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A Report to the New
Zealand Commerce
Commission

Proposed Acquisition of Clipsal Industries (NZ) Limited by Schneider Electric (New Zealand)

Advice on Competition Issues

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Executive Overview

Proposed Acquisition

Schneider Electric SA (SE) intends to acquire the Gerard Group's core business in each of Australia, South Africa, India and New Zealand. Schneider will purchase shares in three companies, together referred to in this report as Clipsal.

SE is a major manufacturer of low and medium voltage (1 to 50 kilo volts for industrial and commercial applications) electrical distribution products for industrial uses such as main switchboards and distribution panel boards as well as, through its PDL operations, low voltage electrical distribution (less than 1000 volts) products for domestic uses such as final low voltage panel boards and wiring devices/cabling systems in New Zealand. SE purchased PDL in 2001.

Clipsal is an Australian-based company, majority-owned by Clipsal Industries (Holdings) Ltd based in Singapore. Since 1996, Clipsal has become a supplier in the New Zealand market. Clipsal manufactures low voltage electrical distribution products for domestic uses such as final low voltage panel boards and wiring devices/cabling systems.

Market Definition

The Allen Consulting Group considers that the relevant market for the proposed acquisition of Clipsal by SE is the electrical distribution products and associated accessories supply market. The relevant functional level of the market is that of supply to wholesalers and the relevant geographic market is New Zealand.

There is some scope for demand substitution and differentiation by brand but the key factor in defining the relevant product market is supply-side substitution.

- Low voltage circuit protection products are substitutable in supply in the very short term. []
- All electrical distribution products and associated accessories are substitutable in supply within a period of one year given a sufficient profit incentive. The production of these products does not involve heavy manufacturing. Little, if any, change would be required to production facilities. Also, there is a significant number of international manufacturers supplying electrical distribution products and associated accessories complying with New Zealand technical standards from which current or potential competitors in the market could source product. Some international suppliers, such as ABB, Siemens and Legrand already supply the entire range of electrical distribution and associated accessories.

Changes to Industry Concentration

[

] Therefore there are no *prima facie* issues of market concentration, based on the static market share data available — the post-acquisition market shares are within the Commission's safe harbours. The Allen Consulting Group considers that

the proposed acquisition is unlikely therefore to substantially lessen competition in the national electrical distribution products and associated accessories supply market. The results of this market share analysis are supported by prevailing market conditions — in particular, by countervailing power from imported supplies and from New Zealand wholesalers as predominant buyers.

Constraints from Market Entry

The current import share of electrical distribution products and associated accessories is substantial [

] Market characteristics remain favourable to market entry given the absence of technical barriers to entry; the commoditisation of electrical distribution products and associated accessories and their market price sensitivity; the availability of the wholesale market to new manufacturers or importers and market dynamism.

Potential import sources include: electrical distribution product suppliers within the international market, especially Europe, that have minor or no market shares in the New Zealand market currently and could expand their market share; international manufacturers with some market presence but who currently supply products through suppliers could directly supply their own electrical distribution products and associated accessories; new and developing manufacturers that may enter the New Zealand market and wholesalers that may import competing products from Chinese or other suppliers.

Countervailing Power from Wholesalers

The supply and wholesale functional markets are inter-woven. Most suppliers in the relevant market supply all major wholesaler groups and wholesalers each retail a wide range of suppliers' products.

The three major electrical wholesalers have a significant degree of power in relation to Clipsal's and SE's electrical distribution product supply businesses as the majority of each business' sales are conducted through them. Wholesalers are able to bypass suppliers to import directly from international manufacturers or through Australian wholesalers.

Conclusions

The Allen Consulting Group considers that the proposed combined entity would be inhibited in exercising market power by the pricing of actual and potential import supplies, the dynamic nature of the market and the countervailing power of wholesalers. After the acquisition, the combined entity would not be able unilaterally to exercise market power and raise prices (or reduce quality) nor could manufacturers as a whole coordinate their actions (implicitly) to raise prices or lower quality without the real threat of entry into the New Zealand electrical products and associated accessories supply market by importers or the threat that wholesalers would either source products from competing suppliers in New Zealand or import from international suppliers.

The Allen Consulting Group considers that these factors reinforce that conclusion that the proposed acquisition would not substantially lessen competition in the national electrical distribution products and associated accessories supply market.

Chapter One

Proposed Acquisition

1.1 The Parties and their Businesses

The acquisition for which clearance is sought from the NZCC is the acquisition by Schneider Electric SA (SE) of the core low voltage electrical distribution products and associated accessories business of the Gerard Industries Group of companies (the Gerard Group), which is based in Adelaide, South Australia. The acquisition involves SE acquiring the Gerard Group's core business in each of Australia, South Africa, India and New Zealand.¹ It will be effected by SE purchasing shares in Two Plastics Pty Limited, Three Plastics Pty Limited and Lockwood Pty Limited, together referred to in this report as Clipsal.

SE is a major manufacturer of low and medium voltage (1 to 50 kilo volts for industrial and commercial applications) electrical distribution products for industrial uses such as main switchboards and distribution panel boards as well as, through its PDL operations (purchased in 2001), low voltage electrical distribution (less than 1000 volts) products for domestic uses such as final low voltage panel boards and wiring systems. Since 1996, Clipsal has become a supplier in the New Zealand market. Clipsal manufactures low voltage (less than 1000 volts are for domestic use) electrical distribution products for domestic uses.

1.2 Commerce Act Section 47 Issues

The Allen Consulting Group (ACG) considers that the acquisition will not lead to a substantial lessening of competition in the relevant market(s) (as defined in Chapter Two) particularly because of the significant existing and potential countervailing power of wholesalers and alternative imported supply.

Under the relevant market definition that includes the supply of all electrical distribution products and associated accessories, the proposed acquisition would be within NZCC's safe harbours. Although, the combined entity would have very significant market shares in some individual narrow product lines, ACG considers that the acquisition would not result in substantial lessening of competition because:

- wholesalers (including significant domestic groups with one local arm of a global group) have significant countervailing power;
- competing products from different suppliers are predominantly imported and are typically 'commodities', so that buyers can and do switch between suppliers, depending on price;
- products manufactured for the large and growing Chinese market are substantially similar to products used in the New Zealand market, which creates an opportunity for new sources of supply with low cost production to enter the market(s);

¹ SE has also notified the Australian Competition and Consumer Commission and the Competition Commission in South Africa of the acquisition.

- with Japanese technical standards becoming compliant with world IEC standards, new sources of supply from established large Japanese manufacturers are now entering the market(s);
- elements of the relevant market are dynamic through market growth through product innovation especially in industrial automation products. Further, the introduction of regulation requiring earth leakage protection in residential uses from 2003 will result in significant increased demand growth in domestic circuit breakers. That is, a market sub-segment in which Clipsal and SE overlap is likely to grow significantly from this year providing a dynamic opportunity for competitive entry; and
- New Zealand and Australian standards are now harmonised creating an open market for current and potential suppliers based in either country.

Hence, after the acquisition the combined entity will not be able unilaterally to exercise market power and raise prices (or reduce quality) nor could suppliers as a whole coordinate their actions (implicitly) to raise prices or lower quality.

Exhibit 1.1

SE AND CLIPSAL: NEW ZEALAND OPERATIONS

<p>SE</p> <p>SE was originally established in France but is now based in 130 countries. Appendix B lists its international offices.</p> <p>In 2001, SE acquired PDL Holdings, a New Zealand company that develops and manufactures a complete range of wiring accessories and variable speed drives.</p> <p>SE's core businesses are:</p> <ul style="list-style-type: none"> • electrical distribution; and • industrial control and automation. <p>The core of SE's business in New Zealand is low voltage and industrial control products. It manufactures a large range of electrical and industrial protection products, such as circuit breakers. These include products used in conjunction with medium voltage substations, products used to provide electricity in large commercial buildings and products used further 'down the wire' such as sockets and outlets.</p> <p>SE sells its products under four main brand names:</p> <ul style="list-style-type: none"> • Merlin Gerin for earth leakage and miniature circuit boards; • Telemecanique and Modicon for industrial control gear and other products; and • the PDL brand for wiring accessories. <p>SE's products are distributed by all major New Zealand wholesalers.</p> <p>CLIPSAL</p> <p>Clipsal's core business in New Zealand is the manufacture of low voltage electrical distribution products for domestic uses.</p> <p>Clipsal's ultimate parent, Clipsal Industries Holdings Ltd, has several joint-venture manufacturing arrangements in China and Malaysia. Clipsal products are currently produced under license in China. Clipsal has been successful in developing export markets, and claims to be the number two brand in wiring accessories in Asia, and among the top 5 electrical accessories' brands. Appendix B lists its international offices.</p> <p>Clipsal entered the New Zealand market in 1996, offering a partial range of Clipsal electrical products. The full range of Clipsal products are now distributed by all major New Zealand wholesalers.</p>
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Source: IBIS World Pty Ltd 2002, C2859 – *Electrical Equipment Manufacturing n.e.c. in Australia*, published date 3 October 2002, www.clipsal.com.au, and www.schneider.com.au

1.3 This Report

Chapter Two of this report discusses the definition of the relevant market and Chapter Three calculates the concentration ratios for that market pre- and post-acquisition. Chapter Four considers the role of imports in offsetting any supplier market power and Chapter Five discusses countervailing power within the relevant market from wholesalers.

Appendix A presents the Estimate Market Share Matrix based on SE's current market knowledge and Appendix C lists information sources relied upon in this report.

1.4 Information Sources

In compiling this report, ACG has relied primarily upon the market knowledge of, and data provided by, parties to the proposed acquisition, complemented by data available publicly from the internet.

Chapter Two

Market Definition

2.1 Market Situation

A market is a collection of buyers and sellers that have the potential to interact, resulting in exchange or potential for exchange.

At the most extreme this definition would include all people and firms; everyone has the potential to interact. To provide some context — to assist in the analysis of the conduct within the market — it is necessary to place some defined boundaries around the market. This is done by focusing on the strength of potential substitution between buyers and sellers; how likely are they to interact? Clearly, the more likely that buyers and sellers are to interact the more reasonable it is to regard them as in the same market.

In assessing a market, the approach taken by the Commission in its Practice Note: 4 is to review the market in each of its four dimensions namely, functional, product, geographic and temporal.

“...the Commission will seek to define relevant markets in terms of four characteristics or dimensions:

- the goods or services supplied and purchased (the product dimension);
- the level in the production or distribution chain (the functional level);
- the geographic area from which the goods or services are obtained, or within which the goods or services are supplied (the geographic extent); and
- the temporal dimension of the market, if relevant (the timeframe).”

