

***Case No IV/M.1379 -
VALMET / RAUMA***

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

Article 6(1)(b) NON-OPPOSITION
Date: 08/02/1999

*Also available in the CELEX database
Document No 399M1379*



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 08-02-1999

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

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 Where possible the information omitted has been replaced by ranges of figures or a general description.

To the notifying parties

Dear Sirs,

Subject: Case No IV/M.1379 – VALMET / RAUMA

Notification of 6.1.1999 pursuant to Article 4 of Council Regulation No 4064/89

1. On 6.1.1999, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 as amended (“the ECMR”) by which Rauma Corporation (Rauma) and Valmet Corporation (Valmet) enter into a full legal merger. The principal economic sectors involved in the concentration are forest machines, rock crushing equipment, paper and board machines and control systems.

I. THE PARTIES

2. Valmet is engaged primarily in the design, manufacture and servicing of pulp, paper board and tissue production processes and machinery, and in process automation used in the pulp and paper industries as well as in mechanical power transmission equipment. The group operations also include the assembly of automobiles.
3. Rauma is active in the design, assembly and sale of logging machinery, the supply of fibre-processing technologies and systems, the design and manufacture of rock crushing equipment and the manufacture of industrial valves.

II. THE OPERATION

4. The operation is a full legal merger, which will be achieved by combining Rauma and Valmet into a new company, called Valmet-Rauma Corporation (Valmet-Rauma). The proposed share of Rauma shareholders in the newly created company will be 42.5% and the share of Valmet shareholders 57.5%. The largest shareholders of the new company will be UPM-Kymmene (14.7% of the shares) and the Finnish State (11.6%).

III. COMMUNITY DIMENSION

5. The parties do not meet the thresholds set out in Article 1.2. of the ECMR. However, the thresholds set out in Article 1.3. are met. Valmet and Rauma have a combined aggregate world-wide turnover in excess of EUR 2,500 million¹ (Valmet: EUR 2,094 million, Rauma: EUR 1,848 million). Valmet's Community-wide turnover is EUR 881 million and that of Rauma EUR 628 million. The turnovers of both Valmet and Rauma exceed EUR 25 million in Finland, Germany and Sweden. In these three member states the parties' combined turnover also exceeds EUR 100 million. Valmet and Rauma do not each achieve more than two-thirds of their Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension.

IV. COMPATIBILITY WITH THE COMMON MARKET

(1) Introduction

6. The notifying parties provided information on the following markets: pulp drying machines for chemical pulp drying ('pulp dryers'); stock preparation equipment; mechanical pulping machines (divided into 'grinders' and 'refiners'); and process automation and valves.
7. The parties argue that the market definitions for the different types of machines produced by the parties (pulp dryers, mechanical pulping machines (that is, 'grinders' or 'refiners') and stock preparation equipment) cover both the supply of new machines and the refurbishment of old ones. The parties drew the Commission's attention to a report from an independent consultant pointing out that, while the costs of rebuilding a machine were in general lower than replacement with new machinery, the operating costs of a new machine were generally lower over time. Therefore anyone contemplating the replacement/refurbishment option would have to weigh up, on a case by case basis, the relative capital and operating costs of each option. In their replies to the Commission's enquiries, a number of third parties indicated that they also regarded the refurbishment of these types of machines as an economically substitutable alternative to their renewal. However, if a machine were not already *in situ*, for example where an operator seeking to equip a new plant, he might not see second hand equipment as a sensible economic choice, and therefore he might well see his options in terms of suppliers as limited to suppliers of new machinery. Thus separate markets might exist for new and rebuilt machinery. But, as the assessment of the case would not have been

¹ Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Notice on the calculation of turnover (OJ C66, 2.3.1998, p25). To the extent that figures include turnover for the period before 1.1.1999, they are calculated on the basis of average ECU exchange rates and translated into EUR on a one-for-one basis

materially affected whether the analysis was done on the narrower or the wider definition, the question was left open.

