SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

April 22, 2003
Date of Report

AVERY DENNISON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	1-7685	95-1492269
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

150 N. Orange Grove Boulevard Pasadena, California	91103
(Address of principal executive offices)	(Zip Code)

Registrant's Telephone Number, including area code: (626) 304-2000

ITEM 7. Exhibits

On April 22, 2003, the Registrant issued a news release announcing its earnings for the quarter ending March 29, 2003, as set forth in Exhibit 99.1.

On April 15, 2003, the United States Department of Justice filed a complaint against UPM-Kymmene, Oyj and Bemis Company, Inc., as set forth in Exhibit 99.2.

ITEM 9. Regulation FD Disclosure

1. (ITEM 12. Results of Operations and Financial Condition) The Registrant's earnings release dated April 22, 2003, regarding its first quarter 2003 financial result is attached hereto as Exhibit 99.1. This information is being furnished under Item 12 of Form 8-K and is being presented under Item 9 in accordance with the Securities and Exchange Commission's interim guidance regarding Form 8-K Item 12 filing requirements, as set forth in Release No. 33-8216.

2. On April 15, 2003, the United States Department of Justice filed a complaint against UPM-Kymmene, Oyj and Bemis Company, Inc. in the U.S. District Court for the Northeastern District of Illinois to prevent the proposed merger of UPM and the MACtac division of Bemis. The Registrant is the "Leading Producer" referred to in the complaint. The complaint is being furnished for those who do not have ready access to the Department's filing, and is set forth in Exhibit 99.2.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Certain statements contained in this report on Form 8-K and exhibit 99.1 are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties. Actual results and trends may differ materially from historical or expected results depending on a variety of factors, including but not limited to price and availability of raw materials; foreign exchange rates; worldwide and local economic conditions; impact of legal proceedings, including the U.S. Department of Justice criminal investigation into competitive practices in the label stock industry and any related proceedings pertaining to the subject matter; impact of Severe Acute Respiratory Syndrome (SARS) on the economy, the Company's customers and business; successful integration of acquired companies; financial condition and inventory strategies of customers; acceptance of new products; fluctuations in demand affecting sales to customers; and other matters referred to in the Company's SEC filings.

For a more detailed discussion of these and other factors, see the Exhibit 99 "Cautionary Statement For Purposes Of The Safe Harbor Provisions Of The Private Securities Litigation Reform Act Of 1995" in the Company's Form 10-K, filed on March 28, 2003. The forward-looking statements included in this Form 8-K are made only as of the date of this Form 8-K and the Company undertakes no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: April 22, 2003

AVERY DENNISON CORPORATION

By: /s/ Daniel R. O'Bryant

Name: Daniel R. O'Bryant
Title: Senior Vice President, Finance and Chief Financial Officer

EXHIBIT LIST

Exhibit No.	Description
99.1	News release dated April 22, 2003.
99.2	U.S. Department of Justice complaint against UPM-Kymmene, Oyj and Bemis Company, Inc. filed on April 15, 2003.

Conference Call on Avery Dennison Corporation Website at 2:00 p.m. Eastern Time today may be accessed on the Company's website www.investors.averydennison.com.

News Release

Miller Corporate Center

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For Immediate Release

AVERY DENNISON REPORTS FIRST QUARTER 2003 RESULTS

Net income grows 9.3 percent;
Sales reach record high

PASADENA, Calif.—April 22, 2003—Avery Dennison Corporation (NYSE:AVY) today reported first quarter 2003 net income increased 9.3 percent to $70.8 million, compared with $64.8 million in the first quarter of 2002. Diluted earnings per share increased 7.6 percent to $0.71, compared with $0.66 per share for the first quarter a year ago.

"We are pleased to report a very solid first quarter of 2003, given the challenging economic and geopolitical climate, including achieving sales growth of nearly 24 percent and earnings-per-share growth of nearly 8 percent," said Philip M. Neal, chairman and chief executive officer of Avery Dennison. "In addition to achieving our sales and earnings growth goals, our newly launched top-line growth acceleration program is providing some exciting initial results, with more than 100 individual new product development projects underway throughout the Company that are expected to provide approximately $50 million in annualized sales by the end of the year."

