

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

3 April 2008

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

Pursuant to s 66(1) of the Commerce Act 1986 notice is hereby given seeking **clearance** of a proposed business acquisition.

EXECUTIVE SUMMARY

Flint Group Holdings, S.A.R.L. ("**Flint Holdings**") seeks clearance to acquire, directly or indirectly, up to 100% of the assets of the business of Siegwerk New Zealand Limited ("**Siegwerk**") as described more particularly in section 1 of this application ("the **Acquisition**").

The New Zealand Acquisition is part of a wider Asia-Pacific transaction. [CONFIDENTIAL].

Each of Flint Holdings and Siegwerk supply printing inks for packaging, and ancillary products. New Zealand manufacturers of printing inks are under continuous competitive pressure from imported products. [CONFIDENTIAL].

In summary, the likely impact of the acquisition on competition in New Zealand will be minimal:

- The acquisition would result in only a low to de minimus increase in Flint Holdings' market share, and Flint Holdings will continue, post-acquisition, to face vigorous competition from local and international competitors, including the multi-national Dainippon Ink and Chemicals Incorporated ("**DIC**") through its wholly owned New Zealand subsidiary DIC New Zealand Limited ("**DIC Coates**"), and local Australasian competitors, Pacific Inks Limited ("**Pacific Inks**"), Este Inks Limited ("**Este**"), and Mainland Paints and Printing Inks Limited ("**Mainland Inks**").
- All relevant product markets are heavily penetrated by imported product; over 50% in each case. There are few barriers to entry or expansion by global or local competitors.
- All relevant markets are characterised by strong countervailing buyer power.

For the reasons set out above and detailed further in this application, the Acquisition will not give rise to a substantial lessening of competition in any relevant market in New Zealand.

PART I: TRANSACTION DETAILS

1. THE TRANSACTION

1.1 Clearance is sought in respect of the proposed Acquisition by Flint Holdings or Flint NZ of up to 100% of the business assets of Siegwerk. [CONFIDENTIAL];

(a) [CONFIDENTIAL];

(b) [CONFIDENTIAL];

(c) [CONFIDENTIAL];

(d) [CONFIDENTIAL];

(e) [CONFIDENTIAL];

(f) [CONFIDENTIAL];

(g) [CONFIDENTIAL].

[CONFIDENTIAL]. Accordingly, clearance is sought for the Acquisition of up to 100% of the assets of Siegwerk's business in New Zealand.

1.2 [CONFIDENTIAL].

1.3 The ASA provides at clause 2.2 that the agreement is conditional upon New Zealand Commerce Commission approval.

1.4 [CONFIDENTIAL].

2. NOTICE GIVEN BY FLINT HOLDINGS

2.1 This notice is given on behalf of Flint Holdings and Flint NZ by:

Flint Group Australia Pty Ltd
25 - 51 Berends Drive,
Dandenong
South Vic 3175
Australia

Attn: Damian Johnson, President - India Pacific
Ph: +61 3 9797 5400
Fax: +61 3 9768 2951

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

Russell McVeagh
Barristers & Solicitors
PO Box 8

Level 30, Vero Centre
48 Shortland Street
Auckland

Attn: Sarah Keene/ Eunice Tan
Ph: (09) 367 8000
Fax: (09) 367 8596

3. CONFIDENTIALITY

- 3.1 Confidentiality is sought in respect of all items deleted from the public copy of this application ("**Confidential Information**"). The items are indicated in the non-public version in ("[]"), the entire contents of which are confidential.
- 3.2 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 transaction 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.
- 3.3 Flint Holdings asks 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.

4. DETAILS OF THE PARTICIPANTS

Acquirer

- 4.1 The proposed acquirer is Flint Holdings. Flint Holdings is a multi-national company headquartered in Luxembourg, which was formed out of the union of XSYS Print Solutions and Flint Ink Corporation in late 2005. Behind DIC, Flint Holdings is regarded as the second largest global manufacturer and supplier of printing inks and printing accessories, with over 140 operations worldwide. It had worldwide revenues of US\$4 billion for the financial year 2007.
- 4.2 The subsidiary of Flint Holdings that is the direct parent of Flint NZ is Flint Group Incorporated, a U.S. company, incorporated in Michigan and headquartered at 14909 N, Beck Road, Plymouth, Michigan 48170 - 2411, USA (formerly named Flint Ink Corporation). Flint Group Incorporated is active in the manufacture and importation/distribution of printing inks and printing ink consumables, and offers a diverse range of products to the commercial, news and packaging markets.
- 4.3 Flint NZ manufactures, blends and imports Flint Holdings products in New Zealand, and distributes printing and packaging ink products and consumables throughout New Zealand from its manufacturing plant located at 57 Walls Road, Penrose, Auckland.

