

# Anticipated acquisition by Avery Dennison of MACtac Europe

## Decision on relevant merger situation and substantial lessening of competition

**ME/6617/16**

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 26 July 2016. Full text of the decision published on 1 September 2016.

Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

### **SUMMARY**

1. Avery Dennison Corporation (**Avery Dennison**) through its subsidiary Avery Dennison Netherlands Investment II BV has agreed to acquire Evergreen Holdings V, LLC, which itself owns 100% of the shares in Evergreen Holding S.a.r.l (**MACtac (Europe)**) (the **Merger**). Avery Dennison and MACtac (Europe) are together referred to below as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that the Parties will cease to be distinct as a result of the Merger, that the share of supply test is met and that, accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties overlap in the production and supply of self-adhesive materials which are used for graphics, speciality labels and tapes.
4. The CMA assessed the Merger on the basis of the following frames of reference:
  - The supply of calendered graphics materials for signs in the EEA;

- The supply of calendered graphics materials for digital printing in the EEA;
  - The supply of calendered graphics materials for screen printing in the EEA;
  - The supply of calendered graphics materials for wrapping in the EEA; and
  - The supply of specialty labels in the EEA.
5. The CMA considered whether the Merger gave rise to competition concerns as a result of horizontal unilateral effects in each of these frames of reference.
  6. In relation to the supply of calendered graphics materials for signs, digital printing, screen printing and wrapping in the EEA, the CMA found that the Parties' combined shares of supply are relatively low in all segments, and they face constraints from a range of alternative suppliers. Furthermore, the evidence did not indicate that the Parties were particularly close competitors.
  7. In relation to the supply of specialty labels in the EEA, the CMA found that the Parties face constraints from a range of alternative suppliers and that the increment arising from the Merger is very low.
  8. The CMA therefore believes that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects.
  9. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

## **ASSESSMENT**

### **Parties**

10. Avery Dennison is a public company incorporated in Delaware and listed on the New York Stock Exchange. Avery Dennison manufactures and supplies self-adhesive materials (also called pressure-sensitive materials) and a variety of tickets, tags, labels and other products. It is active worldwide. In Europe, Avery Dennison assembles self-adhesive materials at its manufacturing sites located in Germany and the Netherlands. Avery

Dennison's turnover was £3,904 million<sup>1</sup> worldwide and [£3.9]² in the UK in the year ended 31 December 2015.

11. MACtac (Europe) is a private company incorporated in Luxembourg that manufactures and sells self-adhesive materials used for labels, graphics and tapes. MACtac (Europe) has one manufacturing facility located in Soignies (Belgium).<sup>3</sup> MACtac (Europe)'s worldwide turnover was around £126 million<sup>4</sup> worldwide and around £[£126]⁵ in the UK in the year ended 31 December 2015.

## Transaction

12. On 25 April 2016, Avery Dennison entered into a Membership Interest Purchase Agreement (**MIPA**) with Evergreen Holdings IV, LLC, a subsidiary of certain private equity investment vehicles sponsored by Platinum Equity, LLC to acquire all of the issued and outstanding limited liability company membership interests of MACtac (Europe). MACtac's businesses in the United States, Canada and Mexico are not part of this transaction.
13. Avery Dennison informed the CMA that the Merger has been cleared by the German competition authority.

## Jurisdiction

14. As a result of the Merger, the enterprises Avery Dennison and MACtac (Europe) will cease to be distinct.
15. The Parties overlap in: (i) the supply of self-adhesive materials which are used for graphics in the UK, where the Parties estimate they have a combined share of supply of [20-30]% (increment [10-20]%),<sup>6</sup> and (ii) the supply of self-adhesive materials which are used for specialty labels in the UK, where the Parties estimate they have a combined share of [40-50]% (increment [0-10]%).<sup>7</sup>
16. The CMA therefore believes that the share of supply test in section 23 of the Act is met.

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<sup>1</sup> Converted from US\$ using Bank of England's average exchange rate for 2015.

<sup>2</sup> Converted from € using Bank of England's average exchange rate for 2015.

<sup>3</sup> It recently exited the bulk label business, closing its bulk label plant in Genk, Belgium.

<sup>4</sup> Converted from € using Bank of England's average exchange rate for 2015.

<sup>5</sup> Converted from € using Bank of England's average exchange rate for 2015.

<sup>6</sup> See Merger Notice, paragraph 7.3.

