

*Case No COMP/M.2522 -
SCA HYGIENE
PRODUCTS /
CARTOINVEST*

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 21/03/2002

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21/03/2002

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Subject: Case No. COMP/M.2522 – SCA HYGIENE PRODUCTS/CARTOINVEST

**Notification of 20.02.2002 pursuant to Article 4 of Council Regulation
No 4064/89¹**

1. On 20 February 2002, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which the undertaking SCA Hygiene Products de Breul Holding BV (“SCA”, the Netherlands) acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the undertaking CartoInvest società finanziaria e di partecipazione S.p.A. (“CartoInvest”, Italy) by way of purchase of shares.
2. After examination of the notification, the Commission has concluded that the proposed 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 the functioning of the EEA Agreement.

I THE PARTIES

3. SCA is a wholly owned subsidiary of Svenska Cellulosa AB (Sweden), a forest industry company that specialises in the manufacture of hygiene products, transport

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).

² 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).

packaging and graphic papers. SCA manufactures and distributes a variety of tissue-based hygiene products throughout the EEA.

4. CartoInvest is active in the production of tissue products, parent reels, cardboard, corrugated papers and fluff products. Its sales are primarily made in Italy, Germany, France and Spain.

II. THE OPERATION

5. The operation consists in the acquisition by SCA of a sole-controlling 100% share in CartoInvest's capital. It constitutes, thus, a concentration within the meaning of Article 3 (1)(b) of the Merger Regulation.

III. CONCENTRATION OF A COMMUNITY DIMENSION

6. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion (SCA EUR 7,948 million and CartoInvest EUR 397 million)³. Each of them have a Community-wide turnover in excess of EUR 250 million (SCA EUR 6,851 million and CartoInvest EUR 386 million), 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.

IV. COMPETITIVE ASSESSMENT

A. Relevant product markets

Consumer tissue products

7. The parties submit, in line with the Commission decisions in case No. M.623 Kimberly-Clark/Scott and case No. COMP/M.2097 SCA/Metsä Tissue, that consumer tissue products can be divided into the following relevant product markets:
 - toilet paper,
 - kitchen towels,
 - handkerchiefs/facials,
 - napkins.
8. Within each consumer product market there are both branded and private label products. In its decision in the case n° COMP/M.2097 SCA/Metsä Tissue, the Commission considered, after Phase II. market investigation, that there is a separate market for the supply of own label consumer products to retailers in the Nordic countries. This decision was based inter alia on the fundamentally different way in which branded and private label products are procured and marketed, the different sets of competitors active in each market, different price levels (particularly at the

³ 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.

wholesale level) and the structure of the Nordic retail market. SCA, by contrast, argued that branded and private label consumer tissue products are part of a single product market because of demand-side substitutability at the level of the end consumer.

9. In the present case, significant overlap in the parties' operation occurs only in the private-label market outside the Nordic countries. Although it would a priori appear likely that an in-depth analysis of the (mainly Central and Southern European) markets affected by the transaction would lead to the same conclusion as in SCA/ Metsä Tissue, the market definition can in this respect be left open because no serious doubts arise in the present case, even if the private-label markets are considered separately.

Away From Home converted tissue products

10. In its decision in the case n° COMP/M.2097 SCA/Metsä Tissue, the Commission defined five AFH products (toilet tissue, hand wiping, general wiping, health care and napkins) as distinct relevant product markets.
11. The parties' activities do not overlap in the AFH markets as only SCA, but not CartoInvest, is active in the AFH sector. The AFH sector, therefore, is relevant for the current investigation only to the extent that some AFH manufacturers may be able to switch existing production capacity to supply the consumer private-label market (potential entry).

Parent reels

12. The parties' activities also overlap in the manufacture of tissue paper ("parent reels"). SCA and Cartoinvest produce parent reels mainly for internal consumption, but they sell excess production to third party converters. In times of inadequate internal production the parties may also purchase parent reels from other tissue producers. Cartoinvest tends to be a net seller of parent reels, whereas SCA is more active as a buyer, particularly on the Iberian peninsula.
13. Tissue can be made from pulp or from waste paper or a combination of both. The proportion of pulp increases with product quality. However, the Commission's investigation did not indicate that the product market could be differentiated on the basis of quality or the type of paper produced.
14. The relevant product market, therefore, is considered to be the supply of parent reels to third parties.

B. Relevant geographic markets

Consumer tissue products

15. The parties argue that the relevant geographic market for converted tissue products is pan-European and should extend for market definition purposes to Continental Europe, or at least to a wider than national area. The parties base their position on the significant intra-European trade in converted tissue products, long economic transportation distances and high population densities in continental Europe. They also refer to SCA's strategy of concentrating production of a reduced number of products in large plants as evidence that economies of scale outweigh transport costs.

