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Case No COMP/M.3439 - AGFA-GEVAERT / LASTRA

Only the English text is available and authentic.

REGULATION (EEC) No 139/2004
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 09/08/2004

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MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

PUBLIC VERSION

To the notifying party

Dear Sir/Madam,

Subject: Case No COMP/M.3439 – Agfa-Gevaert / Lastra
Notification of 02/07/2004 pursuant to Article 4 of Council Regulation (EC) No. 139/2004[1]
Publication in the Official Journal of the European Union No. C162, 19/06/2004, page 2

1. On 5 July 2004, the Commission received a notification of a proposed concentration by which the undertaking Agfa-Gevaert N.V. ("Agfa", Belgium) acquires control of the whole of the undertaking Lastra S.p.A. ("Lastra", Italy) by way of purchase of shares. The notification was filed following a referral pursuant to Article 4(5) of the Merger Regulation which had been formally submitted by the parties to the Commission on 6 May 2004.

1 OJ L 24, 29.1.2004 p. 1

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I. THE PARTIES AND THE OPERATION

2. Agfa is a publicly quoted company established under Belgian law. Agfa develops, manufactures and distributes analogue and digital products as well as systems for the making, processing and reproduction of images. It is the parent company of a worldwide group of companies, whose business is split into three Business Groups: "Graphic Systems", "HealthCare" and "Consumer Imaging", and one Business Unit, "Specialty Products". In its most recent financial year (ending 31 December 2003), Agfa achieved a worldwide turnover of € 4,215 million.

3. Microgran is a privately held financial holding company that controls Lastra S.p.A. and its subsidiaries. Lastra's main activity is the production of offset printing plates, in particular analogue plates and, to a minor extent, digital plates. It is also active, although to a much lesser extent than plates, in the manufacturing and sale of pre-press equipment. In its most recent financial year (ending 31 December 2003), Microgran achieved a worldwide turnover of € […] million.

II. CONCENTRATION

4. The proposed concentration involves an acquisition of sole control within the meaning of Article 3(2) of the EC Merger Regulation. On 22 June 2004, Agfa concluded with the shareholders of Microgran a Stock Purchase Agreement, pursuant to which Agfa will purchase, against cash, all shares of Microgran (and, indirectly, all shares of Lastra) and […]% of all the shares of Lastra America, Inc..

III. COMMUNITY DIMENSION

5. The transaction did not initially have Community dimension. Lastra (together with its mother company Microgran) has a Community-wide turnover of only € […] million, and does not have a turnover of more than € 25 million in more than two Member States.

6. The transaction was, however, subject to review under the national laws on merger control in ten Member States. On 6 May 2003 Agfa submitted a reasoned submission pursuant to Article 4(5) of the EC Merger Regulation requesting that the concentration should be examined by the Commission. None of the affected Member States opposed the request. The case was therefore deemed to have Community dimension. Agfa was notified of the referral to the Commission by letter dated 7 June 2004.

IV. COMPATIBILITY WITH THE COMMON MARKET

A. <u>General overview</u>

i) Pre-press printing technology

7. The transaction concerns the pre-press sector of the printing industry. The pre-press sector involves preparatory activities prior to printing on a printing press (hence the reference to "pre-press") of books, newspapers, magazines, packaging, etc. The products involved are: pre-press equipment used to prepare printing plates (e.g. platesetters and plate processors); and pre-press consumables, i.e. printing plates and pre-press chemicals. During the pre-press phase, an image (i.e. text, line art, halftones

or combinations thereof) is transferred from a computer onto a printing plate. This procedure is known as "offset printing" (as opposed to the so-called "real digital printing" where an image is transferred directly onto a printing press without the use of plates). Offset printing is the most common process currently used for printing high-volume jobs.

8. In offset printing there currently exist two ways to transfer an image from a computer onto a printing plate: the analogue, or computer-to-film ("CtF") method; and the more recent digital, or computer-to-plate ("CtP") method.

9. In a CtF environment, the image is first transposed onto a film and subsequently copied onto a printing plate. In a CtP environment, the need for transposing the image onto a film as an intermediate step is eliminated and the image is directly transferred to the printing plate.

10. Both CtF imagesetters and CtP platesetters use lasers to image films and plates and both technologies allow for the preparation of comparable printing plates. However, the CtP technology considerably simplifies the pre-press workflow and represents an improvement over CtF with respect to printing quality and speed of operation.

11. Pre-press equipment and printing plates based on analogue CtF technology are rapidly being replaced by equipment and plates based on digital CtP technology.

12. The degree of customer uptake of the digital plate technology (introduced in the 1990s) has varied significantly worldwide. In Europe, the uptake has been very successful. The Parties have indicated that between 2001 and 2003 sales by volume of analogue printing plates within the EEA decreased by [30-40]%, from […] sqm to […] sqm. In 2001, analogue plates accounted for [70-80]% of all printing plate sales by volume. The corresponding value for 2003 was [40-50]%. Sales by volume of digital printing plates increased dramatically within the EEA from […] sqm ([20-30]% of all printing plates) in 2001 to […] sqm in 2003 (or [50-60]% of all printing plates), which represented an increase of [90-100]%.

13. New sales of CtF-equipment are very likely to further decline in the near future. The market investigation has confirmed that, over time, analogue technology will be entirely replaced by digital. Although there is some disagreement over the time span during which this process will occur most estimates range between the next 5 to 10 years. While the switch to digital has been rapid for those printing applications whereby the significant cost of new digital equipment can be easily amortised because of large work-flows, in other applications, in particular in relation to small and medium printing businesses, the switch to analogue technology will take longer. Some respondents to the market investigation have suggested that it is conceivable that CtF may remain as a niche-market.

14. The speed of CtP uptake vis-à-vis CtF is also highlighted by Vantage Strategic Marketing (VSM), a specialised printing industry independent market analyst. In its latest report[2], VSM forecasts that annual sales of imagesetters (CtF) will amount to less than [400-500] in 2007, down from [2400-2500] in 2000, whilst sales of

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2 "Developing Market Opportunities for Direct-to Technologies 2002-2007" VSM Research and Information , report 1510, August 2003

platesetters (CtP) will reach [1900-2000] in 2007, up from [900-1000] in the year 2000. In parallel, sales of analogue plates are expected to decrease by more than [40-50]% while sales of digital plates should generate a six-fold increase in the same period.

15. Finally, the pre-press sector is undergoing further technological evolutions. Within the CtP environment, the next technological advance is the introduction of a processor-less technology. This technology was recently launched by a number of players, including Agfa, KPG and Fuji and no longer requires a processor to develop the CtP plates. Moreover, real digital printing technology (computer-to-print, "CtPrint", or computer-to-press, "CtPress") eliminates the intermediate stage of preparing non-re-usable printing plates off the press. This digital press can be seen as a larger version of the digital printers commonly used in the office environment. However, such technologies seem, to date, suitable mainly in areas where printing runs up to maximum 2,000 copies because of their characteristics (customisation and very low level of productivity).

ii) Pre-press industry's specific features

16. The pre-press industry is characterised by a number of specific features which greatly contribute to shaping the competitive scenario and the interaction among competing players and technologies. The following section of the decision briefly describes these features.

Package deals

17. Customers tend to source their needs through supply package deals, in most cases consisting of equipments, plates and chemicals. These package deals are offered as financing arrangements, requiring customers to buy plates for the duration of the finance arrangement (usually for three years). However, given the different life-cycle of durables and consumables (a platesetter's life-cycle is between 7-10 years), plates are also purchased as single items or in combination with chemicals.

