

***Case No COMP/M.3822 -
STORA ENSO /
SCHNEIDERSÖHNE
PAPIER***

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 25/07/2005

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 25.07.2005

SG-Greffe(2005) D/203847

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.3822 - STORA ENSO/ SCHNEIDERSÖHNE PAPIER
Notification of 17/6/2005 pursuant to Article 4 of Council Regulation
No 139/2004¹
Publication in the Official Journal of the European Union No C 153 of
24.06.2005, page 2.**

1. On 17/6/2005 the Commission received a notification of a proposed concentration by which the undertaking Stora Enso Oyi ("Stora Enso", Finland) acquires control of the whole of G. Schneider & Söhne GmbH & Co KG ("Schneider", Germany) by way of purchase of shares.
2. After examining the notification, the Commission has concluded that the notified operation falls within the scope of the Merger Regulation and that it does not raise serious doubts as to its compatibility with the common market and the EEA Agreement.

I. THE PARTIES AND THE OPERATION

3. **Stora Enso** is an international industrial group active in the production and sale of forest industry products, in particular wood-based fibre products such as paper and board, pulp and sawn timber. It is also active in paper merchanting.
4. **Schneider** is a paper merchant with sales in a number of European countries. It has also minor activities in the production of envelopes and the provision of IT consulting services.

¹ OJ L 24, 29.1.2004 p. 1.

5. Stora Enso will acquire sole control of Schneider by the purchase, through its subsidiaries, of the totality of the shares of Schneider. The transaction will be realised in four stages and should be completed before 31 July 2007.

II. COMMUNITY DIMENSION

6. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion² (Stora Enso € 12.4 billion; Schneider € 1.1 billion). Each of them have a Community-wide turnover in excess of EUR 250 million (Stora Enso, € [...] billion; Schneider € [...] 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.

III. RELEVANT MARKETS

A. Paper Merchanting

(i) Relevant product market

7. The notified transaction concerns the sector of paper merchanting. Paper merchanting is the distribution by paper merchants of office and graphic paper and related products, primarily fine paper in reels (commonly used with printing presses) and sheets of various sizes. In line with previous Commission decisions³, the parties consider that paper merchanting constitutes a relevant product market distinct from other distribution channels such as direct sales from paper manufacturers, due to differences in market structure, logistics and pricing.
8. Some replies to the Commission's questionnaire suggested that sales from paper merchants could be substituted by indent sales (when the order is placed through the paper merchant but delivery takes place directly from the paper mill to the customer) and/or by direct sales from the paper manufacturers. However, it has been pointed out that a certain degree of substitutability exists only in relation to the deliveries of big quantities of paper purchased, whereas, for the delivery of small quantities of paper, merchants do not appear to be substitutable.
9. However, for the purposes of this decision, the precise definition of the product market can be left open since under any possible market definition, no competition concerns would arise.

² Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Notice on the calculation of turnover (OJ C66, 2.3.1998, p.25). To the extent that figures include turnover for the period before 1.1.1999, they are calculated on the basis of average ECU exchange rates and translated into EUR on a one-for-one basis.

³ COMP M. 3227 Paperlinx/Buhrmann Paper Merchanting division ; COMP M:2245 Metsa-Serla/Zanders

(ii) Relevant geographic market

10. The Commission has previously considered⁴ the market for paper merchanting to be national in scope, because of the need of a local presence. However, the parties submit that in some cases, especially in relation to small countries, the market might be wider than national, due to the frequent cross-border sales from neighbouring countries.
11. Part of the respondents to the Commission's market investigation has pointed out that, given that quick delivery is the main requirement that paper merchants are to satisfy, the most appropriate geographic definition of the relevant market corresponds to an area of a radius of maximum 200 – 250 km from the warehouse. As a result the relevant market might be narrower than national, local or regional, or wider than national depending on the size of the countries concerned.
12. In any event, for the purpose of the present decision, the precise delineation of the geographic market can be left open, as the conclusions of the Commission's analysis remain unaltered irrespective of the definition retained.

B. Fine Paper

(i) Relevant product market

13. Since Stora Enso is a paper manufacturer, the effects of the present transaction need to be analysed also on the upstream market for the production and sale of fine paper. Fine papers are mainly printing and writing papers of high quality. They are made out of pulp and can be either coated with a special surface or uncoated. In previous cases the Commission has left open the question as to whether there exists one, sole, or two distinct markets for wood-free coated paper (WFC) and wood-free uncoated paper (WUC)⁵. This distinction does not seem relevant for the assessment of the present transaction as it would not have any impact on the competitive assessment.