Target

- 4.4 The proposed target is Siegwark.
- 4.5 Siegwark is a company incorporated and carrying on business in New Zealand. Siegwark is active in the manufacture and importation/distribution of printing inks and printing ink consumables in New Zealand. Siegwark manufactures packaging inks at a manufacturing facility located in East Tamaki, Auckland.
- 4.6 Siegwark is a wholly owned subsidiary of Siegwark Australia Pty Limited, a company incorporated in Victoria, Australia and headquartered in Derrimut, Australia.
- 4.7 Both Siegwark and Siegwark Australia Pty Limited are wholly owned subsidiaries of Siegwark Group International, which is an international company with operations in 36 countries worldwide. Siegwark Group International was established in 1830 and remains headquartered in Seigburg, Germany. In 2005, Siegwark Group International acquired SICPA, and its New Zealand based subsidiary, SICPA New Zealand Limited was renamed Siegwark New Zealand Limited.
- 4.8 Contact details for Siegwark are:

Siegwerk New Zealand Limited
4 Nandina Ave
East Tamaki
Manukau City
Auckland

Attn: Stephen Spear
Ph: 09 274 5769
Fax: 09 524 5967

5. INTERCONNECTED AND ASSOCIATED PARTIES

- 5.1 **Flint Holdings:** There are no other relevant interconnected or associated entities, beyond those described at paragraphs 4.1 - 4.3 above.
- 5.2 **Siegwerk:** There are no other relevant interconnected or associated entities, beyond those described at paragraphs 4.4 and 4.7 above.

6. BENEFICIAL INTERESTS

- 6.1 Neither Flint Holdings nor Siegwark holds any relevant beneficial interest.

7. LINKS BETWEEN PARTICIPANTS

- 7.1 There are no links between Flint Holdings and Siegwark, or any related entity, relevant to this Acquisition.

8. BUSINESS ACTIVITIES OF EACH PARTICIPANT

- 8.1 Flint Holdings supplies printing inks for publication and packaging applications, in particular, coldset, heatset, sheetfed, liquid and narrow web inks, as well as adhesives and coatings, for a variety of commercial end-user applications. Flint Holdings also supplies Flint NZ, or has the ability to offer for sale in New Zealand, pigments, and printing accessories such as printing plates, blankets and sleeves, plate washes, processing equipment and chemicals.
- 8.2 Siegwirk supplies only packaging inks and ancillary products such as adhesives in New Zealand. It does not supply publication inks.

9. THE REASONS FOR THE PROPOSAL

- 9.1 [CONFIDENTIAL] Siegwirk and Siegwirk Australia sold their publication ink businesses in 2000, and have also ceased local manufacturing of printing ink in New Zealand.
- 9.2 [CONFIDENTIAL].
- 9.3 [CONFIDENTIAL].
- 9.4 In New Zealand, printing inks, concentrates, and other inputs to a competing importing, blending or manufacturing business can be sourced from export markets across the world. Flint NZ, as a New Zealand producer of packaging and printing inks is under continuous competitive pressure from imported products. Accordingly, Flint Holdings does not consider that this Acquisition will effect that competitive dynamic currently operating in the New Zealand market in any material way, post Acquisition.

The counterfactual

- 9.5 In the counterfactual, [CONFIDENTIAL].
- 9.6 [CONFIDENTIAL].

PART II: IDENTIFICATION OF MARKETS AFFECTED
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10. HORIZONTAL AGGREGATION

Printing Ink Markets

- 10.1 Overlap exists as between the business activities of Flint NZ and Siegwark in respect of the importation, production, and distribution of packaging inks and associated products in New Zealand.
- 10.2 Printing ink markets have not been considered by the Commission in the past. The ACCC has previously only considered the publication ink markets, in 2003 when it cleared Flint Holdings' proposed Acquisition of the coldset printing inks business of SICPA.
- 10.3 There have been a number of reported decisions by the European Commission, which have considered printing markets in some detail. The European Commission authorities suggest that from a market definition perspective it is appropriate to consider separate markets for publication inks on the one hand, and packaging inks on the other.¹
- 10.4 There is no overlap between Flint Holdings and Siegwark in the New Zealand market for publication inks. Accordingly, only the packaging inks market will be considered further in this application.

Packaging Ink market²

- 10.5 There is only a low level of aggregation in the market for production and distribution of packaging ink and related products in New Zealand. Siegwark is a relatively small player, with less than [CONFIDENTIAL] market share. Accordingly there will be a *de minimus* level of aggregation, with strong competition remaining in the market from large, in some cases international, producers such as DIC Coates, Este, Pacific Inks, Mainland Inks, Toyo Ink New Zealand Limited ("**Toyo**"), Nova Inks and Chemicals Limited ("**Nova**") and other competitors.
- 10.6 When considered as a whole, the production and distribution of packaging ink and related products in New Zealand (which includes the three markets identified above) is estimated to be worth, in total, approximately [CONFIDENTIAL], with participants and shares as set out below.

