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**COMMERCE ACT 1986: BUSINESS ACQUISITION
Notice Seeking Clearance (s.66)**

21 December 2012

The Registrar
Mergers & Authorisations
Commerce Commission
P O Box 2351
WELLINGTON

PERRY METAL PROTECTION LIMITED/CSP COATING SYSTEMS DIVISION OF FLETCHER STEEL LIMITED

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

Please note that:

- [] information is confidential to PMP
- [] information is confidential to CSP

EXECUTIVE SUMMARY

- A. This application concerns the proposed acquisition by Perry Metal Protection Limited (PMP) of the Auckland and Christchurch galvanizing businesses carried on by CSP Coating Systems (CSP), a division of Fletcher Steel Limited.
- B. PMP is primarily interested in CSP's Auckland business and will agree to a condition to divest the [], as a going concern on terms to be agreed.

North Island Market

- C. PMP operates four galvanising plants in the North Island which are located in Auckland, Hamilton, Tauranga and Wellington.
- D. It is considered the relevant product market is the provision of steel protection coating services.
- E. It is further considered that the proposed acquisition of CSP Auckland's business by PMP will not substantially lessen competition in any North Island market for the following reasons:

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- (i) Direct competition will continue from the two other Auckland based galvanizers, and a third galvanizer that currently only undertakes internal work, but is capable of resuming the acceptance of work from third parties.
- (ii) Competition will continue from other galvanizers in other North Island locations that source work directly from Auckland based steel fabricators, or that galvanize items that are fabricated in one region for customers located in other regions.
- (iii) Competition will also be applied by a large number of applicators that apply protective paint systems to steel items, and particularly for larger items.
- (iv) The actual or threatened importation of galvanised products will continue to constrain the pricing of galvanizing similar products in New Zealand.
- (v) There are low barriers to expansion or entry.
- (vi) The market conditions post acquisition will not be conducive to coordinated conduct.

South Island Market

- F. PMP owns the only other galvanizing operation in the South Island which is also located in Christchurch.
- G. To remove any competition concerns, PMP will agree to a condition to divest [] to a third party on terms to be agreed with the Commission.
- H. Pending the sale, both businesses will be managed separately and [] will be sold as a going concern. Following reaching agreement of the divestment proposal, there should be no composition, asset or purchaser risks.

PART 1: TRANSACTION DETAILS

The Business Acquisition

1. Perry Metal Protection Limited (PMP) intends to acquire the business assets of CSP Coating Systems (CSP), which is a division of Fletcher Steel Limited. CSP's business assets include plant, machinery, office systems, goodwill and customer lists associated with CSP's hot-dip galvanizing and coatings operations located in Auckland and its hot-dip galvanizing operation in Christchurch. PMP also intends purchase the Auckland land and buildings whereas the Christchurch property is leased from a third party.
2. PMP is willing to offer a commitment to divest [] on terms acceptable to it and the Commission.
3. PMP is the preferred bidder of CSP in a sales process undertaken by Fletcher Steel. **Enclosed** is a copy of the Information Memorandum prepared by Fletcher for the sales process, which is confidential. The details of any transaction are yet to be finalised, but will be conditional on receiving a clearance. A copy of any Agreement will be available to the Commission when it is in a final form. PMP's bid of [] for both the Auckland and Christchurch operations was made up of the following components:
 - (a) Plant and Equipment [];
 - (b) Intangible assets [];
 - (c) Stock estimate [];
 - (d) Penrose Property [].

The Person Giving Notice

4. This Notice is by:

Perry Metal Protection Limited
Perry House
Private Bag 3091
Hamilton
Attention: Richard Coventry, Director
Email: richard.coventry@perry.co.nz
DDI: 07 834-9050

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

Harkness Henry
Lawyers
Private Bag 3077
Hamilton 3240

Attention: Chris Marr (Associate)/ Paul Middlemiss (Partner)
Email: Chris.Marr@harkness.co.nz / Paul.Middlemiss@harkness.co.nz
DDI: 07 834 6674 / 07 834 6676

Assistance in preparing this application has been provided by:

Alan Lear
Barrister
P O Box 3705
Auckland 1140
Email: alan.lear@antitrust.co.nz
DDI: 09 366-4623

6. **Other Merger Party**

Fletcher Steel Limited
Level 2, Fletcher House
810 Great South Road
Penrose
Private Bag 92441, Victoria Street West
Auckland
Attention: David Carr
Email: David.Carr@fb.co.nz
Tel: 09 525-9000

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

Bell Gully
Solicitors
PO Box 4199
AUCKLAND 1140
Attention: Torrin Crowther, Partner/ Glenn Shewan, Senior Associate
Email: Torrin.Crowther@bellgully.com / Glenn.Shewan@bellgully.com
DDI: 09 916 8621/ 09 9168726

Details of Participants

PMP

8. PMP is a wholly owned subsidiary of Perry Group Limited. The Perry Group was established in 1954 by Brian Perry and is based in the Waikato. Its other businesses include and import and distribution business (Aqualine Products Limited), an aggregate and lime business (Perry Resources (2008) Limited) and property investments. The Perry Group is ultimately owned by the children of Brian Perry, Simon and Tiffiney Perry. The Perry Family also has its own charitable trust named the Brian Perry Charitable Trust, which has made philanthropic distributions to the community since 1976.
9. PMP carries on hot-dip galvanizing businesses located in Auckland, Hamilton, Tauranga, Wellington, and Christchurch. Hot-dip galvanizing protects steel from corrosion by immersing the steel in molten zinc creating a protective coating layer.
10. The physical locations and galvanizing bath sizes are as follows:

