

COMMERCE ACT 1986: BUSINESS ACQUISITION

SECTION 66: NOTICE SEEKING CLEARANCE

28 March 2014

The Registrar
Mergers and Authorisations
Commerce Commission
PO Box 2351
Wellington

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

EXECUTIVE SUMMARY

- A This application concerns the distribution of air compressors.
- B Most of the major global air compressor manufacturers are present in New Zealand, either directly or through a local licensed distributor. Air compressor makers also produce:
- (a) blowers, vacuum pumps, and gas compressors, each of which uses the same technology as an air compressor; and
 - (b) air treatment products (e.g. dryers and filters), and other ancillary equipment.
- C The applicant, Atlas Copco wants to buy Ash Air.
- (a) *Atlas Copco* is a multi-national manufacturer and supplier of air compressors and associated equipment. Atlas Copco has a New Zealand subsidiary. That subsidiary imports and distributes Atlas Copco's products and services all types and brands of manufacturers' air compressors and related equipment.
 - (b) *Ash Air* is a privately owned New Zealand business. Ash Air holds the importation and distribution rights for two of Atlas Copco's global competitors, Ingersoll Rand and Gardner Denver. It has specialist teams which service the oil and gas and dairy industries. Like Atlas Copco, Ash Air provides maintenance and repair services for its products and other manufacturers' machines.
- D Atlas Copco sees a single national market for the importation and distribution in New Zealand of air compressors and associated equipment.
- E Atlas Copco's acquisition of Ash Air could, at least initially, see the merged entity account for up to [] of sales in the New Zealand market for air compressors and associated equipment. But its rivals will immediately react to the merger:

Atlas Copco will not acquire the Ash Air Businesses' distribution contracts post-merger; they will remain with the vendors. After the merger the licensor manufacturers will presumably formally or informally terminate the licences [

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- (b) Atlas Copco anticipates that neither []
- (c) An existing distributor or a new entrant could leverage the distribution rights [] to reach national scale.
- (d) Gardner Denver already has a direct presence in New Zealand, and is able to distribute its products here without relying on Ash Air.
- (e) There will be no shortage of willing distributors for [] compressor brands. Barriers to entry are low. A licensee only requires sufficient capital to purchase stock, a warehouse or depot (one will do), and some means of distributing and selling the machines. The distribution and sales functions are easily subcontracted to others.
- (f) Air compressor customers can be relatively “brand loyal”. After the inevitable reallocation of distribution licences, some existing Ash Air customers will follow their preferred brands to the new distributor chosen by the manufacturer. Atlas Copco will obviously seek to retain those customers and win them its products.
- F Atlas Copco and the other global manufacturers will continue to compete vigorously in the importation and distribution market over time.
- G The proposed merged entity will be further constrained by the reality that:
- (a) large compressor customers can (and do) purchase directly from offshore suppliers dealing in OEM or “grey market” compressors (and parts). These buyers tend to be large and sophisticated. Shipping costs are not prohibitive and compressors parts are readily available. One of Atlas Copco’s major customers recently []; and
- (b) other global manufacturers not present in New Zealand may come here within the next two years:
- Kaishan, China’s largest compressor manufacturer, recently expanded into Australia and appears likely to commence supply to New Zealand; and
 - many Chinese manufacturers are expanding their activities to commence supply in New Zealand, including Shanghai DHH, Wenling Xinlei and Suzhou Purdue.

As for a local distributor, the barriers to entry into the New Zealand market by a global player are very low.

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- H Even on a narrower “market segment” approach, the competition analysis remains the same, although market shares will differ by segment. But rivals will still react and the merged entity will still be constrained by imports and potential new entrants in each of these product segment markets over time.
- I The merger will not materially affect rivalry for the supply of smaller (<1.5hp) compressors. These machines are highly commoditised and are readily available from retailers like building supplies merchants and auto parts dealers.
- J Both Atlas Copco and Ash Air also provide maintenance and repair services. There are sub-national markets for these services. The merger will result in aggregation in some regions: Tauranga, Palmerston North and Dunedin. Atlas Copco will [] But, in any event, this aggregation does not pose competition concerns, because:
- (a) replacement parts are readily available;
 - (b) there are other competing service providers in those regions;
 - (c) technicians are readily hired, and/or can be cost-effectively trained;
 - (d) large service customers like [] can and would self-provision maintenance services or easily arrange an alternative supplier; and
 - (e) other start-up costs are low.

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PART 1: TRANSACTION DETAILS

The Business Acquisition

- 1 Atlas Copco Airpower NV (**Atlas Copco**) intends to acquire some of the assets of Lancaster Group Limited (**Lancaster**). It will do so by acquiring the businesses operated by the following Lancaster subsidiary companies:
 - (a) Ash Air (N.Z.) Limited;
 - (b) Ash Air Oil & Gas Limited;
 - (c) mbar 2011 Limited; and
 - (d) Fox Air NZ Limited

(together, the **Ash Air Businesses**).
- 2 The Ash Air Businesses carry on business:
 - (a) importing and distributing a range of air compression, treatment, and filtration equipment and similar equipment; and
 - (b) servicing that equipment.
- 3 The transaction details are in:
 - (a) the Letter of Intent [
], attached at **Appendix A** (the **LOI**); and¹
 - (b) the agreement for the sale and purchase of the Ash Air Businesses [
] 2014 (the **SPA**), attached at **Appendix E**.
- 4 Under the SPA Atlas Copco will:
 - (a) purchase the fixed assets, inventory and intellectual property of the Ash Air Businesses;
 - (b) offer employment to all people employed in the Ash Air Businesses;
 - (c) [

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(in aggregate, the **Proposed Acquisition**).

¹ Certain detail and aspects of the deal evolved over the summer. Hence the slight differences between the terms of the LOI and the SPA.

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5 Atlas Copco does not intend acquiring []

6 The agreed purchase price for the Ash Air Businesses is [] million, subject to adjustments on the basis of net asset value.

The person giving notice

7 This notice is given by:

Atlas Copco South Pacific Holdings Pty Limited
PO Box 6444
Blacktown NSW 2148

Telephone: +61 29 621 9974
Email: paul.williams@au.atlascopco.com
Attention: Paul Williams

8 In the first instance, all correspondence and notices for Atlas Copco should go to:

Chapman Tripp
Level 38
ANZ Centre
23 Albert Street
Auckland 1010

Attention: Matt Sumpter / Colin Fife
Telephone: 09 357 9000
Email: matt.sumpter@chapmantripp.com
colin.fife@chapmantripp.com

9 The other merging party, Lancaster, is the vendor of the Ash Air Businesses. Its contact details are:

Lancaster Group Limited
Suite 2, 7 Windsor Street
Parnell
Auckland 1151

Telephone: 09 444 8486
Email: eddie.simpson@ashair.co.nz
Attention: Mr Eddie Simpson

10 All correspondence and notices for Lancaster about this application should go to:

Duthie Whyte
Level 9
2 Kitchener Street
Auckland 1140

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Attention: Brian Everett
Telephone: +64 9 379 9464
Email: beverett@duthiewhyte.co.nz

Participants' details**Atlas Copco**

- 11 Atlas Copco is an industrial group which provides compressors, expanders, air treatment systems, construction and mining equipment, power tools and assembly systems. Atlas Copco was founded in 1873 and is based in Stockholm, Sweden. It operates in about 180 countries.
- 12 In 2012, the Atlas Copco Group had about 40,000 employees and revenue of €10.5 billion.
- 13 Atlas Copco is listed on the Nasdaq OMX Stockholm Exchange. Its shares are widely held. More details are at www.atlascopco.com.
- 14 Atlas Copco intends to implement the Proposed Acquisition by acquiring the Ash Air Businesses (or a newly incorporated company owning the Ash Air Businesses) through its New South Wales subsidiary, Atlas Copco South Pacific Holdings Pty Limited.
- 15 Atlas Copco is present in New Zealand through its wholly owned subsidiary, Atlas Copco (N.Z.) Limited (**Atlas Copco NZ**). Atlas Copco NZ was incorporated in 1953.
- 16 Atlas Copco NZ serves its New Zealand customers through:
 - (a) *fixed branches*, consisting of an office and workshop, and holding an inventory of parts. Atlas Copco NZ serves customers in the region surrounding a branch, with maintenance services performed at a customer's site and in Atlas Copco's workshop; and
 - (b) *satellite technicians*, being a "man in a van" with no fixed branch. These employee technicians hold parts inventory in their vans and perform repair and maintenance services on customers' sites.
- 17 Atlas Copco also provides installation services to its New Zealand customers using independent subcontractors.²

² Described at para 74 below.

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18 Atlas Copco NZ's locations are:

Location	Employees	Est. coverage (km radius)	Notes
Branches			
Auckland	[
Hamilton			
New Plymouth			
Wellington			
Christchurch			
Dunedin			
Satellite technicians			
Invercargill, Taupo, Rotorua, Napier, and Palmerston North			
Nelson]

19 Atlas Copco NZ distributes Atlas Copco manufactured machines, compressors and equipment. [

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20 Atlas Copco branch locations and its licensed distributors' locations are shown on the map at **Appendix B**.

Subsidiaries and parent companies

21 Atlas Copco Group's structure chart, so far as is relevant to the Proposed Acquisition, is at **Appendix C**.

22 Atlas Copco also provides various types of gas compressors and expanders, mining and drilling equipment, road construction equipment and industrial tools and assembly systems. These products and services are not affected by the proposed merger.