8. Another preliminary issue for consideration was whether the two different types of mechanical pulping machines, refiners and grinders, were in the same or separate product markets. Mechanical pulping machines are installed in pulp mills and convert wood into fibres for paper manufacturing by mechanical means. Mechanical pulping can be carried out in two different ways: by the so-called 'groundwood' method which uses a 'grinder'; or by the thermo-mechanical method, using a 'refiner'. The parties argue that grinders and refiners are not economically substitutable and constitute two different product markets. This proposition needs to be examined both in relation to the equipping of an entirely new mill, and to the refurbishment or replacement of machinery installed in an existing mill.
9. According to the parties there are several factors determining which type of pulping technology is to be used, and hence whether the customer will want a grinder or refiner. Relevant factors include the availability of raw materials, the end product to be produced, the existing process at the mill, and the price of electricity. More specifically, the parties argue that certain wood species such as pine, wood chips or saw mill waste cannot be used in grinders. Grinders require straight logs, whereas refiners use wood chips rather than logs. The parties further argue that groundwood pulp is a competitive alternative to produce value added paper, but refined pulp is needed to produce newsprint.
10. The Commission's investigation largely confirms the parties' proposition of two separate product markets. According to its findings, the choice as between grinders or refiners for a customer seeking to equip a new plant depends on which of the two alternative technologies, groundwood or thermo-mechanical, is to be used. The factors which influence this decision go beyond a mere comparison of the prices of grinders and refiners, and include, for example, the availability of relevant wood feedstock, and the extent of relevant customer demand for the output, as groundwood pulp tends to be used for different applications than thermo-mechanical pulp. The parties estimated that, on the assumption that the costs of both technologies were at present broadly similar, then even if the price of one were to double relative to the other, the impact on the price of the relevant downstream product would be an increase of no more than about 1%. An increase of this size would be extremely unlikely to persuade the downstream customer concerned to switch from using, say groundwood-based feedstock, to thermo-mechanical based feedstock, or vice versa.
11. As to existing plant, once it has been decided how the factory is to be equipped, then the choice of grinder versus refiner has effectively been made. A plant owner contemplating a refurbishment/replacement decision at an existing plant would have no practical possibility of replacing a grinder with a refiner, or vice versa, without making substantial alterations to the rest of the plant, which might include the need to reconfigure perhaps some 50% of the plant. Therefore no practical possibilities exist for economic substitution between the two.
12. Inquiries were also made to determine whether any advantage might accrue to suppliers who were able to provide customers with either type of machine, as against suppliers who were able only to supply one or other type but not both. Arguably the supplier who can provide either type has the flexibility to offer a potential client a product no matter which type of machine he needs to buy. But once the customer has opted for

one or the other type of technology, a supplier of both types has no particular advantage in price negotiation over a supplier who supplies only the one type. This also confirms that the division of grinders and refiners in two separate product markets is meaningful.

13. In view of the above the Commission considers grinders and refiners to constitute two separate product markets. On that basis no overlaps arise, as Rauma produces only refiners and Valmet only grinders. Accordingly, this issue was not pursued further.

(2) Relevant product markets

a) Pulp dryers

14. Pulp dryers are the machines used in the last stage of the process in chemical pulp mills, to dry out the product so that it can be formed into sheets, cut, baled and transported for use in paper mills in remote locations. The parties provided market share data for pulp drying machines as a single product market in their own right. As no evidence was received to suggest that any narrower product markets might exist, the assessment was carried out at this level.

b) Stock preparation equipment

15. 'Stock preparation' refers to the first process stage at a paper or board mill, where the impurities of pulp solutions are removed and fibres treated for a particular paper quality. The Commission considered stock preparation machines in an earlier decision (*IV/M.478 - Voith/Sulzer (II)*), where stock preparation machines were distinguished from the paper machines and pulping machines.
16. The parties further argue that all stock preparation equipment constitutes one relevant product market, irrespective of whether it is for the preparation of mechanical pulp, chemical pulp or recycled paper, because the construction and functions of the machines are essentially the same, and the same machine can be used for stock preparation of different types of pulp. No evidence was received from third parties to suggest otherwise and, consequently, the relevant product market for the purposes of assessing the present case was taken to be all stock preparation equipment.

c) Process automation and valves

17. Valmet is active in the supply of process automation systems as a whole but not in the supply of individual instruments. Rauma is active in the supply of valves, including control valves which form a component of process automation systems. Valmet is not active in the supply of valves, whether control valves or other types. The parties argue that valves, including control valves, and process automation systems form separate product markets, and hence that there is no overlap.
18. An overlap would only arise if Rauma's control valve output were considered as forming part of an overall market for all process control systems and components, including instruments and by implication control valves. If the process control sector were split into narrower markets, for example into separate markets the supply of components of a system, consisting for example of separate segments for analysers and instruments, then no overlap would arise, because even if control valves were treated as a type of instrument, Valmet does not supply instruments separately.

19. In view of the above, and as no competition concerns would arise even on the narrowest relevant product market which might be defined, it is unnecessary to pursue the question of relevant market definition.

3. Relevant geographic markets

a) Pulp dryers

20. The parties claim there is a world-wide market for pulp dryers. The findings of the Commission investigation support this view. Pulp making technology is in principle the same everywhere in the world. The geographic location of manufacturers and of customers does not seem to be a constraint on responding to invitations to tender. In recent years the parties and other suppliers located in various parts of the world have responded to tenders from customers in widely diverse locations such as USA, Brazil, Chile, India, Indonesia, Thailand, New Zealand, and Japan. For the purposes of this assessment therefore, the relevant markets were taken to be world-wide.

b) Stock preparation equipment

21. Similar arguments were advanced by the parties in relation to the geographic definition of the market. While there seems little doubt that the market is at least the EEA, the arguments for a world-wide definition are less compelling, as the machines are smaller and customers and suppliers in Europe do not appear to look as widely as they might for pulp dryers. Therefore, given there is a degree of uncertainty on this point, it was considered prudent to perform the assessment on the basis of the narrowest geographic market.

c) Process automation and valves

22. With regard to process automation and valves, the parties argue that the relevant geographic market is at least EEA wide. The Commission's investigation did not uncover any evidence to suggest the markets were narrower, although they might well be wider. Given that no competition concerns arise on the narrowest practical level on which the market might be defined, the question of whether it was any wider than EEA can be left open.