16. In its decision in the case N° COMP/ M.2097 SCA/Metsä Tissue, the Commission left open the geographic market definition for Continental Europe, whereas it concluded that the markets were national in the Nordic region, because the tissue markets were characterised by significant transport costs, suppliers had the ability to price discriminate between customers based in different geographic locations and supermarkets in the Nordic countries organised their purchases predominantly on a national basis. The case therefore had to be assessed based on individual national markets, although the analysis took into account all actual and potential suppliers that could economically deliver into a given country independently of their location. (For example, the assessment of the Danish market included actual and potential suppliers from Sweden, Germany, the Benelux and other countries.) The analysis was similar for both branded and private-label products, although in the branded markets, the existence of national brands and national media (for advertising) provided additional elements for a national geographic market.
17. The market investigation in the present case has confirmed the finding from SCA/ Metsä Tissue that transport costs constitute a significant obstacle to supplying converted products over large distances due to the fact that tissue products are characterised by a high volume-to-value ratio. Viable transport distances submitted by respondents to the Commission's market investigation in this case were very similar to the findings in SCA/ Metsä Tissue (i.e. slightly higher than in the earlier Kimberly-Clark/ Scott case), with maximum distances of approximately 700 to 1000 km (assuming full truck loads). Again, Italian manufacturers gave somewhat higher estimates (up to 1200 km and, in one case, 1500 km).
18. The market investigation also confirmed that the process whereby private-label contracts are negotiated between tissue manufacturers and retail chains in the markets affected by the present case is very similar to the markets analysed in SCA/ Metsä tissue. That is, negotiations take place bilaterally, prices are set individually and are generally not known to competitors. Geographic price discrimination would therefore seem to be possible, pointing toward the same geographic market definition to be applied to Central and Southern Europe as in the Nordic countries.
19. However, in Spain, where the combination of SCA and CartoInvest will have the most profound competitive impact, international supermarket chains, including the French groups Carrefour and Auchan as well as the German "hard discounters" Lidl and Aldi have a strong presence. Carrefour is the market leader, holding nearly a quarter of the Spanish retail market (parties' data). Similarly, a number of other Central and Southern European markets are characterised by a strong presence of international retail chains. These retailers do not normally accept differential conditions for private-label contracts across the countries where they are active, limiting tissue suppliers' ability to price discriminate on a geographic basis.
20. However, whether or not the presence of international retail chains leads to wider than national markets in the countries affected by this transaction can be left open because the notified operation does not lead to competition concerns even when assessed on the basis of national markets.

Parent reels

21. The parties submit that the relevant geographic market for parent reels is at least Europe-wide. This conclusion was confirmed by the Commission in its decision in the

case N° COMP/ M.2097 SCA/Metsä Tissue and by the market investigation in the present case. The relevant geographic market is, hence, the EEA.

C. Assessment

Consumer tissue products

22. With Cartoinvest, SCA acquires significant market shares in the supply of private label tissue products primarily in southern Europe, where its position is at present weak. Nevertheless, significant overlaps occur in a number of countries, including Austria, Belgium/ Lux, Denmark, France, Germany, the Netherlands, Spain, Sweden, Portugal. No significant overlap exists in the branded consumer tissue markets as Cartoinvest has no brands outside Italy and SCA is at present not active in Italy.
23. Shares of private-label sales above [30-40]% arise in the following countries (private label, by value, 2000):

		Toilet tissue	Kitchen towels	Hankies/facials	Napkins	Converted products
Germany	SCA	[10-20] %	[30-40]%	[10-20]%	[5-15]%	[10-20]%
	CartoInvest	[10-20]%	[5-15]%	[<5]%	[<5]%	[5-15]%
	Total parties	[20-30]%	[40-50]%	[20-30]%	[10-20]%	[20-30]%
NL	SCA	[40-50]%	[10-20]%	[10-20]%	[<5]%	[30-40]%
	CartoInvest	[<5]%	[<5]%	[<5]%	[<5]%	[<5]%
	Total parties	[40-50]%	[10-20]%	[10-20]%	[<5]%	[30-40]%
Austria	SCA	[60-70]%	[30-40]%	[40-50]%	[20-30]%	[50-60]%
	CartoInvest	[<5]%	[<5]%	[<5]%	[30-40]%	[<5]%
	Total parties	[60-70]%	[30-40]%	[40-50]%	[50-60]%	[50-60]%
Belgium	SCA	[50-60]%	[30-40]%	[20-30]%	[5-15]%	[40-50]%
	CartoInvest	[<5]%	[5-15]%	[<5]%	[<5]%	[<5]%
	Total parties	[50-60]%	[40-50]%	[20-30]%	[10-20]%	[40-50]%
Spain	SCA	[40-50]%	[30-40]%	[50-60]%	[30-40]%	[40-50]%
	CartoInvest	[10-20]%	[5-15]%	[<5]%	[10-20]%	[10-20]%
	Total parties	[50-60]%	[40-50]%	[50-60]%	[40-50]%	[50-60]%
France	SCA	[20-30]%	[10-20]%	[40-50]%	[<5]%	[20-30]%
	CartoInvest	[5-15]%	[5-15]%	[5-15]%	[<5]%	[5-15]%
	Total parties	[30-40]%	[20-30]%	[50-60]%	[<5]%	[30-40]%
Portugal	SCA	[20-30]%	[10-20]%	[5-15]%	[20-30]%	[10-20]%
	CartoInvest	[10-20]%	[10-20]%	[<5]%	[10-20]%	[10-20]%
	Total parties	[30-40]%	[20-30]%	[5-15]%	[30-40]%	[30-40]%

