

ARDAGH INTERNATIONAL HOLDINGS LIMITED/REDFEARN GLASS
LIMITED

SUBMISSION TO THE COMPETITION COMMISSION

1. EXECUTIVE SUMMARY

1.1 The market for the manufacture and supply of glass containers to UK customers was competitive and dynamic in the period leading up to the acquisition by Ardagh Glass Group plc (*Ardagh*) from Rexam plc of its subsidiary Redfearn Glass Limited (*Redfearn*).

1.2 The features that demonstrate the existence of effective competition are described at some length in section 6. In short:

1.3 prices in real terms had been *falling* steadily for the five years leading up to the acquisition notwithstanding rapidly *increasing* raw material costs. Ardagh's average selling price per thousand containers fell (in real terms) over this period by about [CONFIDENTIAL], whilst energy cost increases, an important component of a glass producer's cost base, have increased at a rate far in excess of RPI;

1.4 margins, too, have been increasingly under pressure. The return on sales (profit before income and tax as a percentage of turnover) of the Ardagh glass container business [CONFIDENTIAL] in 2004. Redfearn's return on sales [CONFIDENTIAL] in 2004. [CONFIDENTIAL];

- (a) the industry had become characterised by food and drinks manufacturers seeking tenders from producers of glass containers; by those manufacturers contracting on a short term basis (of typically between one and three years – and increasingly on a one year basis); and switching between producers (at least for part of their container requirements);
- (b) the industry had seen successful new entry and expansion– most significantly from Quinn Glass, which as a new competitor established a Northern Ireland plant in 1998 and that rapidly captured up to 6% of sales in Great Britain; and from Owens-Illinois (*OI*), which had started to source sales to the UK from outside the UK (in particular from plant acquired in the Netherlands in 2004).

1.5 The competitive landscape changed in two significant ways in the period leading up to the acquisition. *First*, Quinn Glass (having previously had manufacturing capability only in Northern Ireland) invested more than £200 million in building a state of the art plant in Cheshire. This plant is probably the largest in Europe; and is one of only a handful of sites worldwide that can manufacture and fill bottles on the same site. This plant will lead to the increase of manufacturing capacity in the UK by considerably more than 20%. *Second*, the competitive threat from manufacturers outside the UK became much more pronounced: with OI marketing an integrated EU wide service and with Al Tajir expanding its UK business on the back of contracts from [CONFIDENTIAL].

1.6 These factors played a key part in persuading Ardagh to invest in acquiring Redfearn. It saw Quinn Glass adopting a strategy of using large state of the art equipment to seek to win very large contracts: OI leveraging its European network to achieve cost flexibility in supplying UK customers from either its UK or continental plants: and Al Tajir using a low cost base in Dubai to win multi-territory contracts (encompassing the UK) with major multinational drinks suppliers. Each of these factors added to the level of glass packaging manufacturing capacity available to UK food and drinks companies with a cumulative result that capacity could be expected by mid-2006 to exceed demand in the UK by some 30% (and potentially by much more¹).

1.7 Ardagh's rationale in acquiring Redfearn was to help it address these new competitive developments. As well as allowing it to acquire capacity relatively cheaply as Redfearn [CONFIDENTIAL] that Ardagh with its particular experience expected to be able to address, the acquisition offered it the opportunity:

1.8 *first*, [CONFIDENTIAL]; and

1.9 *second*, [CONFIDENTIAL].

1.10 Developments at the time of and since the acquisition confirm Ardagh's conviction that competition will continue to be fierce:

1.11 [CONFIDENTIAL];

1.12 various drinks manufacturers have effectively sponsored the growth of Al Tajir, and in particular the growth in its supplies to the UK, by entering into contracts and (in the case of [CONFIDENTIAL]) making volume commitments to encourage the building of new furnaces in Dubai;

1.13 Quinn Glass has been successfully seeking new business, and is understood (just three months after it opened its UK plant) to have won business and commenced delivery to [CONFIDENTIAL] and others. It is clearly ramping up capacity (having installed a seventh machine on its first furnace and having committed to open a second furnace by November);

1.14 moreover, future entry in supply to the UK remains a real risk. Of particular note [CONFIDENTIAL].

1.15 Initial switching by major customers is having a profound effect on competition and capacity utilisation – and is leading to increased competition for contracts with smaller customers [CONFIDENTIAL]

1.16 The acquisition should not, then, lead to any substantial lessening of competition:

1.17 *first*, competition was effective – and aggressive – prior to the acquisition. The acquisition has led to a change in ownership of one plant, but an even larger new

¹ See Table F below on the available capacity outside the UK in Northern continental Europe.

plant has been built and is in the process of increasing production. Quinn Glass has a more modern plant than Redfearn and should, across the board, have a lower cost base: and [CONFIDENTIAL]. [CONFIDENTIAL]

1.18 *second*, [CONFIDENTIAL]. The counterfactual against which the acquisition should be assessed in the medium term is one in which [CONFIDENTIAL]. Capacity is projected to exceed demand in the UK by at least 30% in mid 2006 [CONFIDENTIAL]. And measured against this counterfactual, there can be no substantial lessening of competition;

1.19 *third*, in any case, the events in the few months since the acquisition demonstrate clearly that customers are still able to “shop around” and are doing so; that new choices exist and are being used to customers’ advantage; and that the excess of capacity in the UK – and even more when taking into account available capacity in Northern continental Europe – is likely to favour customers’ buyer power on a short to medium term basis. On a longer term basis, importers, [CONFIDENTIAL] may be expected to exploit any attempt to raise prices beyond the competitive level.

1.20 In these circumstances, it is Ardagh’s case that the acquisition leads to no, or no substantial, lessening of competition and should be permitted to proceed without regulatory intervention.

2. THE PARTIES

ARDAGH GLASS GROUP PLC

2.1 Ardagh International Holdings Limited is a subsidiary of the Ardagh Glass Group plc (*Ardagh*), formerly known as Caona plc. Yeoman International Holdings S.A. (*Yeoman*) is the principal shareholder in Ardagh. Ardagh is incorporated in Ireland and is the ultimate holding company for Rockware Glass Limited (*Rockware*) and other companies in the Ardagh group. Its registered office is South Bank Road, Ringsend, Dublin 4, Ireland. A copy of the Ardagh structure chart has been provided to the Commission as **Annex 16 to the Off the Shelf Materials**.

2.2 Ardagh is active in the manufacture and supply of glass containers in the UK, Germany, Italy and Poland. In the UK, Ardagh operates through its wholly owned subsidiary Rockware, which it acquired from Owens-Illinois (*OI*) in 1999.

2.3 In Germany, Ardagh has two manufacturing plants, one at Obernkirchen and the other at Germersheim. It also has a glass technology company, Heye International, also located at Obernkirchen. In December 2002, Yeoman purchased the assets and business of Hermann Heye KG through Heye Holding, then a wholly owned subsidiary of Yeoman. In January 2003, Ardagh acquired an option to purchase the shares in Heye Holding. This option was exercised in March 2003.

2.4 In Italy, Ardagh acquired Abruzzo Vetro S.r.l. in 2002. It has one manufacturing facility in Montorio Al Vomano which currently serves two customers – [CONFIDENTIAL].

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2.5 In Poland, it has a single plant at Ujscie, some 100km from the German border, which it purchased in 2004.

2.6 Through Rockware, Ardagh operates four glass manufacturing sites in the UK, with a total of nine furnaces and twenty three production lines. An overview of the characteristics of these plants is set out below.

Table A
Information on Ardagh's UK plants

Location	No. of furnaces	No. of production lines	Annual output 2004 (packed tonnes)
Knottingley, West Yorkshire	3	6	[•]
Wheatley, South Yorkshire	3	10	[•]
Worksop, Notts	1	2	[•]
Portland, Scotland	2	5	[•]
Total	9	23	[•]

Source: Ardagh

2.7 Rockware produces food and drinks containers for customers in all end-use segments. It does not produce any flacottage (containers for the cosmetic and pharmaceutical industries).

REDFEARN GLASS LIMITED (FORMERLY REXAM GLASS BARNESLEY LIMITED)

2.8 Prior to the acquisition by Ardagh (the *Acquisition*), Redfearn was a wholly owned subsidiary of Rexam plc, a leading European glass container manufacturer. Rexam's UK glass manufacturing activities were carried out by Rexam Glass Barnsley Limited prior to the Acquisition. As a term of the Acquisition, Rexam Glass Barnsley Limited has been renamed Redfearn Glass Limited (*Redfearn*). In this submission, and in all correspondence with the Commission, it is always referred to as Redfearn Glass Limited or Redfearn.

2.9 Table B below contains information on the Redfearn plant at Barnsley, South Yorkshire.

Table B
Information on Redfearn's plant

Location	No. of furnaces	No. of production lines	Annual output 2004 (packed tonnes)
Barnsley, South Yorkshire	5	13	[•]

Source: Redfearn

2.10 Redfearn currently manufactures glass containers for supply to the food and beverage industries: it does not currently produce flaconnage for the pharmaceutical and cosmetic industries. Details of the history of the Redfearn plant are included in the response to **Question 5 of the Financial Questionnaire**.

2.11 The overlap between the parties' activities is therefore in the manufacture and supply of glass containers to the food and beverage industries in the UK. This is described in detail in section 4 below.

3. BACKGROUND TO AND RATIONALE FOR THE ACQUISITION

Background events

3.1 To understand the rationale for the acquisition of Redfearn from Rexam plc, it is helpful to understand Ardagh's origins and recent acquisition strategy.

3.2 Ardagh's predecessor company (Ardagh plc) was a small glass container manufacturer based in Dublin where it operated a two furnace plant. Although it served a few customers in the UK, most of its sales were made into Ireland. In 1998, Quinn Glass opened a heavily grant aided manufacturing plant in Derrylin, Northern Ireland to supply both the UK and Ireland. Ardagh's Dublin plant, with its older equipment, a higher cost base and a legacy of difficult industrial relations, came under significant pressure from the modern, subsidised plant in Northern Ireland. The Dublin plant was eventually closed by Ardagh in 2002 as a result of severe financial difficulties.