Tendering processes

18. Another typical feature of the industry is that customers tend to source through tendering processes. This is particularly true for large customers, e.g. large printing companies, or those customers purchasing more than 20,000 sqm plates per year. Also medium sized customers, purchasing between 5,000 and 20,000 sqm of plates per year, and small customers, invite suppliers to tender, although not as frequently or systematically. Customer/supplier(s) negotiations can last for months. Competing suppliers are usually not aware of terms and conditions being offered by others and negotiated with potential customers.

Distribution

19. Distribution takes place via both manufacturers' direct sales forces and third-party independent dealers. The latter is an important route to market for all manufacturers, both integrated and non-integrated. Lastra distributes [90-100]% of its printing plates

sold in the EEA through independent third-party dealers. Conversely Agfa relies (on average across the EEA) on direct sales forces for [50-60]% of its sales. These dealers are themselves able to create packages of products for their customers by matching different brands of products, including those of vertically integrated manufacturers.

Interoperability

20. Equipment produced by one manufacturer is generally compatible with printing plates of different brands, i.e. there is a high degree of interoperability. Equipment meant for similar applications and produced by different suppliers is subject to practical comparison performance tests. Most operators apply 'open system' product strategies with respect to equipment as well as consumables, which means that products are developed in order to work in combination with as many different competing products as possible. This open system approach appears also to prevent possible "locking in" of customers, thus contributing to dispel any possible concerns related to vertical integration.

Technology Innovation

21. The pre-press sector is undergoing a continuous technological evolution. As already indicated, this trend is not limited to the shift from analogue CtF technology to digital CtP technology. Technological innovation and improvement are determining factors at play in the industry and evidence of the competitive race towards more user-friendly and cost-efficient solutions. Technology innovation contributes to making current market positions fluid in the medium/long-term.

iii) Business strategies and rationale of the merger

22. Agfa and Lastra have pursued different strategies in the pre-press sector. Agfa sells a broad range of pre-press equipment and consumables. Although Lastra manufactures some equipment, the focus of its business is firmly on printing plates. The market investigation has moreover confirmed that Lastra is perceived as a company focusing on price rather than on quality. A certain degree of quality failure rate on the part of Lastra's analogue and digital plates was mentioned by several market participants.

23. Agfa is a technologically strong company with significant activities in R&D. As a consequence, it has pioneered new developments such as digital violet visible light technologies. Due to this focus on technological leadership, Agfa increasingly focuses its business on digital technology[3]. […][4].

24. As opposed to Agfa, Lastra is not a R&D-focused company. This is mirrored by the fact that Lastra's overwhelming focus of activity is in the low-technology analogue plate markets. Its development of an own digital plate was not successful. Only through the acquisition of the US-company Western Litho in 2002 did Lastra step into digital (mainly thermal) technology.

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3 The majority of Agfa's plate business is in the digital segment ([60-70]% of total EEA sales by volume).

4 […]

25. Lastra's low-cost strategy is moreover evident in its distribution model. While Agfa distributes its products primarily through relatively costly direct distribution channels, Lastra relies almost exclusively on independent distributors for its sales. As indicated in internal documents submitted by Agfa during the investigation this lower-cost distribution network and the significant widening of the customer base are important rationales for the transaction. […]

26. In sum, the strategic and economic rationale of the transaction is according to Agfa based on revenue drivers and cost drivers. On the revenue side, the transaction would give Agfa access to a complementary distribution network, access to additional intellectual property rights in (digital) thermal printing plate technology, access to additional production capacity, and a wider customer base to support in future potential conversion from analogue to digital technology. On the cost side, the parties expect that the transaction will allow Agfa to achieve significant purchasing synergies in raw materials and other synergies by avoiding duplication in several areas of activity.

B. Relevant product markets

27. The merger affects the Graphic Systems sector. The products involved are: pre-press equipment, e.g. platesetters and plate processors; and pre-press consumables i.e. printing plates and pre-press chemicals.

i) Pre-press equipment

28. The merger affects pre-press equipment which is used to produce and image the plates to be mounted on the printing press. The two main components are the "image engine" (imagesetter / platesetter) and the processor.

CtF vs. CtP

29. The pre-press equipment sector is essentially based on the two main differing technologies depicted above: analogue CtF and digital CtP. The main difference between the two technologies lies in the way an image is transferred from a computer onto a printing plate. In the CtF environment, the image engine is called imagesetter. It is a machine used to create a film whose image will subsequently (through optical copying/exposing in a copy frame) be transferred onto a printing plate. The corresponding equipment component in a CtP environment is the platesetter, which allows to skip the intermediary step of creating a film, but transfers the image directly onto a plate. In both technologies the imaged plate is processed with processing chemicals in a corresponding plate processor. After being processed plates are ready to be used on the printing press. The type of imaging engine (i.e. CtF-imagesetter or CtP-platesetter) determines the type of processor needed.

30. The Commission has not defined the market(s) of pre-press equipment in the past. According to the parties, high supply side substitutability exists generally for the production of all components of equipment, which would arguably call for the definition of a single market for pre-press equipment.

31. CtF and CtP pre-press technologies ultimately serve the same purpose, whilst differing in terms of quality, speed, and cost. In general, CtP technology represents an

improvement over CtF with respect to print quality and speed of operation. The choice of technology therefore amounts to a balancing of the technical benefits of CtP, including its greater efficiency for longer print runs, against the (currently) lower price of CtF equipment and consumables.

32. Therefore, from a demand-side perspective, the assumption of separate markets seems to be adequate due to the still prevailing different price levels and quality/speed characteristics of both systems. For some customers, notably those placing a particular premium on the superior attributes of CtP, it will almost always make business sense to purchase CtP technology. For certain other customers, such as those with lower volumes or placing less value on the technical attributes of CtP, the decision to invest in CtP may be less compelling. However, as CtP equipment prices and digital plate prices have steadily been falling, the boundary between those for whom an investment in CtP equipment is preferable to an investment in new CtF equipment has shifted. This boundary continues to shift as prices converge further.

33. Many customers have confirmed during the market investigation that they have switched or intend to switch from CtF to CtP. The general decline in sales of CtF-equipment and the equivalent rise in CtP speak in favour of substitutability, at least as far as the switch from CtF to CtP is concerned. It cannot, however, be excluded that certain groups of customers (especially very small printers) may not be able/prepared to switch to CtP, due to the higher investment requirements.

34. With respect to supply-side substitutability, it has to be noted that at present most suppliers of CtF equipment components also offer CtP equipment. However, since CtP technology in general is considerably more sophisticated, market conditions, for example with respect to market entry, are likely to diverge significantly.

35. The precise market definition can, however, be left open since the merger does not give rise to competition concerns with respect to these products regardless of the market definition adopted.

Analogue CtF imagesetters

36. A CtF imagesetter is a machine used to create a film whose image will subsequently, be transferred onto a printing plate. CtF imagesetters can be further subdivided according to the type of plates for which they can be used. Analogue plates can be positive or negative. A user of analogue positive plates cannot directly switch to an imagesetter which is set up for the use of analogue negative plates and vice versa.

37. Since Lastra is not active in the production of CtF imagesetters, no horizontal overlaps arise from the merger and imagesetters will not be further examined in this decision[5].

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5 Agfa has a market share of [20-30]% followed by Heidelberg, ECRM and Creo with market shares between [10-20] and [10-20]%.

Analogue CtF processors

38. CtF plate processors are used to fix the image on the plate coating by means of chemicals. The same delineation as for CtF imagesetters can be drawn for CtF processors. CtF processors set up for analogue positive plates cannot be used for the processing of analogue negative plates. The parties emphasize that switching between processors for analogue positive and analogue negative plates is easy not only for producers but also for end-users.