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Key results for the first quarter of 2003 include:

- Earnings per share, on a diluted basis, were $0.71 per share, compared with $0.66 per share in the same quarter a year ago. The impact of currency exchange rates added $0.04 to earnings per share in the quarter, which was approximately $0.01 above the previously announced expectation for the quarter.
- Net income increased 9.3 percent to $70.8 million, compared with $64.8 million in the first quarter of 2002.
- Reported sales grew 23.6 percent from prior-year levels, reaching $1.151 billion for the first quarter of 2003, compared with $930.8 million in the first quarter of 2002. Approximately 60 percent of the incremental sales are attributed to acquisitions net of divestitures, and approximately 20 percent of the incremental sales are due to the impact of currency exchange rates. Consequently, core sales growth is estimated to be approximately 4 percent for the first quarter of 2003.
- Core unit volume grew approximately 4 percent over the prior-year first quarter.
- Operating margin declined 110 basis points from the first quarter of 2002, due to lower margins associated with the integration of acquired Jackstädt operations. Operating margin increased 170 basis points from the fourth quarter of 2002, with 150 basis points of the improvement attributable to the negative impact of restructuring and asset impairment charges in the fourth quarter.
- Returns remained high, with return on shareholders' equity of 26 percent, compared with 27.6 percent in the year-ago first quarter, and return on total capital of 15.7 percent, compared with 17.1 percent in the first quarter of 2002.

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The Company's Pressure-sensitive Adhesives and Materials sector reported sales of $724 million, reflecting growth of 32 percent over the first quarter of 2002. Approximately 55 percent to 60 percent of the incremental sales are attributed to acquisitions net of divestitures and approximately 15 percent of the incremental sales are due to the impact of currency exchange rates. Core sales growth for the sector is estimated to be 7 percent to 8 percent. Sales in the North American pressure-sensitive roll materials business remained solid, achieving mid-single digit growth driven by strong results in the premium packaging segment of the market. Excluding the Jackstädt acquisition, sales in the roll materials business in Asia grew at double-digit rates, while sales growth in European markets grew at low-single digit levels due to the continued weakened economic conditions in that region. The worldwide specialty tapes businesses reported strong results, especially in operations serving the medical market, while sales in the graphics and reflective materials businesses declined modestly, excluding the Jackstädt acquisition.

The Consumer and Converted Products sector reported sales of $473 million, reflecting growth of 13 percent over the prior-year first quarter. Approximately 60 percent of the incremental sales are attributed to acquisitions net of divestitures and approximately 35 percent of the incremental sales are due to the impact of currency exchange rates. Core sales growth for the sector is estimated to be approximately 1 percent. Global sales of office products declined by approximately 3 percent, due to continued weakened end-user demand and modest inventory reductions by office products superstores. The weakened retail sales at the office products superstores were partially offset by growth in both the commercial channel served by the superstores and the mass market channel. The industrial and automotive products business and the retail information services business continued to report strong results for the quarter.

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The Company stated that the integration of operations resulting from the acquisition of Jackstädt is proceeding ahead of plan in terms of customer retention and working capital reductions, with cost savings expectations remaining on schedule. Avery Dennison also said that the integration of RVL and L&E operations is well underway as the Company's retail information services business broadens its capabilities to provide a full range of products and services to the retail and apparel industries.

Avery Dennison announced that for the second quarter of 2003, it expects earnings to be in the range of $0.77 to $0.82 per share, based on current assumptions. Avery Dennison stated that it was slightly reducing the high-end of its previously announced 2003 annual earnings-per-share expectation, by $0.05, based on generally weaker economic conditions around the world, which are expected to be partially offset by an anticipated positive impact from currency exchange rates. The adjustment results in an annual earnings expectation in the range of $3.00 to $3.20 per share in 2003.

"The fundamentals of our business remain outstanding, as demonstrated by the strong results achieved during the first quarter and our expectation of high-single digit annual earnings-per-share growth in 2003," said Neal. "We remain focused on our aggressive initiatives to accelerate growth, and we look forward to continued expansion as we introduce new products and services in markets that are enjoying solid, long-term growth."

Avery Dennison is a global leader in pressure-sensitive technology and innovative self-adhesive solutions for consumer products and label materials. Based in Pasadena, Calif., the Company had 2002 sales of $4.2 billion. Avery Dennison

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develops, manufactures and markets a wide range of products for consumer and industrial markets, including Avery-brand office products and graphics imaging media, Fasson-brand self-adhesive materials, peel-and-stick postage stamps, reflective highway safety products, automated retail tag, labeling and branding systems, and specialty tapes and polymers.

# # #

Forward-Looking Statements

Certain information presented in this news release may constitute "forward-looking" statements. These statements are subject to certain risks and uncertainties. Actual results and trends may differ materially from historical or expected results depending on a variety of factors, including but not limited to price and availability of raw materials; foreign exchange rates; worldwide and local economic conditions; impact of legal proceedings, including the U.S. Department of Justice criminal investigation into competitive practices in the label stock industry and any related proceedings pertaining to the subject matter; impact of Severe Acute Respiratory Syndrome (SARS) on the economy, the Company's customers and business; financial condition and inventory strategies of customers; acceptance of new products; fluctuations in demand affecting sales to customers; and other matters referred to in the Company's SEC filings.