Lancaster

23 Lancaster Group Limited is a privately held limited liability company. It is incorporated in New Zealand. Its shareholders are Annette Zaloum Family Trustee Limited, Alan Duncan, Joanne Moore, Edward Simpson and Annette Zaloum. Mr Simpson is currently the managing director of Ash Air Limited.

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- 24 Lancaster's business activities include the Ash Air Businesses. Those businesses' activities are as follows:
- (a) Ash Air Limited distributes compressed air equipment, included air compressors, blowers and vacuum pumps. Ash Air has 12 branches nationwide with about 98 staff.
 - (b) Ash Air has a specialist division, Ash Air Oil & Gas, which provides customised solutions for specific high pressure applications in the oil and gas industry. It is based in New Plymouth.
 - (c) Fox Air Limited supplies air compressors, air treatment products and pumps to small medium and large businesses. Ash Air acquired Fox Air in 2007. Fox Air has branches in Auckland and Christchurch and currently employs 13 staff.
 - (d) mbar 2011 Limited was acquired by Lancaster in 2011. mbar specialises in the sales and servicing of vacuum pumps and blowers for dairying applications and is based in Te Awamutu. It currently employs 13 staff.
- 25 About half of the Ash Air Businesses' revenue comes from service and maintenance; the other half is from equipment sales and supply of ancillary parts and services.
- 26 The Ash Air Businesses' branches are shown on the map in **Appendix B**.
- 27 Further information on the Ash Air Businesses' activities is available at:
- (a) www.ashair.co.nz;
 - (b) www.foxair.co.nz; and
 - (c) www.mbar.co.nz.
- Subsidiaries and parent companies*
- 28 Lancaster's structure chart, so far as is relevant to this transaction, is at **Appendix D**.
- Formal and informal links between participants**
- 29 The only existing formal or informal links between the participants is an arrangement for the supply of [] by Atlas Copco to Ash Air. The contractual terms are not formally documented but are similar to the Ash Air Businesses' other supply arrangements with major international manufacturers which compete with Atlas Copco around the world.
- 30 There are no other formal or informal links between the parties:
- (a) None of the relevant parties hold any directorships in another party that are of significance to the current application.

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- (b) Atlas Copco and Lancaster are not members of any trade associations which are relevant to this application.

Commercial rationale for proposed merger

31 A principal rationale for the merger is the significant scope for synergies across the parties' respective operations. The merger will also give Atlas Copco:

- (a) increased coverage of the New Zealand market; and

- (b) []

Copies of sale and purchase agreement

32 The agreement for the sale and purchase of the Ash Air Businesses (the **SPA**) is at **Appendix E**.

Notifications to other jurisdictions' competition agencies

33 The Ash Air Businesses only operate in New Zealand. The Proposed Acquisition will not have competition effects in any other jurisdiction. So no other country's competition agency has been notified.

PART 2: THE INDUSTRY

Introduction

34 In this part we describe:

- (a) the types of air compressor and associated machinery (including vacuum pumps, blowers, and dryers) imported and distributed by the merger parties in New Zealand;
- (b) common uses of compressors and other machines, and the different types and sizes of machines;
- (c) the manufacturers present in New Zealand, and, where known, their product ranges and licensing and distribution arrangements; and
- (d) the after-market service and maintenance required for compressors and other machines.

Goods and services supplied by the merger parties

35 Both Atlas Copco and the Ash Air Businesses import and distribute:

- (a) a full range of air compressors;
- (b) associated equipment and parts (including hoses, piping and fittings for compressed air and air tools);
- (c) blowers and vacuum pumps; and
- (d) plant and products for the treatment of compressed air.

36 Both Atlas Copco and the Ash Air Businesses service each of the above types of plant, and provide replacement parts for such equipment.

A. PRODUCTS INVOLVED

Air compressors

37 A compressor is a mechanical device which compresses air or gas to a certain pressure. A compressor's necessary power is a function of the amount of air (*cfm*)³ and the required pressure (*psi*).⁴ The volume of air which is compressed is sometimes called the "capacity" of a compressor.

38 In this application we define air compressors as equipment capable of compressing atmospheric air to a higher pressure.

³ cfm = cubic feet per minute. Alternative measures of air volume include l/s and m³/min.

⁴ psi = pounds per square inch. Alternative measures of pressure include bar, Pascal and kg/cm².

Types of compressors

39 Air compressors may use a variety of compression technologies. The most common are:

- (a) rotary screw compressors (fig 1);
- (b) piston compressors (fig 2);
- (c) rotary vane compressors (fig 3);
- (d) turbo or centrifugal compressors (fig 4);
- (e) rotary scroll compressors (fig 5); and
- (f) lobe compressors (fig 6).

Fig 1: rotary screw compressor



Fig 2: piston compressor



Fig 3: rotary vane compressor



Fig 4: turbo/centrifugal compressor



Fig 5: scroll compressor



Fig 6: lobe compressor



Oil-free and oil injected compressors

- 40 Compression can take place with or without the addition of oil. We define air compressors as “oil free” when the compression takes place without any addition of oil. In an oil-injected compressor, oil is added into the compression spaces during compression process.

Stationary and portable compressors

- 41 Finally, a compressor can be installed on a fixed place (stationary compressor (see fig 7 below)) or may be designed to be portable (fig 8).

Fig 7: stationary compressor installation



Fig 8: portable compressor



- 42 Almost all commercial and industrial processes employ air compressors at some stage. By way of example, compressed air is used for:
- (a) inflating tires, for which a workshop or petrol station requires a small (<5hp) compressor;
 - (b) spraying water, air or paint, generally done by use of a single small or medium size (<20hp) compressor;
 - (c) for beer distribution systems, which utilise a very small (<1.5hp) oil free compressor;

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- (d) to pressurize sprinkler systems for fire prevention, also done by a very small compressor;
- (e) as an energy source to drive hand tools like grinders (see fig 9), wrenches, sanders, drills and breakers, which task is done by a full range of sizes or by a combination of smaller compressors;
- (f) as an energy source for dental equipment, using a very small specialised compressor;
- (g) by larger customers:
 - o as an energy source for cylinders, motors and other machines;
 - o to convey goods on a production line; or
 - o to drive cylinders and activate solenoids or valves,each of which also utilises a full range of compressor types and sizes;
- (h) for blowing plastic (PET) bottles; and
- (i) as “process air” in chemical industries.

Fig 9: air-driven grinder



43 The air pressure and flow rate required by the customer will determine the suitable type of compressor and its necessary power.⁵ In Atlas Copco’s experience:

- (a) Customers may use either a single compressor or a combination of smaller compressors to meet their needs. Some customers prefer to use a combination of compressors, rather than a single large machine, because:
 - o a combination offers redundancy in the event one machine breaks down; and

⁵ A compressor’s power is generally expressed in horsepower (hp).

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- multiple machines enables a customer to reduce the running hours on each machine (for example, by staggered use).
 - (b) One or more compressors are typically connected to a network of pipes and hoses within a customer's premises. This "air net" distributes compressed air from its source (compressor/s) to the point of use, via any necessary air treatment (e.g. dryer(s) and filter(s)).
 - (c) Generally, different types or brands of compressor can easily be connected to the same air net, and most large customers use multiple brands of machine.
 - (d) Larger and industrial users typically require more powerful sources of compressed air, but often use a combination of machines to meet requirements.
- 44 A list of Atlas Copco's largest New Zealand customers, the types of compressors they commonly utilise, and the industries in which they operate is at para 148 below.
- Compressor manufacturers***
- 45 Most major global manufacturers of air compressors sell their products in New Zealand, either under a licence arrangement or directly through by a local subsidiary.
- 46 The New Zealand distributors for the major international manufacturers of air compressor are set out below. This information is based on publicly available information and Atlas Copco's understanding of its competitors' locations and services, and as such is necessarily incomplete.

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Manufacturer	Brand(s)	New Zealand Distributor(s)	Locations	Product Range	Service and Maintenance provider
Atlas Copco www.atlascopco.co.nz	Atlas Copco	Atlas Copco NZ	Auckland; Hamilton; Wellington; Christchurch	Full range of stationary compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Blueprint Diesel	Auckland	Mobile compressors	Service and maintenance provider
	Chicago Pneumatic	Engineering & Compressor Service (ECS)	Auckland; Christchurch; Napier; Wellington	Full range of stationary compressors and blowers	Full range of repair and maintenance services
		Bayteck	Hamilton; Mount Maunganui	Full range of stationary compressors and blowers	Full range of repair and maintenance services
	CECCATO	ECS	Auckland; Christchurch; Napier; Wellington	Limited range of stationary compressors and blowers	Full range of repair and maintenance services
	ABAC	Ash Air	Auckland; Hamilton; Wellington; Christchurch; Whangarei; Mount Maunganui; Rotorua; Taranaki; Palmerston North; Otago	Limited range of stationary compressors	Full range of repair and maintenance services
		S&K Plants	Auckland;	Limited range of stationary compressors	Full range of repair and maintenance services

