

***Case No COMP/M.5672 -
CANON/ OCE***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 22/12/2009

***In electronic form on the EUR-Lex website under
document number 32009M5672***



EUROPEAN COMMISSION

Brussels, 22.12.2009

SG-Greffe(2009) D/12288
C(2009)10709

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Dear Sir/Madam,

**Subject: Case No COMP/M.5672 – CANON/ OCÉ
Notification of 17/11/2009 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 17 November 2009 the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentrations between undertakings (Merger Regulation) by which Canon Inc. (Canon, Japan) acquires within the meaning of Article 3(1)(b) Merger Regulation sole control of Océ N.V. (Océ, Netherlands), by way of a public bid announced on 16 November 2009. Canon and Océ are together referred to as "the Parties".
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Merger Regulation but does not raise serious doubts as to its compatibility with the internal market and the functioning of the EEA Agreement.

¹ OJ L 24, 29.1.2004 p. 1.

I. THE PARTIES

3. Canon is active in the fields of professional and consumer imaging equipment and information systems. Canon's products are divided into the following three product groups: business machines, cameras and optical & other products. Its range of products includes copying machines, inkjet and laser printers, cameras, video equipment, medical equipment and semiconductor-manufacturing equipment.
4. Océ develops, manufactures and supplies digital printing systems, software and services for the production, reproduction, distribution and management of documents for mainly professional users in offices, educational institutions, industry, construction, architectural firms, advertising and the graphic arts market. Its product range comprises printers, copiers, large format scanners, software, consumables, services, imaging supplies (media to print on), services for system integration and outsourcing of document management activities and leasing of printing systems.

II. THE OPERATION

5. Canon and Océ have reached agreement on the terms of the Merger Protocol and have made a public announcement of the intended public offer on 16 November 2009. This announcement triggers the formal bidding process under Dutch bidding rules.
6. Canon intends to acquire sole control over Océ by purchasing all outstanding shares through the public bid. After the closing of the transaction, it is intended that the listing of Océ on NYSE Euronext Amsterdam will be terminated as soon as possible.

III. COMMUNITY DIMENSION

7. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion². Canon has a worldwide turnover of EUR 26 856 million and a Community-wide turnover of EUR [...] million. Océ has a worldwide turnover of EUR 2 909 million and a Community-wide turnover of EUR [...] million. Neither of the undertakings concerned achieves more than two-thirds of its aggregate Community-wide turnover within one and the same Member State. The concentration therefore has a Community dimension according to Article 1(2) of the Merger Regulation.

IV. THE RELEVANT MARKETS

IV.1. Relevant product markets

8. Canon and Océ are both active in the manufacture and supply of office automation equipment and services, in particular single function printers (SFPs), multi functional

² Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Consolidated Jurisdictional Notice (OJ C 95, 16.04.2008, p.1).

peripherals (MFPs) and large format printers (LFPs)³. Canon is more specialized in the office automation equipment of low and mid-range speed for consumers and offices, while Océ has a focus on the production of office automation equipment for professional users, especially high speed and capacity products.

9. In general, manufacturers of office automation equipment produce a range of products which they either (i) sell under their own brand to their own sales subsidiaries, independent dealers or wholesalers and end customers; or (ii) sell on a original equipment manufacturer (OEM) basis to other industry players or independent wholesalers, which (re-)brand the products and sell them to dealers or end customers.
10. The Parties do not sell branded office automation equipment of third parties within the EEA and are therefore not active in the wholesale distribution services. Consequently, the potential overlap between the Parties' commercial activities consists of the manufacture of office automation equipment, which is either supplied on an OEM basis or under the manufacturer's brand. It is thus sufficient for the purpose of the present transaction to examine the potential relevant market for the supply of branded and OEM products.⁴

IV.1.1. Branded supply and OEM supply of office automation equipment

11. The Parties propose to distinguish between the supply of (i) unbranded (OEM) and (ii) branded office automation equipment. The first relates to the upstream supply market where manufacturers sell office equipment directly to other manufacturers or wholesalers who then resell them under their own brand in competition with the original manufacturers. The second relates to the downstream supply of all equipment either manufactured and branded or purchased on an OEM basis and rebranded by the purchaser. This downstream supply encompasses sales of branded products at all level of the distribution chain, including direct sales to end-users and indirect sales through wholesale distributors or dealers.
12. The Parties' OEM supplies overlap only to a very limited extent and do not give rise to affected markets under any potential product market definition (which is discussed in the next chapter for branded products). Indeed, while Canon is an OEM supplier⁵, Océ only supplies OEMs to a limited extent⁶. Therefore, the Commission will not further investigate the OEM market but focus on the supply of branded office equipment.

