

***Case No COMP/M.1974 -
COMPAGNIE DE
SAINT-GOBAIN / RAAB
KARCHER***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 22/06/2000

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 22.06.2000
SG(2000)D/104393

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Dear Sirs,

Subject: Case No COMP/M. 1974-Saint-Gobain/Raab Karcher

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

1. On 16 May 2000 the Commission received a notification of a proposed concentration by which the undertaking Saint-Gobain acquires sole control over the German Raab Karcher Group, belonging to the Stinnes AG, which is in turn controlled by Veba AG.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation No 4064/89 and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

I. THE PARTIES

3. The French-based Saint-Gobain Group is an international group with a primary listing on the Paris stock exchange, involved in a number of manufacturing and distribution activities in three core areas: a) flat glass, insulation, containers; b) high performance materials, in particular industrial ceramics and abrasives; c) specialised distribution of building materials and pipes¹. Saint-Gobain has recently acquired Meyer, the largest British builders' merchant (see Commission's decision from 23rd March this year; case No M.1873). In 1996, Saint-Gobain acquired the French building distributor Poliet, operating a general builders' merchant chain in France (see case Saint-Gobain/Poliet; Case IV/M.764).

¹ At present, the building materials' section represents 33% in the groups' total turnover.

4. The Raab Karcher Group consists of several companies comprising the building materials distribution business of Stinnes AG, which is a 65.5% subsidiary of the German Veba-group.

II. THE OPERATION

5. Saint-Gobain according to a Share Sales and Purchase Agreement signed on 6th April 2000 will acquire all the shares in the companies “Raab Karcher Baustoffe Holding GmbH”, Frankfurt, “Raab Karcher Baustoffe GmbH”, Mülheim and “Raab Karcher Baustoffe Immobilien KG”, Essen and will also acquire from the Stinnes AG all the shares of two regional building materials merchants in France, i.e. the companies Matter S.A. (“Matter”) and Maechler Frères S. A. (“Maechler”). As a result of the transaction, Saint-Gobain will own 100% of these companies. The proposed operation constitutes a concentration according to Article 3 (1) (b) of the Merger Regulation.

III. COMMUNITY DIMENSION

6. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion². (Saint-Gobain: 25, 605 MEUR; Raab Karcher: 2, 137 MEUR). Each of the undertakings concerned have a Community-wide turnover in excess of EUR 250 million (Saint-Gobain: [...] MEUR; Raab Karcher: [...] MEUR), but they do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension. It does not constitute a co-operation case under the EEA Agreement pursuant to Protocol 24 of that Agreement.

IV. COMPETITIVE ASSESSMENT

Relevant product markets

Distribution of building products

7. The various building materials are not substitutable by the customer as regards their purpose and intended use. The parties nevertheless maintain that the relevant product market is the distribution of an assortment of various building materials because merchants and independent distributors, who account for the major part (65%) of total sales in building materials, usually offer the complete product range to their clients.³
8. Building materials are distributed through generalist and specialist builders’ merchants. The service offered by the generalist distributors to their clients consists in providing a one-stop shopping facility for the entire range of different products required, providing also advice on different products. Nevertheless, there are also specialist distributors, who concentrate on one product segment only, like for example Saint-Gobain subsidiary “SGR” (Saint-Gobain Rohrsysteme). The service

² 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.

³ Some materials, such as concrete and sands, are also sold directly from manufacturer to the end-customer.

rendered by these distributors does not consist in offering a product range but in offering clients special expertise in one special segment. However, for the purposes of the present case the question whether the market comprises the distribution of a whole set of building materials or whether a distinction should be made between the different product groups can be left open since with any alternative market definition the concentration will not lead to the creation of a dominant position.

Manufacture and sale of building products

9. The parties have vertical overlaps in a number of building products, which are manufactured by Saint-Gobain and distributed by Raab Karcher, such as for example abrasives, insulation materials, mortars, roof tiles, etc. These products, which are partially produced by the same suppliers, from a demand-side perspective are not substitutable by one another to form wider markets. However, for the purposes of the present case the question whether the market can be further subdivided can be left open since with any alternative market definition the concentration will not lead to the creation of a dominant position.