¹ Case No COMP/M.3564 CVC / ANI Printing Inks; Case No COMP/M.1742 - Sun Chemical/ Totalfina / Coates; and Case No COMP/M.3886 - Aster / Flint. Case No IV/M.1391 International Paper/Union Camp also deals peripherally with ink markets. However, it more directly relates to the ink resin market, so the product market definitions are not directly relevant to the present application.

² For the purposes of the present application, the Packaging Ink market is defined to include only liquid packaging inks (water-based and solvent-based) and paste inks, such as sheetfed and narrow-web inks. It does not include the more specialised metal decoration inks or ancillary products.

Table 1

New Zealand Packaging Ink Market (by value)

Participant	Value (NZ\$)	Share
Flint Holdings	[CONF]	[CONF]
Siegwerk	[CONF]	[CONF]
<i>Merged entity</i>	[CONF]	[CONF]
DIC Coates	[CONF]	[CONF]
Nova	[CONF]	[CONF]
Pacific Inks	[CONF]	[CONF]
Este	[CONF]	[CONF]
Toyo	[CONF]	[CONF]
Mainland Inks	[CONF]	[CONF]
Others	[CONF]	[CONF]
Total	[CONF]	[CONF]

Source: Flint Holdings estimates, January 2008

- 10.7 The table below sets out the main suppliers of printing ink products in New Zealand and the extent to which they import products.

Table 2

Approximate New Zealand Import Levels for Printing Ink Products

Proportion Imports %	Liquid packaging	Narrow Web	Sheetfed Commercial	Metal Decoration	Coatings & Adhesives
Flint Holdings	[CONF]	[CONF]	[CONF]	[CONF]	[CONF]
Siegwerk	[CONF]	[CONF]	[CONF]	[CONF]	[CONF]
DIC Coates	[CONF]	[CONF]	[CONF]	[CONF]	[CONF]
Nova (Hostmann)	[CONF]	[CONF]	[CONF]	[CONF]	[CONF]
Pacific Inks	[CONF]	[CONF]	[CONF]	[CONF]	[CONF]
Este	[CONF]	[CONF]	[CONF]	[CONF]	[CONF]
Toyo	[CONF]	[CONF]	[CONF]	[CONF]	[CONF]
CPI	[CONF]	[CONF]	[CONF]	[CONF]	[CONF]
Mainland Inks	[CONF]	[CONF]	[CONF]	[CONF]	[CONF]
Others	[CONF]	[CONF]	[CONF]	[CONF]	[CONF]

Notes to Table:

1. Source: Flint Holdings estimates by value, January 2007
2. The only manufacturers of packaging inks from 'first principles' are Pacific Inks and Mainland Inks.

- 10.8 It is clear from the above analysis that the majority of packaging ink products supplied in New Zealand is imported.

Functional Market

- 10.9 The functional level at which Flint Holdings, Siegwerk and its competitors operate is the importation, manufacture and distribution of packaging inks for on-supply to commercial and industrial customers as a key input in their packaging production process.

Geographic Market

10.10 The geographic scope of all relevant markets is, in effect, worldwide. For the purposes of the Commission's analysis in light of the definition of 'market' at section 3(1A) of the Commerce Act 1986, the relevant market for manufacture and distribution of packaging inks and related products may be considered to be national in scope, with significant constraints from imports.

Packaging ink product segments

10.11 Generally speaking, the type of packaging a purchaser uses will dictate the ink type that the purchaser requires. With some exceptions, each type of packaging is printed using a particular type of printing process and particular type of ink. In general, solvent-based liquid packaging ink is used to print text and images on polymer-based or non-porous material (referred in the industry as "substrates"), while water-based liquid packaging ink is used to print text and images on any pulp and paper substrates.

10.12 Some common packaging types and inks used in their products are summarised in the following table.

Table 3

Packaging type	Ink
Flexible packaging	Liquid packaging ink (water or solvent-based)
Corrugated board	Liquid packaging ink (water or solvent-based)
Carton board	Sheetfed ink (conventional or UV)
Cigarette boxes	Liquid packaging ink (water or solvent-based) or sheetfed ink (gravure or lithographic)
Labels	Narrow web ink
Metal (steel and aluminium); mostly food and beverages with some industrial applications (e.g. paint cans)	Metal decoration ink (conventional or UV)

10.13 While from the supply side, due to the relatively simple blending processes and ready availability of imports, there is a high degree of supply-side substitutability, from a purchaser's perspective there is little to no demand-side substitutability between the different types of packaging ink described above. Accordingly, for the sake of completeness, Flint Holdings has also considered aggregation effects within product ranges.

