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Case No IV/M.1161 - ALCOA / ALUMAX

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REGULATION (EEC) No 4064/89
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 28/05/1998

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 28.05.1998

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

Subject: Case No IV/M.1161 - ALCOA/ALUMAX
Notification of 22.04.1998 pursuant to Article 4 of Council Regulation N° 4064/89

1. On 22 April 1998 the US company Aluminium Company of America ("Alcoa") notified the Commission of its intention to acquire the stock Alumax Inc. ("Alumax"), by way of purchase and conversion of shares.

2. After examination of the notification the Commission has concluded that the notified operation falls within the scope of application of Council Regulation N/ 4064/89 and does not raise serious doubts as to its compatibility with the common market or with the functioning of the EEA Agreement.

I. THE PARTIES

3. Alcoa is a vertically integrated aluminium company with world-wide activities including bauxite mining, alumina refining, smelting alumina into primary aluminium, fabricating flat rolled aluminium and extruded aluminium. In addition, Alcoa is active in the collection and recycling of used aluminium beverage cans. Alcoa is the world leader on the aluminium market.

4. Alumax Inc., also a US-based company, has activities which include smelting alumina into primary aluminium, fabricating flat rolled aluminium and extruded aluminium. It currently uses alumina purchased from Alcoa, and it also produces primary aluminium and fabricates a broad range of products which are sold into a wide variety of applications. Alumax has activities in many parts of the world, including North America, Mexico, and Australia, as well as more limited activities in China, the European Union and Poland.

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II. THE OPERATION

5. The transaction, involving acquisition of sole control by Alcoa of Alumax's assets, is a concentration within the meaning of article 3(1)(b) of the Merger Regulation.

III. CONCENTRATION

6. Through this acquisition, Alcoa is further consolidating its presence in the EEA market in the field of aluminium production by means of acquisition rather than through organic growth. Over the last two years, Alcoa has made two key acquisitions of aluminium companies in Europe, namely in 1996, it acquired Alumix (case N° IV/M.675), and last year it completed the purchase of Inespal in Spain (case N° IV/M.1003). Both of these companies were state owned and were manufacturing primary aluminium, flat rolled products and extruded aluminium products. Inespal was also a producer of alumina. Alcoa has also extended its reach in EFTA and Central European markets where it has formed various sales and production links to its other primary aluminium, extruded products, and flat rolled products companies.

IV. COMMUNITY DIMENSION

7. The combined aggregate world-wide turnover of the undertakings concerned in 1997 exceeded 5.000 million ECU. The aggregate Community wide turnover of Alcoa and of Alumax's merged assets, based upon 1997 figures clearly exceeded 250 million ECU. They do not achieve more than two-thirds of their turnover in one and the same Member State. The operation has therefore a Community dimension.

V. THE RELEVANT MARKETS

A. Relevant Product Markets

8. Alumax is basically a U.S company whilst Alcoa is a global company that has historically a presence in Europe. The companies are present in the markets for primary aluminium, flat rolled aluminium, extruded aluminium. Aluminium is used in a wide range of applications in sectors including transportation, building and construction, containers and packaging, and the electrical industry.

9. Primary aluminium is produced by refining bauxite to alumina and then converting alumina to aluminium metal. Primary aluminium is then processed into flat rolled products and/or extruded products.

Alumina

10. Alumina is produced by refining bauxite. Alumax is not active in the refining of alumina. Therefore, alumina is not an affected market for the purpose of the assessment of this concentration.

Primary aluminium

11. Primary aluminium is produced by smelting alumina. The smelting process converts alumina into its two constituent elements, aluminium and oxygen. The separation of aluminium from oxygen is accomplished by high-temperature electrolysis. Aluminium can be shipped in its molten form in insulated ladles directly to a user's plant, or it can be cast into ingots (rectangular), rolling slab (rectangular), or billets (cylinder) of varying sizes and shapes, either in pure form or alloyed with other metals (e.g. manganese, magnesium, copper, zinc or iron). Primary aluminium is regarded by customers as a distinct product market by reason of its characteristics, price and end use. Accordingly, and in line with previous decisions in this area[1], primary aluminium is a relevant product market for the purposes of the assessment of the concentration

Secondary aluminium

12. Secondary aluminium is produced by remelting any scrap-based aluminium product, for example beverage cans or waste from extrusions that is then converted to aluminium metal. Secondary aluminium can be processed in an entirely similar way to primary aluminium and transformed into flat rolled products and/or extruded products.

Flat rolled products (FRP)

13. FRP include a variety of flat aluminium products ranging from foil stock to industrial aluminium plate, and account for 62% of the demand for primary aluminium. FRP are produced in a number of steps in hot and cold rolling mills, which can begin with aluminium ingot, scrap or molten aluminium, which may be mixed with alloying materials to achieve particular characteristics e.g. strength, formability, machinability, weight, corrosion resistance, hardness. The finishing process used will depend on the customer's criteria for appearance and performance. The amount of waste generated in the manufacturing process can account for 25-40% of primary aluminium used. This waste is normally remelted in a cast house and run through the rolling process again.

