitomo)	Same owner
	CHH	Rangiora - CHH	Same owner
	Laminex	Mataura – Dongwha NZ (Dongwha/Laminex)	NZCC treated as same entity, because Laminex owned 20% of Dongwha NZ, with option to increase to 50% in 2009/10.
2017 (factual)	Alpine (Metro Ply)	Nelson - NPIL (Sumitomo)	Independent
	Borg	Rangiora - Daiken NZ (Daiken NZ)	Independent
	Laminex	Mataura – Dongwha NZ (Daiken NZ)	Independent

- 10.26 The ACCC observed in 2016 in its Statement of Issues for *Borg Group / Alpine MDF Industries Pty Ltd*, that "Australia's capacity to manufacture raw MDF currently exceeds domestic demand."³⁶ The Parties understand the production capacities of the Australian MDF facilities to be as follows:

Plant	Approx. annual production
Borg (at Oberon, NSW) ³⁷	[]
Alpine (at Wangaratta, Victoria) ³⁸	~150,000m ³
Laminex (at Gympie, Queensland) ³⁹	[]
TOTAL	~630,000m³

- 10.27 Of this Australian MDF production, Daiken estimates that in a normal year approximately 65,000m³ is exported to other markets – nearly half of New Zealand's total domestic consumption. [],⁴⁰ []. Therefore, [] the potential exists for Australian MDF manufacturers to export to New Zealand if market opportunities were to arise – i.e. if New Zealand manufacturers were to price MDF above global market levels. This means that New Zealand manufacturers are constrained to price at import parity in New Zealand to prevent the threat of MDF imports from Australia.

³⁶ Australian Competition and Consumer Commission, Statement of Issues, *Borg Group / Alpine MDF Industries Pty Ltd* (7 July 2016) at [81].

³⁷ Laminex estimate. [].

³⁸ <http://www.fridayoffcuts.com/index.cfm?id=713#3>

³⁹ http://www.meditate2016.com/wood-pdfs/woodfutures_jan10.pdf

⁴⁰ [].

- 10.28 Furthermore, significant volumes of MDF, including radiata pine MDF, are manufactured in South America and exported around the world. For example, it is estimated that Arauco alone produces ~2,000,000m³ of MDF per annum from its plants in Chile, Argentina, and Brazil (in addition to it producing a further ~2,000,000m³ of MDF elsewhere around the world).⁴¹ Arauco has global sales networks,⁴² and would also have the ready ability to export radiata pine MDF to New Zealand if market opportunities were to arise in the context of a global commodity market.
- 10.29 In addition, there are significant volumes of MDF manufactured out of rubber wood in Asia (for example, in Malaysia, China, Vietnam, Thailand, and India). While rubber wood MDF is considered to be of inferior quality to radiata pine MDF where colour / appearance is important, there are numerous applications in which customers would be able to readily switch between rubber wood and radiata pine MDF, and there is significant excess capacity in Asia. For example, Thailand is the largest producer of MDF in Southeast Asia, and Thailand's domestic MDF consumption (1,188,000m³) is estimated to be less than half its installed capacity (2,970,000m³).⁴³
- 10.30 Daiken's estimates of annual global MDF supply by region is set out in **Figure Fourteen** below.

Figure Fourteen – Daiken estimates of global MDF supply by region

[]

- 10.31 Furthermore, even once freight costs are factored in, Daiken NZ expects that overseas-manufactured MDF would be price competitive with New Zealand-manufactured MDF due to lower production costs in overseas countries – in particular Asia. Daiken NZ has obtained indicative freight costs from certain countries to New Zealand ports as set out **Figure Fifteen** below. For example, based on Daiken NZ's estimates, end-to-end freight from e.g. a MDF plant in NSW or Victoria to Auckland ([]) would be a similar cost to the cheapest end-to-end freight option ([]) from Matura to Auckland ([]).

Figure Fifteen – Estimated cost of sea freight from various countries to New Zealand

Country	From	To	USD/FEU	\$US/m ³	~\$NZ/m ³	Cost at both ends (\$NZ/m ³)	Total (\$NZ/m ³)
Australia	Fremantle	Christchurch	[]	[]	[]	[]	[]
Australia	Brisbane	Christchurch	[]	[]	[]	[]	[]
Australia	Sydney	Christchurch	[]	[]	[]	[]	[]
Australia	Melbourne	Christchurch	[]	[]	[]	[]	[]
Australia	Fremantle	Auckland	[]	[]	[]	[]	[]
Australia	Brisbane	Auckland	[]	[]	[]	[]	[]
Australia	Sydney	Auckland	[]	[]	[]	[]	[]
Australia	Melbourne	Auckland	[]	[]	[]	[]	[]

