

***Case No COMP/M.3939 -
ELECTRA / CVC / CPI***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 27/09/2005

***In electronic form on the EUR-Lex website under document
number 32005M3939***



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 27/09/2005

SG-Greffe(2005) D/205233-205234

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Subject: Case No COMP/M.3939 – Electra/CVC/CPI.

**Notification of 23/08/05 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 23/08/2005, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 (“the Merger Regulation”) by which the undertakings Electra Partners Europe SA (“Electra”, France), and CVC Capital Partners Advisory Company (“CVC”, Luxembourg), acquire within the meaning of Article 3(1)(b) of the Merger Regulation joint control of the monochrome book manufacturing activities of the CPI group (“CPI”, France) by way of acquisition of shares.

I. THE PARTIES

2. Electra is a French private equity providing fund management services.
3. CVC provides investment and management advice to investment funds. It has a controlling interest on behalf of these investment funds in a number of companies (the “CVC portfolio companies”).
4. CPI is engaged in the manufacturing of books and has developed positions in the Czech Republic, France, The Netherlands, Germany and the UK.

II. THE OPERATION

¹ OJ L 24, 29.1.2004 p. 1.

5. The concentration consists of the acquisition by Cameron France Investment (a vehicle company solely controlled by Cameron France Holding which in turn will be jointly controlled by Electra and CVC) of the book manufacturing activities of Chevrillon Philippe Industrie SA, including 100% of the issued securities of Financière Chevrillon Philippe Industrie SA, Simon 3 SAS, Earmon Ltd and CPI Book Cover AG (together with their subsidiaries which carry the monochrome business of the CPI group). The entities operating in the colour activities are not part of the transaction and will be divested prior to completion of the selling process.

III. CONCENTRATION

Joint control

6. The operation described above will result in Electra and CVC acquiring joint control of CPI. Pursuant to the principles governing the relations between CVC and Electra with respect to CPI, CPI will be jointly controlled by Electra and CVC through Cameron France Holding in the following manner: (i) the board of Cameron France Holding will consist of [...] directors, with Electra and CVC having [...] representatives each, and (ii) any decisions of the shareholders' general meetings of Cameron France Holding shall be validly taken only by a vote of both Electra and CVC in favour of such decision.

Autonomous economic entity acting on a lasting basis

7. CPI is and will continue to be a full function economic entity operating on a long-term basis in the book manufacturing sector. It has and will continue to have the necessary financial resources, personnel and relevant assets to carry out its business activities.
8. CPI is therefore a full function joint venture as it will perform on a lasting basis all the functions normally performed by an autonomous economic entity.
9. On the basis of the foregoing, the notified transaction by which Electra and CVC acquires joint control over CPI constitutes a concentration in the meaning of Article 3(4) of the Merger Regulation.

IV. COMMUNITY DIMENSION

10. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5.000 million². Each of the undertakings has a Community-wide turnover in excess of EUR 250 million, but none achieves 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.

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, p25).

V. COMPETITIVE ASSESSMENT

11. The proposed transaction will not bring about any horizontal effect. However, the notified operation will have vertical effects, as a result of the activities of CVC's portfolio companies in markets which are upstream of the market for book manufacturing in which CPI is engaged:

A. Markets definition

Book manufacturing

Product market

12. According to the parties the book manufacturing market is a separate market from the manufacturing of other printing products (like newspapers, commercial brochures, prospects etc.) since different manufacturing processes are being used. It is technically unfeasible to change book production into production of newspaper, magazines, etc. and vice versa. Moreover, customers for respectively books, magazines, newspapers, brochures etc. are, to a very large extent, not the same. The book manufacturing process encompasses the printing by means of classical book printing, or offset printing, as well as the book binding and is supplied to and demanded by book publishers as a whole single service.
13. The parties consider that book manufacturing is a single activity which cannot be further segmented according to printing colours (monochrome or colour), content (mass market, scientific or technical), paper quality or language. For the present case the precise definition of the market can be left open since, under all alternative product definitions, the proposed transaction will not significantly impede competition.

Geographic market

14. The parties submit that the relevant geographic market for book manufacturing is at least EEA-wide for the following reasons (i) the existence of cross border sales³, (ii) the absence of barriers to trade and the homogenous conditions for competition within the EEA, (iii) the low transportation costs, (iv) the EEA-wide activities of CPI's competitors and (v) the fact that customers do not source their procurements on a purely national basis.
15. However, in the present case, the question of the definition of the relevant geographic market can be left open as in any case the proposed transaction will not significantly impede effective competition in the common market or in a substantial part thereof.

³ By way of example 16% of the books manufactured in Germany and in the UK are exported whereas Germany as well as the UK import 32% of their books. CPI's manufacturing plant in the Czech Republic export respectively [...] % and [...] % of its production to Germany and Austria.

Printing inks

Product market

16. The parties consider that all printing inks form one product market. The Commission has recently had the occasion to examine the printing inks sector⁴ and has concluded that a segmentation on the basis of ink applications (publication and packaging inks) provides a less clear market definition than a segmentation according to the physical properties of the inks (paste versus liquid inks). Only paste publication inks are used by book manufacturers. Paste inks can be divided into heatset inks, coldset inks and sheetfed inks. All book manufacturers use and need the three categories of paste publication inks. Within the paste inks segment the Commission has found that the production of the different paste inks (heatset, coldset and sheetfed) is, to a large extent, similar. In any event, for the purposes of the present case, it is not necessary to decide whether each of the categories of paste inks constitutes a relevant product market given that under all conceivable alternative market definitions, the proposed transaction does not raise any competition concerns.

