

***Case No COMP/M.2867 -
UPM-KYMMENE
CORPORATION /
MORGAN ADHESIVES
COMPANY***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 16/10/2002

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 16.10.2002

SG (2002) D/232195

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.2867 - UPM-Kymmene/Morgan Adhesives
Notification of 18.09.2002 pursuant to Article 4 of Council Regulation
No 4064/89¹**

1. On 18.09.2002, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which the undertaking UPM-Kymmene Corporation, (“UPM-Kymmene”), Finland acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of Morgan Adhesive Company (“MACTac”), USA, belonging to Bemis Company Inc. group 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 with the EEA Agreement.

I. THE PARTIES

3. UPM-Kymmene is the holding company for a corporate group internationally active primarily in the forestry products industry. UPM-Kymmene’s core operations may be divided into three business areas: paper industry (newsprint, magazine paper, fine paper); converting (self-adhesive labelstock, siliconised papers, industrial wrapping and packaging films); and wood products (sawn timber and plywood). Raflatac, a wholly-owned subsidiary of UPM-Kymmene, is active in the supply of self-adhesive labelstock.

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).

4. MACtac is a wholly-owned subsidiary of the American Bemis Company Inc. MACtac is a manufacturer of pressure sensitive tapes, films and label materials, active predominantly in the US and European markets. Its products include self-adhesive labelstock, self-adhesive graphics and decorative products and self-adhesive technical and industrial tapes.

II. THE OPERATION

5. The proposed concentration consists of the acquisition by UPM-Kymmene via its wholly-owned subsidiary UPM-Kymmene Investment Inc. of 100% of the common stock of MACtac. Following the proposed transaction, UPM-Kymmene will exercise sole control over MACtac.

III. CONCENTRATION

6. The notified operation leads to a change of control and therefore constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

IV. COMMUNITY DIMENSION

7. The notified operation does not meet the thresholds laid down in Article 1(2) of the Merger Regulation since the Community-wide of MACtac turnover is below €250 million. However, the notified concentration has a Community dimension pursuant to Article 1(3) of the Merger Regulation.
8. The combined aggregate worldwide turnover of the undertakings concerned is more than €2,500 million (UPM-Kymmene €9,918 million, and MACtac €560,9 million). The combined aggregate turnover of the undertakings concerned exceeds €100 million in at least three Member States (France: UPM-Kymmene €[...] million, MACtac €[...] million; Germany: UPM-Kymmene €[...] million, MACtac €[...] million; and the UK: UPM Kymmene €[...] million, MACtac €[...] million). Moreover, in each of these Member States the aggregate turnover of each of the undertakings concerned is more than €25 million, but they do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The aggregate Community-wide turnover of each of the undertakings concerned is more than €100 million (UPM-Kymmene €[...] million, MACtac €[...] million) and none of them achieves more than two-thirds of its aggregate Community-wide turnover within one Member State. The notified operation therefore has a Community dimension. It does not constitute a co-operation case under the EEA Agreement.

V. RELEVANT MARKETS

The relevant product markets

9. According to the notifying parties, there is one single relevant market for self-adhesive labelstock irrespective of different end users and which includes self-adhesive labelstock sold on reels and sheets based on film and on paper.

Background to self-adhesive labelstock products and the production process

10. Self-adhesive labelstock is a type of labelling used primarily by label printers. Self-adhesive labelstock products are pre-coated with an adhesive, which is protected by a backing material or paper. The adhesive is activated by pressure. Self-adhesive labelstock are used on a number of different products. The major applications for labels by end users are labels for

monitoring the flow of goods through production and distribution, price labels, production information labels, ticket labels, Electronic data processing (“EDP”) printing labels, functional and security labels, and promotional labels. The major industries purchasing labels are the food and beverage industry, the non-food consumer goods industry, the health and beauty industry and the pharmaceutical industry.

11. Self-adhesive labelstock producers (or laminators) manufacture self-adhesive labelstock products primarily for distribution to printers, converters, paper merchants and distributors. Most labelstock manufacturers produce both film based and paper based self-adhesive labelstock. Printers, converters, paper merchants and distributors act as intermediaries who will either print or cut the self-adhesive labelstock according to the requirements of the end user (e.g., [...]). Self-adhesive labelstock is produced on the basis of either paper or synthetic materials (“films”). Self-adhesive labelstock is produced as main reels with widths of 100-200 cm. These main reels are cut/slit into two forms: (i) narrow reels slit according to customer specifications; and (ii) sheets cut in primarily standardised sizes.
12. Self-adhesive labelstock consists essentially of the following components:
 - the face material (on which text and/or decoration is printed);
 - the adhesive (which fixes the label to the surface);
 - the silicon layer or coating (which allows an easy release of the face material from the base material); and
 - the base (or release) material (which protects the adhesive).
13. Alternatives to self-adhesive labels are labels which are fixed on the basis of gum, labels fixed by glue activated by heat, wet-glue labels, sleeves, in-mould labels and direct printing. The Commission’s market investigation indicated that whilst some of these alternatives may to some limited extent be substitutable on the demand-side, they are not to be regarded as forming part of the same relevant product market. However, the issue whether the above-mentioned products are substitutable with self-adhesive labelstock products may be left open as neither of the notifying parties are active in respect of these labelling methods.
14. Self-adhesive labelstock producers (or laminators) manufacture the product essentially in three steps:
 - the base material is coated with the silicone to obtain the siliconised base material;
 - the adhesive is placed onto the siliconised base material and dried; and
 - the face material is laminated to the base material.