Relevant geographic markets

Distribution of building products

10. The operation produces overlaps in the distribution of building products in Germany, the Netherlands and in France. The parties have indicated that the market for distribution of building products in these Member States would be national because all the main players would compete nationally in terms of product range and services offered. Several factors support this view: Firstly, the new entity including its main competitors are present on a national level. Secondly, although customers shop locally most competitors decide on a national basis on product range, product price, marketing strategies and general policy. Most competitors have national price-lists and product catalogues.
11. Some third parties, however, have mentioned that in the case of Germany markets for the distribution of building materials should be regarded as regional or local given that transportation costs for most of the products are important. Suppliers would therefore have to deliver their products within a radius between 40 to maximal 100 km from the point of sale in order to be able to offer competitive prices. Furthermore, it was suggested that most competitors, even if present on a national scale, would tend to focus on certain regions.
12. However, for the Member States involved in the present transaction, the question, whether the relevant geographic market for the distribution of building products is national or local/regional can be left open since the present concentration with any possible market definition does not raise competitive concerns.

Manufacture and sale of building products

13. Saint-Gobain is manufacturing a number of building products, which are or could at least be distributed by Raab Karcher, such as abrasives, insulation materials or mortars. The production of these materials due to increasing product standard harmonisation and increasing import levels tend to be European or even international in scope (see also case No. M. 1873-Saint-Gobain/Meyer). However, the questions

whether the relevant product markets are still national or European/international does not need to be examined further because the present concentration with any possible market definition does not raise serious competitive concerns.

Competitive Assessment

Horizontal overlaps

14. In the absence of official statistics the value of the German building materials distribution market is calculated on the basis of the figures provided for the total German construction sector. The IFO-Institute estimates the value of the German construction sector to be 524.1 billion DM, which is approximately 268 billion Euro. The parties estimate that the supply of building products represents approximately 20% of the “below-the-ground” construction segment (“Tiefbau”) and 50% of the construction market, the so-called “Hochbau”-segment. The total value of the distribution market in 1999 is therefore estimated at 144 billion DM (around 73 billion Euro). The parties maintain that building materials account for a higher proportion in the “Hochbau”-segment than in “below-the-ground” construction: In the “Hochbau”-segment building materials would be of higher value than working hours. In the “Tiefbau”-segment, on the contrary, the value of works (such as excavation, laying of pipes, closing the ditch, etc.) is usually higher than the value of the building products as such.⁴
15. In Germany, Saint-Gobain is active as a specialist distributor of building materials through its subsidiary Saint-Gobain Rohrsysteme (“SGR”). SGR is a specialist distributor offering exclusively products needed for “below-the-ground” construction (“Tiefbau”). Raab Karcher, on the contrary, is a general builders’ merchant selling a wide range of products. Assuming that specialist and generalist distributors compete in the same market, the operation produces combined market shares of [below 5%.] % in the overall market for building materials and of [5-10] % in the “Tiefbau”-segment. Saint-Gobain/Raab Karcher after the transaction will continue to face competition from other large building merchants active throughout Germany, such as Interbaustoff, Interpares Mobau, Hagebau (each approximately [below 5%]) and Baywa [below 5%].
16. At a regional/local level, the parties have overlaps in 18 areas but only in two of them do their combined market shares reach or exceed 15%: In Kaiserslautern the parties after the operation will have [15-20] %, in Potsdam they will have [10-15] %⁵. There are, however, in addition to the above-mentioned national players, a large number of regional competitors active in these areas, which will continue to control the parties’ competitive behaviour after the transaction.

⁴ However, even if the share of building products were assumed to be identical for both segments, market shares of the parties would not dramatically differ in size.

⁵ Market shares as presented by the parties are calculated on the basis of the overall distribution market as indicated in para. 14 broken down into the purchases realised by the inhabitants of each individual “Landkreis”, corresponding to the area within a circle of 50 km around the sales points of Saint-Gobain and Raab Karcher. The purchasing power of each Landkreis is based on the annual purchases of consumer goods per person multiplied by a factor indicating the purchasing power of the individual region. Market shares are based on the overall market-approach including all building materials, but there is no indication that the parties’ market positions would differ significantly in the “Tiefbau”-segment.