3.3 In view of the then imminent opening of the Quinn Glass plant, Ardagh therefore decided in 1998 to reduce its dependence on the Irish market and began looking for opportunities to diversify beyond its traditional base. This led to the acquisition of Rockware from OI in 1999, following the European Commission's review of OI's acquisition of BTR Packaging.

3.4 **[CONFIDENTIAL]**

3.5 **[CONFIDENTIAL]** the assets.

3.6 Throughout its period of ownership of Rockware, Ardagh has faced tough competitive conditions in the UK. More recently, increased imports and the expected arrival of significant new capacity in the shape of Quinn Glass' new plant in Ince have led to increased competitive pressure. In addition, increasing global consolidation amongst customers in the food and beverage sectors posed a new threat to suppliers with a purely national offering: who were less able to compete for this business with suppliers who could offer global or regional solutions. **[CONFIDENTIAL]**

3.7 **[CONFIDENTIAL]**

3.8 **[CONFIDENTIAL]**

3.9 In February 2005 Ardagh raised a bond of €125 million [CONFIDENTIAL].²

3.10 [CONFIDENTIAL]

Rationale for the acquisition

3.11 Ardagh saw the Acquisition as an opportunity to:

3.12 [CONFIDENTIAL]

3.13 [CONFIDENTIAL]

- (i) achieve increased flexibility to respond to customer needs and market conditions, which it considers key in view of the significantly increased capacity levels following the opening of Quinn Glass' new plant. By way of example:

3.14 [CONFIDENTIAL]

3.15 [CONFIDENTIAL]

- (i) achieve an expansion of its overall business, enabling it to compete more effectively with companies like OI and St. Gobain for those design and production skills that are key to its quality focused strategy.

3.16 The efficiencies and flexibilities arising from the Acquisition are important to Ardagh's strategy for dealing with the growing competitive pressure exerted by imports and the new Quinn Glass capacity. These will provide additional capacity to service at least 30% of UK demand³ and constrain existing manufacturers from even recovering energy driven cost increases. Other manufacturers have adopted different strategies for competing: Quinn Glass has chosen to invest in large, state of the art plant, with machines targeted at high speed, large volume business; OI is developing its "One OI" strategy of central marketing of product and integrating supply across its plants; Al Tajir has leveraged its low production costs in order to supply European countries. The cumulative effect of these strategies is to create a market with keen and diverse rivalry which constrains all existing producers.

3.17 [CONFIDENTIAL]:

3.18 [CONFIDENTIAL]

3.19 [CONFIDENTIAL];

3.20 [CONFIDENTIAL]

² See Rexam's comments on the announcement of its interim results on 26th August 2005 which state that it made a loss of £24 million on the sale of the Barnsley Plant, and explain Rexam's thinking on the disposal of Redfearn, available at www.rexam.com

³ Ardagh estimates that Quinn Glass' new capacity will exceed 20% of current demand. Imports already account for 10% of demand, without the [CONFIDENTIAL] decision to switch to OI and Al Tajir.

3.21 [CONFIDENTIAL]

3.22 [CONFIDENTIAL] This is discussed further in section 8 below.

4. RELEVANT MARKET

Overall trends

4.1 Glass container producers supply packaging to the food and beverage industries, as well as for pharmaceuticals, toiletries and healthcare products. In the food industry, glass containers are used for a variety of processed and other foods, including baby foods, oils and sauces, condiments and yoghurt. In the beverage industry, glass containers are used for beer, spirits, wine and for non-alcoholic beverages such as mineral water, fruit juices and carbonated soft drinks. Neither party manufactures flaconnage for the pharmaceutical and cosmetic industry so supply to this end use sector is not discussed in detail below.

4.2 Over the past decade, there has been a relatively high degree of substitution of glass containers by other packaging materials. This substitution has been more marked in some end use segments than in others. For example, in the soft drinks sector, and in particular for carbonated soft drinks, glass bottles have been replaced to a substantial degree by PET across Europe. This contrasts with the trend for beer bottles where a switch from the consumption of draught beer to bottled beer fuelled demand for glass beer bottles. For high end products such as wine and spirits, there has been virtually no substitution away from glass to other packaging materials. Ardagh believes that this is largely due to consumer preferences - consumers associate glass with quality, premium products. In the food segment, there has been a gradual process of substitution from glass to PET. In the UK for example, there has been an increase in imports of filled containers (e.g. sauces, mayonnaise) which has also had an effect on demand for glass containers. In general, Ardagh considers that after a period of recent change in the late 1990s, the process of substitution as a whole has slowed in recent years. However, alternative packaging materials remain a threat, with increasing product innovation in the plastic and metal packaging sectors. For example, a new bottle shaped aluminium can has been gaining substantial consumer acceptance in the US, and could pose a threat to the use of glass by major customers [CONFIDENTIAL].

4.3 Overall demand for glass containers in the UK has grown slightly since 2000. Ardagh believes that this increase has been driven principally by a growth in consumption of premium lagers and on trade soft drink.

4.4 The data in the table below show UK sales figures in millions of units as submitted by manufacturers to the British Glass Manufacturers' Confederation (*BGMC*). The BGMC collects data from manufacturers located in the UK. The sales figures exclude the proportion of Quinn Glass' Northern Irish production which is sold to the Republic of Ireland.

4.5 In the table below, UK produced sales and imports are shown separately.

Table C

UK Sales 2002 – 2004 (millions of units)

	2002	% growth	2003	% growth	2004
UK home sales	6,575	1.2	6,654	1.2	6,736
Imports	538	26.6	681	6.8	727
Total	7,113	3.1	7,335	1.7	7,463

*Source: British Glass Manufacturers' Confederation
British Glass Market Research Committee*

Note: the BGMC has historically collected data in millions of units and has only recently started collecting information in tonnes.

4.6 The growth in overall sales between 2002 and 2004 was just under 5% in volume (millions of units) terms. This overall growth in demand for glass containers in this period was accompanied by investments in capacity by suppliers through improvements in furnace technology and the rebuilding of larger machine lines.

4.7 Imports have historically accounted for around 10% of UK sales each year, and have risen by 35% since 2002 (when imports had fallen slightly). In 2004, they amounted to around 727 million units. The increasing importance of imports is discussed in detail at sections 4.32 to 4.52 below.

4.8 However, as discussed further below, data from the BGMC for 1st January to 31st May 2005 shows that demand has fallen by 4.71%, compared with the same period in 2004. This decline is a result of: (i) slow but steady substitution to PET, especially in the food sector; (ii) continued decline of the FAB segment; and (iii) a decline in sales of bottled beers. This fall in demand (which Ardagh does not expect to be reversed in the medium term) has important implications for the assessment of levels of spare capacity going forward (and see further Table J below).

Product Market

Overview

4.9 Ardagh submits that the relevant product market is for the production of glass containers (excluding flaconnage). This view is in line with the approach taken by the European Commission in a number of recent decisions including, most recently, *Case No. COMP/M.3397 – Owens-Illinois/BSN Glasspack*.⁴ The OFT's own decision suggests that it saw no reason to disagree with Ardagh's view or depart from earlier European Commission decisions on this point.

4.10 Ardagh's reasons for this view are as follows. Although as described at section 4.2 above, there has been significant switching away from glass to other

⁴ Decision of 6th June, 2004.

packaging materials in the past decade, Ardagh does not consider that all rigid wall packaging constitutes a single market. As discussed, this switching has been more prevalent in some segments than others. It required a significant investment in new filling and packaging lines by beverage manufacturers, such that only a large increase in the price of the alternative packaging products would lead them to switch back to glass.

4.11 Insofar as those sectors in which there has been little or no substitution away from glass are concerned, surveys commissioned by Ardagh show that consumers associate glass containers with quality products and consider it to be a hygienic, taste-neutral material not associated with hazardous chemicals, as well as being more environmentally friendly due to ease of recycling. As a result, Ardagh considers that a significant level of substitution from glass to other materials for products such as wine, spirits or food is, in the short term, unlikely.

4.12 In recent decisions relating to the glass sector, the European Commission considered whether the market for glass containers should be subdivided further according to different end use segments e.g. wine, spirits, beer and food. It did not, in its decisions, find it necessary to delineate the market further since the distinction between end use segments would not materially have affected the competition assessment it carried out. Equally, in its recent review, the OFT did not consider it necessary to conclude whether containers for different end uses should be considered separately.⁵ Both authorities however, recognised the existence of a high level of supply side substitutability – see further below.

4.13 Insofar as flaconnage for use in the pharmaceutical and cosmetic industries is concerned, Rockware does not manufacture these and therefore does not have the experience or information to demonstrate that such containers are part of a wider market. However, Beatson-Clark has switched from producing pharmaceutical containers to food containers on the same line, suggesting that such a switch is possible. Whilst this switch may be the exception rather than the rule, falling demand for flaconnage may mean that other manufacturers of flaconnage find it attractive to switch to producing other types of container. Potential entrants are discussed further at section 5 below and in the response to **Question 71 of the Market Questionnaire**.

4.14 In the following sections, Ardagh explains why it does not think it would be correct to delineate the market further.

Demand side considerations

4.15 From the customer perspective, there is little or no scope for substitution between the use of glass containers in the various end use segments. Indeed, the majority of sales to UK customers (around 90%) are produced on a bespoke basis using proprietary moulds. Thus, from the customer perspective, there is no substitution even between different container types *within* any one end use segment. For example, Carlsberg will not want or be able to use a Stella Artois (Inbev) bottle. Moreover, customers' filling machinery differs not only according to the size of the

⁵ OFT decision of 1st August, 2005, paragraph 7.

bottle which they need to fill, but also according to the substance which is being put in the container. For example, the equipment used to fill a wide-necked container with tomato sauce relies on a different filling mechanism to that used to fill bottles with carbonated water.

4.16 As a result of these factors, the scope of the relevant product market is determined by the ability of manufacturers to switch from producing one type of glass container to another. Supply-side considerations are discussed further below.