³ Besides SFPs, MFPs and LFPs the office automation equipment includes inter alia photocopiers, facsimile machines, regular and large format scanners, and the provision of related supplies, services and consumables.

⁴ Canon and Océ are also active in "after-sales" products and services exclusively for their own single function devices and MFPs. These include consumables, spare parts, maintenance and repair services as well as software and related professional services. Since these services are not delivered on separate markets and just follow the hardware sales, it would not be in line with recent decisions (see M.5334 Ricoh/Ikon) to analyse the product and geographic markets of these ancillary services separately.

⁵ Based on the Parties' submission, almost [...] % of Canon's sales are OEM sales to other manufacturers whereas its OEM purchases are below [...] %.

⁶ Océ's OEM supplies are insignificant, amounting to approximately [...] % of its total revenues, in contrast to its purchase of OEM products which amount to approximately [...] % of its total revenues its.

IV.1.2. Regular format –large format

13. The Parties propose to make a distinction within the overall market for office automation equipment between regular format devices which use (copy and/or print on) A4 and A3 papers and large format devices which function (print and scan) on A2 or larger papers and other supports. This distinction has been confirmed by customers and competitors, which clearly argued that the large format segment should be viewed as a separate market as the end applications (printing signage and display items, computer aided design or graphic arts) are different from the one in regular format (for use in home and office).
14. For the purpose of the Decision, a distinction into regular format and large format will be made.

IV.1.2.1. Regular format office automation equipment

15. The Parties submit that within regular format a distinction could be made between (i) single and multifunctional office equipment, (ii) black & white and colour office equipment and (iii) according to the speed range of the equipment.

Single function vs. Multifunctional office equipment

16. Single function devices are products that are only able to execute one particular task, while multifunctional devices combine at least two of the following functions: copy, scan, print and fax. Océ does not supply photocopiers and fax machines in regular format, the only single function device in which the Parties are both active in is printers. Moreover, they both supply MFPs.
17. With regard to single function devices, the Commission considered in a previous decision⁷ that photocopiers, printers and fax machines may constitute three distinct product markets. For multifunctional devices the Commission has not defined any relevant markets, it acknowledged however an increasing shift - both from demand and supply side - from single function devices to multifunctional devices in desktop office use. This is mainly due to the digitalisation of office automation equipment which can easily and efficiently combine several functions (copy, print, scanner, fax, etc).⁸
18. Respondents to the market investigation in the present case confirmed this trend for office applications, but also indicated that single function devices, in particular printers, will still be demanded for high-capacity production uses like labels, mailings etc. A substitution with MFPs in these specialised applications is in their view not possible. In addition, several competitors indicated that SFPs and MFPs are produced on separate assembly lines and a switch between the two products would be costly.
19. For the purpose of this Decision, the question whether SFPs and MFPs form one relevant product market or should be considered as separate can be left open as even with regard to the narrowest product market definition, single functional printers, the transaction does not give rise to serious doubts.

⁷ See e.g. M.4434 – Ricoh / Danka.

⁸ See e.g. M.5334 - RICOH / IKON; M.4434 – RICOH/DANKA.

Black & white vs. colour

20. The Parties further submit that a separation should be made between black and white (B&W) and colour office equipment because of different applications, speed (colour products are slower than B&W) and prices (B&W products are on average 1.5 to 2.5 times cheaper than colour devices) and refer to M.3091 – Konica/Minolta, where the Commission made a distinction with respect to (single functional) photocopiers between B&W and colour.
21. The market investigation broadly validated this finding for regular format office automation equipment. Some competitors indicated that a new generation of colour printer might blur the distinction, especially in the office segment, as they are able to print B&W at comparable costs.
22. In any event, the exact product market definition can be left open as even with regard to the narrowest product market definition, B&W and/or colour printers of any category, the transaction does not give rise to serious doubts.