For more information and to listen to a live broadcast or an audio replay of the 1st Quarter conference call with analysts, visit the Avery Dennison Web site at www.investors.averydennison.com

AVERY DENNISON
CONSOLIDATED STATEMENT OF INCOME
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended	
	Mar. 29, 2003	Mar. 30, 2002
Net sales	$1,150.6	$ 930.8
Cost of products sold	786.5	621.9
Gross profit	364.1	308.9
Marketing, general & administrative expense	249.5	205.7
Interest expense	14.9	9.3
Income before taxes	99.7	93.9
Taxes on income	28.9	29.1
Net income	$ 70.8	$ 64.8
Net income per common share, assuming dilution	$ 0.71	$ 0.66
Average common shares outstanding, assuming dilution	100.0	98.9
Common shares outstanding at period end	99.4	98.2

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AVERY DENNISON
SUPPLEMENTARY INFORMATION
(In millions)
(Unaudited)

	First Quarter Ended					
	NET SALES		OPERATING INCOME		OPERATING MARGINS	
	2003	2002	2003	2002	2003	2002
Pressure-sensitive Adhesives and Materials	$ 724.3	$550.4	$ 60.6	$ 50.3	8.4%	9.1%
Consumer and Converted Products	473.4	420.1	68.7	60.0	14.5%	14.3%
Intersegment Sales	(47.1)	(39.7)	N/A	N/A	N/A	N/A
Corporate Expense	N/A	N/A	(14.7)	(7.1)	N/A	N/A
Interest Expense	N/A	N/A	(14.9)	(9.3)	N/A	N/A
TOTAL	$1,150.6	$930.8	$ 99.7	$ 93.9	8.7%	10.1%

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AVERY DENNISON
CONDENSED CONSOLIDATED BALANCE SHEET
(In millions)
(Unaudited)

ASSETS	Mar. 29, 2003	Mar. 30, 2002
Current assets:		
Cash and cash equivalents	$ 33.2	$ 16.0
Trade accounts receivable, net	759.5	592.0
Inventories, net	365.8	289.7
Other current assets	121.0	116.1
Total current assets	1,279.5	1,013.8
Property, plant and equipment, net	1,216.3	1,048.6
Goodwill, net	637.2	295.6
Intangibles resulting from business acquisitions, net	148.8	116.7
Other assets	472.4	442.0
	$3,754.2	$2,916.7

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term and current portion of long-term debt	$ 313.1	$ 218.8
Accounts payable	451.9	317.8
Other current liabilities	551.5	381.8
Total current liabilities	1,316.5	918.4
Long-term debt	936.4	657.8
Other long-term liabilities	378.9	389.6
Shareholders' equity:		
Common stock	124.1	124.1
Capital in excess of par value	747.8	760.8
Retained earnings	1,695.8	1,584.6
Minimum pension liability	(68.2)	(14.3)
Accumulated other comprehensive loss	(108.3)	(141.9)
Cost of unallocated ESOP shares	(12.2)	(13.7)
Employee stock benefit trusts	(659.6)	(713.3)
Treasury stock at cost	(597.0)	(635.4)
Total shareholders' equity	1,122.4	950.9
	$3,754.2	$2,916.7

Certain prior year amounts have been reclassified to conform with the 2003 financial statement presentation.

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AVERY DENNISON
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended	
	Mar. 29, 2003	Mar. 30, 2002
Operating Activities:		
Net income	$ 70.8	$ 64.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	35.4	31.0
Amortization	8.8	5.3
Deferred taxes	(8.3)	0.4
	106.7	101.5
Changes in assets and liabilities	(68.4)	(71.9)
Net cash provided by operating activities	38.3	29.6
Investing Activities:		
Purchase of property, plant and equipment	(40.9)	(17.5)
Proceeds from sale of assets	4.4	0.6
Payments for acquisitions	(6.6)	(7.0)
Purchase of software	(7.4)	(4.1)
Other	0.2	(5.0)
Net cash used by investing activities	(50.3)	(33.0)
Financing Activities:		
Additional borrowings	428.4	233.2
Payments of debt	(372.8)	(204.5)
Dividends paid	(39.8)	(36.3)
Purchase of treasury stock	(0.1)	(2.0)
Proceeds from exercise of stock options, net	1.7	8.4
Other	4.2	2.0
Net cash provided by financing activities	21.6	0.8
Effect of foreign currency translation on cash balances	0.8	(0.5)
Increase / (decrease) in cash and cash equivalents	10.4	(3.1)
Cash and cash equivalents, beginning of period	22.8	19.1
Cash and cash equivalents, end of period	$ 33.2	$ 16.0

