

***Case No IV/M.1356 -  
METSÄ-SERLA / UK  
PAPER***

Only the English text is available and authentic.

**REGULATION (EEC) No 4064/89  
MERGER PROCEDURE**

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Article 6(1)(b) NON-OPPOSITION

Date: 09/12/1998

*Also available in the CELEX database  
Document No 398M1356*



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 9.12.1998

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EEC) No 4064/89 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 Where possible the information omitted has been replaced by ranges of figures or a general description.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 Sirs,

**Subject: Case No IV/M.1356 – Metsä-Serla / UK Paper  
Notification of 6.11.1998 pursuant to Article 4 of Council Regulation  
No 4064/89**

1. On 6.11.1998, the Commission received a notification of a proposed concentration pursuant to Article 4 of council Regulation (EEC) No 4064/89 by which the undertaking Metsä-Serla Corporation acquires within the meaning of Article 3(1)(b) sole control of several companies and joint-control of another one all from UK Paper PLC.

**I. THE PARTIES AND THE OPERATION**

2. Metsä-Serla Corporation (“Metsä-Serla”) is a Finnish forest industry company subsidiary of Metsäliitto Osuuskunta, the parent company of the Metsäliitto Group. Metsä-Serla’s core businesses are products and services for the printing and packaging industries. The company is active in the production and marketing of printing and writing papers, paperboard, corrugated boards, packaging raw materials, chemical pulps and tissue paper.
3. UK Paper PLC (“UK Paper”) is a subsidiary of the Fletcher Challenge Industries UK Limited part of the Fletcher Challenge group, a New Zealand based company which specialises in building, energy, forestry, pulp and paper activities.
4. Metsä-Serla, through its UK subsidiary Metsä-Serla (Holdings) PLC, intends to acquire the paper production business of UK Paper in the UK, which is located on an industrial site at Kemsley, Kent (UK), as well as its merchant activities and other activities related thereto. The sale and purchase agreement will encompass the following companies:

- UK Paper Ltd, a mill engaged in the production of wood-free coated (“WFC”).
- New Thames Paper Company Ltd, a mill engaged in the production of wood-free uncoated (“WFU”). It also owns a recycled fibre plant producing pulp from recycled fibres extracted from waste paper.
- Guppy Paper Ltd, a paper merchant which sells and distributes different kinds of papers including WFC and WFU fine papers.
- UK Paper’s 50% interest in the undertaking Grovehurst Energy Ltd. (“Grovehurst”) which provides UK Paper’s companies in the Kemsley site (namely the two mills and the recycled pulp plant) with its entire needs of electricity, steam and water, water disposal, catering, security services and other related services. Grovehurst is a company jointly controlled by UK Paper and St. Regis Paper Company Ltd., (an undertaking also located on the same industrial site) and it also provides its other parent with the same services specified above. It purchases electricity and steam capacity from a nearby heat and power plant currently operated by Powergen and then supplies this capacity to its parent companies. These supplies cover the entire demand of the plants and correspond to approximately 98 % of Grovehurst supplies. Grovehurst was created to provide the parent factories on that particular location at the Kemsley site with their energy requirements. The structure and activities of Grovehurst will remain the same and the only change to take place will be that of the ownership of the shares. Therefore the acquisition of UK Paper’s 50 % interest in Grovehurst forms an integral part of the same business which is to be acquired by Metsä-Serla and has to be treated as part of the same operation.
- Metsä-Serla will also acquire three other companies from UK Paper, which have not been active in any business activities so far.

## **II. THE CONCENTRATION**

5. The acquisition by Metsä-Serla of the UK Paper business companies, including UK Paper’s interest in Grovehurst, constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

## **III. COMMUNITY DIMENSION**

6. The aggregate world-wide turnover of the undertakings concerned exceeds ECU 5,000 million (ECU 4,669 million for the Metsäliitto Group and ECU 399 million for the UK Paper business companies). Each of the parties has a Community-wide turnover in excess of ECU 250 million (ECU [...] million for the Metsäliitto Group and ECU [...] million for the UK Paper business companies) and they do not achieve more than two thirds of their aggregate turnover within one and the same Member State. The notified operation has therefore a Community dimension in accordance with Article 1(2) of the Merger Regulation.

## IV. COMPATIBILITY WITH THE COMMON MARKET

### A. The Relevant Product Market

7. The proposed concentration concerns the markets for WFC and WFU fine papers, the pulp market and the paper merchanting business.

#### *(i) Fine Paper*

8. There is a traditional distinction between the two basic types of fine paper depending basically on the degree of finishing achieved during the paper-making process, their different characteristics and their main end-uses. Fine Papers include both coated and uncoated papers made out of pulp mechanically treated, also referred to as “wood containing”, or of chemically treated, also referred to as “woodfree”.
9. The parties manufacture woodfree coated (WFC) and woodfree uncoated (WFU) fine papers from chemical pulp. The main end-uses of WFU are mainly photocopying and printing for office and business purposes as well as stationary and exercise books. WFC papers have a smooth surface making them highly suitable for multi-colour printing and are primarily used for advertising purposes, corporate reports and accounts, manuals, books, promotional material and high quality catalogues and magazines.
10. Because of their different characteristics and end-uses WFU and WFC papers have a limited degree of substitutability from the demand side. However from the supply side it appears that is relatively easy to switch production from one to another type of paper since the different grades of paper result mainly from the blend and the different coating materials used during the manufacturing process. As in previous Commission decisions<sup>1</sup> the question whether or not fine paper could represent a different product market from other paper grades, or should or should not be further subdivided into WFU and WFC as different product markets, can be left open in this case given that in the narrowest possible definition of the markets, that is a WFU market and a WFC market, the operation will not create any problem of dominance.