10.14 Relevant product segments in respect of which product overlap exists are:

- (a) Liquid packaging ink;
- (b) Narrow web ink;
- (c) Sheetfed commercial ink;
- (d) Metal decoration ink; and
- (e) Coatings and adhesives (the only overlap is in coatings).

Liquid Packaging Ink

- 10.15 Liquid packaging inks can be water-based or solvent-based. Water-based inks are used on absorbent paper and pulp substrates (such as cardboard boxes and paper towels), and solvent-based liquids are used on non-porous polymer-based substrates (such as chocolate bar wrappers, bread bags, potato-chip packets).
- 10.16 The parties' respective shares in the liquid packaging ink product segment are set out in the table below.

Table 4**New Zealand Liquid Packaging Ink Segment (by value)**

Participant	Value (NZ\$)	Share
Flint Holdings	[CONF]	[CONF]
Siegwerk	[CONF]	[CONF]
<i>Merged entity</i>	[CONF]	[CONF]
DIC Coates	[CONF]	[CONF]
Pacific Inks	[CONF]	[CONF]
Este	[CONF]	[CONF]
Mainland Inks	[CONF]	[CONF]
Total	[CONF]	[CONF]

Source: Flint Holdings estimates, January 2008

- 10.17 Consistent with the broader picture in the packaging ink market, the Acquisition would result in a de minimus level of aggregation to Flint NZ's market share post Acquisition, and there will remain a number of strong existing competitors, both local and international. Also consistent with the broader picture of packaging ink, over 50% of the market consists of imported product.
- 10.18 In particular, DIC Coates, which imports [CONFIDENTIAL] of its product in this submarket, would be well placed to expand its market share by increasing its volume of imports.
- 10.19 As identified above, there are two product categories in the liquid packaging ink sub-market; water-based and solvent-based. From a demand-side, although it is possible for some customers to modify equipment to move between using solvent-based liquid packaging ink to water-based ink, the process requires capital cost and is unlikely to be made in response to a small shift in price of ink. Nevertheless, from a supply-side, the assets and expertise used to produce both types of ink are similar and, particularly in the case of expansion from solvent-based to water-based liquid inks, a switch can readily be undertaken without significant investment, to meet customer demand. The only additional requirement for a switch from water-based to solvent-based manufacture or blending is compliance with the necessary hazardous goods regulations for the use of solvent products. These requirements would not be difficult for an established operator to meet.
- 10.20 Consistent with the aggregation effects in the liquid packaging ink segment, in the water-based ink range, [CONFIDENTIAL], with DIC Coates remaining a strong competitor [CONFIDENTIAL]. Other competitors such as Pacific Inks and Mainland Inks will also continue to provide competition in this product range.

- 10.21 For solvent-based inks, [CONFIDENTIAL]. Strong existing competitors include Pacific Inks [CONFIDENTIAL], Este [CONFIDENTIAL], and Mainland Inks [CONFIDENTIAL]. Although DIC Coates does not currently provide for this product range, it does so in Australia, and given the ease of supply-side substitutability, could easily do so to meet customer requirements in response to any given market opportunity.
- 10.22 Any aggregation is de minimus in both water based and solvent based product ranges, consistent with competitive effects considered in the overall liquid packaging ink segment. Even at the most granular level, the proposed transaction could not be likely to result in a substantial lessening of competition in any relevant market or market segment.

Sheetfed Ink

- 10.23 Sheetfed ink is a paste ink and is used for both publication and packaging applications (the other categories of paste inks, heatset and cold set inks, are used in publication applications only). It is used on high-gloss, coated substrates, such as high-end coffee-table books. The sheetfed system is a printing system (as compared with offset printers) that prints on individual pages. It might be run on an offset sheetfed press, using high quality, glossy stock and premium vegetable-oil-based inks in process colours. There might be a gloss and matt varnish and an extra colour - for instance, a gold metallic to add brilliance. These printing requirements mean raw materials are more costly, limiting demand-side substitutability.
- 10.24 Flint Holdings imports its sheetfed ink products and base (for local blending) and finished sheetfed ink product from the EU, whereas Siegwark now imports 100% of its sheetfed ink requirements as finished product from the EU.
- 10.25 The parties' respective shares in the sheetfed commercial ink segment are set out in the table below.

Table 5

Sheetfed Commercial Ink Segment (by value)

Participant	Value (NZ\$)	Share
Flint Holdings	[CONF]	[CONF]
Siegwerk	[CONF]	[CONF]
<i>Merged entity</i>	[CONF]	[CONF]
Micro Ink / Nova	[CONF]	[CONF]
DIC Coates	[CONF]	[CONF]
Toyo	[CONF]	[CONF]
Others	[CONF]	[CONF]
Total	[CONF]	[CONF]

Source: Flint Holdings estimates, January 2008

- 10.26 Again, consistent with the broad picture of packaging ink, the Acquisition would result in a de minimus level of aggregation to Flint Holdings' share of sheet-fed commercial inks. Furthermore, notwithstanding that aggregation is de minimus post-Acquisition, there will remain a number of strong competitors, both local and international, which will constrain the merged entity.

