

***Case No COMP/M.3227 -
PAPERLINX /
BUHRMANN PAPER
MERCHANTING
DIVISION***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 10/10/2003

*Also available in the CELEX database
Document No 303M3227*



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 10.10.2003

SG (2003) D/232213

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Dear Sir/Madam,

**Subject: Case No COMP/M.3227 - PaperlinX/Buhrmann
Notification of 09.09.2003 pursuant to Article 4 of Council Regulation
No 4064/89¹**

I. INTRODUCTION

1. On 9 September 2003, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89² by which the Australian undertaking PaperlinX Ltd ("PaperlinX"), acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the subsidiaries which form the paper merchanting division of the Dutch undertaking Buhrmann N.V.
2. After examination of the notification, the Commission has concluded that the notified 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.

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, 21.9.1990, p. 13.

II. THE PARTIES

3. PaperlinX is the sole Australian manufacturer of paper and a leading international paper distributor. PaperlinX's manufacturing division primarily serves the Australian and New Zealand markets and only negligible exports are made to Europe. Its paper distribution leg operates in North America, the Far East, New Zealand and Australia. In Europe, PaperlinX only operates in the UK and Ireland through its subsidiaries The Paper Company (UK) and DM Paper Limited (Ireland). These two companies constituted the paper merchanting division of Bunzl plc, which was acquired by PaperlinX in 2002.

Buhrmann NV is a public listed company registered in the Netherlands. It currently operates three key divisions relating to office products, graphic systems and paper distribution. Buhrmann's Paper Merchanting Division ("Buhrmann") is the largest paper merchant in Europe. It operates throughout Europe as well as in South Africa, on the West Coast of the USA, in South-East Asia.

III. THE OPERATION

4. The notified operation concerns the acquisition of sole control of Buhrmann by PaperlinX, as PaperlinX will hold 100% of all subsidiaries of Buhrmann N.V.'s which are active in paper merchanting. The parties have agreed that PaperlinX through various of its subsidiaries purchases all shares of the companies forming the merchant division of Buhrmann N.V., together with certain assets such as employees and brands and other intangible assets. As an Australian paper manufacturer and world-wide distributor PaperlinX will through the deal get a foothold in the European merchant business.

IV. CONCENTRATION

5. The acquisition by PaperlinX of Buhrmann constitutes a concentration within the meaning of Article 3(1)b of the Merger Regulation.

V. COMMUNITY DIMENSION

6. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion³ (PaperlinX: € 2,173 million; Buhrmann: € 3,024.9 million). Each of the undertakings concerned have a Community-wide turnover in excess of EUR 250 million (PaperlinX: € 530 million; Buhrmann: € 2,696.9 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.

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.

VI. COMPETITIVE ASSESSMENT

General introduction to the market

7. PaperlinX and Buhrmann are both active in the distribution of graphic paper. Unlike other papers like board or household and sanitary papers (e.g. toilet tissue, toweling, etc.), graphic paper is used for writing and printing. It comes in different types and qualities of coated and uncoated, mechanical and woodfree papers. It ranges from A3 and A4 sized paper used for copiers and laser printers ("cut size") to large sheets and reels, which are used with printing presses. For the purposes of this decision, the term graphic paper does not include paper for newsprint this being in line with the Commission's approach in previous decisions⁴.
8. Graphic paper is delivered to the customers through various distribution channels. Paper manufacturers sell either directly from the mill or they use intermediates, such as mainly merchants (some of whom are vertically integrated), Original Equipment Manufacturers ("OEMs"), or resellers such as facilities management companies or high street retailers. The service offered by the different distribution channels can differ in pricing, range of product provided, lead times, quantities served and/or credit conditions. In consequence, different customer groups may prefer certain distribution channels and exclude others depending on their specific requirements. Some distribution channels act as suppliers to others. For example, merchants do not only supply end users like printers, but also OEMs, smaller merchants, retailers and facilities management companies, which in turn - at least partly - concentrate on different end customers than merchants.
9. The bulk of the delivery flows of graphic paper is channelled through mills and merchants which account for more than two thirds of graphic paper distribution in the EEA. Large merchants such as Buhrmann, Igepa, MAP and Antalis are present in several Member States. However, as service is an important feature in the business, also local players play an active role in the market. The sector has gone through an ongoing consolidation process during the past 3 years.

The relevant product market

10. The parties claim that the relevant product market is the market for distribution of paper. They submit that most customers can easily switch between direct sales from mills, sales through merchants and other sources of supply (OEMs, resellers etc.).
11. However, this is not in line with the Commission's findings in previous cases, in which the Commission considered the paper merchanting market as a separate market from that of direct sales from producers, having regard to differences in market structure, logistics and pricing⁵. The market investigation has confirmed this view.

⁴ COMP/M. 884 -KNP BT/Bunzl/Wilhelm Seiler; COMP/M. 1653-Buhrmann/Corporate Express. The parties do not distribute paper for newsprint.

⁵ See for example decisions in cases: COMP/M.2245-Metsä-Serla/Zanders; COMP/M.2020-Metsä-Serla/Modo; COMP/M.1356-Metsä-Serla/UK Paper; COMP/M.166-Torras/Sariro.