Physical address	Bath size L x W x D
41 Timothy Place, Avondale, West Auckland	5.0 x 1.35 x 2.4 (16.2 m3)
14 Manchester Place, Te Rapa, Hamilton	9.5 x 1.6 x 2.8 (42.6 m3)
119 Oropi Road, Greerton, Tauranga	6.2 x 0.95 x 2.4 (14.1 m3)
129 Hutt Park Road, Gracefield	7.0 x 1.3 x 2.4 (21.8 m3)
5 Chinook Place, Hornby, Christchurch	7.0 x 1.3 x 2.4 (21.8 m3)

CSP

11. CSP is a division of Fletcher Steel Limited, which is in turn a subsidiary within the Fletcher Building Limited group of companies.
12. As noted above, CSP operates two galvanizing businesses, one in Ellerslie/Penrose, Auckland, and the other in Christchurch in Sockburn. The attached Information Memorandum provides more details on the CSP business including financial statements.

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13. In Auckland, CSP offers sand blasting, hot dip galvanizing as well as industrial painting services for metal protection. This painting includes zinc metal spray, epoxy and other standard coatings.
14. CSP's Christchurch operation is primarily a hot dip galvanizer.
15. The physical location and size of galvanizing baths for both businesses are set out below:

Physical address	Bath size L x W x D
40 – 44 Gavin Street, Ellerslie, Auckland	9.15 x 1.37 x 2.59 (32.47 m ³)
27 Washbounes Road, Sockburn, Christchurch	8.5 x 1.5 x 2.5 (31.9 m ³)

Formal and Informal Links Between Participants

16. There are no shareholding or director relationships between PMP and CSP/Fletcher Building.
17. Both PMP and CSP are members of the Galvanizing Association of New Zealand.

The Reasons for the Proposal and Intentions in respect of the Acquired or Merged Business

18. In July 2012, Fletcher Steel commenced a sales process in which a number of parties showed interest but ultimately PMP became the preferred bidder. Fletcher Steel's preference was to sell both operations in one transaction, to a single purchaser. It advised bidders that its decision to sell CSP was to rationalise its operations and to focus on a smaller number of manufacturing entities and operations.
19. PMP's interest in CSP is primarily focussed on the Auckland operation. [

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20. In relation to CSP Christchurch, PMP accepts that the Commission may well have concerns and so PMP is proposing to divest [] will need to be divested to a third party operator as a going concern. [

PART 2: THE INDUSTRY

Galvanizing and other Steel Protection Coatings

21. Hot dip galvanizing is the process of coating steel and iron with a layer of zinc. Steel is first prepared by cleaning/blasting and passing through pre-treatment tanks before the item enters a molten bath of zinc at high temperatures (450°C). A metallurgical bond is created when exposed oxygen and carbon dioxide to form zinc carbonate. Zinc coating provides a strong protection against corrosion.
22. There is a wide range of steel products that are galvanised but not all of which are processed by independent galvanizers such as PMP and CSP. For example, galvanised roofing iron is galvanised at the Glenbrook steel works as part of the production line. Smaller items such as bolts, nails and standard brackets used in building construction are not generally galvanised by independent galvanizers, but are galvanised at source or, in many cases these days, imported into New Zealand already galvanised. An Auckland firm, East Tamaki Galvanizing, specialises in small items such as brackets, and has a spinning process which removes excessive zinc from items such as from threading on nuts and bolts.
23. Generally speaking, galvanizing undertaken by independent galvanizers in New Zealand are for low volume or made to order steel fabrications. Such items include structural steel work, trailers, agricultural equipment, street furniture and street light poles. Customers are mainly local engineering and steel fabricators. There are a large number of such customers which are spread throughout New Zealand. In the North Island, PMP has [] repeat customers that spend more than \$1,000 per annum, and there are many more others who spend below that level.
24. Attached as **Appendices A-E** are spread sheets listing PMP's customers from each of its North Island and South Island plants, including those that make up the top 50. These spread sheets are confidential and include the average price paid by each customer. CSP's customer information will be provided separately.
25. As noted, galvanizing of steel products is often required to prevent or inhibit corrosion. There are other means to achieve this, depending on the circumstances. There are other metals that can be used that do not require galvanizing, such as stainless steel, copper and aluminium. These are generally more expensive than mild steel but can offer aesthetic advantages over galvanised steel in the appropriate situations.