Film-based and paper-based self-adhesive labelstock

15. According to the notifying parties most (80%) labelstock is based on paper and can either be supplied on reels or on sheets. According to the notifying parties, Raflatac produces more than 3,000 combinations of self-adhesive labelstock of which [20-40] are standard products. The [20-30] “major products” account for approximately [60-70]% of Raflatac’s entire production.

16. According to the notifying parties, labelstock based on film has certain advantages over paper based labelstock. Film based labelstock has a higher grade look, higher stability and tear resistance, higher resistance to environmental influences and is suitable for transparency in connection with the “no-label look”. Furthermore, the prices for film based labelstock are generally higher than for paper based labelstock. The notifying parties submit that Raflatac’s standard paper laminate product had an average bulk price of €[...] per m² compared to the average price of €[...] per m² for the film based product. Furthermore, the Commission’s market investigation indicated that manufacturers of self-adhesive labelstock can switch from production of film based to paper based labelstock and vice versa at short notice and at low cost. Another difference between the paper and film based labelstock is the growth rate of these market segments. The notifying parties estimate that the market for self-adhesive labelstock is growing at a rate of 5-7% annually, (3-5% for paper based self-adhesive labelstock and 8-12% for film based self-adhesive labelstock). The market investigation broadly confirmed the estimates of the notifying parties, indicating a growth on the overall market of 5-10% per annum.
17. The Commission’s market investigation indicated that there were clear differences for customers between film and paper based self-adhesive labelstock products in terms of price, product quality, and physical characteristics. The market investigation demonstrated that the decision as to whether to purchase film based or paper based labelstock tended to a significant extent to be decided by the downstream end-user customer. A considerable proportion of converters, printers and merchants either appear to know their customers’ preferences and order accordingly, or will check with the end user prior to ordering a particular type of labelstock. It also appears that some printers may be involved with the end user in selecting the appropriate self-adhesive labelstock product during the end product development phase. However, for the purpose of the present decision the precise definition of the relevant product market may be left open given that, on the basis of all alternative market definitions considered, the notified operation does not lead to the creation or strengthening of a dominant position.

Reels and sheets

18. According to the notifying parties, the technical difference between reels and sheets is that sheets are subject to one or more additional converting steps. Reels are sold to printers and converters whereas sheets normally are purchased by merchants, who resell the self-adhesive labelstock to their customers as part of a wide range of other products. According to the notifying parties, over 90% of self-adhesive labelstock is sold as reels to printers and converters. The remaining 10% are sheets which are purchased by merchants. The notifying parties submit that the quantity of labels needed for the end-use is the decisive factor influencing whether it makes sense to purchase self-adhesive labelstock on reels or on sheets.
19. The Commission’s market investigation indicated that customers for self-adhesive labelstock, i.e., printers, converters and merchants tended to purchase either reels or sheets because each method of application to the end product requires distinct machinery. Printers, converters and merchants tend not to possess the machinery required to process both reels and sheets. In addition, self-adhesive labelstock supplied on reels is suitable for automatic dispensation onto the end use product. Self-adhesive labelstock manufacturers on the other hand, considered that that reels and sheets were interchangeable from a supply-side perspective since the machinery required to produce reels and sheets could be adapted easily, without significant cost to switch production. Therefore, the results of the Commission’s market investigation suggest that it may be appropriate to delineate the market on the

demand-side at the level of printers, converters, and merchants. However, for the purpose of the present decision the precise definition of the relevant product market may be left open given that, on the basis of all alternative market definitions considered, the notified operation does not lead to the creation or strengthening of a dominant position.

B. The relevant geographic market

20. The notifying parties suggested that the geographic market for self-adhesive labelstock is at least EEA-wide. The notifying parties also provided evidence that major suppliers sell their products in all or many parts of Europe and in some cases even outside Europe. According to the notifying parties, transport costs are on average less than 5% and there exist import and export flows. For example, Raflatac delivers its products across Europe from its production facility in Finland, France Germany, Spain. MACtac supplies all its European customers from its production facility in Belgium.
21. The submissions of the notifying parties were broadly confirmed by the Commission's market investigation. The market investigation confirmed that no significant differences in price levels and technical specifications exist between Member States. Furthermore, printers, converters and merchants source supplies of self-adhesive labelstock on an EEA-wide basis. For the purposes of this decision, the geographic scope of the market is therefore assumed to be EEA-wide.