Supply side considerations

4.17 There is a high degree of supply-side substitutability between different types of glass containers (both between food containers and bottles, and between different types of bottles). This was recognised in *Case COMP M. 3997 – Owens-Illinois/BSN Glasspack*⁶ where the European Commission commented that “*there is a high level of supply-side substitutability between different types of glass containers.*”

4.18 This is underpinned by three key features: (i) all suppliers have the capability and know how to produce containers for any end use segment; (ii) all suppliers have the capacity to produce any end use segment as they can switch from one to another; and (iii) switching the type of container produced requires very little adjustment or incremental cost and would always be desirable given the high fixed costs of production, at least in the short term, and the need to recover these.

4.19 Ardagh’s experience from its own plants is that changing the type of glass container produced on a particular production line is an everyday occurrence. Whether changing the proprietary mould for customers requiring beer bottles say, or switching between a beer bottle and a food container, only a small change in the production process is needed – the majority of the process, including mixing the raw materials, operating the furnace, operating the flow of molten glass and delivering it to the moulds remains the same.

4.20 In the case of a job change from one type of beer bottle to another (assuming no significant difference in size), normally the only change required is the mould. A mould change will also be necessary in the case of a job change for example, from a beer bottle to a food container. Additionally, in these circumstances, a production line adjustment may also be required, but the downtime involved is not much more than for a simple mould change. At Rockware, the average downtime for a job change is [CONFIDENTIAL], and on average, the equivalent of another [CONFIDENTIAL] is lost before the line is once again producing at target efficiency and quality levels.

4.21 Ardagh recognises that where a particular line is dedicated to serving a very large contract (such as the [CONFIDENTIAL] contract supplied from Knottingley), certain economies of scale are available and it would not make sense to switch the line to production of a different container.⁷

⁶ Decision of 9th June, 2004.

⁷ Economies of scale arise in respect of large orders which utilize capacity for long periods of time. These economies arise irrespective of the type of container being produced. Large scale orders for

4.22 Some efficiencies may also be gained from dedicating a machine to a particular type of container. Therefore, at any one point in time, manufacturers may dedicate certain plants or machine lines to particular end use segments. For example, Rockware's Portland plant located in Scotland currently produces spirit bottles, whilst the Knottingley plant located in West Yorkshire currently manufactures beer, spirits, wine and cider bottles. This strategy is not dictated by equipment constraints but rather, by the manufacturer's desire to realise some economies of scale as a result of fewer job changes. However, even when a plant is dedicated, manufacturers will have one or two lines which are used to produce different types of container. For example, all three triple gob⁸ machines at Rockware's Wheatley plant (in South Yorkshire) switch from producing beer or soft drink bottles to food containers as demand changes, and one of the machines at Knottingley regularly switches between producing beer bottles on a triple gob basis and producing wine or spirit bottles on a double gob basis. All UK manufacturers will therefore have job change crews who carry out these line adjustments to ensure that they are performed as efficiently as possible.

4.23 The frequency of inevitable line adjustments is illustrated by the fact that [CONFIDENTIAL] changes were carried out at Rockware's plants in 2004.

4.24 The ease of switching on the supply-side, and the fact that suppliers would rather switch between container types than carry unused capacity, points in favour of a market for all glass containers. Ardagh therefore considers that the market should not be divided further by reference to end user segment. Ardagh notes that in its decision, whilst recognising the high degree of supply side substitutability, the OFT commented on the high shares of supply which the combined group would have in some end-use segments. Given the high degree of supply-side substitutability pointing towards a single market, any observations that shares of a particular end use segment are high are of little relevance. Moreover, the existence of high shares in any end use segments are generally the result of the concentration of the customer base in these segments which means that winning even one contract, results in a high share of supply. If the combined group were to attempt to raise the price of containers to customers in the soft drinks segment for example, it would rapidly lose volume to competitors such as OI, Quinn Glass and Al Tajir which already supply the same end use segment and therefore have a similar production line set up; and in the short term it would lose volume to other competitors who could easily switch their production lines to supply e.g. soft drink containers in the event of a price rise by the merged business.

4.25 In this context, the Commission should note that, [CONFIDENTIAL].

4.26 To place mould and line adjustments in context, **Annex 2** contains a detailed description of the glass container production process. The Commission may also find

food containers will achieve the same economies of scale as beverage containers (and customers seeking large orders will obtain a discount accordingly).

⁸ A gob is a precisely measured quantity of molten glass which is delivered automatically into a blank mould during the production process.

it helpful to view an animated depiction of the production process on Rockware's website at <http://www.rockware.co.uk/index-manufacturing.html>.

Geographic market

4.27 In 1998, the European Commission found, based on facts at the time, that the relevant geographic market was Great Britain. Although the European Commission was aware of the prospective entry, it was not then convinced that this would lead to Northern Ireland and Great Britain being viewed as a single geographic market. However, the subsequent successful entry of Quinn Glass led the OFT to find in its recent decision that it was: "*appropriate to include Northern Ireland in the geographic frame of reference*" because third party evidence confirmed that "*sourcing from Quinn Glass in Northern Ireland ... has been a real alternative to other glass manufacturers located within Great Britain*". The observations that correctly lead the OFT to find Northern Ireland to be part of the market, also apply to a number of other countries including the Netherlands, northern France, Germany and possibly even Dubai. Moreover, even if the Commission were to find insufficient evidence of current imports from these countries, the threat of imports is a constraint on the behaviour of UK producers.

4.28 The factors set out below confirm that supply from the Netherlands, northern France, Germany and Dubai represent as much of a competitive constraint as supply from Northern Ireland and should therefore be regarded as part of the same geographic market:

- Importers are not at a disadvantage in terms of reliability of supply: regardless of their "home" country, importers are likely to want warehousing in the UK; this is readily available at similar cost to that of UK producers from companies such as Exel and Christian Salvesen. The Commission should note that all manufacturers hire warehousing from third parties in order to meet "just in time" delivery requirements;
- Travel times from Northern Ireland and northern continental Europe to customers in the UK mainland are not very different;

4.29 Importers are not at a disadvantage in terms of contacting customers: if they do not wish to establish a UK sales force or contract directly with UK customers they can appoint a sales agent to contact customers to win business on their behalf. This is a feasible strategy irrespective of location. Indeed, Al Tajir successfully used an agent contracted from Trans Globalcargo Logistics Ltd to win business from [CONFIDENTIAL];

- Importers will have a number of production cost advantages: continental producers such as OI and Rexam in the Netherlands benefit from lower relative energy costs generally and far lower labour costs in Poland in particular;
- Al Tajir (based in Dubai) benefits from significant production cost advantages in terms of labour, energy, raw materials. These are likely to be sufficient to offset the increased transport costs(see further section 4.44 below);

- Changes in German packaging laws have led to severe over-capacity in the country which in turn, has led to exports into northern France and the Netherlands. The resultant excess capacity across these countries has led manufacturers there to look for opportunities to supply elsewhere;
- Currently, importers (particularly those on the continent) also benefit from the relative strength of sterling against the euro.

4.30 Some of these conditions have been present for some time. However, differential movements in costs and changes in capacity utilisation mean that some producers located outside the UK now find the UK attractive. Others have found low cost production locations.

4.31 That imports are not just a theoretical possibility is demonstrated by:

- The actual loss of volume to importers across all end use segments to importers based in the Netherlands, Dubai, Portugal and Austria;
- Steps taken by the UK government to encourage Quinn Glass to build the new plant in Cheshire rather than Dunkirk in recognition of the fact that *“if the plant was built in France, the potential impact on the existing UK manufacturers was likely to be similar but without the benefit of any new jobs in the UK”*.⁹

4.32 The prevalence of imports across all end use segments - Rockware’s analysis of food customers in 2004 which indicates that [CONFIDENTIAL] of the main food customers in the UK source at least part of their requirements from importers, with one believed to source all its requirements from overseas;

4.33 Evidence supporting each of these points is set out below.

The increasing pressure from imports

4.34 Imports into the UK have increased by almost 35% since 2002. Figures from the BGMC show that in 2004, imports of glass containers for the food and beverage sectors reached around 727 million units, or just over 10% of UK mainland demand in that year.

4.35 Credible tenders for UK mainland businesses for plants located elsewhere are possible because other efficiencies such as lower labour and energy costs more than compensate for the slightly higher transport costs faced by these suppliers. The deterioration in the relative cost position in the UK is due to factors such as rapidly rising energy costs (in particular, natural gas) in the UK, as well as high environmental taxes (such as the carbon tax). This deterioration is likely to continue – for example, Rockware estimates that its electricity costs will increase by [CONFIDENTIAL]% on 1st October. Ardagh estimates that energy costs (including gas and electricity) represent around [CONFIDENTIAL]% of the overall production

⁹ Letter from Jacqui Smith MP, Minister of State at the DTI, to Rosie Winterton MP of 8th March, 2005.

REDACTED VERSION

costs per tonne, the bulk of which represents the cost of gas. As a result, the relative production costs for producers outside the UK mainland has been sufficient to offset the slightly higher transport costs in serving customers on the UK mainland. The strength of sterling against the euro has also been a contributing factor. The table below shows actual and projected increases in natural gas and electricity prices paid by Rockware between 2003 and 2006.

Table D
Historic and projected natural gas and electricity prices

Year	Natural Gas (pence per therm)	Contracted Electricity Price (pence per kilowatt hour)
2003	21.92	2.12
2004	26.74	2.00
2005	35.14*	2.60
2006	39.64*	4.40

Source: Ardagh

Note: * indicates projections.

4.36 In Ardagh’s experience, a number of customers have chosen to switch some of their volume requirements to overseas producers. **Table E** below lists those who, to the best of Ardagh’s knowledge, currently source some of their requirements from overseas. The list is based on Ardagh’s understanding of where *its* customers source from. It may therefore understate the importance of imports in the market as it relates only to Ardagh’s customers, not all container customers in the market. Other evidence is provided by recent decisions by **[CONFIDENTIAL]**:

4.37 **[CONFIDENTIAL]** Ardagh estimates that OI has been supplying around 140 million containers from abroad – this figure is now likely to be about 200 million in 2005 and **[CONFIDENTIAL]** rising to around 300 million units per annum in 2006; and

4.38 Ardagh understands that **[CONFIDENTIAL]** has given Al Tajir volume commitments for 2007/08 to encourage it to build two new furnaces in Dubai to serve European customers. This suggests that Al Tajir considers it to be economically viable to supply the UK from the UAE, and intends to build up its UK customer base. Moreover, it is believed to be investing in warehousing in the UK, presumably to consolidate its commitment to UK customers.