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26. Galvanizing is one of two systems that provides anti-corrosion protective coatings to steel. The other commonly used is a range of industrial protective painting systems which involve spraying zinc and top coats and powder coatings. Advances in anti-corrosion paint systems means that more items that were traditionally galvanized are now being painted particularly where colour and appearance is important. Recent paint advances have been particularly focussed in the area of zinc-rich cathodic painting, which provides similar protection to that achieved by hot dip galvanising. Most major international paint companies have a zinc-rich system, for example AkzoNobel and Dimet. See <http://www.akzonobel.com/> and <http://www.dimetsiam.com/about.php>.
27. There are size limitations for galvanizing products by reasons of the dimensions of the zinc baths and factory configuration in use in New Zealand. The largest bath is at PMP's Hamilton site, which is 9.5 metres long but can handle items up to 18 metres via double end dipping. (However, it should be noted that the main reason for installing a larger bath is to improve through-put efficiencies of the facility. In PMP's case, over [] of items it galvanizes are under 6 metres in length. CSP galvanizes a higher percentage of items over 6 metres, as explained in further detail below.) CSP's Penrose bath is 9.15 metres long but can handle lengths up to 13 metres. PMP Avondale can handle up to 8 metres. Larger items have to be galvanised overseas (e.g. 26 metres can be galvanised in Australia) but this is an unlikely scenario as it would be more efficient to have both the fabrication and galvanizing carried out overseas. For lengths over 18 metres, the only corrosion protection option in New Zealand is to have the steel sprayed with protective paint coating systems. Further discussion on options is provided below.

Industries Affected by the Proposed Acquisition

28. The proposed acquisition will affect the galvanizing services industry and their customers, being steel engineering and fabricators, in both North Island and South Island locations.

Industry Trends

29. In respect to the number of operators and their ownership, the galvanizing sector has remained static over the last 5 to 10 years. Annually between 31,000 to 36,000 tonnes of steel is galvanized and generally tracks the cyclical patterns of the building and infrastructure sectors. The new plant recently built in Hamilton by PMP, which commenced operation in January 2012 replacing an old smaller plant, was the first galvanizing plant to be built in over 10 years. There is significant spare capacity as galvanizers generally only work single shifts during week days.

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30. Galvanizing processes have remained pretty much the same with the only developments being in areas of energy efficiency and environmental emission management. As discussed elsewhere, anti-corrosion painting systems for steel are continually being improved.

Recent Mergers

31. There have been no mergers between galvanizers in the last 5 years.

PART 3: MARKET DEFINITION

Horizontal Aggregation

32. The proposed acquisition will result in horizontal aggregation in the provision of steel protection coatings services in both the North and South Islands. In relation to the South Island, such aggregation will be temporary until a new owner of [] takes over.
33. Most fabricated steel items require some form of protective coating to protect the steel from corrosion and also to improve aesthetic qualities. Various treatments provide this protection, including galvanizing, zinc metal spraying, painting or powder coating. A well documented illustration of substitution between galvanizing and painting comes from Australia when Rio Tinto switched to galvanizing in preference to its usual painting approach for many of the steel components of a new mining operation in Western Australia.¹ In that case the galvanizing service provider had to work with the fabricator of the components and the main contractor in order to convince them of the benefits of galvanizing such that Rio Tinto should switch away from paint coatings in for that project.
34. Naturally, there are some items for which it is not practical or cost effective to galvanize (for example, those items which are too large for a hot-dip bath) and likewise there are other items for which paint or zinc metal spraying is unlikely to be practical (for example, where there are heightened environmental risks or the inside of hollow sectional steel that also requires protection). An example of where galvanizing is mainly used is for roadway light poles, sign post, gantry signs and safety barriers for the NZ Transport Agency. However, given the degree of substitutability that does exist, there is a relationship between the price of galvanizing, paint, and other steel treatments reflecting the trade-offs various customers make as between price and other product attributes. For instance, while galvanizing may have in some situations a higher upfront cost, it also has lower on-going maintenance requirements, which means that customers will, *up to a point*, be willing to pay a premium to recognise those lower on-going maintenance costs.
35. The main guide as to what protective coating(s) can be applied in what situations is provided in section 7 of NZS2312, "Guide to Protection of Structural Steel against Atmospheric Corrosion by use of Protective Coatings". A copy of this can be provided to the Commission

¹ <http://www.gaa.com.au/uploads/Galvanize%2071%20AUST%20Web.pdf>

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on request. There are a variety of factors that determine which coating to use including environmental conditions, design life, design restrictions and appearances.

36. In some cases galvanizing is “specified” by the engineer, architect or other consultant for a particular application or item using NZS2312. However, this does not necessarily put galvanizing in a separate market – steel coatings providers or their trade associations can and do work with specifiers to allow other coatings to be specified for a particular application. The Rio Tinto experience set out above demonstrates the ability of coatings providers to work with specifiers in order to switch between coating options. In any event, ultimately the price/quality trade-off of the various steel coatings will drive the extent to which each is specified.
37. PMP estimates that only [] of its total work would be specified by an engineer or architect². This would be work from structural fabricators that tender for contracts that have coatings pre-determined by a specifier in the tender documentation. Most decisions on coating systems are made by product fabricators (e.g. trailers, fencing panels, dairy milking shed systems) or custom built fabricators jointly with their customer. []].

Geographic Market

38. It is considered that steel protection coating services may be appropriately analysed on North Island and South Island wide basis. The South Island market is serviced by the two Christchurch based galvanizers, PMP and CSP, and a wider spread of paint applicators. Very little steel is transported between the Islands via Cook Strait or coastal shipping for galvanizing or painting.
39. In relation to the North Island, there is a wide geographic spread of both galvanizers and painters. Galvanizing plants are located in Whangarei, Auckland, Waikato, Bay of Plenty, Hawkes Bay, Taranaki, Manawatu and Wellington. Steel products are regularly transported between these areas to be galvanized or painted. In terms of galvanizing, Webforge from Palmerston North and Galvanizing Hawkes Bay regularly seek work from the Wellington, Waikato and Auckland areas. Even if the Commission were to take a more conservative

² There are a very large number of such firms/practitioners in New Zealand which have no direct contact with PMP or CSP. The Commission is referred to the Institute of Professional Engineers New Zealand and the Institute of Architects as the means to contact such groups if required. The larger structural engineers are OPUS, BECA and AECOM.