Geographic market

17. In the most recent Commission decision⁵, the Commission held that the market for printing inks is at least EEA-wide due to the level of the transport costs, significant cross-border trade, comparable price levels and the multinational presence of all major competitors. The parties are of the opinion that the geographic scope of the market may be wider than EEA and comprise other European countries such as Romania, Bulgaria, Turkey and Russia. However, for the purposes of the present case it is not necessary to further decide whether the market is larger than EEA-wide since the proposed transaction will not significantly impede competition in the EEA.

Solid boards

Product market

18. According to the notifying parties, there are two types of solid boards: transport packaging boards and graphic (or bookbinding) boards. Only graphic boards are used for book manufacturing activities (such as those of CPI).
19. For the purposes of the present case it is not necessary to decide whether the relevant product market encompasses both categories of solid boards or whether it should be limited to graphic boards. Indeed, the proposed transaction, which entails the creation of a vertical link between a producer and a purchaser of graphic boards, does not raise any concerns as to its compatibility with the common market.

⁴ Case COMP/M. 3886 - Aster 2/Flint Ink

⁵ Case COMP/M. 3886 - Aster 2/Flint Ink

Geographic market

20. According to the parties the relevant geographic market for graphic board is at least EEA-wide, if not world-wide. Most European graphic board manufacturers operate world-wide and just a few of them operate only within the EEA. However, for the purposes of the present case, it will not be necessary to take a position on the relevant geographic market definition since the proposed transaction will not significantly impede competition within the EEA.

B. Assessment

21. As a result of the transaction the parties will hold the following market shares at the EEA level in these vertically related markets:

2004	Book Manufacturing (CPI)	Printing Inks (CVC via Xsys + Flint ⁶)					Graphic Boards (CVC via Kappa Packaging)
		Total	Total Paste	CS*	HS**	SF***	
EEA	[10-20]%	[30-40]%	[30-40]%	[40-50]%	[30-40]%	[20-30]%	[20-30]%

*CS Coldset inks, ** HS Heatset inks, *** Sheetfed inks

At the national level, CPI will hold shares of the market for book manufacturing above 25% in the following countries: [40-50]% in France, [30-40]% in UK and [30-40]% in the Netherlands. At a national level, CVC (via Kappa Packaging) will hold shares of the market for graphic boards above [20-30]% in the following countries: [30-40]% in UK, [20-30]% in the Netherlands, [20-30]% in Germany and [20-30]% in Austria.

22. As indicated in the table above, CPI only holds a [10-20]% share of the market for book manufacturing at the EEA-level. Therefore, even assuming that CPI will systematically discriminate in favour of the CVC portfolio companies with regard to its purchases of ink and graphic boards, this will only have a limited impact on the competitive situation in these upstream markets.
23. This analysis is strengthened by the following elements which are specific to the vertically affected markets.

Paste Inks

24. In addition to the competitive structure of the ink markets described in Commission decision in Case COMP/M.3886, book manufacturing represents approximately 20% of the total demand for paste inks. Approximately 40% of the demand for paste ink comes from the press industry (newspapers and magazines), 25% from the advertising sector⁷ and 16% from the packaging sector. When looking at the sub-categories of

⁶ The market shares indicated below takes into account the acquisition of Flint by CVC which has recently been authorised by the Commission (Case COMP/M. 3886 - Aster 2/Flint Ink decision of 25 August 2005. The closing of the concentration is due to take place on September the 30, 2005.

⁷ The advertising sector includes *inter alia* catalogues, mailings, leaflets, brochures and other promotional material.

paste ink, book manufacturing accounts for 25% of the demand for coldset ink (60% of the demand comes from the press industry), 20% of the demand for heatset ink (50% of the demand comes from the press industry) and 40% of the demand for sheet fed ink (50% of the demand comes from the advertising sector). Therefore, there is no risk that the proposed transaction will result in any foreclosure effect with respect to the market for paste ink.

25. In light of the very low level accounted by paste ink in CPI's production costs (below [0-10]%), there is no risk that the proposed transaction will result in any significant impediment to effective competition in the market for book manufacturing as a result of CPI being supplied by CVC below market price.

Graphic Boards

26. The special characteristics of graphic boards make them suitable for a wide range of applications in the graphic sector (books, diaries, files, puzzles, showcards, etc.). CPI's purchases account for only [0-10]% of the overall sales of graphic boards in the EEA which is a consequence of the fact that CPI only produces books and does not manufacture the other various categories of products for which graphic boards are used. Therefore, there is no risk that the proposed transaction will result in any foreclosure effect with respect to the market for graphic board.
27. In light of the very low level accounted by graphic boards in CPI's production costs (below [0-10]%), there is no risk that the proposed transaction will result in any significant impediment to effective competition in the market for book manufacturing as a result of CPI being supplied by CVC below market price.
28. In light of the above specific circumstances, it can therefore be concluded that the vertical relationship between the parties will have no material impact on competition in the markets for printing inks and graphic boards.

VI. CONCLUSION

29. It can therefore be concluded that the notified 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 the strengthening of a dominant position.
30. 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)

Member of the Commission
Ján FIGEL