⁴¹ https://inversionistas.antarchile.cl/documents/82881/84469/Corporate_Pres_AntarChile_1Q2017.pdf/8dfd2987-1e71-aa11-5c69-3afc5d6a833d

⁴² See: <http://www.trupan.com/informacion2.asp?Submenu=3216&cat=0&fin=0&idioma=110>:

By carefully analyzing market trends, ARAUCO is able to anticipate market needs and have the right mix of products available for its customers. Through its sales offices in Argentina, Brazil, Chile, China, Colombia, Holland, Japan, Mexico, Peru and the United States, and sales agents in many other countries, ARAUCO delivers a superior level of customer service. This sales network, together with the company's state-of-the-art global logistics system covering transportation, loading/unloading, storage and distribution, has earned ARAUCO a reputation for consistent availability and timely delivery the world over.

⁴³

[http://mpma.com.my/Clients/mpmacommy/report%20on%20mtc%20mr%20by%20mpma%20to%20thailand%20&%20cambodia%20\(14-19%20november%202016\)%20final.pdf](http://mpma.com.my/Clients/mpmacommy/report%20on%20mtc%20mr%20by%20mpma%20to%20thailand%20&%20cambodia%20(14-19%20november%202016)%20final.pdf)

Chile	Concepcion	Auckland	[]	[]	[]	[]	[]
Chile	Concepcion	Christchurch	[]	[]	[]	[]	[]
Indonesia	Jakarta	Auckland	[]	[]	[]	[]	[]
Indonesia	Jakarta	Christchurch	[]	[]	[]	[]	[]
Vietnam	HCMC	Auckland	[]	[]	[]	[]	[]
Vietnam	HCMC	Christchurch	[]	[]	[]	[]	[]
Malaysia	Port Kelang	Auckland	[]	[]	[]	[]	[]
Malaysia	Port Kelang	Christchurch	[]	[]	[]	[]	[]
China	Shanghai	Auckland	[]	[]	[]	[]	[]
China	Shanghai	Christchurch	[]	[]	[]	[]	[]

NB:

- Rates were obtained by Daiken NZ via its shipping agent.
- Rates are "All In Rate Including Origin and Destination Terminal Handling Charges".
- Above rate based on 20 x FEU containers per month. Rates should change according to various factors including number of containers/services between origin and destination, oil price, etc.
- US\$ converted to NZ\$ at 1US\$ = 1.39NZ\$.
- "Cost at both ends" reflects Daiken NZ's estimates of "loading costs" prior to sea freight at either end (e.g. transfer MDF from plant to port, port charge at dispatch port, charges at destination port, port-place to devanning place, devanning place to customer door).

10.32 While Daiken NZ does not have up-to-date or accurate estimates of costs of MDF production in other countries, its expectation is that MDF sourced from, in particular, Asia and Australia could be priced competitively into New Zealand if market opportunities were to arise.

10.33 Finally, imports of processed MDF into New Zealand are significant – namely laminated flat panels and laminate flooring, which are sold to cabinetry manufacturers and joiners, as well as DIY retailers such as Mitre 10 and Bunnings. []. In 2016, imports of processed MDF were approximately 6,000m³, and imports of raw MDF were 3,500m³.⁴⁴ The source of these imports is set out in **Figures Sixteen** and **Seventeen** below.

⁴⁴ Information from Statistics New Zealand.

Figure Sixteen – Source of imports of raw MDF into New Zealand

	Volume (m3)			Price (NZD/m3) VID ⁴⁵			Price (NZD/m3) CIF ⁴⁶		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
Australia	41	1,404	255	260	55	447	268	57	464
Belgium		30			1,795			1,868	
China	463	220	254	199	805	629	222	833	652
Germany		28	16		1,190	856		1,295	881
Indonesia			2			141			145
Korea			1			191			211
Malaysia	1,737	1,829	1,921	641	668	649	703	727	696
Turkey			87			1,051			1,148
UK	6	2	3	460	748	952	517	899	1,073
TOTAL	2,248	3,513	2,539	542	445	642	596	480	684