Commerce Commission, Practice Note: 4, The Commission’s Approach to Adjudicating on Business Acquisitions Under the Changed Threshold in Section 47 — A Test of Substantially Lessening Competition, p.15–16

The functional level is uncontroversial — with the proposed acquisition of Clipsal by SE, the functional level of relevance is that of supply to wholesalers — [

] for example, in addressing the question of market definition.

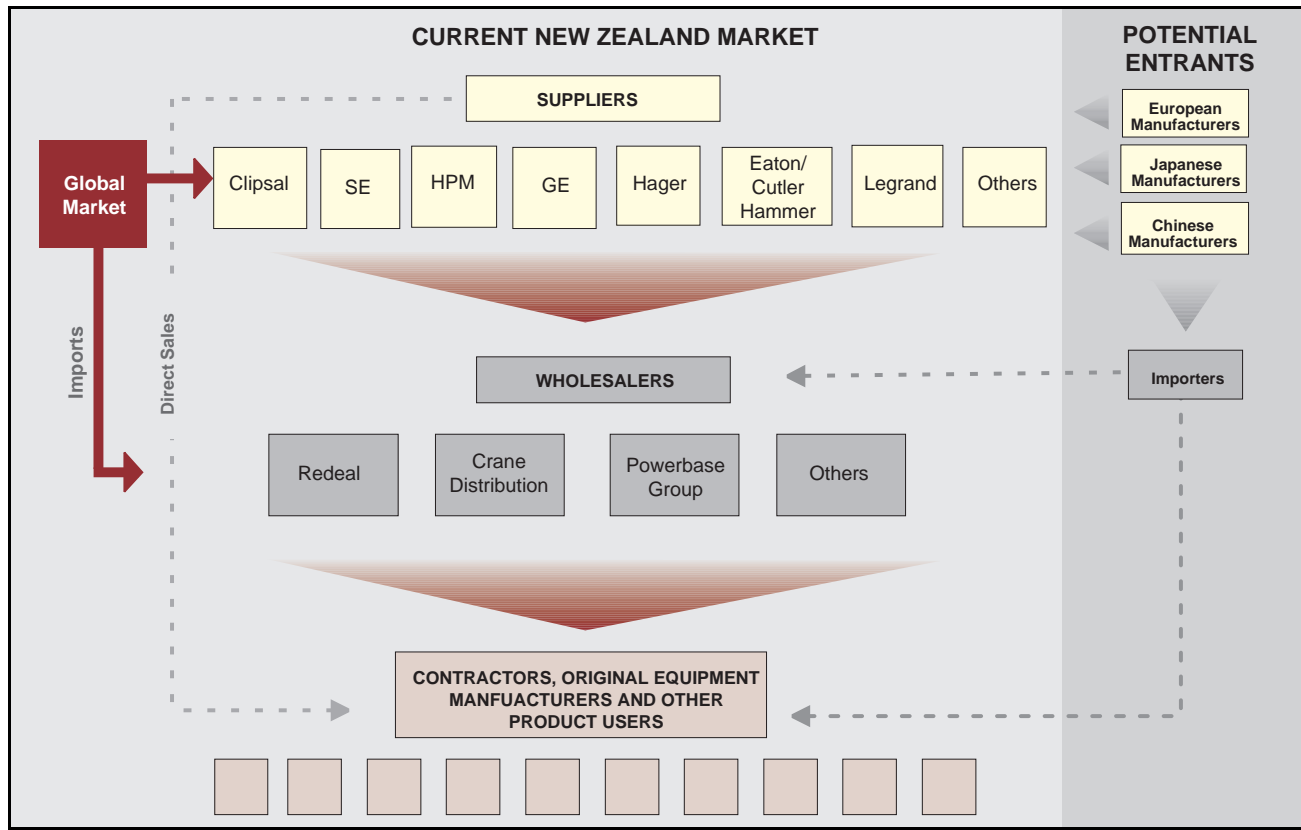
The geographic dimension is also uncontroversial — the relevant market is New Zealand (not, for example, any regional market). But in defining the market’s boundaries, it is the product dimension that is relevant, especially whether the relevant market(s) incorporate more or fewer products than currently supplied by SE and Clipsal. The temporal dimension of the market will be at least implicitly recognised in the analysis of the product dimension.

2.2 Functional Level

The proposed acquisition is between two suppliers of certain electrical distribution products and associated accessories. The relevant supply, wholesale and retail market levels are illustrated in Exhibit 2.1 below.

Exhibit 2.1

FUNCTIONAL LAYERS OF THE ELECTRICAL DISTRIBUTION PRODUCTS AND ASSOCIATED ACCESSORIES MARKET



Source: ACG

As shown in the exhibit, the supply level includes suppliers that are local arms of international firms, and imported sources of supply. The relevant market includes substitute products not manufactured by either SE or Clipsal.

A key observation in Exhibit 2.1 is the degree to which the supply and wholesale functional markets are inter-woven — most suppliers supply all major wholesaler groups and wholesalers each offer a wide range of suppliers’ products in the retail market. In addition, wholesalers have commercial relationships with a wider range of suppliers than those directly competing with SE and Clipsal in New Zealand currently — they are able to, and do, bypass New Zealand suppliers to import directly from international manufacturers. Likewise, New Zealand suppliers are able to bypass wholesalers and supply directly to electrical contractors (and to large users such as panel builders) [

]

Given the degree to which the supply and wholesaling functional markets are inter-woven, it is useful to consider these functional markets through the eyes of electrical contractors. Contractors constitute the bulk of the end-customers. From a contractor’s point of view, the relevant functional markets provide electrical products including lighting, cabling, conduits and air movement, as well as electrical

distribution products and associated accessories. The avenues of supply for SE’s electrical products are illustrated in Exhibit 2.2.

Exhibit 2.2

AVENUES OF SUPPLY OF ELECTRICAL PRODUCTS FROM ELECTRICAL CONTRACTORS’ PERSPECTIVE — FOR SE ONLY

[

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Source: Data supplied by SE

Contractors may source their products via a number of avenues.

- The subject of the proposed acquisition, [] Indeed, the most popular avenue of supply for all electrical products for contractors is from electrical wholesalers who source their product from domestic suppliers, or import product under an international manufacturer’s brand or under their own ‘home brand’. [] Contractors source mainly low voltage electrical products from wholesalers, but also data and communication products.
- The next most popular avenue of supply — direct sourcing of electrical products from manufacturers — is relevant for a number of uses — for larger contractors requiring industrial supplies (of low voltage product); panel board builders and original equipment manufacturers; utilities; and system integrators. This is the only avenue of supply for medium voltage electrical products. []
- Finally, retail outlets such as hardware or do-it-yourself stores directly source products from manufacturers. []

]

2.3 Geographic Dimension

The relevant geographic dimension for this acquisition is considered to be New Zealand as a whole. Each of the three New Zealand wholesaling groups supplied by SE and Clipsal have national distribution networks, and SE supplies direct users New Zealand-wide. However, electrical products are internationally traded — Appendix B lists the international operations of the relevant parties to this transaction as an illustration and import competition is addressed in Chapter Four.

“The Commerce Act defines a market to be a “market in New Zealand”. However, in many markets New Zealand buyers purchase products from both domestic and from overseas suppliers. Where imported products are close substitutes for domestic products, the overseas suppliers will be part of the relevant market. In such circumstances the Commission, in order to comply with the wording of the Act, is likely to define a national market and then, as discussed later in the competition analysis, to consider the extent to which overseas suppliers exercise a competitive constraint on the participants in the domestic market.”

Commerce Commission, Practice Note: 4, p.20

2.4 Product Dimension

In section 2.2, the relevant supply and wholesaling functional markets for electrical products were presented from a contractor’s point of view, noting that they provide products including lighting, cabling, conduits and air movement, as well as electrical distribution products and associated accessories.

The product dimension of the relevant market may be narrower than this for competition analysis purposes.

“The delineation of relevant markets as a basis for assessing the competitive effects of a business acquisition begins with an examination of the goods or services offered by each of the parties to the acquisition. Initially, markets are defined for each product supplied by two or more of the parties to an acquisition. Unequivocal substitutes are combined. For each initial market so defined, the Commission will examine whether the imposition of a *ssnip* would be likely to be profitable for the hypothetical monopolist. If it were, then all of the relevant substitutes must be incorporated in the market. If not, then the next most likely substitute good or service will be added to the initial market definition and the test repeated. This process continues until a combination of products is found which defines the product dimension of a relevant market, namely, the smallest combination of goods or services for which a *ssnip* would be profitable.”

Commerce Commission, Practice Note: 4, p.23–24

[

] As listed in Exhibit 2.3, the market for all electrical distribution products and associated accessories supplied by a combined SE/Clipsal is made up of the segments described in Exhibit 2.5² (with the exception of products in segment 3 which neither SE nor Clipsal supply). Estimates of each segment’s sales are included in the matrix at Appendix A.

² This market segmentation follows the approach used in the European Union Competition Commission’s consideration of proposed acquisitions by SE (International) of Lexel and Legrand

Exhibit 2.3

**ELECTRICAL DISTRIBUTION PRODUCTS AND ASSOCIATED ACCESSORIES MARKET
SEGMENTS SUPPLIED BY SE AND GERARD**
Segment 1: Main Switch Board (medium and power low voltage)

Segment 2: Distribution Panels (power low voltage)

Segment 4: Final Low Voltage Panel Boards (domestic)

Segment 5: Wiring Devices and Cabling Systems
Segment 6: Other Products sold

Source: Data supplied by SE

The Commerce Commission's Practice Note 4 states that for the purpose of competition analysis "a relevant market is the smallest space within which a hypothetical, profit-maximising, sole supplier of a good or service, not constrained by the threat of entry, would impose at least a small yet significant and non-transitory increase in price, assuming all other terms of sale remain constant (the 'ssnip test')."³ The Commission considers that a *ssnip* involves a five percent increase in price for a period of one year.

The relevant product market therefore needs to include all existing and potential substitutes for the combined entity's products that would enter the market or gain market share within a year of, and in response to, a hypothetical five per cent price increase. The Act defines a market as:

"... a market in New Zealand for goods or services as well as other goods or services that, as a matter of fact and commercial common sense, are substitutable for them."

Commerce Commission, Practice Note: 4, p.15

The relevant market's substitution possibilities should be considered on the demand and supply-sides.

