II

(Acts whose publication is not obligatory)

COMMISSION

COMMISSION DECISION

of 6 October 2004

declaring a concentration compatible with the common market and the EEA Agreement

(Case COMP/M.3431 — Sonoco/Ahlstrom)

(notified under document number C(2004) 3678)

(Only the English text is authentic)

(2005/452/EC)

On 7 January 2004 the Commission adopted a Decision in a merger case under Council Regulation (EEC) No 4064/89 of 21 December 1989 on the control of concentrations between undertakings [1]*, and in particular Article 8(2) of that Regulation. A non-confidential version of the full Decision can be found in the authentic language of the case and in the working languages of the Commission on the website of the Directorate-General for Competition, at the following address: http://europa.eu.int/comm/competition/index_en.html*

I. OVERVIEW

(1) The US-based company Sonoco and the Finnish undertaking Ahlstrom notified to the Commission their intention to create a joint venture to which they planned to contribute their respective European coreboard and cores businesses. Cores are tubes produced from coreboard. They are normally used as the base around which various products, such as paper, film and yarn are wound.

(2) The investigation identified serious concerns in the markets for high-end paper mill cores and low-value cores in some regions of northern Europe. The parties submitted remedies to address these concerns in the first phase. They proposed to divest the Sveberg plant in Norway, which produces both affected products.

(3) The remedy removes, almost completely, the increment in market shares caused by the merger. However, the market test conducted in the first phase revealed that market participants had concerns about the remedy particularly in regard to its bad geographic location and the viability of the divested business. Since this remedy did therefore not clearly remove the serious doubts at this stage, the Commission opened second phase proceedings on 5 July 2004.

(4) During the second phase the parties were able remove the concerns as to the location of the Sveberg plant by submitting convincing evidence on transportation costs. In addition, they offered a 'fix-it-first' solution so that the Commission could ensure that a suitable buyer is found before the parties could complete their deal. This measure ensured the viability of the business. This was confirmed by the second market test.

II. THE RELEVANT PRODUCT MARKETS

(5) Coreboard is a paper/board material used primarily for manufacturing paper cores. The key characteristic of coreboard is its ability to resist delamination, which is measured in Joules per square meter (J/m^2). There is only a limited degree of demand-side and supply-side substitutability. The high-grade (delamination resistance >375 J/m^2) producers can easily switch production to low-grade (delamination resistance <375 J/m^2), low-grade

[1] OJ L 395, 30.12.1989, p. 1. Regulation last amended by Regulation (EC) No 1310/97 (OJ L 180, 9.7.1997, p. 1).

producers need to make important investments to produce high-grade coreboard. In light of the above, high-grade and low-grade coreboard can be considered to constitute the relevant product markets for coreboard.

(6) Paper cores are tubes produced from coreboard by spiral or parallel winding processes, normally used as the base around which various products (e.g. paper, film, adhesive tape, fabric, and yarn) are wound. There are clear limitations to demand-side substitutability, although some cores may be suitable for several applications. The market investigation confirmed that especially for the production of high-value products, such as high-end paper mill cores (PMC) and yarn carriers, specific know-how and machinery are needed. Supply-side substitutability exists to a sufficient degree between the less sophisticated cores. However, the coating of cores requires some additional investments.

(7) As a result, three different product markets can be distinguished: one for high-end PMC, one for yarn carriers, and one for low-value cores leaving open whether coated film cores are included or constitute a separate product market, as this made no difference to the competitive assessment.

III. **THE RELEVANT GEOGRAPHIC MARKETS**

(8) Coreboard. Even though the market investigation indicated some focus of the suppliers on broad regions, the markets for coreboard nevertheless have an EEA-wide dimension. Producers of coreboard have between one and three plants in the EEA from which they supply coreboard across Europe.

(9) Cores. The parties proposed an EEA-wide geographic market for all cores. However, they also recognised that certain regions in the EEA have particularly intense trade flows of cores, which could possibly lead to regional relevant geographic markets. These regions are (i) Continental Europe [1]; (ii) the Scandinavian countries [2]; (iii) Finland and (iv) the United Kingdom and Ireland.

(10) High-end PMC. The parties sell [80-100 %] (*) of their total sales volume to customers who are at maximum 500 km away from the supplying plant. Within Continent of Europe numerous trade-flows are indicated, while only minor trade flows occur between this region, and Scandinavia, Finland or UK/Ireland.

(11) As a result of the market investigation four geographic markets were identified: (i) Continental Europe (leaving open the question whether a further separation in a Northern and a Southern part is appropriate as was suggested by some respondents), (ii) the Scandinavian countries (leaving open the question whether Denmark should be included or not), (iii) Finland and (iv) UK/Ireland. The division of the Continental market and the question as to whether Denmark should be included in the Scandinavian market can be left open, since the competitive assessment does not change.

