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Case No COMP/M.3886 - ASTER 2 / FLINT INK

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REGULATION (EC) No 139/2004
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
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PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)b DECISION

To the notifying parties

Dear Sir/Madam,

Subject : Case No. COMP/M.3886 – Aster 2 / Flint Ink
Notification of 20.07.2005 pursuant to article 4 of Regulation No 139/2004

1. On 20.07.2005, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which the undertaking Aster 2 S.A. ("Aster", Luxembourg), controlled by CVC European Equity Partners III L.P., a fund company that is controlled within the meaning of Article 5(4)(b) of the Council Regulation by the CVC Group, acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the undertaking Flint Ink Corporation ("Flint ", USA) by way of purchase of shares.

2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation No 139/2004 and does not raise serious doubts as to its compatibility with the common market and the EEA Agreement.

I. THE PARTIES AND THE OPERATION

3. Aster 2 is the holding company for Xsys Print Solutions ("Xsys"), a producer of printing inks for publication and packaging applications and pigments for printing inks. Xsys was created in late 2004 following the acquisition by CVC of BASF AG's printing inks business and that of ANI Printing Inks B.V. CVC is a private equity company with financial investments in various industries, including chemicals, automotive, utilities, manufacturing, retail and distribution.

4. Flint produces and markets printing inks and accessories for the publication and packaging industries.

5. The operation will confer sole control of Flint to Aster 2. The operations of Xsys and Flint will be integrated into Aster 2.

II. COMMUNITY DIMENSION

6. The combined aggregate world wide turnover of the undertakings concerned exceeds € 5000 million (CVC: € […] million, Flint: € […] million in 2004). The aggregate Community wide turnover of two of the parties exceeds € 250 million (CVC: € […] million, Flint: € […] million). These parties do not achieve more than two-thirds of their aggregate Community wide turnover in one and the same Member State. The notified operation, therefore, has a Community dimension according to Article 1(2) of the Merger Regulation.

III. RELEVANT MARKETS

The relevant product market

7. This case concerns the production and marketing of printing inks and accessories for the publication and packaging industry. There are a wide variety of printing inks and the parties argue that the relevant product market definition is a market for printing inks as a whole.

8. In previous cases[1], the Commission has looked at these markets and considered that, on the demand-side, inks can be divided into publication and packaging inks. On the supply-side, a distinction between paste and liquid inks can be made on the basis of the inks' physical characteristics. The bulk of inks used in publication are paste inks and most packaging inks are liquids, with some sheetfed paste ink being used for printing packaging. The market investigation clearly states that there is very limited substitutability from the demand side between paste and liquid inks. Seen from the supply-side, different facilities and equipment are required to manufacture paste inks and liquid inks. It therefore appears that paste and liquid inks constitute distinct markets.

9. The category of paste inks can be further segmented, depending on the different printing processes in which they are used, into heatset, coldset and sheetfed inks. Heatset and coldset are used for medium to long printing runs with the latter being primarily used for printing newspapers. Sheetfed is used for shorter print-runs.

10. Liquid inks, can be segmented into gravure and flexographic inks.

11. As stated above in § 8, the market investigation has pointed to overlaps between the publication and packaging segment. Publication gravure, a liquid ink, is used in publication applications on high quality paper (magazines, advertising insets and catalogues). Sheetfed, a paste ink, is also used in printing packaging, most often on container board and paper. Therefore, it can be considered that a segmentation on the basis of ink application provides a less clear marker delineation than the above

1 See Case No COMP/M.3564 – CVC / ANI Printing Inks of 28 October 2004 and Case No COMP/M.1742 – Sun Chemical / TotalFina / Coates of 22 December 1999.

segmentation according to the physical properties of the inks (paste versus liquid inks).

12. With regard to the question whether inks for each of the above mentioned printing processes form a distinct market, the results of the market investigation are not conclusive. On the supply side, the manufacture of the different paste inks is to a large degree similar, and such is also the case for the different liquid inks. Equipment and manufacturing processes can be fairly easily adapted to enable the production of inks of varying formulae within either the paste or liquid segment. From the demand side however, whilst different printing processes can be competing for the same printing job, the fact remains that each of the different printing processes require different equipment and that the inks used in these printing processes are not interchangeable on the different equipment. In any case, for the purpose of this decision, it can be left open whether inks for each of the above mentioned printing techniques form a distinct market, since in no alternative product market the proposed operation will significantly impede effective competition in the common market or a substantial part of it in particular as a result of the creation or strengthening of a dominant position.

The relevant geographic market

13. On the basis of the low level of transport costs, significant cross border trade, comparable price levels, the multinational presence of all major competitors and the fact that having local production is not a prerequisite to compete in the inks markets, the Commission has considered in previous cases that the ink markets are EEA-wide in scope.

14. The market investigation in the present case has confirmed the above, indicating that irrespective of the point of supply, printing inks are the same across Europe. Whilst customers value local sales and technical support services, it is not necessary for an ink supplier to manufacture inks in a particular member state to be able to sell in that member state. Customers are also increasingly contracting for the supply of ink on a pan-European basis, which leads to price convergence. On the basis of de minimis imports from outside the EEA, a world-wide market can be ruled out. The relevant geographic scope of the inks markets is therefore the EEA.