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approach in relation to the North Island and break it up into an upper and lower North Island market, there will be a significant overlap at the boundary between them. The relativity of transport prices to galvanizing prices is provided in Part 5 below.

40. Competition between engineering and steel fabricators is also relevant to the geographic market. It is understood that these firms, which are the primary customers of galvanizers and painters, can compete for engineering contracts on a North or South Island wide basis. As those contracts may include a final galvanised/painted product to be delivered, galvanizers and painters also compete on a North Island wide basis for such work. Coatings can be applied anywhere en route between where the item is fabricated and its final destination. Some recent galvanizing examples include:

- D&H Steel Construction in Auckland did work for the Wellington rail network, which was galvanized in Palmerston North by Webforge, and installed in Wellington.
- Culham Engineering in Whangarei fabricated steel work used for the widening of the Pukete Bridge in Hamilton, used PMP Hamilton for galvanizing.
- Eastbridge in Napier is doing steel work for the Auckland rail electrification which will be galvanised by Galvanizing Hawkes Bay and installed in Auckland.

Vertical Integration

41. There is an element of vertical de-integration as a result of Fletcher Steel divesting its galvanizing and protective coating businesses. It is also understood that in the future, Fletcher Steel will import certain pre-galvanised products that are currently galvanised at CSP. [

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PART 4: COUNTERFACTUAL

42. Fletcher Steel has indicated a strong desire to divest its galvanizing and protective coating businesses. If PMP is unable to obtain the clearance, it seems likely that CSP's businesses will be sold to one or more other purchasers. It is likely that other galvanizers would be contenders in such a process.

PART 5: COMPETITION ANALYSIS

A. North Island Steel Protection Coating Services

43. In relation to galvanizing, there are currently 10 separately owned galvanizers in the North Island, including CSP and PMP. Five of the 10 are located in Auckland. PMP is the only galvanizer with multiple North Island locations (Auckland, Hamilton, Tauranga and Wellington). There are a significant number of coating applicators located throughout New Zealand. The Yellow Pages listings refer to at least 25 in the Auckland region, two in Waikato, 12 in the Bay of Plenty and five in the Wellington region.
44. Galvanizers traditionally charge for galvanizing on a weight basis, being the weight of the steel products to be galvanised (it is difficult to calculate surface area for many items as internal, as well as external areas are often involved and galvanizing adds about 8% to the weight of steel which is why weight is the preferred approach to pricing). Set out below is a table listing the galvanizers, their location, bath size, estimated maximum item length, and through-put per annum based on weight.

Company	Location	Bath size L x W x D	Maximum Length Metres	Estimated through-put per annum (tonnes of steel)
Avon Industries	Whangarei	6.7 x 1.2 x 2.2	12	[]
PMP	Auckland	5.0 x 1.35 x 2.4	8	[]
CSP	Auckland	9.15 x .37 x 2.59	13	[]
East Tamaki Galvanising	Auckland	4.0 x 1.1 x 1.6	6	[]
Galvanizing Services	Auckland	3.3 x 1.0 x 1.5	5	[]
Gallagher Group*	Auckland	4.5 x 0.9 x 1.3	8	[]
PMP	Hamilton	9.5 x 1.6 x 2.8	18	[]
PMP	Tauranga	6.2 x 0.95 x 2.4	9	[]
Galvanizing Hawkes Bay	Napier	8.1 x 1.4 x 2.4	12	[]

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Webforge	Palmerston North	8.2 x 1.3 x 2.4	12	[]
Taranaki Galvanizing	Stratford	6.2 x 1.2 x 1.3	9	[]
Kibby Metal Pressings	New Plymouth	2.5 x 0.7 x 1.1	4	[]
PMP	Wellington	7.0 x 1.3 x 2.4	10	[]
North Island Total:				28,000

* Gallagher currently only does internal work such as farm fencing products.

45. **Appendix F** provides further details of the other galvanizers, including physical address and contact details.
46. **Appendix F** also lists the paint applicators that are located in the Auckland region.
47. We have calculated estimated market shares of galvanising for the North Island. Shares of the steel protections coatings will be significantly lower. []
48. An acquisition of PMP by CSP will have most effect in the Auckland region. In terms of that area the market shares of those located in the region are set out below. []
49. Included in the PMP share is work sourced from Auckland customers (mostly located in South Auckland) that is galvanized at PMP's Hamilton facility. This makes up approximately [] of PMP's Auckland sourced work.
50. CSP's share would reduce post acquisition as some of its existing internal work will cease to be galvanized in New Zealand. PMP estimates that this will result in a 10% reduction of CSP's Penrose work.
51. Gallagher's capacity has been included although it is being only used to galvanize internal work. Gallagher used to undertake third party work up until about four years ago. PMP believes Gallagher has spare capacity and necessary facilities and expertise to resume third party work within a short period of time if it decided to so. Below is the table without Gallagher's capacity being included but also including an estimate of Auckland work

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undertaken by galvanizers located in other regions, including at PMP's Hamilton plant. []

52. The above market share information is based on current estimates of through-put but not capacity. For example, both Galvanizing Services and East Tamaki could easily increase through-put by 50%+ by adding a second shift. Set out below is a table showing estimated current capacities of North Island plants and estimated total capacities from adding an additional shift, after taking into account work hour restrictions applied by local councils, where applicable.

