OFFICE OF FAIR TRADING

Anticipated acquisition by Cameron CPI UK Limited of Fulmar plc

The OFT' s decision on reference under section 33 given on 24 May 2006. Full text of decision published 31 May 2006.

Please note that square brackets indicate figures or text which have been omitted or replaced with a range for reasons of commercial confidentiality.

PARTIES

1. **Cameron CPI UK Limited (CPI)** is a UK wholly owned subsidiary of the French company Cameron France Holdings SAS (CFH). It is active in book manufacturing in the UK through several UK subsidiaries.

2. **Fulmar plc (Fulmar)** is a company listed on the London Stock Exchange. It is active in book manufacturing and commercial printing in the UK. Fulmar' s turnover for the financial year ending 2005 was £40.94 million.

TRANSACTION

3. CPI has made an offer for the entire issued share capital of Fulmar for a consideration of £33 million.

JURISDICTION

4. As a result of this transaction enterprises carried on by or under the control of CPI and Fulmar will cease to be distinct. Post-merger the parties will have a combined share of supply of [30-40] per cent of monochrome A and B format book manufacturing in the UK. Therefore, the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met.

5. The transaction was notified to the OFT on 10 April 2006 by way of Merger Notice and therefore the statutory deadline expires on 25 May 2006.

RELEVANT MARKET

Product scope

6. The parties overlap in book manufacturing, specifically in A and B format monochrome book manufacturing. The parties submitted that book manufacturing is a separate market from the manufacturing of other printing products such as newspapers, magazines and commercial brochures as different manufacturing processes are used for each different product. A previous European Commission decision also supports this view.[1] Furthermore, no evidence was found during the course of this investigation to suggest adopting a different approach.

7. The parties argued that the relevant frame of reference is all book manufacturing encompassing the many stages of the printing process from pre-press to delivery of the final book to the consumer. Competitors suggested that it is not a strict requirement that each of these elements is carried out by the same printing company in order to fulfil demand for book manufacturing services. Whilst the smaller manufacturers may outsource some of these elements to other providers, resulting in competition at the fringes for some stages of book printing, competitors and customers indicated that the vast majority of suppliers are fully integrated. Therefore, for the purposes of this investigation, we have treated the various stages of book manufacturing as a single integrated service.

8. The parties submitted that the relevant frame of reference should encompass both colour and monochrome book manufacturing, as most monochrome book manufacturers also possess colour printers in order to print their own covers. On the supply-side, competitors stated that printing machinery is specialised and dedicated to printing in either monochrome or colour and while monochrome printing may be technically possible on a colour printer, it is not commercially feasible to do so in large quantities. Monochrome printers will not print in colour. On the demand-side, customers stated that a 5-10 per cent price increase in monochrome book manufacturing would not lead to a switch to colour formats. Therefore, taking a cautious approach, it is not considered appropriate to include colour book manufacturing in the relevant product frame of reference in this case.

9. There are four standard sizes in the UK for monochrome book manufacturing: A and B formats (which form the majority of paperbacks); and Demy and Royal (which form the majority of hardbacks).[2] On the supply-side, competitors stated that printing machinery is specialised and dedicated to printing in one type of format, as printing smaller formats on a larger format machine results in significant paper wastage and inefficient use of printing plates. In addition, the

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[1] Case Comp/M.3939 *Electra/CVC/CPI*; 27 September 2005

[2] However Demy and Royal sizes are occasionally used for paperbacks.

costs and time lags associated with switching into different book formats suggest that it is not sufficiently timely to warrant inclusion in the product frame of reference.

10. On the demand-side, the parties submitted that an attempt to increase the price of A format books would result in publishers switching to B format books and vice versa. Customers suggested that switching was on the whole dependent on a variety of factors other than production costs. In particular, the market place where a book will be sold and the type of customer that is likely to buy the book is an important factor informing a publisher' s choice of format (for example, a publisher stated that supermarkets tend to take more A than B format books). Given that the choice of book format depends to a large extent on non-price factors, it is considered that there would be limited switching between the different book formats by publishers in the face of a 5-10 per cent price increase.

11. Given these factors, a cautious approach has been taken in relation to the relevant product frames of reference and each of the different book formats (A, B, Demy and Royal) have been treated as being separate for the purposes of this case.

Geographic scope

12. The parties argued that the relevant geographic scope for book manufacturing is at least EEA wide, as trade barriers and transportation costs are low and homogenous conditions for competition exist within the EEA, with cross-border trade already occurring. Customers confirmed that for what they term ' back-list books' (i.e. those books that do not need to be printed in a short space of time), they can and do source from abroad. However for the fast selling ' front-list books' , publishers require a national presence, as publishers initially make small orders of books to gauge sales and then require significant numbers of re-prints within a two or three day period.

13. Given the discrepancy between front-list and back-list monochrome book manufacturing, we have taken a cautious approach and, for the purposes of this decision, we have considered the geographic frame of reference for monochrome book manufacturing to be national.