<sup>7</sup> See Merger Notice, paragraph 7.21.

17. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
18. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 14 June 2016 and the statutory 40 working day deadline for a decision is therefore 8 August 2016.

## Counterfactual

19. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.<sup>8</sup>
20. In this case, the CMA has not found any evidence supporting a different counterfactual, and the Parties and third parties have not put forward arguments in this respect. Therefore, the CMA believes the prevailing conditions of competition to be the relevant counterfactual.

## Background

21. The Parties overlap in the production and supply of self-adhesive materials which are used for graphics, speciality labels, and tapes, as described below.
  - Graphics materials: the Parties produce blank rolls of self-adhesive graphics materials. These materials consist of a face film (normally plastic) with an adhesive coating on the back. The adhesive coating is covered with a protective liner that is peeled away when the material is ready to be applied. The self-adhesive graphics materials are sold to 'converters' (either directly or via a wholesaler) who print and cut the materials for various uses including making signs,<sup>9</sup> digital printing,

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<sup>8</sup> *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, Annex D).

<sup>9</sup> Signs (or signage) consist of cutting letters, logos or shapes into the graphics laminates. A transparent film is then added on top so that the end-user can apply the result on a surface.

screen printing,<sup>10</sup> and wrapping<sup>11</sup> (usually cars or other vehicles with designs/logos on). Converters require different graphics materials depending on the technique that they use. For instance digital printing requires a blank roll of graphics materials, whilst sign converters usually require coloured rolls. Furthermore, converters require different film types depending on their customers' requirements: polymeric, monomeric<sup>12</sup> or cast. Cast films are the most flexible and most durable, whilst monomeric films are the least flexible and least durable, with polymeric films in between.

- Specialty labels: both Parties produce specialty labels. Specialty labels are self-adhesive labels used for labelling products, and are sold to converters who print and cut the materials. Specialty labels differ from bulk labels in that they are produced in lower volumes and for specific requirements.<sup>13</sup>
- Specialty industrial tapes: the Parties overlap in the production of specialty industrial tapes, used to attach, assemble, and seal products in an industrial environment.<sup>14</sup> They include specialty products such as double-coated<sup>15</sup> and transfer tapes.<sup>16</sup>

## Frame of reference

22. The CMA considers that market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merger parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.<sup>17</sup>

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<sup>10</sup> Screen printing is a technique using a mesh stencil to apply ink to the graphics material one colour at a time.

<sup>11</sup> Converters wrap graphics materials around items (eg car) to give the appearance of paint.

<sup>12</sup> Monomeric and polymeric films together are also called "calendered" films.

<sup>13</sup> The Parties also overlapped in the production of bulk labels until April 2015, when MACtac (Europe) exited the provision of these products. MACtac (Europe) has provided internal documents to the CMA suggesting that bulk labels [redacted]. (Merger Notice, Annex 15, page 8). MACtac (Europe) has provided further evidence suggesting that [redacted]: it has sold the bulk label production facility and made staff redundant. [redacted]. (See Avery Dennison's reply of 30 June 2016).

<sup>14</sup> Given the negligible market shares of the Parties in specialty industrial tapes (the Parties estimate their combined share of supply of specialty industrial tapes in the UK to be [0-10]%) and the fact that third parties that responded to the CMA's merger investigation did not raise any concerns, the supply of specialty industrial tapes is not discussed further.

<sup>15</sup> Double coated on both sides of the tapes.

<sup>16</sup> Transfer tapes allow to transfer graphics from the release liner onto a surface.

<sup>17</sup> [Merger Assessment Guidelines](#), paragraph 5.2.2.

23. The Parties overlap in the production and supply of self-adhesive materials which are used for graphics and speciality labels in the EEA.

### **Product scope**

#### *Graphics materials*

24. The Parties overlap in the production and supply of self-adhesive materials which are used for graphics (**graphics materials**). Products are made of cast, polymeric or monomeric films and have various end uses (see paragraph 21, first bullet point).
25. The CMA has considered whether it is appropriate to further segment graphics materials according to (a) end-use techniques and/or (b) the quality of the film that is used.