Figure Seventeen – Source of imports of processed MDF into New Zealand

	Volume (m3)			Price (NZD/m3) VID			Price (NZD/m3) CIF		
	2014	2015	2016	2014	2015	2016	2014	2,015	2,016
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
Australia	9,463	1,843	1,830	130	406	1,140	140	646	1,200
Austria			54			924			926
Belgium	119	296	57	261	78	1,931	275	296	2,031
Brazil	2			3,958			5,419		
Canada	100	2		18	16		20	220	
Chile		11			2,328			1,541	
China	10,854	1,843	2,259	78	709	707	85	771	740
Germany	88	362	701	1,416	981	887	1,698	1,149	897
Hong Kong	1		10	15		139	16		170
Indonesia			122			538			561
Italy		68	1		9	439		7	877
Japan	0	24	0		318			401	
Korea	61	140		1,334	97		1,414	265	
Malaysia	341	1,843	326	686	281	924	754	202	1,016
Netherland	73	0	26	1,252		1,054	1,479		1,056
New Zealand	8	1		3,063	190		3,399	348	
Portugal			13			1,699			1,896
Singapore		0	10			1			2
South Africa	345			620			663		
Spain	15	164	261	3,801	690	1,718	4,048	2,120	1,854
Switzerland		146	151		722	1,475		1,255	1,568
Taiwan	91	5	1	60	316	273	67	1,416	281
Thailand	228	0	125	439		572	528		658
Turkey		920	103		47	307		90	345
UK	49	250	1	518	90	2,392	519	97	5,417
USA	16	0	1	87		17,444	94		18,181
Viet Nam	227			222			286		
	22,081	7,918	6,052	142	435	938	155	546	988

10.34 The imports of raw MDF demonstrate that importation of raw MDF is feasible and likely if the New Zealand manufacturers were to increase prices above competitive levels. While Daiken NZ does not know who is currently importing raw MDF, and for what purposes, it is aware at least that [].

⁴⁵ VID = Value for duty (the value of imports before insurance and freight costs are added).

⁴⁶ CIF = Cost of goods, including insurance and freight to New Zealand.

- 10.35 The significant imports of processed MDF into New Zealand also represent an indirect constraint on suppliers of raw MDF. Namely, it means that:
- (a) New Zealand customers have the option of either purchasing raw MDF and adding value to it themselves, or buying the value-added product directly from overseas; and
 - (b) imports of such products are price competitive with locally manufactured MDF products, which therefore acts as a competitive constraint on the price of raw MDF.
- 10.36 Of the imported processed (i.e. decorated) MDF, Daiken NZ understands that the majority is made up of ready to assemble furniture, kitset kitchens, and made-to-order kitchen cabinet doors. Indeed, Daiken NZ is aware of many "finished goods" supplied in New Zealand that are manufactured using imported MDF. Specific examples include:
- (a) Ready to Assemble Furniture: Predominately imported through Bunnings and Mitre10 (M10) from China / Vietnam.
 - (b) Kitset Kitchens: imported by Bunnings from China, under the brand name "Kaboodle". Mitre 10 also sells a product under the brand name "Nouveau Kitchens", that is understood to use both imported and local MDF.
 - (c) Made-to-order kitchen cabinet doors: [].
 - (d) Mouldings: Daiken NZ is aware of imports of processed MDF "moulding products" using tropical hardwood MDF, [].
 - (e) Doors: Daiken NZ understands there are import of doors that are made of MDF products [].
- 10.37 Accordingly, Daiken NZ considers that there is no prospect of increasing prices above import parity / export parity prices given:
- (a) NPIL's ability to divert export volumes to New Zealand customers if market opportunities were to arise;
 - (b) Australian, South American, and Asian MDF manufacturers' ability to export volumes to New Zealand if market opportunities were to arise; and
 - (c) the indirect constraint on the raw MDF market from the significant volumes of imported processed MDF.

Substitutability with particle board

- 10.38 Furthermore, as the NZCC has previously observed, particle board can be substituted for MDF in many applications – in particular when the customer intends to add a laminated surface, for example for end uses in kitchen cabinetry and shelving.⁴⁷
- 10.39 In addition, since the NZCC's previous decisions in the MDF industry, that degree of substitutability has increased further, with particle board being manufactured to an increasingly "fine" standard. For example, Laminex markets its particle board as now having a similar finish to MDF:⁴⁸

Particleboard offers substantial benefits and many of the detractors from the past are reconsidering based on product performance, not just on price factors... The quality we are producing at our Taupo plant is exceptional – and our brand of Superfine is now one of the best fine surface Particleboard solutions in the world... the truth is, New Zealand made Superfine Particleboard, while it may be

⁴⁸ http://www.tlgcms.co.nz/uploads/Particleboard_May_2015.pdf

seen as a cheaper option, has a lot more than just price going for it. It's important to note that Superfine sits proudly alongside its South Island counterpart Lakepine MDF that we also supply to the market, allowing customers to select two high quality panel solutions...

"Obviously the carcass material of choice is Whiteboard on Particleboard, offering a great solution for cabinets. We are finding that more and more customers are replacing older machinery with modern machines allowing excellent cutting and finishing results to be achieved. In terms of Particleboard, this means that the edge finish is just as good as you can get using MDF."