Demand-side considerations relate to the economic (as opposed to the technical) substitutability of products as perceived by buyers. Close substitute products on the demand-side are those between which at least a significant proportion of buyers would switch when given an incentive to do so by a small change in their relative prices. Close substitute products on the supply-side are those between which suppliers can easily shift production, using largely unchanged production facilities and little or no additional investment in sunk costs, when they are given a profit incentive to do so by a small change in their relative prices. In technical language, products are close substitutes, and therefore fall within the same market, when they have a relatively high cross-price elasticity of demand or supply.

Commerce Commission, Practice Note: 4, p.16

Demand-Side Substitution

Taking demand-side substitution first, the broad market for electrical products described in section 2.2, include products that are *not substitutable in demand*. For example, although an electrical contractor will require both medium and low voltage products to outfit a commercial building, these products are not substitutable in demand — medium voltage products operate at higher voltage and employ different technology to low voltage products. Therefore, considering demand substitution alone,

³

Commerce Commission, Practice Note: 4, p.22–23.

the market(s) for electrical products is narrower than the broader market described in section 2.2.⁴

The low voltage circuit protection products in this business and included in the switches and outlets business — segments 1 to 4 of the Estimated Market Share Matrix (Appendix A) — are substitutable in demand as they do need to match in appearance, they comply with the same global technical standard and they are substitutable within the same panel board:

Segment 1: Main Switch Board (all elements);

Segment 2: Distribution Panels (power low voltage industrial); and

Segment 4: Final Low Voltage Panel Boards (domestic).

On the basis of demand substitution alone, separate markets would be defined for low voltage circuit protection products⁵ within segments 1, 2 and 4; for enclosures and ‘other component’ products included in segments 1 and 2; and separately for each of the majority of products within segments 5 and 6 that have specific uses such as emergency lighting and high voltage circuit breakers product.

Differentiation by Brand

One other aspect to be considered in examining the potential to exercise market power is the matter of brand, although the role of brands in what is basically a commodity market is limited. Demand substitutability between products may be limited by brand power.

“For differentiated products, it may be difficult to reach a view on the relevant market, as there may be no obvious break in the ‘chain’ of substitutes, and yet the view of a business acquisition may potentially be very sensitive to the market definition used. In such cases the Commission may acknowledge the artificiality of the market boundaries, and concentrate upon the competition analysis and the impact of the business acquisition on localised prices. This would recognise that in a branded consumer product market, a structural analysis taking into account market definition and market share may not be as helpful in judging market power as the degree of substitutability between products.”

Commerce Commission, Practice Note: 4, p.34

SE’s *PDL* brand provides some product differentiation and hence some perceived brand power — [

] Despite this brand image — supported by consistent product quality, marketing and loyalty programs for electrical contractors — electrical distribution products and associated accessories are nevertheless essentially commodities. For example, in Australia HPM has changed manufacturers for their branded miniature circuit breakers and earth leakage protection from Siemens to GE, and the ‘Lanson’ home branded products supplied by a wholesaler (Hagemeyer) have been sourced over time from GE, Clipsal and then GE again.

⁴ The European Union Competition Commission adopted this approach in considering the proposed acquisitions by Schneider of Lexel and Legrand. Commission of European Communities, *Case No IV/M.1434 Schneider/Lixel I* under Regulation (EEC) No 4064/90 Merger Procedure, 3/06/1999.

⁵ It should be noted that suppliers that compete with SE and Gerard supply substitute products for those included in the matrix — for example industrial fuses fulfil the same use as industrial circuit breakers. The sales revenue for these products should be included in the total market estimates. However, SE does not have sufficient market knowledge to reliably estimate the sales of these competing products.

Further, the perceived power of the *PDL* brand may be offset by wholesalers, through whom all *PDL* products are distributed. Contractors may have some greater loyalty to certain wholesalers based on available credit arrangements, assurance of supply and after-sales service. Hence, wholesalers could credibly threaten to take their business from the combined entity, and therefore contractors business, if the firm tried to exercise market power through excessive pricing of the *PDL* brand. In addition, many contractors buy products from more than one wholesaler in order to enhance the availability of credit arrangements. *PDL* products may not be sold by all of the wholesalers that a single contractor will use. (See Chapter Five for a discussion on countervailing power of wholesaling.)

The *PDL* ‘56 series’ product within the industrial switchgear sub-segment has a particularly strong positive brand image.

The ‘56 series’ of industrial plugs was developed cooperatively by *PDL* and the Gerard Group (in Australia) 20 years ago. *PDL* is therefore the key supplier in New Zealand as Gerard is in Australia. The product became the Australian and New Zealand industrial standard. However, there are no longer any design protections on the *PDL* ‘56 series’ product, and other ‘industrial switchgear’ is available. [

]

However, despite this market share, there are alternative products potentially available that are substitutable in demand — including from at least 50 European manufacturers and large numbers of Chinese importers who are potential or actual competitors in this product market. In addition, the IEC standard products (which are cheaper than the ‘56 series’ Australian and New Zealand industrial standard products) are now accepted for installations. Although the ‘56 series’ plug may not be compatible with an IEC socket and *vice versa*, they are substitutable for new installations. The IEC (and European) standard industrial plugs and sockets are being sold into New Zealand currently. SE estimates that IEC standard products account for approximately 15 per cent of New Zealand market.

In short, the role of brands in this market is limited and does not materially affect assessment of competitive issues.

Supply-Side Substitution

Supply-side substitution is the key driver in defining the relevant market(s) within the electrical products market. There is very strong supply substitutability among low voltage circuit protection products in:

Segment 1: Main Switch Board (all elements);

Segment 2: Distribution Panels (all elements); and

Segment 4: Final Low Voltage Panel Boards (all elements).

[

] Low voltage circuit protection products are substitutable in supply in the very short term — within a matter of weeks. Therefore, New Zealand suppliers of any of these products listed in segments 1 to 4, may be considered ‘near entrants’ for any other individual ‘circuit breaker product market’.

“The Commission considers that, along with existing suppliers in the market, the supply-side criterion requires that other businesses that can, and would, quickly enter the market in response to an attempt by existing suppliers to raise prices or reduce output or quality should be included in the consideration of market participants. These firms, called ‘near entrants’, must already possess the facilities and/or knowledge required to produce the products sold in the relevant market. Entry by such companies must result either from redeployment of existing capacity, or expansion involving minimal sunk costs, and a delay of no more than one year.”

Commerce Commission, Practice Note: 4, p.24

The timeframe allowed for substitution will determine the scope of electrical products to be included in the supply-side definition of the market.

“... the definition of the product (and also the geographic) dimensions of the market may depend upon the timeframe used to assess the adjustments by buyers to relative price changes. The Commission takes the view that the appropriate time period for assessing substitution possibilities is the longer term, but within the foreseeable future. The Commission considers this to be a period of one year, which is the period customarily used internationally in applying the ‘*ssnip*’ test [...] to determine market boundaries.”

Commerce Commission, Practice Note: 4, p.18

Over the longer term but within one year, ACG considers that there is broader potential for supply side substitution as competitors with current specialisation in particular market segments could enter other segments if profitable opportunities arise — that is, if the combined entity were to raise prices by five per cent.

All electrical distribution products and associated accessories within the segments listed in Exhibit 2.3 are substitutable in supply in the foreseeable future as their production does not involve heavy manufacturing — they are assemblies of moulded plastic parts, punched and turned metal parts and springs, with some additional electronics in other products. Indeed, suppliers currently supply electrical distribution products and associated accessories in segments other than those able to be substitutable in supply in the very short term. For example, the Estimated Market Share Matrix (see Appendix A) shows Hager supplying products in both segments 4 and 5.

New Zealand suppliers also operate in Australia. In a number of cases they currently provide a broader range of products into the Australian electrical distribution part market, indicating a ready capacity to do so in New Zealand. [

] This suggests that HPM may have capacity to increase supply of segment 4 products in New Zealand. Hager/B&R in Australia supplies product in segments 2 and 4 as well as some minor product lines within segment 5. Therefore, major suppliers in the electrical distribution products and associated accessories market supply products within the range of products substitutable in the very short term as well as in industrial plugs and sockets segments — that is, segments 5 and 6.

Additional scope for potential supply-side substitution is provided by the relationships with large global manufacturers maintained by New Zealand suppliers. The additional access to international sources of supply through these relationships enables ready access to supply of electrical distribution products and associated accessories complying with New Zealand technical standards — see also Chapter Four for a discussion on the availability of imported substitutes. There are a significant number of potential international manufacturers of electrical products accessible to New Zealand suppliers. Some international companies such as ABB, Siemens and Legrand supply the entire range of electrical distribution products and associated accessories listed in the Estimated Market Share Matrix at Appendix A. For example, Legrand originally supplied wiring accessories (segment 5) but is now a supplier within almost all low voltage electrical distribution products and associated accessories segments.

If SE raised the price of Clipsal products, other companies would source and supply competing products. [

]

Therefore, supply-side substitution within the foreseeable future justifies a relevant market definition for competition analysis purposes that *at least* incorporates industrial plugs and sockets in addition to switches and outlets. The relevant market may also include products for which we do not have market data. As mentioned earlier, sales revenue for products that are substitutable for those included in the Estimated Market Share Matrix should be included in the total market estimates but are not as SE does not have sufficient market knowledge to reliably estimate the sales of these competing products.

In addition, the market is growing — through innovation and the development of new products. Exhibit 2.4 describes a supply-side response by Clipsal to a change in customer preferences in favour of building automation. This product innovation occurred in a relatively short period indicating a capacity for electrical distribution part manufacturers to respond quickly to changes in product specifications and customer requirements.

Exhibit 2.4

THE CLIPSAL NEO SMART SWITCH

Clipsal Integrated Systems (CIS) has independent in-house research and development, on-site manufacturing, global marketing, training and technical support. It employs more than 250 people, and has distribution in New Zealand, Malaysia, Singapore, Hong Kong, China, South Africa, Greece and the United Kingdom.

CIS's flagship automation product, the C-Bus Control and Management System, included a series of smart wall switches. However, these switches were based on the look and feel of a traditional electrical wall switch, with minor additions.

By 2001 architects, building and interior designers, and homeowners were becoming more aware of the benefits of commercial and residential building automation. In mid-2001, CIS embarked on a project to design, develop and commercialise *Clipsal Neo*, an innovative electronic smart switch for C-Bus.

The new switch was released in January 2002. The *Clipsal Neo* switch represents a world first in terms of construction, functionality and looks, relative to market price. As part of an overall C-Bus automation system, Neo can be used as part of an intelligent Building Energy Management system, to ensure lighting, air-conditioning units, etc are switched off automatically.

The product is sold through electrical wholesalers, via the network of CIS's specialist installers and via all CIS's offices overseas. It is currently sold in Australia, New Zealand, Malaysia, Singapore, Hong Kong, China, South Africa, Greece and the United Kingdom.