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Exhibit 99.2

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

UNITED STATES OF AMERICA, Department of Justice Antitrust Division Washington, DC 20530, 1401 H Street, N.W., Suite 4000	)	
Plaintiff	)	
v.	)	Civil No.03C 2528
UPM-KYMMENE, OYJ Etelaasplanadi 2, PL 380 FIN-00101 Helsinki, Finland,	)	Filed April 15, 2003 Judge Nordberg Magistrate Judge Mason
RAFLATAC, INC. 235 Cane Creek Road Fletcher, NC 28732,	)	
BEMIS COMPANY, INC. 222 South Ninth Street, Suite 2300 Minneapolis, MN 55402	)	
MORGAN ADHESIVES COMPANY 4560 Darrow Road Stow, OH 44224,	)	
Defendants.	)	

VERIFIED COMPLAINT

The United States of America, acting under the direction of the Attorney General of the United States, brings this civil action to enjoin UPM-Kymmene Oyj ("UPM") from acquiring Morgan Adhesives Company ("MACtac"), a wholly owned subsidiary of Bemis Company, Inc. ("Bemis") and to enjoin any merger or other combination of MACtac and UPM's subsidiary

Raflatac, Inc. (“Raflatac”), and alleges as follows:

1. UPM, through Raflatac, and MACtac are leading producers of pressure sensitive labelstock (hereafter, “labelstock”) in North America. Labelstock is sold primarily to companies called label “converters” for use in making self adhesive, or pressure sensitive, labels for a broad range of consumer and commercial labeling applications. The two principal types of labeling applications are “variable information printing” (or “VIP”), where the information to be printed on the label will vary and be supplied by the end user (such as bar code labels and labels used for shipping packages), and “prime” labels used for product identification (such as labels on food and beverage containers). UPM and MACtac both produce such labelstock on a bulk basis, that is, at high volume production and low unit cost for high demand applications (in contrast to specialty labelstock produced at low volume for low demand applications).

2. UPM and MACtac are the second and third largest North American producers of bulk labelstock used to make pressure sensitive paper labels for VIP and prime labeling applications. UPM, MACtac, and the largest North American labelstock producer (hereafter referenced as “the Leading Producer”) collectively account for over 70 percent of total sales of such labelstock in North America. UPM has been a particularly aggressive competitor, having made strategic commitments to substantially expand its North American labelstock sales. As a result of this vigorous competition, labelstock customers have enjoyed significantly lower prices and higher product and service quality than they would have otherwise received.

3. UPM’s acquisition of MACtac would leave two large producers, UPM and the Leading Producer, in a position to lead jointly and to coordinate generally a lessening of competition in the production and sale of bulk labelstock used to make paper labels for VIP and prime labeling applications. Post-acquisition, the remaining smaller labelstock producers would

have neither the capabilities nor incentives to prevent UPM and the Leading Producer from engaging in anticompetitive coordination. UPM and the Leading Producer have already attempted to limit competition between themselves, as reflected in written and oral communications to each other through high level executives regarding explicit anticompetitive understandings, although the extent to which these efforts have succeeded to date is not entirely clear to the United States at the present time.

4. By acquiring MACtac, UPM would more than double its current North American labelstock sales, achieve its strategic growth objectives, and begin to approach parity with the Leading Producer in sales volume and market share. UPM would then have diminished incentives to compete for sales to the Leading Producer's customers, because it would stand to lose proportionately more business than otherwise if the Leading Producer retaliated by competing for UPM customers, and it would instead have enhanced incentives to cooperate with the Leading Producer. The transaction thus would likely substantially lessen competition in North American markets for the production and sale of bulk labelstock used to make paper labels for VIP and prime labeling applications, leading to higher prices and lower quality products and services than purchasers of such labelstock would receive absent the transaction. Indeed, shortly after announcement of the transaction, MACtac's CEO, whom UPM has chosen to manage UPM's North American labelstock business after the transaction, advised a securities analyst that the transaction should bring pricing "discipline" to UPM; and senior UPM officials advised at least two labelstock customers about UPM plans to increase prices after the transaction. For all of these reasons, UPM's acquisition of MACtac would violate Section 7 of the Clayton Act, 15 U.S.C. § 18, and the United States seeks an order permanently enjoining its consummation.

I. JURISDICTION AND VENUE

5. This action is filed by the United States under Section 15 of the Clayton Act, 15 U.S.C. § 25, to prevent and restrain the defendants from violating Section 7 of the Clayton Act, 15 U.S.C. § 18.