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Manufacturer	Brand(s)	New Zealand Distributor(s)	Locations	Product Range	Service and Maintenance provider
	Edwards	AVS Ltd	Auckland;	Range of vacuum pumps	Full range of repair and maintenance services
		VABS Ltd	Auckland;	Range of vacuum pumps	Full range of repair and maintenance services
Gardner Denver www.gardnerdenver.com	Gardner Denver	Gardner Denver	Auckland; Christchurch	Full range of blowers and vacuum pumps	Full range of repair and maintenance services
	CompAir	Ash Air	See above	Full range of stationary and mobile compressors	See above
	Hydrovane	Ash Air	See above	Limited range of stationary compressors	See above
	Rietschle	Garner Denver	See above	Full range of vacuum pumps	See above
Ingersoll Rand www.ingersollrandproducts.com	Ingersoll Rand	Fox Air	Auckland; Christchurch	Full range of stationary compressors	Full range of repair and maintenance services
		Bayteck	Mount Maunganui; Hamilton	Full range of stationary compressors	Full range of repair and maintenance services
Kaeser www.kaeser.co.nz	Kaeser	Air Compressors Otago Ltd	Dunedin	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Air Equipment Services	Whangarei	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services

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Manufacturer	Brand(s)	New Zealand Distributor(s)	Locations	Product Range	Service and Maintenance provider
		Air Fluid	Otago	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Pace Engineering	Taranaki	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Plummer	Manukau	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		PSL	Christchurch	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Compressed Air Controls	Palmerston North	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Pro-air Engineering	Whakatane	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Dynamic Maintenance	Lorneville	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services

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Manufacturer	Brand(s)	New Zealand Distributor(s)	Locations	Product Range	Service and Maintenance provider
Fini www.finicompressors.com	Fini	Hindin Marquip	Auckland; Hamilton; Wellington; Christchurch	Full range of stationary compressors	Full range of repair and maintenance services
		Airboss Limited	Palmerston North	Full range of stationary compressors	Full range of repair and maintenance services
Boge www.boge.com	Boge	Allied Air Compressors	Christchurch	Full range of stationary compressors	Full range of repair and maintenance services
		Air Gas Compressor Specialist	Taranaki	Full range of stationary compressors	Full range of repair and maintenance services
Mattei www.matteicomp.com	Mattei	Airboss Limited	Palmerston North	Full range of stationary compressors	Full range of repair and maintenance services
Mitsui Seiki www.mitsuiseiki.com	Mitsui Seiki	Ash Air	See above	Limited range of stationary compressors	See above
Sullair www.sullair.com	Sullair	Gough Gough & Hamer	Northland; Auckland; Hamilton; Rotorua; Hawkes Bay; Taranaki; Napier; Palmerston North; Wairarapa; Wellington; Nelson; Blenheim; Christchurch; Otago; Southland	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Sec-Air	Auckland	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
Rotair www.rotairspa.com	Rotair	Airboss Limited	See above	See above	See above

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Manufacturer	Brand(s)	New Zealand Distributor(s)	Locations	Product Range	Service and Maintenance provider
Pneutech www.pneutechgroup.com	Pneutech	Industrial Air Systems	Wellington	Full range of stationary and mobile compressors	Full range of repair and maintenance services
Elgi www.elgi.com	Elgi	Finco	Rotorua	Full range of stationary compressors	Full range of repair and maintenance services
Campbell Hausfeld www.campbellhausfeld.com	Campbell Hausfeld	Formula Marketing	East Tamaki	Limited range of stationary compressors	Full range of repair and maintenance services
Bauer www.bauercomp.com	Bauer	Air Technology	Auckland	Limited range of stationary compressors	Full range of repair and maintenance services
		High Pressure Equipment (HPE)	Auckland	Limited range of stationary compressors	Full range of repair and maintenance services
Fiac www.fiac.it	Fiac	Sulco	Manukau	Limited range of stationary compressors	Full range of repair and maintenance services
Hitachi www.hitachi-compressor.com	Hitachi	ATS Pneumatics Ltd	Christchurch	Full range of stationary compressors	Full range of repair and maintenance services
Junair www.jun-air.com	Junair	ATS Pneumatics Ltd	Christchurch	Limited range of stationary compressors	Full range of repair and maintenance services

47 **Appendix F** contains a full list of air compressors available in the New Zealand market and the manufacturers' estimated market shares (where known or estimated by Atlas Copco).

Blowers and vacuum pumps

48 Blowers are a type of air compressor which compress air to pressures of 1-4 bar⁶ (14-58 psi). These pressures are lower than the output from a typical air compressor.

49 Typical applications for blowers include:

- (a) aerating water in waste water treatment plants (see fig 10 below); and
- (b) conveying granular substances such as powder and cement (for example, Golden Bay Cement use blowers to move cement at their plant(s)).

Fig 10: aerating water using a blower



50 The technology in a vacuum pump is largely the same as for a compressor. In simple terms, a vacuum pump utilises the effect of the machine from the suction side instead of on the compression side. A vacuum pump is shown in fig 11 below. The pressure output of a vacuum pump is less than 1 bar. Because the technology is the same, all major compressor manufacturers also produce blowers and vacuum pumps.

⁶ Bar is a measure of atmospheric pressure. The pressure at ground level is one bar.

Fig 11: vacuum pump



- 51 Vacuum pumps are used in, for example:
- (a) electronics manufacture, where air must be removed from the products;
 - (b) packaging of food and other products; and
 - (c) medical applications (for example, in hospitals for wound suction).
- 52 Atlas Copco and Gardner Denver are directly present via subsidiary companies. Ash Air is the New Zealand agent for Pompetravaini. Other vacuum pump manufacturers sell into New Zealand through licensed distributors. These arrangements, where known, are summarised in the table in **Appendix F**.
- 53 Atlas Copco has not historically been a major player in the New Zealand blower market:
- (a) Although Atlas Copco recently expanded its range of blowers, it only intermittently sells new machines. It could import a machine for a customer if required.
 - (b) Atlas Copco also has a small installed base of blowers (mainly older rotary lobe machines) for which it provides maintenance services. Those blowers are located at waste water treatment plants (for example, in Hamilton, Buller and Pahiatua) and at industrial plants and also used for transport of powder or granulated goods []
- 54 Gardner Denver tends to be the primary supplier of blowers to large New Zealand users.
- 55 Global vacuum pump manufacturers present in New Zealand are in the table below. Again, this information is based on public sources and Atlas Copco's incomplete understanding of its competitors' presence and services:

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Manufacturer	Brand(s)	New Zealand Distributor(s)	Locations	Product Range	Service and Maintenance provider
Atlas Copco www.atlascopco.co.nz	Atlas Copco	Atlas Copco NZ	Auckland; Hamilton; Wellington; Christchurch	Full range of stationary compressors, blowers, vacuum pumps	Full range of repair and maintenance services
	Edwards	AVS Ltd	Auckland	Range of vacuum pumps	Full range of repair and maintenance services
		VABS Ltd	Auckland	Range of vacuum pumps	Full range of repair and maintenance services
Gardner Denver www.gardnerdenver.com	Gardner Denver	Gardner Denver	Auckland; Christchurch	Full range of blowers and vacuum pumps	Full range of repair and maintenance services
	Rietschle	Gardner Denver	See above	Full range of vacuum pumps	See above
Kaeser www.kaeser.co.nz	Kaeser	Air Compressors Otago Ltd	Dunedin	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Air Equipment Services	Whangarei	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Air Fluid	Otago	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Pace Engineering	Taranaki	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services

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Manufacturer	Brand(s)	New Zealand Distributor(s)	Locations	Product Range	Service and Maintenance provider
		Plummer	Manukau	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		PSL	Christchurch	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Compressed Air Controls	Palmerston North	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Pro-air Engineering	Whakatane	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Dynamic Maintenance	Lorneville	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
Sullair www.sullair.com	Sullair	Gough Gough & Hamer	Northland; Auckland; Hamilton; Rotorua; Hawkes Bay; Taranaki; Napier; Palmerston North; Wairarapa; Wellington; Nelson; Blenheim; Christchurch; Otago; Southland	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
		Sec-Air	Auckland	Full range of stationary and mobile compressors, blowers, vacuum pumps	Full range of repair and maintenance services
Pompetravaini www.pompetravaini.it	Pompetravaini	Ash Air	See above	Full range of vacuum pumps	See above

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Manufacturer	Brand(s)	New Zealand Distributor(s)	Locations	Product Range	Service and Maintenance provider
Becker www.becker-international.com	Becker	VPNZ		Full range of vacuum pumps	Full range of repair and maintenance services
Busch www.buschpump.com	Busch	Busch New Zealand	Auckland	Full range of vacuum pumps and blowers	Full range of repair and maintenance services
Wallace	Wallace	Wallace Pumps	Auckland; Wellington; Christchurch	Full range of vacuum pumps	Full range of repair and maintenance services
DAB www.dabtech.net	DAB	White Int NZ Ltd	Auckland	Full range of vacuum pumps	Full range of repair and maintenance services
Grundfos www.nz.grundfos.com	Grundfos	Grundfos	Auckland; Christchurch	Full range of vacuum pumps	Full range of repair and maintenance services
Javac www.javac.co.nz	Javac	Javac	Auckland	Full range of vacuum pumps	Full range of repair and maintenance services
SIHI www.sterlingsihi.com	SIHI	Pump & Vacuum Specialist Ltd	Canterbury	Full range of vacuum pumps	Full range of repair and maintenance services

56 Service and maintenance of vacuum pumps and blowers is very similar to that done on compressors. The technology is in many cases the same. Most firms which service pumps and blowers also service and maintain compressors. We discuss this topic in more detail at paras 73 and 94 below.

Air treatment

57 Atmospheric air contains “contaminants” like moisture and dust. This moisture and dust becomes concentrated in compressed air. Compressed air coming from an oil-injected compressor can also contain oil droplets and vapours.