4.39 The table also shows the geographic location of these customers and indicates that imports are a viable source of supply, regardless of the customer’s geographic location – customers in Scotland and in the north of England do source product from overseas. Moreover, they source not only from northern continental Europe (geographically close to the UK) but also from Dubai.

Table E

Ardagh Estimates of its Customers Sourcing from Overseas in 2005

Company	Sector	Location	Import From	Volumes (m units)
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]
[•]	[•]	[•]	[•]	[•]

Source: Ardagh

4.40 Note: [CONFIDENTIAL]

4.41 Moreover, the impact of imports and of the threat of imports is extremely significant: given the high ratio of fixed to variable costs meaning that marginal cost is low relative to average cost - the risk of losing even a small amount of business to importers or other manufacturers is particularly serious. This is supported by a “critical loss analysis” presented in response to **Question 10 of the Market Questionnaire**, which shows that a loss in volume of only [CONFIDENTIAL] would be sufficient to render a [CONFIDENTIAL] price increase unprofitable. [CONFIDENTIAL]

4.42 Current sources of imports include:

OI

4.43 The OI subsidiary in the UK (United Glass) does not currently manufacture glass food containers in the UK (having closed its food container plant at St. Helens in Lancashire in 1999). From 1999, OI supplied large volumes of food containers to the UK mainland from Poland. In June 2004, OI acquired BSN Glasspack (with plants in France, Holland and Germany) and promptly took steps to increase (from BSN Glasspack’s plant at Maastricht in the Netherlands) imports into the UK mainland, both in scale and in scope (by starting to import beverage as well as food containers).

4.44 Ardagh believes that OI considers there is a significant market opportunity in importing. Indeed, a recent strategy presentation published on OI's website¹⁰ indicates that it sees the acquisition of BSN as the catalyst for achieving integration of its business across its European plants. OI's imported glass food container business appears to have been targeted to date at [CONFIDENTIAL]; but recent developments show this is changing. First, OI has recently won the [CONFIDENTIAL] business. Second, it has been seeking¹¹ new business opportunities in the food segment. These new steps have been taken without any diminution in OI's supply of food containers into the UK mainland from Poland (from where it supplies [CONFIDENTIAL]). The combination of a proven track record in one part of Europe; experience and reputation; and local contacts has clearly allowed OI to become a major importer as well as a major domestic producer.

4.45 As can be seen from the map at **Annex 3**, OI now has a number of plants located in northern continental Europe, (including a second plant in Holland and one in Northern France) which Ardagh believes to be within around a 300km radius of customers located in Southern England. OI is therefore well-placed to supply even more product into the UK mainland from these plants.

4.46 OI has clearly concluded that it can viably compete from the Continent for supply to UK mainland customers. Entry into glass packaging by companies established outside mainland UK (certainly if they already have a reputation and customer relationships and, particularly, if they have backup facilities in the UK) is possible and is occurring.

¹⁰ European Integration Update, 16th March, 2005, available at http://www.o-i.com/pdfs/about/investors/European_Integration.pdf

1.1 ¹¹ For example, [CONFIDENTIAL]

Al Tajir

4.47 Al Tajir, based in the UAE, is both an established producer of glass containers, as well as the second largest containerised cargo shipper out of Dubai. The company is expanding aggressively worldwide, having completed (in mid-2003) a third bottle production line at its main site in Dubai at which it has a licence to use OI production technology. A further phase of expansion is underway in order to allow for the production of 4.5 million bottles per day, with Owens Brockway Glass Containers (a division of OI) being retained to advise on the design of the plant.

4.48 Al Tajir began to target European customers in 2004, winning business in Italy and the UK. It is represented in the UK by an agent contracted from Trans Globalcargo Logistics Ltd. In the UK, it initially targeted [CONFIDENTIAL] and was successful in winning business from [CONFIDENTIAL], as well as from a number of smaller customers. [CONFIDENTIAL]. Ardagh understands it has also been targeting [CONFIDENTIAL] who have been to Dubai to visit the production facility.

4.49 Al Tajir realises substantial savings in terms of energy and labour costs by producing in the UAE when compared with the costs incurred by UK manufacturers. Benchmarking carried out by Redfearn in March 2005 in relation to energy costs, suggest that at the time, gas costs for the Middle East were approximately ten times cheaper than those in the UK. This will have been exacerbated by further recent energy price rises. Insofar as available labour costs savings are concerned, Redfearn estimates that on a conservative basis, the Al Tajir labour force might earn around [CONFIDENTIAL]. On this basis, and given that labour costs account for around [CONFIDENTIAL]% of production costs, Al Tajir benefits from a significant saving. Savings in relation to these will compensate for the costs of shipping containers from a more distant location. Moreover, Al Tajir is able to reduce transport costs by availing itself of the attractive shipping rates from the Middle East to the UK.

Stolzle Flaconnage

4.50 Stolzle has plants in Austria as well as in Knottingley in the UK. It has historically supplied glass containers to many of the major spirits customers in the UK (including [CONFIDENTIAL]), as well as some food customers, from Austria as well as from Knottingley.

4.51 Stolzle is part of the Stolzle-Oberglas Group, an Austrian conglomerate with glass manufacturing subsidiaries in Austria, Germany and the Czech Republic, as well as Stolzle Flaconnage Limited in the UK. The Stolzle-Oberglas Group focuses on exports, exporting to over 80 countries worldwide and achieving 84% of its sales outside of Austria¹² - indeed, a large proportion of its UK sales are imported from Austria. The Stolzle-Oberglas group is itself a part of the CAG Holding GmbH Group, a holding company with interests in various manufacturing sectors and turnover in 2003 of over £520 million. The company employs 286 people at its

¹² www.stoelzle.com

Knottingley plant and reported sales of £32 million in the year ending December 31 2003.

Sotancro – Embalagem de Vidro SA

4.52 Sotancro, which has been active in glass production for over 60 years, manufactures glass containers at plants in Venda Nova, near Lisbon, in Portugal and Xinzo de Limia, Spain. The company has expanded from its initial focus on the pharmaceutical industry, and since the 1970s has also catered for the market for food containers from a purpose-built furnace capable of producing 120 tonnes/day. In 2004, with approximately 530 employees, three furnaces and ten lines, Sotancro achieved sales of 700 million units (120,000 tonnes) a year, with turnover of €50 million.

4.53 Sotancro serves customers both domestically in Portugal as well as in Spain, and other countries. Recently, Sotancro’s imports into the UK have included food container customers [CONFIDENTIAL]. Ardagh believes the majority of these sales have been made on an import basis from Portugal.

4.54 The table below shows Ardagh’s estimates of the capacity held by manufacturers in northern continental Europe who are either existing competitors on an import basis, or potential competitors who could readily supply the UK should they decide it were attractive to do so.

Table F

Ardagh’s estimates of capacity in near continental Europe

Country	Company	Number of Plants	Capacity (Tonnes)
Northern France	OI	3	500,000
	Saint Gobain	2	300,000
The Netherlands	OI	3	500,000
	Rexam	2	250,000
Northern Germany	Rexam	4	400,000
	Saint Gobain	2	300,000
	OI	2	250,000
Total		18	2,500,000

Source: Ardagh

The approach of the UK government

4.55 The UK government chose to provide funding to Quinn Glass to ensure that it built its new plant in the UK rather than in Dunkirk as previously contemplated. Ardagh's understanding is that the DTI (and Quinn Glass) considered it perfectly feasible for the plant to successfully supply the UK mainland market from Northern France and therefore decided to offer the grant to support jobs in the UK. This is evidenced by a letter from Jacqui Smith MP, Minister of State at the DTI, to Rosie Winterton MP, which stated:

*“One of the major considerations in offering support to the project was the firm evidence that, if the new project did not go ahead in the UK, Quinn would build the new plant at an alternative site in Dunkirk, France with support from the French authorities. **The Department judged that, if the plant was built in France, the potential impact on the existing UK manufacturers was likely to be similar but without the benefit of any new jobs in the UK.** As a result, the assessment of the impact of the increase in capacity at the new plant must be based on comparing the effect of the Quinn plant being built in the UK with the effects of the alternative scenario of Quinn building the plant at Dunkirk and exporting into the UK”.*¹³

Conclusion

4.56 The competitive constraint exercised by more readily available imports has increased in the last few years (indeed, the volume of imports has increased by about 35%) and the distance over which products are transported has increased significantly, with some UK customers being supplied from as far away as the United Arab Emirates. Thus imports, both actual and potential, are assuming increasing importance and act as a strong constraint on the pricing of products in the UK, leading towards a definition of a wider market. Changes in ownership of continental European glass plants and the introduction by companies such as OI of a European network clearly also point towards this conclusion.

4.57 Ardagh also submits that the evidence provided to the OFT by third parties in relation to the price differential between the UK and the continent is implausible for two reasons:

- in Ardagh's own experience, the differential is in the region of 3% - 10% inclusive of transport costs. The 40% figure is simply not credible as it would suggest either that continental producers' costs are a fraction of those in the UK (which is not the case), or that transport costs from the continent are very high – equating to roughly 50% of the price for an overseas supplier selling into the UK¹⁴ - again, this is simply not the case;

¹³ Letter dated 8 March, 2005.

¹⁴ If transport costs were less than 50% of the sale price, product supplied by companies located in continental Europe would be able to sell into the UK at prices below those quoted by UK suppliers and yet make the same margin as UK suppliers.

REDACTED VERSION

- a larger number of glass customers are multi-national operators who would simply not tolerate such pricing differentials between different European countries.

4.58 Ardagh therefore requests that if the Commission proposes to rely on this evidence, it be put to Ardagh in detail for comment.