10.40 For example, in relation to made to order kitchen cabinet doors, Daiken NZ understands that [].

10.41 Daiken further estimates that [].

10.42 Accordingly substitutability with particle board places additional competitive constraint on MDF suppliers.

Potential competition

10.43 As has been set out above, the New Zealand market is characterised by a level of production that significantly exceeds New Zealand demand and, therefore, there are already significant volumes of exports out of New Zealand. Accordingly, Daiken NZ considers it unlikely that a new entrant would enter the manufacture of MDF in New Zealand as a result of wanting to focus on New Zealand domestic customers.

10.44 However, Daiken NZ considers it is possible that new entrants could be incentivised to enter the manufacture of raw MDF in New Zealand if they identified opportunities in the global MDF market. In particular, the following dynamics could facilitate new entry into raw MDF manufacturing in New Zealand:

(a) *Attractiveness of radiata pine:* As noted above, radiata pine (such as from New Zealand, Australia, and South America) is particularly valued as an input to raw MDF, due to its quality and colour. International manufacturers of raw MDF, who have a number of different options for locations to place a MDF manufacturing facility, may be drawn to New Zealand as a result; and

(b) *Availability of raw inputs:* Also as noted above, with the exception of the Canterbury region, radiata pine stocks are adequate in New Zealand for expansion, and there are sufficient uncommitted forestry stocks to support new entry. Radiata pine harvest volumes are forecast to increase in the medium term.⁴⁹

10.45 In that context, Daiken NZ observes that the Chinese-based Guangxi Fenglin Wood Industry Group has announced plans to establish a particle board plant in Kawerau (expected to be fully operational by 2020), and to later expand to MDF production.⁵⁰ Relevantly, Guangxi Fenglin:⁵¹

(a) is a "leading wood industry group in China, listed on the Shanghai Stock Exchange"; and

(b) owns four large-scale wood-based panel plants in China, of which two are MDF facilities.

⁴⁹ Ministry of Agriculture and Forestry, *New Zealand Wood Availability Forecasts 2014-2050* (September 2016) at 2.

⁵⁰ <https://www.newsroom.co.nz/@boardroom/2017/09/08/46945/nzte-probes-wood-fibre-supply-concerns-for-proposed-180m-chinese-plant-in-kawerau>

⁵¹ http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11840116

- 10.46 Given Guangxi Fenglin's expertise in MDF overseas and its stated intention to expand into MDF production once it has constructed its particle board facility, it should be regarded as a potential new entrant in New Zealand.
- 10.47 Daiken NZ estimates that for Guangxi Fenglin to enter the manufacture of MDF in New Zealand:
- (a) it would cost approximately [].
 - (b) it would take approximately 2 to 4 years from making the decision and identifying the relevant site to obtain necessary approvals and commission an operational MDF manufacturing plant.
- 10.48 In Daiken NZ's view, this entry would be possible by simply adding an MDF line to Guangxi Fenglin's (then) existing particle board facility, provided the addition of such a line was allowed for in the original construction detail.

Countervailing power of buyers

- 10.49 Post-Acquisition, as before, there will continue to be significant excess raw MDF in New Zealand. Therefore, the ability of customers to play those competitors off against each other will, therefore, continue in the factual.
- 10.50 This is particularly the case given, as the NZCC has previously found in Decision 637:
- (a) domestic contracts for supply are typically non-exclusive, and of a short duration (ranging from spot purchasers to contracts of 6 – 12 months duration);⁵²
 - (b) customers consider that they have countervailing buyer power, and tend to push back in negotiations, query price increases, and seek alternative price quotes to keep suppliers 'honest';⁵³ and
 - (c) customers are ultimately prepared to switch if they can get a cheaper price from another domestic supplier.⁵⁴
- 10.51 The Parties consider that these dynamics have not changed since the date of Decision 637.
- 10.52 The ability to exercise countervailing buyer power exists for virtually all categories of customer:
- (a) []. For example:
 - (i) Laminex is, or has been, vertically integrated to varying degrees in Australia and New Zealand in respect of several different substrates that it processes into value added boards. Laminex has an MFB plant in Hamilton and a particle board plant in Taupo. Laminex also still has both particle board and MDF manufacturing facilities in Australia. Therefore, in addition to the volumes of raw MDF it is obtaining [] through the Product Supply Agreement, it would be open to Laminex to import volumes from Australia to supply additional volumes into the New Zealand market.
 - (ii) NZ Panels has a number of manufacturing facilities in New Zealand, producing value-added panels as well as particle board – including a MFB plant in Auckland, and a particle board plant in Kopu (Coromandel).⁵⁵

⁵² Decision 637, at [143].

⁵³ Decision 637, at [145].

⁵⁴ Ibid.