Source: *Electronics Industry Action Agenda — Consultation Draft*, January 2003, p.63-64 found at http://www.industry.gov.au/library/content_library/eiaareportconsdraft.pdf on 19 February 2003

2.5 The Correct Market Definition

ACG considers that the relevant market is a New Zealand-wide market for the supply of products within each of the segments listed in Exhibit 2.5 (and described in the Matrix at Appendix A). In Chapter Three, we conduct competition analysis on the basis of this electrical distribution products and associated accessories market definition.

Exhibit 2.5

RELEVANT MARKET SEGMENTS: ELECTRICAL DISTRIBUTION PRODUCTS AND ASSOCIATED ACCESSORIES SUPPLY

<p>Segment 1: Main Switch Board (medium and power low voltage)</p> <ul style="list-style-type: none"> Medium voltage circuit switches Power low voltage circuit breakers Fuses Enclosures <p>Segment 2: Distribution Panels (power low voltage)</p> <ul style="list-style-type: none"> Moulded case circuit breakers Earth leakage protection Miniature circuit breaker Fuses Enclosures Other components <p>Segment 3: Cable Ladders and Trays</p> <p>Segment 4: Final Low Voltage Panel Boards (domestic)</p> <ul style="list-style-type: none"> Small plastic or metal enclosures Earth leakage protection Miniature circuit breaker Other components Main switch <p>Segment 5: Wiring Devices and Cabling Systems</p> <ul style="list-style-type: none"> Sub-Segment 5A: Switches and outlets including intelligent systems <ul style="list-style-type: none"> 5.A.1 Components (switches, socket, outlet) 5.A.2 Control systems 5.A.3 Security, safety systems (excluding emergency lighting) 5.A.4 Communication network systems Sub-Segment 5B: Electrical accessories (boxes, fixing and cabling material) Sub-Segment 5C: Trunkings (horizontal and vertical service carriers) <p>Segment 6: Other Products sold</p> <ul style="list-style-type: none"> Medium voltage circuit breakers Medium voltage/low voltage transformers High voltage circuit breakers Medium voltage switches Motor control gear Industrial switchgear Hazardous location equipment Cable connection accessories Airmovement products Automation (PLCs) Machine devices (sensors and pushbuttons) VSDs & softstarters (include PDL drives)
--

Source: Data supplied by SE

Chapter Three

Changes to Industry Concentration from Acquisition

3.1 The NZCC Industry Concentration Tests

Section 47 of the Commerce Act prohibits any acquisition that would have the effect, or be likely to have the effect, of substantially lessening competition in a market. The Commission has established “safe harbours” for administrative convenience to provide some guidance as to which business acquisitions are unlikely breach the Act.

A business acquisition is considered unlikely to substantially lessen competition in a market where, after the proposed acquisition, either of the following situations exist:

- where the three-firm concentration ratio (with individual firm’s market shares including any interconnected or associated persons) in the relevant market is below 70%, the combined entity (including any interconnected or associated persons) has less than in the order of a 40% share; or
- where the three-firm concentration ratio (with individual firm’s market shares including any interconnected or associated persons) in the relevant market is above 70%, the market share of the combined entity is less than in the order of 20%.

Commerce Commission, Practice Note: 4, p.28

The first safe harbour relates to unilateral market power and the second, to coordinated market power. While these thresholds are indicative only and not a replacement for case-by-case analysis, the Commission’s Practice Note states that its approach is that “business acquisitions falling within the safe harbours are unlikely to breach the Act, save in exceptional circumstances”⁶.

3.2 Current Market Shares

Exhibit 3.1 lists the markets shares of the major participants in New Zealand and the respective concentration measures both pre-acquisition and post-acquisition based on total company sales.⁷ The exhibit provides market shares and concentration measures for the definition of the relevant market that encompasses the six product segments discussed in Section 2.5.

[

]

⁶ Commerce Commission, Practice Note: 4, p.28

⁷ Actual 2002 sales for Gerard and SE, and the other firms’ estimated sales are net figures — that is, gross sales as invoiced less subsequent settlement discounts and rebates which vary by product and by customer.

Exhibit 3.1

MARKET SHARES AND CONCENTRATION MEASURES OF ELECTRICAL DISTRIBUTION PRODUCTS AND ASSOCIATED ACCESSORIES SUPPLIERS

Market Value \$NZ'000s	Market Shares %				C3 Ratio %	
	Pre-acquisition		Post-acquisition		Pre-acquisition	Post-acquisition
[]	SE	[]	Combined Entity	[]	[]	[]
	HPM	[]	HPM	[]		
	Clipsal	[]	GE	[]		
	GE	[]	Hager	[]		
	Hager	[]	Eaton/Cutler Hammer	[]		
	Eaton/Cutler Hammer	[]	Others	[]		
	Others	[]				

Source: ACG calculations based on data supplied by SE and Clipsal

3.3 Post-acquisition Market Shares

For the relevant market defined in Chapter Two, there are no *prima facie* issues of market concentration, based on the static market share data available — the post-acquisition market shares are within the Commission’s safe harbours described in the Commission’s Practice Note.

[] These shares are within the Commission’s safe harbours, hence the proposed acquisition is unlikely to substantially lessen competition in the New Zealand electrical distribution products and associated accessories supply market.

3.4 Changes to Market Concentration due to the Acquisition

Given the post-acquisition market share of a combined SE/Clipsal would be within the Commission’s safe harbours for the relevant electrical distribution products and associated accessories supply market, the matters that can be taken into account in determining whether an acquisition is likely to substantially lessen competition under s.47 of the Act are not necessarily relevant. However, it is acknowledged that the data on which this analysis is based is not complete. In addition, should a narrow definition of the market be accepted by the Commission the post-acquisition market shares may be in excess of these safe harbours, these matters become relevant. In particular, a powerful counter to any competition concerns for narrow market definitions, is the role of imports, potential imports and the countervailing power of wholesalers as constraints on the exercise of market power in the narrow market.

These factors are discussed in detail in Chapters Four and Five.

Chapter Four

Constraints from Market Entry and Expansion

4.1 Current Import Market Share

However the market is defined, consideration of import competition as a potential source of new or expanded market entry within that market is important.

“A business acquisition is unlikely to result in a substantial lessening of competition in a market if behaviour in that market continues to be subject to real constraints from the threat of market entry and expansion.

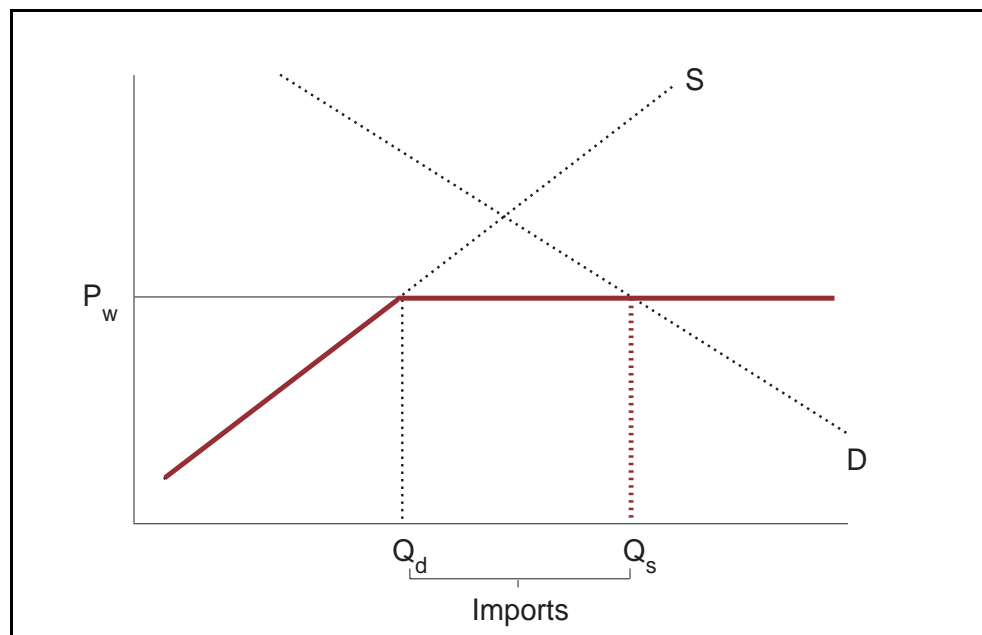
...
 In order for the threat of market entry to be such a constraint on the exercise of market power as to alleviate concerns that a business acquisition could lead to a substantial lessening of competition, entry of new participants in response to the exercise of market power must be likely, sufficient in extent and timely (the *let test*).”

Commerce Commission, Practice Note: 4, p.37–38

At the broad conceptual level, the role of imports in disciplining the prices charged by domestic electrical distribution part suppliers can be shown in the following exhibit.

Exhibit 4.1

DOMESTIC AND WORLD SUPPLY OF ELECTRICAL DISTRIBUTION PARTS



Source: ACG

Demand and domestically produced supply are shown as the schedules D and S. It is assumed that the rest of world can supply any amount of the product at price P_w . Total sales denoted by Q_s , of which Q_d is produced domestically and Q_s minus Q_d is imported.

If domestic producers attempt to raise their price above the world price, Pw, they will lose sales to imports. In this framework, imports could supply the entire market, if domestic producers could not (or did not) sell at a price below Pw. Thus, Pw puts a ceiling on the price that could be charged by domestic producers.

Import share of electrical distribution products and associated accessories to New Zealand is significant. SE estimates that all suppliers listed in Estimated Market Share Matrix import at least one product line or components of a product line for assembly in New Zealand at any one time. [

]

“Imports channelled through the parties to an acquisition, or persons associated with them, will be added to their domestic production in assessing market share, rather than being treated as independent sources of supply.”

Commerce Commission, Practice Note: 4, p. 25

China is an existing source of imports, which is very cost competitive with New Zealand supply. Exhibit 4.2 describes the Arlec’s business importing switches and outlets from China for sale in retail outlets distributed directly by Arlec as well as through wholesalers. In addition, Australec Switchgear, manufactured in mainland China by Mai Chung, is supplied directly and through wholesalers into the New Zealand market.⁸

Exhibit 4.2

**ARLEC ELECTRICAL DISTRIBUTION PRODUCTS AND ASSOCIATED ACCESSORIES:
CHINESE IMPORTS TO NEW ZEALAND**

Avatar owns the Arlec retail brand and associated manufacturing and distribution companies. Avatar Industries, a public listed company, is an international manufacturer and distributor of electrical products. It has operations in the UK, Europe, Australia, China and New Zealand.