V. ASSESSMENT

1. Pulp dryers

(a) New and rebuild

23. Contracts for new or refurbished pulp dryers are let only rarely, so market shares tend to vary substantially from year to year. In their initial submissions, the parties provided figures based on a market covering both new and rebuilt machinery. On this basis, the parties' combined market share in 1997 on a world-wide market was [10-20%], but in the previous year was [30-40%] world-wide. The parties argue that, because orders for new machines are rare and irregular, year-by-year market share data are misleading if viewed in isolation. The parties have therefore produced averaged figures for 1990-97, which give the parties a long term average world-wide market share of [20-30%] with an increment of [10-20]%. ABB Fläkt was the number one producer of pulp dryers with [30-40%] share of the market, Lamb had [10-20%] and Andritz [10-20%] of the market.

(b) *New only*

24. For the reasons mentioned above, market shares for individual years tend to give a misleading picture. Therefore the parties have produced averaged figures for 1990-97, which give the parties a world-wide market share of [10-20%] with an increment of [< 10%]. ABB Fläkt was number one producer of pulp dryers with [30-40%] share of the market, Lamb had [10-20%] and Andritz [10-20%].

(c) *Rebuild only*

25. For the period 1990-97, the combined market share of the parties was [20-30%] with an increment of [< 10%]. ABB Fläkt was the second strongest competition with a [20-30%] share, Andritz had [10-20%] of the market, and the US-based firm Lamb had [< 10%]. The parties also pointed to the existence of a number of smaller locally-based engineering companies or workshops who can provide rebuild services and who are often invited to tender. As such they provide an additional competitive constraint.

Table 1: Pulp dryers: comparison of world-wide market shares for new and rebuild markets separately and together (market leader in bold)

	% share parties	% share ABB Fläkt	% share Lamb	% share Andritz
Rebuild & new	[20-30%] ([10-20%] + [< 10%])	[30-40%]	[10-20%]	[10-20%]
New	[10-20%] ([10-20%] + [< 10%])	[30-40%]	[10-20%]	[10-20%]
Rebuild	[20-30%] ([10-20%]+[< 10%])	[20-30%]	[< 10%]	[10-20%]

26. It will be seen from the table above that, while relative positions vary slightly, the basic structure of the market is not substantially affected by whether the definition is taken at overall level or in terms of separate markets for new and rebuilt machinery.
27. The operation would result in a certain degree of concentration in this market. But there remain competitors with large market shares, notably ABB Fläkt, Lamb and Andritz. In terms of the ability of the competitors to respond, it should be noted that the industry is characterised by sub-contracting for subsystems of the finished machine. Therefore, a supplier who wins extra orders would not necessarily be constrained in responding to them by limitations on his own in-house production capacity.
28. In view of the above, the Commission concludes that the operation would not give rise to competition concerns on the relevant market(s) for pulp dryers.

2. Stock preparation equipment

29. The figures initially provided by the parties related to a combined market for new and rebuilt machinery. The parties later provided figures separated out into new and rebuilt showing the position on each of the possible definitions for them and their two closest competitors.

Table 2: Stock preparation equipment: comparison of EEA-wide market shares of leading players for new and rebuild markets separately and together (market leader in bold)

	% share parties	% share Voith-Sulzer	% share Beloit	Others
Rebuild & new	[10-20%] ([< 10%] + [< 10%])	[30-40%]	[10-20%]	[40-50%]
New	[10-20%] ([< 10%] + [< 10%])	[30-40%]	[10-20%]	[40-50%]
Rebuild	[10-20%] ([< 10%] + [< 10%])	[30-40%]	[< 10%]	[40-50%]

30. It will be seen that the different definitions would make little substantial change. On none of the possible market definitions will the parties have a strong position and in no case will they be market leader. Therefore, no competition concerns would arise, however the markets were defined.

3. Process automation and valves

31. As has been described above, overlaps would only arise if Rauma's control valve output were considered as forming part of an overall market for all process control systems and components, including instruments and by implication control valves. However since on any such market, however defined, the parties' combined market share would have been well under 5% whether at EEA-wide level or globally, no competition concerns would arise and, accordingly, the issue has not been pursued further.

VI. CONCLUSION

32. 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,

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