39. For the purpose of this decision, the market definition can be left open as even in the narrowest possible markets (CtF imagesetters and CtF processors each for analogue positive plates on the one hand and for analogue negative plates on the other hand) no concerns arise from the merger.

Digital CTP platesetters

Thermal vs. visible light platesetters

40. As mentioned, thermal CtP technology and visible light CtP technology are the two major CtP technology platforms currently available. Accordingly digital platesetters can be further subdivided into thermal and visible light (VL) platesetters. The lasers used in the platesetter to expose the rasterised images to the plate have laser beams with different wavelengths. Depending on the wavelength of the laser, a platesetter is classified as a "thermal" or a "visible light" platesetter.

41. The parties claim that thermal and VL platesetters directly compete with each other since customers regard these technologies as strongly substitutable. In essence, it is argued, both thermal and digital platesetters can serve most applications in the printing sector. VL technology was the first to be launched on the market (1993) and has immediately picked up with those printers that most value the speed and the productivity of new digital machines (e.g newspapers printers). Thermal technology has reached the market at a later stage (around 1999) but it has immediately become a credible alternative.

42. The market investigation has largely confirmed the parties' claim. The vast majority of respondents agrees that thermal technology competes head-on with VL technology, although views were not unanimous as regards the present and future relative strength of the two technologies.

43. Two respondents claimed that thermal technology would secure higher resolution requirements and thus would be generally preferred in commercial printing while visible light technology allows a faster imaging speed, which is greatly valued in newspapers printing.

44. As a matter of fact, while it is true that in newspaper applications VL still appears to be the most popular technology, according to the most distinguished independent report in the industry Vantage Strategic Marketing (VSM), in 2003 thermal technology accounted for approximately [40-50]% of the total new sales of platesetters for newspapers applications. VSM also forecasts that thermal will further erode VL position, overtaking VL in the number of machines sold to newspapers in 2004.

45. Similarly, in commercial printing, where the thermal technology has taken the leadership, VL remains well established, counting for approximately [40-50]% of the total sales of platesetters to commercial printers in 2003.

46. In sum, while between these two technologies there may be some marginal differences in terms of quality and performance, hard figures show that thermal compete head-on with VL in virtually all printing sectors, and they act as a mutual strong competitive constraint.

47. Also prices largely confirm this evidence. Agfa sells its best selling model of thermal and VL platesetters at roughly the same price, and the same applies to its thermal and VL plates. In more general terms, prices for equipments items show marginal differences, i.e. thermal equipment is slightly more expensive than VL. However, when comparing prices in terms of systems (the different components plus plates) the cost of the two systems is practically the same[6].

Newspapers vs. commercial platesetters

48. According to some respondents to the market investigation the market for platesetters can be further segmented based on the different customer applications. This would be essentially the case for CTP platesetters used for newspapers printing, which should be distinguished from CTP equipment used for commercial applications. From the demand side, it can be argued, typical purchasers of CTP equipment for commercial printing are magazine publishers, or printers of commercial brochures, poster advertisements, corporate documents etc. These customers generally require a high print quality and they need to be flexible and accept several different types of printing jobs. These customers however, are usually not time sensitive. On the other hand, for newspaper publishers time is of the essence (as well as reliability) since they have to print large quantities usually on a daily basis. CTP platesetters used for newspapers applications would therefore have the following characteristics: fast imaging speed and high productivity, low resolution, i.e. less quality, as opposed to CTP platesetters for commercial applications, less rapid but with higher resolution and flexibility.

49. These respondents argued that, from the supply side, CTP equipment suppliers for commercial printers cannot enter the market of CTP equipment for newspaper application without undertaking significant investment. First, a separate sales organisation would be required for newspaper sales along with a considerable level of after-sale support. Second, significant investment in technology would also be necessary, in particular in order to introduce "flat-bed" technology for higher productivity, rather than the "internal drum" technology mainly used in the manufacture of equipment for commercial printing.

50. The parties, as well as other respondents, have expressed different views. In essence, the platesetters are only marginally different, in particular with respect to: i) the size of the exposure table (flatbed) or exposure drum, since equipment purchased by newspapers is typically in a format adjusted to newspaper size, ii) the resolution output of the laser, since platesetters used by newspapers printers typically expose the plate at a lower resolution than the one used for commercial printing work.

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6 Prices for plates indicate the opposite trend, with thermal plates being slightly cheaper.

51. As to the resolution, most lasers can expose different resolutions simply by adjusting the setting. As to productivity, it is possible to adjust the exposure drum without going for the flat-bad exposure and obtain satisfactory results. The parties refer in this respect to a number of models of platesetters used for newspaper applications employing the external drum, like the models manufactured by Creo and Krause[7].

52. The evidence collected in the market investigation is mixed and does not allow to unequivocally support either view. What appears unquestionable, however, is the fact that newspapers application customers require timely deliveries and assistance around the clock. As a consequence, direct sales forces devoted to this activity and 24/7after sale assistance are essential in this business, unlike for commercial applications

53. In any event, the market definition can be left open, as the transaction will not give rise to adverse effects on competition regardless of the market definition.

Digital CtP plate processors

54. Similarly to digital platesetters, plate processors can be further delineated in various categories according to e.g. technology and categories of end-users. The same arguments and counterarguments as for the platesetters appear to be also relevant to plate processors, with the additional factor that processors are much less sophisticated machines than platesetters, basically used to fix the image on the plate coating by means of chemicals. It can be argued that the same arguments in favour of broader rather than narrower market definition as developed for platesetters apply *a fortiori* for plate processors.

55. In any event, the market definition can be left open, as the transaction will not give rise to adverse effects on competition regardless of the market definition.

ii) Printing plates

56. Offset printing plates are used for the reproduction of text and images onto paper or other material. For analogue as well as digital plates, the production process involves, broadly speaking, three principal production stages:

57. "Graining", which involves structuring the surface of a rolled aluminium sheet in order to obtain the optimal ink/water balance. Graining is carried out to obtain slightly different qualities on the aluminium surface, depending on whether the finished product should be an analogue plate or a digital plate but the equipment used is generally the same.

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7 Creo's Trendsetter platesetter was put forward as an illustration of how productivity may be easily improved. Creo's Trendsetter - was initially sold only to commercial printers as an 8up platesetter. Creo converted it into a newspaper platesetter by adjusting the size of the drum, feeding 2 plates along each other and changing the laser resolution. Creo replaced the drum with a similar drum with a larger diameter and increased the productivity by modifying the plate cassette, which held single 8up plates but hold double newspaper size plates in the newspaper version. The machine is now sold as Trendsetter News to newspaper customers. Another example is Screen's PlateRite News: this platesetter designed for newspaper use is actually an adaptation of Screen's PlateRite platesetter 8800 which was originally designed for commercial printers. The adaptations made include a slightly smaller footprint and a lower resolution.

58. "Anodising", which involves controlled oxidisation of the aluminium surface in order to prevent spontaneous oxidisation. Anodising is carried out in the same way, regardless of the type of plate.

59. "Coating", which involves application of the coating substance that reacts when exposed by the laser (digital plates) or through the film (analogue plates). Each plate has a specific coating substance, depending on its type of application and the imagesetter/platesetter it is intended to be used in. Depending on whether the coated layer is light- or heat-sensitive, coating (and subsequent handling) will need to be carried out in a light/heat controlled environment.

