

**Alanod Aluminium-Veredlung GmbH & Co
and
Metalloxyd Ano-Coil Ltd**

A report on the proposed merger



COMPETITION COMMISSION

**Alanod Aluminium-Veredlung
GmbH & Co
and
Metalloxyd Ano-Coil Ltd**

A report on the proposed merger

**Presented to Parliament by the Secretary of State for Trade
and Industry by Command of Her Majesty
January 2000**

Members of the Competition Commission as at 26 November 1999

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Miss P A Boys (*Secretary*)

¹These members formed the Group which was responsible for this report under the chairmanship of Mr R H F Croft.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests.

The omissions are indicated by a note in the text or, where space does not permit, by the symbol ✂.

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Part I

Summary and Conclusions

1 Summary

1.1. On 15 July 1999, the Secretary of State for Trade and Industry referred to the CC for investigation and report the acquisition of Metalloxyd Ano-Coil Ltd (Ano-Coil) by Alanod Aluminium-Veredlung GmbH & Co (Alanod) (see Appendix 1.1 for the terms of reference). The effect of this merger has been to increase Alanod's share of the market in the UK for anodized aluminium coil for use in lighting, including its vacuum deposition MIRO products, from about 35 per cent to about 75 per cent, satisfying the requirements for our investigation under the Fair Trading Act 1973.

1.2. Alanod is a German company which in 1998 was the largest supplier in the world of specular anodized aluminium coil for use in lighting, estimating its market share at about 31 per cent, worth some £36 million. It is also the only company in the world currently producing, on a commercial scale, reflective aluminium coil using vacuum deposition. In 1998 it had a total turnover of approximately £[\approx] million. Prior to its acquisition of Ano-Coil, its production was based entirely in Germany, with sales to UK customers being primarily through a distribution agreement with Thyssen Garfield Ltd. Alanod has ownership links with Jordan Reflectors Limited (Jordan), a manufacturer of lighting louvres in the UK.

1.3. Prior to the acquisition, Ano-Coil was a subsidiary of Metalloxyd GmbH, a German company. In 1998 Ano-Coil's total turnover was approximately £24 million, and it was the largest supplier of anodized aluminium coil used in lighting in the UK with turnover of £6.4 million representing a market share of about 40 per cent.

1.4. At the time of the merger Metalloxyd GmbH was under bank control and in a financially weak state. Its facilities for production of anodized aluminium coil in Germany were closed at the end of 1998, and all production transferred to Ano-Coil's sites at Milton Keynes and Bletchley in the UK as part of a rationalization programme. On 17 March 1999 Alanod acquired Ano-Coil for DM[\approx] million under an agreement [*Details omitted. See note on page iv.*], which was subsequently closed. Following the acquisition further rationalization took place, and Ano-Coil's technical, marketing and sales operations were for the most part closed.

1.5. Ano-Coil had been an effective competitor to Alanod in the UK and we believe that, had the merger not occurred, it would have survived as a viable competitor, at least for a reasonable period. The acquisition of the largest supplier of anodized aluminium coil for use in lighting in the UK by the second largest supplier has resulted in a clear loss of competition.

1.6. We considered carefully Alanod's arguments that competition from other producers of anodized aluminium coil, customers' ability to switch to other materials and the scope for new entry into the market would constrain its ability to achieve prices above those that would otherwise have prevailed and ensure continuing choice for customers. While we accept that the ability of end-users to change supplier will continue to have some constraining effect on the merged entity, we believe that Ano-Coil would have provided competition that would have been more effective than we expect any of the other anodizers to achieve in the post-merger situation. We consider that there is only limited scope for substitution of alternative materials, particularly in the short to medium term. While recognizing that there are no substantial

technical barriers to entry, we consider that the commercial barriers are such as to deter any newcomer from entering the market.

1.7. We believe that the merger has diminished competition and produced a dominant supplier, having both the incentive and the means to exploit its market power by charging higher prices. The possibilities for price discrimination in a market traditionally lacking price transparency would be enhanced. In addition, with the dominant supplier being the sole source of the MIRO range of vacuum deposition products, greater potential exists for tying-in of MIRO with pre-anodized aluminium than would otherwise have arisen. Having regard to all these matters, prices would, in our view, be more likely to be higher with the merger than if the merger had not taken place.

1.8. We accept that the merger has created opportunities for cost savings by Alanod and led to investment at Milton Keynes which together are likely to have increased to some degree the security of production and employment there. However, we do not believe that these benefits are sufficient to balance the adverse effects identified above, and therefore conclude that the merger may be expected to operate against the public interest.

1.9. We considered structural remedies but concluded that, in current market conditions, the prospect of a sale of Ano-Coil leading to a strengthening of effective competition in the UK market for anodized aluminium coil was too uncertain. More radical structural changes beyond divestment were not practicable.

1.10. We consider a package of behavioural remedies is the most appropriate means to alleviate the detriment to the public interest we have identified. We recommend that the Director General of Fair Trading should obtain a package of undertakings from Alanod and Ano-Coil covering:

- (a) maximum prices;
- (b) continuing supply of existing grades;
- (c) not linking sales of MIRO to sales of anodized aluminium;
- (d) supplying MIRO products to competitors;
- (e) cancelling its agreement with Von Ardenne Anlagentechnik GmbH;
- (f) not giving retrospective rebates; and
- (g) maintaining arm's length business relationships with Jordan.

Some proposals were put to us by Alanod that would constitute a starting point.