(12) Yarn-carriers. In this case the question whether the market should to be defined according to the above mentioned regions or as EEA-wide can be left open since the final assessment does not change under either of both definitions.

(13) Low-value cores. The market investigation did not confirm the EEA-wide market definition proposed by the parties. Most customers who replied to the market investigation defined regional markets and even indicated that they purchase low-value cores on a national level.

(14) As with high-end PMC the Continental region shows comparably intense trade activities. Therefore, the following markets can be defined: (i) UK/Ireland, (ii) Finland, (iii) Continental Europe including Denmark, leaving open the question whether it should be split into a Northern one or several Southern parts, and (iv) Norway and Sweden leaving open the question whether they constitute national markets or a combined regional one. The definition may be left open as the competition assessment is not changed whichever market definition used.

IV. **AFFECTED MARKETS**

(15) The notified transaction gives risk to affected markets in the Scandinavian market for high-end PMC, the possible regional or EEA-wide markets for yarn carriers and the Norwegian market or a market consisting of Norway and Sweden for low-value cores.

[1] Continental Europe comprising: Germany, Austria, France, Benelux, Italy, Spain, Portugal and Greece.
[2] Denmark, Sweden and Norway.
(*) Parts of this text have been edited to ensure that confidential information is not disclosed; those parts are enclosed in square brackets and marked with an asterisk.

V. **ASSESSMENT**

(16) High-end PMC. In the Scandinavian market Ahlstrom is by far the leading supplier with a market share of [70-80 %] *, Sonoco ([0-10 %] *) however, is a relatively small supplier comparable to Corenso and Paul. As a result of the merger, one of the at present four existing supply possibilities for high-end PMC is eliminated in this region. Because of high quality requirements in this product market, new market entrants cannot be expected in the short-run. It was feared that with its increased strength Sonoco/Ahlstrom would be more indispensable for the larger customers and would therefore have power to squeeze smaller suppliers.

(17) Yarn carriers. The only region where major concerns might arise is Finland (Ahlstrom [60-70 %] *, Sonoco: [20-30 %] *). The Finnish market is limited by size to less than 0,5 % of the European market. The present and potential competitors have large overcapacities that would allow them to serve any new demand in Finland. The market investigation did not raise significant concerns in relation to this product.

(18) Low-value cores. The transaction gives rise to concerns on the market comprising Norway-Sweden (Ahlstrom: [40-50 %] *, Sonoco: [10-20 %] *) and on the possible national market of Norway (Ahlstrom: [30-40 %] *, Sonoco: [40-50 %] *). The gap between the smaller players and the larger ones is already significant and will increase significantly due to the merger. The market investigation identified concerns of rising prices in these markets due to the merger.

(19) The notified concentration raised serious doubts as to its compatibility with the Common Market with regard to the markets for high-end PMC in Scandinavia and for low-value cores in the possible national market of Norway and a market comprising Norway and Sweden.

VI. **COMMITMENTS OFFERED BY THE PARTIES**

(20) In the second phase, the parties again proposed the divestment of the Ahlstrom's core production facility located at Sveberg, Norway, to an up-front buyer [1]. The main issues which led the Commission to refuse the divestment of Sveberg the first time in the first phase related to its isolated geographic situation and the uncertainty with respect to its financial viability.

VII. **ASSESSMENT OF THE COMMITMENTS SUBMITTED**

(21) The parties provided credible evidence showing that the geographic location of the plant does not constitute a major impediment. Sveberg benefits from the phenomenon whereby, in Scandinavia, north-south freight rates are significantly lower than south-north rates. This is advantageous for Sveberg which is located in the North of Norway, since many actual and potential customers are located in the South. The divestment of Sveberg to a suitable and independent up-front buyer, to be approved by the Commission ensures that the Commission ensure the viability of the business. In the Phase I market test, a possible stand-alone solution for the divestment of Sveberg was clearly rejected. Many of the critical respondents, however, indicated that they would have the Sveberg providing divestment that an appropriate buyer could be found.

(22) The divestment of Sveberg would eliminate the increment in market shares for all markets for which concerns were raised except for the Norwegian/Swedish market for low-value cores. There, the increment would be reduced from [10-20 %] * to [0-10 %] *, leaving the merged entity with a market share of [40-50 %] *. Even if the increment would not be totally removed, the undertaking would allow a new player to enter the Norway-Sweden market. The reduction in the number of players in this market would thus be offset. Should one of the smaller competitors already active in the markets buy the Sveberg facility, the result would be a more balanced market structure, and would create adequate competitive restraints on Sonoco/Ahlstrom.

(23) On the basis of the commitments submitted by the Parties, the notified concentration does not raise serious doubts as to its compatibility with the common market and the EEA Agreement. The decision was adopted under Article 8(2) of Council Regulation (EEC) No 4064/89 and Article 57 of the Agreement on the European Economic Area.

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[1] A binding purchase agreement for the sale of Sveberg has to be concluded with a suitable buyer before the JV can be created.