Speed ranges (small office, office and production)

23. Finally, the Parties argue that regular printing devices may be further subdivided according to the printing capacity of the device, which is measured by the number of printed pages per minute ("ppm") or copies per minute ("cpm") the printer can produce. This is consistent with the findings in previous market investigations⁹ even though the Commission did not specify any subdivision and left the market definition open. The Parties propose to distinguish between three different speed ranges (different for B&W and colour printers), each of them corresponding to a different customer group.
24. For B&W (SFPs and MFPs) devices, the Parties propose to distinguish between:
 - personal/SME < 20 ppm,
 - office 20-90 ppm and
 - production > 90 ppm.
25. For colour (SFP's and MFPs) devices, the Parties propose to distinguish between:
 - personal/SME < 20 ppm,
 - office 20-50 ppm and
 - production > 50 ppm speed segments.
26. This segmentation was widely confirmed in the market investigation. However, respondents pointed out that SFPs and MFPs should be viewed as differentiated products with speed as only one, although important, characteristic among others, in particular in MFPs.
27. Depending on the requirements of the customer, printers differ with respect to copy quality, durability, maintenance requirements as well as functionalities including the degree of autonomous operation. This can also be seen by the difference in list prices for SFPs or MFPs within the same speed range, which varies on average by a factor 5-10.
28. Moreover, some equipment sold as SFPs can in principle be adjusted such that in addition to printing it could if needed scan and copy.

⁹ See M.5334 – RICOH/IKON; M.3091 – Konica/Minolta.

29. Finally, due to demand- and supply-side substitutability, the exact demarcation of the segmentation should not be applied rigidly. Customers indicated that they could switch between different segments in case of a price increase; while competitors responded that an adjustment of the speed downwards would be possible, an increase however is limited to the maximum of 10 ppm.
30. In any event, the exact product market definition can be left open as even with regard to the narrowest product market definition, B&W and/or colour SFPs and MFPs of any speed category, the transaction does not give rise to serious doubts.

Conclusion

31. The different (sub) segmentation proposed by the Parties for regular format office automation equipment is summarised in Table 1 below:

SFPs						MFPs					
B&W			Colour			B&W			Colour		
<20 ppm	20-90 ppm	> 90 ppm	<20 ppm	20-50 ppm	> 50 ppm	<20 ppm	20-90 ppm	> 90 ppm	<20 ppm	20-50 ppm	> 50 ppm

Table 1: Potential Relevant Product Market Definition Regular Format

32. The market investigation broadly supported this relevant product market definition. As the proposed transaction does not give rise to serious doubts under any potential relevant product market segmentation, the precise product market definitions with regard to regular format devices can be left open.

IV.1.3. Large format printers

33. Large format printers (LFPs) are used by customers for activities like printing signage and display items (posters, banners, rigid signs, vehicle and building wraps and packaging), for printing (large format) photos and posters, for print proofing and for computer aided design (CAD). In addition, LFPs vary according to the printing technology, the media they can print on, the width of the media and their printing capacity. The Commission has not dealt with large format printers (LFPs) in previous merger decisions.
34. Customers for LFPs are very dispersed and active in different sectors; still the Parties propose to distinguish between customers in the area of "graphic arts" (GA) and those using LFPs for CAD.
35. The GA group of customers include the graphic arts sector, retailers, the advertising industry and print service providers. Typical applications include display materials, advertising material and signage.
36. The CAD group of customers include construction companies, architectural and engineering offices, industrial corporations, utility and telecom companies, the map

industry, governments and job printers. Typical CAD applications are technical line drawings, maps, (architectural) renderings and illustration, supporting photographs (to a limited extent) as well as (mainly indoor) posters.

37. The Parties propose to further distinguish the CAD segment between B&W and colour LFPs and do not consider the other differentiating factors mentioned in recital 33 above as appropriate/justified because in their view customers can usually shift their demand between these products.
38. Most respondents indicated in the market investigation that LFP market consists of differentiated products and that even within a certain use, quality (B&W or colour), width or speed range the products have distinct functionalities. However, customers and competitors broadly confirmed a segmentation into GA and CAD LFPs.
39. Based on the above and for the purpose of the present transaction, the Commission will analyse the market for LFPs and a further segmentation into GA and CAD applications, while leaving the precise product market definition open.