Narrow Web Ink

- 10.27 Narrow web inks are used in tag and label packaging applications, such as those used for bottles, cosmetics and food. The inks used for these applications are developed for particular press types that are narrower in width than those used for flexible packaging (such as plastic and paper). Narrow web inks vary in physical composition from liquid, oil, paste or UV cured.
- 10.28 The parties' respective shares in the narrow web ink segment are set out in the table below.

Table 6

Narrow Web Ink Segment (by value)

Participant	Value (NZ\$)	Share
Flint Holdings	[CONF]	[CONF]
Siegwerk	[CONF]	[CONF]
<i>Merged entity</i>	[CONF]	[CONF]
Sericol	[CONF]	[CONF]
Nova	[CONF]	[CONF]
Mainland Inks	[CONF]	[CONF]
Total	[CONF]	[CONF]

Source: Flint Holdings estimates, January 2008

- 10.29 Such is the de minimus level of aggregation which would occur in the narrow web ink segment as a result of the Acquisition, there is in essence no difference between the factual and the counterfactual in respect of this submarket.
- 10.30 A number of established competitors will continue to provide competitive constraint on the merged entity, and due to no import constraints, expansion or entry into the submarket is easily attainable.

Metal Decoration Inks

- 10.31 Metal decoration inks are used to print on metallic substrates. The chief usage for the metal decoration inks relevant to this application is in production of screw caps for wine bottles. However, this represents only a very small proportion of the total market for metal decoration inks, for applications such as food and beverage cans (for example, coke cans), and some industrial applications, such as paint cans. Flint Holdings estimates that [CONFIDENTIAL] of all metal decoration inks supplied in New Zealand are supplied by The Valspar (New Zealand) Corporation Limited ("Valspar NZ"), and PPG Industries New Zealand Limited ("PPG NZ").
- 10.32 [CONFIDENTIAL]. Flint Holdings and Siegwerk are niche players only in this market. The combined value of Flint Holdings and Siegwerk's share of this market would be [CONFIDENTIAL], well within the Commission's safe harbours.

Coatings and Adhesives

- 10.33 Ink suppliers often supply coatings and adhesives with their packaging inks. The reason for this is that when a liquid packaging ink is applied to packaging, a coating or adhesive will often be required to seal the ink safely into the packaging. For example, in respect of the application of metal decoration inks, coatings are used on the inside of cans to provide a level of protection to the metal and product from damage by the contents.
- 10.34 From a purchaser's perspective it is often the combination of inks being applied to packaging and then the packaging being coated that results in an end product that is of use. Consistent with this, the two largest purchasers of liquid inks are also the two largest purchasers of coatings and adhesives.
- 10.35 Accordingly, the supply of coatings and adhesives is an ancillary market to the packaging ink market. The largest proportion of this market is, however, supplied by specialist coatings and adhesive suppliers. In these circumstances, it is difficult for Flint Holdings to estimate its and Siegwerk's relative market shares, as ink producers are likely to comprise a very small segment of this broader market.
- 10.36 Flint Holdings has, however, sought to estimate current shares of supply of coatings and adhesives to only packaging customers. A table describing those shares of supply is set out below.

Table 7

Coatings and Adhesives supply to packaging customers (by value)

Participant	Value (NZ\$)	Share
Flint Holdings	[CONF]	[CONF]
Siegwerk	[CONF]	[CONF]
<i>Merged entity</i>	[CONF]	[CONF]
Rohm and Haas	[CONF]	[CONF]
Whitehall	[CONF]	[CONF]
Este	[CONF]	[CONF]
Total	[CONF]	[CONF]

Source: Flint Holdings estimates, January 2008

10.37 There are four key factors which mitigate any material effect on competition:

- (a) The market is an ancillary market to the liquid inks market;
- (b) The two most influential customers in the coatings and adhesives market are also the two most influential customers in the liquid packaging ink markets. Consequently buyers can leverage off their position of influence across a range of product types to resist price increases in less significant markets;
- (c) [CONFIDENTIAL], the fact that the market is of low value amplifies the extent to which buyers can exert countervailing power [CONFIDENTIAL];
- (d) Approximately [CONFIDENTIAL] of the market is made up of imported product. Consequently there is no barrier to Flint Holdings competitors

being able to increase their market share or for new competitors to emerge.

