

***Case No COMP/M.4092 -
ANDRITZ / KÜSTERS***

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**REGULATION (EC) No 139/2004
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 19/04/2006

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19.04.2006

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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.4092 – Andritz / Küsters
Notification of 13/03/2006 pursuant to Article 4 of Council Regulation
No 139/2004¹**

- (1) On 13 March 2006, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 (“the Merger Regulation”) by which the Austrian undertaking Andritz GmbH (“Andritz”) acquires control of the whole of the German undertaking Eduard Küsters Maschinenfabrik GmbH & Co KG (“Küsters”).
- (2) After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Merger Regulation and does not raise serious doubts as to its compatibility with the common market and with the EEA Agreement.

I. THE PARTIES

- (3) Andritz is a manufacturer of paper-producing machinery, for tissue, board, and fine paper and also of production systems for the steel, environment, feed technology, hydraulic technology, and other sectors.
- (4) Küsters is a manufacturer of paper, non-woven and textile calenders, rolls for carton board dewatering shoe presses and related parts and services.

¹ OJ L 24, 29.1.2004 p. 1.

II. CONCENTRATION

- (5) Post transaction Andritz will control Küsters through ownership of a majority of the voting shares. This acquisition of control constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

III. COMMUNITY DIMENSION

- (6) The Commission acquired jurisdiction to review the notified operation by means of referral under Article 4(5) of the Merger Regulation. On 12 January 2006, the Commission received the referral request by means of a reasoned submission pursuant to Article 4(5) of the Merger Regulation. No Member State competent to examine the concentration under its national competition law (namely Austria, Germany, the Slovak Republic and Spain) has expressed disagreement as regards the request of referral. Consequently, the transaction is deemed to have a Community dimension pursuant to Article 4(5) of the Merger Regulation.

IV. THE RELEVANT MARKETS

a) Relevant product market

- (7) The parties' activities overlap in the sector of machinery for the manufacture of paper. The constituent elements of a paper production line are the stock preparation system, head box, wire section, press section, dryer section, calender and winder.
- (8) According to the parties, nearly every manufacturer of paper production machinery manufactures and sells all or most of these constituent elements, and moreover for all three main grades of paper product (tissue, carton board and fine paper).
- (9) Again, according to the parties, paper-producing machinery is sold both as a complete new paper-production line, in which case a customer normally purchases all elements from a single supplier ('mix-and-match' lines accounting for less than 5% of new line sales), and also in the context of a rebuild or upgrade of an existing paper-production line.
- (10) In previous decisions² the Commission has tended to the view that there exist separate product markets for the different elements in a paper production line as listed above. The Commission's investigation in the present case focussed on the scope of the relevant product market, considering as alternatives an overall "paper-producing machinery" market, two broad but distinct markets "new line" and "upgrades", or each constituent machine (eg press, dryer).
- (11) The Commission's investigation revealed a somewhat varied view of the extent of the relevant product market at the present time. However, the general opinion is that the market is increasingly characterised by competition for the supply of overall new paper-production lines and major rebuilds, particularly as far as the major suppliers and major customers are concerned, but with some smaller machinery producers still supplying individual machines as components for overall production lines.

² eg Case IV/M478 Voith/Sulzer II

- (12) Paper-manufacturing machinery requires periodic servicing, which may be considered a distinct market. In particular, rolls for paper calenders require regular grinding every few months, a service provided by both calender producers and independent grinding shops.

b) Relevant geographic market

- (13) The parties argue that the relevant geographic market for paper-producing machinery is at least EEA-wide, and probably world-wide, in view of world-wide competitive tendering and shipping. The Commission's investigation has confirmed this.
- (14) The parties argue that the relevant geographic market for servicing of paper-producing machinery is worldwide, except for the regular servicing/grinding of calenders, which latter is regional (500-1000 kilometers) due to the need to transport calender rolls to the service-provider's premises. Again, the Commission's investigation has confirmed this.

c) Conclusion on market definition

- (15) For the purpose of the present case, it is not necessary to conclude on the precise scope of the relevant product and geographic markets as, under any alternative market definition, the proposed operation does not give rise to competition concerns.

V. ASSESSMENT

- (16) Both parties are active in paper production machinery. In more detail, a paper production line normally consists of seven main sections (with various intermediate steps and auxiliary equipment and also variations according to customer requirements). These are: (i) stock preparation (where a liquid fibre pulp of the required quality is prepared from various input material); (ii) head box (where the sheet is formed); (iii) wire (where approximately 90% of the water is taken out by a vacuum below the wire on which the sheet is transported); (iv) press (where additional water is pressed out of the sheet and therefore, presses are also called "dewatering" presses; presses can be "conventional" presses or "shoe" presses, depending on the technology used); (v) drying (where the sheet is further dried by heat); (vi) calendering (where the almost dry paper is finished to obtain the desired surface qualities); and (vii) winding (or reeling) (where the paper is wined for transport).
- (17) Within paper production machinery, Küsters is active in only two areas: (i) calenders (on-line and off-line) for tissue, carton board and fine paper production; and (ii) carton board dewatering shoe presses. Unlike Küsters, Andritz supplies entire paper production lines. More in particular it supplies: stock preparation equipment for tissue, carton board and fine paper production; tissue production machines; carton board production machines (which Andritz has started to focus on in 2005); and drying and ventilation equipment for fine paper production.
- (18) The parties' activities overlap horizontally only as far as *calenders* are concerned. Calenders are a kind of roller, required for paper finishing. It constitutes one of the final elements in the paper production line (see above).
- (19) Many respondents to the Commission's questionnaire, both competitors and customers, stated that post-merger Andritz' extended product line (ie including Küster's paper calenders) could be used to improve Andritz' competitive position in

paper-producing machinery markets; thus the merger would be pro-competitive, in view of the existence of strong world players such as Voith and Metso, who already compete with full paper machinery lines, including calenders as components. As far as full lines are concerned, Andritz is only present in the tissue paper machinery sector, where the worldwide market leader, in terms of capacity, is Metso with [25-30] %, followed by Andritz with [10-15]%, and Overmeccanica with [10-15]% (EU shares being [15-20]%, [20-25]%, and [20-25]% respectively).