#### *(a) Segmentation according to end-use techniques*

#### *Parties' views*

26. Avery Dennison submitted that it is not necessary to segment graphics materials according to end-use techniques. They explained that demand-side substitution is possible between different end-use techniques and there is a high degree of supply-side substitutability.<sup>18</sup> They noted that competitors are active across end-use printing techniques and the same machines can be used to produce graphics materials for different end-uses.<sup>19</sup>

#### *Third parties' views*

27. Competitors who responded to the CMA's merger investigation provided mixed views as to the degree of supply-side substitutability across end-use printing techniques. One competitor noted that many customers buy products across the different printing techniques, and said that the cost of switching production from one product to the other is low. This competitor said that it was something it would do in the event of a price increase. [X] both stated that products for different end-use techniques could be produced on the same machines. Another competitor noted that switching production between printing techniques was harder, and would take up to 18 months, whilst another stated it would not be profitable to switch printing techniques given different margins across the techniques.

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<sup>18</sup> Merger Notice, paragraphs 6.23 to 6.26.

<sup>19</sup> Merger Notice, paragraphs 6.18 and 6.19.

*(b) Segmentation according to the quality of the film*

*Parties' views*

28. Avery Dennison submitted that graphics materials should not be segmented by the type of film (cast, polymeric or monomeric) used in the manufacturing process. It submitted that a high-degree of supply-side substitution is possible because suppliers of graphics materials do not typically manufacture the films themselves, but instead assemble materials.<sup>20</sup> However, it also said that, because cast graphics film is manufactured using a different type of adhesive, the production process for cast film differs to some extent to that of polymeric and monomeric film (together **calendered film**).<sup>21</sup>
29. Regarding demand side substitutability, whilst Avery Dennison noted that end-users may view different films as having different quality (with cast being the premium film and monomeric the lowest end film), a chain of substitution exists between film types.<sup>22</sup>

*Third parties' views*

30. Competitors who responded to the CMA's merger investigation provided evidence that supply-side substitution between polymeric and monomeric films is possible, quick (within 24 hours), easy, has minimal cost and happens. Two wholesalers listed the same competitors across the supply of graphics materials made of monomeric films and of polymeric films; however they also reported that some of these competitors are not active in the supply of graphics materials made of cast films. Two converters listed the same set of companies across graphic materials made of monomeric, polymeric and cast films.
31. Competitors did not provide evidence relating to their ability to switch between production of calendered materials to cast materials, but a number of third parties noted that conditions of competition differed given that some competitors have a larger presence in cast materials compared with calendered materials.

*(c) CMA's conclusion on graphics materials as a frame of reference*

*Segmentation according to end-use techniques*

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<sup>20</sup> Merger Notice, paragraph 6.28.

<sup>21</sup> Merger Notice, paragraph 6.31.

<sup>22</sup> Merger Notice, paragraph 6.35.

32. Given the mixed views on supply-side substitutability, with indications that it is possible to some extent between certain end-use techniques but not with regard to other end uses, the CMA has, on a cautious basis, assessed the Merger within separate frames of reference depending on end-use techniques (signs, digital printing, screen and wrapping).

*Segmentation according to the quality of the film*

33. Given that supply-side substitution between graphics materials made of polymeric and monomeric films is easy and happens, with the same suppliers supplying both products, the CMA has assessed the Merger using a single frame of reference for both qualities of film (ie calendered films).
34. The CMA did not find evidence that suppliers can substitute between cast and calendered materials and notes that the Parties identified differences in the production processes between the two techniques. In addition, the CMA notes that the conditions of competition may differ between the two techniques, with one competitor having a significant share in cast materials in the EU compared with a much lower share in calendered materials.
35. Therefore, and on a cautious basis, the CMA has assessed the Merger using separate frames of reference for calendered and cast graphics films. However, given that the Parties do not significantly overlap in the provision of cast films,<sup>23</sup> the supply of cast films is not discussed further.

*Specialty labels*

36. The Parties overlap in the supply of speciality labels. However, based on the limited activity of MACtac (Europe) in this sector and the fact that third parties that responded to the CMA's merger investigation did not raise any concerns, the CMA does not believe that it is necessary to consider whether to segment speciality labels further for the purposes of this case.
37. The CMA has therefore assessed the Merger using specialty labels as the relevant frame of reference.

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<sup>23</sup> Avery Dennison reported that MACtac (Europe)'s turnover from cast films was £[redacted] in the UK in 2015, with an estimated EU market share of less than [0-10]%. Avery Dennison said that its estimated share of cast films in the EU is [20-30]%, behind that of 3M ([redacted] %) but ahead of the next largest competitor, Orafol, with [redacted] %.