5. THE COMPETITORS

5.1 Current competitors in the glass container business can be divided into three categories: manufacturers with plants only located in the UK (including Northern Ireland); manufacturers with plants located in the UK and elsewhere in continental Europe; and manufacturers with plants located only outside the UK. Quinn Glass which started production in the UK mainland in May, Allied Glass and Beatson Clark fall into the first category. OI and Stolze Flaconnage fall into the second category and Al Tajir, which started to supply UK customers recently, and Sotancro fall into the third category.

5.2 Both Quinn Glass, with new UK capacity of 370,000 packed tonnes on a conservative estimate, and Al Tajir represent relatively new features on the competitive landscape, as does the expansion of OI through the acquisition of BSN (see further below).

5.3 Saint Gobain and Rexam (after an exclusionary period of [CONFIDENTIAL]) should be viewed as potential competitors. A brief description of each competitor is set out below.

(a) Quinn Glass

Northern Ireland

5.4 Quinn Glass, part of the Quinn Group, commenced production of glass containers at its Derrylin plant in Northern Ireland in 1998. It is currently the only container glass plant in Northern Ireland, producing glass containers for the food and drinks industry. According to the Quinn Glass website (www.quinn-group.com/glass) it produces around 750 million units each year. In Ireland it has strong relationships with [CONFIDENTIAL] as well as with some customers in the food manufacturing sector.

5.5 In addition to supplying customers in Northern Ireland and the Republic of Ireland, Quinn Glass has also supplied customers on the UK mainland for a number of years. To the best of Ardagh's knowledge, it currently supplies [CONFIDENTIAL] from Northern Ireland, shipping around 67,000 tonnes into the mainland in 2004. Quinn Glass' share of sales in Great Britain has fluctuated between 2% and 6% even when its activities were solely import based. Quinn Glass has now started production at its new state of the art production facility in Cheshire (see further below), and this indicates a likely sharp increase in output and share.

Cheshire plant

5.6 The new Quinn Glass facility has been built on the site of the former Ince Power Station site on the Mersey estuary in Cheshire, at a cost of around £200 million. Quinn Glass received funding of around £4.9 million from the DTI and the

Northwest Development Agency to support the investment¹⁵. The facility includes one of the largest automated warehouses in Europe and will be one of a handful of sites worldwide which can manufacture and fill bottles on the same site.

5.7 Quinn Glass started production at the Ince plant in May and Ardagh understands that containers have been delivered to [CONFIDENTIAL] and others. Ardagh also understands the seventh machine has already been installed on the first furnace and that Quinn Glass has recently made a commitment to [CONFIDENTIAL] to commence production at the second furnace by November of this year, indicating clearly that Quinn Glass itself sees no impediment to increasing production in the next few months. Moreover, in a recent press release, Quinn Glass indicated that employment levels were close to 40% of the planned total and production was one third of planned capacity. This would suggest that the plant is currently producing at an annual rate of over 100,000 tonnes.

5.8 The current position is that Quinn Glass has a valid consent for a large glass container plant and can readily meet all concerns about emissions and traffic. Ardagh believes that it has chosen not to build in accordance with its approved plan in the belief that it will ultimately be successful in its proposals for a far larger plant. Ardagh believes that the proposed thirteen machine line plant will be capable of producing around 500,000 tonnes per annum, on the conservative assumption that the Quinn Glass state of the art plant is capable of achieving the same output per machine section as other UK manufacturers.

5.9 As the Commission is aware, Rockware has challenged Quinn Glass' application to vary the existing planning consent and it has been "called in" for review by the Secretary of State. However, the Secretary of State's review has not prevented the start of production at the Ince plant. Moreover, regardless of the outcome of the inquiry, neither Quinn Glass' ability to continue to produce, or to increase production will be affected – the "worst case scenario" is that Quinn Glass' maximum capacity would be 310,000 tonnes and it would be required to reconfigure the furnaces to burn oxyfuel (i.e. it would have to revert to the plant for which it has valid permission). This would entail an "outage" of some eight to ten weeks per furnace and would cost around £10 million.

5.10 In order to ensure that there is no misunderstanding about Quinn Glass's existing level of activities, the events leading up to the calling in of the planning application are set out at **Annex 4**.

United Glass

5.11 United Glass is part of the Owens-Illinois group, the largest manufacturer of glass containers in North America, South America, Australasia and Europe, which had global glass container sales of US \$6.1 billion in 2004. OI is the second largest manufacturer in the UK with around 25% of the market by volume, and sales in 2004

¹⁵ Ardagh understands that Quinn Glass claimed it had developed plans to locate a plant in Dunkirk as it was confident it could supply the UK from Northern France. However, following the DTI and NWDA's decision to make a grant, the location of the plant was confirmed as Ince in Cheshire.

of £143m. The company has plants at Harlow in Essex, and Alloa in Scotland, as well as a specialist glass sourcing and decoration company and a recycling subsidiary.

5.12 OI produces in excess of two million containers every day at each of its UK plants, with customers in the spirits, beers, FABs and wines sectors. OI used to manufacture food containers at its facility in St. Helens, Lancashire until 1999 when it decided to close the plant. It transferred some of this food business to its plant in Alloa at the time, but ceased the manufacture of food containers around the end of 2002. In June 2004, OI acquired BSN Glasspack, a manufacturer of glass containers for the food and beverage industries based in France. Through this acquisition, OI acquired BSN's production facilities in France, Germany, the Netherlands and Spain¹⁶. OI's recent European Integration Update¹⁷ indicates that it sees the acquisition of BSN as the catalyst for achieving integration across OI's European plants. Since acquiring BSN, OI has started to supply food and beverage containers to UK customers from the former BSN plant at Maastricht (see section 4.38 above). Ardagh believes that food containers could also be supplied from the former BSN plant in the north of France. The map at **Annex 3** (reproduced from OI's website) shows clearly that a number of former BSN plants – in particular, those in Holland and Northern France - are conveniently located for supply into the UK.

5.13 Ardagh believes that OI's main customer of food containers is [CONFIDENTIAL], manufacturer of products such as [CONFIDENTIAL]. It also supplies [CONFIDENTIAL], the latter from its plant in Poland. As described above, OI currently supplies around 140 million units into the UK – a figure that will rise significantly when the new business it has won from [CONFIDENTIAL] comes on line, to the benefit of its Dutch plants. Ardagh believes that OI's aim is to increase sales into the UK to over 300 million units in the next few years.

(c) Allied Glass Containers Ltd

5.14 Allied Glass is the UK's fourth largest glass container manufacturer, with sales in 2003 of £62.8 million and approximately 600 employees. Allied Glass supplies its customers, which include [CONFIDENTIAL], from its two plants in Leeds and Knottingley. Allied Glass was part of the Associated British Foods plc group, a worldwide conglomerate with sales of over £5bn and a market value of around £6bn, until a December 2002 MBO which was supported by Close Brothers Private Equity Limited. Allied Glass has recently invested in a state of the art colouring forehearth, which has the capacity to produce 45 tonnes of glass a day in a variety of colours. It supplies customers in all end segments. Moreover, Allied owns a furnace at its plant in Knottingley that is currently "mothballed" which could likely be brought on line were prices to rise or UK production to become capacity constrained (both of which, for the reasons set out above, seem very unlikely). In fact, Ardagh is aware that some 18 months ago, Allied was actively looking for green

¹⁶ Although the European Commission required Owens-Illinois to divest an acquired plant in Barcelona as a condition to clearing the transaction at Phase I.

¹⁷ European Integration Update, 16th March, 2005, available at http://www.o-i.com/pdfs/about/investors/European_Integration.pdf

glass business to see whether, if it were to reactivate the furnace, there would be sufficient demand to cover the increased fixed costs. Whilst it ultimately decided not to reactivate the furnace, Ardagh considers that Allied's search for business supports the view that it could readily reactivate the furnace in the event that there were an incentive to increase capacity. The costs and time involved in reactivating a mothballed furnace are considered at section 6.49 below.

(d) Beatson Clark

5.15 Beatson Clark plc, part of the Newship Group (a construction services group), is the UK's fifth largest glass container manufacturer. It also has distribution facilities in Continental Europe. The company had sales of £43m in 2003. The company has three plants, at Rotherham, Barnsley and Edenbridge, and supplies glass containers to customers in the pharmaceutical, food and drink sectors, including [CONFIDENTIAL].

(e) Al Tajir

5.16 Al Tajir is a vertically-integrated manufacturer and shipper of glass containers, based in Dubai. It has recently won a contract to supply [CONFIDENTIAL] and also to supply [CONFIDENTIAL] with part of the volumes switched away from Rockware with effect from early 2006. Moreover, [CONFIDENTIAL] informed Rockware in July that it has given UK volume commitments to Al Tajir for 2007/2008 to support the building of two new furnaces in Dubai, partly to serve UK customers. In addition, Al Tajir is actively seeking new business in the UK, through its own agent and through bottle merchants such as William Croxson and Son Limited. It is also investing in warehousing facilities in the UK, highlighting its commitment to serving UK customers on an on-going basis.

5.17 Its plant in Dubai is currently undergoing a significant expansion which will allow for the production of 4.5 million bottles per day, using six twelve section machines. Owens Brockway Glass Containers (part of the OI group) has been retained as an advisor for the expansion process.

5.18 It is lower labour and energy costs, less stringent environmental controls and attractive shipping rates to the UK that make Al Tajir such a serious competitive threat in the UK, despite larger distances over which to transport products.

(f) Stolzle Flaconnage

5.19 Stolzle Flaconnage is part of the Stolzle-Oberglas Group, an Austrian conglomerate with glass manufacturing subsidiaries in Austria, Germany and the Czech Republic, as well as in Knottingley, Yorkshire in the UK.

5.20 Stolzle has supplied glass containers (and may well still supply) to many of the major customers in the UK spirits sector, including [CONFIDENTIAL] mainly from Austria. Stolzle also has customers in the food container segment including [CONFIDENTIAL].

5.21 The Stolzle-Oberglas Group focuses on exports, exporting to over 80 countries worldwide and achieving 84% of its sales outside of Austria¹⁸. The Stolzle-Oberglas group is itself a part of the CAG Holding GmbH Group, a holding company with interests in various manufacturing sectors and turnover in 2003 of over £520 million.