60. Following completion of these key production stages, the plate material is in the form of large rolls of coated aluminium. The plates are then finished by cutting the rolls into plates of the appropriate size.

61. The Commission has reviewed transactions in the pre-press sector in the past[8] and has distinguished four relevant product markets within the offset printing plates sector. It was stated that, even though plates may generally be used for similar purposes from a customer point of view, each type of plate has specific characteristics. Moreover, plates are 'system-bound', which means that expensive product specific equipment is needed for the processing of a particular type of plate. Therefore, they were not regarded as interchangeable and were seen as separate product markets.

62. Consequently, in decision M.986 Agfa-Gevaert/DuPont, digital plates (i.e. for CtP technology) were distinguished from analogue plates, the latter ones being further divided into positive and negative plates[9]. Digital plates were not further subdivided since at the time of the decision thermal plates were still in the development phase and not yet available on the market.)

63. The parties' submission as regards market definition for plates is largely in line with the Commission's past practice. A customer's choice of pre-press consumables, i.e. printing plates and pre-press chemicals is determined by the pre-press technology employed. This is true for analogue positive, analogue negative, visible light and also thermal plates. Due to technological progress over the past few years supply-side substitutability has, according to the parties, improved.

64. However, from a demand-side perspective, analogue and digital plates clearly do not belong to the same product market. The respective CtF or CtP equipment acquired by a printer requires the use of those types of printing plates which correspond to these technologies. Some competitive pressure may be exerted from one type of plate on the other since the price of plates influences the customers' basic "system" decision, i.e. the decision whether to purchase CtF or CtP technology. However, this cannot justify the assumption of one single market for analogue and digital plates. Digital plates and more generally digital technology have clear qualitative advantages as compared to analogue technology.

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8 *Eastman Kodak/Sun Chemical* (Case No IV/M.1042; 15/01/1998) and *Agfa-Gevaert/Dupont* (Case No IV/M.986, 11/02/1998), OJ [1998] L 211/22.

9 An additional plate mentioned in the decision was the electrostatic plate. This type of plate is not relevant and not affected by the transaction

65. Since CtP does not require the use of film, a whole step in the process of pre-press printing can be eliminated. Accordingly, costs are reduced and time can be saved and possible mistakes which may occur at every step can be reduced/eliminated. Time-saving is especially important for the time-sensitive newspaper sector, where large quantities of printing plates have to be processed within a few hours. The general advantage of CtP, however, applies to all customers. The investigation confirmed that the market participants widely share the view that analogue technology will completely be replaced by CtP or any new digital technology in the short/medium-term.

66. From a supply-side view, flexibility in production only exists to a limited extent which cannot outweigh the described demand-side differences. Digital plate manufacturing requires different intellectual property/technology and more sophisticated production processes. The conversion of analogue production lines into digital plates production lines requires investments in, for instance, coating line adjustments. The existence of different markets for analogue and digital plates was broadly confirmed by the market investigation.

Analogue plates

67. In Agfa/Dupont, the Commission concluded that analogue positive plates and analogue negative plates formed distinct markets. This conclusion was based on the following argumentation: positive plates have a highly light-sensitive coating and are exposed to positive film originals and so-called positive developer (chemicals). Positive plates are generally used for high-quality (colour) printing. With negative plates, the sensitivity of the chemical layer of the printing plate is different and negative film and negative developers are used. Negative plates are used in particular where speed and reliability are more important than image quality.

68. The parties state that the quality differences between negative and positive plates have largely disappeared with technological advances. However, significant switching between negative and positive plates has not occurred and negative or positive plates are still used for similar applications as in the past (the newspaper printing sector mainly uses analogue negative plates and equipment).

69. Once the choice of a particular type of workflow has been made, i.e. either positive or negative, switching from positive to negative plates will not occur. As a matter of fact, the customer would have to change its pre-press installation because the whole workflow, including the plate-processing equipment used, is tailored to using either negative or positive plates. Thus, there is no demand-side substitutability.

70. Nevertheless, the parties claim that analogue plates form a single product market because of supply side substitutability. Suppliers produce analogue plates on the same production lines and switch easily and rapidly between the productions of both types of plates. Switching involves cleaning the coating line and the use of another coating mix. It is argued that the change requires no more than [less than 10] hours of downtime.

71. […]

72. However, for the purpose of this case, this question can be left open since the competitive assessment would not vary regardless of the market definition.

Digital plates

Thermal vs. visible light plates

73. As for equipment, digital printing plates can be further subdivided into thermal and visible light. Thermal and VL plates perform very similarly once in use on the printing press, but function differently in the platesetter. From the demand side, once the choice of a particular type of workflow has been made, i.e. either thermal or visible light, the customer will not be able to change its plates and switch from thermal to VL and viceversa. The customer would have to change its pre-press installation as the plate-processing equipment used is tailored to using either thermal or visible light plates. Thus, there is no demand-substitutability.

74. There is some degree of supply-side substitutability, although not as high as for analogue plates. Thermal and visible light technologies are not yet as widely available as analogue technologies. Moreover, the production of visible light plates requires some additional equipment (a second coating head because visible light plates require a protective layer against migration of certain components). The time needed to switch production on one line from production of one category of plate to another is according to the parties approximately [less than 10] and there are no other costs involved than labour costs[10].

75. The investigation has shown that the ability to switch basically depends on the specific features of each production line. As a matter of fact, production lines can be arranged so as to render switching relatively speedy and inexpensive. When this is not the case, plate producers have indicated that opportunity costs of closing the production line for the time of conversion can be considerable.

Newspaper vs. commercial plates

76. The parties have argued that plates for newspaper applications and commercial printers are exactly the same and can be produced on the same production line: plate producers only need to cut the plates to appropriate size.

77. Standard sizes for printing plates correspond to standard sizes of CtF imagesetters and CtP platesetters: e.g. VLF (Very Large Format); 8-up (corresponding to eight standard paper sheets); 4-up (four standard paper sheets); 2-up (two standard paper sheets); and Newspaper. In the parties' view it would be inappropriate to define markets according to applications by customers. With respect to newspaper customers in particular, the only thing that differentiates plates sold to newspaper customers from plates sold to other customers is the size of the plates. The size of a newspaper printing plate will correspond to the size of the sheet of paper on which the newspaper is to be printed. For instance, a "broadsheet" newspaper will be printed with a larger printing plate than a "tabloid" newspaper. The size of the printing plate is adjusted quite easily at the production stage: by simply cutting the rolled aluminium sheet to differently sized plates as compared to, for instance, printing plates in 4-up or 8-up size. The market investigation has not contested the parties' view, although some respondents considered that actual supply side substitutability is lower than argued by the parties.

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78. However, to the extent that newspaper printers requires around the clock assistance (24/7), it could be argued that a separate market for plates for newspapers applications should be limited to those players who are in a position to provide adequate dedicated sale forces and after-sale services. This argument would militate in favour of further delineation of the market for digital plates on the basis of the end-user criterion.

79. In any event, the market definition can be left open, as the transaction will not give rise to adverse effects on competition regardless of the market definition being retained.

iii) Pre-press chemicals

80. Given that the chemicals are optimised by the plate manufacturers to be used for particular types of plates, customers generally order quantities of chemicals to be used with corresponding quantities of plates purchased from the manufacturers. In other words, pre-press chemicals are quintessentially complementary add-on products and in most cases sold in conjuction with those primary and/or secondary products (equipment and plates) for which they are specifically suited.