⁵⁵ See: <http://www.nzpanels.co.nz/our-businesses/> and <http://www.humepine.co.nz/>

- (b) Distributors and building merchants will also make up a substantial proportion of total New Zealand spend, and would purchase sufficient volumes (and possess the necessary sophistication and experience) to commence importing from Australia or elsewhere to constrain price increases. As the NZCC observed in Decision 431 in relation to building merchants:⁵⁶

The Commission's enquiries have confirmed that the acquirers are in a sufficiently strong position to prevent the merged entity from unilaterally raising the price of MDF without losing significant market share. These acquirers have confirmed that MDF is treated as a commodity product that is particularly price sensitive, and that they are quite prepared to shift their custom to the alternative manufacturers if market conditions change.

- (c) As outlined at paragraph 10.38 above, cabinet manufacturers are able to switch to other coated panels, such as laminated particle board and/or imported processed MDF for interior use, and, therefore, exercise a degree of countervailing power on the basis that they can switch a material proportion of their requirements to particle board and/or imported processed MDF. [].
- (d) In respect of mouldings customers, the NZCC has previously been advised by industry participants, and accepted, that "there are a number of substitutes for MDF mouldings" - including for example raw pine wood, which is used widely for mouldings.⁵⁷ As a result, the NZCC concluded in Decision 637 that "[a]ccordingly, while the acquisition would result in some aggregation of market share in the manufacture and supply of MDF mouldings, the Commission considers that the merged entity would be constrained in the factual by mouldings made from other products. The matter of mouldings is not, therefore, considered again in these reasons."⁵⁸

Coordinated effects

10.53 This Acquisition will not increase any risk of coordinated effects in the New Zealand market for the manufacture and supply of MDF. In particular:

- (a) the market is highly competitive between Daiken and NPIL in the sale of MDF to New Zealand customers – for the reasons discussed above.
- (b) the Product Supply Agreement means that to the extent Dongwha NZ currently acts as a constraint in the market, that constraint will continue into the future (albeit via Laminex).
- (c) the threat of imports, and the dynamics of import / export pricing will continue and, therefore, prevent the potential for any pricing coordination between the New Zealand manufacturers.
- (d) while Daiken NZ does not have insight into NPIL's cost base, Daiken NZ considers that it NPIL have, and will continue to have, materially different cost structures. This is as a result of the following factors:
- (i) Differing levels of vertical integration: NPIL is vertically integrated into forestry through the ownership of 30,000 hectares of Radiata pine forestry in the Tasman region. Daiken NZ understand this forestry ownership could support up to 30% of their annual fibre demand. The rest of NPIL's fibre demands are met through a diverse group of forest owners / management companies and local sawmills to its site in the Nelson region.

⁵⁶ At [87].

⁵⁷ <http://www.sppnz.co.nz/product/spp-pine-mouldings/>

⁵⁸ Decision 637, at [32].

By contrast, Daiken NZ does not own forestry assets in New Zealand and has no vertical integration into the fibre supply chain – it sources 100% of its fibre requirement from forestry owners / management companies local to its site in Rangiora. Daiken NZ's fibre supply arrangements are understood to be materially different to NPIL's:

(aa) Daiken NZ's principal fibre supplier, [].

(bb) [].

Dongwha NZ is again understood to face different fibre input dynamics to NPIL and Daiken NZ. [].

In addition, NPIL's resin supplier Aica, although independent, is situated next door to the NPIL operation and, therefore, pumps resin across to the NPIL site via a pipeline. Both Daiken NZ and Dongwha NZ are [].

In relation to wax, NPIL is understood to use solid paraffin wax that is imported into New Zealand (possibly from numerous sources, such as China / South East Asia). By contrast, both Dongwha NZ and Daiken NZ have [] prices are set by different dynamics and can diverge.

(ii) Different locations in New Zealand: Typically, most of New Zealand domestic MDF customers are in the North Island. Therefore, due to NPIL's geographic location vs. Daiken NZ and Dongwha NZ's locations, NPIL's costs in getting product to customers will inevitably be materially less than Daiken NZ giving it will be operating from the two southernmost MDF plants in New Zealand (as set out in **Figure Nine** above).

(iii) Different scale of MDF facilities: NPIL operate three MDF production lines and one laminated veneer lumber ("**LVL**") line at one site in Richmond, Nelson. Post-Acquisition, Daiken NZ would operate three MDF production lines and one MFB line across two sites, Ashley and Matura. Although [], due to the physical separation of the two sites, there would be a requirement to duplicate some operational roles that otherwise may not be necessary, if all three lines were located on one site. Therefore, NPIL will inevitably have a materially different cost structure and base to Daiken NZ.