Company	Location	Bath Size	Maximum Length	Estimated through-put per annum (tonnes of steel) Single Shift	Allowable Working Hours	Estimated Capacity per Annum (tonnes of steel)
		L x W x D	Metres			
Avon Industries	Whangarei	6.7 x 1.2 x 2.2	12	[]	16	[]
PMP	Auckland	5.0 x 1.35 x 2.4	8	[]	16	[..]
CSP	Auckland	9.15 x .37 x 2.59	13	[]	16	[..]
East Tamaki Galvanising	Auckland	4.0 x 1.1 x 1.6	6	[]	16	[]
Galvanizing Services	Auckland	3.3 x 1.0 x 1.5	5	[]	16	[..]
Gallagher Group*	Auckland	4.5 x 0.9 x 1.3	8	[]	16	[]
PMP	Hamilton	9.5 x 1.6 x 2.8	18	[]	18	[]
PMP	Tauranga	6.2 x 0.95 x 2.4	9	[]	16	[]
Galvanizing Hawkes Bay	Napier	8.1 x 1.4 x 2.4	12	[]	16	[]
Webforge	Palmerston North	8.2 x 1.3 x 2.4	12	[]	16	[]
Taranaki Galvanizing	Stratford	6.2 x 1.2 x 1.3	9	[]	16	[]
Kibby Metal Pressings	New Plymouth	2.5 x 0.7 x 1.1	4	[]	16	[]
PMP	Wellington	7.0 x 1.3 x 2.4	10	[]	16	[]
PMP	Christchurch	7.0 x 1.3 x 2.4	10	[]	18	[]
CSP	Christchurch	8.5 x 1.5 x 2.5	12	[]	18	[]
Total				33,800		62,578

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53. Avon in Whangarei is the nearest out of town galvanizer to the Auckland region. It has from time to time sourced work from the Auckland region, particularly North Shore based customers. PMP considers Avon becomes more active in Auckland during quieter periods in Northland as they have a sizeable operation. Galvanizing Hawkes Bay has taken some work from Auckland although their out of region activities are more directed at Waikato and Bay of Plenty customers.
54. The wide geographic reach of galvanisers is perhaps best demonstrated by Palmerston North-based Webforge. Webforge supplies steel gratings, handrails and other fabricated steel products in addition to operating its galvanising service. To service both aspects of its business, it operates a depot in Takanini, South Auckland. It runs a regular truck service between Palmerston North and Takanini offering galvanising services in competition with the Upper North Island providers. It is believed Webforge would use its depot and transport options to a greater extent, and increase its Auckland sales presence, in response to a price increase post-acquisition.
55. It should be noted that while there is adequate galvanizing capacity available from the other independent galvanizers located in the Auckland area they have limitations (based on their current configurations) by reason of their smaller bath sizes and factory configuration. Based on PMP's normal work profile, []% of through-put are for items within the zero to 6 metre size range. The other Auckland galvanizers are unable to galvanise fabrications that are in the 6-8 metre range which would cease to be contestable between PMP Avondale and CSP Penrose,. PMP estimates that only []% of its work falls within the 6 to 12 metre range, and only []% within the 12 to 18 metre range. CSP has traditionally had a much higher percentage of 6 to 12 metre work because it galvanizes work from CSP Pacific and also for more structural steel fabricators than does PMP.
56. It is believed Gallagher can double dip up to 8 metres but, as noted, currently they only undertake internal work. Aside from PMP Hamilton (which already receives large items from the Auckland area), the nearest other galvaniser for longer lengths is Avon in Whangarei, which can take up to 12 metres³. Such items can be transported by road easily enough.
57. As noted above, PMP Hamilton galvanizes a large percentage of Auckland sourced work in Hamilton, with most of it sourced from the South Auckland region. It normally charges customers \$50 to uplift, transport to Hamilton and return a load, which would only cover a

³ The distance from central Auckland to Avon in Whangarei is 163 km and to Te Rapa is 129 km

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portion of actual costs. Based on actual costs, the following are estimated prices per kg of steel for transport to Auckland from a number of regions and relative to the average price of galvanizing services, being [] per kilo:

To Auckland from	Transport Cost per kg	Percentage of Average Galvanizing Charges
Hamilton/Tauranga	\$0.12/kg	[]
Whangarei	\$0.07/kg	[]
Napier/Palmerston North	\$0.18/kg	[]
Wellington	\$0.20/kg	[]