58 To protect the equipment connected to the compressed air system and/or to avoid contamination in the end product, air is often treated to remove the water, dust and oil.

Dryers

59 Water can be removed by air dryers, of which there are three main types:

- (a) refrigerant dryers;
- (b) absorption dryers (see fig 12 below); and
- (c) membrane dryers.

60 Dust, oil and oil vapours can be removed by air filters (fig 13).

61 An end customer removes water, dust and oil from the compressed air to the extent required for his or her end use.

Fig 12: absorption dryer



Fig 13: air filter



62 All major international manufacturers of air dryer distribute and sell their products in New Zealand. The manufacturers and distributors of air dryers, where known or estimated by Atlas Copco, are summarised in **Appendix F**.

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63 Almost all air dryer suppliers also supply air filters and purifiers. Filters remove dust and oil from the compressed air. Once installed, filters must be replaced on a regular basis. Filters are widely available, both from OEM manufacturers or third party suppliers.

64 A specialist type of air purifier is required to deliver breathable air, for example to workers engaged in asbestos removal, tank cleaning, or sand blasting.

Water separators

65 Water separators separate the air and water from the compressed air. As for purifiers and filters, all of the major manufacturers of air dryers also manufacture and supply water separators in New Zealand, either directly or under licence.

66 Condensate from oil-lubricated compressors contains oil. This oil residue must be separated from water and drained away.

67 Oil/water separators split the oil and water in condensate from compressors and dryers. The oil is collected in a separate container and treated as chemical waste, and the purified condensed water is discharged into drains.

68 All compressor suppliers also supply oil/water separators.

Accessories and tools

69 Ancillary accessories and tools are generally sold alongside air compressors and vacuum pumps. All major compressor manufacturers supply such accessories and tools, as do a wide range of third party manufacturers. Those products include:

- (a) air lines and hoses, and valves, fittings and couplings for those hoses, all products which are highly commoditised and readily available in New Zealand from a wide range of suppliers; and
- (b) tools which use compressed air as an input, such as small air motors and hand tools like impact wrenches, drills, and hammers. These tools are highly commoditised too.

B. SERVICES INVOLVED

Service and maintenance

70 Both Atlas Copco and the Ash Air Businesses:

- (a) provide maintenance and repair services for air compressors, vacuum pumps and associated equipment; and
- (b) supply replacement parts and consumables for those types of plant.

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- 71 Typically firms provide air compressor maintenance services on a local or regional basis. Doing so requires:
- (a) mechanics and technicians, who will have usually undertaken a short training course provided by a manufacturer (see para 166 below);
 - (b) transport of a technician and tools to job locations; and
 - (c) access to OEM parts, or suitable third party replacement parts.
- 72 Service and maintenance is often conducted under urgency (particularly where a compressor or vacuum pump is critical for the operation of the customer's business). So many service businesses offer service and maintenance on a 24/7 basis. Some service firms also provide customers with rental or loan air compressors while repairs are undertaken.
- 73 Service and maintenance of vacuum pumps and blowers typically involves the same skills and tools as repair and servicing of compressors. The underlying technology is the same or very similar. So most firms service all types of compressors, pumps and blowers.
- 74 Both Atlas Copco and Ash Air employ service technicians (rather than subcontract that work), although Atlas Copco uses independent subcontractors to perform installation work. Compressor installation is not difficult or specialised work. It is often undertaken by general builders or fitters.
- 75 Customers with multiple sites may put out a competitive tender for their all maintenance services on a national basis. Other than for these customers, maintenance is generally performed [

] Atlas Copco's major national service customers are listed at para 168 below.

Parts

- 76 Replacement parts are generally sourced from the OEM. Major international manufacturers may restrict access to parts to a single authorised distributor or maintenance provider. For example, [
-]
- 77 Some parts, such as valves and bearings, wear or are degraded in the running of a compressor (**wear parts**). The OEM and a wide range of others supply wear parts.
- 78 Atlas Copco holds replacement parts and wear parts in New Zealand at its Auckland warehouse. [

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Copco NZ sources its parts from its Atlas Copco parent company's warehouse in Belgium, []].

- 79 We comment further on the availability of replacement parts at para 104 below.
- 80 To achieve viable scale within a region, a service and maintenance business will commonly service a portfolio of machines from various manufacturers (including some which it does not sell).

Industries affected by the Proposed Acquisition

- 81 The Proposed Acquisition will result in horizontal aggregation in the compressor distribution and servicing industry. The Proposed Acquisition's effects on specific markets are described in Part 3 below.
- 82 The Proposed Acquisition will also affect the distribution and supply markets for compressed air lines and hoses and air tools and accessories. As described at para 69 above, these products are highly commoditised and are readily available in New Zealand from an array of sources.
- 83 For the reasons given in this Notice, the parties do not consider the Proposed Acquisition will have the effect or likely effect of substantially lessening competition in any of the relevant markets. We describe those markets in Part 3 of this application.

Industry trends

- 84 We discuss industry trends in Part 5 of this application, where we explain market constraints.

Recent mergers

- 85 To the best of the parties' knowledge, there have been no relevant mergers in the New Zealand market in the last three years.

PART 3: MARKET DEFINITION**Horizontal Aggregation**

- 86 The Proposed Acquisition will affect the market or markets for the importation and distribution in New Zealand of:
- (a) air compressors;
 - (b) blowers and vacuum pumps; and
 - (c) plant and products for treatment of compressed air,
- (together, the **Compressor Products**).
- 87 The Proposed Acquisition will also affect the market or markets for maintaining and servicing, and the provision of replacement parts, for each of the above types of Compressor Product.
- 88 We refer to the markets for importation and distribution of Compressor Products and servicing those products as the **Affected Markets**.
- 89 We describe each of these Affected Markets in more detail below.

Product market*Single distribution market*

- 90 In Atlas Copco's view, the market for the importation and distribution of Compressor Products in New Zealand is best considered as a single product distribution market. Although product functionality and customers' usage requirements may differ, from a supply-side perspective the Compressor Products are effectively imported and distributed in a single market, because:
- (a) a full range of Compressor Products is generally manufactured offshore and sold into New Zealand by each global manufacturer present here;
 - (b) international Compressor Product manufacturers commonly license the New Zealand distribution rights to all of their products. Most Manufacturers do not, for example, issue separate distribution licences for compressors and vacuum pumps;⁸
 - (c) a New Zealand distributor typically stocks a full range of Compressor Products, and can readily order a full range for items not held in inventory; and
 - (d) customers often require more than one type of Compressor Product (for example, air compressors and air treatment plant go hand in hand).

⁸ An exception is Atlas Copco, which separately licences the distribution of Edwards vacuum pumps in New Zealand.

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- 91 For these reasons, Atlas Copco considers it best to analyse the Proposed Acquisition's competition effects through the lens of a single product market for importation and distribution of the full range of Compressor Products.
- 92 Even if there are multiple market segments, or even a single market for each type of Compressor Product, that would not affect the competition analysis. We say that because:
- (a) the international manufacturers and New Zealand distributors in each product market (assuming multiple markets) are substantially the same; and
 - (b) the market dynamics in each possible product market are the same or substantially similar.

Compressors <1.5hp

- 93 Compressors with less than 1.5hp capacity are called "fractional horsepower" compressors and are widely available in New Zealand. These smaller compressors are highly commoditised and may be readily purchased from automotive equipment suppliers (e.g. Repco and Supercheap Auto), and building supplies merchants like PlaceMakers, Bunnings etc, as well as from specialist suppliers.

After-sales service markets

- 94 Atlas Copco considers there to be a market for the service and maintenance of Compressor Products:
- (a) For the reasons described at paras 56 and 73 above, the same firms tends to service and maintain all types of Compressor Products, including vacuum pumps and blowers.
 - (b) The characteristics of this services market are the same throughout New Zealand, but for the reasons at para 102 below, we characterise this market as a series of sub-national markets.

- 95 There is a separate market for provision of replacement parts for Compressor Products. This market is adjacent to the service and maintenance market. As for the servicing market, parts for Compressor Products are mainly supplied on a regional basis, although some large or high-value replacement parts are supplied nationally.

Supply chain and customer dimension of the relevant markets

- 96 From a customer perspective also Compressor Products are best viewed as a single market:
- (a) as described at para 43 above, customers typically use a variety of types and sizes of compressor to meet their particular requirements, including purchasing a combination of machines (in some cases from different brands);

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- (b) each major manufacturer is capable of supplying Compressor Product(s) to meet most customers’ needs, so customers are easily able to compare offers to meet their requirements;
 - (c) the technology involved in each major type of Compressor Product is the same or very similar, and some products are interchangeable or may be used in combination; and
 - (d) each of the major global manufacturers of Compressor Products also manufactures related equipment such as vacuum pumps and air dryers – and such equipment is generally used in conjunction with air compressors.
- 97 The supply chain dimensions (or “functional levels”) of the market for Compressor Products are as follows.
- (a) Manufacturers of Compressor Products are located offshore.⁹
 - Most global players have their own manufacturing facilities, or subcontract manufacturing to a dedicated supplier or suppliers.
 - Some global manufacturers purchase third party equipment and relabel it as their own product.
 - These offshore manufacturing markets are not affected by the Proposed Acquisition.¹⁰
 - (b) *Importation and distribution* of Compressor Products is generally undertaken by New Zealand businesses are licensees of global manufacturers.
 - Some very large customers may import Compressor Products direct from overseas.
 - Retailers and some third party wholesalers also import and distribute non-manufactured (white labelled) equipment. These imports tend to be of commoditised products like fractional air compressors and air tools.
- 98 Atlas Copco sees no separate market for the “wholesale” supply of Compressor Products in New Zealand. The ease of direct importation, and the fact that distributors tend to supply direct to customers, suggests there is no distinct wholesale market. End users are generally commercial or industrial concerns, rather than retail purchasers.