VI. COMPETITIVE ASSESSMENT

22. Based on one overall market for labelstock, including paper and film, reels and sheets based on 2001 volume data.² Raflatac and MACtac will be the second largest supplier with a combined market share of [30-40]% (Raflatac [20-30]% and MACtac [<7%]). The competitors are Avery/Jackstädt with [30-40]%, Herma [<7%], Ritrama [<7%], SJP/Scanstick³ ([<7%] and [<5%]), Intercoat [<5%] and number of smaller competitors. It can be seen from the above, that the concentration will increase Raflatac's market share by [<7] percentage points.
23. As noted above, the issue whether the self-adhesive labelstock product market should be split into self-adhesive labelstock based on paper or film may for the purposes of this decision be left open. On the narrow paper segment the notifying parties will have a [30-40%] market share, (Raflatac [30-40%] and MACtac [<7%]) Avery/Jackstädt [30-40%], followed by Herma [<7%], SJP/Scanstick ([<7%] and [<5%]) and Ritrama [<5%]. On the narrower film segment the competitive conditions are quite different. The notifying parties will have a combined market share of approximately [10-15%] (Raflatac [10-15%] and MACtac [<5%]). Avery/Jackstädt is the clear market leader with a [40-50%] market share followed by Ritrama [10-20%], Intercoat [<5%] and SJP/Scanstick [<5%]. On the film based segment, the notifying parties will be the third largest player after Avery/Jäckstadt and Ritrama.
24. As noted above, the issue whether the product market should be divided into self-adhesive labelstock supplied on reels or on sheets may be left open for the purposes of this decision, since this would not alter the competitive assessment of the merger. The notifying parties

² All market share data are volume estimates of the notifying parties for 2001.

³ Scanstick acquired SJP in August 2002.

would have a market share of [30-40%] (Raflatac [30-40%] and MACtac [<7%]), of self-adhesive labelstock sold on reels whilst the market leader Avery/Jackstädt would have a [30-40%] share, followed by Ritrama [<7%], SJP/Scanstick [<7%]. The notifying parties' share of self-adhesive labelstock based on sheets would be [10-20%] (Raflatac [10-20%] and MACtac [<5%]) whilst Avery/Jackstädt would be market leader with a share of [40-50%], followed by Ritrama ([<5%]) and SJP/Scanstick ([<7%]). A further delineation of the product market definition into reels based on paper and film labelstock or into sheets based on paper and film would not change the competitive assessment of the transaction. The market investigation showed that most manufacturers of self-adhesive labelstock produce both paper and film based self-adhesive labelstock on both reels and sheets as described above. In addition, the Commission was informed that a shift in production from paper to film based labelstock could be made at short notice at no significant cost. This is because the same lamination machinery is used for the production of both paper and film based self-adhesive labelstock. Given the strong competitive position of Avery/Jackstädt, the Commission considers that the transaction will not lead to the creation or strengthening of a dominant position for the notifying parties.

25. The Commission notes that the market structure post concentration on both the overall market for self-adhesive labelstock and the narrow segment for paper based labelstock will comprise two large companies (Raflatac/MACtac and Avery/Jackstädt) with similar market shares and a number of fringe competitors. The Commission notes that the effect of the proposed concentration is to remove one of the larger fringe competitors so there will be four significant fringe players on the film based segment instead of five, and three significant fringe competitors on the paper based segment instead of four. However, the Commission's investigation has confirmed that the proposed concentration will not give rise to concerns regarding the creation or strengthening of a collective dominant position.
26. Prior to the proposed concentration Raflatac and Avery/Jackstädt held a combined market share of [60-70%] on the overall market for self-adhesive labelstock and [70-80%] on the narrower segment for paper based self-adhesive labelstock. Post concentration the share of the notifying parties' will increase by [<7] percentage points leading to combined shares for the two largest suppliers of [70-80%] of the overall market for self-adhesive labelstock and [70-80%] for the paper based segment. The market investigation also confirmed that the combination of MACtac and Raflatac will have a limited effect on the competitive situation on the market.
27. In addition, the market investigation indicated that competitors are still able to manufacture substitutable products to those supplied by the larger market players. The market investigation also demonstrated that competitors are able to supply products in the short run which are regarded by consumers as substitutable for the product range of the larger market players. The notifying parties estimated that a supplier could achieve new capacity either by upgrading existing machinery at a cost of €[...] million or by purchasing a new machinery at an estimated cost of €[...] million. According to the most recently available data for 2000 and results of the market investigation, capacity utilization ranges from approximately 60-90%. The market investigation further confirmed that spare capacity exists with the fringe competitors and capacity expansion is possible in two to three months and at modest cost using existing plant and machinery.

VII. CONCLUSION

28. 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

(signed)
Mario MONTI
Member of the Commission