### *Conclusion on product scope*

38. For the reasons set out above, the CMA has considered the impact of the Merger in (i) calendered graphics materials segmented by end-use techniques (signs, digital printing, screen printing and wrapping); and (ii) specialty labels.

### **Geographic scope**

#### *Parties' views and precedents*

39. Avery Dennison submitted that, for all the relevant products, the relevant frame of reference is at least EU-wide. It cited evidence of suppliers providing products across the EU from centralised manufacturing sites (eg MACtac (Europe) supplies graphics films, labels and tapes from its Belgian plant across Europe.)<sup>24</sup>
40. In *UPM-Kymmene Corporation/Morgan Adhesives Company*,<sup>25</sup> the European Commission assumed the market for self-adhesive labelstock to be EEA-wide<sup>26</sup> on the basis that no significant differences in price levels and technical specifications existed between Member States.

#### *Third Parties' views*

41. The CMA tested with competitors whether they would be willing to increase their supply to other parts of the European Economic Area (EEA)<sup>27</sup> in response to a price increase. A competitor of the Parties stated that it would respond to a price increase in part of the EEA by increasing supply to that area (and it stated that it had sufficient spare capacity to do so). It also noted that transport costs were not a restraining factor in supplying to other parts of the EEA, although this may matter if competing against a supplier local to the customer.
42. The CMA confirmed that the Parties and some of their competitors already supply self-adhesive materials across the EEA from centralised sites.
43. The CMA received no third party comments that would suggest the frame of reference is narrower than the EEA.

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<sup>24</sup> Merger notice, paragraph 6.37.

<sup>25</sup> COMP/M.2867, UPM-Kymmene Corporation/Morgan Adhesives Company (MACtac), 16 October 2002.

<sup>26</sup> The EEA is constituted of EU Members plus Iceland, Liechtenstein and Norway.

<sup>27</sup> Whilst Avery Dennison submitted that the market is at least EU-wide, the CMA has tested whether the market is at least EEA-wide since EU provisions on the internal single market extend to all countries in the EEA and there was no reason in this case to consider Iceland, Liechtenstein and Norway in a separate frame of reference.

### *Conclusion on geographic scope*

44. For these reasons, the CMA believes that the appropriate geographic frame of reference is the EEA.<sup>28</sup>

### **Conclusion on frame of reference**

45. For the reasons set out above, and in some cases on a cautious basis, the CMA has considered the impact of the Merger in the following frames of reference:
- The supply of calendered graphics materials for signs in the EEA;
  - The supply of calendered graphics materials for digital printing in the EEA;
  - The supply of calendered graphics materials for screen printing in the EEA;
  - The supply of calendered graphics materials for wrapping in the EEA; and
  - The supply of specialty labels in the EEA.
46. However, the CMA believes that it was not necessary for it to reach a conclusion on the product and geographic frames of reference, since, as set out below, no competition concerns arise on any plausible basis.

## **Competitive assessment**

### ***Horizontal unilateral effects***

47. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or degrade quality on its own and without needing to coordinate with its rivals.<sup>29</sup> Horizontal unilateral effects are more likely when the merger parties are close competitors.
48. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to unilateral horizontal effects in each frame of reference.

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<sup>28</sup> As explained in footnote 27 above, the CMA believes that the EEA is the appropriate frame of reference for the assessment of the Merger. Avery Dennison did not provide market shares in the EEA and provided market shares in the EU. The CMA is satisfied on the basis of turnover information provided by the Parties, that the Parties' shares in the EEA would not differ significantly from their shares in the EU and that EU market shares can therefore be used as a proxy.

<sup>29</sup> [Merger Assessment Guidelines](#), from paragraph 5.4.1.

**Supply of calendered graphics materials for signs, digital printing, screen printing and wrapping in the EEA**

49. Given that the majority of evidence from the CMA’s merger investigation applies across all end-use printing techniques (signs, digital printing, screen printing and wrapping), this evidence is set out together. It is made clear where evidence is specific to one printing technique.