Arlec electrical products include domestic leads, exhaust fans, heavy duty leads, plug in timers and powerboards. Arlec Power has recently introduced wiring accessories including switches, outlets and wiring connections that are compatible with standard brackets and meet New Zealand and Australian standards. Arlec Power products include: power points, architrave switches, batten lampholders, TV wall plate, junction box, mounting brackets, wall plate switches and mounts.

Arlec’s Chinese exporting offices:

Arlec Consolidation Centre Chiwan Office Building Chiwan, Shenzhen, China 518068 Tel: 86+755+667+5843 Fax: 86+755+667+5845	Arlec Shanghai No 28 Jiatai Road, Waigaoqiao Free Trade Zone Shanghai, 200131, P.R. China Tel: 86+21+5064+5258 Fax: 86+21+5064+0256
--	---

Arlec’s New Zealand Agent:

Specialised Sales & Marketing 21 Jipcho Road Sockburn, Christchurch, NZ, 8004	Ph: (03) 341 8420 Fax: (03) 341 8430
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Arlec wiring accessories are available to electrical contractors (and other end-customers) direct by ordering on website <http://au.store.yahoo.com/arlecpower/> and distributed in New Zealand through retail outlets. Arlec also sells directly to wholesalers.

Sources: www.arlec.com.au and www.electrolink.co.nz

⁸ Australec Switchgear NZ Ltd have a New Zealand office in Ashfield Street, Glenfield in Auckland and online ordering is available at www.australec-switchgear.com.

The significant role of actual and potential imports independent of current New Zealand suppliers is supported by a number of market characteristics:

- First, there are *very few technical or trade barriers* to entry globally. All manufacturing countries (with the exception of the United States) have adopted the IEC standards for circuit breakers and industrial products (discussed in Exhibit 4.3). With the recent amendment to New Zealand technical standards making it mandatory to install domestic earth leakage protection for new residual and residential type installations from January 2003, these standards will be completely harmonised with Australian standards and comply with IEC standards.⁹ Although there are some differences in the façade of New Zealand domestic outlets that require European manufacturers to retool, the New Zealand products are equivalent to Chinese standards. The Japanese Electrical Manufacturing standards are currently being rewritten to be compliant with the IEC standards. Japanese manufacturers are increasingly a relevant potential threat in the New Zealand market. For example, Omron, whose head office is in Kyoto, supplies industrial automation products (segment 6) to New Zealand from its Sydney warehouse in addition to making an extensive range of electrical distribution products and associated accessories available directly through its website.¹⁰ In addition, SE reports that Japan's two largest manufacturers of electrical distribution products, Fuji and Mitsubishi, are now present in the New Zealand market.

In addition to the market expansion effect of harmonised technical standards, New Zealand wholesalers also have unimpeded access to all products available in Australia given the absence of parallel importing restrictions. There is significant import penetration in the same product market in Australia — in the past six years, the import share of Australian domestic demand for electrical equipment manufacturing (approximating the electrical distribution products and associated accessories market) has varied between 55 and 65 per cent [

].¹¹ The absence of barriers to trade mean that additional importers are potentially accessible to New Zealand wholesalers and contractors via the Australian market include Terasaki/Rockwell/NHP and ABB;

- Secondly, the *electrical distribution products and associated accessories are largely commoditised* and therefore imports are closely substitutable for the products of the merging firms from electrical contractors' point of view. Patent or design-protected products are limited to products on the margin of the market definition;
- Thirdly, the wholesale market provides a *ready New Zealand-wide distribution avenue* for products without the need for new manufacturers or importers to invest in sunk costs of distribution (see Chapter Five); and

⁹ This amendment will also trigger a significant increase in the demand for domestic earth leakage protection by electrical contractors in New Zealand.

¹⁰ www.omron-ap.co.nz/product_info/index.htm.

¹¹ IBIS World Pty Ltd 2002, C2859 – *Electrical Equipment Manufacturing n.e.c. in Australia*, published 3 October 2002.

- Fourthly, *dynamism* in the relevant market provides greater opportunity for entry and expansion. The New Zealand electrical distribution part market is likely to experience significant increased demand growth due to the recent introduction of regulation requiring circuit breakers in residential uses from 2003 (in harmony with Australian standards). [

] However, this market sub-segment is likely to grow significantly providing a dynamic opportunity for competitive entry. Another fast-growing segment in which the combined entity will have an overlap of interests is wiring devices and cabling systems — [

]

Exhibit 4.3

INTERNATIONAL TECHNICAL STANDARDS FOR ELECTRICAL DISTRIBUTION PRODUCTS

The International Electrotechnical Commission (IEC) is the leading global organisation that prepares and publishes international standards for all electrical, electronic and related technologies. These serve as a basis for national standardisation and as references when drafting international tenders and contracts.

Through its members, the IEC promotes international cooperation on all questions of electrotechnical standardization and related matters, such as the assessment of conformity to standards, in the fields of electricity, electronics and related technologies, including electrical distribution, as well as associated general disciplines such as terminology and symbols, electromagnetic compatibility, measurement and performance, dependability, design and development, safety and the environment

IEC's international standards facilitate world trade by removing technical barriers to trade and represent the core of the World Trade Organization's Agreement on Technical Barriers to Trade (TBT).

The IEC's multilateral conformity assessment and product certification schemes reduce trade barriers caused by different certification criteria in various countries, assist compliance with government regulation and helping industry to open up new markets.

IEC Members

Argentina	Hungary	Philippines, Rep. of the
Australia	Iceland	Poland
Austria	India	Portugal
Belarus	Indonesia	Romania
Belgium	Iran	Russian Federation
Bosnia & Herzegovina	Ireland	Saudi Arabia
Brazil	Israel	Singapore
Bulgaria	Italy	Slovakia
Canada	Japan	Slovenia
China	Korea (D.P.R. of)	South Africa
Colombia	Korea (Republic of)	Spain
Croatia	Latvia	Sweden
Cyprus	Lithuania	Switzerland
Czech Republic	Luxembourg	Thailand
Denmark	Malaysia	Tunisia
Egypt	Malta	Turkey
Estonia	Mexico	Ukraine
Finland	Netherlands	United Kingdom
France	New Zealand	United States of America
Germany	Norway	Vietnam
Greece	Pakistan	Yugoslavia

Sources: www.iec.ch found at 28 February 2003

4.2 Potential Importers

In addition to the current market characteristics favourable to imports, the Commission also considers realistic scenarios for potential entry into the relevant market. The Commission will consider whether such entry is likely in commercial terms, likely to be sufficient in extent to cause market participants to react in a significant manner, and likely to be timely from the point when market power is first exercised — the “*let*” test.

“Unlike its consideration of near entrants, the Commission will generally not attempt to identify specific firms that might enter the market. Rather, the Commission will examine the barriers to entry which may restrict the entry of new firms into the market, and will assess the likelihood of entry in a generic sense. This examination will include consideration of the means by which entry might occur: existence of excess capacity; establishment of new production facilities; development of alternative products or technologies to meet consumer needs; adaptation of existing facilities or technologies; or the identification of new sources of the goods or services supplied in the relevant market. The examination will also canvass such factors as: the design, promotion and marketing effort required to establish a new product or service in the market; and any resource consent, product or service approvals and other regulatory requirements associated with market entry.”

Commerce Commission, Practice Note: 4, p.38

Given the expansion in worldwide production capacity for circuit protection in the late 1990s and 2000 which matured at a time of international economic downturn, it is SE/Clipsal’s observation that there is considerable flexibility in existing capacity. That is, without a need for substantial capital investment, current production could expand to satisfy total New Zealand demand in the relevant market several times over — total domestic demand accounts for 0.2 per cent of global capacity.

Exhibit 4.4

ENTRY CASE STUDY 1: NEW ENTRY BY CLIPSAL (AN INTERNATIONAL SUPPLIER)

The strategy adopted by Clipsal in entering the New Zealand electrical distribution products and associated accessories market with its *Clipsal* brand, is an example of an entry strategy that could be adopted by suppliers with minor or no current market share.

Clipsal first introduced product into New Zealand in 1996. The very narrow range of *Clipsal* switches and powerpoints offered were styled differently from the products of their major competitors — HPM and PDL. (Australian power points have a horizontal styling.) Nevertheless market presence was sustained.

Clipsal adopted a concerted market penetration strategy by:

- re-tooling their Australian manufacturing processes to produce products with a consistent New Zealand styling. This redesign was part of the ongoing evolution in the presentation of these commodities and was not a direct response to a particular competitor’s product. The re-styled products were introduced 18 months after Clipsal’s decision to adopt the entry strategy;
- developing demand for the re-styled products. Clipsal appointed a team of representatives to make direct approaches to contractors, builders and specifiers. It introduced promotional campaigns including discounted prices for key customers and the introduction of the New Zealand *Clipsal Club*. Representatives also developed relationships with the key wholesalers based on the new range of products; and
- introducing a more comprehensive *Clipsal* product range from 1999.

From 1999 to 2003, Clipsal’s share of the switches and outlets market segment, for example, []. SE’s share of that segment [] over the same period.

Source: Clipsal

Potential imports could come from four sources.

- First, there are a number of significant *suppliers within the international market*, especially Europe, that have minor or no market shares in the New Zealand market currently and could expand their market share. Suppliers such as ABB, Legrand, GE and Siemens have no New Zealand presence but have the capacity in this product market — they are present in the Australian market supplying products compliant with New Zealand technical standards. These suppliers could enter the market through a local importing agent or establish their own relationships with wholesalers. Clipsal’s recent entry into the market provides a case study of such an entry strategy (see Exhibit 4.4 above).

Exhibit 4.5

ENTRY CASE STUDY 2: MARKET EXPANSION BY AN EXISTING NEW ZEALAND SUPPLIER

Hager’s Australian experience provides an example of potential expansion of New Zealand electrical distribution products and associated accessories supply market share by an existing supplier.

In Australia, Hager succeeded in entering the market with miniature circuit breakers and earth leakage protection products.

- In 1993 Hager, although a major international supplier sourcing its product from France and Germany, was unknown in Australia.
- Hager researched the Australian market and in 1995 appointed an agent responsible for introducing their range to wholesalers.
- By 2000, Hager had achieved a material market share, and currently [] of the total Australian electrical distribution products and associated accessories supply market.

Hager’s current New Zealand market share of [] could be easily expanded in response to a market opportunity give the absence of technical barriers.