(ii) Relevant geographic market

14. The Commission has previously considered the geographic scope of the market for the manufacture and sale of fine paper to be the EEA⁶. The parties submit that this market can be considered world-wide since there are significant imports of papers in the EEA from Asia and America. Nevertheless and in accordance with previous Commission decisions, the relevant data have been provided at EEA level.
15. However, the precise definition of the relevant geographic market may be ultimately left open since, as further explained below, the present transaction does not create competition problems even if the narrowest definition of the relevant market (i.e. the EEA) is retained.

⁴ COMP M. 3227 Paperlinx/Buhrmann Paper Merchanting division ; COMP 2245 Metsa-Serla/Zanders

⁵ COMP M.2245 Metsa-Serla/Zanders.

⁶ COMP M.2245 Metsa-Serla/Zanders.

C. Magazine paper, newsprint and board

16. Stora Enso produces also newsprint, magazine paper and board. These products are in the market upstream of paper merchanting. Schneider is not a producer of any of these products. The Commission has found in previous decisions that newsprint and paper magazine constitute two distinct markets and that the geographic scope of these markets should be an area comprising the EEA and Switzerland⁷. The Commission has distinguished the market for liquid packaging board from the market for board which is not designed to package liquids and has considered the two markets to be not wider than the EEA⁸.

IV. ASSESSMENT

17. At an horizontal level and as regards paper merchanting, there are six affected markets, where the parties' combined market share would exceed 15%, namely Lithuania, Latvia, Hungary, the Netherlands, Luxembourg and France. In Belgium the parties' combined market share would be [10-15%]. In Hungary and Lithuania parties' market share post-merger would be [25-35%] and [30-40%] respectively. Since the combined market share would exceed 25% in Hungary and Lithuania, two countries where Stora Enso is active as a paper manufacturer, the upstream market for the production of fine paper is to be considered as a vertically affected market.
18. The parties submit that the transaction would not give rise to any competition problem in light of: 1) the not material overlap in parties' activities (with the sole exception of Lithuania); 2) the relatively low combined market shares (which exceed 25% only in Hungary and Lithuania); 3) the existence of a significant number of competitors in 5 of the 6 affected markets (the only exception being the Netherlands where the combined entity would however have to face competition coming from one player, Paperlynx, which appears to be the leading player in the market); 4) the competitive nature of the paper merchanting market which, according to the parties, is shown by the steady price falls registered in the last years in this market.
19. Furthermore, the parties submit that the paper merchants are subject, especially in small countries, to the competitive constraints coming from the paper merchants established in the neighbouring countries, which would prevent them from increasing their prices.
20. The respondents to the Commission market investigation have largely endorsed the parties' view that the present merger would not have any negative impact, mainly due to the actual presence in the downstream market of a sufficient number of competitors and to potential new entries. The answers to the market investigation confirmed the existence of significant cross-board trading especially in the Euro-zone and in relation to small countries.
21. The parties submit that the transaction does not create any competition problems on a vertical level either. They submit that paper manufacturers would not be foreclosed since paper merchants in order to be able to offer a wide choice to their clients, normally source their orders from different suppliers. Moreover, given the moderate

⁷ COMP M.2498 UPM- Kymmence/ Haindl

⁸ COMP. M. 1225, Enso/Stora.

market share of the combined entity in any of the affected markets, a significant part of the demand for fine paper would remain fully open to competition. Finally, paper merchants account only for half of the sales realised by paper manufacturers, the other half being direct sales to large customers.

22. In addition, given Stora Enso's modest market share in the upstream market for fine paper⁹ at EEA level, the transaction would not entail any input foreclosure for paper merchants.
23. The market investigation has confirmed that, due to the presence of other paper producers in the upstream market and of other paper merchants downstream, the transaction does not create risks of foreclosure in any of these markets.
24. With regard to newsprint, paper magazine and board, Stora Enso has a market share of [20-30%] for newsprint in the EEA plus Switzerland, [15-25%] in paper magazine in the same area and [10-20%] in the EEA market for consumer packaging board (excluding liquid packaging which in any event is not sold to paper merchants). In this regard, the parties submit that in addition to these market shares being modest, only a marginal part of the sales of newsprint, magazine paper and board are realised through paper merchants.
25. The answers to the market investigation have largely confirmed that these products are normally sold directly from the paper manufacturers to the final clients and that the transaction would not have any impact on any of these markets.

V. CONCLUSION

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

For the Commission, signed,
Markos KYPRIANOU
Member of the Commission

⁹ Stora Enso's 2004 market share for the production and supply of fine paper was approximately [10-15%].