24. The operation will reinforce SCA's private-label market position in a number of central European countries (D, B/Lux, NL, A, F), with the strongest market share addition occurring in the smaller markets, particularly in Austria and Belgium. However, the most significant impact will be in Spain, where both SCA and CartoInvest operate local production capacity.
25. For private-label products, as found in SCA/ Metsä Tissue, the supermarket determines the quality and quantity of the product, and the supplier produces to order. The marketing is left to the retailer who decides on issues such as packaging, promotional effort, etc. Compared to branded products, this process allows supermarkets more readily to switch private label volume between tissue manufacturers with spare capacity. A customer typically asks for bids from a number of producers according to the customer's specification of the quality of the products and other terms of the contract. In this respect, a private label contract could be viewed as a toll-

manufacturing arrangement where the contract is awarded through a bidding process. As the termination period is very short⁴, this bidding process may be repeated quite often, even every few months. The number of potential suppliers is determined by such elements as quality, transport costs, spare capacity and reliability of delivery. While the ability to deliver just-in-time affects the choice of supplier, there is, however, no need for a producer already to be present with sales or a distribution channel in a certain area in order to be considered a credible potential supplier.

26. The market investigation in the present case indicated that customers in central Europe (Germany, Benelux, France, Austria) consider that there is at present sufficient choice of private label tissue suppliers and that this situation will not materially change after the operation. Alternative suppliers include at least three German manufacturers, Wepa, Werra and Fripa as well as Metsä Tissue’s plants in Germany and the remaining tissue producers in Italy (Kartogroup, Tronchetti, Luchesse, Delicarta et al).
27. In Spain, the parties and their main competitors have the following market shares:

Share of private-label sales and share of total tissue capacity (2000, parties’ data)

Spain	Market shares (value, %)				Share of total tissue capacity (%)
	Toilet	Kitchen	Hankies	Napkins	
SCA	[40-50]	[30-40]	[50-60]	[30-40]	[5-15]
CartoInvest	[10-20]	[5-15]	[<5]	[10-20]	[5-15]
<i>Combined</i>	<i>[50-60]</i>	<i>[40-50]</i>	<i>[50-60]</i>	<i>[40-50]</i>	<i>[10-20]</i>
Kimberly Clark	[5-15]	[<5]	[<5]	[<5]	[10-20]
Georgia Pacific	[<5]	[<5]	[<5]	[<5]	[20-30]
P&G	[<5]	[<5]	[<5]	[<5]	
Renova	[<5]	[<5]	[<5]	[<5]	
Kartogroup/ Tiscel	[5-15]	[5-15]	[10-20]	[10-20]	[5-15]
Goma Camps	[10-20]	[5-15]	[10-20]	[5-15]	[10-20]
Jofel	[5-15]	[5-15]	[<5]	[<5]	[10-20]
Papelera del Segura	[<5]	[<5]	[<5]	[<5]	
Iberica del Papel	[<5]	[<5]	[<5]	[<5]	
Prod. Cellulosicos					
Metsä Tissue	[<5]	[<5]	[<5]	[<5]	
Celulosas y Tissues	[<5]	[<5]	[<5]	[<5]	
Papeteries Mougeot	[<5]	[<5]	[<5]	[5-15]	

“Total tissue capacity” indicates the parties’ estimate of their own and competitors’ shares of the total tissue capacity (488,500 tons) installed in Spain. This capacity is used for the production of private-label, branded and AFH converted tissue products. The parties lower market shares in this column result from the fact that SCA and Cartoinvest have only marginal sales of branded products in Spain ([<5]% market share and less), whereas Georgia Pacific and Kimberly-Clark focus primarily on brands and some Spanish companies have a more significant presence in the AFH markets.