IV. COMPETITIVE ASSESSMENT

Horizontal overlaps

15. On an EEA scale, the parties' year 2004 combined share for all printing inks is [25% - 35%] by value[2] (Xsys [15% - 25%] and Flint [5% - 15%]). This compares to Sun Chemical's market share of [35% - 45%]. Other competitors that are active throughout the EEA and that provide the full range of ink for all printing process include Siegwerk ([5% - 15%]) and Huber ([5% - 15%]). SICPA ([5% - 15%]) focuses on packaging inks. Other competitors, mostly players with local strengths specialising in a particular segment of the market, account for the remaining [5% - 15%] of the market.

16. Assuming separate market for paste inks and liquid inks, the merged entity would have a [30% - 40%] market share for paste inks (Xsys [15% - 25%] and Flint [10% -

2 All market shares are based on value, as provided by the parties.

20%]). Sun remains ahead of the new entity with [35% - 45%]. Other established paste ink producers are Huber ([10% - 20%]), Siegwerk ([0% - 10%]) and SICPA ([0% - 10%]). A number of smaller players account for around 10% of the market. Flint's presence in the liquid inks market ([5% - 15%]) is weaker than for paste inks. Combined, the new entity would have a market share of around [20% - 30%], clearly behind market leader Sun ([35% - 45%]), and followed by Siegwerk ([5% - 15%]), SICPA ([5% - 15%]) and Huber ([5% - 15%]). Smaller players account for [0% - 10%] of the market. The above translates in the new entity holding a [35% - 45%] market share for all publication inks compared to [40% - 50%] for Sun and [5% - 15%] for both Huber and Siegwerk. For all packaging inks, the new entity would hold [15% - 25%] of the market compared to [35% - 45%] for Sun, [5% - 15%] for Siegwerk and [0% - 10%] for both Huber and Sicpa.

17. Given that only for paste inks the merged entity would hold market shares in excess of 25% no further assessment will be made for the liquid ink[3] market.

18. Whilst the market investigation has provided strong indications of supply-side substitutability within the paste inks market, the more limited degree of demand-side substitutability calls for an assessment per printing ink process.

19. The merged entity would become the market leader for Coldset ink ([40% - 50%]) compared to Sun ([35% - 45%]), Huber [5% - 15%], Siegwerk ([5% - 15%]) and others ([0% - 10%]). Whilst a number of customers deplore the rapid consolidation of the ink market and the resulting reduced number of suppliers specifically for coldset, almost all coldset customers have confirmed that Huber and Siegwerk are established alternatives, capable of challenging the strong market positions of both Sun and the new entity. Given that tendering and multi-sourcing are established practices, and since switching costs are low, customers will remain capable of changing suppliers for all or part of their needs. Specifically for coldset, customers have confirmed the commodity nature of these inks as illustrated by their frequent supplier switching. Following the merger of ANI and BASF, Xsys has lost market share as customers have contracted alternatives to pursue their multi-sourcing strategy. The considerable level of excess capacity in the industry (for coldset up to 30%) provides the merged entity's competitors with the flexibility to aggressively compete for tendered volumes. Finally, respondents to the market investigation have not considered Flint to be relatively more innovative, quality driven or aggressive on pricing than its competitors. In this context, some Scandinavian customers have suggested that Flint could be considered as a particularly dynamic alternative supplier to challenge the strong positions of Sun and Xsys. Whilst it is correct that Flint had very recently started a marketing campaign to displace Sun and Xsys for some important supply volumes, the market investigation has not identified reasons for considering Siegwerk and Huber to be in a competitively inferior position to Flint. Both Siegwerk and Huber are well established in all Scandinavian countries and supply their customers from production facilities in Germany (as do Sun and Xsys) with local technical support at hand.

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3 Within the liquid inks market, publication gravure is an alternative to paste ink / publication. Whilst the new entity will have a [35% - 45%] market share (ahead of Sun with [30% - 40%], Siegwerk with [25% - 35%] and a number of niche players), Xsys publication gravure activities are limited ([5% - 15%]) compared to those of Flint ([30% - 40%]). Demand for publication gravure is also particularly concentrated, with a few large customers – such as Bertelsmann and Quebecor – accounting for the bulk of demand.

20. The above assessment also applies to sheetfed ink – where the new entity's market share of [20% - 30%] compares to [25% - 35%] for Sun, [10% - 20%] for Huber, [0% - 10%] for Epple and [5% - 15%] for SICPA – and heatset ink ([30% - 40%] for the new entity, [40% - 50%] for Sun, [5% - 15%] for Huber, [5% - 15%] for Siegwerk and [0% - 10%] for IQP.

21. For all printing ink markets, the respondents to the market investigation consider 'de novo' entry as unlikely – due to the high level of overcapacity, declining prices and associated margins, considerable investment costs and time required for building up a customer base. Such entry can however not be excluded, as illustrated by IQP for heatset. Asian suppliers are also increasingly targeting the European market although their initial focus is the US where customers are more price driven. In any case, the market investigation has confirmed that ink producers can relatively easily shift focus between the different printing ink processes in reply to increasing prices or demand by adapting the machinery and manufacturing process.