17. According to the Dutch Centre Office of Statistics the total market value of the Dutch buildings distribution market was 9.6 billion HfI in 1997, which is approximately 4,3 billion Euro. The parties estimate the total market value for 1999 to be approximately 4.7 billion Euro. The parties' combined market shares after the transaction will not exceed 15 % in any particular region or at a national level. The parties mention that they plan to acquire another Dutch building materials distribution company, de Waardt.⁶ However, even if the market share of de Waardt were to be taken into account, the combined market share of the parties would not exceed [5-10]% in the overall market and [5-10]% in any particular segment in any particular region or at a national level. There are other large builders' merchants, who are competing with Saint-Gobain/Raab Karcher on the Dutch market, such as Bouwcenter ([10-15]% market share), NBM Amstelland ([5-10]% market share), Imabo ([5-10]%) or van Neerbos ([below 5%]).
18. The French market for distribution of building materials is estimated by the parties at approximately 188 billion FF (which is around 28.7 billion Euro). Saint-Gobain is active on the French market through various generalist and specialist merchants, the most important ones being Point P and Lapeyre. Saint-Gobain has an estimated market share of around [10-15]%. The two Alsatian companies to be acquired by Saint-Gobain, Maechler and Matter, would have a national market share significantly below 1%. The overlap would therefore be very minor. In the region of Alsace, Maechler and Matter have slightly [below 5%] market share, Saint-Gobain has approximately [10-15]%. The parties' combined market shares would therefore be around [10-15]%. In any event, the increment is very low and there are a large number of other strong building materials distributors active at a national level (such as Pinaul/Rexel, Gelimat, BigMat, etc.) and in the Alsatian region (such as the Comafranc group, Justin Bleger, Spielmann, Schmerber, Weber, etc.).

Vertical overlaps

19. As mentioned above, Saint-Gobain produces a number of building materials, which are or could be distributed by Raab Karcher. Therefore, the operation gives rise to vertical overlaps in Germany, the Netherlands and France. However, for most products in question Saint-Gobain's market shares both at national and European level are significantly below 25% with other strong suppliers active on the market. Furthermore, the products concerned produced by Saint-Gobain account for only a small proportion of Raab Karcher's business. Finally, as already mentioned above, Saint-Gobain/Raab Karcher in the downstream market for distribution of insulation materials will clearly be exposed to active competition by other distributors.
20. In Germany there are vertical relationships between the parties with respect to abrasives, mortars, roof tiles, joinery, different kinds of pipes and insulation material. The market shares of Saint-Gobain do not exceed 25% neither at a European nor at a national level. In insulation materials Saint-Gobain, via its subsidiary "Saint-Gobain Isover G+H AG", is market leader with a national market share of [15-25]%. Raab Karcher achieves [15-25]% of its turnover in insulation materials with products supplied by Saint-Gobain. The operation, however, as confirmed by third parties, will not lead to market foreclosure effects for insulation

⁶ This transaction will be notified to the Dutch competition authorities.

materials since there are other national and international suppliers of insulation materials supplying the German market, such as Deutsche Rockwool ([10-15]%), Pfleiderer ([5-10]%) or Schwenk ([5-10]%). These companies are exercising active price competition, which has led to a decrease in average prices for these products in Germany.

21. In France there are vertical relationships between the parties with respect to insulation materials, mortars, roof tiles, municipal castings, various kinds of pipes and paving products. At a European level Saint-Gobain does not achieve market shares exceeding 25% in any product market. At a national level, Saint-Gobain in the production of insulation material has a market share of [25-35]%. However, products by Saint-Gobain represent only [below 10]% of Raab Karcher's actual sales in the product group. In addition, there are a number of other important international producers active in France, such as Rockwool ([10-20]%) or Knauf ([10-20]%).
22. In the Netherlands, there are vertical relationships between the parties only with respect to insulation materials, mortars and roof tiles. Neither at European nor at national level does Saint-Gobain achieve market shares on the upstream markets above 25%. No market foreclosure effects can be expected to result from the operation since there are strong international competitors to supply the Dutch market such as Knauf, Rockwool, Dow Chemical or BASF.
23. Therefore, the concentration will not lead to a dominant position in any of product markets where the parties have vertical overlaps.

V. CONCLUSION

24. 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,

Michaele SCHREYER,
Member of the Commission