Source: Clipsal

- Second, *established international manufacturers* currently supplying New Zealand suppliers have sufficient presence from which to supply their full range of electrical distribution products and associated accessories. Current major suppliers into New Zealand include Clipsal and HPM, in addition to SE. Legrand, who has recently opened an office in Auckland, also has a range. Other international suppliers of switches and outlets¹² include Alstom, ABB, Terasaki, Hager and Siemens. These importers provide significant capacity for supply in response to a market opportunity. In Australia, HPM developed [] share in final low voltage panel boards in only 6 years using Siemens as a supplier, before switching to GE, and is expanding their circuit protection range (including industrial switchgear) through imports from their recently acquired Chinese copy manufacturer. Exhibit 4.5 illustrates a basis for a similar but hypothetical entry strategy for Hager in New Zealand based on Australian experience.

¹² The major suppliers currently supply different product lines. For example, major suppliers for medium voltage circuit switches in Segment 2 are Alstom, ABB and Siemens; for power low voltage circuit breakers suppliers are Terasaki (via NHP agent) and ABB; and enclosures by NHP and Hager B&R. The major suppliers of moulded case circuit breakers in segment 3 are Terasaki (via NHP agent) and ABB.

- Third, *new and developing manufacturers* may enter the New Zealand market. Given the absence of technical entry barriers and their scale of production, it is not difficult for Chinese manufacturers to ‘tool up’ to produce products suitable for the New Zealand market. The margins in New Zealand are high relative to China, representing a viable opportunity for importers of Chinese products. Existing New Zealand suppliers already have importing infrastructure, and could easily import products from Chinese manufacturers to fill a gap in the market. Arlec’s New Zealand business (described in Exhibit 4.2), although currently focussed on supplying the retail market directly, is a current case. In addition, there are numerous Chinese electrical distribution product manufacturers, some already present in the Australian market, who are potential entrants into the New Zealand electrical distribution part supply market. HPM, for example, has a strong position in both New Zealand and Australia, and would have no difficulty sourcing other products to complement their range through their new Chinese copy manufacturing business, IMO.

Exhibit 4.6

ENTRY CASE STUDY 3: POTENTIAL SOURCES OF IMPORT COMPETITION FROM CHINA

There are hundreds of electrical manufacturers in China. Bilingual internet gateways provide information on these manufacturers, including contact details and product specification. Such websites include:

- www.chinapages.com; and
- www.kompass.com.

Chinese electrical part manufacturers currently exporting to Australia include:

- | | |
|--|---|
| • Hall Electrical Appliance Manufacture Co. Ltd.
B-2 Bongling Industrial Zone
Shanghai, China, 200124 | • Tamco Shanghai Switchgear Co. Ltd.
379, Jianchuan Road, Minhang
Shanghai, China, 201109 |
| • Joining Electrical Equipment Group. Co. Ltd
Economic Development Zone, Yueqing City
Zhejiang, Wenzhou, China, 325604
www.joininggroup.com | • Tengen Group Corp
Tengen Mansion, Liushi Dongfeng
Industrial Zone, Wenzhou, China
www.tengen.com.au |

Chinese manufacturers of miniature circuit breakers only that currently export to countries other than Australia or New Zealand:

- | | |
|---|---|
| • Delixi Group China
Delixi Industrial Zone, Wenzhou, China
www.delixi.com | • Chint Electrical
Industrial Zone, Wenzhou
www.chint.com |
| • San Zhou Group of China
Zhangwan Industrial Zone
North Baixiang, Wenzhou, China, 325603
www.sanzhou.com | • Sentai Electrical
External industrial Zone
Wenzhou, China |
| • Sunworld Electrical Group
Industrial Zone, Wenzhou, China
www.xhjt.sun.com | • Sassin International Electric
Sassin Industry Zone
Liushi, Wenzhou, China, 325604
www.sassin.com |
| • Huyu Group
Electrical Industry Zone
North Baixiang, Wenzhou, China
www.chinahuanu.com | • Qiaoguang Group
151 DaQiao Road Liu Shi
Wenzhou, China |

Sources: www.made-china.com and www.chinanics.com and information supplied by SE.

The capacity of Chinese manufacturers to respond in a timely manner to a commercial opportunity to enter the New Zealand electrical distribution products and associated accessories supply market is significant. [

]

A selection of current manufacturers are described in Exhibit 4.6. An additional example, not listed, is TCL Holdings Co Ltd a major HuiZhou-based manufacturer of audio visual, information technology and telecommunication products — and since 1990 — electrical distribution products and associated accessories. Its switches and sockets business is known as TCL International Electrical (Huizhou) Co Ltd. The financial capacity of the total Group is significant and it is export-oriented. TCL's 2001 total sales were \$US2.54 billion and export earnings totalled US\$716 million, an increase of almost 40 per cent in export earnings over the previous year.¹³

Exhibit 4.7

ENTRY CASE STUDY 4: 'HOMEBRANDING' BY WHOLESALERS

HOME BRANDS

All major wholesalers in Australia import products from China as a 'home brand' to compete directly with Australian suppliers' products. Home brands include:

- Connectus by Rexel;
- Omega by Middendorp;
- Electrolink by the CED Group;
- Repelec by MMEM; and
- Lanson by Hagemeyer.

Rexel's homebrand also competes with New Zealand suppliers' products.

'LANSON' BY HAGEMEYER

The experience of Hagemeyer in introducing its own 'homebrand' into the Australian electrical distribution part supply market illustrates the potential for a New Zealand wholesaler to do the same .

Over the last 4 years Hagemeyer has developed and expanded its 'home brand' range of electrical accessories in Australia. This range is globally sourced through Hagemeyer International or manufactured by Chinese subcontractors under the Lanson brand name. In some instances Hagemeyer own the tooling that is utilized by the sub contract manufacturers.

The range of products on offer includes:

- switches and power points;
- miniature circuit breakers;
- earth leakage protection;
- air movement products;
- lighting;
- electrical fittings; and
- mounting accessories.

Hagemeyer have gained significant market share in Australia — the 'home brand' products now account for [], four years ago. They have moved from [] sourcing from Australian suppliers to approximately [].

Sources: Information supplied by SE

- Alternatively (and fourthly), *wholesalers may import competing products*. Costs of advertising and promotion can be minimised by wholesalers 'home branding' imported product. Home branding is a significant trend in the Australian electrical distribution products and associated accessories supply market — Exhibit 4.7 describes the growth of wholesaler home brands supplied by Chinese manufacturers, in particular, the 'Lanson' brand introduced by Hagemeyer. Home branding by wholesalers of Chinese or other internationally manufactured product is a potential entry strategy for New Zealand wholesalers. The penetration of home

¹³

www.tcl.com/english/ found on 25 June 2003

branded products is lower than in Australia — [] Redeal (Rexel’s New Zealand subsidiary) currently supplies home branded lighting products through the same outlets that supply electrical distribution products and associated accessories supply. It is a subsidiary of a major international wholesaler who negotiates international prices for electrical distribution products and associated accessories with the international head offices of manufacturers. Of the wholesalers, Redeal and Crane Distribution are significant current importers and Powerbase also has the capacity to import product for such an entry strategy. (The role of wholesalers is discussed further in Chapter Five.) In addition, a number of suppliers including HPM *Always* and Mistral *Ringgrip* currently provide home branded products direct to the retail market. This strategy has enabled successful opportunistic entry — for example, *Ringgrip* []

4.4 Effectiveness of Import Competition

ACG considers that the combined SE/Clipsal business would be consistently inhibited in exercising market power by the pricing of actual and potential import supplies. After the acquisition the combined entity will not be able unilaterally to exercise market power and raise prices (or reduce quality) nor could suppliers as a whole coordinate their actions (implicitly) to raise prices or lower quality without the real threat of entry into the New Zealand electrical distribution products and associated accessories supply market by importers.

Chapter Five

Countervailing Power in the Relevant Markets

5.1 Countervailing Power

The Commerce Commission, in Practice Note: 4, describes its approach to adjudicating on business acquisitions under section 47 of the Commerce Act. The degree of countervailing power from buyers in a market should be taken into account. The Commission notes that such countervailing power can eliminate concerns that a business acquisition may lead to a substantial lessening of competition.

“The potential for a firm to wield market power may be constrained by countervailing power in the hands of its customers, or alternatively, when considering buyer (oligopsony or monopsony) market power, its suppliers. In some circumstances, it is possible that this constraint may be sufficient to eliminate concerns that a business acquisition may lead to a substantial lessening of competition.”

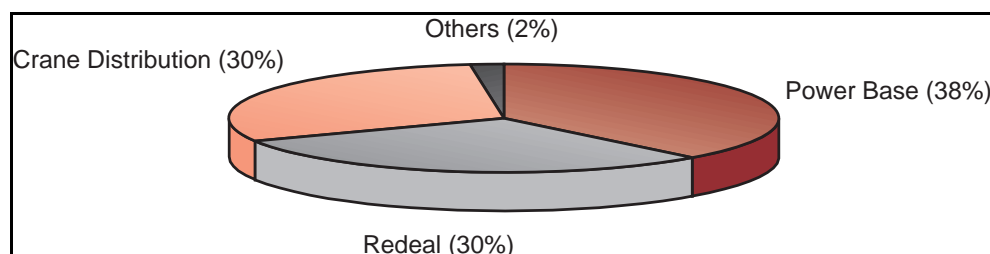
Commerce Commission, Practice Note: 4, p.42

The role of imports, and potential imports, as a pro-competitive force, was discussed in Chapter Four. That chapter argued that actual and potential import competition *in itself* will be sufficient to prevent the acquisition from substantially lessening competition (SLC) in the market. However, even if import competition is put to one side, as argued in this chapter, the countervailing power of wholesalers of electrical distribution products and associated accessories will also ensure that the acquisition will not lead to a SLC. This is because wholesalers, individually and taken together, possess significant market power, which is at least as significant as that which may be held by SE and Clipsal as a combined entity, or amongst sellers as a whole.

Part of this market power derives from the fact that three major wholesaler groups exist in the market (see Exhibit 5.1).

Exhibit 5.1

WHOLESALEERS' ESTIMATED MARKET SHARES



Source: Consultation with SE

Furthermore, one of the three major wholesalers, Redeal, is a subsidiary of a large multinational company, Rexel. This gives Redeal financial strength that enhances its bargaining power over local suppliers, not least because they can (and do) bypass these suppliers to source products from overseas suppliers.

5.2 New Zealand Electrical Distribution Part Wholesalers

The three major electrical wholesaler groups are PowerBase, Redeal Limited and the Crane Distribution NZ Ltd. PowerBase is a buying group that combines the buying power of a range of independent wholesalers and has national coverage. It has a relationship with PowerStation in Australia that includes sharing information on products and prices. Redeal is a subsidiary of Rexel, a large multinational electrical product wholesaler. Crane Distribution is a wholly owned subsidiary of Australian public company Crane Group Limited, an independent wholesaler with a broad and diverse offering of electrical products.

