

***Case No COMP/M.3064 -
AHLSTRÖM CAPITAL /
CAPMAN / NORDKALK***

Only the English text is available and authentic.

**REGULATION (EEC) No 4064/89
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 10/02/2003

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 10/02/2003

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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EEC) No 4064/89 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties.

Dear Sir/Madam,

**Subject: Case No COMP/M.3064 – Ahlström Capital / Capman / Nordkalk
Notification of 08/01/2003 pursuant to Article 4 of Council Regulation
No 4064/89¹**

1. On 08.01.2003, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which the Finnish company Ahlström Capital Oy (“AC”, Finland, controlled by the Ahlström Family), and CapMan Capital Management Ltd (Finland), CapMan Ltd (Guernsey) Ltd and CapMan Sweden AB (Sweden) (together: “CapMan”) intend to acquire within the meaning of Article 3(1)(b) of the Council Regulation joint control of the Finnish undertaking Nordkalk Corporation (“Nordkalk”) by way of purchase of shares in a pre-existing company constituting a joint venture.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EEC) No 4064/89 and does not raise serious doubts as to its compatibility with the common market and with the EEA Agreement.

I. THE PARTIES

3. AC is a private investment company, which focuses on active direct equity investments made in a variety of business sectors; at present the fields of industry are the electrical

¹ OJ L 395, 30.12.1989 p. 1; corrigendum OJ L 257 of 21.9.1990, p. 13; Regulation as last amended by Regulation (EC) No 1310/97 (OJ L 180, 9. 7. 1997, p. 1, corrigendum OJ L 40, 13.2.1998, p. 17).

and electronics industry, packaging, forestry and real estate. The owner of AC, the Ahlström Family, also has sole control over the industrial company Ahlstrom Corporation (“Ahlstrom”), which is active, among others, in manufacturing high performance fibre based materials and in paper production.

4. CapMan is one of the leading Nordic private equity companies. CapMan makes investments in the IT and telecommunications sectors, in the life science sector and in manufacturing, service and retail industries.
5. Nordkalk is a company active in manufacturing of limestone-based products in Northern Europe (namely in Finland, Sweden, Poland and Estonia). The products are mainly used in the steel, building material, pulp and paper industries. Nordkalk also imports and processes a small amount of kaolin and colemanite. The company is currently owned by Partek Corporation, which has been acquired by Kone Corporation. The divestment of Nordkalk is in line with the strategy of Kone Corporation, one of the objectives of which is to divest the non-core holdings of Partek.

II. THE OPERATION AND THE CONCENTRATION

6. Under the terms of the notified operation, AC and CapMan will acquire joint control over Nordkalk through an acquisition vehicle, NK-Holding Oy Ab (“NK-Holding”). NK-Holding has signed a binding share purchase agreement with Nordkalk’s current owner, Partek, by virtue of which NK-Holding acquires 100% of the shares in Nordkalk.

Joint control

7. Following the implementation of the notified transaction, AC and CapMan will each hold a 27.8% interest in Nordkalk. The remaining 44.4% of the shares will be divided among [...] other shareholders, the biggest stake being 8%. The Board of Directors shall consist of [...] ordinary members, of which AC and CapMan [...] members, the other shareholders [...] members.[...].
8. The decisions on [...] shall require [...] approval of the Board of Directors. The shareholders other than AC and CapMan, very fragmented, have no common interest or agreement to vote together in the Shareholders’ Meeting, [...]. It follows that Nordkalk will be controlled only by AC and CapMan.

Full functionality

9. On the basis of the information submitted by the parties, it can be concluded that Nordkalk has sufficient financial and other resources and performs all the functions of an autonomous economic entity on a lasting basis.