- (20) Küsters' EEA calender market share is generally in the range 25-35%, depending on the type of calender and the type of paper in production. Andritz supplies calenders only as parts of production lines for tissue paper, and then only occasionally, as tissue paper is not normally 'calendered' as are other types of paper. The other major producers of calenders are the two major overall paper-producing machinery companies Voith and Metso, whose shares of calenders sold (whether individually or as part of full lines), over the last five years, have been broadly comparable to the share of Küsters at the EEA level (around [30-35]% each), and somewhat higher on a worldwide basis (Metso [35-40] %, Voith [25-30] %, Küsters [25-30]%).
- (21) Nearly all of the paper machinery producers have their own in-house calender production facilities with a view to including calenders in their own paper machinery lines. Since Küsters is the only remaining stand-alone specialist producer of calenders, the Commission's investigation has addressed the question of whether post-merger the parties could foreclose sales of calenders (or smaller products such as nip rolls) to Andritz' competitors to an extent that would distort competition in paper-producing machinery markets, or on after-markets, such as calender roll grinding (which are local, see paragraph 14 above). In this context it has been submitted that repercussions of the proposed transaction will initially fall on small competitors in the production of paper-producing machinery who would allegedly face difficulties in matching the combined technical and financial strength of the large players, and who would not have their in-house calender production facility but need to turn to an external supplier.
- (22) However, it is noted that most of Küsters' calenders are supplied directly to paper manufacturers, i.e. to the *end users*, whereas only around [0-10]% (or €...) of Küsters' total paper calender sales (including rolls, spares and services) during the period 2003-2005 is supplied to competing paper machinery manufacturers. Additionally, according to the notifying party, sales to paper machinery producers account for a very small portion, probably less than 1-2%, of total sales of paper calenders and rolls. Furthermore, Küsters' sales to other paper machinery producers have been mainly for calender rolls or smaller calenders, which several other companies offer, notably Voith and Metso, but also PMT, PAMA, Allimand and ABK. These competitors could replace Küsters in case Andritz Küsters would not meet future requests from paper machinery producers. However, AndritzKüsters would expect normally to continue to supply these producers as well. The notifying party has also submitted that the few paper machinery producers which have sourced from Küsters in the past can reasonably be expected to start manufacturing their own calenders and rolls, as barriers to entry in this area are not high. Küsters estimates that these companies could develop their own calenders (or rolls) within 1-2 years. The largest investment required would be for a pilot calender (around €2-3 million). The

lack of entry barriers is supported by a number of recent market entries³. Moreover, the paper machinery producers which Küsters has supplied on occasion in the past are relatively small and only exceptional suppliers of calenders. The main competitors are Voith and Metso for all types of paper calendars. In addition, Allimand, ABK, PMT (in cooperation with Mitsubishi) and PAMA compete for smaller paper calendars. Overmeccanica and Toscotec also offer smaller calendars.

- (23) Against this background, it seems unlikely that post-merger the parties could foreclose *sales of calendars to competitors* to an extent that would distort competition in the paper-producing machinery markets.
- (24) Moreover, as far as *supplies of individual calendars to paper-manufacturing customers* are concerned, two respondents in the Commission's investigation indicated that a possible market distortion could arise if, post-merger, the combined entity would refuse to sell a calendar on a stand-alone basis and insist that it could only be delivered as part of a bigger package (i.e. a bundled offer). However, another respondent to the Commission's questionnaire pointed out that, particularly in view of the existing over-capacity in paper-producing machinery markets, the merged parties would probably continue to supply calendars on an individual basis if so requested and if such sales proved profitable 'per se'. More generally, the vast majority of third parties (competitors and customers) did not consider that the operation would have significant adverse effects on competition. Again, since the primary overall paper-machinery manufacturing market is competitive, and since Andritz is still a relatively modest player (e.g. with [10-15]% of paper tissue machinery worldwide, against Metso's [25-30] %, see above), it is unlikely that it would be in Andritz' interest to refuse to supply, or charge excessive prices for individual calendars on aftermarkets for rebuilds or upgrades; this could be detrimental to Andritz' position on the primary market, since paper manufacturers are sophisticated and experienced purchasers.
- (25) As far as *servicing of paper producing machinery* is concerned, including paper roll grinding services, there is no overlap between the parties' activities. In fact, the market investigation has not indicated that the proposed operation would have any particular impact on aftermarkets for the servicing of paper-producing machinery
- (26) In view of the above, the transaction does not raise competition concerns within the EEA.

³ E.g. PMT (in cooperation with Mitsubishi) who supplied its first paper calendar in 2005, Allimand, which on occasion sourced from Küsters in the past, obtained its first customer order for a board calendar in 2006 (in France), ABK made its first paper calendar sale in 2004, and two additional ones in 2005 (these were for fine paper production). PAMA has made its first calendar sale in 2004 (in Germany).

VI. CONCLUSION

- (27) 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 139/2004.

For the Commission
(Signed)
Neelie KROES
Member of the Commission