

**Linpac Group Limited
and
McKechnie Paxton Holdings Limited**

A report on the merger



COMPETITION COMMISSION

Linpac Group Limited and McKechnie Paxton Holdings Limited

A report on the merger

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
May 2002**

Members of the Competition Commission as at 9 April 2002


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¹These members formed the Group which was responsible for this report under the chairmanship of Mrs D P B Kingsmill.

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 she considers would not be in the public interest to disclose and which, in her opinion, would seriously and prejudicially affect certain interests.

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Contents

	<i>Page</i>
Part I—Summary and Conclusions	
<i>Chapter</i> 1	Summary3
2	Conclusions.....5
Part II—Background and evidence	
3	Background to the RTP industry 25
4	The acquisition and the companies concerned..... 31
5	The market 53
6	The views of Linpac 73
7	The views of other parties 97
	List of signatories 106
<i>Appendices</i>	(The numbering of the appendices indicates the chapters to which they relate.)
1.1	The reference and conduct of the inquiry 107
4.1	Linpac: profit and loss account 108
4.2	Linpac: balance sheet 109
4.3	Linpac: cash flow 110
4.4	Linpac Materials Handling UK: profit and loss account 111
4.5	Linpac Materials Handling UK: balance sheet and cash flow 112
4.6	Linpac Materials Handling UK: operating costs 113
4.7	Paxton: profit and loss account 114
4.8	Paxton: balance sheet 115
4.9	Paxton: cash flow 116
4.10	Paxton: operating costs..... 117
5.1	European Commission decision in the merger of Industri Kapital (NORDKEM)/Dyno, case No COMP/M.1813..... 118
5.2	Manufacturers of types of plastic RTPs..... 121
	Glossary..... 123

Part I

Summary and Conclusions

1 Summary

1.1. On 4 January 2002 the Secretary of State for Trade and Industry referred to the Competition Commission (CC) for investigation and report (under the merger provisions of the Fair Trading Act 1973 (the Act)) the acquisition of McKechnie Paxton Holdings Limited (Paxton) by the Linpac Group Limited (Linpac). We were asked to report by 10 April 2002. Our terms of reference are at Appendix 1.1.

1.2. Linpac is a UK group, which operates in many parts of the world—predominantly in the packaging, materials handling and automotive sectors. It has an annual turnover of more than £1 billion and almost 12,000 employees. Most of its activities are grouped within one of eight major divisions, each operating as an autonomous business centre focused on specific technologies, products and markets. The one of most concern to this inquiry was the UK-based Linpac Mouldings, which manufactures returnable transit packaging (RTP). RTP is the generic name for a wide range of plastic-based containers, in many shapes and sizes, which are used, for example, to transport foodstuffs from producers to supermarkets, or components from manufacturers to assembly plants.

1.3. Paxton also designs, manufactures and supplies a wide range of RTP, largely for the retail and food sectors. It operates from two manufacturing plants in the UK, with additional sales and marketing facilities in mainland Europe and the USA.

1.4. The merger we have been asked to investigate involved Linpac acquiring the entire share capital of Paxton on 7 September 2001.

1.5. We began our inquiry by analysing the operations of Linpac and Paxton, and concluded that the part of their businesses with the potential to give rise to competition concerns was the manufacture and sale of RTP to customers in the UK.

1.6. We then proceeded to examine this area in detail, and concluded that the relevant product markets for our inquiry were five specific types of plastic RTP:

- bakery trays
- deep-nesting stack-nest containers
- stack-nest containers in general
- securable stack-nest containers
- stacking containers

1.7. We next examined the relevant geographical markets for these products and concluded that for the first two, it should be the UK, and for the last three, Europe.

1.8. Finally, we considered whether there were any public interest concerns. We concluded that this acquisition did not operate against the public interest, nor could it be expected to do so, because of:

- (a) the significant share of the UK market for these products that is controlled by large national and international companies with considerable buyer power;
- (b) the extreme price sensitivity of these large customers who operate in sectors—such as supermarkets or automotive manufacturing—where procurement and cost control techniques are very highly developed;
- (c) the constraints on prices caused by the presence of existing competitors, both domestic and European, in all of these product ranges, and the relative ease with which others can enter these markets: either mainland European manufacturers of RTP setting up here or importing into the UK, or other domestic plastic producers shifting their capacity to RTP from other products;
- (d) the expectation of competition being maintained, as large buyers act to ensure that they will continue to have a choice by developing other producers, through dual sourcing, and by inviting companies from outside the UK or not currently manufacturing RTP, to tender for orders;
- (e) the lack of any expectation of a reduction in either the quality of service to customers or the technical quality of these products; and
- (f) the fact that no overall loss of UK capacity is expected to result from the merger.