28. In Spain, SCA’s acquisition of CartoInvest will reinforce SCA’s position as the largest supplier of private-label products, controlling between [40-50]% and [50-60]% of the

⁴ In fact, some supplier relationships appear to be based on one-shot orders, which may or may not be repeated.

various private-label tissue product markets. However, the overall structure and dynamics of the Spanish tissue markets limit the market power that the combined entity can derive from these relatively high nominal market shares. The relative market shares and the identity of the major competitors are very similar across the different private-label markets (toilet paper, kitchen towels, handkerchiefs and napkins). The following analysis, therefore, applies to all four separate product markets.

29. Kimberly-Clark and Georgia Pacific both have significant (i.e. larger than SCA/ CartoInvest) total tissue capacity in Spain, but their presence is mainly limited to the branded markets (and AFH). Although Kimberly-Clark (but not Georgia Pacific) does sell private-label products in Spain, the economics of the branded business (high sunk investment but virtually identical variable costs to private-label for given specifications, significantly higher wholesale price for branded products) make it unlikely that KC would switch additional capacity from branded to private-label production in response to a SSNIP-level (5-10%) price increase in a private-label market.
30. Apart from Kimberly-Clark's private-label presence, Kartogroup (Italy) and two Spanish manufacturers, Goma Camps and Jofel, have significant tissue capacity in Spain and they act as credible competitors in the private-label markets. By contrast, the market investigation has found no evidence that small local manufacturers (e.g. Papelera del Segura, Iberica del Papel and others) and non-integrated converters can supply private-label products at competitive prices in the quantities demanded by retail chains. Similarly, private-label manufacturers without local production capacity in Spain, such as Metsä Tissue and the remaining Italian suppliers are hampered by high transport costs for deliveries from Germany and Italy, respectively. However, some of these producers do import into Spain as part of supply contracts with international retail chains, albeit in limited quantities. There is no large-scale tissue capacity in proximity of the Spanish-French border. In Portugal, the only manufacturer with significant capacity, Renova, supplies only branded products. The remaining Portuguese firms have less than 10,000 tonnes capacity and cannot, thus, be considered as credible suppliers into the Spanish private-label market. Tissue prices in Spain are at present among the lowest in Europe, further reducing the profitability of long distance supplies.
31. Supermarket chains are the primary customers for consumer tissue products. Their countervailing buyer power is particularly strong in the private-label market, where suppliers can be changed easily and no "demand pull" creates pressure to stock a specific brand. In Spain, SCA's two largest customers, [...] and [...] account for [...]% of sales. Some retailers, in particular the "hard discounters", prefer to spread their private-label purchases over three to four smaller suppliers that can then be benchmarked against each other.
32. The Spanish tissue market has in recent years grown significantly faster than other European markets. In the toilet paper market, growth by value was 16% in 2000/2001 (3% in 1998/99) overall and 24% (4%) for private-label, according to the parties. The market for kitchen towels grew 22% (8%) overall and 29% (8%) in private-label. According to a market research report, tissue consumption in Spain is 12% below the Western European average and 30% lower than in Northern Europe, leaving scope for continued above average growth. Assuming a minimum size of approx. 25,000 ton annual capacity for a newly-built paper plant to compete effectively in the private-label

market⁵ and a 5 - 10% annual market growth rate, one to two new tissue plants would be required each year to cover the growing tissue demand in Spain. Accordingly, the parties point out that four new paper machines (in addition to one replacement machine) have come on stream in the past four years representing a total new capacity of 107,000 tonnes. Market participants have confirmed the parties' claim that Italian private-label manufacturers are planning to establish new tissue capacity in Spain. Hence, it can be confirmed that barriers-to-entry to the Spanish private-label tissue markets are comparatively low⁶ and that entry by several new competitors is imminent or at least likely in the coming years.

33. In conclusion, the dynamics of the Spanish private-label tissue markets will prevent the combined SCA/ CartoInvest from becoming dominant in the Spanish private-label tissue market, despite high nominal market shares. Customers' buyer power, negligible switching costs (for both customers and suppliers), the presence of three credible alternative suppliers at present, anticipated entry by established European tissue manufacturers into Spain and the dynamic, growing market environment all conspire to restrain the combined entity's market power.

Parent reels

34. The parties combined EEA-market share for parent reels is below [20-30]% (parties' data). Although the parties are likely to internalise part of their parent reel sales and purchases (CartoInvest is a net seller, SCA a net buyer of parent reels), the combined share is not indicative of any dominant position.
35. It follows from the above that the operation does not create or strengthen a dominant position by SCA/ CartoInvest, as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

V. CONCLUSION

36. 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

⁵ There are somewhat diverging views about minimum and optimum plant size. Whereas some market participants consider that one half-size paper machine (20-25,000 ton) can create a competitive cost structure, SCA's restructuring strategy aims to create very large plants with capacities in the region of 100,000 tons (e.g. 2x50,000 ton machines).

⁶ i.e. relative to the branded and AFH product markets and to more mature geographic markets