



Case Summary

23 September 2016

Withdrawal of notification of acquisition by Owens Corning of glass fibre nonwoven and technical reinforcement fabrics business of Ahlstrom Glassfibre Oy

Sector:	Glass fibre nonwovens
Ref:	B3-37/16, B2-58/16
Date of decision:	Withdrawal of notification

The Bundeskartellamt has closely examined the planned acquisition by Owens Corning of the glass fibre nonwoven and technical reinforcement fabrics business of the Finnish company Ahlstrom Glassfibre Oy (Ahlstrom) in second phase proceedings. The parties withdrew their notification after the Bundeskartellamt had informed them in a letter dated 27 June 2016 of its concerns about the planned merger. According to the authority's preliminary assessment the merger would have significantly impeded effective competition on the EEA-wide market for wet-processed glass fibre nonwovens. The merger would have eliminated the third largest supplier as an independent competitor. With a significant market share this supplier is of key importance for competition in this market. Apart from the merged company only one major competitor would have remained.

The products concerned are manufactured from glass fibres in a watery solution and from chemical binders. In particular the different combinations of these raw materials in the product line result in the production of glass fibre nonwovens with different characteristics which can be used in a wide range of applications. In many areas of application the exact specifications of glass fibre nonwovens are customized and the products are manufactured to order for the individual customer. The companies buying these glass fibre nonwovens are active in a variety of industrial sectors. Most of the products are used in the construction industry, especially for roofing and various applications in the interiors of buildings. Typical customers are, e.g. building material manufacturers and manufacturers of flooring or glass fibre nonwovens for interior decoration.

The effects of the merger on competition in Germany would have been particularly significant because Germany is by far the largest sales area for wet-processed glass fibre nonwovens in

the EEA¹. Germany accounts for approx. 30 percent of total turnover with this product in the EEA, followed by France (9%), Belgium (8%) and Great Britain (6%). In Germany the demand side for wet-processed glass fibre nonwovens is multifaceted. The customers, from small to large companies, cover the whole spectrum of application for glass fibre nonwovens. In turn, the products which they process further are used in a whole range of industrial sectors. The examination of the acquisition under competition law by the Bundeskartellamt as the only competition authority in Europe besides Russia was therefore justified for economic reasons.

Based on the findings of its investigations the Bundeskartellamt assumed a product market for wet-processed glass fibre nonwovens.² This market has a volume of approx. 200 million euros in the EEA and approx. 60 million euros in Germany. By contrast, in the course of the proceedings the parties had favoured dividing the market into at least eight relevant product markets. In their view the markets affected by the merger were solely so-called de-minimis markets³. Under this concept a merger cannot be prohibited if the turnover achieved in such a market in Germany in the last calendar year was less than 15 million euros. The Bundeskartellamt did not support the parties' view. The deciding factor which ultimately determined the authority's opinion was the suppliers' high flexibility to switch production between glass-fibre nonwovens for different areas of application in conjunction with the conditions of competition on the market concerned.

As part of the investigations information was requested from all the relevant manufacturers, including details about their actual production processes. The evaluation of the information collected showed that not only are the products concerned manufactured at the same production plants and principally from the same raw materials. Production is regularly switched between products for different customers and applications in the normal production process and sometimes even without interruption or additional costs. All the suppliers also endeavour to use their manufacturing plants to full capacity by producing for various customer groups. The four companies active in the market are therefore potential suppliers for the demand side for most areas of application. Furthermore they are all willing to satisfy the requirements of individual customers and to modify the specification of the glass fibre nonwovens they produce as required. According to the Bundeskartellamt's findings, this assessment is also confirmed by the customers' perception of the market situation. Dividing the markets according to the many different possible areas of application would not have been justified either under the demand-

¹ EEA - European Economic Area

² The question whether larger submarkets, such as e.g. for special nonwovens, could be defined, could remain open because the effects on competition would have been the same.

³ Within the meaning of Article 36 (1) no. 2 of the German Competition Act (GWB)

side substitutability concept, based on the alternatives of the direct customers to switch supplier, or due to the ability of suppliers to switch production (product adaptation flexibility). This would have resulted in a large number of in some cases very small ("atomistic") markets for the glass fibre nonwovens concerned.

According to the Bundeskartellamt's preliminary assessment, the intended merger would have considerably increased the already high level of concentration on the EEA-wide market for wet-processed glass fibre nonwovens. It would have given Owens Corning, which is already the market leader with a 50 to 60 percent share of the market based on turnover, further scope for action. The merger would have eliminated Ahlstrom, the third largest supplier with a significant market share (10%-20%), as an independent competitor. The only major competitor remaining in the market would have been the US company Johns Manville with a 30 to 40 percent market share along with Saint Gobain with a market share of less than 10 percent. Post merger over 90 percent of the market would have been held by two suppliers.

According to the Bundeskartellamt's investigations, the parties to the intended merger and Johns Manville are close competitors. The products which they manufacture are regarded by the customers questioned during the proceedings as almost equal in terms of quality. There are also considerable overlaps between the manufacturers' customer groups. By contrast, the competitive closeness between the parties and Saint Gobain as the fourth relevant manufacturer is less significant. Saint Gobain has a much lower market share and correspondingly lower capacities. This company is still considered by several potential customers as a competitor on a number of downstream markets, e.g. interior decoration, as some of the companies of the Saint Gobain group are active in these markets. However, in the view of these market participants Saint Gobain is not an economically viable alternative in these areas of application because customers give the manufacturer competition-relevant information for the manufacture of the glass fibre nonwovens. Saint Gobain's production capabilities also do not meet customers' requirements in some areas of application to the same degree as those of its competitors.

As a low-cost supplier the target company Ahlstrom plays an important competitive role on the market affected. This statement corresponds with the assessment of the customers questioned and is confirmed by the Bundeskartellamt's analysis of the market data collected. For customers Ahlstrom is therefore an important alternative, especially to the two leading suppliers. The customers mainly pursue a multiple supplier strategy, also for reasons of security of supply. In the past years they have not notably switched supplier or shifted purchase volumes. During the

entire period from 2012 to 2015 the switching rate lay well below one percent. The merger would have significantly limited the possibilities of customers to switch to another supplier.

In view of the structural conditions in the market and based on the Bundeskartellamt's preliminary assessment, it was assumed that the merger would create incentives for the remaining manufacturers to offer less attractive conditions by e.g. reducing supply quantities, increasing prices and/or offering worse supply conditions for their customers. These unilateral effects would have been strengthened by capacity constraints. In addition, barriers to market entry in the manufacture of wet-processed glass fibre nonwovens are considered as very high due to high investment costs and the necessary specialised knowledge. The loss of competitive pressure eliminated by the merger was unlikely to be compensated for by any market entries or expansion in capacity within the next few years.

The parties to the merger objected to the authority's preliminary assessment. Due to their withdrawal of the merger notification no further comments on the facts and assessment of the case have been issued by the parties.