12. Moreover, the Commission's market test has shown that particularly small and medium printers (constituting by far the biggest part of the merchants' customers) source their demand almost exclusively from merchants as these are best prepared to provide frequent and quick deliveries of small quantities. However, also for indent sales⁶ the main source of customers seems to be merchants. Generally, although very large customers are supplied directly by the mills, it appears that mills abstain from competing with merchants whom they regard as their most important customers rather than their competitors.

The relevant geographical market

13. The Commission has traditionally treated the paper merchanting market as a national market⁷. In the present case, the market investigation has confirmed the view that for the time being, the market is not bigger than nation-wide. Particularly for the large customer group of the printers the local presence of their merchants remains a key issue as most of them depend on individual service and reliable just-in-time deliveries at short notice. Therefore, although many of the bigger merchants are active in more than one country, the scope of the merchanting market cannot be considered as European-wide.
14. However, for the purpose of the present decision it is not necessary to finally decide the geographic dimension of the market, since - in any event - the operation will not lead to the creation or strengthening of a dominant position under either market definition.

Assessment

15. The activities of the parties in Europe only overlap in UK and Ireland. The total market comprising all distribution channels is estimated to [...] tonnes in UK and [...] tonnes in Ireland.
16. The parties have submitted, that on the basis of a merchant market comprising all sales of graphic paper by merchants, the aggregated market share of the new entity based on volume would amount to [35-45]% in the UK and to [25-35]% in Ireland. The second largest competitor in UK would be the MAP-group with a market share of [15-25]% followed by Antalis holding [5-15]%. In Ireland the combined market shares amount - according to the parties - to [25-35]% with the MAP-group holding [15-25]% and Swan Paper as the third largest competitor holding [15-25]%. With regard to market shares based on volume it has been necessary to make corrections as regards sales made by intermediaries where they buy from merchants in order to avoid double counting. The market shares provided by the parties are broadly in line with slightly higher estimates based on value provided by third parties during our market investigations. On a national scale the proposed transaction would create a player which in the UK will be twice as big as the second largest player, the MAP Group, and more than three times as big as Antalis.

⁶ For indent sales, the customer's order is placed with the merchant but delivered by the mill. Particularly the merchants' reel business is indent-based, whereas when it comes to sheets the merchants have an important role as stockholders.

⁷ See for example COMP/M.2245-Metsä-Serla/Zanders; COMP/M.2020-Metsä-Serla/Modo

The position of the new entity in certain geographical areas notably Scotland will be even stronger. The number of important national players would be reduced from four to three.

17. In Ireland, the merged entity will obtain a lower market share than in the UK and the difference between the merged entity and the second and third largest competitors will be smaller than in the UK.
18. The parties have submitted that customers usually source from more than one merchant and play off against each other three to four merchants. In addition, local merchants would be an important source of supply, which is not appropriately reflected by their rather small market shares on the overall national market.
19. The market investigation carried out by the Commission confirms that customers usually do not rely on one supplier but multi-source to secure supplies and to secure sufficient channels of credit. Moreover, particularly in the printers' business, where a flexible high quality-service is crucial, the local merchants are a significant source of supply often with long-standing business relationships with smaller customers.
20. However, third parties have pinpointed that the increased buying power of the new entity cannot be matched by any other player in the market. Concerns are that the new entity will negotiate prices with the supplying mills that will enable it to considerably undercut the competitors prices on the downstream markets thus forcing the local players to exit the market over time.
21. Irrespective of the current transaction, a consolidation process has been ongoing for the past years and has led to a number of smaller merchants to merge together or to come under the umbrella of one of the national players or to exit the market. This evolution is expected to continue anyway. The transaction under consideration would only accelerate the process.
22. Furthermore, there are different possibilities for the customers and competitors to react on the consolidation process. Customers can counterbalance the market power of the new entity by shifting a bigger part of their demand to the remaining smaller national players, which - due to the mills' overcapacities - will not face constraints from the supply-side. Competition could even be spurred as all smaller competitors would have to make efforts or restructure to remain competitive by improving their service.
23. With regard to the competitive disadvantage of smaller players resulting from the increased purchasing power after the transaction, it must also be noted that particularly the local players can at least partly offset this disadvantage by their lower costs as they usually have less or no spending on overhead. Another possibility would be to set up buying consortia. Such buying consortia have already been created in the paper distribution markets for instance by independent contract stationers as well as by office paper dealers to improve their negotiation position towards merchants. It should also be noted that the two major competitors of the new entity - Antalis and MAP - are both vertically integrated with mills located in Europe.
24. Finally, there is potential competition from national merchants outside UK and Ireland. Even if new entries are not very likely in the short term as the sector has

been a declining one, if the consolidation process will be ongoing there might be incentives for foreign merchants to enter the UK (the second largest market in Europe) and Ireland markets by buying smaller/local merchants.

25. It follows from the above, that the notified operation does not raise serious doubts as to the creation or strengthening of a dominant position.

VI. CONCLUSION

26. For the above-mentioned 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

Mario MONTI
Member of the Commission