IV.1.4. Conclusion

40. In view of the above and for the purpose of the present transaction, a distinction is made between regular format and large format office automation equipment. Within these categories the precise product market definitions can be left open, since the proposed transaction will not give rise to serious doubts on any reasonable definition.

IV.2. Relevant geographic markets

41. The Parties submit that the relevant geographic market for all segments should be considered to be at least EEA-wide in scope for the following reasons: The manufacturers price EEA-wide based on price lists. The variations in prices are caused by currency fluctuations, taxes or levies. There are significant direct sales from manufacturers to end-customers. Only the service network and technical know how is arranged locally.
42. In previous decisions the Commission did not define the geographic markets for office automation products. It acknowledged however evidence supporting an EEA-wide geographic market definition¹⁰.
43. The replies received during the market investigation were mixed. A large number of wholesalers, dealers and direct customers usually source SFPs, MFPs and LFPs on a national basis and all important office equipment manufacturers have established distribution systems on a country by country level.
44. However, competitors use identical price lists across the EEA and transportation costs relative to the purchase price of the products are low. Moreover, several customers indicated that they already procure office equipment – often through tenders – EEA-wide.

¹⁰ M.5534 - RICOH / IKON.

45. The current national sourcing pattern seems to be a result of the customers' preference to have service and maintenance for the purchased office equipment at a local level. Indeed, when asked whether they would source from a neighbouring country in case of a permanent 5-10% price increase in their current procurement area, several customers, in particular in the UK and Portugal said that they would not and referred to issues such as sales services, language considerations and (for the UK) currency risk.
46. At the same time, a significant portion of respondents (not based in the UK or Portugal) indicated that they would switch to neighbouring countries in case of a price increase.
47. In conclusion, in spite of the fact that current sourcing patterns are usually at national level, there are clear indications that the market for office equipment is wider than national if not EEA-wide. In any event, the precise geographic market definitions can be left open in the present case, since the proposed transaction will not give rise to serious doubts on any potential definition.

V. COMPETITIVE ASSESSMENT

48. The transaction does not result in any vertically affected markets. Both Parties are active in SFPs, MFPs and LFPs and some of their sub-segments giving rise to horizontally affected markets.

V.1. Regular Format – SFPs and MFPs

EEA-wide

49. The overall market for regular format would not be an affected market at the EEA-wide level with a combined market share of [5-10]% in 2008. Only if one were to define the market according to speed segments would affected markets arise as can be seen from Table 2 below.

Canon	Océ	Combined	Competitor 1	Competitor 2	Competitor 3
<u>Regular format printers (RFPs)</u>					
<u>B&W SFPs, > 90 ppm.</u>					
[0-5]	[20-30]	[20-30]	[60-70] (Xerox)	[5-10] (Konica Minolta)	[0-5] (Kodak)
<u>B&W MFPs < 20 ppm.</u>					
[10-20]	[0-5]	[10-20]	[20-30] (Ricoh)	[10-20] (KyoceraMita)	[10-20] (Konica Minolta)
<u>B&W MFPs 20-90 ppm.</u>					
[20-30]	[0-5]	[20-30]	[10-20] (Ricoh)	[10-20] (Xerox)	[10-20] (HP)
<u>B&W MFPs > 90 ppm.</u>					
[20-30]	[10-20]	[30-40]	[40-50] (Xerox)	[20-30] (Konica Minolta)	[0-5] (IBM)
<u>Colour MFPs 20-50 ppm.</u>					
[10-20]	[0-5]	[10-20]	[20-30] (Ricoh)	[10-20] (Konica Minolta)	[10-20] (Xerox)
<u>Colour MFPs > 50 ppm.</u>					
[10-20]	[0-5]	[20-30]	[20-30] (Xerox)	[20-30] (Ricoh)	[10-20] (Konica Minolta)

Table 2: Affected segments in SFPs and MFPs EEA-wide, market shares unit based in %, 2008 – Source: Form CO. The information provided is based on the information and research of InfoSource consultancies which the market participants hold reliable sources.