11. PRODUCT DIFFERENTIATION

- 11.1 There is a high degree of product differentiation amongst the products supplied in the relevant markets.
- 11.2 The nature of the ink product produced for a particular customer, is, to a large degree, determined by the type of packaging required by the end-user, as this dictates the type of ink and process suitable for printing. For example, inks used on soap wrappers must be alkali resistant, inks on liquor labels must be alcohol resistant, and inks on food containers that will be heated in ovens or microwave ovens must resist high temperatures. All these characteristics are achieved through the additives in the formulation of the ink. Further examples of various ink types suitable to specific products are set out in the table provided under paragraph 10.12 above.

12. VERTICAL INTEGRATION

- 12.1 The proposal will not result in any additional vertical integration of Flint Holdings' business.

13. PREVIOUS ACQUISITION AND COMMISSION NOTIFICATIONS

- 13.1 Neither Flint Holdings nor Siegwirk (or any interconnected body corporate or predecessor thereof) has been involved as applicant or target in any transaction notified to the Commission in the last three years.
- 13.2 Flint Holdings 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 last three years.

PART III: CONSTRAINTS ON MARKET POWER BY EXISTING COMPETITION
14. EXISTING COMPETITORS

- 14.1 As described in the paragraphs above, a number of other parties currently supply the various printing ink markets, including DIC Coates, Pacific Inks, Este, Mainland Inks, Toyo, Nova, Sericol, Valspar, PPG Industries, AM International, Rohm and Haas, and Whitehall. Details of each of these entities are set out more fully below.

Competitors in Packaging Ink Market

- (a) **DIC New Zealand Limited** (referred to as "DIC Coates"): DIC New Zealand Limited is a 100% owned subsidiary of DIC through DIC Asia Pacific Pte Limited. DIC is the largest ink company in the world. Coates New Zealand was founded in 1948 and its name was changed to DIC Graphics in 2004. On 1 January 2007 all DIC subsidiaries in Australasia were brought together as DIC Australia Pty Limited and DIC New Zealand Limited, operating as one company with headquarters in Sydney.
- DIC New Zealand Limited supplies solvent-based liquid packaging ink (as well as narrow web ink, and sheetfed commercial ink) within New Zealand through a network of service factories in Auckland, Wellington, Christchurch and Dunedin.
- (b) **Pacific Inks Limited:** Founded in 1976, Pacific Inks manufacture and services its inks from 15 locations worldwide, with manufacturing facilities in China, the United Kingdom, Australia and its flagship plant in Auckland New Zealand. Pacific Inks manufacture and supply water-based liquid packaging ink.
- (c) **Este Inks Limited:** Este is a manufacturer of water-based liquid packaging inks and coatings and adhesives based in Henderson, Auckland.
- (d) **Mainland Paint & Printing Inks Limited:** Based in Christchurch, Mainland Inks engages in the manufacture and supply of paint and printing inks, predominantly water-based liquid packaging and narrow web inks.
- (e) **Toyo Ink New Zealand Limited:** Toyo NZ has a [CONFIDENTIAL] share of the packaging ink market in New Zealand and is a wholly owned subsidiary of Toyo Ink Australia Pty Ltd, which manufactures and supplies offset inks and coatings. Toyo Ink NZ is active in the sale and supply of heatset and sheetfed commercial inks and is located in Onehunga, Auckland.
- (f) **Nova Inks & Chemicals Limited:** Nova is based in St Johns, Auckland. Nova supplies coatings and adhesives, heatset ink, narrow web ink, and sheetfed commercial ink. Nova is a supplier of printing inks and is the New Zealand agent for Hostmann Steinberg's printing ink products.

- (g) **Fujifilm Sericol Limited (not a NZ company):** formally known as Sericol Group Limited is a leading manufacturer of specialist screen and digital inks. It is a multi-national company headquartered in Broadstairs, Kent (UK) with over 71 operations worldwide. Sericol manufactures and distributes a wide range of screen printing inks and consumables, narrow web, digital inks, flexographic inks and associated products. It currently supplies narrow web ink in New Zealand and has the clear ability to import a wider range of products ink New Zealand, as required in response to market demand.
- (h) **The Valspar New Zealand Corporation Limited:** Valspar NZ is a wholly owned subsidiary of The Valspar Corporation, which is the one of the largest global coating manufactures in the world. Valspar NZ supplies metal decoration ink within New Zealand and is based in Penrose, Auckland.
- (i) **PPG Industries New Zealand Limited:** PPG NZ is a wholly owned subsidiary of PPG Industries Inc, a manufacturer of decorative coatings with 110 manufacturing facilities globally. PPG NZ supplies metal decoration ink within New Zealand and is based in Mt Wellington, Auckland.
- (j) **AM International Limited:** AM International has a national distribution agreement with Siegwerk whereby AM International distributes Siegwerk's sheetfed commercial ink. AM International's share of packaging ink products in New Zealand is small [CONFIDENTIAL].
- (k) **Rohm and Haas:** Rohm and Haas is a Fortune 500 company based in Philadelphia, Pennsylvania that manufactures specialty materials using advanced chemistry that allows end use products to have a particular characteristic, for example low-odor, water-based paints, sunscreens with greater SPF functionality, or more powerful semiconductor chips. Rohm and Haas employs more than 17,000 people in 27 countries with annual sales revenues standing at about USD 8.2 billion. In New Zealand, Rohm and Haas only supplies coatings and adhesives.
- (l) **Whitehall Technical Services Limited:** Whitehall is a 100% privately owned New Zealand company specializing in the manufacture of UV cure and water born coatings for industry. Products manufactured include UV offset, rollcoat, flexo and screen inks, varnishes and adhesives for the graphics and packaging industries including water-reduced and low odour coatings for food packaging applications, and specialized products for plastics, such as credit cards.