III. COMMUNITY DIMENSION

10. The AC, CapMan and Nordkalk combined aggregate worldwide turnover exceeds EUR 2,500 million), but is less than EUR 5 billion (AC group: EUR 2,270 million; CapMan group: EUR 1,387 million; Nordkalk: EUR 215 million). However, the combined aggregate turnover of all these three companies was in excess of EUR 100 million among others in Finland, Sweden, and Germany, and in each of these countries, the individual turnover of both AC and CapMan was more than EUR 25 million. In addition, the Community-wide turnover of the undertakings concerned exceeds EUR 100 million (AC group: EUR 1,249 million; CapMan Group: EUR 1,156 million and

Nordkalk: EUR 198 million), but AC and CapMan do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The concentration therefore has a Community dimension under Article 1(3) of the Merger Regulation

IV. COMPETITIVE ASSESSMENT

A. The affected markets

11. The notifying parties submit that the concentration would not affect any markets at horizontal level, since there is no horizontal overlap between the activities of the target and of any undertakings controlled by the parents. The results of the Commission market investigation do not argue against this submission.
12. The Commission has, however, investigated in more detail whether any competition concerns would arise due to the vertical relationships between Nordkalk and Ahlstrom. Namely, the parties submit that the operation might vertically affect certain glass fibre production markets downstream and the markets for the supply of limestone-based products as well as kaolin and colemanite upstream. This is due to the fact that Nordkalk supplies Ahlstrom Glassfibre Oy in Finland with quick lime, kaolin and colemanite, which are used in the latter's glass fibre production. As mentioned above, Ahlstrom Glassfibre Oy belongs to the same corporation as AC. AC itself has no ownership in vertically related businesses.
13. Furthermore, the notifying parties have identified also another vertical relationship between their activities as Nordkalk's subsidiary, Suomen Karbonaatti Oy, supplies a paper pigment product called "ground calcium carbonate", to Ahlström's paper mill in Kauttua, Finland. Ahlstrom Kauttua uses this product in the production of "wet glue labels" and "face stock" (such as self-adhesive labels). Having regard to Nordkalk's low market shares in the supply of paper pigment products and Ahlstrom's low market shares in the end products concerned, which both are significantly below 25%, this vertical relationship cannot be considered to lead to any affected markets. It should also be noted that Ahlström Kauttua Oy is only a marginal customer to Suomen Karbonaatti Oy. It is therefore not necessary to further assess this vertical relationship for the purposes of this case.

B. Relevant product markets

Limestone-based products

14. Limestone is an organic or inorganic, sedimentary or crystallised carbonate rock consisting of carbonate minerals. As already mentioned above, these products are mainly used in the steel, building material, pulp and paper industries. According to the notifying parties, limestone-based products manufactured by Nordkalk can be further divided into four segments; 1) crushed limestone, 2) ground limestone, 3) quick lime and 4) paper pigments.
15. Quick lime is produced when limestone is burnt in a rotary or shaft kiln. It is produced in different forms; it is either screened (screened quick lime), screened and then reduced in size (ground quick lime) or water is added to screened quick lime in order to make it hydrated (hydrated quick lime). It seems that these three forms of quick lime are all suitable for almost any of the applications in which quick lime is used, except for the

manufacture of steel, for which hydrated lime is not suitable. Quick lime is also one of the many raw materials used in the production of glass fibre; it is an additive to glass fibre.

16. Some of the quick lime produced by Nordkalk is tailored in accordance with the customer's requirements compared to "bulk quick lime" which is a more homogeneous and lower value product. According to the parties, the quick lime delivered by Nordkalk to Ahlstrom can be deemed as bulk quick lime.

Kaolin and colemanite

17. Kaolin, or china clay, is mined and then ground and refined into a variety of grades. Kaolin is mostly used in papermaking applications and in the ceramic industry. Certain forms of ground kaolin are used as additives in the manufacture of glass fibre, among other raw materials.
18. Some kaolin markets have previously been examined by the Commission in case IV/M.1381 - Imetal/English China Clays². In this case the Commission concluded that kaolin can be identified as a separate product market and that it cannot be substituted in the paper making process. A further distinction was made between filling and coating applications. The Commission furthermore concluded that kaolin for specialities applications, which include rubber, paints, plastics, adhesives and sealants, also constitutes a separate product market. However, the supply of kaolin for glass fibre production was not separately examined.
19. Colemanite is a complex borate mineral which is found in playa lakes and other evaporite deposits. It is estimated that approximately 44% of world's colemanite production is used by the glass industry. Colemanite acts as a flux lowering the melting point and viscosity of glass.