(g) Sotancro SA

5.22 Sotancro has been active in glass production for over 60 years, and manufactures glass containers at plants in Vendas Novas, near Lisbon in Portugal and Xinzo de Limia, Spain. The company has expanded from its initial focus on the pharmaceutical industry, and also manufactures containers for the food and beverage industries. In 2004, with approximately 530 employees, three furnaces and ten lines, Sotancro achieved sales of 700 million units a year, with turnover of €50 million.

5.23 Sotancro serves customers both in Spain and Portugal, as well as in the UK. For example, Ardagh is aware that recently, Sotancro has supplied [CONFIDENTIAL] with containers.

(h) Saint Gobain

5.24 The Saint-Gobain group, which reported turnover of €32bn (approximately £20bn) in 2004, has been established in the UK since 1985, when it acquired Stanton plc from British Steel. The conglomerate has over 40 subsidiary businesses in the UK and Ireland, involved in a range of manufacturing and distribution activities. The group has no glass container production facilities in the UK, and makes imports through its UK and Ireland distribution agent, Saint-Gobain Desjonquere. Most of its UK sales are of containers produced at its plants in France. So far, it does not appear that St. Gobain has made a particular effort to focus its efforts on increasing sales into the UK, but it is clear that it could, if it were to become attractive to do so.

(i) Rexam

5.25 Rexam is one of the leading glass container manufacturers in Europe. It has thirteen plants located in northern Europe, including in Germany, Denmark, Sweden, the Netherlands and Poland.

5.26 [CONFIDENTIAL]

5.27 [CONFIDENTIAL]

5.28 [CONFIDENTIAL] Rexam [CONFIDENTIAL] should therefore be regarded as a potential competitor.

¹⁸ www.stoelzle.com

6. COMPETITIVE ASSESSMENT

Overview

6.1 In this section, we outline the nature of competition in the UK glass container industry.

6.2 Prior to the Acquisition, there were a number of suppliers each competing to win contracts to supply customers across a range of end use segments. Supply contracts were in the main short term (many of just one year) and were won through competitive negotiation (some involving a formal tender process and others a less formal request for a quotation, followed by a pricing negotiation). The combination of these factors resulted in customers either switching between suppliers at the end of a contract period or, where they remained with their existing suppliers, doing so following a new competitive selection process.

6.3 This process of rivalry has been possible because, contrary to the evidence which *customers* seem to have put to the OFT, capacity across suppliers has been sufficient in recent years to ensure that tendering has been competitive, with customers having a real choice of supplier in each tender. Ardagh understands from the OFT's decision that *competitors* supported Ardagh's contention that capacity has not been constrained in the past (see paragraph 19 of the OFT's decision) - Ardagh submits that manufacturers are likely to be a more reliable source of evidence about capacity levels than customers. Indeed, recent switching decisions by large customers are not consistent with a shortage of capacity.

6.4 Looking further ahead, the industry is likely to maintain this level of effective competition. The future of the industry should be assessed taking into account two changes – first, the Acquisition and second, the new Quinn Glass plant.

6.5 In short, post-Acquisition:

- (i) Rockware is facing the same number of principal rivals as it did previously (see further section 1.8 above);

6.6 Rockware is competing against a group of competitors which includes Quinn Glass (and no longer includes Redfearn). Rivalry within this group is even more intense than within the previous competitor set with Quinn Glass showing signs of being a more effective competitor than Redfearn. It has new plant, new equipment, new and efficient furnaces; lower labour costs as a result of more flexible work practices and lower wage rates and conditions of employment; tested management which has succeeded in Northern Ireland and a reputation for reliability, quality and cost efficiency. It has replaced, in the competitor set, Redfearn – [CONFIDENTIAL];

6.7 [CONFIDENTIAL].

6.8 As explained in sections 3.13 to 3.14 above, Ardagh expects that its management team is well placed to turn around Redfearn, thereby creating a stronger business, and ensuring quality capacity in the market place. In view of these factors,

which are explored in further detail below, Ardagh submits that the Commission should conclude that there is no substantial lessening of competition as a result of the Acquisition.

The structure of supply and the nature of competition

6.9 In this section, we look at key aspects of the glass manufacturing sector in more detail:

6.10 we describe the customer base, with particular focus on the parties' customers. These are sophisticated, often large multinational companies, able to secure advantageous terms from suppliers in relation to price. Customers would be able to resist any attempt to raise price by switching, or threatening to switch some, or all of their business to alternative suppliers. Indeed, [CONFIDENTIAL] indicates the countervailing power of customers, as well as their view of capacity available in the market.¹⁹

- then, we describe arrangements for the supply of glass, including the process by which the majority of contracts are awarded;
- next, we describe recent market outcomes such as falling prices and declining margins; and
- finally, we comment on the level and nature of barriers to entry to glass manufacturing.

6.11 We conclude that the combination of these factors means that any attempt by the merged entity to raise prices would be unprofitable as competitors could readily take business from it.

The customers

6.12 Many purchasers of glass containers for food and beverages are large (often multi-national companies) with significant financial resources. These customers are sophisticated buyers who can and do exercise considerable buyer power in their negotiations with glass manufacturers. They are readily able to play manufacturers off against each other to ensure that they continue to obtain competitive prices. This competitive tension is facilitated by the low switching costs faced by customers – a contention which third parties supported in their evidence to the OFT: “*Customers concur that switching costs – mainly due to the cost of new moulds – would not prevent them from switching suppliers in order to achieve a better price and there are examples of actual switching*” (OFT decision, paragraph 26).

6.13 The principal switching cost faced by a customer wishing to change from one supplier to another relates to the residual cost of moulds.²⁰ However, the cost of

1.2 ¹⁹ [CONFIDENTIAL]

²⁰ The majority of glass containers produced in the UK are made using proprietary moulds. That is, the containers are made using a mould based on the customer's intellectual property and design

switching is typically small in the context of the average value of a contract and does not act as a disincentive to switching.²¹

6.14 Ardagh estimates that the average mould cost represents 4%-5% of the overall contract value. The upfront cost of producing the moulds is typically borne by the glass manufacturer but is then amortised over the lifetime of the contract. Moulds also need to be replaced fairly regularly. Where a customer changes supplier at the end of a contract, the cost of the moulds will have been amortised (either wholly or largely) and there will not therefore be a significant residual value for the customer to pay.

6.15 For the reasons set out above, Ardagh considers that the switching costs faced by customers in the glass industry are low and do not constitute a barrier to switching.

6.16 In addition, the fact that many customers are large means that losing the whole or even part of a contract will really “hurt” a supplier (see the critical loss analysis in response to **Question 10 of the Market Questionnaire**). As a result, customers have considerable buyer power. Customers’ buyer power is supported by the:

- (i) widespread use of a tender process to find suppliers;
- (ii) short term nature of supply contracts (many for just one year);
- (iii) dual-sourcing (and sometimes multi-sourcing) of products; and
- (iv) requiring manufacturers to bear the cost of producing moulds.

6.17 Each of these factors is discussed further below.

Nature of Glass Supply Arrangements

rights, rather than in a standard non-proprietary mould. For example, the “curvy” glass Coca-Cola bottle is trademarked and is an integral part of the company’s marketing proposition for the product. Bottles made in the mould could not be supplied to any other customer without infringing Coca-Cola’s intellectual property rights. Therefore, once a new supplier has been chosen, the customer will make available the relevant bottle drawings so that the manufacturer is able to commission the moulds from a mould maker. This contrasts with non-proprietary bottles, such as a standard 75cl wine or spirit bottle, which is an industry standard bottle and will be sold to a number of different customers and manufactured by a number of different producers. Across the industry, non-proprietary containers account for around 10% of production.

²¹ A further theoretical switching cost is the risk that the new manufacturer may face quality or other production problems at the start of the contract, leading to supply issues which affect the customer’s own production processes. In practice, any “teething problems” at the start of a new contract are only likely to arise in relation to orders involving complicated container designs, or production of multiple container types. In Ardagh’s experience of these types of contracts, customers will require the former supplier to work with the new supplier to ensure a seamless transition between the two contracts. [CONFIDENTIAL]. The desire to retain goodwill with customers and maximise the chances of winning business back at the next contract award provides strong incentives on the outgoing supplier to cooperate.

Contracts often involve a tender process

6.18 The majority of glass supply contracts in the UK are awarded via a competitive negotiation which can involve a tender process or alternatively, the proactive targeting of customers by a manufacturer's sales team. Most supply arrangements are for one year and, in Ardagh's experience, both the incumbent suppliers and potential suppliers know when existing supply arrangements are due to terminate. Thus [CONFIDENTIAL].

6.19 As described in detail in the response to **Question 62 of the Market Questionnaire**, sales teams are in frequent contact with existing customers to try to win additional volume from them, as well as seeking business from new customers. Often, it will be known when a particular contract is due to expire and sales teams will contact a prospective customer and submit a quote, even where they have not been approached to do so. In addition, customers approach potential suppliers, either by means of a formal tender process or more informally. Typically, a customer wanting a supply of glass containers will approach at least two and sometimes many suppliers, indicating the likely volume of supply required of individual producers. For example, a customer might invite tenders to supply either 40% of its requirements (amounting to X million units) or 60% of its requirements (amounting to Y million units). In addition, the tender will typically set out any particular quality or design specifications. Interested suppliers will typically tender for both contract "chunks" and the customer is then able to match the best quotation for each element of the contract.

6.20 Tenders are invited by telephone, by letter and in a small number of cases, a request for tenders will be placed on the customer's website. For example, [CONFIDENTIAL] held a web-based tender in 2004. Some very large customers (such as [CONFIDENTIAL]) will visit suppliers to discuss their requirements in person with the prospective supplier before a tender is submitted). Customers will typically seek tenders some 6-12 months prior to the expiry of their existing contract.

6.21 In Ardagh's experience, if incumbent suppliers do not agree to a price reduction or are unable to offer better terms than their rivals, they will typically face a loss of volume to a competitor or may find that the customer switches its volume away altogether. Thus, as well as switching all their volume away from a manufacturer, customers frequently alter the *proportion* of their volumes which are supplied by a particular manufacturer. This reallocation of volumes can happen both at the end of a contract, but also during the lifetime of a contract if for example, the customer becomes dissatisfied with the quality provided by one supplier. By way of example, [CONFIDENTIAL].

