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Case No IV/M.675 - Alumix / Alcoa

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REGULATION (EEC) No 4064/89 MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 21/12/1995

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21.12.1996

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

Subject: Case No. IV/M.675 - ALUMIX/ALCOA

Notification of 21.11.1995 pursuant to Article 4 of Council Regulation No 4064/89

1 On 21 November 1995 the U.S. company Aluminum Company of America ("Alcoa") notified the Commission of its intention to acquire certain assets and subsidiaries of the Italian company Alumix S.p.A. ("Alumix"). The operation is part of the privatisation programme for EFIM.

2 After examination of the notification the Commission has concluded that the notified operation falls within the scope of application of Council Regulation N° 4064/89 and does not raise serious doubts as to its compatibility with the common market or with the functioning of the EEA Agreement.

I. THE PARTIES

3 Alcoa is a vertically integrated company with worldwide activities including the mining of bauxite, alumina refining, smelting alumina into primary aluminium, fabricating flat rolled aluminium and extruded aluminium. In addition, Alcoa is active in the collection and recycling of used aluminium beverage cans. Alcoa is the worldwide leader on the aluminium market.

4 Alumix is a wholly owned subsidiary of Ente Partecipazioni e Finanziamento Industria Manifatturiera (EFIM). EFIM is a corporation wholly owned by the Italian government and currently in compulsory administrative liquidation. Alumix is a vertically integrated producer having essentially the same activities as Alcoa. Its activities are focused on the European market, and in particular in the Italian market.

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II. THE OPERATION

5 The operation consists of the acquisition by Alcoa of Alumix's interests in the aluminium sector, with the exclusion of a minor part of its flat rolled products business, (the manufacture of slugs). In addition, Alcoa acquires Alumix's 6% participation in Halco Mining, Company, a Delaware company engaged in bauxite mining in Guinea through Compagnie des Bauxites de Guinée (CBG), which is owned 51 % by Halco and 49 % by the Guinea Government.

II. CONCENTRATION

6 The transaction, involving acquisition of sole control by Alcoa of parts of Alumix's assets, is a concentration with in the meaning of article 3(1) (b) of the Merger Regulation. The assets to be transferred relate to Alumix's primary aluminium, flat-rolled products and extruded products activities. None of the assets to be retained by Alumix relate to Alumix's activities in those markets, other than the production of aluminium slugs.

III. COMMUNITY DIMENSION

7 The combined aggregate worldwide turnover of the undertakings concerned exceeds 5.000 million ECU. The aggregate Community wide turnover of Alcoa and of Alumix's transferred assets each exceed 250 million ECU. They do not achieve more than two-thirds of their turnover in one and the same Member State. The operation has therefore a Community dimension.

IV. THE RELEVANT MARKETS

A. Relevant Product Markets

8 Alcoa and Alumix are active in the aluminium sector. Both are present in the markets for primary aluminium, flat rolled aluminium and extruded aluminium.

Aluminum is used in a wide range of applications in sectors including transportation, building and construction, containers and packaging, and the electrical industry. In the transportation sector aluminium has traditionally been used in the aerospace industry but is also being used in other areas, including automobiles, ships and rail cars. In the construction sector, aluminium is used in applications including cladding, roofing, window and door frames. In containers and packaging, aluminium is used in a range of applications including beverage cans, barrels and kegs, tubes and bottles, aluminium foil containers, caps and closures, and aerosol cans.

Primary aluminium is produced by refining bauxite to alumina and then converting alumina to aluminium metal. Primary aluminium is then processed into flat rolled products and/or extruded products.

Primary aluminium

9 Primary aluminium is produced by smelting alumina, which is obtained by refining bauxite. The smelting process converts alumina into its two elemental components, aluminium and oxygen. The separation of aluminium from oxygen is accomplished by high-temperature electrolysis. Aluminum can be shipped in its molten form in insulated ladles directly to a user's plant, or it can be cast into ingots (rectangular), rolling slab (rectangular), or billets

(circular) of varying sizes and shapes, either in pure form or alloyed with other metals (eg manganese, magnesium, copper, zinc or iron).