6. UPM, Raflatac, Bemis, and MACtac are each engaged in interstate commerce and in activities substantially affecting interstate commerce. The Court has jurisdiction over this action pursuant to Section 15 of the Clayton Act, 15 U.S.C. § 25, and 28 U.S.C. §§ 1331, 1337.

7. UPM, Raflatac, Bemis, and MACtac each transact business and are found in the Northern District of Illinois. UPM's wholly owned subsidiary, UPM-Kymmene, Inc., maintains its principal office in this District, and transacts business in this District by, among other things, selling a number of lines of paper products to customers in this District. Raflatac transacts business in this District by, among other things, selling labelstock products to customers in this District. Bemis and MACtac transact business in this District by, among other things, selling flexible packaging and labelstock products to customers in this District. Venue is proper under 15 U.S.C. § 22 and 28 U.S.C. §§ 1391(c), 1391(d).

II. THE DEFENDANTS AND THE TRANSACTION

8. Bemis is a corporation organized and existing under the laws of Missouri. Bemis is engaged in two lines of business: the production and sale of pressure sensitive materials, through its MACtac subsidiary; and the production and sale of flexible packaging products, conducted through other Bemis operations. In 2002, Bemis reported total worldwide revenues of over $2.4 billion. MACtac, a wholly owned Bemis subsidiary organized and existing under the laws of Ohio, is one of the world's leading suppliers of labelstock. In 2002, MACtac had total

worldwide sales of $499 million. In North America, MACtac operates several labelstock production plants and had total labelstock sales of about $200 million in 2002.

9. UPM is a corporation organized and existing under the laws of Finland and is one of the world's largest producers of forestry and paper products. In 2002, UPM reported total worldwide revenues of over $10 billion. UPM produces and markets labelstock in North America through Raflatac, Inc., a wholly owned subsidiary corporation organized and existing under the laws of North Carolina. UPM produces and sells labelstock in Europe and other parts of the world through other subsidiary Raflatac companies. In 2002, UPM's worldwide Raflatac operations had revenues of over $736 million, of which $123 million were from labelstock sales in North America.

10. UPM also is a major producer of various types of paper used to produce labelstock (collectively known to the industry as "label papers"). UPM produces label papers both for the internal needs of its Raflatac labelstock operations and for sale to other labelstock producers. The Leading Producer, which is the largest manufacturer of labelstock in North America and the world, is also UPM's largest external customer of label papers.

11. On August 20, 2002, UPM and Bemis entered into a Stock Purchase Agreement pursuant to which UPM agreed to purchase MACtac for a cash price of about $420 million.

III. THE RELEVANT MARKET

A. <u>Description of the Product</u>

12. UPM and MACtac produce labelstock and compete to sell labelstock primarily to label converters, for whom the product is the main material input for the production of pressure sensitive, or self-adhesive, labels. Pressure sensitive labels are peeled off a base material and

applied to packages, documents, or other surfaces. With pressure sensitive labels, adhesion occurs by applying pressure, while other types of labels use adhesives that must be moistened or heat activated, or require application of a glue at the time of use.

13. Labelstock is produced in large rolls of a multi-layer laminate consisting of a face material (the surface of the label on which information and/or decoration is printed); an adhesive (which fixes the label to the surface); a silicon layer or coating (which allows an easy release of the face material from the base material); and the base material (also called “release,” which protects the adhesive). Labelstock is produced with either paper or synthetic (plastic) film as the face material, and various types of permanent or removable adhesives may be used. As hereafter used in this Complaint, “paper labelstock” refers to labelstock produced with a paper face material, and “film labelstock” refers to labelstock produced with a film face material.

14. Converters make pressure sensitive labels from labelstock by cutting it to desired sizes and shapes and adding printed text as needed by their customers. The great bulk of all labelstock production is converted into labels used for one of two general purposes — “variable information printing” (or “VIP”) and “prime.” VIP labels are blank or partially blank; the information to be printed on such a label is variable and is meant to be filled in by the user when the label is applied. Examples of VIP labels are labels used for printing bar codes, shipping labels, supermarket deli counter labels, and office supply labels. Prime labelstock is used to make labels for product identification and promotional labeling applications where the end user does not vary the information printed on the labels.

15. Almost all paper labelstock sold for VIP applications, and the great majority of paper labelstock sold for prime labeling uses, are “bulk” materials in that they are substantially

standardized products in widespread commercial usage and commonly sold for high demand and large volume applications. Producers manufacture bulk labelstock at high volumes to drive cost economies that enable them to achieve low unit production costs. In addition, some producers make "specialty" labelstock products for low demand application, such as labelstock made with face materials, colors, adhesives, or other construction or design elements that are not found in widespread commercial usage. Specialty labelstock products are made in small volumes and at relatively high unit production costs.