6.22 Ardagh believes that this switching is best illustrated by [CONFIDENTIAL]. These data are set out at **Annex 5**. These tables show [CONFIDENTIAL]

6.23 Recent examples [CONFIDENTIAL]. Ardagh is also aware that [CONFIDENTIAL] has recently switched production of [CONFIDENTIAL] which services the contract from [CONFIDENTIAL].

6.24 These examples are illustrative of the switching in the industry as a whole and support a conclusion that manufacturers face constant competitive pressure and that customers can and will switch if they are unhappy with price, quality or other service levels.

6.25 Whilst Ardagh believes that most tenders are currently national in scope (in that a customer will invite tenders to supply its estimated national requirements), an increasing number of contracts are pan-European in nature. This is particularly true of multi-national customers who might, for example, invite tenders to supply all their European bottling plants. For example, Ardagh believes that Al Tajir has won a contract with [CONFIDENTIAL]. [CONFIDENTIAL]. In addition, customers who are supplied in one country by a domestic supplier are increasingly willing to be supplied for part of their overall requirement in another country by that supplier, subject to competitive pricing.

Contracts are short term

6.26 Glass container supply contracts tend to be short term – many are for as little as one year. Supply arrangements for longer than three years are less common in the industry. [CONFIDENTIAL]²². [CONFIDENTIAL] Ardagh's recent experience is that a number of customers have recently invited tenders for one year contracts in anticipation of Quinn Glass starting production in the UK mainland.

6.27 As a result of these short term contracts, glass container manufacturers face ongoing competitive pressure on their prices and service levels – as demonstrated above, customers do not face significant switching costs and regularly switch volume allocations between suppliers as well as switching suppliers entirely. This is facilitated further by the fact that (as described below) customers typically have two suppliers at any one point in time, and may in fact have as many as three.

Dual sourcing is commonplace

6.28 Security of supply is important to customers as any disruption in the supply of containers would have a detrimental effect on their own production processes. As a result, most customers dual-source and a number will have three suppliers for the supply of a particular product line. For example, both [CONFIDENTIAL] currently supply [CONFIDENTIAL], and until recently, [CONFIDENTIAL] all supplied [CONFIDENTIAL]. [CONFIDENTIAL] continues to source bottles from [CONFIDENTIAL] and has added [CONFIDENTIAL] as a supplier.

Falling prices and margins are consistent with a competitive market

6.29 There is every indication that competition in the supply of glass containers has been historically been effective. This view is supported by the following factors:

Rockware's prices have been falling in real terms

1.3 ²² [CONFIDENTIAL].

6.30 The table below shows [CONFIDENTIAL]

Table G: Rockware’s average selling price

Year	1999	2000	2001	2002	2003	2004
ASP (£/1000 units)	[•]	[•]	[•]	[•]	[•]	[•]
Real ASP (1999=100)	[•]	[•]	[•]	[•]	[•]	[•]

Source: Ardagh

6.31 The data in the table show that Rockware’s average selling price per thousand containers has fallen from [CONFIDENTIAL] in 1999 to [CONFIDENTIAL] in 2004, a deflation of [CONFIDENTIAL]% in real terms over this period.

6.32 The same pattern can be seen when looking at individual container types as shown by the data in the tables below.

6.33 Table H: Actual price of [CONFIDENTIAL] bottles

Year	1999 Jan–Jun	1999 Jul–Dec	2000	2001	2002	2003	2004
ASP (£/1000 units)	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Real ASP (1999 =100)	[•]	[•]	[•]	[•]	[•]	[•]	[•]

Source: Ardagh

NB: The second half of 1999 has been used as the appropriate base from which to calculate the real prices

6.34 Once again, the 2004 prices for each bottle were restated as if they had been purchased between July and December 1999, in order to remove the effect of inflation over that time. The deflated 2004 price of the [CONFIDENTIAL] bottles, calculated using RPI was £[CONFIDENTIAL] compared with the nominal price for July to December 1999 of £[CONFIDENTIAL]. This shows a deflation of just under [CONFIDENTIAL]% in real terms over the period.

6.35 Table I: Actual price of [CONFIDENTIAL] bottles

Year	1999 Jan–Jun	1999 Jul-Dec	2000	2001	2002	2003	2004
ASP (£/1000 units)	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Real ASP (1999 =100)	[•]	[•]	[•]	[•]	[•]	[•]	[•]

Source: Ardagh

NB: The second half of 1999 has been used as the appropriate base from which to calculate the real prices

6.36 The deflated 2004 price of the [CONFIDENTIAL] bottles, calculated using RPI was £[CONFIDENTIAL] compared with the nominal price for July to December 1999 of £[CONFIDENTIAL]. This shows a deflation of [CONFIDENTIAL]% in real terms over the period.

6.37 Ardagh believes these examples to be representative of the declining prices per container obtained by customers across the industry. In the face of such significant deflation over a five year period, it is simply not credible for customers to suggest that they have experienced price increases.

Margins have been under pressure over time

6.38 As a result of declining real prices, Rockware's and to a greater extent Redfearn's margins, have been under pressure over time. Both companies have attempted to counter this through very heavy capital expenditure programmes (combined £[CONFIDENTIAL] million has been invested between 1999 and 2004) designed to increase productivity and reduce costs. In 2004, when capacity was supposedly tight, net margin fell as a proportion of turnover from [CONFIDENTIAL]% to [CONFIDENTIAL]%. Similarly, Redfearn's net margin fell at this point from [CONFIDENTIAL]% to [CONFIDENTIAL]%. This movement is consistent with producers facing strong competition and reducing prices in order to win sufficient volume to cover their high fixed costs – it is not consistent with a shortage of capacity.

6.39 Moreover, in the context of rising input prices (as shown in the **Response to Question 28 of the Financial Questionnaire**) and stable technology, Ardagh submits that falling real prices and pressure on margins is not consistent with a market in which customers face “capacity headroom” issues as seems to have been suggested to the OFT.

Capacity levels have been, and continue to be, sufficient to ensure effective competition

6.40 The OFT appears to have received evidence from customers that capacity across the industry has been tight (OFT decision, paragraph 19). This conflicts with the views of competitors, as well as with Ardagh's own experience. Whilst accepting

that capacity may have been tighter at some points in the last decade as a result, for example, of furnace rebuilds, it refutes the notion that there has been a picture of consistent lack of capacity. Rockware certainly has never turned away a customer. In particular, the pricing and margin data set out above, and the degree of customer switching observed is simply not consistent with this.

6.41 Ardagh is not able to provide accurate historic capacity levels for the industry. Data collected by the BGMC relates only to output and, whilst it is feasible to estimate the maximum capacity of a particular furnace, the actual capacity will depend on the type and number of production lines installed, the mix of container types produced the speed at which these are run, and the overall efficiency at which the process operates.

6.42 This said, Ardagh is able to point to a number of events in the last decade which show permanent or temporary increases in capacity which are sufficient to offset increases in demand. These include the following:

- the opening of the Quinn Glass plant in Northern Ireland in 1998 which added around 7% capacity in the UK;
- the switch by Lucozade to PET, as well as by other soft drinks manufacturers in the first half of the 1990s, which led to a downturn in demand;
- the fall in FAB sales in 2004/2005 which "freed up" capacity;
- increments to capacity by existing players through furnace rebuilds and installation of new production lines.

6.43 Ardagh believes that in their evidence to the OFT, customers may be referring to a short period in 2004 when capacity there may have been a perception of capacity being somewhat tighter. The reasons for this were: (i) furnace rebuilds by Rockware, Redfearn and others; and (ii) an increase in demand for glass as a result of a switch to "single trip" (rather than refillable) mixer bottles in the on-trade channel. Since this period, the furnaces in question are back on-line, there has been a number of increments to capacity as players have replaced or upgraded production lines and Quinn Glass has started production. Moreover, demand has fallen in the first five months of 2005 as a result of the slow but ongoing switch to PET in the food segment, the decline of FAB demand and a decline in sales of bottled beers. Thus, capacity levels are more than sufficient to ensure a competitive outcome, even before the introduction of the new Quinn Glass capacity.

6.44 Ardagh submits that there is now around [CONFIDENTIAL]% spare capacity in the market, rising to as much as [CONFIDENTIAL]% when the second Quinn Glass furnace is fired. This is supported by recent switching decisions by large

customers (described below) which simply would not be possible in a capacity constrained market.

6.45 In the last three months, [CONFIDENTIAL] If producers across the industry were capacity constrained, or customers believed them to be so constrained, these moves would not have been contemplated or possible.

6.46 [CONFIDENTIAL]

6.47 Statistics produced by the British Glass Manufacturers' Confederation for the five month period from 1st January to 31st May 2005 indicate that UK demand has fallen by 4.71%, compared with the same period last year, whilst production increased by around 5%. Production by Quinn Glass at the Ince plant only started in May so it seems likely that the data do not yet include production from this plant. This indicates that even before the Quinn Glass plant came on stream, production capacity had risen by almost 10% relative to demand, suggesting overcapacity in the market. This is even higher now that production has started at the Ince plant. Indeed, on current estimates, [CONFIDENTIAL].

6.48 **Table J** below shows actual production figures for 2004 and adds projected available capacity figures (both minimum and maximum) going forward so as to anticipate the level of competition in around a year's time.