50. On the potential market for B&W SFPs > 90ppm the market shares on EEA-wide level are [20-30]% with a minor increment of [0-5]%. The change brought about by the merger is also insignificant in the potential markets for B&W MFPs with speed ranges below 20ppm and 20-90ppm as well as in the Colour MFP 20-50 ppm segment. The increment would be between [0-5]% resulting in a combined market share of not more than [20-30]%. In all segments other strong competitors like Xerox, Konica Minolta, Ricoh or HP are present. Moreover, customers and competitors indicated in the market investigation that they do not consider Canon and Océ to be close competitors in these segments.

51. While the overlap is more significant in B&W MFPs > 90ppm ([30-40]%, with an increment of [10-20]%) and Colour MFPs > 50ppm, the resulting market structure with

at least three remaining competitors of similar size will not allow the Parties, who were not seen as close competitors, to increase prices.

52. Therefore, the proposed transaction does not give rise to serious doubts in any potential relevant market at the EEA-level.

National markets

53. If the markets were to be defined on a national level, the following markets would be affected (see Table 3 below).

Countries	Canon	Océ	Combined	Competitor 1	Competitor 2	Competitor 3
B&W MFP 20 to 90 ppm						
Netherlands	[20-30]%	[5-10]%	[30-40]%	[10-20]%	[10-20]%	[10-20]%
Portugal	[20-30]%	[5-10]%	[30-40]%	[20-30]%	[10-20]%	[5-10]%
B&W MFP above 90 ppm						
Belgium	[20-30]%	[20-30]%	[40-50]%	[40-50]%	[10-20]%	[0-5]%
Denmark	[30-40]%	[10-20]%	[40-50]%	[40-50]%	[10-20]%	[0-5]%
Netherlands	[20-30]%	[30-40]%	[50-60]%	[30-40]%	[5-10]%	[0-5]%
Norway	[50-60]%	[10-20]%	[60-70]%	[20-30]%	[10-20]%	No
Portugal	[20-30]%	[20-30]%	[40-50]%	[40-50]%	[20-30]%	No
UK	[30-40]%	[5-10]%	[30-40]%	[40-50]%	[10-20]%	No
Sweden	[20-30]%	[10-20]%	[30-40]%	[30-40]%	[20-30]%	[0-5]%
France	[20-30]%	[5-10]%	[30-40]%	[40-50]%	[20-30]%	[0-5]%
Colour MFP above 50 ppm						
Belgium	[20-30]%	[10-20]%	[30-40]%	[20-30]%	[10-20]%	[10-20]%
Norway	[20-30]%	[5-10]%	[30-40]%	[20-30]%	[10-20]%	[10-20]%

Table 3: Affected national segments in SFPs and MFPs, unit based, 2008 – Source: Form CO. The information provided is based on the information and research of InfoSource consultancies which the market participants hold reliable sources.

54. In the B&W MFP segment with a speed range of 20-90 ppm, the Parties would become the market leader in the Netherlands and Portugal with a market share of [30-40]% and [30-40]% respectively, facing competition from HP, Xerox, Ricoh and Lexmark. A similar market structure would evolve in the Colour MFP segment above 50 ppm in Belgium and Norway, where the remaining competitors are Ricoh, Xerox and Konica Minolta.
55. In some Member States the combined market share would be higher and sometimes above [40-50]% in the high-speed MFP segment (B&W > 90 ppm), in particular in the Netherlands ([50-60]%) and Norway ([60-70]%). Therefore, the Commission analysed in more detail these national markets.
56. Although at first sight the Parties have high market shares in these national market segments, in reality the Parties' products are not aiming at the same customers. Canon is active in the basic production units. Océ sells more specialized production units with more sophisticated functionalities and usage like heavy duty and higher capacity products. These are designed for large volume printing in commercial production environments. Canon sells units that are lighter in weight and offer less volume capacity for mainly corporate environments¹¹.
57. Indeed, customer lists provided by the Parties for the Netherlands and Norway confirmed that Canon and Océ only have one common customer in each country. The lists showed that Canon serves mainly corporate or office customers as well as a few smaller copy shops with light production requirements while Océ serves a mix of high capacity/heavy duty corporate and commercial printers with heavy production requirements. In addition, in these two countries, Canon mainly supplies its MFPs to dealers, in order to target the small and medium-sized business while Océ only sells directly to large end-customers.
58. As a consequence of the different functionalities prices vary as well. Océ's average selling prices in the Member States listed in Table 3 are up to three times higher than those of Canon, even for models with identical speed.
59. Moreover, customers and competitors do not consider Canon and Océ to be close competitors. This is substantiated by the fact that their products are not the neighbouring products to which demand could easily shift. The competing products to the Parties' ones are usually other competitors' products like Xerox or Konica Minolta. Finally the respondents with the exception of one reply expressed no concerns regarding these printers¹².