Flat rolled products (FRP)

10 FRP include a variety of flat aluminium products ranging from foil stock to industrial aluminium plate, and account for 62% of the demand for primary aluminium. FRP are produced in a number of steps in hot and cold rolling mills, which can begin with aluminium ingot, scrap or molten aluminium, which may be mixed with alloying materials to achieve particular characteristics eg strength, formability, machinability, weight, corrosion resistance, hardness. The finishing process used will depend on the customer's criteria for appearance and performance. The amount of waste generated in the manufacturing process can account for 25-40% of primary aluminium used. This waste is normally remelted in a cast house and run through the rolling process again.

11 Three main categories of FRP are commonly distinguished: plates, sheets and strips; circles and blanks; slugs. Plates, sheets and strips are the bulk of the market (about 80% of the EEA production of FRP). Slugs are excluded from the present operation, as Alumix's activities in this field are not transferred to Alcoa. Plates and sheets are distinguished from one another by thickness: plates are typically defined as 6.00 mm. and thicker, while sheet is 5.99 mm. and thinner. Strips, also known as "coils" is sheet that is rolled before being unrolled and cut to length and width.

Sheets and strips are the most important FRP in the EEA in terms of volume. Sheets and strips are general purpose products used in a wide range of applications such as packaging, construction industry, automotive industry and electrical industry. The same type of rolling equipment is needed for the production of both kinds of product. Consequently sheets and strips form part of the same product market.

On the other hand, plates is a thicker material which has in its standard form specific applications in the construction (for example, shipbuilding) and in the transport industry. Specific equipment which needs substantial investment to be acquired is needed for their processing.

It is however here not necessary to decide whether sheets and strips on the one hand and standard plates on the other hand constitute separate product markets, as also on the narrowest product market definition the operation does not create or strengthen a dominant position.

Finally, special plates for the aeronautic and defence industry are not considered in the competitive assessment of this decision, as Alumix does not produce them. These products constitute a separate product market, as specific equipment requiring very high investment is necessary for their production, as well as a special technology. Only very few companies are active on this market.

Circles and blanks have a round shape and their applications are basically in the domestic field (pots and pans). Special equipment is required for their production. These products are however not considered in the competitive assessment as Alumix has no production in this field.

Extruded products

12 An extrusion is a product formed by pushing material through a die. About 25 % of primary aluminium production is used to manufacture extruded products. Extruded products are used

in a wide range of applications, including aerospace, building and construction, and industrial uses. The products also come in a variety of shapes, including rods, bars, profiles and forging stock.

13 Extruded products can be distinguished on the basis of the technology used for their processing. In particular, extruded products can be divided into soft alloy extrusions and hard alloy extrusions. Soft alloy extrusions and hard alloy extrusions constitute separate product markets for the following reasons.

Soft alloy extrusions require a relatively small capital investment and are generally simple to manufacture. They are produced by extruding aluminum relatively quickly and require an extrusion press capable of exerting pressure of 60 Kilograms per square millimetre.

By contrast, hard alloy extrusions are manufactured in a more capital and labour intensive process involving heat treatment and continuous metallurgic tests. They are excluded slowly and require an extrusion press capable of exerting pressure of 90 kilograms per square millimetre.

In addition, soft alloy products are generally used in less demanding applications than hard alloy products. For example, soft alloy products are used in windows and doors and in consumer products, while hard alloy products are used in bridges and for military, aerospace and other applications demanding high strength and durability.

Bauxite mining

14 The notified operation includes the acquisition by Alcoa of Alumix's 6% participation in Halco mining, which operates the bauxite mine at Boké in Guinea. Bauxite is the principal raw material used in refining alumina. This acquisition is included in the overall assessment of the case.