⁹ Atlas Copco understands that some types of replacement parts may be manufactured in New Zealand but that no machines are made or assembled here. See the manufacturer details in **Appendix F**.

¹⁰ None of the offshore markets for the manufacture of Compressor Products is a “market in New Zealand”. And in any event, any of the Proposed Acquisition’s effects in those markets will be *de minimis* given the massive size and scale of those markets.

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- 99 A list of Atlas Copco's largest New Zealand customers, the types of compressors they commonly utilise, and the industries in which they operate is at para 148 below.

Geographic Market*National product market*

- 100 All types and sizes of Compressor Products are readily transportable within New Zealand. A manufacturer and/or distributor to supply all of New Zealand from a small number of distribution points (often just one warehouse). This model is viable because:

- (a) Even the largest air compressors and other plant fit inside a standard shipping container, or can be dismantled and containerised.
- (b) Transport is generally cost effective because most Compressor Products are relatively high value compared to their size and weight.
- (c) Many major commercial and industrial customers are situated in rural or semi-rural areas, and are accustomed to requiring delivery of plant.

- 101 Other than for urgent replacement parts, in Atlas Copco's experience, most Compressor Products customers are relatively price and brand sensitive. Customers will "shop around", or even import directly from overseas, to obtain a preferred manufacturer's product from a preferred manufacturer or a better price than that available in their region.

Sub-national service markets

- 102 Atlas Copco considers there to be a series of sub-national markets for the servicing and maintenance of Compressor Products. In contrast to the product market, repairs and servicing are not generally performed on a national basis because:

- (a) service and maintenance of Compressor Products is often conducted under urgency (particularly where the plant is business-critical); and
- (b) it is not generally viable for a technician to travel long distances, at least not for one-off smaller jobs.

- 103 A list of Atlas Copco's largest New Zealand maintenance and service customers, details of the size of their installed fleet, and the industries in which they operate is at para 168 below. [

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Replacement parts

- 104 Licensees typically distribute replacement parts on a national basis, although some manufacturers have separate distribution arrangements for the North and South Islands.

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105 Parts may be sourced from the OEM or from a third party supplier. Some global manufacturers have online ordering facilities¹¹ and deliver to a customer via their local distributor(s). Third party suppliers also have online ordering and will ship internationally.¹² [

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106 Despite the availability of online sales, in Atlas Copco’s experience, the sale of replacement parts for Compressor Products is generally conducted by a distributor’s representative at time of service or repair. Like servicing, these sales occur within regional markets for the provision of replacement parts for Compressor Products although parts may easily be freighted around New Zealand.

107 Atlas Copco understands that [] relying instead on its technicians calling back to a customer’s premises at a time when maintenance or replacement parts are likely to be required. [

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108 For major repair jobs a customer may shop around suppliers or even import the part directly. One of Atlas Copco’s major customers recently [

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¹¹ []

¹² For example, [

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Installation services

- 109 Atlas Copco utilises independent subcontractors to perform installation work if requested by a customer. Installation work is non-specialised and often undertaken by general builders or fitters. It involves:
- (a) connecting a compressor to the customer's air network;
 - (b) ensuring the machine is connected to mains power and any other connections; and
 - (c) ducting and ventilating the room to ensure heat egress.
- 110 Atlas Copco does not consider this installation work forms part of the "service and maintenance" market, although it is complementary to its product sales function.

Vertical Integration

- 111 Both merger parties operate at broadly the same functional levels of their supply chain. (Atlas Copco's upstream manufacturing capability is not relevant to this application, for the reasons described in para 96 above.)
- 112 Atlas Copco observes that there is already a relatively high degree of vertical integration (by contract) as a result of the licensing and distribution strategy pursued by the major global manufacturers. For example:
- (a) Gardner Denver is directly present in New Zealand, and supplies machines manufactured by Gardner Denver to customers here (in addition to the sales via Ash Air as its licensed distributor);
 - (b) other global Compressor Products manufacturers have existing subsidiaries in other New Zealand industries, for example Ingersoll Rand (security products); Hitachi (CablePrice, selling construction equipment) and General Electric (energy, healthcare, and financial services);
 - (c) Busch (a large German manufacturer of vacuum pumps) is directly present in New Zealand, and supplies Busch-manufactured machines to customers here; and
 - (d) Grundfos (a large German manufacturer of vacuum pumps) is directly present in New Zealand, and supplies Grundfos-manufactured machines to customers here.
- 113 There will be no significant increase in vertical integration as a result of the merger.¹³

¹³ Website details in Appendix A.

PART 4: COUNTERFACTUAL

114 [

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115 If the Ash Air Businesses were not sold to Atlas Copco, Lancaster would retain them [

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116 [

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PART 5: COMPETITION ANALYSIS**A. MARKET FOR IMPORTATION AND DISTRIBUTION OF COMPRESSOR PRODUCTS**

117 Again, Atlas Copco considers there to be a national market for the importation and distribution of Compressor Products.

Existing competitors

118 Compressor Products are widely available in New Zealand, as described at paras 45-46 above. Almost all of the major global manufacturers of Compressor Product are represented here, either by a local distributor or directly through a subsidiary company.

Market shares – market for all Compressor Products

119 Compressor Products are generally promoted, distributed and sold in New Zealand by manufacturers and/or licensed distributors. For reasons at para 90 above, Atlas Copco considers that market shares are best understood and assessed:

- (a) as a single market for the importation and distribution of all types of Compressor Product; and
- (b) on a per-manufacturer basis.

120 Atlas Copco says that because:

- (a) as described at para 43 above, customers can typically use a variety of types and sizes of compressor to meet their particular needs, including a combination of machines;
- (b) each global compressor manufacturer also makes related equipment like vacuum pumps and air dryers – and such equipment is often used in conjunction with air compressors; and
- (c) New Zealand distributors tend to import and distribute a range of Compressor Products, rather than confining themselves to a particular size or type of machine.

121 On this basis, Atlas Copco estimates the per-unit market shares in the market for all Compressor Products to be as follows:¹⁴ [

¹⁴ Source: Atlas Copco management estimates. See Appendix F for detailed estimates supporting these charts.

]

122 At least initially, the Proposed Acquisition could see Atlas Copco account for up to [] of sales in the single market for importation and distribution of Compressor Products.

Market shares – if narrower product markets

123 Again, Atlas Copco thinks a single product distribution market provides the best analytical framework for this merger. But in case the Commission wishes to assess the proposed transaction more from a demand-side perspective. Atlas Copco has also gathered market share data (estimates) for each of these market segments.

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124 In a market for importation and distribution of large compressors (i.e. those > 120hp), Atlas Copco estimates market shares on a per-unit basis¹⁵ are as follows: [

]

125 The Ash Air Businesses could potentially supply compressors >120hp, but to Atlas Copco’s knowledge Ash Air has never sold a unit of this size in the New Zealand market.

126 In a market for importation and distribution of compressors between 40 and 120hp, Atlas Copco estimates market shares are as follows: [

]

¹⁵ Estimates based on Atlas Copco estimates of likely unit sales in [].

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127 In a market for importation and distribution of compressors between 5 and 40hp, Atlas Copco estimates market shares are as follows: [

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128 In a market for importation and distribution of compressors < 5hp, Atlas Copco estimates market shares are as follows: [

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129 In a market for importation and distribution of low pressure blowers, Atlas Copco estimates market shares are as follows: []

130 In a market for importation and distribution of vacuum pumps, Atlas Copco estimates market shares are as follows: []

131 On a separate product market approach, the merger will be within the Commission’s suggested concentration indicators in product markets for:

(a) large compressors (>120 hp); although Atlas Copco has around a [] market share in this product market, there is in effect no aggregation because []

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(b) compressors < 5hp, in which the merged entity’s market share will be around [], but the three largest firms in the market have a combined market share of less than 70%;

(c) blowers, in which there may be no aggregation [

] and

(d) vacuum pumps, in which the merged entity will have a share of [].

132 Again, for the reasons at para 81 above, Atlas Copco considers the New Zealand market for Compressor Products is the best description of affected commerce for assessing this application.

Continued competition between global manufacturers

- *Reallocation of existing licences*

133 If the Proposed Acquisition proceeds, Atlas Copco expects the overseas manufacturers currently distributing products via the Ash Air Businesses to re-evaluate their New Zealand licensing arrangements. Atlas Copco has not valued the Ash Air Businesses’ distribution licences in its purchase negotiations and will not adopt those contracts post-merger. After the merger:

(a) the licensor manufacturers will presumably formally or informally terminate the licences [

]

(b) Atlas Copco anticipates that neither [

]

134 Atlas Copco is not aware of any practical or contractual barrier to [] revisiting its distribution arrangements:

(a) Licence arrangements are generally terminable by a manufacturer on a short notice period (in Atlas Copco’s experience []

(b) [

135 []

(a) Atlas Copco expects that []

]

136 Compressor Products customers can be brand loyal. []

]

137 Atlas Copco estimates that a [] share of the Compressor Products distribution market is sufficient to support a national business. A lesser share would suffice if the new entrant earned revenue from other types of industrial plant too (for example, Gough Gough and Hamer supplies compressors in the South Island alongside civil engineering plant such as Caterpillar bulldozers). Atlas Copco will compete vigorously to win those customers onto Atlas Copco products.