¹¹ The differences of maximum monthly duty (MMD) or volume capacity of Canon and Océ products are very large. As an example the MMD of Canon iR7095 and iR7105 are 450 000 and 500 000 impressions respectively. The Océ VarioPrint 2110 has MMD of 1 million impressions and the Océ VarioPrint 2100 Titanium has 750 000 impressions.

¹² A respondent expressed concerns of the dominant position of the merged entity in the SFPs and MFPs with speed above 150 ppm. Only Océ is active in the SFPs with speed above 150 ppm. There are other strong competitors Xerox, Kodak and Konica Minolta. In the MFPs with speed above 150 ppm only Canon is active. There are other strong competitors: Xerox and Ricoh. The Commission found no evidence to substantiate these concerns.

60. As explained in the section on the relevant product market, there is a degree of demand and supply-side substitutability allowing customers to switch between speed segments and competitors to redirect, at least within a limited range, products from a neighbouring segment into the high speed one. As Canon and Océ offer mainly products with a speed of up to 105 ppm in this MFP segment, they are also constrained post transaction by competitors like Ricoh or Sharp located with some of their products at the upper end of the mid segment MFP 20-90 ppm.
61. Most of the national markets are small¹³, thus already small volumes can shift market shares (indeed swings between 5-10 percentages points can be observed in 2006-2008). The Commission found evidence of these fluctuations also in the Netherlands and in Norway.
62. In addition, there are clear indications that markets are wider than national and to a substantial degree EEA-wide. Customers indicated that they could source from outside their territory if necessary. Competitors considered that the markets for office automation products are EEA-wide with one competitor pointing to world wide markets. In particular Dutch respondents in the market investigation confirmed that they would shift their purchases abroad should the combined entity try to raise prices.
63. Therefore, the Commission concludes that because of the highly differentiated product market, in which the Parties' products are not perceived as being close substitutes and the fact that sourcing from neighbouring countries is considered to be an alternative in case of a price increase, national market shares overestimate the market position of the parties and the proposed transaction does not lead to serious doubts on any national SFP or MFP segment.

Conclusion on SFPs and MFPs

64. In conclusion with regard to SFPs and MFPs, the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market and the functioning of the EEA Agreement.

V.2. Large Format Printers

65. In the LFP segment the proposed transaction would give rise to affected markets on (i) a potential market for the supply of all LFPs, (ii) CAD LFPs and (iii) Colour CAD LFPs. Within the GA segment the combined market share of the Parties post-transaction would be [10-20]% and if the GA segment were to be further sub-divided along the different technologies available, there would practically be no overlap since Canon only produces and sells water-based ink technology machines whereas Océ does not produce machines based on such a technology.¹⁴

¹³ In 2008, a total of 4030 MFPs were sold EEA-wide in the B&W MFP > 90 ppm segment. Thereof, 73 units were sold in Norway, 51 in Portugal and 86 in Denmark. 954 units were sold in the UK and 326 in the Netherlands.

¹⁴ One respondent in the market investigation argued that the Parties post merger would be able to foreclose the GA market by bundling operating software developed by two subsidiaries of Océ with GA LFPs as customers value the software more than the underlying printer. First it should be noted that the Parties have only a limited presence in the GA LFP market and estimate that Océ's market share in the software segment is around [10-20]%. Thus, no vertically affected markets arise. Moreover,

Supply of all LFPs

66. For large format printers the combined market share will be below [20-30]% at an EEA-wide level and below [30-40]% on a national level with the exception of Austria and Norway (see Table 4 below). In the EEA, the Parties would become a distant number two to Hewlett Packard (HP), the clear market leader with a market share of [50-60]%, followed by Epson with [10-20]% and smaller competitors like Roland, Mimaki, Xerox or Mutoh.
67. In Austria, the market structure post transaction would be similar, with HP in the lead followed by Canon/Océ and Epson. While in Norway HP, Epson and the Parties would have [30-40]% of the market.