Other Considerations

Near Entrants

14.2 A number of parties that have the potential to enter and compete in the various markets have been identified:

- (a) **CPI Graphics:** CPI imports fine papers, inks, proofing materials and capital equipment into Australia and New Zealand for the graphic arts industry. CPI has sales and distribution facilities in Auckland, Wellington

and Christchurch, but no ink manufacturing capabilities. CPI is active in the sheetfed commercial ink market.

Further information on CPI Graphics can be found at www.cpigroup.com.au

- (b) **Hostmann-Steinberg:** Hostmann is a Germany company that has been a member of the Hubergroup since 1977. Hostmann produces printing inks for printing newspapers, brochures, magazines, labels, packaging, carrier bags, drinks cans etc which are exported to more than 100 countries. Nova is currently the New Zealand distributor for Hostmann printing inks within New Zealand.

Originally, Ferag Australia was the exclusive distributor for Hostmann printing inks in Australia. Hostmann has since acquired all the assets and stock in Ferag Australia's ink business and set up an Australian operation on 1 January 2006 called Hostmann-Steinberg Australia Pty Ltd.

Further information on Hostmann-Steinberg can be found at www.hostmann-steinberg.de

- (c) **Chemtek (New Zealand) Pty Limited:** Chemtek grew out of DS Chemport (New Zealand) Pty Limited, which was established in 1999, through the Acquisition of a local chemical manufacturer, in 2003. Like DS Chemport, Chemtek appear to only manufacture printing chemicals, not ink. Chemtek imports printing inks into New Zealand through Bousfield (www.ubd.co.nz)

Further information on Chemtek can be found at www.chemtek.co.nz (currently under construction) or www.ubd.co.nz

- (d) **Rieger Printing Ink Co. Limited:** Rieger is a wholly owned Canadian ink manufacturer specialising in coldset, sheetfed and heatset ink for the printing industry as well as water-based and solvent based inks for the flexographic and printing industries for wallpaper and packaging. Rieger has an operation in Australia, which imports finished ink from its Canadian parent and distributes these products from its warehouse in Sydney.

Countervailing Power

- 14.3 A number of purchasers in the packaging ink and ancillary products markets are large, sophisticated acquirers who wield considerable countervailing power. For example, [CONFIDENTIAL] are highly influential customers in the liquid ink packaging markets and the coating and adhesives market.
- 14.4 Purchasers of this nature are able to exert their market power by offering competitive tender processes for fixed periods. Most of these contracts are relatively short-term, such that customers can switch supply with relative ease in response to market conditions. Even the longer term contracts only tend to operate from between [CONFIDENTIAL]. The loss of such large accounts has the potential to materially impact on a participant's profitability, as almost all competitors derive economies of scale from supplying such accounts.

14.5 [CONFIDENTIAL]

- (a) [CONFIDENTIAL]
- (b) [CONFIDENTIAL]
- (c) [CONFIDENTIAL]
- (d) [CONFIDENTIAL]
- (e) [CONFIDENTIAL]
- (f) [CONFIDENTIAL]

14.6 [CONFIDENTIAL]. Large, sophisticated acquirers, [CONFIDENTIAL], have the ability to impose such terms upon suppliers of packaging ink, and do so in practice.

14.7 Further, ink products are considered commodities, with customers first having regard to price, and then to availability and quality. Given the nature of the packaging industry, customers tend to operate on very low margins, thus placing increasing downward pressure on ink prices as just one of many other inputs in their production chain.

14.8 The customers are placed in a strong negotiating position in tender situations, by virtue of the extent of excess production capacity in the market. [CONFIDENTIAL]. In addition, there are no material capacity restraints in relation to imported product.

14.9 Finally, [CONFIDENTIAL].

14.10 It is therefore clear that the parties' major customers wield a substantial degree of countervailing power, which will continue post-Acquisition. As such, the merged entity will be considerably constrained in its ability to increase the price of its ink products or exert any non-price manifestations of market power.

