

***Case No COMP/M.4106 -
ISOLA / POLYCLAD***

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

Article 6(1)(b) NON-OPPOSITION
Date: 12/04/2006

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 12.04.2006
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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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.4106 - ISOLA/POLYCLAD

Notification of 09/03/2006 pursuant to Article 4 of Council Regulation No 139/2004¹

I. INTRODUCTION

1. On 09.03.2006, the Commission received a notification of a proposed concentration pursuant to Article 4 and following a referral pursuant to Article 4(5) of Council Regulation (EC) No 139/2004 by which Isola Group SARL (“Isola”, USA), jointly controlled by TPG Partners IV and T3 II, acquires, within the meaning of Article 3(1) (b) of the Council Regulation, sole control over the Polyclad business of Cookson Group plc (UK), Cookson Overseas Limited (UK), Cookson Electronics Limited (Hong Kong), Cookson Investments, Inc. and Cookson Singapore pte Ltd. by way of purchase of shares and assets.

II. THE PARTIES AND THE CONCENTRATION

2. The envisaged transaction concerns the acquisition of sole control by Isola Group S.A.R.L. (hereinafter referred to as “Isola”) of a business formed by various assets and securities that are engaged in the production and sale of copper-clad glass fabric laminates and which belong to Cookson Group plc (UK) Cookson Overseas Limited (UK), Cookson Electronics (Hong Kong) Cookson Investments Inc and Cookson (Singapore) (collectively referred to as “Cookson”). Such securities and assets are

¹ OJ L 24, 29.1.2004 p. 1. Council Regulation (EC) No 139/2004 is hereinafter also referred to as “the Merger Regulation”.

herein referred to collectively as “Polyclad”. The transaction is therefore a concentration within the meaning of Article 3 of the EC Merger Regulation.

3. **Isola** is jointly controlled by two private investment funds, which are not controlled by any undertaking or persons: TPG Partners IV and T3 II. Isola is active in the development, production and sale of copper-glass fibre laminates
4. **Polyclad** is a business belonging to Cookson which is engaged in the manufacture and sale of copper-clad glass fibre laminates.

III. COMMUNITY DIMENSION

5. The operation does not have Community dimension within the meaning of Article 1 (2) of the Merger Regulation because Polyclad’s total Community turnover is [...]*. The criteria set out in Article 1 (3) are not met either, as the undertakings concerned have a combined aggregate worldwide turnover that is also below € 2,500 million. However on 26 June 2006 Isola informed the Commission in a reasoned submission that the concentration was capable of being reviewed under the national competition laws of more than three Member States (namely Germany, Poland, Spain, and the United Kingdom) and requested the Commission to examine it. The Commission transmitted the submission to all Member States without delay. None of the Member States competent to examine the concentration indicated its disagreement with the request for referral within the period laid down by the EC Merger Regulation. The case is therefore deemed to have a Community dimension pursuant to Article 4(5) of the EC Merger Regulation.

IV. COMPATIBILITY WITH THE COMMON MARKET

RELEVANT PRODUCT MARKET

6. Copper-clad glass fibre laminates are used in the production of printed circuit boards (“PCB”). The parties submit that the transaction involves an affected market for copper-clad glass fibre laminates and, potentially separate affected markets for basic (“BGEL”) and high-performance glass fibre laminates (“HPL”). In a previous Commission Decision the Commission concluded that all clad glass laminates form a single relevant product market².
7. BGELs are made using traditional epoxy resins and have similar performance characteristics. Suppliers can readily produce a wide variety of different BGEL grades with little or no switching costs. HPLs are made with other types of resins compared to BGELs, and producers can and do switch between HPLs with different resins. According to the parties there is no demand substitution between BGEL and HPL because customers use the lowest-priced product with the performance characteristics they require. Furthermore the parties stated that laminate producers are unlikely to switch their lines from the production of HPLs towards that of BGELs, given the lower commercial value of the latter, unless a manufacturer has excess capacity for HPL and decides to use it for BGEL.

² Case IV/M.401 Commission Decision of 2 March 1994 - Ruetgerswerke AG / Huels Troisdorf AG.

8. The parties submit that the Commission may leave open the question whether the relevant product market should be further delineated between basic (“BGEL”) and high performance laminates (“HPL”) on the grounds that the transaction will not create any impediment to effective competition regardless of how the relevant product market is defined. The Commission’s market investigation provided some evidence to the effect that further delineation of the market into BGEL and HPL laminates would be appropriate along the lines mentioned above.
9. However it is not necessary to finally decide this issue as even on the basis of these narrower markets the transaction does not create a significant impediment to competition. The question of whether further product segmentation of the copper-clad glass fibre laminates into BGEL and HPL (basic vs. high performance laminates) is appropriate can therefore be left open.