58. The cost of transporting fabricated steel items can vary depending on the size of the items in terms of both weight and volume. For example, car trailers take up more volume in terms of available space on a transport unit than, say, pallets of steel sections. The extent of such differences can be shown in photos appearing in **Appendix G**.
59. The prices charged by galvanizers to repeat customers [] which are based on a variety of factors including volume, type of work, available capacity and payment record. []. Thus the additional costs involved in transporting steel to be galvanised elsewhere can be accommodated in such a pricing range.
60. In relation to painting, there are a significant number of coating applicators located throughout New Zealand. A list of Auckland based paint applicators appears in **Appendix F** Yellow Pages listings refer to at least two in Waikato, 12 in the Bay of Plenty and five in the Wellington region. PMP does not have access to information about market shares of painters but it is believed the painting service provided by CSP would make up only a small percentage of such.
61. In particular, longer steel fabrications can receive corrosion protection from paint coating systems at prices that come in under galvanizing. Sprayed on protective coating systems are used not only for large steel items, but across the range of items that can also be galvanised. Sprayed on surface coating is used in the following examples:

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- Structural steel work
 - Trailers – vehicle and boat
 - Agricultural equipment
 - Irrigation system pipework
 - Fire dowsing systems
 - Electrical transformers
 - Fence and security panels and gates
 - Waste bins
 - Telecommunication chambers and lids
 - Street furniture
 - Light poles.
62. It is difficult to make direct pricing comparison between galvanizing and paint systems as galvanizing is charged by weight, whereas paint systems are charged on a surface area basis. Generally speaking, galvanizing may be more cost effective for smaller items but two coat and zinc metal spray applications are more competitive for larger items. **Appendix H** is an extract from HERA R4-133 (see below) which sets out the various coating systems, performance characteristics and their relative costings vis-à-vis each other and to a more limited extent, galvanizing. Paint systems have an advantage because the final product can be painted to a desired colour and shiny surface, whereas galvanizing is restricted to grey which dulls quite quickly. There is a significant overlap of products which galvanizing and paint systems are both cost-effective options given the end use.
63. As noted, the technical literature on protective coating systems are as follows:
- AS/NZS 2312: 2012 “Guide to Protection of Structural Steel against Atmospheric Corrosion by use of Protective Coatings”.
 - HERA R4-133 “New Zealand Steel Work Corrosion and Coatings Guide” – February 2011.

64. Galvanizers also compete indirectly against the importation of pre-galvanised components and fully fabricated products. These tend to be standard product lines that are used in other countries, that can be transported cost effectively. Products that are regularly galvanised locally that are also imported include:
- Guard rails
 - Fencing products
 - Trailers (eg those available for sale at Bunnings)
 - Walkway grating systems
 - Powerline pylons
 - Geothermal power stations imported as a whole unit
65. Examples galvanized roadway barriers and light poles that can be imported are available on CSP Pacific's website (<http://www.csppacific.co.nz/>)

Potential Competition

66. The galvanizing industry has been reasonably static for many years in terms of size and players in the market. The “new” competition has been largely from the importation of pre-galvanized products from overseas, particularly from China.
67. The cost involved in establishing a new facility is not high. PMP has recently constructed New Zealand's largest galvanizing facility at Te Rapa which cost [] excluding land and buildings. The whole process took 12 months to build including obtaining building consents.
68. Prior to applying for building consents, PMP applied for resource consents although this process could have taken place in parallel with the building process⁴. Two consents were required. First an air discharge consent is required. This consent sets the conditions relating to the discharge of fine particulate dust which is created by the process into the atmosphere. The particulate is generally managed by installing a filtration system that captures the majority of the particulate before it is discharged. The second consent is a trade process consent which relates to addressing pollution risks associated with the activity. This typically

⁴ PMP was under no pressure time wise and it took a cautious approach so any resource consent requirements could be included early in the design stage.

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includes developing an environmental management plan for the site and the treatment of storm water on site before it discharges into the council storm water system. Obtaining these consents typically take 6 to 9 months. The new plant is situated close to a supermarket, which demonstrates the relatively benign environmental effects of a modern galvanizing plant.

69. While barriers are low, PMP considers that a new firm to the galvanizing industry would not likely establish a stand-a-lone operation. There is a greater likelihood of an existing firm expanding its current operation or setting up a new plant. Zinc baths last approximately 10 to 15 years before they have to be refurbished. The cost to expand a small 3 metre bath to handle 9 metre items would be only about \$300,000 but further investment to the factory to handle longer items (e.g. the gantry) may be needed but an extra \$500,000 should cover that. PMP considers Galvanizing Services could extend its current operation at its current site but East Tamaki Galvanizing would face physical restrictions and thus would have to build a new plant. Resource consents would need to be obtained but these are not considered to be an obstacle where the plant is located in an industrial zoned area. As noted above, obtaining resource consent for PMP's Te Rapa operation was straight-forward and the same should apply in Auckland.

Countervailing Power

70. Several of the larger Auckland fabricators operate their own blast and paint operation and have the ability to add a galvanizing plant to their operations at any time.
71. D&H Steel in Auckland has its own sand blasting, painting and zinc metal spraying operation. George Grant Engineering and Enterprise Steel also of Auckland can apply paint systems.
72. To the extent that customers are more restricted in their choice of galvanisers for long products which cannot be otherwise coated, they can threaten to switch their smaller items to other galvanisers and switch their larger items that can be coated to other coatings systems. In this way they can exert countervailing power over the galvanisers in respect of the small category of items that must be galvanised in a plant capable of galvanising longer products.