81. Based on the above, the parties claim that chemicals should not be treated as a distinct market. The market investigation has confirmed the parties' view. In Agfa/Dupont[11] the Commission took the view that there may be a distinct market for chemicals, but left the question open. The market definition can in any event be left open, as the transaction will not give rise to adverse effects on competition regardless of the market definition being retained.

C. Relevant geographical market

82. According to the parties the market for both pre-press equipment and consumables is at least EEA-wide. All suppliers sell equipment throughout the EEA from a few manufacturing locations. For example, Agfa's pre-press equipment sold in the EEA is manufactured in the USA or under contract by third parties in Belgium and Japan. Lastra manufactures platesetters in the USA and plate processors in Italy. Other suppliers also sell equipment from outside Europe (e.g. Fuji and Creo). Agfa estimates that more than [50-60]% of total image/platesetters sold in the EEA are imported from outside Europe. Transport costs are minimal (on average below [<5]% within Europe). All significant equipment suppliers are active throughout the EEA (and beyond).

83. The market investigation has confirmed the parties' view. Indeed, all suppliers sell equipment and consumables throughout the EEA from a few manufacturing locations, and transport costs are relatively low ([<5]%). The investigation has also shown a non negligible degree of price fluctuations across Europe (in a limited number of countries) with differences up to […]%. However, similar price fluctuations have been recorded at intra-country level across Europe, as it is current practice to sell the same model of equipment and/or consumable at different prices depending on the specific customer, with swings up to […]%. In other words, it appears that price fluctuations have more to do with the specific features of the industry and the way these products are marketed (package deals of equipment plus consumables, tendering processes, two distribution channels i.e. through independent dealers and through manufacturers'

11 *Agfa-Gevaert/Dupon t*(Case No IV/M.986, 11/02/1998), OJ [1998] L 211/22.

direct sales forces) than with different conditions of competition across the EEA. Based on the above, in accordance with the Commission past practice, the markets for both equipment and consumables will be regarded as being at least EEA-wide.

84. A world-wide market definition would result in a lower degree of concentration for all products concerned, with the possible exception of the presumptive market for newspaper applications, due to Lastra's stronger position in the US than in the EEA in this segment. However, this alternative market definition for the presumptive newspaper applications market is not to be retained, as these specific applications require dedicated 24/7 after-sales forces, which in turn requires strong local (EEA-wide) presence.

D. Assessment [12]

i) Pre-press equipment

CtF processors

85. Both parties to the merger sell processors eligible either for the processing of analogue or digital plates. (Agfa does not produce its processors itself, but has them manufactured by Glunz & Jensen ("G&J").) The parties' combined market shares are:

EEA (market shares in %)	Agfa	Lastra	Combined
Analogue plate processors	[0-10]	[0-10]	[10-20]
- for analogue positive plates	[0-10]	[0-10]	[10-20]
- for analogue negative plates	[0-10]	[0-10]	[0-10]

86. On the basis of the above market shares, the transaction does not give rise to competition concerns regardless of the market definition applied. No concerns with respect to processors were voiced by market participants during the market investigation. Analogue plate processors will, similarly to CtF-imagesetters, decline rapidly in market volume within the next few years.

CtP platesetters / processors

87. Both Agfa and Lastra are active in the pre-press digital equipment sector. There exist therefore horizontal overlaps stemming from the operation. However, the notified transaction does not give rise to competition concerns.

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[12] The market shares referred to in this decision represent best estimates by the parties. The market investigation has largely confirmed the validity of these best estimates.

88. Agfa's and Lastra's activities in this sector differ greatly in scope, importance and business focus/models. Overall, equipment represented only [0-10]% of Lastra's 2003 sales in the EEA. More than [90-100]% of revenues in the EEA in 2003 derived from plates. The market investigation clearly confirmed that Lastra is primarily perceived as a plate supplier rather than an equipment supplier.

89. Furthermore, in contrast with Agfa and Agfa's principal competitors, Lastra distributes [90-100]% of its pre-press equipment sold in the EEA via indirect sales through independent third party dealers and agents. These dealers generally operate on a non-exclusive basis and consequently often carry a variety of brands. Pre- and after-sales support is normally provided by Lastra's dealers rather than Lastra itself.

90. Conversely, Agfa can offer customers complete pre-press solutions consisting of equipment, plates and other consumables, software, and services through a distribution network involving a mix of direct sales via its subsidiaries and indirect sales through non-exclusive independent dealers.

91. These differences in size, focus and scope are exemplified by the low increments of market shares. As indicated in the table below, the parties' combined shares of sales are not high in the pre-press equipment market, even if narrow candidate product markets are considered. In CtP platesetters, Lastra's sales represent only a *de minimis* increment of Agfa's sales: less than [0-5]% of EEA sales by volume in 2003. Agfa's corresponding share was [20-30]%. In the sub-category of thermal CtP platesetters, the transaction will not give rise to any change post-transaction, since Lastra is not active in this segment. In the sub-category of visible light CtP platesetters, Lastra's sales represent, again, only a *de minimis* increment to Agfa's: around [0-5]% of EEA sales by volume in 2003. Agfa's corresponding share was [30-40]%. Also in plate processors, the combined share is relatively modest, as Lastra had a market share (by volume) of [0-5]% in 2003, and Agfa had a market share of [20-30]%.

EEA-wide market shares Pre-press digital equipment	**Agfa**	**Lastra**	**Combined**
CtP platesetters	[20-30]%	[0-5]%	**[20-35]%**
- thermal laser	[10-20]%	[0-5]%	**[10-25]%**
- visible light	[30-40]%	[0-5]%	**[30-45]%**
Plate processors	[20-30]%	[0-5]%	**[20-35]%**
-thermal	[10-20]%	[0-10]%	[10-30]%
-visible light	[40-50]%	[0-5]	[40-55]%

92. There are a number of sizeable suppliers in the pre-press digital equipment market. The leading suppliers are among the most significant players in the pre-press industry. In CtP platesetters, Creo held a share of approximately [20-30]% of EEA sales in 2003, followed by Heidelberg at [10-20]%, Screen at [10-20]%, and Fuji at [0-10]%. In the sub-category for thermal CtP platesetters, Creo's share of EEA sales was [30-40]% in 2003, followed by Screen at [10-20]%, Heidelberg at [10-20]% and Fuji at [0-10]%. Heidelberg, Screen, and Fuji also supply visible light platesetters, and held shares of EEA sales in 2003 of [10-20]%, [0-10]%, and [0-10]%, respectively.

93. In plate processors, KPG was the leading supplier with an estimated [20-30]% of EEA sales in 2003, closely followed by Glunz & Jensen with [20-30]%, Fuji at [10-20]%, and Heights at [0-10]%. Further delineation of plate processors in thermal and visible light shows that Lastra is only marginally active in the latter category and the addition of market shares is *de minimis*, while the combined market share for thermal would amount to [20-30]%. The relatively low increments and the relatively low combined market shares indicate that the market for plate processors will remain sufficiently fragmented, with the presence of both major and smaller producers.

94. Furthermore, technology innovation is a crucial factor in this market and renders current market shares and market positions very fluid. The first CtP platesetters were introduced by Agfa in 1993. These engines operated with a green visible light laser. Compared to today's standards, the quality of the finished printing plates produced in these applications was rather low, but run lengths and productivity high.

95. In 1995 Creo and KPG launched a thermal laser CtP concept. These first thermal CtP systems had been developed by Creo, which until then was an OEM manufacturer, supplying equipment to others. However, Creo has since then developed into a very successful supplier under its own brand. Initially, the thermal CtP engines yielded high quality output, but had relatively low productivity in terms of run lengths of prints.