Furthermore, NPIL maintains an engineering spares store on site to service all four of its production lines. NPIL's three MDF lines are largely similar and, therefore, Daiken NZ expects that spare parts inventory can be kept to a minimum due to the standardised production equipment. []. Current spares inventory at Daiken NZ is valued at approximately [], and Dongwha NZ's is believed to be around []. [].

(iv) Different scope of operations (NPIL also manufactures LVL): NPIL's MDF operation is supported by its LVL production line. LVL is a growth product in New Zealand and Daiken NZ understands that LVL has significantly added to NPIL's income stream. NPIL's income from that LVL product obviously assists in offsetting fixed costs incurred in running a production facility.

While Daiken NZ's acquisition of Dongwha NZ's MFB line is an added value stream, Daiken NZ []. Therefore, Daiken NZ's ability to offset fixed costs is much less compared to the contribution that NPIL obtains from its LVL product line.

(e) the Acquisition can be distinguished from the NZCC's 2008 decision on the basis that the Acquisition only involves the acquisition of a company that the NZCC has previously found to be a mere "fringe" competitor, which does not exert significant

pricing pressure on NPIL and Daiken (and in any event Laminex will continue to act as a constraint on Daiken and NPIL through the Product Supply Agreement).

- 10.54 Indeed, applying the "ingredients for coordination" discussed by the NZCC in 2008, Daiken NZ considers that the significant majority of factors demonstrate that will be no materially increased risk of coordination – as set out in **Figures Eighteen to Twenty** below.

Figure Eighteen – Scope for Coordinated Market Power in the Factual

Factor	Comment
Concentration of sellers	No material change – Dongwha NZ is only a "fringe" competitor, (Laminex will continue to act as a constraint on Daiken and NPIL through the Product Supply Agreement), and the threat of imports, and threat of switching to alternative products (e.g. particle board) will continue.
Elasticity of demand	Customers are highly price sensitive – [].
Entry by new firms	Chinese-based Guangxi Fenglin Wood Industry Group has announced plans to establish a particle board plant in Kawerau (expected to be fully operational by 2020), and to later expand to MDF production, and there is the threat of increased MDF imports from overseas – including Australia, Asia, and South America.
Fringe competitors	There is the threat of increased MDF imports from overseas – including Australia, Asia, and South America, (Laminex will continue to act as a constraint on Daiken and NPIL through the Product Supply Agreement), and the threat of switching to alternative products (e.g. particle board) and/or imported processed products will continue.
Production technology	[]. Furthermore: <ul style="list-style-type: none"> • competition takes place across a multitude of marketing parameters, including price, service delivery, product weight and quality, delivery times – which means there are numerous factors that go into customers' decision making; and • importers have a different route to market / cost base to New Zealand based manufacturers.
History of anti-competitive behaviour	No allegations or investigations of anti-competitive conduct have been raised while Daiken NZ has been a competitor in the New Zealand MDF market – and the MDF market does not show any evidence of price coordination.
Purchasers have countervailing power	For the reasons outlined at paragraph 10.52 all categories of customers have the ability to exercise countervailing power, including because [], distributors and building merchants will also make up a substantial proportion of total New Zealand spend, and would purchase sufficient volumes (and possess the necessary sophistication and experience) to commence importing from Australia or elsewhere, cabinet manufacturers are able to switch to other coated panels, such as laminated particle board and/or imported processed MDF for interior use, mouldings customers have numerous alternative options.

Figure Nineteen – Detection of deviation from coordination

Factor	Comment
Concentration of sellers	No material change – Dongwha NZ is only a "fringe" competitor, (and Laminex will continue to act as a constraint on Daiken NZ and NPIL through the Product Supply Agreement)
Frequent sales	Customers want frequent supply on an ongoing basis to reduce their stock-holding requirements. Therefore, sales and supply take place on a highly frequent basis - with domestic contracts for supply typically non-exclusive, and of a short duration.
Demand profile	While New Zealand market demand for MDF has been stable for a number of years, there are increasing alternatives (such as increasingly fine particle board), and reductions in the availability of certain MDF products ([]).
Price transparency	Very little visibility on competitors' pricing, which means that any deviation from a co-ordinated price level could not be detected. Furthermore, competition takes place across a multitude of marketing parameters, including price, service delivery, product weight and quality, delivery times, etc, and therefore, it would be very difficult to coordinate across those parameters.
Cost similarities between businesses	Daiken NZ considers that it and NPIL have, and will continue to have, materially different cost structures for the reasons discussed at paragraph 10.53(d), which means that a tacit understanding or common perception of pricing or terms could not be easily reached or sustained. Furthermore, Laminex will have a different cost base again by virtue of its vertical integration into MDF in Australia, and its access to MDF pursuant to the the Product Supply Agreement), and importers have a different route to market / cost base to New Zealand based manufacturers
Multi-market contact	No (aside from Daiken NZ supplying MDF to Laminex pursuant to the Product Supply Agreement).
Vertical integration	NPIL will continue to have a significantly different degree of vertical integration given its ownership of forestry assets, and onsite resin supplier. Daiken NZ will become vertically integrated into MFB, which is not a product that NPIL manufacturers in New Zealand.