*Shares of supply*

50. Avery Dennison provided an estimate of the Parties’ share of supply in graphics materials in the EU in 2015, segmented by each end-use printing technique. Where possible, the CMA verified Avery Dennison’s estimates of other companies’ sales with those companies. Tables 1 to 4 present the results.<sup>30</sup>

**Table 1: Estimated shares of supply for calendered graphics materials for signs, EU, 2015**

Supplier	Value, £, 000	Share
MActac (Europe)	[REDACTED]	[20-30]%
Orafol	[REDACTED]	[10-20]%
Avery Dennison	[REDACTED]	[10-20]%
Metamark	[REDACTED]	[10-20]%
Spandex	[REDACTED]	[0-10]%
KPMF	[REDACTED]	[0-10]%
3M	[REDACTED]	[0-10]%
Hexis	[REDACTED]	[0-10]%
APA	[REDACTED]	[0-10]%
Graphityp	[REDACTED]	[0-10]%
Arlon	[REDACTED]	[0-10]%
LG	[REDACTED]	[0-10]%
Ritrama	[REDACTED]	[0-10]%
Other	[REDACTED]	[0-10]%
<b>Total</b>	<b>100,209</b>	<b>100%</b>

Source: Avery Dennison’s estimates, verified with [REDACTED]. Cast materials excluded.

<sup>30</sup> On the basis of the evidence it found, the CMA considers the estimates provided by the Parties to be reasonable, with some over estimations balanced by some under estimations. The Parties’ combined shares do not materially differ in any event.

**Table 2: Estimated shares of supply for calendered graphics materials for digital printing, EU, 2015**

Supplier	Value, £, 000	Share
Orafol	[✂]	[20-30]%
Avery Dennison	[✂]	[10-20]%
MACTac (Europe)	[✂]	[10-20]%
Hexis	[✂]	[0-10]%
Metamark	[✂]	[0-10]%
3M	[✂]	[0-10]%
Intercoat	[✂]	[0-10]%
Spandex	[✂]	[0-10]%
Arlon	[✂]	[0-10]%
KPMF	[✂]	[0-10]%
Ritrama	[✂]	[0-10]%
Graphityp	[✂]	[0-10]%
<b>Total</b>	<b>120,134</b>	<b>100%</b>

Source: Avery Dennison's estimates, verified with [✂]. Cast materials excluded.

**Table 3: Estimated share of supply for calendered graphics materials for screen printing, EU, 2015**

Firm	Revenue, £ '000	Share
Orafol	[✂]	[30-40]%
Avery Dennison	[✂]	[20-30]%
MACTac (Europe)	[✂]	[10-20]%
Ritrama	[✂]	[10-20]%
3M	[✂]	[0-10]%
Intercoat	[✂]	[0-10]%
Other	[✂]	[0-10]%
<b>Total</b>	<b>41,489</b>	<b>100%</b>

Source: Avery Dennison's estimates. Cast materials excluded.

**Table 4: Estimated share of supply for calendered graphics materials for wrapping, EU, 2015**

Firm	Revenue, £ '000	Share
3M	[✂]	[60-70]%
Metamark	[✂]	[10-20]%
MACTac (Europe)	[✂]	[0-10]%
Orafol	[✂]	[0-10]%
Ritrama	[✂]	[0-10]%
Avery Dennison	[✂]	[0-10]%
<b>Total</b>	<b>13,829</b>	<b>100%</b>

Source: Avery Dennison's estimates. Cast materials excluded.

51. For completeness, Avery Dennison also provided an estimate of the Parties' share of supply in graphics materials in the UK, segmented by each end-use printing technique.
52. Based on the shares of supply presented in the tables above, the Merger will result in:
- The combination of the largest and third largest suppliers of calendered graphics materials for signs, with a combined share of supply of [30-40]% in the EEA. The Parties will continue to face competition from a number of significant players, such as Orafol and Metamark.
  - The combination of the second and third largest suppliers of calendered graphics materials for digital printing, with a combined share of supply of [30-40]% in the EEA. The Parties will continue to face competition from a number of significant players, such as Orafol, Hexis and Metamark.
  - The combination of the second and third largest suppliers of calendered graphics materials for screen printing, with a combined share of supply of [30-40]% in the EEA. The Parties will continue to face competition from a number of significant players, such as Orafol and Ritrama.
  - The combination of the third and sixth largest suppliers of calendered graphics materials for wrapping, with a combined share of supply of [10-20]% in the EEA. The Parties will continue to face competition from a number of significant players, such as 3M and Metamark.
53. The Parties' combined shares of supply for calendered graphics materials for signs, digital printing and screen printing in the UK are lower than their combined shares in the EEA.<sup>31</sup> In graphics materials for wrapping, the Parties' combined share of supply is [10-20]% in the UK.<sup>32</sup> The Parties will continue to face competition from a number of significant players in all segments.

