

6 Views of main parties

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Introduction

6.1. This chapter summarizes the views of Metalloxyd GmbH given at an oral hearing by Herr Wagner (Chairman of the Advisory Board of Metalloxyd GmbH) and Herr Scheel (General Manager of Metalloxyd GmbH) and of Alanod given in written submissions and at an oral hearing.

Views of Metalloxyd GmbH

6.2. Metalloxyd GmbH said that it was part of a family-owned concern that prior to 1998 was engaged in aluminium anodizing, both static and coil, in the manufacture of aluminium louvres for lighting (through Metaprint, both in the UK and in Germany) and in the manufacture of magnetic components (through Steinert). As a result of financial difficulties Metalloxyd GmbH had come under bank control, and new personnel were brought in with a remit to address the position. From late 1997 onwards this involved extensive rationalization, involving the sale of money-losing operations in the USA, in building products and of Metaprint.

6.3. Metalloxyd GmbH advised that it was also losing money in its core coil anodizing business, primarily as a result of overcapacity in the market and the downturn in markets in the Far East. In 1998 it closed its coil anodizing lines in Germany and concentrated production at its newer and lower-cost line at Milton Keynes. Although the sale of Ano-Coil to Alanod occurred before the full impact of these changes could be assessed, Metalloxyd GmbH did not believe that its remaining coil anodizing business was viable in anything but the short term even with these changes. First, it was generating insufficient returns to make necessary investments to keep its plant up to date whilst meeting the financial demands upon it. Secondly, it lacked vacuum deposition products to compete with Alanod's MIRO range or the ability to raise the investment necessary to develop similar products of its own. Prior to the sale, it had sought to produce such products with a company in the USA, but this proved unsuccessful.

6.4. Metalloxyd GmbH said that in 1998, following an unsuccessful attempt to negotiate a partnership with Alanod, it concluded that it should sell its coil anodizing business. It did not openly put the business on the market, which, it believed, would have had an adverse impact on its continuing operation, but approached Alanod with a view to sale. It had discussions with some other investors but these made little progress, and it saw Alanod as the natural purchaser and eventually sold Ano-Coil to it

on 17 March 1999. In this, Metalloxyd GmbH said that a prime consideration had been the protection of jobs at Milton Keynes.

Views of Alanod

Background to, and reasons for, the merger

6.5. Alanod described how, since the mid-1970s when it was set up by four senior former employees of Metalloxyd GmbH, it had been engaged in the manufacture of anodized aluminium products in competition with Metalloxyd GmbH and others. Prior to the merger it operated three coil anodizing production lines in Germany, two at Wuppertal plus one at Ennepetal. Following the acquisition of Ano-Coil it operated an additional coil aluminium anodizing plant at Milton Keynes in England. It also had two PVD vacuum deposition lines at Ennepetal, the second of which began production in August 1999, plus machinery for slitting, cutting to length and for levelling coil.

6.6. Alanod said that it had been aware of the poor financial condition of Metalloxyd GmbH for some time prior to September 1998, when Metalloxyd GmbH approached Alanod to initiate discussions concerning the possibility of a full merger. These discussions came to nothing, but shortly thereafter Metalloxyd GmbH approached Alanod with an offer to sell its coil anodizing business. Following discussions a preliminary agreement between Alanod and Metalloxyd GmbH was signed on 18 December 1998 and on 17 March 1999 the entire share capital of Ano-Coil was sold to Alanod for DM [\approx] million.

6.7. Alanod said that its reasons for wishing to acquire Ano-Coil were:

- (a) It provided a direct route for distribution of its product to UK customers, along with a UK manufacturing presence; it had in November 1998 served notice to terminate its existing agreement with its UK distributor Thyssen. Although its relationship with Thyssen had been successful for a number of years, it had deteriorated in the last couple of years with disagreements over margins and sales.
- (b) It offered the opportunity of cost savings through rationalization of production and distribution and through savings on purchase of raw materials. Alanod had reached the view that, with investment, net savings of at least DM [\approx] million a year should be available from factors such as reduction of raw material costs at Ano-Coil; speeding up of the line at Milton Keynes; rationalization of production and of technical, marketing and sales activities; elimination of management, research and development costs previously paid to Metalloxyd GmbH; and rationalization of agencies and overseas companies. Its investigations subsequent to the merger had supported this judgment.

Share of the market

6.8. Alanod said that anodized aluminium coil for use in the lighting industry was produced in a large number of grades with different properties and finishes, including milled and patterned finishes. It claimed that there were no industry standards for anodized aluminium coil, but the key optical properties for use in lighting were:

- total reflectivity;
- specular reflectivity;
- diffusivity; and
- iridescence.

6.9. Different combinations of these optical properties result in different performance characteristics; metal with higher figures for total reflectance and lower diffusivity and iridescence will be regarded as more specular, but there were no industry standards for 'semi-specular', 'specular' and 'highly specular', which terms will be used differently by different customers. Alanod argued that there was thus no clear

distinction between ‘specular and highly specular anodized aluminium coil’ and other grades of aluminium coil used in the lighting industry.

6.10. Alanod argued that MIRO products, which were produced by means of a different technology, should properly be regarded as a competing material rather than as a form of anodized aluminium coil.