Coordinated Market Power

73. There will remain a good number of other galvanizers located throughout the North Island of varying sizes, values and efficiencies. PMP negotiates with repeat customers rates for work normally every year or two and also work is priced contract by contract which is influenced on the type and quantity of work, and spare capacity. As a rule of thumb, prices range widely

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from [] to []. Prices for painting protective coatings are usually calculated on a square metre basis. PMP's retail list price for walk in customers is up around \$[] – \$[] per kg.

74. Prices are influenced by how efficiently the items can be processed. For example, a small number of large items are likely to be priced lower per kg than many small items because of additional handling and time taken to galvanize. It is believed some galvanizers include transportation for customers who are located away from the facility. Depending on the size of work and the location the cost of transporting is between 5% and 15% of the total cost of galvanizing. It is not uncommon for galvanizers to subsidise the work they transport to maintain workloads while charging higher rates for local work.

Efficiencies

75. As noted above, PMP is planning to improve operational efficiencies between its Auckland and Hamilton facilities, [

].

76. The efficiencies that will be gained include:

- [

].

77. PMP expects these cost savings to flow through to customers by way of lower prices.

B. South Island Galvanizing

78. PMP and CSP are the only two galvanizers servicing the South Island. There is very limited competition from the North Island but constraints apply from industrial system coating applicators (at least 25 in number) and the importation of pre-galvanised components and fabrications. Details of these are provided above in relation to the North Island.
79. As noted, the aggregation affected in the South Island market will be temporary pending the sale of []
[]
].
80. The divestment proposal to be agreed with the Commission will need to address the composition, asset and purchaser risks. It is proposed that both businesses will continue to be operated as entirely separate operations with existing staff and management. The sale of [] will be as a going concern and there should be no composition risk at all. No purchaser has been identified but PMP accepts that the purchaser must be independent to be acceptable to the Commission.

Coordinated Market Power

81. Following divestment, the conditions relating to any coordinated market power will remain the same in the counter factual scenario.

PART 7: CONFIDENTIALITY

82. Confidentiality is requested for all information identified in [] in this Notice. Disclosures of such confidential information would be unlikely to unreasonably prejudice the commercial position of the applicant in terms of Section 9(2)(b) of the Official Information Act 1982.
83. A “public version” of this Notice will be provided after the requests for confidentiality of information has been agreed to with the Commission.

This Notice is given by **Richard Coventry**, Director of Perry Metal Protections Limited.

I hereby confirm that:

- All information specified by the Commission has been supplied;
- If information has not been supplied, reasons have been included as to why the information has not been supplied;
- All information known to Perry Metal Protections Limited which was relevant to the consideration and determination of this application has been supplied;
- All information supplied is correct as at the date of this application.

I undertake to immediately advise the Commission of any material change in circumstances to the application.

Dated this 21st day of December 2012

APPENDIX F

Contact Details of Interested Parties

Business	Contact Person	Telephone	Address	Business Type
Avon Industries	Richard Fisher	09 435 1033	Pipiwai Rd, Kamo P.O. Box 27 Whangarei 0115	Galvanizer
East Tamaki Galvanising	Bob Hamilton	09 274 0524	2/33 Springs Road East Tamaki P.O. Box 58 666 Greenmount Auckland 1730	Galvanizer
Galvanizing Services	Andrew Longsdale Cooper	09 636 6003	23 Edinburgh Street P.O. Box 13 181 Onehunga Auckland 1643	Galvanizer
Gallagher Group	Ian Richards	09 238 9289	37 Subway Road PO Box 445 Pukekohe 1800	Galvanizer
Galvanizing Hawkes Bay	Stuart Easton	06 835 4499	41 Thames St, Pandora, Napier P.O. Box 1114 Napier 4140	Galvanizer
Webforge	Chris James	06 356 1246	23 Kelvin Grove Road PO Box 1506 Palmerston North 4440	Galvanizer
Taranaki Galvanizing	Wayne O'Neil	06 7657166	Cnr Monmouth Road St H/way 3 RD23 Stratford	Galvanizer
Kea Trailers	Tony Head Tony@keatrailers.co.nz	07 850 8500	145 Maui Street Te Rapa Hamilton	Customer
George Grant Engineering	Scott De Lacy Scott.DeLacey@gge.co.nz	09 295 0550	62 Hunua Road Papakura Auckland	Customer
Anchor Wire	Gordon Nicolson gordon.n@anchorwire.co.nz	09 266 6666	PO Box 97855 Manukau City Manukau	Customer
Grayson Engineering	David Moore DavidM@grayson-eng.co.nz	09 278 3366	PO Box 97 550 Manukau City Manukau	Customer
Hosking Trailers (2011) Ltd	Mark Sievers mark@hoskingtrailers.co.nz	09 415 2378	PO Box 136 Albany Village Auckland	Customer
G.T. Trailers Ltd	Anthony Smith sales@gtrailers.co.nz	09 6367437	PO Box 13132 Onehunga Auckland	Customer
D&H Steel Construction Ltd	Mike Sullivan	09-839 7250 Fax: 64-9-836	42 Brick Street, Henderson Auckland	Customer/painter