B. Relevant Product Markets

16. The relevant product markets affected by UPM's proposed acquisition of MACtac are bulk paper labelstock used to make pressure sensitive VIP labels, for which total 2002 sales in North America were about $780 million, and bulk paper labelstock used to make pressure sensitive prime labels, for which total 2002 sales in North America were about $400 million.

17. Since labelstock is sold primarily to converters who use it to make labels for their end-user customers, demand for labelstock among converters is driven by demand for labels among the end-users, which include individuals and businesses in all kinds of industries that need labels for shipping goods, supply chain management, and product labeling. While these customers can also use other labeling materials and technologies, they use pressure sensitive paper labeling in applications where it is the most cost-effective means of providing the desired labeling functionality and performance.

18. A small but significant increase in the price of bulk paper labelstock for either VIP or prime labeling applications, with a resulting increase in the price of the paper made from such labelstock, would not cause a significant reduction in the usage of the paper

labels in favor of any potential alternative labeling materials or technologies. One potential alternative, film labelstock, is substantially more expensive than paper labelstock on a price per unit basis. Absent any functional or performance considerations, paper labels are strongly favored over film because of the substantial cost advantage. Paper is also used in applications where it has functional or performance advantages over film—such as the ability of paper to be torn, its printability, or where it conveys the desired look, feel, or texture.

19. Paper labels are used in the great majority of pressure sensitive VIP applications, where customers require a low cost labeling solution and do not need the performance features of film. While both paper and film are used in prime labeling applications, film labels are used only where its higher cost is justified by performance, functionality, or look and feel that paper cannot provide—for example, film is more durable and moisture resistant, it is more flexible, and it can provide a transparent look. However, film is not an effective constraint on pricing of paper labelstock for either VIP or prime labeling applications, because in neither case would an increase in paper label prices, caused by a small but significant increase in paper labelstock prices, lead to significant customer switching to film labeling.

20. Non-pressure sensitive labeling technologies—such as gum labels, glue applied labels, non-adhesive shrink wrap film packaging, or direct printing of labeling text onto products or packages—also do not represent effective competitive constraints on prices for pressure sensitive paper labelstock. For a very substantial portion of VIP label usage, such non-pressure sensitive technologies simply are not close functional substitutes for pressure sensitive paper labels. Even in the minority of uses where a non-pressure sensitive labeling technology could potentially be a close functional substitute, replacing pressure sensitive paper labels with a non-

pressure sensitive labeling technology would entail significant switching costs, including expenditures to change label application equipment and increased product packaging or other operational costs. An increase in pressure sensitive paper label prices caused by a small but significant increase in labelstock prices would not cause significant customer switching to any non-pressure sensitive labeling technologies in either of the relevant markets.

C. Relevant Geographic Market

21. The relevant geographic market affected by the proposed transaction is North America (meaning the United States and Canada). UPM, MACtac, and other competitors sell to customers throughout North America, and without facing any significant competition from any foreign producers that do not have labelstock production capabilities in North America.

IV. MARKET CONCENTRATION

22. The relevant markets are highly concentrated and would become significantly more concentrated as a result of the proposed transaction. In the North American market for bulk paper labelstock produced and sold for VIP applications, the Leading Producer's market share is approximately 50 percent, while MACtac and UPM each have shares of about 12 percent (based on 2002 data on unit sales volumes). Using a standard measure of market concentration called the "HHI" (defined and explained in Appendix A), the market is highly concentrated, with a pre-merger HHI of about 2960, the proposed transaction would increase HHI by about 290, and the post-merger HHI would be about 3250.

23. In the North American market for bulk paper labelstock produced and sold for prime labeling applications, the Leading Producer's market share is approximately 49 percent, MACtac's share is about 12 percent, and UPM's share is about 8 percent (based on 2002 data on

unit sales volumes). The pre-merger HHI in this market is about 2800, the proposed transaction would increase HHI by about 190, and the post-merger HHI would be about 2990.

V. ANTICOMPETITIVE EFFECTS

24. Competition in the relevant labelstock markets has been driven by rivalry among UPM, MACtac, and the Leading Producer. Over the past few years, these three firms have made large investments to construct the industry's newest and most efficient labelstock production plants. While UPM, MACtac, and the Leading Producer added substantial new production capacity, market demand for paper labelstock flattened, with only modest expectations for growth over the foreseeable future. MACtac, in particular, has a substantial amount of excess labelstock production capacity.