RELEVANT GEOGRAPHIC MARKET

10. The parties submit that in a previous Commission Decision³ the Commission decided that the relevant geographic market for glass laminates was the EEA, because conditions of competition were fairly homogenous throughout the EEA, average laminate transport costs in the region were low, most customers were supplied from different European countries and producers supplied several European countries from single plants. The parties submit that the relevant geographic market should remain at least EEA-wide since laminate prices are generally consistent across the EEA, and suppliers and customers in the EEA trade readily across national boundaries.
11. Moreover the parties claim that the relevant geographic market has broadened since the Commission’s assessment in 1994 and is now global in scope. This is principally due to the increasing presence of Asian suppliers in the EEA, and the continuing migration of European PCB (printed circuit boards) producers to Asia.
12. The results of the Commission’s market investigation indicate that the geographic market for copper clad glass laminates is at least EU/EEA-wide. The investigation showed that there are significant trade flows into the EEA. Almost all customers indicated that they use suppliers from outside the EEA area and many EEA producers indicated that a significant proportion of their production is exported outside the EEA area. Respondents put forward that this tendency could increase along the lines of the progressive migration of the PCB industry towards the East or also in response to possible adverse market conditions of the laminates industry in the EEA. However it is not necessary to finally decide this issue as even on the basis of an EEA-wide market the transaction does not create a significant impediment to competition.

COMPETITION ASSESSMENT

13. According to the parties, the industry of copper glass fibre laminates has been in decline in Europe since 2000. They claim that laminate sales in the EEA have declined in the last four years by more than 60%. This decline is explained by the fact that many of the largest PCB manufacturers are located and growing in Asia, where they can take advantage of lower cost of facilities/labour. Asia now accounts for 78% of the PCB global output.

³ Ibid, paras. 14-46.

14. In the same period the parties claim that imports from Asia into the EEA increased from 2% to 35%; that the vast majority of imports are from Asian producers (75% of total EEA imports of glass laminates); and that 20-25% of EEA laminates consumption is accounted for by Asian imports. Major importers into Europe would include Grace Electron (China), Hitachi (Japan), Matsushita (Japan) and Nan Ya (China) and also others.
15. Based on a world-wide market, post-merger, the parties combined share is not particularly high in both the overall glass laminates [10-20]*% and the BGELs market segment [10-20]*%, with important competitors such as Matsushita (overall [10-20]*, BGELs [10-20]*%), Nan Ya (overall [10-20]*%, BGELs [10-20]*%), Hitachi (overall [0-10]* %, BGELs [0-10]*%) and others. As regards HPLs the market leader would be Rogers with [30-40]*%, while the parties would not have more than [10-20]*% combined share, behind other players.
16. At the EEA level the parties' combined share would attain [40-50]*%-[40-50]*% (depending on whether volume or value is considered) as regards overall glass laminates, with other competitors such as Matsushita and Nan Ya each with [10-20]*%-[10-20]*%. As regards BGELs, the parties' share would be [40.50]*%-[40-50]*% with other competitors such as Matsushita and Nan Ya each with [10-20]*%-[10-20]*%. As regards HPLs, the parties' share would be much lower [10-20]*%-[10-20]*%, behind Park-Nelco [20-30]*%-[20-30]*%, and Rogers [20-30]*%-[10-20]*%.
17. The Commission's market investigation indicates that the merged entity would still face substantial pressure from competitors post-merger and that it will be unable to act independently of competitors and customers. The vast majority of customers already purchase laminates from suppliers outside the EEA. Imports from Asia are substantially cheaper averaging at [...] of the EEA price. This is particularly relevant for BGEL products which are less sophisticated than HPL and where the customer's requirements are more focussed on lead-times rather than on qualitative or technical product characteristics. The Commission's market investigation has not revealed the existence of any particular barriers to the import of laminates from non-EEA areas, while it has also showed that most customers would be ready to address their demand to non-EEA suppliers in case of substantial and permanent increase in price of overall glass laminates, and especially as regards BGEL products since BGELs are fairly commoditized products and customers' requirements are less sophisticated. A majority of customers indicated in fact that there is a certain degree of commoditisation in the laminates markets making the switching to other suppliers less costly than in the past. In this context, the market investigation did reveal that the switching to other suppliers would be feasible especially for less sophisticated products such as BGELs at cost which would not be prohibitive. Finally the market investigation has indicated that there is substantial overcapacity in the laminates industry with many competitors running their plants at 60-70% of capacity.
18. In view of the foregoing, it can be concluded therefore that the removal of Polyclad as an independent player in the market would not adversely affect the conditions of competition post-merger in the EEA and that the transaction will not significantly impede competition in any relevant market.

V. CONCLUSION

19. In the light 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 copper clad glass laminates market (and segments thereof) and that as a result it does not significantly impede effective competition in the common market or a substantial part of it.
20. 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)

Neelie Kroes

Member of the Commission