96. Since the early introductions, visible light and thermal CtP equipment and plates have been improved and are today suitable for most printing applications. For instance, in 2000, KPG and Creo launched a thermal system defined for long print runs.

97. Another significant development was the introduction, in 2002, of violet lasers in visible light applications. The violet laser is significantly cheaper than the green laser as it uses the same type of diodes as are used in DVD players. The expectation is that green visible light will disappear from the market. For the time being, thermal CtP devices and violet visible light devices are the most commercially viable.

98. Moreover, new technologies and processes are making their appearance. No less than 12 manufacturers are competing to develop further "processless" printing, which would eventually imply a further shift from VL to thermal, adding uncertainty to the market.

ii) Printing plates

Analogue plates

99. The transaction gives rise to affected markets in printing plates. For analogue plates, Agfa and Lastra had a estimated combined EEA-wide share of supply of [40-50]% (Agfa [20-30]% and Lastra [10-20]%) in 2003. For analogue positive plates, the combined EEA-wide share was also [40-50]% (Agfa [10-20]% and Lastra [20-30]%) and for analogue negative plates, [40-50]% (Agfa [40-50]% and Lastra [<5]%). Even though the size of the overlap differs across the alternative market definitions, the market shares of the combined entity as well as the positions of the competitors are almost equal in all three segments. The assessment will therefore not distinguish between the three possible markets.

EEA (market shares in %)	**Agfa**	**Lastra**	**Combined**	**KPG**	**Fuji**	**Others**
Analogue plates	[20-30]	[10-20]	[40-50]	[30-40]	[10-20]	[0-10]
Analogue positive plates	[10-20]	[20-30]	[40-50]	[30-40]	[10-20]	[0-10]
Analogue negative plates	[40-50]	[0-5]	[40-50]	[30-40]	[20-30]	[0-10]

100. As described above, the offset printing sector has witnessed, and continues to witness, significant technological change, with the arrival of digital laser technology. The rapid pace of change is reflected in the growth of installed digital equipment and digital plate sales. The continual technical change at work in the marketplace exerts significant downward pressure on equipment and consumables prices. Agfa's realised average end-user net prices for analogue plates decreased by around […]%. During this period, Lastra's prices in the analogue sector dropped by around […]%. The time period until the complete shut-down of analogue printing plate production in the EEA was estimated by customers and competitors as between 5 to 10 years. Most market participants expect prices for analogue plates to further decrease in the future. Overall, market participants have not expressed major concerns with respect to the effects of the merger on the analogue plate market.

No single dominance / no non-coordinated effects

101. The transaction does not give rise to single dominance by Agfa or to other non-coordinated effects on the markets for analogue plates. Even though there is significant overlap between the parties in the analogue plates markets and Agfa will gain, with the merger, a leading position among plate suppliers, the creation of a single dominant position cannot be expected. Indeed, KPG and Fuji are strong worldwide players with distribution systems, service support, financial and technological resources similar to Agfa's and with comparable strength. They will continue to constitute an effective constraint on Agfa.

102. In case of a unilateral price increase by the merged entity, customers could easily switch to other suppliers of analogue plates. It was widely confirmed in the market investigation that interoperability of plates is a given fact. CtF equipment can generally be readily used with different brands of analogue plates. When a customer switches from one brand to another, this will typically incur direct switching costs related to the change of pre-press chemicals in the processor and the adjustment of the processing cycle. In addition exposure tests in the contact frame and a test processing of the plates would be necessary. Many customers indicated that they usually ask one or more suppliers for quotations when a current supply contract runs out (usually annually), which appears to confirm the relative easiness of switching.

103. Competitors would also be able to supply additional customers. The parties have indicated that there exists excess capacity for the production of analogue plates in the EEA. Competitors would therefore be able to respond to any attempt of unilateral price increases by expanding their own output, without the need to make any significant capacity expansion. The absence of capacity constraints in the EEA was not contested in the market investigation. Entry barriers are, moreover, not high in the

analogue segment since the technology is mature and easily obtainable. Verona Lastre ("Vela"), for example, entered the market in 2000.

104. Moreover, the competitive impact of the transaction on analogue plates has to be examined in close connection to the development in digital technology. Although Agfa has stressed that the market is not characterised by brand loyalty, it is likely that customers of a specific supplier for analogue plates in the past will be more prone to first consider the digital technology of the same supplier than others' when deciding if and how to switch to the digital system. Lastra customers might therefore be inclined to turn to Agfa products first for future supplies of digital plates. In this respect, the contact with and the experience of Lastra's dealers may prove valuable with a view to influencing customers' decision.

105. […] With unilateral price increases for analogue plates on grounds of market power Agfa would, therefore, run the risk of not only loosing current analogue customers but also future digital customers to competing suppliers. The profitability of such a strategy appears to be at least questionable.

106. Other non-coordinated effects are also unlikely to result from the merger. Lastra cannot be regarded as the closest competitor to Agfa. The majority of analogue plate end-customers has indicated during the market investigation that Agfa and Lastra fulfil different customer needs. A number of respondents have considered Lastra's analogue plates as being a low-medium quality. Accordingly the market investigation has in general indicated that Lastra's products were not considered as an immediate alternative by a majority of surveyed customers using analogue plates. Especially in the newspaper business – which due to the time-sensitiveness is particularly keen on minimising production drop-outs and mistakes – the reliability of the plates is of essence. In this respect, Lastra's products are differentiated from those offered by the big suppliers such as Agfa, Fuji and KPG. Consequently, the competitive constraint on Agfa exerted by Lastra can be regarded as smaller than the one exerted by Fuji and KPG, who apply similar quality strategies as Agfa.

No collective dominance

107. There is no indication that collective dominance among Agfa, KPG and Fuji in the analogue plate markets could emerge as a result of the merger. The market does not exhibit characteristics which make collective dominance likely.

108. First of all, the lack of transparency speaks against collective dominance. During the market investigation end-customers have confirmed that customer/supplier(s) negotiations are conducted confidentially on a bilateral basis. Suppliers are generally not aware of the level of prices quoted by rivals. In addition to that, price offerings by competing suppliers are difficult to compare due to the existence of package deals. These deals may not only assemble equipment and plates, but also plates and chemicals, for example, as well as after-sales services. These packages further decrease the possibility of collective dominance because it becomes difficult to allocate the total price paid for the package of goods across the different elements of the package ("price itemisation").

109. Moreover, transparency is reduced when manufacturer distribute their products via independent dealers. It is then not known whether a price reduction offered to the customer by a dealer reflects a reduction in the wholesale price to the dealer (i.e. an act of deviation) or whether the dealer is using some of its own margin to secure the

business. According to the parties, the prices offered to dealers may, moreover, vary according to the activities undertaken by the dealers in conjunction with the sale of the plates. For instance, certain dealers provide various forms of application support to the customer on behalf of the manufacturer. The latter category will generally obtain a discounted price, corresponding to the value of the additional services provided, as compared to the former.

110. In addition, the market does not seem to be characterised by the degree of stability necessary to establish collective dominance through repeated competitive interaction under similar competitive conditions. The market for analogue plates is in decline, as customers switch from CtF to CtP and other "real digital" technologies. This decline in demand has caused the gradual erosion of analogue plates prices. This would make predicting the rivals' pricing decisions even more complex. Moreover, it would be difficult to distinguish whether a loss in sales has resulted from the overall decrease in demand or from the competitor's offering of low prices. The same lack of transparency over pricing that makes it hard to establish collective dominance would make it difficult to establish an effective retaliation mechanism.