Figure Twenty – Ability to retaliate

Factor	Comment
Credibility of threats to abandon coordination and expand output should prices fall	Given ability to detect any coordination would be difficult (for the reasons outlined above), there is no credible threat of retaliation (i.e. it has to be possible to detect a deviation before being able to retaliate).
Availability of excess capacity in hands of non-deviating parties	Parties have greater capacity than New Zealand demand, however, that is not "excess" or idle capacity. Capacity is utilised to supply customers in overseas markets, therefore, any move to directing more production to New Zealand customers would, inevitably, come at the opportunity cost of not selling that production to overseas customers.
Non-deviating parties have strong profit incentive to preserve coordination	No strong profit incentive to preserve coordination – any pricing above global competitive levels will simply encourage imports from overseas and, therefore, any attempts to artificially increase market prices in New Zealand will be unsustainable.
Ability to disadvantage deviating business by dumping output in deviating party's market	Parties will not have incentives to "dump" product in the New Zealand market. MDF is a globally traded product, so parties will look to supply anywhere in the world where prices maximise overall profitability []. Therefore, any move to directing more production to New Zealand customers would, inevitably, come at the opportunity cost of not selling that production to overseas customers.

10.55 Therefore, for the reasons outlined above, the current Acquisition does not increase any risk of coordinated effects.

Concluding comments on MDF

- 10.56 For the reasons outlined above, Daiken NZ is confident that the Acquisition does not give rise to any material lessening of competition in the raw MDF market in New Zealand – in particular Dongwha NZ is largely an export focused company ([]), and therefore the same competitive dynamics that apply in New Zealand at present will continue post-Acquisition.

Laminated MDF ("melamine faced board" or "MFB")

- 10.57 Through the Acquisition, Daiken NZ will acquire Dongwha NZ's:
- (a) MFB production facility at Matura; and
 - (b) MFB supply business.
- 10.58 As noted at paragraph 3.22 above, there is no horizontal overlap between Dongwha NZ and Daiken NZ in the supply of laminated MDF in New Zealand (indeed, Daiken does not supply laminated MDF anywhere in the world – it is not part of its business offering, and []).
- 10.59 Accordingly, there will be no change from the status quo in relation to the supply of laminated panels, Daiken is confident that the Acquisition will not have any effect on competition in respect of such products.

FURTHER DOCUMENTATION / INFORMATION

Financial statements and management accounts

- 10.60 Copies of Daiken NZ's annual reports / financial statements for each of the last three years are provided in the folders marked as **Appendix Seven**.
- 10.61 Copies of Dongwha NZ's annual reports / financial statements for each of the last three years are provided in the folder marked as **Appendix Eight**.
- 10.62 Copies of Daiken NZ's management accounts for each of the last three years are provided in the folders marked as **Appendix Nine**.

Each party's sales revenues and volumes

- 10.63 The Parties provide their sales revenues (both domestically and overall) for the last three financial years at **Appendix Ten**.

Names and contact details of key competitors

- 10.64 See **Appendix Eleven**.

Key customers

- 10.65 The Parties provide their sales revenues (both domestically and overall) from their Top 10 customers for the most recent financial year available at **Appendix Four**.

Key suppliers

- 10.66 The Parties provide their spend (both domestically and overall) with their Top 10 suppliers for the most recent financial year available at **Appendix Five**.

PART E: CONFIDENTIALITY**11. Reasons for seeking confidentiality**

1.1 Confidentiality is sought in respect of the information in this application that is contained in square brackets. Confidentiality is sought for the purposes of section 9(2)(b) of the Official Information Act 1982 on the grounds that:

- (a) the information is commercially sensitive and valuable information which is confidential to the participants; and
- (b) disclosure would be likely unreasonably to prejudice the commercial position of the participants, as the parties providing the information.

Daiken NZ, Dongwha, and Laminex request that they are notified of any request made to the NZCC under the Official Information Act 1982 for release of the confidential information. Daiken NZ, Dongwha, and Laminex also request that the NZCC seek and consider Daiken NZ, Dongwha's, and Laminex's views as to whether the information remains confidential and commercially sensitive at the time responses to such requests are being considered.