#### *Spare capacity*

54. The CMA aggregated capacity and spare capacity figures for the Parties and three of their competitors ([X]). Based on this data, the CMA believes that these three competitors have sufficient spare capacity to produce graphics materials representing [X] % of the Parties' current customer requirements in the EEA. Other significant competitors of the Parties, such as [X], did not

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<sup>31</sup> Avery Dennison's estimates verified with [X]. Cast materials are excluded for signs and digital printing.

<sup>32</sup> Does not exclude cast graphics materials.

provide capacity figures, so the estimate of how much spare capacity competitors hold is a lower bound estimate.

55. The CMA has not conducted detailed analysis of whether a loss of [X] % of customers from the Parties to competitors would be sufficient to make a price rise unprofitable. However, the CMA considers this percentage is *prima facie* a significant proportion of the Parties' customers.

#### *Barriers to expansion*

56. One competitor in calendered graphics materials stated that expansion is easy and could be achieved in around one year by buying additional machines. Another competitor said that adding capacity for graphics materials can be achieved under 24 months with modest investment.

#### *Differentiation/closeness of competition*

57. Internal documents from the Parties suggest that they do not perceive each other as particularly close competitors, but rather that there are a number of significant competitors including each other.<sup>33</sup>
58. Customers (converters and wholesalers) who responded to the CMA's merger investigation provided similar views as to whether the Parties were close competitors. Three wholesalers stated that, whilst the Parties were close competitors, a number of other suppliers (such as Orafol, 3M, Metamark and several others) offered good alternative products. In relation to screen printing, two of these wholesalers cited fewer alternatives, but still cited Ritrama and Orafol as good alternatives to the Parties. Two converters also said that the Parties were close but cited two competitors as good alternatives to the Parties (across all end-uses). One converter and one wholesaler noted that 3M is a supplier of slightly higher quality graphics materials, although the wholesaler noted that 3M still competes in the supply of calendered graphics materials.
59. In relation to wrapping, one converter submitted that Avery Dennison and MACtac (Europe) are not close competitors given that MACtac (Europe)'s product is considered low end and not a good alternative to Avery Dennison's higher-end calendered films. This customer said that Arlon and 3M were good alternatives to Avery Dennison.

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<sup>33</sup> Merger Notice, Annex 6 and Annex 7, p 170.

### *Barriers to switching*

60. One converter told the CMA that switching supplier would be a ‘massive inconvenience’ and involve ‘a lot of work.’ This is because a converter develops a preference for printing on and cutting a particular manufacturer’s graphics material, especially for coloured graphics material (as colours can vary slightly from supplier to supplier). Several third parties said that familiarity with using a particular supplier’s material was a reason for preferring one brand over another. Some wholesalers also noted that switching suppliers is difficult given the long term relationships that they build up with graphics materials suppliers and the levels of a suppliers stocks that they may hold.
61. However, the extent to which familiarity with a particular manufacturer’s graphics material prevents switching was disputed by other third parties. For example, one converter said that, in the longer run, it would shop around to ensure it achieved the best deal,<sup>34</sup> and others stated that concerns around familiarity with different materials were not significant: one converter stated that switching to a new material was quick, easy and cheap, another stated that any switching costs were minimal, and a third said that issues around colour matching were ‘minor’ and ‘nothing significant.’ One competitor noted that switching does occur, and provided evidence of it growing by winning customers from competitors.
62. The CMA considers that the evidence on switching is mixed. Whilst there may be some barriers to switching by converters and wholesalers, the CMA notes that converters do switch between graphics materials suppliers. Further the CMA has not received any evidence that suggests the Merger will make switching more difficult.

### *CMA conclusion on the supply of calendered graphics materials for signs, digital printing, screen printing and wrapping in the EEA*

63. The CMA believes that the Merger does not give rise to a realistic prospect of an in the supply of calendered graphics materials for signs, digital printing, screen printing or wrapping in the EEA. This is because:
- Customers say they have a range of alternative suppliers, and evidence from these alternative suppliers supports the view that they compete with the Parties and have spare capacity;

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<sup>34</sup> One wholesaler noted that Avery Dennison imposed a price increase on its products prior to the announcement of the Merger. However the evidence the CMA found does not suggest that the price increase was related to the anticipated Merger since it was decided and implemented several months prior to the signature of the merger agreement. Furthermore correspondence to customers explains that this price increase was related to a higher paper price and the strengthening of the US dollar (Merger notice, paragraph Annex 23).