Potential Competition

- **Conditions of entry**

138 Any aspiring national player, or an existing firm seeking to expand to national scale in the distribution of Compressor Products, would require:

- (a) a distribution arrangement with an international manufacturer of Compressor Products;
- (b) warehousing space and logistics support;
- (c) a sales network; and
- (d) trained mechanics and technicians, and access to OEM parts, if it wished to provide after market sales and support for its licensed products.

139 Each of these things is readily available.

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- 140 A distribution licence for the products of an international Compressor Products manufacturer is a platform for national entry or expansion into the New Zealand market.
- 141 As described at para 133 above, one or more of the international manufacturers already present in New Zealand will inevitably reshuffle its distribution arrangements post Proposed Acquisition:
- (a) Customers can be brand loyal and may follow a preferred brand of machine to its manufacturer's new distributor. They will continue to shop around for the best price, and a new licensee will inevitably try and win those free customers.
 - (b) Some manufacturers, such as [], permit multiple licence holders in New Zealand. A potential licensee could also obtain the rights to one of the major global manufacturers not present, such as Kaishan or another Chinese supplier.
- 142 Expansion via existing outlets would enable a distributor to utilise existing dealerships and outlets rather than incurring set up costs.
- 143 Atlas Copco also observes that a major global manufacturer could bypass a local distributor and establish (or expand) a New Zealand branch. As described at para 112 above:
- (a) Gardner Denver is directly present in New Zealand, and supplies Gardner Denver vacuum pumps to customers here (in addition to the CompAir compressor sales via Ash Air as its licensed distributor);
 - (b) Ingersoll Rand, Hitachi, and GE have existing New Zealand operations, and could readily expand those businesses' product lines to include Compressor Products; and
 - (c) Busch and Grundfos (large German manufacturers of vacuum pumps) are already directly present in New Zealand.
- 144 If an international compressor manufacturer was not already present in New Zealand, or wished to cut out its distributor, it could readily establish a direct presence:
- (a) warehouse space and shipping/logistics support are readily available, and may be contracted to third parties. Several New Zealand air compressor distributors have a single North Island warehouse (generally in Auckland) and supply customers on a national basis from that warehouse;¹⁶
 - (b) sales persons, technicians and mechanics are available. For smaller machines, a general mechanic can repair and maintain the equipment. For more sophisticated compressors, sales staff and

¹⁶ Atlas Copco understands both Kaeser and Fox Air each serve the New Zealand market from a single warehouse.

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technicians can be readily trained, often with a cost contribution from the manufacturer. Alternatively a new entrant may hire staff from existing participants; and

- (c) OEM and generic parts may be readily acquired from both domestic and international suppliers.

- **Entry of new manufacturer**

- 145 Given the right incentives, Atlas Copco considers a new major international manufacturer of Compressor Products is likely to also enter New Zealand. For example, Kaishan Compressors, which claims to be China's largest rotary screw and reciprocating compressor manufacturer, recently acquired a distribution business in Australia.¹⁷
- 146 Kaishan, for example, could easily expand into New Zealand. So too could Shanghai DHH, Wenling Xinlei or Suzhou Purdue. Indeed Atlas Copco understands Compressor Products from these firms are already available in the New Zealand market, often imported by existing distributors as a cheaper alternative to global manufacturers' offerings.¹⁸

Countervailing power of purchasers

- 147 Many buyers of compressors are large and sophisticated to purchase air Compressor Products direct from overseas suppliers or manufacturers, particularly if the New Zealand dollar is strong. Many purchasers have specialist procurement personnel, or access to buying groups such as CRT.
- [
-]
- 148 [

¹⁷ Australian Auto magazine, 1 March 2013. Available online: www.ausauto.com/kaishan-breathes-new-life-into-scc

¹⁸ Suzhou Purdue Air Compressor Co., Ltd; Xinlei Air Compressor Co., Ltd (www.en.xinlei.com); and Shanghai DHH Screw Compressor Co., Ltd (www.dhhcompressor.en.china.cn). Each of these firms manufacture a full range air compressor products. Atlas Copco understands products from each of these firms is available on TradeMe and from other sources.

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- 149 The above customer list is highly commercially sensitive to Atlas Copco which asks that the Commission hold it in the strict confidence.
- 150 Each of these customers (and others like them) is a large and sophisticated firm with material countervailing power. Many have the benefit of multi-national supply chains and global purchasing scope. If dissatisfied with the range of supply options post-merger, any one of these customers could:
- (a) import a compressor, either from another supplier or direct from manufacturer; or
 - (b) arrange for supply of compressors through an offshore parent or affiliate.

Geographic markets

- 151 Following the Proposed Acquisition, Atlas Copco intends to operate Atlas Copco and Ash Air Businesses as separate entities. As such, there will be no aggregation of branches in those areas where both Atlas Copco and Ash Air Businesses are currently present. In any event, as described at para 90 above, national supply is commonplace for most types of Compressor Product and particularly for compressors larger than 5hp.
- 152 Sub-national market expansion is relatively easily achieved. An aspiring entrant only needs a site and personnel, both of which are readily available.
- 153 Atlas Copco therefore does not consider the effects of the Proposed Acquisition in these geographic markets constitute a substantial lessening of competition.

Other constraints

- 154 There are no other material constraints to entry or expansion. As noted at para 105 above, manufacturers seek to encourage the use of OEM replacement parts but are generally unable to do so given the broad

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availability of generic replacement parts. So access to parts is not a barrier to entry or expansion into the New Zealand market.

B. MARKET FOR THE PROVISION OF MAINTENANCE SERVICES

Sub-national service markets

- 155 For the reasons described at para 102 above, Atlas Copco considers the market for servicing and maintenance of Compressor Products is best considered as a series of regional or sub-national markets, because:
- (a) service and maintenance of Compressor Products is often done under urgency (particularly where the plant is business-critical); and
 - (b) it is not economical for a technician to travel long distances, particularly for smaller jobs.
- 156 Atlas Copco, like other service providers, typically serves a region or area from a branch or hub. Its technicians travel to customers in the surrounding area, or, for smaller jobs, a machine might be brought to the workshop for repair.
- 157 Some large customers enter into 'national' service contracts, under which a service provider repairs and maintains all machines at all the customer's sites around New Zealand. These contracts are almost inevitably put to competitive tender. The successful bidder typically fulfils the contract through its branch staff (or subcontractors) in a particular region.
- 158 Accordingly, we adopt a regional market approach in the analysis below.

Estimated market shares

- 159 It is difficult to estimate shares in the regional markets for maintenance services and/or the provision of replacement parts for Compressor Products. Compressor maintenance is often conducted by small local firms or general engineers. Many customers order parts online or from third party suppliers.
- 160 Atlas Copco estimates that it holds about a [] share in the markets for maintenance, parts and labour for the Compressor Products it sells. But this is only a rough estimate, because:
- (a) [] of the maintenance and parts potential is covered by grey market parts and includes minor repairs and/or the provision of consumables like oils and filters (as described at para 105 above).¹⁹ And [] of the labour is performed by local service providers/dealers or done by the customer's employees;

¹⁹ Atlas Copco, like other manufacturers of Compressor Products, estimates the value of maintenance services and replacement parts it could potentially sell to an owner of a Compressor Product over the life of the unit. Atlas Copco calls this estimate the ***maintenance and parts potential***.

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- (b) all types of parts and consumables can be ordered on-line, with catalogues and generic parts conversion tables readily available online. Parts can also be ordered direct from manufacturers' subsidiaries in Australia and elsewhere; and
- (c) Atlas Copco does not hold regional or branch-specific market share information.

161 Atlas Copco expects that other competing distributors hold up to [] share of the maintenance, parts and labour potential for the Compressor Products they sell. Again, this is necessarily a rough estimate.

162 Atlas Copco estimates that the proposed Acquisition would result in the merged entity holding a national market share for maintenance, parts and labour of around []. Atlas Copco intends post-merger to [

]

163 While these market shares are outside the permitted concentration indicators, the Proposed Acquisition does not raise competition concerns in any of these markets for the reasons described below.

Existing competitors

164 As noted at para 155, provision of maintenance services is localised. The Proposed Acquisition will result in a material aggregation of maintenance service providers in a number of regions and towns, including in Tauranga, Palmerston North, and Dunedin to the extent those regions and towns have an existing Ash Air Business branch and are also served by Atlas Copco on a national basis.

165 [

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166 Atlas Copco does not consider the aggregation in these geographic service markets is any cause for concern, because:

- (a) technicians and mechanics are readily available as employees or contractors. A general mechanic can repair and maintain most equipment using his or her general knowledge. For more sophisticated compressors, technicians can be readily trained, often with a cost contribution from the manufacturer. [

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- (b) OEM and third party parts may be readily acquired from both domestic and international suppliers; and
- (c) other start up costs for repair and servicing are low.

Countervailing customer power

167 Atlas Copco's service customers are large and sophisticated firms which typically have a fleet of Atlas Copco machines around New Zealand.

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169 The above customer list is highly commercially sensitive. Atlas Copco asks that the Commission hold it in strict confidence.