6.11. Alanod further argued that, whether or not the market for anodized aluminium coil for use in lighting was subdivided by reference to degree of specularity, any attempt to assess the market share of the merged company by adding together the pre-merger market shares of Alanod and Ano-Coil would be misleading. It was not seeking to dispute that the Commission had jurisdiction in this case. However, to assess future market share it was necessary to take into account that most of Alanod’s sales in the UK prior to the merger were made through Thyssen, which acted as principal in which role it would have been perceived by its customers as their supplier, and which had since become the distributor in the UK for SACALL. Alanod said that it was aware that Thyssen was talking to a number of previous users of Alanod material, quoting prices below those of similar Alanod grades, and it expected SACALL to grow its share of UK sales quickly by supplying Thyssen’s existing customers. In addition, about half of Ano-Coil’s sales in 1998 were to Thorn, with whom its contract expired in June 1999.

Competition from other producers of anodized aluminium coil

6.12. Alanod contended that the supply of coil anodized aluminium formed part of a worldwide market to which, in addition to Alanod/Ano-Coil, SACALL of Italy, SATMA of France, Lorin of the USA, ACA of the USA and ANOFOL of Italy currently supply European customers. All but the last of these had established distribution facilities in the UK and competed across the range of anodized aluminium products offered by Alanod and Ano-Coil. It claimed that each offered products with equivalent optical properties, making anodized aluminium coil for lighting use essentially a commodity product for which it was relatively easy for customers to switch between suppliers. As evidence, Alanod claimed that the majority of customers multi-sourced their supplies, and drew attention to the extent of changes in the list of top ten customers of Ano-Coil in the last ten years, the switching of sales amounting to around 1,100 tonnes worldwide from Alanod/Ano-Coil to other suppliers since the merger, and the number of other UK customers believed to be actively considering alternative supplies. Alanod said that although consistency of product was important to customers, who generally sought to avoid using materials from different manufacturers in a single louvre, all anodized aluminium coil was manufactured to certain tolerances and even in a single coil there would be variations within these. Alanod said that it had received no complaints from customers over changes since the merger, despite the fact that certain products bearing the Ano-Coil product code were now manufactured only on its German lines and Ano-Coil products produced at Milton Keynes had had their characteristics changed slightly to bring them closer to their Alanod equivalents.

Competition from other materials

6.13. Alanod argued that a number of alternative materials competed with coil anodized aluminium for use in lighting louvres, including raw aluminium, steel laminate, plastic, white painted louvres and lacquered louvres. PVD products such as MIRO also provided an attractive alternative through a combination of higher total reflectivity and no iridescence. Alanod saw these characteristics as particularly desirable in newer designs of fittings utilizing smaller louvres in combination with T5 lamps. Alanod was looking to introduce a new range of MIRO L products using a lacquered raw aluminium substrate in place of anodized aluminium. Alanod said that it expected to grow its sales of MIRO and MIRO L at the expense of anodized aluminium. It also expected a reduction in sales of ‘medium and lower specular’ grades of anodized aluminium as customers switched to raw aluminium in response to price pressure.

Barriers to entry

6.14. Alanod argued that barriers to entry were low. The anodizing process was not new and there were no relevant patents or substantial barriers in terms of know-how. Alanod estimated that the cost of a

new anodizing line might be of the order of £2 million (excluding the cost of effluent handling, buildings, taping and slitting facilities etc). It claimed that barriers to entry were even lower for existing coil anodizers but who did not currently produce coil for lighting applications, who might simply need to invest in electro-brightening equipment at a cost of around £350,000.

6.15. Alanod argued that there were also limited barriers to entry for others wishing to compete with vacuum deposition products similar to the MIRO range. It claimed that although it had filed an application for a European patent in respect of a specific surface protection layer for special applications, there was no general patent protection, and competitors would be able to buy a production line from the company which supplied Alanod.

Effects of the merger

6.16. Alanod argued that the effect of the merger would be beneficial; that there was effective competition from other producers of anodized aluminium coil, from other materials and low barriers to entry. There was excess capacity in the market, and it was relatively easy for customers to switch between suppliers. Alanod argued that although historic market shares showed Alanod and Ano-Coil as the leading producers of anodized aluminium coil for use in lighting, the market had moved on and these shares were misleading. There was increasing competition from SATMA with its new HELIA product and from SACALL which was considering constructing a new anodizing line and looking to expand, in particular through its link-up with Thyssen. Ano-Coil had not developed a competing product to Alanod's MIRO or SATMA's HELIA. For highly specular grades, MIRO had been replacing anodized aluminium and Ano-Coil was in no position to compete with MIRO. In respect of other grades there was sufficient competition from other suppliers of anodized aluminium and also from raw aluminium. Alanod argued that it would not be able to exploit its market position, therefore, and competition would ensure that a fair share of the cost savings resulting from the merger would be passed to customers. Customers would gain through the ability to obtain Alanod products through a high-quality distribution service, and employees at Milton Keynes would gain through significant investment to secure the jobs of around 100 people.

R H F CROFT (*Chairman*)

C DARKE

J C HANRATTY

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P A BOYS (*Secretary*)

26 November 1999