The wholesalers' market shares are shown in Exhibit 5.1 and the scope of their businesses are described in Exhibit 5.2. All industrial plugs and sockets, circuit breakers and miniature earth leakage supplied by Clipsal and SE are distributed through wholesalers. []

Exhibit 5.2

WHOLESALEERS IN NEW ZEALAND

<p>POWERBASE GROUP</p> <p>PowerBase is a buying group that combines the buying power of a range of independent wholesalers and has national coverage. It operates through approximately 70 branches around New Zealand.</p> <p>REDEAL LIMITED</p> <p>Redeal's core business is the supply of electrical goods and services and operates through over 68 branches around New Zealand and five regional lighting branches.</p> <p>CRANE DISTRIBUTION NZ LTD</p> <p>Crane Distribution is a New Zealand wholesaler of plumbing & electrical supplies. The company is a wholly owned subsidiary of Australian public company Crane Group Limited. Crane Distribution operates through two distribution brands:</p> <ul style="list-style-type: none"> • MasterTrade Ltd has 46 branches nationwide and caters for both the electrical and plumbing trades. • Corys has over 30 branches nationwide and distributes electrical products. <p>Suppliers of Corys and MasterTrade include: Hamer, PDL and Vynco Industries (a distributing agent for GE).</p>
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Sources: www.rexel.co.nz , www.mastertrade.co.nz, www.corys.co.nz

Each year, suppliers negotiate with wholesalers to determine trading terms including rebate rates (off invoice discount based on sales volume) for the forthcoming year.

Wholesalers provide small contractors with product range and after sales service and credit terms of around 60 days. Electrical contractors often retain 3 wholesaler accounts to maximise the availability of credit. Wholesalers have some influence on buying decisions by contractors. Suppliers provide 30 to 45 days credit to wholesalers and up to 60 days to direct contractor sales.

5.3 New Zealand Buying Power

Wholesalers have buyer power because they are few and large.

As described in Chapter Two, the supply and wholesale functional markets in the electrical distribution products and associated accessories market are inter-woven — suppliers supply all three wholesaler groups and wholesalers offer wide range of suppliers' products.

The wholesalers have key relationships, including as credit providers, to electrical contractors, so suppliers cannot readily bypass wholesalers and systematically undermine their buying power. Although suppliers could also provide credit arrangements, this would not overcome their lack of a widespread distribution network.

Wholesalers have commercial relationships with a wider range of suppliers than those directly competing with SE and Clipsal in New Zealand currently. Countervailing power is maintained, in part, due to the potential for wholesalers to *bypass* suppliers, between either domestic and/or import sources. The potential for New Zealand supply side substitution through Australian wholesalers' or suppliers' international networks is enhanced by the absence of any parallel importing restrictions into New Zealand.

This potential has been exercised on occasion, in response to price rises or falls in quality of service. In Australia, Hagemeyer has begun sourcing switches and outlets products from China and homebranding (see Exhibit 4.8). In addition, retailers of electrical distribution products and associated accessories, such as those listed in Exhibit 4.2 in the previous chapter, may provide a future threat of bypass to wholesalers.

5.4 International Buying Power

Internationally, the largest electrical wholesalers are, in order of size, Rexel, CED (or the MEM Group), Hagemeyer and Sonepar. (CED and Sonepar are private groups.) Therefore, Redal is a subsidiary of a foreign company, Rexel, that has relationships with SE in other countries. Redal can use their international relationships to exercise power over SE and Clipsal in the New Zealand market(s).

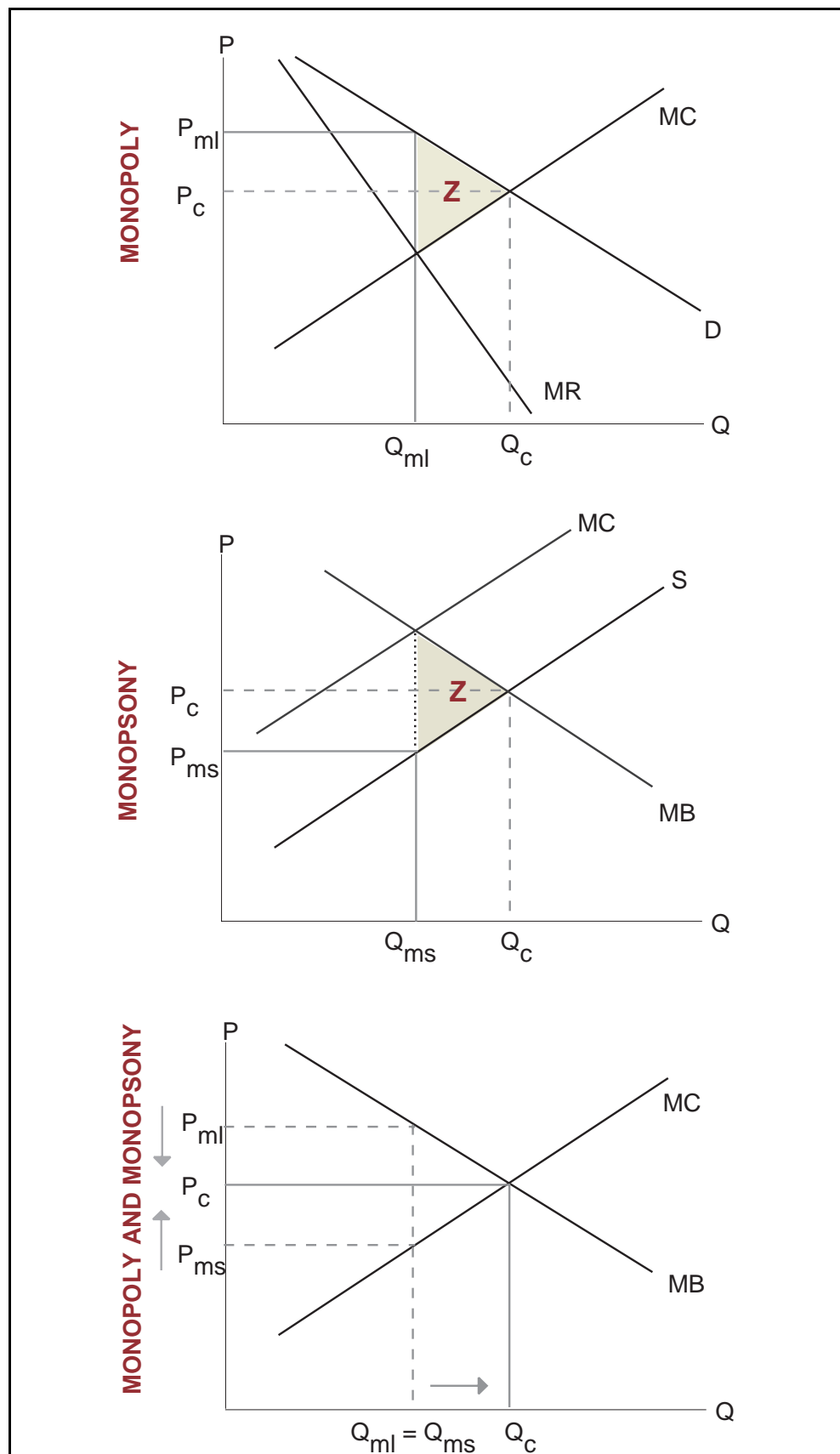
5.5 Countervailing Power in Theory

The industrial structure of the electrical distribution products and associated accessories market is (and will be after the acquisition) two to three significant suppliers, three significant wholesalers, and a large number of electrical contractors. The wholesale market may be characterised as a bilateral oligopoly, with strategic interaction among sellers (the suppliers), among buyers (the wholesalers) and between sellers and buyers. Because these interactions are complex, their theoretical outcome is difficult to determine.¹⁴

¹⁴ Some results have been obtained for special cases. See Jonas Björnerstedt and Johan Stennek, "Bilateral Oligopoly", The Research Institute of Industrial Economics Working paper No 555, 2001; and Kenneth Hendricks and R. Preston McAfee, "A Theory of Bilateral Oligopoly, With Applications to Vertical Mergers, June 2000, accessed at <http://www.eco.utexas.edu/faculty/McAfee/Papers/>.

Exhibit 5.3

MONOPOLY AND MONOPSONY POWER



Source: ACG

To keep the analysis tractable, the countervailing effect of buyer power can be examined in a model of bilateral monopoly i.e. where there is just one buyer, and one seller. While this is not an accurate description of the situation prevailing in the New Zealand wholesale electrical distribution products and associated accessories market, the model of bilateral monopoly nonetheless shows how buying power and selling power can offset each other so that the outcome is approximately what would be obtained in a competitive market.

The analysis is best conducted by examining, first, the actions of a profit maximising monopolist, who does not face any buyer power. This situation is depicted in the top panel of Exhibit 5.3. As the only supplier in the market, the monopolist can drive up the market price by restricting production. The monopolist maximises profits by setting a price (P_m), which is above the competitive price (P_c), such that the monopolist's marginal revenue is equal to its marginal cost. At that high price, Q_m units will be supplied and purchased (which is less than the competitive output level, Q_c). This outcome results in a transfer of income from buyers to the monopolist and, most importantly, results in an efficiency cost (compared to the competitive outcome), which is depicted by the triangle Z. This efficiency cost is a loss of income to the whole community, and reflects the misallocation of resources caused by the exercise of monopoly power.

The converse situation is one where a monopsonist exercises buyer power. This is shown in the middle panel of Exhibit 5.3. Because monopsonists are the only buyers in the market, every time they purchase an additional unit of output, they drive up the price which then must be paid for every unit that they purchase. Recognising this, the monopsonist uses its market power by restricting its purchases to drive down price. The point of profit maximisation for the monopsonist is where its marginal outlay is equal to the marginal benefit from its purchases. As shown, the monopsonist purchases Q_m units at a low price of P_m . This outcome also results in an efficiency loss depicted by the triangle Z, for the same reason as occurred with the monopoly — output in the market is restricted to be less than would prevail in a competitive market. On this occasion, however, there is a transfer of income from sellers to the buyer.