170 Each of these service customers has substantial countervailing power. These types of industrial customers have procurement experts on tap; they are used to running tenders and RFPs for the acquisition of services. If dissatisfied with the range of maintenance and service options post-merger, any one of these large customers could:

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- (a) put its service requirements to tender, on the requirement that the successful bidder have access to an appropriate range of genuine and grey market parts;
 - (b) self-provision maintenance services, and seek direct supply of replacement parts from Atlas Copco or an OEM (or an OEM's subsidiary in Australia); or
 - (c) arrange for a third party 'captive' supplier with access to appropriate parts (i.e. sponsored entry).
- 171 Furthermore, with maintenance, any merged entity will be additionally constrained by:
- (a) general mechanic and engineering businesses already present in Tauranga, Palmerston North and Dunedin;
 - (b) national and regional firms which will travel to serve Dunedin, Tauranga or Palmerston North when sufficient incentives and opportunities present themselves. As Atlas Copco's present national service offering demonstrates, entry costs for a technician (a "man in a van") are very low relative to revenue, particularly where the technician services a variety of manufacturers' machines on one trip, or a variety of different equipment, both of which are common models; and
 - (c) competition at the edges of these regions will continue, and other purchasers within the regions will expect the benefit of competitive pricing (once aware of it).

OTHER COMPETITION FACTORS**Coordinated market power**

- 172 There seems to be no scope for collusion in the air compressor, vacuum pump or air treatment product industries. The following factors mitigate against any possible development of coordinated market power:
- (a) barriers to entry into the Affected Markets are low;
 - (b) there are many market participants, including several other major global manufacturers currently present in New Zealand. The global compressor manufacturers have a history of fierce competition, [] are acting and will continue to act as a significant constraint on the merged entity; and
 - (c) as far as Atlas Copco knows, there is no history of anti-competitive behaviour in air compressor, vacuum pump or air treatment product industries.

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Efficiencies

173 Atlas Copco expects the merger will generate synergies across the parties' respective operations. The principal rationale for the merger is []

The merger also provides Atlas Copco with:

- (a) increased coverage of the New Zealand Market; and

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Industry trends

174 As in all manufacturing sectors, global manufacturers of Compressor Products are seeking economies of scale, and moving production to lower cost economies.

175 Chinese manufacturers of Compressor Products are emerging.

176 Customers of Compressor Products are increasingly focussed on environmental factors such as energy efficiency, and demanding higher quality air output. Rising power costs in New Zealand and around the world have driven Atlas Copco and others to develop more efficient motors and variable speed compressors:

- (a) Atlas Copco spends a large amount (typically [] on R&D for such innovations; and
- (b) a manufacturer's rivals will commonly match or better a technology innovation within a short time, so no single firm can 'steal a march' on the market for very long; it is a dynamic industry.

Conclusion on competition analysis

177 In the result, Atlas Copco will have to compete vigorously to hold its ground post-acquisition. Atlas Copco expects to lose some of Ash Air Businesses' customers and market share as []

178 Atlas Copco does not consider the Proposed Acquisition will have the effect or likely effect of lessening competition in the New Zealand market for the importation and distribution of Compressor Products. Nor will it result in a lessening of competition in the regional markets for service and maintenance of air compressors.

PART 6: FURTHER INFORMATION AND SUPPORTING DOCUMENTATION

- 179 Contact details of relevant market participants are publically available, and can be obtained from the following sources:

Main international manufacturers of Compressor Products

CompAir	www.compair.com
Busch	www.buschpump.com
Fini	www.typo3.finicompressors.it
Gardner Denver	www.gardnerdenver.co.nz
Grundfos	www.nz.grundfos.com
Ingersoll Rand	www.ingersollrandproducts.com
Kaeser	www.kaeser.com.au
Pneutech	www.pneutechgroup.com
Sullair	www.sullair.com.au

Distributors of Compressor Products

Air Equipment Services	www.airequipment.co.nz
Allied Air Compressors	www.alliedaircompressors.co.nz
Bayteck	www.bayteck.co.nz
Compressed Air Controls	www.aircontrols.co.nz
Engineering & Compressor Service	www.aircompressors.co.nz
Gardner Denver	www.gardnerdenver.co.nz
Gough Gough & Hamer	www.goughgroup.co.nz
Hindin Marquip	www.hml.co.nz

Major global manufacturers of Compressor Products present in other New Zealand industries

General Electric

www.ge-energy.com

Hitachi

www.cableprice.co.nz

Ingersoll Rand Security

www.ingersollrandproducts.com

PART 7: CONFIDENTIALITY

The fact of the proposed acquisition

180 Confidentiality is not requested for the fact of the Proposed Acquisition.

Specific information contained in or attached to the notice

181 Confidentiality is requested for all the information deleted from the attached “public version” of this notice on the grounds that the information is commercially sensitive to the Applicant. Disclosure of such information would be likely to unreasonably prejudice the commercial position of the Applicant in terms of section 9(2)(b) of the Official Information Act 1982.

182 In this application, all confidential information is enclosed in square brackets.

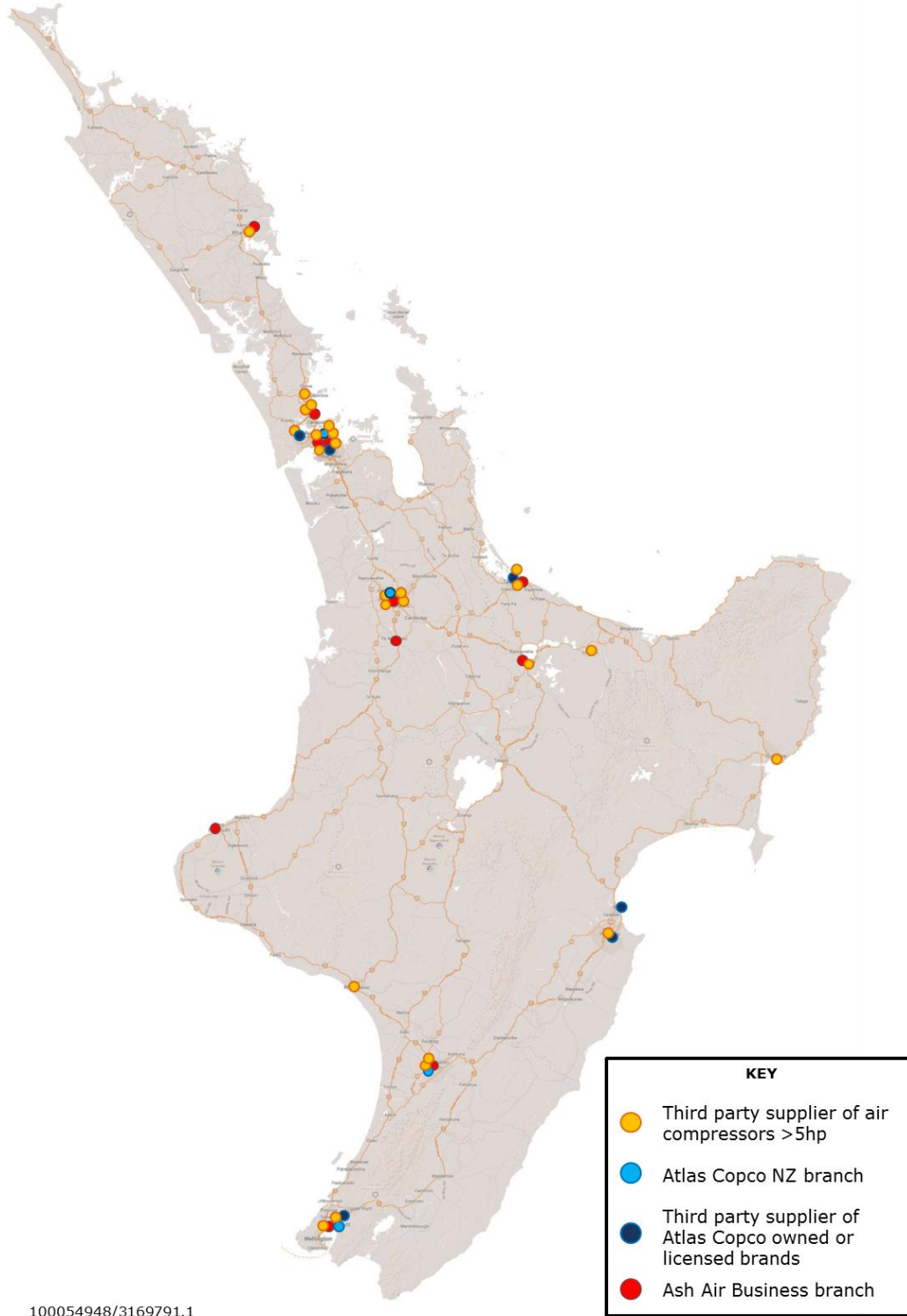
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APPENDIX A