Canon	Océ	Combined	Competitor 1	Competitor 2	Competitor 3
<u>Large Format Printers (LFPs) – EEA</u>					
[10-20]	[[5-10]	[20-30]	[50-60] (HP)	[10-20] (Epson)	[0-5] (Roland)
<u>LFPs – Austria</u>					
[20-30]	[10-20]	[30-40]	[40-50](HP)	[10-20] (Epson)	[0-5] (Mimaki)
<u>LFPs – Norway</u>					
[20-30]	[10-20]	[30-40]	[30-40] (HP)	[30-40] (Epson)	[0-5] (Roland)

Table 4: Affected Markets in LFPs, market shares unit based in %, 2008 – Source: Form CO. The information provided is based on the information and research of InfoSource consultancies which the market participants hold reliable sources.

68. As noted before LFPs differ according to printing technology, durability, width, end-use and in particular in price. List prices for LFPs start at around EUR 1 000 and can go up to EUR 40 000 or more. Thus, market shares in such a highly differentiated market are only of limited significance; in addition, it is important to understand to what extent the merging parties are perceived as close competitors.
69. The Commission has therefore analyzed the relative position of the Parties in the LFP segment. Canon and Océ use to some extent different technologies and in particular serve different customer groups. While Canon applies mainly water-based ink technology and sells its LFPs (mostly Colour CAD) to smaller sized customers, Océ on the contrary equips its LFPs not only with water-based ink technology, but also tone-

competitors and also the complainant confirmed that at least six alternative software providers are available in the market. Finally, if the customer preference were so strong with respect to the software, Océ would already pre-transaction have an incentive to bundle the software exclusively with its printers to capture the installed base.

based LED technology allowing black and white high speed and high volume printing, a segment in which Canon is not active.

70. Océ's LFPs (in particular Colour CAD) are also available with data storage functions and print-job management functions for the use at larger-scale enterprises or government offices. These additional features are mirrored in an average price per unit sold that is with EUR [...] significantly higher for Océ's products compared to those of Canon with EUR [...].
71. Indeed, respondents to the market investigation usually did not consider Canon and Océ to be close competitors in the LFP segment, but rather as complementary in their products with Océ aiming at the high-end applications and Canon at the lower end of the market.
72. With respect to Austria and Norway, it is in addition important to note that the size of the markets is small, representing less than 3% of EEA-wide unit sales in 2008. Thus, already one larger contract can change market shares significantly from one year to another. Moreover, no customer raised a particular concern for these two countries and as explained in the section on the relevant geographic market, customers generally indicated to be able to source from neighbouring countries, thereby exerting a competitive constraint on the combined entity.
73. In conclusion, the proposed transaction does not give rise to serious doubts in the potential all LFPs markets on an EEA-wide or national market.

Supply of CAD LFPs

74. CAD machines come in black and white or colour. Canon, however, does not sell within the B&W segment, and there is thus no overlap in that segment. The overlap is limited to the colour CAD LFP segment.¹⁵

¹⁵ As the B&W CAD LFP represents less than 10% of the overall CAD LFP segment, the market share of a potential CAD LFP market are similar to those of the Colour CAD LFP. Because the overlap in the CAD LFP segment would mainly arise due to the position of the Parties in the Colour CAD segment, a separate analysis for the CAD LFP segment is omitted.

Canon	Océ	Combined	Competitor 1	Competitor 2	Competitor 3
<u>Colour CAD LFPs – EEA</u>					
[10-20]	[5-10]	[20-30]	[70-80] (HP)	[0-5] (Epson)	[0-5] (Mutoh)
<u>Colour CAD LFPs – Belgium</u>					
[20-30]	[20-30]	[40-50]	[40-50] (HP)	[0-5] (Epson)	[0-5] (Xerox)
<u>Colour CAD LFPs – Norway</u>					
[20-30]	[10-20]	[30-40]	[50-60] (HP)	[5-10](Epson)	[0-5] (Roland)

Table 5: Affected Markets in Colour CAD LFPs, market shares unit based in %, 2008 – Source: Form CO. The information provided is based on the information and research of InfoSource consultancies which the market participants hold reliable sources.