15. CONDITIONS ON EXPANSION BY EXISTING COMPETITORS

Packaging Ink Manufacture

15.1 The two common methods of production of packaging ink in New Zealand are, either to manufacture the ink from "first principles"; or to blend ink from concentrate or chips.

15.2 Both Flint Holdings and Siegwirk employ blending methods in New Zealand, using product imported from their respective parent entities' operations outside New Zealand. To the best of Flint Holdings' knowledge, the only companies that manufacture packaging ink from 'first principles' in New Zealand are its competitors, Pacific Inks and Mainland Inks.

15.3 The manufacture of packaging ink from 'first principles' involves the combination of pigments or dyes (different forms of coloration), a "vehicle", resins and additives. Typical printing ink vehicles include alcohols, esters (acetates), ketones or water. In the manufacturing process, pigment, vehicle and resin are combined and processed in a mill.

- 15.4 In addition to a mill or mills, a manufacturing operation generally requires a laboratory, storage capacity (in addition to bulk storage for the resin), vehicle and pigments. There is also associated equipment required, such as drum handling equipment, forklifts, and pumping and filtration equipment. All this equipment is readily available and relatively inexpensive in the context of such a business.
- 15.5 Milling produces a concentrate. The concentrate is turned into a finished ink product by blending the concentrate. At a simple level, this is a dilution process, producing an ink of the desired viscosity.
- 15.6 The blending process is relatively basic in nature and requires relatively inexpensive equipment. It is done in batch containers, mixed by means of large mixing blades. This can be done at the customer's facility, particularly where the customer requires large quantities of ink. In these cases, the ink supplier will install dispensing equipment at the customer's facility.
- 15.7 The blending process can also use chips instead of concentrate. That process is also relatively uncomplicated. It involves dissolving the chips in technology varnish and then diluting it with solvent (in the case of solvent-based liquid packaging ink) or water (in the case of water-based liquid packaging ink). To break down the resin coating and achieve the desired particle size, dissolving the resin coating requires significant amounts of energy. This is achieved using a machine known as a "Disperser". A Disperser operates like a large milkshake maker. It grinds the chips and disperses the pigment that is released in the process. The final ink product comes straight out of the Disperser.
- 15.8 Blending involves concentrate being augmented by "technology varnish" and additives and then diluted with solvent (in the case of solvent-based liquid packaging ink) or water (in the case of water-based liquid packaging ink). The varnish product is readily available from numerous suppliers in Australia. They include Hexion Specialty Chemicals Australia Pty Limited³ (former known as Rohodia) and Nuplex Industries Aust Pty Limited. There are other additives an ink manufacturer may need to use to produce particular inks with particular characteristics. Additives include anti-skinning agents, wax compounds, reducers and solvents.
- 15.9 Accordingly, most competitors in liquid ink in New Zealand start with imported finished paste inks (sheetfed and narrow web). All markets in which there is business overlap between the parties consist of over 50% imported product. This reveals that there are no or low barriers to importation of concentrate or chips into New Zealand.

³ www.hexionchem.com.

15.10 By way of example, in relation to liquid packaging inks, water-based concentrate supplies are available from a number of companies in Australia, including Degussa Colourants, Colourant Dispersion Company, Pacific Inks, DIC, Compass Colours, Cathay Pigments in Australia. There are no material importation tariffs or other constraints on importation.

15.11 [CONFIDENTIAL].

16. COORDINATION EFFECTS

16.1 The potential for coordinated effects is low in the packaging ink and associated products markets discussed above, due to the following factors:

- (a) Asymmetrical market shares of relevant competitors in every market and segment identified (refer to tables set out at paragraphs 10.6, 10.18, 10.26, 10.30, 10.39);
- (b) Differentiated products (refer to paragraphs 11.1-11.2);
- (c) High level of imports (refer to paragraphs 9.1, 9.4, 10.7-10.8, 10.10, 10.13, 10.18-10.19, 10.31, 10.37(d), 14.8-14.9, 15.9-15.11);
- (d) Low barriers to entry and expansion (refer to paragraphs 15.9-15.11);
and
- (e) High countervailing power (refer to paragraphs 10.37(c) and 14.3-14.10).

16.2 This market environment does not facilitate express or tacit coordination between competitors.

THIS NOTICE is given by Flint Group Australia Pty Ltd, on behalf of Flint Group Holdings S.A.R.L. and Flint Group NZ Limited.

The Company hereby confirms that:

- all information specified by the Commission has been supplied;
- all information known to the applicant/s which is relevant to the consideration of this application/notice has been supplied;
- 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 this 3rd day of April 2008.

Signed by Flint Group Australia Pty Ltd



*Damian Johnson
President - India Pacific*

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