25. UPM has been an aggressive and disruptive competitor. Until 2001, UPM did not produce labelstock in North America, but over many years had developed a small toehold market presence by importing labelstock produced by its plants in Europe. In 1999, UPM committed to expanding its North American market position to advance broader strategic objectives of becoming a major competitor in the global labelstock marketplace and supporting UPM's growing production and sales of label papers used in making labelstock. Recognizing that it could not build a large enough North American labelstock business without having local production capabilities, UPM tried to acquire MACtac in early 1999, and when this effort failed, it committed to construction of a $56 million labelstock production plant in Fletcher, North Carolina. UPM has since competed aggressively to build its customer base and expand sales volume, leading or substantially contributing to market-wide erosion of prices and producer profitability. While customers of paper labelstock derived substantial benefit from this

competition, MACtac's president and CEO has testified that, from his vantage point, UPM's aggressive pricing "ruined the industry."

26. Prior to entering into the proposed transaction, UPM set and pursued aggressive labelstock volume growth targets. With the transaction, however, the market will be left with just two firms, UPM and the Leading Producer, in positions of marketplace dominance and with significant incentives to engage in tacit or explicit competitive coordination rather than to compete vigorously against each other. The incentives and ability of UPM and the Leading Producer for coordination are enhanced by the existence of a longstanding strategic paper supply relationship between them. Over the past several years, the Leading Producer has become UPM's largest customer of label papers, and UPM has become one of the Leading Producer's largest suppliers. This supply relationship provides UPM and the Leading Producer with the motivations, opportunities, and means to coordinate on price, monitor adherence, punish cheating, and engage in side payments that can be hidden in label paper transactions.

27. UPM and the Leading Producer have already sought to reach explicit understandings aimed at limiting competition between themselves, including discussions between high level executives of the two companies. In a June 2001 memo to the head of UPM's labelstock business worldwide, the executive in charge of UPM's North American operations noted that his organization did not regard the Leading Producer as the main competitor, but that it was trying to compete against MACtac and other labelstock suppliers.

28. As UPM expanded its sales in North Ameican, other producers competed to defend their market shares and market-wide price erosion ensued. UPM and the Leading Producer were not able to avoid competing against each other in the marketplace, and the

resulting competitive frictions strained the relationship between UPM and the Leading Producer at the highest corporate levels. In June 2001, in response to the Leading Producer's complaints about UPM's aggressively competitive behavior, a senior UPM executive who had overall operational responsibilities for both UPM's labelstock and label papers businesses worldwide, wrote to a senior manager of the Leading Producer:

> Raflatac management considers unjustified the blame that they are destroying the market . . . . *I think it is the role of the big players to be extremely careful to avoid major instability. I can assure you that our management have been reinstructed to fully commit to a balanced market development* which will benefit both the customers and suppliers. Looking forward to meeting you the next time you are visiting Europe. [emphasis added]

29. The competitive conflicts between UPM and the Leading Producer continued to escalate and further discussions took place between high level executives regarding the level of price competition between them. In September 2001, according to documented internal deliberations at UPM's highest executive levels, UPM recognized the strategic value of appeasing the Leading Producer. The minutes of these deliberations identify the acquisition of MACtac as a possible course of action, which "[f]or [the Leading Producer] . . . would be a clearly pleasant alternative." Subsequently, while UPM and Bemis were in active negotiations over the proposed transaction, UPM sought to contain the competitive conflicts with the Leading Producer and to stabilize the price erosion then taking place. According to the minutes of an October 2, 2001, meeting among the members of the Raflatac Americas Management Board: "[The] Raflatac board dictates that we may follow a price decline but may not lead it. We need to gain market share on our quality and choices not price." A Raflatac Monthly Report dated November 30, 2001 declared: "The good news is that [the Leading Producer] seems to have taken our signal not to go below $0.20/msi [a labelstock unit price]."

30. After entering into the proposed transaction to acquire MACtac, UPM appears to have abandoned the aggressive volume growth targets that it had previously pursued. In each of the past two years, for example, UPM's paper labelstock unit sales grew by more than 30 percent over the prior year, and its plans called for aggressive annual rates of growth over the following years. In contrast to such aggressive growth, UPM has advised the United States, in a letter from UPM counsel dated October 9, 2002, that it now "projects no increases in sales growth or market share in North America for 2003 apart from those associated with the MACtac acquisition."