75. As can be seen from Table 5, on an EEA-wide level the transaction will strengthen the current number two, Canon, to be able to get closer to the leading player in this segment, HP, and Epson as a third player.
76. In Belgium and Norway, the increment is higher and will result in a market structure with two leading players, HP and the Parties, followed by a distant third, Epson.
77. However, in spite of the high combined market shares and the degree of concentration, in particular in Belgium and Norway, the proposed transaction is unlikely to lead to competition concerns for the following reasons:
78. First, the colour CAD segment has been growing by [10-20]% in value since 2006 and new models are introduced on a constant basis, affecting the position of the different players. In 2009, Epson launched two new printers in the segment and achieved a market share of nearly [10-20]% (first half 2009) compared to [0-5]% in 2008. Similarly, another competitor KIP introduced a new LFP model and acquired a French distributor to penetrate the French market and improve thereby its European footprint.
79. Second, Colour CAD LFPs like LFPs in general are highly differentiated products. While Canon targets the low price segment, competing mainly with HP, Océ focuses on the high-end applications. Again, this is reflected in higher average prices for Océ's products compared to Canon. In 2008 Océ achieved an average revenue of EUR [...] per unit sold, while Canon only received EUR [...] per unit. Most customers confirmed that the Parties are not close competitors in Colour CAD LFPs but rather HP and Epson.
80. A more detailed analysis of the models sold in Norway and Belgium confirmed the above analysis. In both countries Canon achieved its market share with models at the lower price end of the market, where Océ only sells products sourced from Canon. [80-90]% of its LFPs in the colour CAD segment are sold at the high end, where Canon has

no presence. Moreover, both countries are small in size and market shares fluctuate over time. Epson for example was able to increase its market share in Belgium in the first half 2009 from [0-5]% to [30-40]%. Moreover, customers also indicated that sourcing from neighbouring countries would be possible in case of a significant price increase.

81. However, one respondent to the market investigation argued that because of the complementary nature of the Parties product portfolio, they would not only be able to catch up with the market leader HP, but could ultimately squeeze out other suppliers having a smaller product range affecting thereby competition in the long-run. The respondent argued that Colour CAD LFPs are sold through specialised resellers who usually stock two brands. Pre-merger HP is considered to be a "must carry" brand, leaving the second slot for one of the smaller competitors, Epson, Canon, Océ, Xerox, KIP. Post-transaction, however, the situation would be different as the Parties will have a portfolio covering the entire range. According to the respondent, that implies that resellers would in addition to HP stock Canon/Océ to minimise cost.
82. While it is indeed correct that Colour CAD LFPs are distributed by specialised resellers, it should be noted that this is not the only way in which these products are sold. Competitors confirmed the Parties' submission that LFPs are sold through both direct and indirect channels, and that the mix of these two distribution channels varies among the OEMs: some rely almost entirely on the indirect channel, while others sell up to 40% directly to customers. Most competitors have established the possibility of online sales for their products, some rely to a large extent on independent dealers, others have established their own sales organisations, and combine it with wholesalers or specialised resellers.
83. Moreover, two important competitors indicated that not all Colour CAD LFP resellers are specialised and that up to 50% of the resellers also sell GA LFPs. In addition, it was explained, that contrary to the submission of the respondent, the range of brands commercialised is generally broader in the case of specialised resellers, who usually trade several brands to demonstrate their specialisation and not just two as alleged by the respondent.
84. These explanations were supported by the notifying party submitting a list of resellers and specialised wholesalers with at least three brands on offer and several that do not stock HP.
85. Finally, suppliers have the possibility to build up their own distribution network or extend it from a neighbouring market into the Colour CAD segment, acquire specialised resellers, or use co-branding, i.e. selling a product under the brand of a competitor.¹⁶ Access might also be possible through new products or a better price proposition.
86. Based on the above, it is concluded that the merged entity is unlikely to prevent competitors from getting access to the distribution network for Colour CAD LFPs. Even if that were the case, there are no clear reasons why the establishment of a second competitor with the ability to challenge the current market leader would be detrimental to competition.

¹⁶ A recent example in that respect is Epson which is selling Colour CAD LFPs through Xerox.

87. Therefore the proposed transaction does not give rise to serious doubts in the market for Colour CAD LFP on a national or EEA-wide level.

Conclusion LFPs

88. In conclusion with regard to LFPs, the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market and the functioning of the EEA Agreement.

VI. CONCLUSION

89. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the internal 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