14. FRPs are produced in an extremely wide variety of shapes, sizes and compositions depending on the customer’s specifications. Examples include plate, sheet, strip, foil, circles, rigid container stock (such as can stock) blanks and slugs.

15. The parties submitted that most major aluminium producers can produce a full range of FRPs and that FRP producers can switch production among many types of FRPs easily and with very little cost by adjusting the width of the mill and the space between rollers. The minimum order size for FRPs is equivalent to only one slab of primary aluminium, which illustrates the easiness of switching production. Moreover, the European Aluminium Association publishes estimates of market size only for the total FRP market.

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[1] Case N° IV/M.723 Norsk Alcoa / Elkem; case N° IV/M. 470 Gencor /Shell

16. As a result of this extensive supply-side substitutability, for the purposes of the assessment of the concentration, the relevant product market is the FRP market as a whole.

Extruded aluminium products

17. An extrusion is a product formed by pushing material through a die. About 25 % of primary aluminium production is typically used to manufacture extruded products. Extruded products are used in a wide range of applications, including aerospace, building and construction, and industrial uses. The products also come in a variety of shapes, including rods, bars, profiles and forging stock.

18. In particular, extruded products can be divided into soft alloy extrusions and hard alloy extrusions. As previously stated in case IV/M.675 - Alcoa/Alumix, soft alloy extrusions and hard alloy extrusions constitute separate product markets for the following reasons.

19. Soft alloy extrusions require a relatively small capital investment and are generally simple to manufacture. They are produced by extruding aluminium relatively quickly and require an extrusion press capable of exerting pressure of 60 Kilograms per square millimetre.

20. By contrast, hard alloy extrusions are manufactured in a more capital and labour intensive process involving heat treatment and continuous metallurgic tests. They are extruded slowly and require an extrusion press capable of exerting pressure of 90 kilograms per square millimetre.

21. In addition, soft alloy products are generally used in less demanding applications than hard alloy products. For example, soft alloy products are used in windows and doors and in consumer products, while hard alloy products are used in bridges and for military, aerospace and other applications demanding high strength and durability. It has to be noted, however, that Alcoa is mainly manufacturing hard alloy extrusions whilst Alumax is only producing soft alloy extrusions.

B. Relevant Geographic Market

Primary aluminium

22. Aluminium ingot is traded and transported throughout the world. The EEA is a net importer of primary aluminium. Following the dissolution of the Soviet Union, the CIS has become a major exporter of primary aluminium. Besides, the pricing of aluminium ingot is substantially uniform because of the link to the LME. In view of all these characteristics and in line with the Commission's previous cases in this area[2], the geographical market for primary aluminium is world-wide.

Secondary aluminium

23. Secondary aluminium is also traded and transported throughout the world. Its pricing is often linked to prices of Aluminium traded and published by the London

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[2] Case N° IV/M.723 - Norsk Alcoa / Elkem

Metal Exchange (LME). Secondary aluminium possesses all the features of a world market, both from a supply and a demand perspective.

Flat rolled products (FRP)

24. There are no barriers to trade between Member States for FRP, and there are significant trade flows between Member States. Imports from EFTA countries are exempted of import duties. The conventional rate of duty in 1997 is 8,5 % and will be reduced to 8.0 % in 1998 and 7.5 % in 1999. In view of these trade flows and the absence of barriers to entry, and in line with the conclusions drawn from previous cases[3], the relevant geographic market for all FRP (sheets and strips/standard plates, circles and blanks) is at least the EEA

Extruded products (hard alloy extrusions and soft alloy extrusions)

25. There are no barriers to trade between Member States for extruded products. Trade flows between Member States, although less extensive when compared to FRP, have significantly increased over the last years. The relevant geographic market for all extruded products (soft and hard alloys) is the EEA.

V. **ASSESSMENT**

Primary aluminium

26. Alcoa is the world's largest primary aluminium producer. Its consolidated production capacity is of approximately [...][4] million metric tons in eighteen plants located throughout the world. Alcoa accounts for approximately […][5] of world capacity.

27. Alcoa's production of primary aluminium in the EEA amounts to approximately [...][6] metric tons in 1997, which represents around [...][7] of EEA-wide production, although it should be noted that 1998 will be the first year when Spanish operations will be under Alcoa's direct and full ownership. Alcoa's production facilities are located in Norway, where it has a 50% interest in Elkem Aluminium ANS' (case IV/M.723 - Alcoa/Elkem) capacity is [...][8] metric tons per year and in Italy, where it acquired Alumix's smelting with capacity of [...][9] metric tons per year (case IV.M.675 - Alcoa/Alumix). Alcoa's acquisition of Inespal's smelting operations gives production capacity of [...][10] metric tons per year.