Table J
Production / Sales 2004 vs Projected Available Capacity 2006

	2004 Packed tonnes ('000s)	% of UK supply	2006 Estimated Available Capacity ('000s)		% of UK supply
			Min	Max	
Rockware UK	[•]	[•]	[•]	[•]	[•]
<i>Rockware imports</i>	[•]	[•]	[•]	[•]	[•]
Redfearn UK	[•]	[•]	[•]	[•]	[•]
<i>Redfearn imports</i>	[•]	[•]	[•]	[•]	[•]
United Glass UK	[•]	[•]	[•]	[•]	[•]
<i>OI imports</i>	[•]	[•]	[•]	[•]	[•]
Quinn Glass UK Mainland	[•]	[•]	[•]	[•]	[•]
Quinn Glass NI	[•]	[•]	[•]	[•]	[•]
Allied Glass	[•]	[•]	[•]	[•]	[•]
Beatson Clark	[•]	[•]	[•]	[•]	[•]
<i>Other imports</i>	[•]	[•]	[•]	[•]	[•]
Total UK supply	[•]	[•]	[•]	[•]	[•]
Exports	[•]		[•]	[•]	
Total UK home supply	[•]		[•]	[•]	
Total UK home demand²³	[•]		[•]	[•]	
Excess capacity	[•]		[•]	[•]	
Excess capacity as % of UK home demand	[•]		[•]	[•]	

Source: Ardagh estimates

Conclusion

6.49 The implication of this level of spare capacity is that if Rockware were to try to raise prices, it could lose up to [CONFIDENTIAL] As a result, Ardagh considers there is sufficient spare capacity to constrain prices. It has no plans to increase prices in real terms and believes it would be foolish to try to do so – any such attempt would result in a loss of volume and, as shown by the critical loss analysis presented in response to **Question 10 of the Market Questionnaire**, even a small loss of volume can really “hurt” a supplier.

²³ This figure is lower than that submitted to the OFT as BGMC statistics for the first 6 months of 2005 show a fall in demand of around 4.8%, relative to the same period in 2004.

6.50 Even within a short period, if such a price increase were sustained, Rockware would expect to lose further sales as other suppliers add to capacity. As described below, incremental additions to capacity can be made at relatively low cost and may even be supported by customers (by committing volumes) seeking lower prices.

Barriers to entry and expansion

6.51 Ardagh recognises that there are some barriers to entry to the glass container industry – key considerations for a potential entrant include obtaining the necessary consents (planning and environmental) and the expense of building the plant. Glass plants occupy large areas (so land costs are high) and generate a large amount of heavy traffic transporting glass containers from the plant – planning applications are therefore carefully scrutinised. In addition, plants must comply with increasingly stringent emissions limits. Quality and reputation could also be viewed as barriers to entry. The relevant regulatory requirements are described in detail in the response to **Question 65 of the Market Questionnaire**.

6.52 However, as demonstrated by the recent entry on a significant scale of Quinn Glass, as well as that of Al Tajir, these barriers are clearly not insurmountable. Moreover, OI also supplies containers into the UK from Poland and increasingly, the Netherlands, providing further evidence of actual new entry into the market.

6.53 These three examples of entry are also interesting in that they illustrate the different strategies which can be adopted by potential entrants, each requiring very different levels of investment. Whilst Quinn Glass has built Europe's largest and most modern plant from scratch, Al Tajir and OI have chosen to supply UK customers from plants located outside the UK.

6.54 In its decision, the OFT suggested that "*it may be the case that the building by Quinn Glass of a new plant in the UK will itself act as a disincentive for any new entry*" (OFT decision, paragraph 23). The arrival of Quinn Glass did not act as a deterrent to Al Tajir to bring on line additional capacity to serve European customers (including those in the UK). Moreover, to the extent that quality or prices change to customers' detriment or demand increases, there may well be other new entrants. In particular, [CONFIDENTIAL] suggests that it may intend to compete for business from UK customers in [CONFIDENTIAL]. And, although St. Gobain has not in the past focused its efforts on UK customers, there is no reason why it could not do so in the future, if it were attractive to do so.

6.55 Insofar as barriers to expansion are concerned, Ardagh's view is that these are low. Expanding capacity can be achieved in a number of ways. It can be done by:

- *reactivating mothballed furnaces* – the cost of this and the time required will depend on the condition of the furnace when it was mothballed. If the furnace was in good condition when mothballed, it would take a couple of weeks to restart and cost between £200,000 and £1 million. If it was in need of an extensive rebuild, the lead time for delivery of refractories and other items would take a further six months. The ease with which furnaces can be reactivated is illustrated by the fact that some 18 months ago, Allied was considering whether to reactivate its mothballed furnace;

6.56 *adding new machine lines to furnaces* – in 2000, Rockware added a new production line in Scotland to service [CONFIDENTIAL];

6.57 *replacing older, slower running machine lines* – in 2003, Rockware increased the capacity of a production line by around [CONFIDENTIAL]% to service [CONFIDENTIAL]. It did this by replacing [CONFIDENTIAL] machine with a [CONFIDENTIAL]. In 2004, Rockware replaced an [CONFIDENTIAL] with a [CONFIDENTIAL] to supply additional [CONFIDENTIAL] volumes;

- *building a new furnace at an existing plant.* This would cost between £5 million and £10 million and take about a year from starting production to producing saleable output; and
- *building a new plant* – in the last couple of years, Quinn Glass has built a new state of the art plant with capacity equivalent to around 25% of UK demand.

7. MARKET SHARES

Share of sales

7.1 As described previously, the increasing amount of imports from outside the UK and the switching by customers of part of their volume requirements to importers point towards as the definition of a wider market. The table below shows Ardagh's estimates of sales in the UK (and related shares of total sales) of the main suppliers competing for UK business in 2004.

Table K
Estimates of 2004 shares of sales of glass containers in the UK

Company	Sales (millions of units)	Market share (%)
Rockware	[•]	[•]
Redfearn	[•]	[•]
OI	[•]	[•]
Allied Glass	[•]	[•]
Beatson Clark	[•]	[•]
Quinn Glass (NI)	[•]	[•]
Imports	[•]	[•]
Total	[•]	[•]

Source: Ardagh estimates

7.2 As the figures in the table above relate to 2004, the Quinn Glass data relate only to its sales into the UK mainland from its Northern Irish plant. Whilst Ardagh cannot estimate what Quinn Glass' overall sales in the UK will be in the future, it can produce a minimum of 370,000 packed tonnes per annum and Ardagh is confident that this figure can be increased to around 500,000 tonnes. Quinn Glass has shown itself to have the expertise and quality to be an effective competitor: it is therefore to be expected that its share of sales will increase significantly in 2006 as it competes fiercely for new business in order to maximise capacity utilisation at its Cheshire plant.

7.3 These historic figures fail to reflect the competitive parameters which arise as a result of the recent market developments: not only has Quinn Glass entered with a new state of the art plant (see section 5), but OI has increased imports from continental Europe and Al Tajir has been sponsored by [CONFIDENTIAL] to

increase capacity. These factors represent an increased threat to existing UK producers and therefore, to their shares of business.

Share of production

7.4 For completeness, the table below sets out Ardagh's estimates of shares of glass container production in the UK in thousands of packed tonnes. Allied Glass' share is higher on this basis than when sales in the UK are measured as Allied Glass exports around 10% of its production to continental Europe and Russia.

Table L
Estimates of 2004 shares of production of glass containers in the UK

Company	Packed tonnes (000s)	Market share (%)
Rockware	[•]	[•]
OI	[•]	[•]
Redfearn	[•]	[•]
Allied Glass	[•]	[•]
Beatson Clark	[•]	[•]
Quinn Glass (NI)	[•]	[•]
Total market	[•]	[•]

Source: Ardagh and Redfearn for their own figures and British Glass Manufacturers' Federation for total market size and Ardagh estimates for other figures.

8. THE COUNTERFACTUAL

8.1 In this section we discuss the relevant counterfactual against which Ardagh believes the Acquisition should be assessed.

8.2 Ardagh considers the appropriate counterfactual to be the situation where Quinn Glass has replaced Redfearn as the third main supplier of glass containers in the UK. This view is based on the quality, service and resultant reputational problems faced by Redfearn. Thus, post-Acquisition, Rockware faces the same number of competitors as previously, although an independent Redfearn has been replaced by Quinn Glass with the potential to offer more, and certainly better quality, capacity than that previously offered by Redfearn.

8.3 [CONFIDENTIAL]²⁴),

8.4 [CONFIDENTIAL]

8.5 [CONFIDENTIAL]

8.6 With three sizeable players producing in the UK - OI, Quinn Glass and Rockware - each with a reputation for high quality products and a reliable service, and a number of actual and potential importers, [CONFIDENTIAL].

8.7 [CONFIDENTIAL]

Redfearn was no longer an effective constraint

8.8 [CONFIDENTIAL] By late 2003–early 2004, it was clear that the new Quinn Glass plant would add a significant amount of capacity to the market. In addition, imports by Al Tajir and OI, from Dubai and the continent respectively, had added further competitive pressure on the market. Finally energy prices started to rise sharply.

8.9 [CONFIDENTIAL]

8.10 [CONFIDENTIAL]:

8.11 [CONFIDENTIAL];

8.12 [CONFIDENTIAL];

8.13 [CONFIDENTIAL]

8.14 [CONFIDENTIAL]

8.15 [CONFIDENTIAL]

8.16 [CONFIDENTIAL]

²⁴ [CONFIDENTIAL]

8.17 The OFT noted that despite quality problems at Redfearn, it had managed to secure new contracts. **[CONFIDENTIAL]**

8.18 **[CONFIDENTIAL]**

Analysis and Conclusion

8.19 Ardagh has submitted evidence (see section 6) that competition was effective before the entry of Quinn Glass, **[CONFIDENTIAL]**.

8.20 Ardagh has no doubt that Quinn Glass will prove to be a more effective constraint than Redfearn: the new plant is the largest glass plant in Europe with the capacity to sell at a minimum, 370,000 tonnes, but likely to be around 500,000 tonnes into the UK. The furnace fired in May has a capacity of around 250,000 tonnes; in view of the high fixed costs associated with the business, Quinn Glass is competing very aggressively to win volumes to fill the furnace. Quinn Glass has an established track record of selling to mainland UK customers. With its reputation for quality, its recognised brand and its contacts with customers in all end-use segments in the UK mainland it is likely to be a highly effective UK competitor. **[CONFIDENTIAL]**

8.21 **[CONFIDENTIAL]**. Ownership by Ardagh is the best way of securing the plant's future, in view of Ardagh's track record of successful integration and management of businesses acquired. **[CONFIDENTIAL]**. Thus, the Commission should be able to conclude that the Acquisition does not result in a substantial lessening of competition.