Glass fibre products

20. Glass fibre is an intermediate product manufactured of sand, kaolin, colemanite and quick lime. By blending these quarry products, liquid glass is formed, which is passed through micro-fine bushings and simultaneously cooled. Depending on the type of process following this operation, different sorts of glass fibre are produced. According to the information submitted by the notifying parties, Ahlstrom Glassfibre Oy is active in the manufacture of three types of these glass fibre products, namely glass fibre reinforcement (GRP), glass fibre tissue (GFT) and woven and speciality reinforcements (WSR).
21. According to the respondents to the Commission market investigation the physical characteristics and the field of use of these glass fibre products show significant differences. While GRP is a strand or (nonwoven) fibre bundle, GFT is a thin, paper like web. WSR products comprise among others woven rovings and products made by combining different mats or tissues. GRP and WSR are mainly used in reinforced plastic applications such as manufacturing hulls, wind generator blades, transport and sport equipment. GFT is a raw material for the production of inter alia vinyl flooring, building panels and roofing.

² Case No IV/M.1381 – Imetal/English China Clays, 26 April 1999.

22. The results of the Commission market investigation seem to indicate that customers do not usually consider the above mentioned glass fibre products as interchangeable, since the products have different purposes and functions in the structure of the end products. Switch to another type of glass fibre would be onerous due to the long periods and additional costs necessary for re-qualifying the end products.
23. As for the supply side substitutability, competitors seem to consider that no easy switch is feasible for a producer of a certain glass fibre speciality willing to start manufacturing another speciality. Such a switch or completion of production lines would necessitate additional processing machinery.
24. For the aforementioned reasons, the results of the market investigation seem to suggest that GFT, GRP and WSR products are likely to constitute distinct product markets.
25. However, for the purposes of this decision it is not necessary to decide on the exact definition of any of the above described relevant product markets (limestone based products/quick lime, kaolin and colemanite and glass fibre) since, in all alternative definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area as a result of the notified concentration.

C. Relevant geographical markets

Limestone-based products

26. The notifying parties submit that limestone-based products are in general low-price products, the long-distance transport of which is not economically viable. The exceptions would be paper pigment products and special quality quick lime, which are considered to be relatively high-price products thus susceptible to be transported overseas. However, the only segment of limestone-based products which may be considered to be affected by the proposed transaction is the segment of quick lime, and more specifically quick lime products supplied in bulk. Even though some quick lime products seem to be traded also internationally, there are indications that the scope of the relevant geographic market for bulk quick lime would be national as these products are relatively homogeneous lower value products, the transportation of which might not be feasible over long distances. However, it is not necessary to decide on the exact scope of the relevant geographic dimension because in all alternative definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area, as a result of the notified concentration.

Kaolin and colemanite

27. The transport of kaolin and colemanite is considered to be viable even at longer distances. As mentioned above, the Commission has previously examined kaolin markets in case IV/M.1381 - Imetal/English China Clays, in which for example the markets for kaolin used in paper applications were defined as world-wide.
28. As regards colemanite, the parties submit that as there are only a few notable occurrences in the world and these are in Turkey, USA and South America, the market should be considered to be world-wide, taking into consideration that colemanite is used by the industry all over the world.

29. However, it is not necessary to decide on the exact geographic dimension of the kaolin or colemanite markets for the purposes of this case, because in all alternative definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area, as a result of the notified concentration.