22. Overall, customers expect the new entity to extract cost and R&D synergies, which could result in stronger competition with Sun. Also, the parties' claim that this merger results from the need for a global reach in reply to customers' global supply requirements has been confirmed. Flint's Asian and US operations complement Xsys' predominantly European operations.

23. In addition to the above, the market investigation has confirmed the Commission's previous finding of significant excess capacity, strong buyer power and relatively short term procurement through bidding procedures which further add to the conclusion that the merged entity will not likely be in a position to act independently, in particular as a result of the creation or strengthening of a dominant position. These findings will be further elaborated upon in the following section.

24. The present concentration gives rise to the emergence of two broadly comparable strong printing ink suppliers, Xsys and Sun, significantly ahead of their closest competitors Huber, Siegwerk and Sicpa. The market investigation has therefore focused on the question whether the transaction can lead to collective dominance, in particular for the paste inks market or any of the printing processes inks of that market, but has concluded that relative to the present concentration there is no risk of collective dominance for the following reasons:

25. Firstly, prices result from individual negotiations between customer and supplier. Bidding processes can take several rounds and are for varying volumes and duration. Also, price negotiations can include add-on services and credit provisions which add to the lack of transparency in this industry.

26. Secondly, the publication industry is consolidating with a few large customers (such as Donnelly, Quebecor, Bertelsmann, Le Monde and Springer, accounting for a substantial part of demand, which provides them with a certain degree of buying power. Smaller customers bundle their demand in purchasing cooperation to increase their leverage. The concentration of demand leads to intense price competition between all established players, and losing a single customer may lead to an instant loss in market share. The majority of demand (around 60%) is exercised through European-wide or global tenders. The degree of buyer power is also illustrated by the steady decline in ink prices over the last years confirmed by the market investigation and the fact that ink manufacturers have been unable to pass on the increasing cost for printing inks raw materials to customers.

27. Thirdly, the investigation has also indicated that the ink industry has a significant amount of excess capacity (between 20% and 30%)[4] which would allow competitors to increase their production in the very short term without incurring significant costs. The market investigation has shown that all major competitors have significant excess capacity and that each of these competitors has sufficient spare capacity to readily supply any coldest account in Europe. In addition, all four established past ink suppliers are considered equal in terms of quality, technology and innovation. Brand awareness and loyalty for a particular manufacturer's inks is limited as illustrated by the frequent supplier changes. Siegwerk and Huber, but also smaller competitors such as Jaenecke-Schnemann, Van Son, Intercolour, Rucko Druckfarben and Printcolor therefore have both the incentive and ability to maintain significant competitive pressure upon the two market leaders. Also, Sun is not likely to compete less fiercely with the merged entity than it has done with Xsys and Flint separately. The differences between Sun and Xsys in terms of strategy, financial strength and market share (Sun remains market leader for heatset and sheetfed) remain significant. Sun also has a different cost structure with a greater number and geographic spread of plants in the EEA and a higher degree of vertical integration.

28. Finally, apart from established ink producers extending their ink products range, a collective reduction in competitive pricing or quality standards would accelerate the movement of Asian ink producers towards developing a position in the European market.

29. Considering the above, it can be concluded that the notified operation is not likely to lead to collective dominance.

Vertical relationships

30. The concentration does not lead to vertically affected markets upstream of printing ink. Xsys, through what was formerly BASF Inks, produces pigments that are used in printing inks, the majority of which is used internally. Flint produces pigments only in the US and China, and uses almost all for captive use. Considering the market to be EEA-wide, Xsys and Flint would have a market share below [0% - 10%].

31. Printing inks are upstream of some of CVC's portfolio activities in packaging, represented by the Spanish can producer Mivisa and the packaging company Kappa (which it controls jointly with investment company Cinven). Mivisa has an EEA market share of around [0% - 10%] in the market for the production of foodstuffs cans (and still below 25% when a regional market such as Southern Europe were to be defined), for which it uses inks and coatings to apply to its packaging. Hence, no vertically affected market results from the transaction.

32. Kappa has a market share in excess of 25% on a hypothetically narrowly defined markets for corrugated ([30% - 40%]) and solid board cases ([55% - 65%]%) in the Benelux. However, foreclosure is not likely to arise as Kappa's ink purchases are

4 The printing ink manufacturing processes used are of a relatively low capital intensity. The production of printing inks involves a reasonable simple mixing and blending process, with only relatively low capital expenditure necessary in order to achieve scale production. As capacity is cheap, companies have tended to build plants that have significant more capacity than was needed at the time of construction, and this explains the level of excess capacity observed.

limited (less than [0% - 10%] of overall sales of ink in the EEA) and because ink accounts for less than [0% - 10%] of Kappa's production costs.

V. CONCLUSION

33. It can therefore be concluded that the concentration will not significantly impede effective competition in the common market or in a significant part of it, in particular as a result of the creation or strengthening of a dominant position.

34. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and 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)
Andris PIEBALGS
Member of the Commission