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3 Such as case N° IV.M.675 - Alcoa/Alumix
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28. Alumax does not have production facilities for primary aluminium anywhere in the EEA. Alumax operates five smelters in the USA and Canada with a combined nameplate capacity of [...][11] tpy. Alumax has been upgrading facilities at various US aluminium smelters.

29. Alumax operates primary aluminium smelters in Canada, it holds a 25% interest in the Bécancour smelter in Quebec and a 100% interest in Aluminerie Lauralco Inc. at Deschambault, also in Quebec. The combined capacity amounts to [...][12] metric tons per year, with market share of the parties at world-wide level of [%][13] ([%][14] from Alcoa and [%][15] from Alumax). The competitors on this market include the integrated aluminium producers Alcan ([%][16] of world capacity), Reynolds ([%][17]), Gencor/Billiton ([%][18]), Pechiney ([%][19]), Hydro Aluminium ([%][20]), Kaiser ([%][21]), Comalco ([%][22]) and VAW ([%][23]). There are also a large number of smaller competitors, for a total of approximately 75 primary aluminium manufacturers world-wide.

30. Alcoa does not have any secondary aluminium capacity in the EEA. However, Alumax operates a single secondary plant in the EEA. In 1997 Alumax had total production of approximately [...][24] metric tons, and sales in the EU were [...][25] metric tons. The total production of the secondary sector in 1997, according to the European Aluminium Association was 1,744,000 metric tons. Alumax's production accounted for [%][26] of the total secondary production in the EEA.

31. Given the low combined market share and the existence of strong competitors as described above, the operation will not create or strengthen a dominant position in the primary or secondary aluminium market.

FRP

32. The FRP segment in the EEA is composed of 43 rolling mills, with a capacity of about 3.83 million metric tons per year. The sector is characterised by over-capacity. In effect, in 1996, EEA-wide production was approximately 3.05 million tons, while consumption was estimated to be approximately 2.66 million metric

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tons. Provisional figures released in 1997, indicate an improvement in capacity utilisation rates as demand in the FRP segment has expanded strongly over the full year.

33. Alcoa has a total of six rolling mills with operations located in the Netherlands, Italy, UK and Spain. Their total combined production capacity is [...][27] metric tons per year, representing approximately [%][28] of the EEA market. Alcoa's rolling operations are located at Dunen in the Netherlands, Wanarlywdd in the United Kingdom and one rolling mill at Fusina in Italy. Their production capacity is [...][29] metric tons per year, and the acquisition of three Spanish rolling mills accounts for an additional [...][30] metric tons per year.

34. In the FRP market, the EEA-wide combined market share of the parties will be [%][31]. Competitors in this market are Alcan ([%][32] of EEA-wide capacity), Pechiney ([%][33]), VAW ([%][34]), Alusuisse ([%][35]) and Hoogovens ([%][36]).

35. The operation will not create or strengthen a dominant position in the area of flat rolled aluminium products, particularly in view of the strong competitors present in this sector and in view of the low market shares of the parties.

Extruded products

Hard Alloys

36. Alcoa has ten extrusion mills in the EEA. They are located in the Netherlands, Spain, the UK, Italy and Germany. Six of these plants produce soft alloys, another two produce hard alloys and the other two produce both soft and hard alloys. Alcoa's hard alloy extrusion production amounted to approximately [...][37] metric tons in 1997, representing a market share of [%][38]. However, Alumax's extrusion operations do not produce hard alloys, therefore the concentration will not lead to a horizontal overlap in this market.

Soft Alloys

37. Alcoa's extrusion operations produce soft alloy and their production volume in 1997 was [...][39] metric tons, which represented [%][40] of the soft alloy market in

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the EEA. Alcoa's soft alloy extrusion sales by volume in 1997 was [...][41] metric tons, which represented [%][42] of the soft alloy market in the EEA and a further [...][43] metric tonnes was sold by the Inespal operation in Spain (representing [%][44] of the soft alloy market in the EEA.) Alumax has four extrusion mills in the EEA and these are located in the Netherlands, UK (two), and Germany. Two of these plants are part of the Kawneer organisation and produce soft alloys, for internal consumption only. Alumax's soft alloy extrusion capacity amounted to approximately [...][45] metric tons in 1997, representing a market share of less than 2% (namely [%][46]).

38. The parties' combined market shares were approximately [%][47] in 1997. Competitors in this market include Hydro Aluminium ([%][48]), Sapa ([%][49]), Reynolds ([%][50]), Alcan ([%][51]), Alusuisse ([%][52]), and Pechiney ([%][53]).

39. Accordingly, the operation will not create or strengthen a dominant position on the market for soft alloy aluminium extruded products.

VII. CONCLUSION

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

For the Commission,

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