B. Geographic Reference Market

Primary aluminium

15 The geographical market for primary aluminium is Western world-wide (which excludes China and Russia): aluminium ingot is traded and transported throughout the world (excluding Russia and China), the EEA is a net importer of primary aluminium, pricing of aluminium ingot is substantially uniform because of the link to the London Metal Exchange (LME).

Flat rolled products (FRP)

16 The relevant geographic market for all FRP (sheets and strips/standard plates, circles and blanks) is at least the EEA. There are no barriers to trade between Member States. There are significant trade flows between Member States. This area cannot for the moment be enlarged since:

a) for imports from countries outside the EEA there is a duty of 9% (to be reduced to 7.5% over the next five years) (except for Poland and the Czech and Slovak Republics),

b) Actual imports of FRP from countries not belonging to the EEA do not exceed 10%.

Extruded products (hard alloy extrusions and soft alloy extrusions)

17 The relevant geographic market for all extruded products (soft and hard alloys) is the EEA. There are no barriers to trade between Member States. Trade flows between Member States, although less extensive when compared to FRP, have significantly increased over the last years.

Bauxite

18 Most bauxite is used by integrated aluminum producers which have direct access to bauxite mines, by way of participations and long term contracts. Both the European and the USA aluminum markets currently depend on imports of bauxite from other areas of the world. The relevant geographic market is therefore worldwide.

V. **ASSESSMENT**

Primary aluminium

19 Alcoa is the world's largest primary aluminium producer. However its share of the 1994 production in the Western world market is approximately [(1)]. Alumix's market share is approximately [(2)].

The competitors on this market include the integrated aluminum producers Alcan [(3)], Reynolds [(4)], Pechiney [(5)], Alumax [(6)], Hydro Aluminum [(7)], Kaiser [(8)], and VAW[(9)] .

The operation will not create or strengthen a dominant position on this market.

FRP

Plates/Sheets-Strips

20 The parties' combined market shares even on the narrowest possible market definition discussed in paragraph 11 do not exceed 15%.

Competitors in these markets include Alcan about [(10)], Pechiney (about [(11)]), Alusuisse, VAW (about [(12)]), Reynolds, Hydro and Hoogovens (less than [(13)]).

The operation will not create or strengthen a dominant position on this(these) market(s).

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Extruded products
Hard Alloys

21 The parties' combined market shares do not exceed 15%.

Competitors in these markets include Pechiney (about [14]), Hoogovens, Alcan, Alusuisse (about [15]).

The operation will not create or strengthen a dominant position on this market.

Soft Alloys

22 The parties' combined market shares do not exceed 15%.

Competitors in these markets include Hydro Aluminum (about [16]), Graenges (about [17]), Reynolds, Alcan, Alusuisse, Pechiney ([18]).

The operation will not create or strengthen a dominant position on this market.

Bauxite mining

There are large quantities of bauxite available. The majority of bauxite mined today is refined into alumina. All major integrated aluminium producers have interests in companies exploiting bauxite mines and have further sources by way of long term contracts. On the basis of the information provided by the parties, Alcoa's share of worldwide bauxite production in 1994 was approximately [19]. Alumix's participation in Halco Mining Company in Guinea (referred to in paragraph 5) has represented (in 1994) approximately [20] of the worldwide production. In these circumstances, it appears that the acquisition of this participation will not substantially restrict access to bauxite for the other purchasers on this market.

VI. ANCILLARY RESTRICTIONS

The parties intend to conclude an Alumina Supply Agreement by which Alcoa undertakes to purchase the alumina requirements of the two smelters acquired from Alumix from a third company called Eurallumina S.p.A. (52.1% owned by Alumix) for three years following the closing date. This agreement can be considered necessary to ensure a continued supply of alumina to the Portovesme and Fusina smelters in a market which is characterised by the existence of long term contracts between buyer and supplier. Its duration must nevertheless not exceed three years.

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VII. **CONCLUSION**

23 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 functioning of the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation No 4064/89.

24 This decision is without prejudice to any decision which the Commission will adopt under State aid procedures regarding Alumix.

For the Commission,