VII. ABSENCE OF COUNTERVAILING FACTORS

31. everal smaller competitors produce paper labelstock. Over the past few years, however, these small competitors, have increasingly focused on the production of specialty labelstock and away from the production of bulk paper labelstock, and would not constrain the competitive harm resulting from UPM's acquisition of MACtac in either of the relevant markets. After the transaction, UPM and the Leading Producer together would control over 70 percent of all North American sales in the relevant markets, with the remaining sales dispersed among these small producers. Whether viewed collectively or individually, these small producers face capacity limitations that would constrain them from significantly expanding sales in response to a post-merger price increase. In addition, these small firms produce labelstock with smaller, slower, and less efficient production equipment than the leading producers, and are therefore competitively constrained by production cost disadvantages; they face materials cost disadvantages owing to their smaller scale of operations; and they variously suffer from significant distributional and marketing disadvantages and financial weaknesses in comparison to UPM, MACtac, and the Leading Producer. In order to improve their own profit margins, these

competitors would likely follow a post-merger price increase led by UPM and the Leading Producer rather than defeat the increase by expanding their sales.

32. The potential for new entry into either of the relevant markets is extremely limited and would not mitigate the competitive harm from the proposed transaction. Entry is difficult, time-consuming, and financially costly and risky. Apart from the time and costs of building a production plant, entry would be discouraged by current and foreseeable excess capacity conditions brought about largely by the capacity additions of UPM and MACtac.

33. Expansion of capacity by any of the existing small competitors also would be difficult, time-consuming, and an unlikely response to a post-merger price increase. In this regard, it has taken substantial time and effort for MACtac, a highly experienced producer of labelstock, to add new capacity to its existing production base. MACtac has expended several months to a year to install new labelstock production lines, and then another several months to a year of pre-production work before the new lines have been able to produce commercially acceptable material at production volumes on a cost effective basis.

34. A small number of firms that currently produce film labelstock, but not paper labelstock, in North America could in theory use their existing production plants to begin competing in the relevant markets. However, because film labelstock margins are significantly higher than margins for bulk paper labelstock, film labelstock producers would not find it profitable to divert capacity to produce bulk paper labelstock. Moreover, because the capacities of these producers are optimized in terms of production process and scale to produce film labelstock, they are not cost-effective platforms for competing in either of the relevant markets. Entry for these firms would thus require substantial investments in time and capital for the

construction of dedicated paper labelstock production capabilities.

VIII. VIOLATION ALLEGED

35. The United States hereby incorporates paragraphs 1 through 34.

36. UPM's acquisition of MACtac would likely substantially lessen competition in the production and sale of bulk paper labelstock used to make pressure sensitive VIP and prime labels in North American, in violation of Section 7 of the Clayton Act, 15 U.S.C. § 18. The transaction would likely have the following effects, among others:

(a) actual and potential competition between UPM and MACtac in the development, production, and sale of such labelstock in North America would be eliminated;

(b) actual and potential competition between UPM and the Leading Producer in the development, production, and sale of such labelstock in North America would be eliminated or substantially lessened;

(c) competition generally in the development, production, and sale of such labelstock in North America would be eliminated or substantially lessened;

(d) prices for such labelstock in North America would likely increase to levels above those that would prevail absent the merger; and

(e) innovation and quality of such labelstock products and services in North America would likely decrease to levels below those that would prevail absent the merger.

PRAYER FOR RELIEF

The United States requests:

1. That the proposed acquisition be adjudged to violate Section 7 of the Clayton Act, 15 U.S.C. § 18;

2. That the defendants be permanently enjoined and restrained from carrying out the Stock Purchase Agreement between UPM and Bemis dated August 20, 2002, or from entering into or carrying out any agreement, understanding, or plan by which UPM would merge with or acquire MACtac, its capital stock, or any of its assets;

3. That the United States be awarded costs of this action; and

4. That the United States have such other relief as the Court may deem just and proper.

Respectfully submitted,

/s/

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APPENDIX A

HERFINDAHL-HIRSCHMAN INDEX CALCULATIONS

"HHI" means the Herfindahl-Hirschman Index, a commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. For example, for a market consisting of four firms with shares of thirty, thirty, twenty, and twenty percent, the HHI is 2600 ($30^2 + 30^2 + 20^2 + 20^2 = 2600$). The HHI takes into account the relative size and distribution of the firms in a market and approaches zero when a market consists of a large number of firms of relatively equal size. The HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases.

Markets in which the HHI is between 1000 and 1800 points are considered to be moderately concentrated, and those in which the HHI is in excess of 1800 points are considered to be highly concentrated. Transactions that increase the HHI by more than 100 points in highly concentrated markets presumptively raise antitrust concerns under the Horizontal Merger Guidelines issued by the U.S. Department of Justice and the Federal Trade Commission. See *Merger Guidelines § 1.51*.