111. Furthermore, even though the main three players in the analogue printing plates markets will be Agfa, Fuji and KPG, a number of smaller players, such as Vela and Ipagsa, are also active in the analogue plate markets. The equipment producer Heidelberg also offers plates. Vela, a subsidiary of the Samor Group, entered the printing plate sector in early 2000. In 2002, it acquired the French plate manufacturer Efi, which provided additional capacity. Today, Vela produces analogue positive and analogue negative plates (and digital thermal plates). Although Vela entered the plate market less than five years ago, it has achieved a significant presence. Agfa estimates that Vela's share of analogue plate sales in the EEA was around [0-10]% in 2003 and its share of the analogue positive plates segment [0-10]%. This shows that in spite of declining demand the market provides room for newcomers which may exert competitive pressure on the big suppliers. New suppliers would also appear to have a chance to be particularly favoured by dealers and customers as an alternative to vertically integrated suppliers.

112. Generally, collective dominance will not become more likely because Lastra as a low-price supplier will be removed from the market. As described above, Lastra has offered a differentiated product as compared to the plates of the three big suppliers. The low price resulted mainly from a lower degree of quality and service, which is very clearly perceived by the market - some respondents to the market investigation even regarded the merger as a possibility for Lastra products to overcome quality problems. The widely expressed expectation of further price decreases in the near future supports the view that competition will remain strong in the future.

ii) Digital plates

113. The transaction does not raise competition concerns on the market(s) for digital plates. As already highlighted, Agfa and Lastra have different business focuses. This is also evident in the plate market. In 2003, sales of printing plates accounted for approximately [20-30]% by value of Agfa Graphic Systems sales. The majority of

Agfa's plate business is in the digital segment ([60-80]% of total EEA sales by volume[13] and [60-80]% by value in 2003).

114. Lastra as well manufactures and sells analogue and digital plates. However, by sharp contrast with Agfa, Lastra is a relatively new player in digital plates and entered this sector only through the acquisition of the US-based manufacturer Western Litho (today called Lastra America Corporation). As a result, its activities in this area are predominantly outside the EEA. In 2003, sales of printing plates accounted for approximately [90-100]% of Lastra's sales in the EEA. Although Lastra manufactures both digital and analogue plates, the focus of its European business is heavily on the analogue segment: approximately [70-90]% by volume (or [70-90]% by value) of Lastra's 2003 plate sales in the EEA were analogue plates.

115. As a result, the overlaps stemming from the operation as to digital plates are very small if not *de minimis*, even when delineating the markets down to the level of specific technologies (i.e. Thermal vs. Visible Light)

EEA-wide shares	**Agfa (%)**	**Lastra (%)**
Digital plates	[40-50]	[<5]
Digital thermal plates	[20-30]	[<5]
Digital visible light plates	[80-90]	[<5]

116. For digital plates, the combined Agfa/Lastra 2003 share was approximately [40-50]% (Agfa [40-50]%; Lastra [<5]%). If analysed on the basis of sales shares for thermal and visible light plates, the corresponding shares would be approximately [20-30]% (Agfa [20-30]%; Lastra [<5]%) and [80-90]% (Agfa [80-90]%; Lastra [<5]%), respectively. KPG and Fuji are active in digital plates. KPG is the main producer of thermal plates with a market share of approximately [50-60]% and has announced its intention to strengthen its presence also in visible light. Fuji holds a market share of [10-15]% in thermal plates (up from [10-15]% in 2001) and [10-15]% in visible light plates (up from [10-15]% in 2001). Furthermore, competitive constraints will also be exerted by Creo, the world leading supplier of thermal equipment, who has recently entered the thermal plates market and is expected to become a major player. Finally, smaller players like Vela, Ipagsa and Heidelberg are also active in digital plates.

117. From the analysis of market shares of Agfa and Lastra it can be concluded that, also in digital plates, the weight of the parties' businesses are primarily in different product categories. Lastra has been active in digital plates only since 2001. In the EEA, Lastra's business represents a marginal increment to Agfa's market share. Most of its sales are thermal plates, but even so, in 2003, Lastra's share of EEA thermal plate sales was [<5]% ([<5]% of all digital plate sales). In that year, Agfa's share was [20-30]%. Agfa's position in visible light plates is more prominent: [80-90]% of EEA sales in 2003. Lastra's position in this category is *de minimis*: [<5]%.

118. Agfa has, from the outset, been a significant player in the digital plate market, and it was one of the key drivers in the development of new technologies making CtP become more accessible to a broader customer base. Agfa's position in digital plates

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13 Volume-based data for plates is presented in square metres ("sqm").

is founded on the visible light technology, while it is trailing behind the leader KPG on the rapidly growing thermal side.

119. Lastra, on the other hand, has not been very successful in digital plates. Its commercial efforts have been primarily in the analogue sector. Lastra's R&D investments in digital plate R&D aimed at starting up manufacturing of digital thermal plates were hampered, when KPG in 2000 commenced proceedings against Lastra for infringement of intellectual property rights. Lastra entered the digital thermal and digital visible light areas through the acquisition of Western Litho in 2002. Lastra's current market shares derive exclusively from the acquisition of Western Litho.

120. Furthermore, the pace of technology change is very rapid. Similarly to equipment, this renders current market shares at most indicative of medium/long-term market positions.

121. Agfa was the first to introduce digital equipment and plates, with its visible light laser technology in 1993. Hence, its high share of digital visible light plates, though this position is gradually being eroded. In 1995, Creo, a newcomer in the field, together with Kodak (now KPG) introduced thermal laser technology. Over time, thermal technology proved to be a popular technology/became a more viable competitive solution thanks to the expectations that this technology would allow CtP to become processless over time. Thermal technology allowed KPG to capture the lead in digital from Agfa. Within each technology, further significant technological improvements have taken place.

122. The next step change is towards process-less CtP technology and CtPress technology. All established players and newcomers are engaged in a technological race which will determine their future success in the marketplace. Process-less technology has been introduced and could prove to be very attractive to customers as it eliminates the need for chemical processing of plates.

123. The ongoing technical change at work in the marketplace is also likely to continue to exert significant downward pressure on prices of plates. Declining end-user prices have been a prominent issue throughout the press and pre-press industries for several years. By way of example, Agfa's realised average end-user net prices for digital plates in Europe dropped by between approximately […] during the period from January 2001 to December 2002, depending on the category of plate.

124. The market investigation has confirmed the decline in prices for digital plates and has also highlighted that prices are likely to decline even further due to strong competition and technology innovation. This is also reinforced by the fact that entry is relatively easy. There have been several other entrants into digital plates during the last few years. According to VSM, the number of suppliers offering digital thermal plates grew by [50-60]% in twelve months up to August 2003. For instance Creo, the leading supplier of thermal equipment, is entering the thermal plate market segment, and so is Heidelberg, another leading player in pre-press equipment. Vela and Ipagsa, mentioned above, are additional examples of new entrants.

125. The 2004 DRUPA specialised trade fair has highlighted the level of competition and number of players. This was clearly highlighted in subsequent articles in the specialised press[14].

iii) Newspaper applications

126. Whilst the market investigation has largely confirmed that no competition concerns are likely to arise from the transaction in the overall pre-press digital sector (both equipment and plates) a limited number of competitors voiced their concerns as regards the impact on the presumptive market for pre-press digital technology for newspaper applications.

127. Concerns were expressed that the merged entity could have a dominant position in visible light technology for newspapers due to its high market shares and the overriding combined technological strength, notably with respect to violet laser technology.