#### *(ii) Pulp.*

11. Pulp has different properties depending in turn on different factors such as: the raw material namely wood (softwood /hardwood) or waste paper (recycled fibres); whether or not the pulp is bleached (bleached pulp is used for fine paper) or whether chemical or mechanical processing is used (chemical pulp is known as “wood-free” and mechanical pulp contains wood and has different end-uses). Pulp produced in the EEA is either for captive use by the vertically integrated companies in their own paper mills or it is sold to third parties on the open market (so called “market pulp”). Notwithstanding the different characteristics of these products the Commission has treated pulp as a single product market for the purpose of earlier decisions<sup>2</sup>.

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<sup>1</sup> Case N°IV/M.166 Torras/Sarrió; Case N°IV/M.499-Jefferson Smurfit/SaintGobain; Case N°IV/M.549-SCA/PWA; Case N°IV/M.1006-UPM-Kymmene/April.

<sup>2</sup> Case No IV/M.166 Torras/Sarrió; Case No IV/M.210-Mondi/Frantschach ; Case No IV/M.646-Repola/Kymene; Case N°1006- UPM-Kymene/April.

12. Metsä-Serla is engaged in the production of softwood and hardwood chemical pulp and UK Paper [...] produces recycled fibre pulp based on waste paper.

*(iii) Paper Merchant Business*

13. In previous Commission decisions the sale and distribution of graphic paper through paper merchants has been considered as a separate market from that for the sale and distribution of graphic paper directly to customers by paper manufacturers<sup>3</sup>. This is due mainly to the fact that merchants attract customers who need quick deliveries of small quantities and want a choice between a wide range of products while paper producers are better positioned to serve customers who need bulk delivery at lower prices.
14. Metsä-Serla and Guppy (UK Paper) are both active in paper merchanting in the UK for printing papers, i.e., WFC and WFU fine papers, coated mechanical papers and carbonless copy paper.

B. The Relevant Geographic Market

*(i) Fine Paper.*

15. In previous cases the Commission has found that the geographic scope for the market of WFU and WFC fine papers was at least EEA wide<sup>4</sup>. The parties submit that each Member State produces, imports and exports each of the various categories of papers and that major manufacturers are present throughout the Community and that transport costs do not constitute an obstacle to transborder competition. From the Commission's investigation it can be concluded that, in general terms, the situation has not changed so far, although imports of Asian uncoated woodfree paper have increased significantly in the last years and might put a pressure on western markets in view of their lower production costs. The pressure from Asian coated woodfree paper is weaker. However it is not necessary to further delineate the relevant geographic market, since the present operation will not create or strengthen a dominant position in the Community. Consequently and for the purpose of this case the relevant geographic market to be considered for both WFU and WFC is at least the EEA.

*(ii) Pulp*

16. Pulp is a commodity product, which has traditionally been imported into the Community in large quantities, given its deficit in production relative to consumption. In previous Commission decisions, the geographic scope of the pulp market has been recognised as at least Community-wide<sup>5</sup>.

*(iii) Paper Merchant Business*

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<sup>3</sup> Case N°IV/M.166 Torras/Sarrió; Case N°IV/M.291-KNP/BT/VRG and Case N°IV/M.884- KNP BT/Bunzl/Wilhelm Seiler.

<sup>4</sup> See for example Case N°IV/M.166-Torras/Sarrió; Case N°IV/M.210-Mondi/Frantschach or Case N°IV/M.1006-UPM-Kymmene/April.

<sup>5</sup> Cases in footnote 2.

17. The relevant geographic market for the product market defined above has traditionally been considered in previous Commission decisions as national. This is based mainly on the need for prompt delivery to customers who want to avoid stock maintenance and to the fact that trade practices and product presentation vary from one country to another within the EU. Metsä-Serla is active in this business in several countries within Europe including the UK where UK Paper is also active. The relevant geographic market to be considered in this particular case is the UK.

## **V. COMPETITIVE ASSESSMENT**

18. There is a minimal overlap between the parties in the markets identified above. The operation will have little impact on the above analysed markets, both at an EEA level for WFU and WFC fine papers and pulp and at a national level for the paper merchant activities.
19. The parties submit that their combined market share in a combined WFC and WFU fine paper market should be [less than 10%] in value and [less than 10%] in volume at the EEA level. Although the relevant geographic market to be considered in this case is the EEA, figures also show that there would be no affected markets in any Member State. If WFU and WFC are separate product markets the parties' combined market share for WFU would be [less than 10%] and for WFC paper the percentage would be less than 10 % both in volume and value.
20. Metsä-Serla's pulp sales percentage to third parties is very small ([less than 5%] of total production) and that of UK Paper is negligible ([less than 1%]). This is due to the fact that Metsä-Serla and UK Paper mills produce pulp almost exclusively for its captive use. On the basis of total supplies, including those for captive use, in the EEA the parties combined shares are as follows: [less than 10%] in volume ([...] for Metsä-Serla and only [...] for UK Paper) and [less than 10%] in value ([...] for Metsä-Serla and [...] for UK Paper).
21. As far as the market for the sale and distribution of graphic paper through paper merchants is concerned (so-called "paper merchant" market), and according to the information provided in the notification there is an overlap in the parties' activities only in the UK. However the impact of such overlapping is not important given that the combined market shares are less than 15 %, namely [...] in volume and [...] in value. Consequently no affected markets have been found.
22. In view of the foregoing, it appears that the notified operation does not create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

## **VI. CONCLUSION**

25. 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 (EEC) No 4064/89.

For the Commission,