Glass fibre products

30. Based on the import/export data available, the parties suggest that the geographic scope of the market for glass fibre is at least EEA wide. For example approximately [...]% of Ahlstrom's production is to the EEA area and import to Finland represents 40-50% of the annual consumption of glass fibre in Finland.
31. The position of the parties has been broadly confirmed by the Commission's market investigation. It seems that glass fibre products may be economically transported in containers by ship or by lorries or rail on the surface, even world-wide. According to the results of the Commission market investigation, the prices of glass fibre products within different Member States do not show any significant divergence. Moreover, customers within the EEA usually purchase glass fibre simultaneously from suppliers in different Member States and even from outside the EEA. The customers also stressed that in the event of a general price increase in the EEA they could easily switch to producers operating in Eastern Europe or even in the Far East.
32. The results of the Commission market investigation therefore suggest that the market for glass fibre products and its subsegments would be at least EEA-wide. However, it is not necessary to decide on the exact scope of the relevant geographic dimension because in all alternative definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area, as a result of the notified concentration.

D. Assessment

Supply of quick lime for the production of glass fibre

33. According to the parties, in Finland Nordkalk has a market share of approximately [80-90]% of the overall market for limestone-based products, and [70-80]% of the quick lime market segment. On EEA level their market share for quick lime has been estimated to be approximately [<5]%.
34. The parties submit that the quick lime inputs do not constitute a material part of the end product's cost. The quick lime input accounts for [<5]% of the total cost of manufacturing basic glass fibre. The parties also contend that this proportion in the cost structure further decreases during the processing of basic glass fibre into different glass fibre products (GRP, GFT, WSR).
35. As clearly confirmed by the Commission market investigation, Ahlstrom faces powerful competitors, such as Saint-Gobain Vetrotex, France and Owens Corning, Belgium in all three glass fibre market segments. Pursuant to the parties' estimates, in the GRP segment, Ahlstrom has a market share of [<10]% in Europe, whereas its two largest competitors, Saint Gobain Vetrotex and Owens Corning have estimated shares of [30-40]% and [20-30]% respectively. Ahlstrom manufactures [25-35]% of the GFT products sold in the EEA, whereas its biggest competitors, Johns Manville and Owens Corning, have estimated market shares of [35-45]% and [25-35]%. As for the WSR products, Ahlstrom

has a share of [10-20]% in the segment and its most important competitors, Saint Gobain Vetrotex and Saertex account for [20-30]% and [10-20]%. The parties also submit that if all the above glass fibre subsegments were considered to belong to the same product market, Ahlstrom's market share in the EEA would remain well below 30%.

36. Adverse effects on competition in the production of glass fibre would be possible only, if by acquiring Nordkalk, Ahlstrom could make it difficult for its competitors in the EEA to have access to raw materials of glass fibre. In this regard, it must be noted that Nordkalk only accounts for a minor share of quick lime sales in the EEA. The Commission market investigation fully confirms that there are a number of alternative suppliers for limestone based products and quick lime available in the EEA and that if for example a supplier of quick lime increased prices, their customers would be able to switch to other suppliers easily. According to the results of the Commission market investigation, Ahlstrom's competitors in glass fibre production also apply multiple sourcing strategies.
37. It has been clearly confirmed by the results of the Commission market investigation that the notified operation would not lead to any vertical foreclosure effects resulting from Nordkalk's position as a supplier of quick lime for the production of glass fibre.

Supply of kaolin and colemanite for the production of glass fibre

38. Nordkalk does not itself produce kaolin or colemanite. It only subcontracts these products for Ahlstrom, not for other glass fibre producers, by importing them from [...] in the UK and [...] in Turkey. Competitors use other suppliers and other channels for their supplies. At world-wide level there are several alternative suppliers available for kaolin, the ones with highest market shares being ECC/Imetal, Emgelhard and Huber. Colemanite is sourced from mines and there are only a few notable occurrences in the world, none of which are located within the EEA. European glass fibre producers purchase it mostly in Turkey and the USA where the largest producers are.
39. As Nordkalk is not a producer of kaolin or colemanite, but an importer and subcontractor to Ahlstrom, and only to Ahlstrom, the proposed concentration would not lead to any vertical foreclosure effects resulting from Nordkalk's position as a supplier of kaolin and colemanite for the production of glass fibre.

V. CONCLUSION

40. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EEC) No 4064/89.

For the Commission

Signed,
Mario MONTI
Member of the Commission