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APPENDIX B

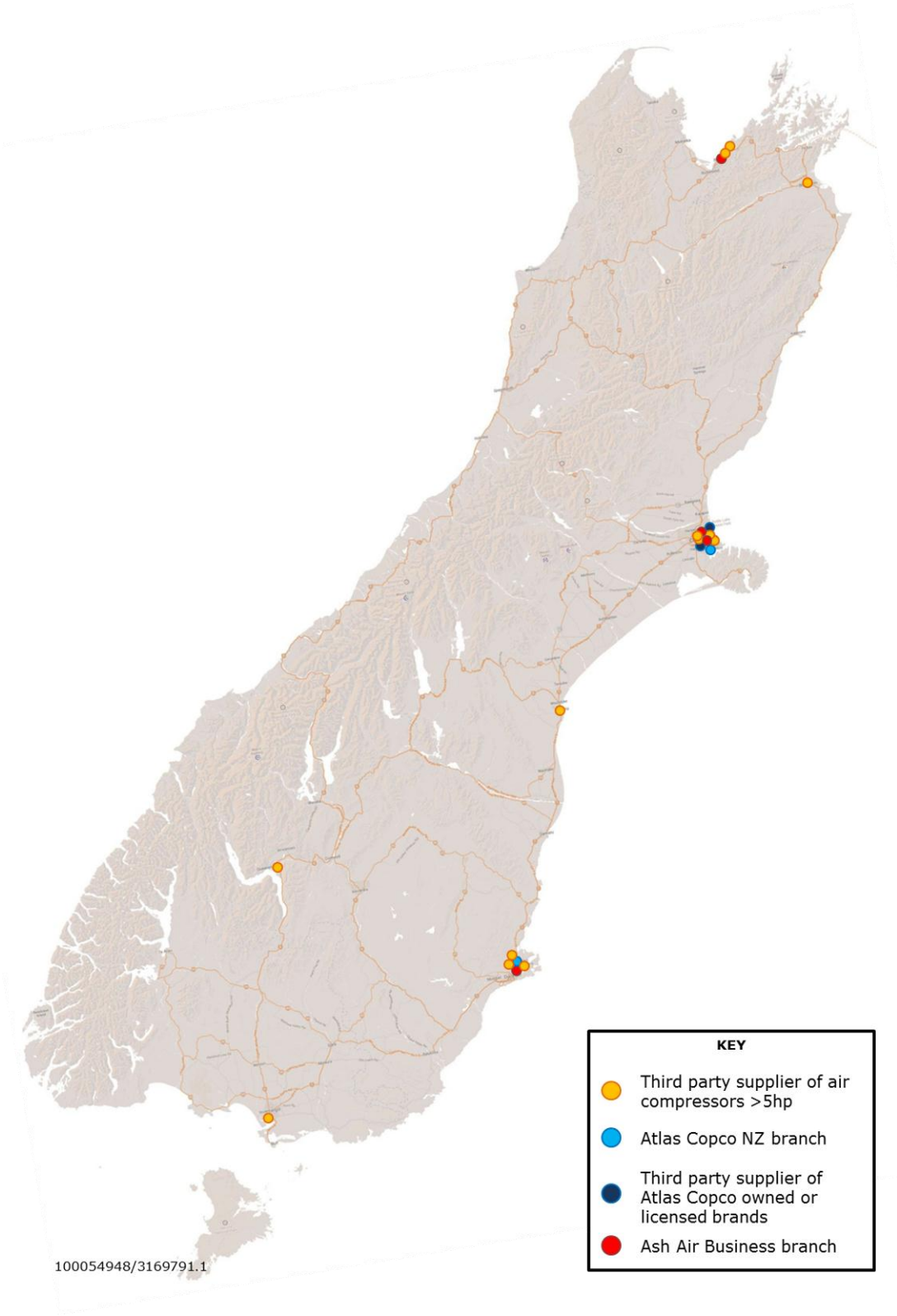
Map of distributor branches and locations²⁰



100054948/3169791.1

²⁰ Based on Atlas Copco's understanding and sourced from publicly available information (as at 29 November 2013).

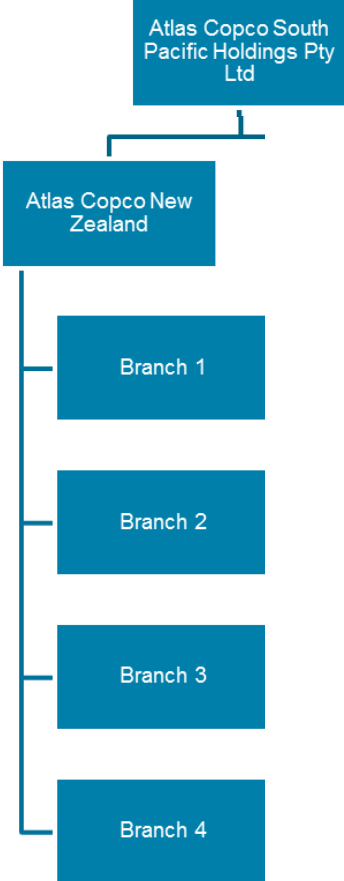
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APPENDIX C

Selected part of Atlas Copco Group structure

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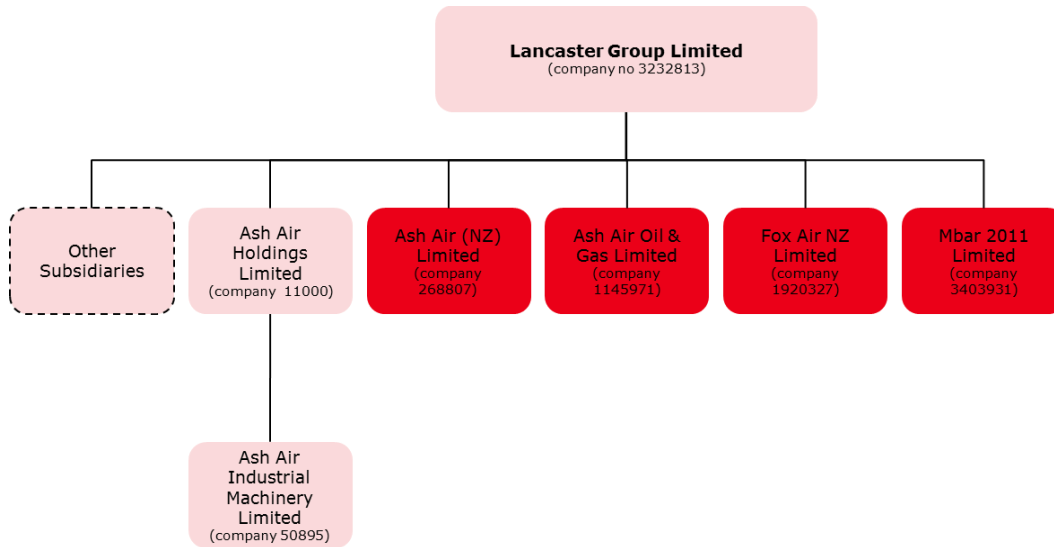


Existing Atlas Copco NZ organization

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APPENDIX D

Selected part of Lancaster Group structure



APPENDIX E

Copy of Sale and Purchase Agreement

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APPENDIX F

Estimated market share in New Zealand by percentage of estimated total unit sales in 2012

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Source: Atlas Copco management estimates.²¹Key: ■ Atlas Copco ■ Ash Air

	Compressor unit sales >120 HP	Compressor unit sales 40-120 HP	Compressor unit sales 5-40 HP	Compressor unit sales >5hp	Compressor unit sales <5hp	Low pressure blowers	Vacuum pump sales	Total estimated product market share	Total estimated service market share
Atlas Copco									
Multi Brands*									
CompAir									
Ingersoll Rand									
Pompetravaini									
Merged entity subtotal									
Kaeser									
Campbell Hausfeld									
Boge									
Fini									
Sullair									
Rotair/ Precision									

²¹ Estimates derived from Atlas Copco NZ's understanding of market size and likely customer demand, information from tenders in which Atlas Copco was unsuccessful, and estimates of likely minimum viable scale for other distributors.

* "Multi Brands" includes other New Zealand distributors' sales of Atlas Copco manufactured brands, including ABAC, CECCATO, Chicago Pneumatics and Edwards.

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	Compressor unit sales >120 HP	Compressor unit sales 40-120 HP	Compressor unit sales 5-40 HP	Compressor unit sales >5hp	Compressor unit sales <5hp	Low pressure blowers	Vacuum pump sales	Total estimated product market share	Total estimated service market share
Elgi									
Pneutech									
Gardner Denver**									
JunAir									
Becker									
Busch									
Rietschle									
Wallace									
Others, Direct imports									

1

** Other than sales via Ash Air. Includes Hydrovane (a manufacturer owned by Gardner Denver).

Estimated market share in New Zealand by unit sales in 2012

[

Source: Atlas Copco management estimates.²²

Key: ■ Atlas Copco ■ Ash Air

	Compressor unit sales >120 HP	Compressor unit sales 40-120 HP	Compressor unit sales 5-40 HP	Compressor unit sales >5hp	Compressor unit sales <5hp	Low pressure blowers	Vacuum pump sales	Overall market size by unit sales (per annum)	Market Share
Atlas Copco									
Multi Brands*									
CompAir									
Ingersoll Rand									
Pompetravaini									
Merged entity subtotal									
Kaeser									
Campbell Hausfeld									
Boge									
Fini									
Sullair									
Rotair/ Precision									
Elgi									
Pneutech									
Gardner Denver**									

²² Estimates derived from Atlas Copco NZ’s understanding of market size and likely customer demand, information from tenders in which Atlas Copco was unsuccessful, and estimates of likely minimum viable scale for other distributors.

* “Multi Brands” includes other New Zealand distributors’ sales of Atlas Copco manufactured brands, including ABAC, CECCATO, Chicago Pneumatics and Edwards.

** Includes Hydrovane (a brand owned by Gardner Denver).

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	Compressor unit sales >120 HP	Compressor unit sales 40-120 HP	Compressor unit sales 5-40 HP	Compressor unit sales >5hp	Compressor unit sales <5hp	Low pressure blowers	Vacuum pump sales	Overall market size by unit sales (per annum)	Market Share
JunAir									
Becker									
Busch									
DAB									
Rietschle									
Wallace									
Others or direct imports									

]