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Painters and Blasters

Name	Address	Phone
Auckland Steel Blasters	40 Bancroft Crescent Glen Eden Auckland	09 813 1988
Auckland Abrasive Blasting & Coatings (2005)	35E Mclaughlins Road WiriAuckland	09 279 2041
Autoblast	59-63 Porana Road Glenfield Auckland	09 443 6574
Avondale Blasting & Coatings	3/74 Patiki Road Avondale Auckland	09 828 0720
TBS Farnsworth	2 Morningside Drive Morningside Auckland	0800 652 012
Coat of Arms	21 Hobil Avenue Manukau Auckland	021 772 208
Sandblasting Services (2009)	297 Swanson Road Swanson Auckland	027 492 5283
BlastOff		09 239 2397
Absolute Blast		09 574 0000
Powder Coatings (1988)	4 Tony Street Henderson Auckland	09 836 4456
Tigers Sandblasting Services	636 Swanson Road Swanson Auckland	09 833 3450
Advanced Corrosion Treatments	360 Neilson Street Onehunga Auckland	09 634 3378
Counties Industrial Coatings	39 Adams Drive Pukekohe	09 238 8950
Good Blastards Sand Blasting	2 Wharf Road Albany Auckland	021 243 3337
Abrasive Blasting		027 333 7022
Counties Sandblasting Services	Cornwall Road Waiuku Pukekohe	09 235 8371
Steel Coatings NZ	1/31 Kitenui Avenue Mt Albert Auckland	09 845 4793
Metspray (NZ)	9 Neales Road East Tamaki Auckland	09 274 5488
McLean Metal Spray	6 Miami Parade Onehunga Auckland	09 634 3151

APPENDIX G

Pallet of steel sections. High weight to volume ratio



Stacked vehicle trailers. Low weight to volume ratio.



APPENDIX H HERA R4-133

8. Types of Protective Coatings, Their Appearance and Indicative Costs

Table 8.2 Relative Cost Index for Various Coatings Systems

Coating System	Steel Surface Preparation	Total Nominal Dry Film Thickness (µm)	Time to First Maintenance (Years) ^{1,2}	Estimated Scaled Rating ^{3,4}
Acrylic Two Coat (ACC2)	Sa 2½	125	10	1.03
Acrylic Two Coat (ACC3)	Sa 2½	125	10	1.1
Acrylic Three Coat (ACC4)	Sa 2½	250	15	1.3
Acrylic Three Coat (ACC6)	Sa 2½	325	25	1.4
Acrylic Elastomeric DTM (ACE1)	Sa 2½	350	25	1.04
Alkyd Primer and Top Coat (ALK4)	Sa 2½	115	5	0.7
High Build Epoxy One Coat (EHB2)	Sa 2½	400	15	1.77
Ultra High Build Epoxy One Coat (EUH1)	Sa 2½	1500	25+	3.67
High Build Epoxy One Coat (EHB4)	Sa 2½	275	15	1.23
Epoxy Mastic Two Coat (EPM3)	Sa 2	400	10	1.93
Hot Dipped Galvanizing (HDG600)	See [21]	85	25	Note 7
Hot Dipped Galvanizing + Paint (HDG600P7)	See Table 5.3 of [1]	HDG+150	25+	2.72
Inorganic Zinc Silicate One Coat (IZS2 or IZS2SB)	Sa 2½	75	25	0.8
Inorganic Zinc Silicate One Coat (IZS3 or IZS3SB)	Sa 2½	125	25+	1
Moisture Cured Urethane Three Coat (MCU2)	Sa 2½	225	15	1.83
Polysiloxane Two Coat (PSL1)	Sa 2½	200	15	2
Polyurethane Two Coat (PUR1)	St 2	175	5	1.17
Polyurethane Two Coat (PUR2)	Sa 2½	125	10	1.03
Polyurethane Three Coat (PUR4)	Sa 2½	250	15	1.4
Polyurethane Three Coat (PUR5)	Sa 2½	325	25	1.53
Thermal Aluminium Spray Sealed (TSA150S) ⁵	Sa 3	150 + seal	25+	2.83
Thermal Aluminium Spray Sealed (TSA200S) ⁵	Sa 3	200 + seal	25+	3.33
Thermal Zinc Spray (TSZ100) ⁶	Sa 2½	100	25	1.23
Thermal Zinc Spray Sealed (TSZ100S) ⁶	Sa 2½	100 + seal	25+	1.47
Thermal Zinc Spray (TSZ150) ⁶	Sa 2½	150	25+	1.37
Thermal Zinc Spray Sealed (TSZ150S) ⁶	Sa 2½	150 + seal	25+	1.6
Thermal Zinc Spray Sealed (TSZ200S) ⁶	Sa 2½	200 + seal	25+	1.73

Notes to Table 8.2:

1. The coatings time to first maintenance are given for an Atmospheric Corrosivity Category C100%D in accordance to AS/NZS 2312.
2. The specified time to first maintenance is dependent on the correct application of the coating system. If the coating has not been applied in accordance to the supplier's recommendation and the relevant Standard, such as AS/NZS 2312, then a much lower time to first maintenance may occur.
3. The relative cost index is based on the rate per m² from a baseline of IZS3SB applied to 1000m² surface of a 610UB101 in workshop conditions.
4. Relative Cost Indices are subject to change dependent on market condition and are job specific.
5. Surface to have sharp angular profile of at least 75 µm.
6. Surface to have sharp angular profile of at least 50 µm.
7. Galvanizing cost is calculated differently, as it is based on weight as opposed to surface area. This is because the heavier the beam, the more zinc will be used. The cost index is therefore beam weight dependent, for example it varies from 0.98 for a 310UB32 to 1.31 for a 610UB101.