128. Concerns were expressed that with the acquisition of Lastra the (allegedly) only non-vertically integrated supplier of digital plates for newspapers will disappear. It was argued that this may lead to problems for independent equipment manufacturers to compete with the package deals offered by the vertically integrated competitors. This could also have the ultimate effect of preventing potential new competitors for visible light equipment from entering the market.

129. The concerns also rested on the argument that visible light technology/violet laser (a technology which was recently introduced by Agfa) was regarded as the major future technology with respect to the newspaper segment – presumably more important than thermal technology.

130. The Commission has therefore further investigated the likely impact of the transaction on the presumptive market for newspaper applications, focusing on the available and future digital technologies.

131. Lastra appears far from being a major player in the hypothetical market for newspapers in the EEA. Lastra acquired a visible light ("VL") solution for newspapers with the acquisition of the U.S. company Western Litho in 2002 (then a subsidiary of Mitsubishi Chemical). Western Litho had a VL platesetter for the newspaper segment (the "Diamondsetter") and sold VL plates. Western Litho was active in the United States and was a player in the newspaper segment there, also through the sales of analogue plates. It had made a few sales of its Diamondsetter VL platesetter to European newspaper printers (around [0-10] customers) prior to the acquisition. It had a small sales force for this purpose in Europe.

132. In 2003, Lastra made sales to only a further [0-10] customers in the EEA[15]. Two of those sales were via a dealer – an atypical channel for a newspaper sale. In the same year, Lastra sold only 12k sqm VL plates in total, representing less than [<5]% of total

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14 See The Sybold Report vol 4, No.7, July 7, 2004

15 […]

VL plate sales in the EEA. Lower sales post acquisition of Western Litho seem to indicate that Lastra's business model is not suited for the newspaper segment.

133. Indeed, Lastra's commercial efforts have always focused on the indirect trade channel, with almost [90-100]% of its sales via dealers. The indirect trade channel is not suited for the newspaper market segment, which is typically served by direct supplier sales. 24/7 after sales support is crucial. Not surprisingly, Lastra has never covered newspaper customers and does not even have a newspaper staff among its small sales force.[16] Therefore, it would be wrong to elevate Lastra to a competitor of any significance in this market segment in Europe. The Western Litho business is a U.S. business and any further development in Europe would have been significantly hampered by Lastra's business model and lack of newspaper business.

134. Contrary to Agfa, Lastra is not an R&D-focused company. It attempted to enter the digital space but faced protracted patent litigation with KPG. It was with the acquisition of Western Litho in the U.S. that it became a player in this space. Through the Western Litho deal, Lastra acquired significant IP rights from Mitsubishi Chemical but these rights involve thermal technology, not VL technology. Neither Western Litho nor Lastra have any particular strength in VL technology. There is no reason to believe that Lastra would have acquired such position on its own.

135. In short, even if the market were to be as narrowly defined as pre-press equipment/printing plates for newspaper customers, the transaction does not affect in any substantial way the competition for newspaper customers in Europe. Lastra's activities in this market segment are at most marginal in Europe and it is very questionable whether Lastra, left to its own device, would have developed that business in Europe.

136. Suffice to say that Lastra's LV-2 violet VL plate (imported from the U.S.) is regarded as not sufficiently stable […].

137. […] However the market investigation has revealed that it is incorrect to state the Lastra is the only potential competitor to Agfa in violet laser technology. Other (and bigger) players are about to enter the market with violet laser technology (both equipment and plates).

138. KPG is expected to enter the violet VL plate market segment soon. Customers and independent equipment manufacturers have already tested the plate. […]. Fuji is also in the process of developing violet VL plate. Finally, Anocoil (U.S.) and IBF (Brazil) have announced the introduction of visible light plates. Both are active primarily outside Europe but have sales in Europe. In this respect they are similar to Western Litho. These plates could be easily imported as demonstrated by Western Litho/Lastra, who imports its VL plates. In addition, Mitsubishi Paper is an established supplier of VL plates. Admittedly, its sales in Europe are low but so are Western Litho's (and thus Lastra's).

139. This indicates that even as to the specific segment of violet VL plates for newspaper application competition is likely to continue.

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16 Lastra Imaging UK (only 10% owned by Lastra) has […] employees dealing with newspaper customers in the UK. By comparison, Agfa has over […] sales/support persons all over Europe.

140. Furthermore, the investigation carried out by the Commission has indicated that VL is no longer the dominant technology for newspaper application, as thermal technology is becoming increasingly competitive.

141. Historically, VL solutions have enjoyed significant customer acceptance in the newspaper segment because VL was the first digital technology on the market and large newspaper printers, for obvious reasons of productivity and efficiency, were among the early adopters of digital solutions. Agfa's current but eroding lead in VL (and VL solutions for newspapers) is explained by the same facts. Agfa pioneered VL pre-press solutions in 1994-95 and promoted them early on to newspaper customers. Thermal solutions for newspaper were only introduced in 1999. In summary, VL solutions for newspapers have been available for ten years, whereas thermal solutions have been available for less than five years.

142. Nowadays, VL technology solutions are competing head-on with thermal solutions in the newspaper segment as well as in every other segment. In 2003 about [30-40]% of all new platesetter sales to newspapers were thermal platesetters and thermal's share is still growing. Both technologies are very comparable in price and performance, also for newspaper customers.

143. The market investigation has confirmed that VL technology should not be considered as a distinct market in view of the demand-side substitutability with thermal technology.

144. Moreover, as already highlighted in several instances, technology innovation is a determining factor in the pre-press industry. Process-less technology, recently launched by several players, will in all likelihood represent the next step in the industry and will replace current CTP technology since this technology entirely eliminates the need for processing and processing chemicals. The market investigation has indicated that while both thermal as well as visible light technology can become process-less in time, thermal is at present regarded as the preferred technology.

iv) Pre-Press Chemicals

145. As mentioned, the parties have submitted that pre-press chemicals do not constitute a separate market and form part of the same markets for the corresponding printing plates. The market investigation has confirmed the parties claim.

146. However, for the sake of completeness, Agfa has also submitted its estimates of sales in the EEA of a presumptive pre-press chemicals market during 2003. Agfa's sales would amount to approximately [40-50]% and Lastra's would be [<5]%. Agfa also estimates that KPG's sales by volume represented roughly [30-40]% of total EEA sales, followed by Fuji at around [10-20]%. The same smaller players (Vela, Ipagsa, Heidelberg) active in plates are also active in pre-press chemicals. Similarly to the analogue plates markets it can be concluded that the presumptive market for chemicals is sufficiently fragmented so as to exclude competition concerns and that even though Agfa is market leader in pre-press chemicals, there exist strong and smaller competitors who can exert effective constraints on Agfa.

147. In view of the fact that pre-press chemicals are quintessentially complementary products and overwhelmingly sold in conjunction with those primary and/or

secondary products (equipment and plates) for which they are specifically suited, the competitive assessment carried out for equipment and plates apply mutatis mutandis to chemicals.

148. As a matter of fact, all respondents to the market investigation have referred to chemicals exclusively in conjunction and in relation to their arguments as regards equipment and plates. Most importantly, no competition concern was raised with respect to these products during the market investigation.

V. CONCLUSION

149. In view of all the elements of assessment described above, the Commission has concluded that the notified transaction does not give rise to competition concerns in the pre-press markets for equipment and consumables and that as a result it does not significantly impede effective competition in the common market or in a substantial part of it.

150. For the above reasons, the Commission decides not to oppose the notified operation and to declare it compatible with the common market and with the functioning of the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EEC) No 139/2004.

For the Commission

Poul NIELSON
Member of the Commission