1.2 The foregoing equally applies in respect of any additional information provided to the NZCC that is expressed to be confidential.

PART F: DECLARATION

I, **Geoffrey Michael Shea**, have prepared, or supervised the preparation, of this notice seeking clearance.

To the best of my knowledge, I confirm that:

- all the information specified by the NZCC has been supplied;
- if the information has not been supplied, reasons have been included as to why the information has not been supplied;
- all information known to me that is relevant to the consideration of this notice has been supplied; and
- all information supplied is correct as at the date of this notice.

I undertake to advise the NZCC immediately of any material change in circumstances relating to the notice.

I understand that it is an offence under the Commerce Act to attempt to deceive or knowingly mislead the NZCC in respect of any matter before the NZCC, including in these documents.

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

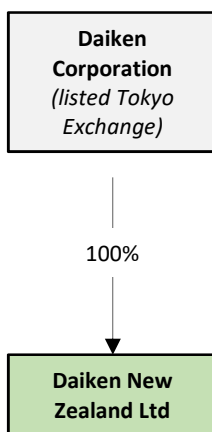
Finance Director, Daiken New Zealand Ltd

Signature

Date

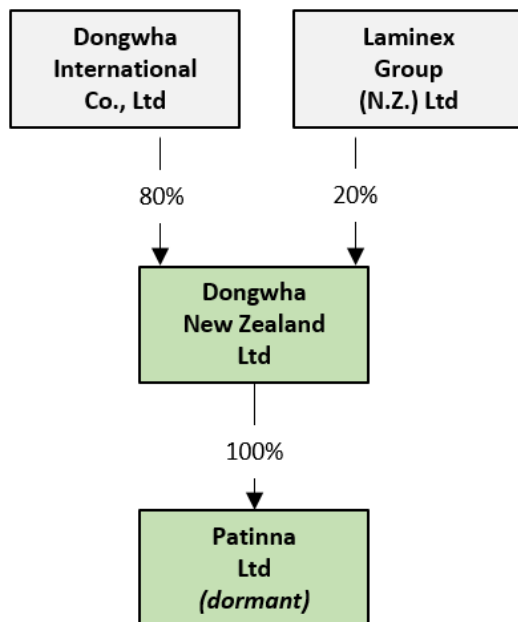
APPENDIX ONE

Corporate structure chart of Daiken



APPENDIX TWO

Corporate structure chart of Dongwha NZ



CONFIDENTIAL APPENDIX THREE
Copy of Sale and Purchase Agreement

Enclosed.

APPENDIX FOUR

Key customers referred to in the application

Daiken NZ

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Dongwha NZ's

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APPENDIX FIVE

Key suppliers referred to in the application

Daiken NZ

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Dongwha NZ

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APPENDIX SIX**Trade or industry associations****Daiken NZ**[]:⁵⁹

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Dongwha NZ

[]

⁵⁹ [].

APPENDIX SEVEN

Daiken's annual reports / financial statements

Enclosed.

APPENDIX EIGHT

Dongwha's annual reports / financial statements

Enclosed.

APPENDIX NINE

Daiken NZ management accounts

Enclosed.

APPENDIX TEN**Sales revenues and volumes****Daiken NZ**

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Dongwha NZ

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APPENDIX ELEVEN

Contact details for key competitors referred to in the application

Name	Contact details
Nelson Pine Industries Limited	Lower Queen Street Richmond Nelson New Zealand Phone: (03) 543 8800 Freephone: 0800 800 438 Fax: (03) 543 8890 Email: info@nelsonpine.co.nz Website: https://www.nelsonpine.co.nz/
Alpine MDF Industries Pty Ltd	Lot 1 Crosher Lane Wangaratta VIC 3677 Australia Phone: +61 3 5721 3522 Fax: +61 3 5721 3588 Website: http://www.alpinemdf.com.au/ <i>[at the time of writing, the website is inaccessible]</i>
Borg Manufacturing	2 Wella Way Somersby NSW 2250 Australia Phone: +612 4340 9800 Fax: +612 4393 5841 Website: http://www.borgmanufacturing.com.au/index
Guangxi Fenglin Wood Industry Group Co., Ltd	No. 22 Baisha Avenue Nanning Guangxi 530031 China Phone: +86 771 4016666 Fax: +86 771 4010400 Email: gxfl@fenglingroup.com Website: http://fenglingroup.com/qyjj/index_115.aspx
Juken New Zealand	Level 3, AMP Centre Building 29 Customs Street West Auckland 1010 New Zealand PO Box 1450 Auckland New Zealand Phone: (09) 373 3933 Website: https://www.jnl.co.nz/

CONFIDENTIAL APPENDIX TWELVE
Product Supply Agreement Term Sheet

Enclosed.