- The evidence suggests that the Parties are not particularly close competitors;
  - The Parties have moderate combined shares of supply; and
  - No substantive concerns were raised by any third parties.
64. For completeness, the CMA has also not identified any concerns if it were to assess the Merger under a frame of reference for calendered graphics materials irrespective of end-use techniques; and the CMA has also not identified any concerns if it were to consider a narrower UK geographic frame of reference.

### ***The supply of specialty labels in the EEA***

#### *Shares of supply*

65. Avery Dennison provided an estimate of the Parties' share of supply in speciality labels in the EU in 2015, as shown in Table 5.

**Table 5: Parties' estimated share of supply, speciality labels, EU, 2015**

<b>Supplier</b>	<b>Volume, sales, '000 sqm</b>	<b>Share, %</b>
Avery Dennison	[✂]	[30-40]%
Raflatac	[✂]	[20-30]%
Herma	[✂]	[10-20]%
Ritrama	[✂]	[0-10]%
3M	[✂]	[0-10]%
Manter	[✂]	[0-10]%
MACTac (Europe)	[✂]	[0-10]%
Others	[✂]	[10-20]%
Total	833	100.0%

*Source: the Parties. Volume data only available. Estimated from use of data from FINAT, the European Labels Association.*

66. Based on the shares of supply presented in the table above, the Merger will result in the combination of the largest and seventh largest suppliers of speciality labels, with a combined share of supply of [30-40]% in the EEA. The Merger will lead to a strengthening of Avery Dennison's leading position, although not by a significant increment ([0-10]).
67. Avery Dennison also attempted to split this data by customer type (eg petrochemical and industrial, pharmaceutical, etc). This showed that



alternative segmentations do not lead to a material change in MACtac (Europe)'s small increment in the UK.<sup>35</sup>

#### *Closeness of competition*

68. 15 label customers of the Parties responded to the CMA's questionnaire. Seven of these customers considered that the Parties competed, to some extent, in the supply of specialty labels. However, all respondents who provided a view stated that there were good alternatives to the Parties' products. Alternatives frequently mentioned by customers included Raflatac, Herma, 3M, Ritrama, and others. One customer noted that they currently sourced from 12 different suppliers.

#### *Other customer comments*

69. Of the 15 label customers who responded to the CMA's questionnaire, only two raised concerns. These customers stated that they preferred more suppliers than fewer and raised concerns about the availability of supply. However, both these suppliers made relatively small purchases currently from the Parties and both made purchases from other significant suppliers and competitors to the Parties. Other customers noted that switching is easy.

#### *CMA conclusion on the supply of specialty labels in the EEA*

70. The CMA believes that the Merger does not give rise to a realistic prospect of an SLC in the supply of speciality labels in the EEA as a result of unilateral effects due to the small increment in share of supply and moderate combined share of supply, the presence of several alternative suppliers, and evidence from customers that switching is easy. The CMA also received limited customer concerns.
71. For completeness, the CMA has also not found any concerns if it were to consider a narrower UK geographic frame of reference.

#### ***Barriers to entry and expansion***

72. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC. In assessing whether entry or expansion might prevent an SLC, the CMA

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<sup>35</sup> On the highest sub segment, petrochemical and industrial, MACtac (Europe)'s share of supply rises to [0-10]% (Merger notice, paragraph 7.24).

considers whether such entry or expansion would be timely, likely and sufficient.<sup>36</sup>

73. In relation to graphics materials, two competitors have stated that expansion is relatively easy and would take between 1 and 2 years.<sup>37</sup>
74. However, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

### **Third party views**

75. In relation to graphics materials, comments were received from 5 wholesalers, 7 converters and 4 competitors during the CMA's merger investigation. Two wholesalers raised concerns about the Merger.
76. In relation to specialty labels, comments were received from 15 label customers and 2 label competitors. Two third parties raised concerns about the Merger.
77. Third party comments have been taken into account where appropriate in the competitive assessment above.

### **Decision**

78. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the UK.
79. The Merger will therefore **not be referred** under section 33(1) of the Act.

**Andrew Wright**  
**Director**  
**Competition and Markets Authority**  
**26 July 2016**

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<sup>36</sup> [Merger Assessment Guidelines](#), from paragraph 5.8.1.

<sup>37</sup> See paragraph 56 above.