The bottom panel of Exhibit 5.3 depicts the situation when a monopolist faces a monopsonist. The monopolist would like to sell at the high price P_m . The monopsonist would like to buy at a low price P_m . They negotiate and settle on a price that lies in between these high and low prices. It is important to note that if, during the negotiation, the monopolist offers to sell at a price below the monopoly price, the monopsonist will want to purchase more than Q_m , given that price. Likewise, if the monopsonist offered to buy at a price higher than P_m , the monopolist would want to sell more than Q_m . Thus, if the monopolist and monopsonist settle on a price that is in between their initial offers, the efficiency loss from the outcome will be less than from monopoly or monopsony alone. The final outcome depends on the relative bargaining power of the monopolist and monopsonist. If the monopolist and monopsonist agree to divide their joint profits, and have equal bargaining strength, they will settle at the price P_c , and Q_c will be produced and purchased. The competitive outcome will be replicated in this case and there will be no efficiency loss.¹⁵

¹⁵ The standard theoretical treatment is Ariel Rubinstein, "Perfect Equilibrium in a Bargaining Model", *Econometrica*, 1982, following John Nash "The Bargaining problem", *Econometrica*, 1950.

5.6 A Test of Countervailing Power

As described in this Chapter, the wholesalers in the electrical distribution products and associated accessories market have considerable bargaining strength vis a vis the suppliers. One way of testing whether bargaining between suppliers and wholesalers is likely to tend toward a competitive outcome, or something close to it, is compare the concentration of buyers and sellers, in the market. Of course, as argued in this report, measures of concentration are not definitive measures of market power, because other factors (such as ease of entry into the market) may imply that a concentrated market is in fact very competitive. However, if it is assumed that these other factors apply about equally to buyers and sellers in the market, then a comparison of buyer and seller concentration could provide a reasonable indication of bargaining strength.

Pre- and post-acquisition C3 ratios for the selling side of the market were reported in Chapter Three of this report. Since there are only three major wholesalers (specifically, two buyers and one buying group) the C3 ratio for wholesalers is almost 100 per cent, and so cannot be usefully compared to the C3 ratio for suppliers.

An alternative measure of concentration is the Herfindahl-Hirschman Index (HHI), which is calculated as the sum of the squared market shares (so that if one firm has a two thirds per cent market share, and the other one has a one-third share $HHI = 0.67*0.67+0.33*0.33 = 0.556$. HHI for a monopoly is one, and is zero in a perfectly competitive industry.

The HHI also has the advantage that it is directly related to a widely used measure of market power used in economic analysis, the Lerner Index. For a monopolist, the Lerner index is $(p-mc)/p=1/\epsilon$ where $p-mc$ is the margin of price over marginal cost and ϵ is the elasticity of demand. For an oligopoly¹⁶, the Lerner index generalises to

$$L_{se} = \frac{p - \sum_i mc_i s_i}{p} = \frac{HHI_{se}}{\epsilon}$$

Thus, according to the Lerner index, in an oligopoly the mark up of price over marginal cost, weighted by market share, is equal to the HHI measure of concentration, divided by the elasticity of demand ϵ , and where the subscript **se** denotes “seller”.

An analogous expression exists for the buyers

$$L_{bu} = \frac{\sum_i mb_i \sigma_i - p}{p} = \frac{HHI_{bu}}{\eta}$$

where σ_i is buyers’ market share, mb_i is marginal benefit accruing to each buyer and η is the elasticity of supply, and subscript **bu** denotes “buyer”. The higher the elasticity of supply, the less scope there is for buyers to depress price below the competitive level because sellers greatly curtail their production in response to a price fall. ACG has been unable to source estimates for elasticities in the New Zealand electrical distribution part supply or wholesale markets, and therefore the following analysis relies upon HHI estimates only.

¹⁶ Technically, a Cournot oligopoly with constant returns to scale in production.

Exhibit 5.5 shows each supplier’s market share for the market definition analysed in Chapter Three, and the pre- and post-acquisition HHI. In constructing the HHI, it is assumed that the “other” category is split evenly between two suppliers. This is a very conservative assumption that makes the HHI larger (i.e. the sellers’ side of the market look more concentrated) than a plausible alternative assumption that “Other” should be split between a larger number of suppliers. [

]

Exhibit 5.5 also shows the market shares and HHI for the wholesalers. If we assume that the wholesalers’ market shares in the broad electrical products market is reflected in the relevant market. It is calculated as 0.3200. Thus the buying (wholesalers) side of the market is more concentrated than the selling (supply) side — even after the acquisition, and despite the conservative assumption that inflates the measured concentration on the selling side.

Exhibit 5.5

MARKET SHARES AND HHI OF NEW ZEALAND ELECTRICAL DISTRIBUTION PRODUCTS AND ASSOCIATED ACCESSORIES SUPPLIERS AND WHOLESALEERS

Market Value \$NZ'000s	Market Shares %				HHI	
	Pre-acquisition		Post-acquisition		Pre-acquisition	Post-acquisition
New Zealand Electrical Distribution Products and Associated Accessories Suppliers						
[]	SE	[]	Combined Entity	[]	[]	[]
	HPM	[]	HPM	[]		
	Clipsal	[]	GE	[]		
	GE	[]	Hager	[]		
	Hager	[]	Eaton/Cutler Hammer	[]		
	Eaton/Cutler Hammer	[]	Others ¹	[]		
	Others ¹	[]				
New Zealand Electrical Distribution Products and Associated Accessories Wholesalers						
na	PowerBase	38.0			0.3200	
	Redeal	30.0				
	Crane Distribution	30.0				
	Others	2.0				

¹ The number of suppliers included in “Other” is not known exactly, although they are numerous. For the purposes of calculating the HHI it was assumed that the ‘Other’ is split between two firms of identical size.
Source: Data supplied by SE

The implication of this analysis is that, after the acquisition, the bargaining power between the suppliers and wholesalers will still favour the wholesalers (where now it clearly favours the wholesalers). On slightly less conservative assumptions, the bargaining power will still clearly favour the wholesalers, after the acquisition.¹⁷ Furthermore, apart from the bargaining power that wholesalers have from their market

¹⁷ If a slightly less conservative assumption is made, that “Other” comprises four firms of equal size, the suppliers’ HHI increases from [] to [] further indicating a clear bargaining advantage to the wholesalers.

shares, they also have the ability, discussed in Section 5.3 of bypassing the New Zealand suppliers altogether and importing their stock from foreign suppliers.

In these circumstances, it is reasonable to surmise that significant countervailing power, exercised by wholesalers, exists in the market for electrical distribution products and associated accessories supply. A combined SE/Clipsal will not be able to raise prices unilaterally, nor will suppliers as a whole. Indeed, the balance of bargaining power between wholesalers and suppliers indicates that the market outcome, both presently and after the acquisition, is not significantly different from what would prevail in a competitive market.

5.7 Impact of Countervailing Power

Wholesalers have a significant degree of power in relation to the Clipsal business as the majority of Clipsal's sales are conducted through this channel. If SE did raise the price of Clipsal products, wholesalers could either source electrical distribution products or associated accessories from competing suppliers in New Zealand or import products from international suppliers.

Appendix A

Estimated Market Share Matrix: Electrical Distribution Products and Associated Accessories

New Zealand 2002 Net Sales	Total Estimated Market Size (NZ\$'000s)	SE		CLIPSAL		HAGER		GE		EATON/CUTLER HAMMER		HPM		Remaining Competitors	
		Actual Sales (NZ\$'000s)	Market Share	Actual Sales (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share
Total sales and market shares	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Segment 1: Main Switch Board (medium and power low voltage)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Medium voltage circuit switches	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Power low voltage circuit breakers	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Fuses	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Enclosures	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Segment 2: Distribution Panels (power low voltage industrial)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Moulded case circuit breaker	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Earth leakage protection	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Miniature circuit breaker	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Fuses (PDL)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Enclosures	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Other components (power factor)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Other components (links, tags)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

New Zealand 2002 Net Sales	SE			CLIPSAL		HAGER		GE		EATON/CUTLER HAMMER		HPM		Remaining Competitors	
	Total Estimated Market Size (NZ\$'000s)	Actual Sales (NZ\$'000s)	Market Share	Actual Sales (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share
Segment 3: Cable Ladders and Trays	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Metal products	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Aluminium and plastic products	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Segment 4: Final Low Voltage Panel Boards (domestic)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Small plastic or metal enclosures	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Earth leakage protection	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Mini Circuit Breakers	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Main Switch	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
other components	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Segment 5: Wiring Devices and Cabling Systems	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Sub-segment 5.A : Switches and outlets including intelligent systems	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
5.A.1 Components (switches, socket, outlet)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
5.A.2 Control systems	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
5.A.3a Security, safety systems (excl emergency lighting)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
5.A.3b Emergency Lighting	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
5.A.4 Communication network systems	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

New Zealand 2002 Net Sales	Total Estimated Market Size (NZ\$'000s)	SE		CLIPSAL		HAGER		GE		EATON/CUTLER HAMMER		HPM		Remaining Competitors	
		Actual Sales (NZ\$'000s)	Market Share	Actual Sales (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share	Sales (Est) (NZ\$'000s)	Market Share
Sub-segment 5.B : Electrical accessories (boxes, fixing and cabling material)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Sub-segment 5.C: Trunkings (horizontal and vertical service carriers)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Segment 6: Other Products sold	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Medium voltage circuit breakers	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Medium voltage/low voltage transformers	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
High voltage circuit breakers	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Medium voltage switches	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Motor control gear (contactors, overload relays)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Industrial Switchgear (switches, socket outlet etc)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Hazardous Location Equipment	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Cable Connection Accessories	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Airmovement Products	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Automation (PLCs)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
Machine Devices (Sensors & Pushbuttons)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]
VSDs & Softstarters (include PDL drives)	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]	[]

*Appendix B***International Operations of SE and Clipsal****SE International Offices**

SE is present in 130 countries with more than 7,400 sales outlets, 620 marketing facilities and 150 manufacturing facilities. The autonomous country organisations are grouped into four geographic divisions: North America, Europe, France and International. Contact details for each country office are too numerous to list here. Key contacts for trade areas are listed.

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Europe	Christian Wiest Executive VP Europe Operating Division As above	As above
North America	Chris C. Richardson President & CEO Groupe Schneider North American Division 1415 Roselle Road Palatine IL 60067 USA	Tel: (1) 847 397 2600 Fax: (1) 847 925 7500
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Clipsal International Offices

Clipsal brand is represented in over 25 countries worldwide. Contact details of key international offices are provided here

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	PO Box 7068 40702 Shah Alam, Selangor, Darul Ehsan, Malaysia	
	Clipsal Integrated Systems (M) SDN BHD Level 3, Unit 3-2, CP Tower Jalan Damansara 46350 Petaling Jaya, Malaysia	Ph: +60 3 7665 3555 Fax: +60 3 7665 3155 Email: cis@cisasia.com.my Web: http://www.cisasia.com.my
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Sources: www.schneider-electric.com and www.clipsal.com.au

Appendix C

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