HORIZONTAL ISSUES

14. Third parties indicated that competition in this market occurs on price, quality of service and ability to deliver within a short time frame.

Non-coordinated effects

15. The parties overlap in the supply of monochrome A and B format book printing, where customers and competitors stated that CPI is the second biggest supplier in the UK with Fulmar the third biggest supplier in the UK. As a result of the acquisition, the merged entity' s combined share of supply will be [25-35] per cent (increment of [5-15] per cent) in A format books, and [40-50] per cent (increment of [5-15] per cent) in B format books. Other competitors include Clays, the number one provider with a share of supply of 50 per cent in each of A and B format monochrome book printing, and with other competitors collectively holding19 per cent in A and 7 percent in B format books. Among these competitors is Norhaven, a Danish company which is expanding its UK presence in monochrome A and B format book manufacturing.

16. Bidding information supplied by the parties suggested that the parties won the majority of the bids they tendered for, however, where both parties have competed for a contract, there have on the whole, been a number of other bidders present. While some customers expressed concerns that there would be a reduction in choice of UK suppliers for A and B format books from three to two, other customers considered sufficient choice would remain post-merger. This could suggest that the merger may significantly reduce competition in the supply of A and B format book manufacturing services in the UK, however information provided suggested that there would be sufficient constraint from new entry, expansion and/or countervailing buyer power to counter any reduction in competition resulting from this merger.

BARRIERS TO ENTRY AND BUYER POWER

17. While the cost of de novo entry may be high,[3] barriers to entry by book manufacturers in neighbouring or similar sectors such as from monochrome Demy or Royal format book manufacturers and expansion from current monochrome A and B book manufacturers on the whole appear to be relatively low. The cost for an existing book manufacturer of establishing a printing line for monochrome A and B format books is approximately £2 million. Contracts for printing services are typically of short duration (2-3 years but may be re-negotiated sooner if competitors offer lower prices within that time) and customers are willing to quickly switch to a supplier providing the service they need.

18. Given the relatively low cost of purchasing a monochrome A and B format printing press, the parties submitted that it is easy for existing printing companies currently specialising in colour or in different format printing both in the UK and

[3] The cost of establishing monochrome A and B book manufacturing operations is between £9 and £15 million

abroad to buy equipment and begin printing A and B format books in the UK. Customers and competitors support the view that to set up an A and B format printing line is not costly. As an example of ease of entry and expansion, Bookmarque (a subsidiary of Fulmar) entered the monochrome A and B format book manufacturing sector in 2000 and gained a share of supply of up to [5-15] per cent in six years.

19. Another example of expansion is Norhaven, a Danish printing company of significant size and scope which recently acquired Creative Print and Design Group, giving it a physical presence in the UK. Norhaven has expressed its intention to increase its provision of monochrome A and B book printing in the UK. Numerous customers suggested that Norhaven would act as an effective competitive constraint to the merged entity.

20. Customers would appear to have countervailing buyer power. For example the larger publishers stated that they have sponsored entry in the past and would be willing to sponsor entry again in order to preserve choice. For example, in 2000, a large publishing house successfully sponsored the entry of Bookmarque into the monochrome A and B book manufacturing sector.

21. Overall, it appears that barriers to entry and expansion are low and customers are willing and able to switch their business to preserve choice. Entry by an existing printing operation or expansion by Norhaven or another competitor would therefore appear to be timely, likely and of sufficient scope to constrain the parties post-merger. Therefore, the OFT does not consider that the merger may be expected to result in a substantial lessening of competition (in terms of either price or non-price competition) in monochrome A and B format book manufacturing.

COORDINATED EFFECTS

22. As the merger reduces the number of significant[4] monochrome A and B format book printers from four to three, the OFT has considered whether this could enable the major competitors to co-ordinated their behaviour. However given the low barriers to entry that exist in this market as well as customers' willingness to switch supplier, it is considered that any concerted attempt to coordinate price would lead to customers switching their printing orders to other competitors. No concerns were raised by third parties in relation to co-ordinated effects. Therefore, the OFT does not consider that coordinated effects concerns arise in this case.

[4] There are a number of smaller players as indicated in the share of supply data above.

VERTICAL ISSUES

23. CVC (one of the major shareholders of CPI' s parent company CFH) possesses at least a [10-20] per cent shareholding in three companies active in markets upstream to the market in which CPI is active. These markets are ink production, paper production and solid board production. The European Commission recently considered the vertical relationships between CPI and CVC,[5] concluding that there was no risk that the proposed transaction would result in any foreclosure effect in any relevant upstream markets. The European Commission further concluded that given that the relevant products accounted for a small proportion of CPI' s book manufacturing costs, there would not be any risk of foreclosure to book manufacturing as a result of CPI being supplied by CVC even if it were to be supplied below market cost. No evidence was found during the course of the investigation to suggest adopting a different approach. In addition, given that the merged entity will lack market power across the range of downstream production formats, it is not considered that vertical issues are of concern in this case. Furthermore, no concerns were raised by third parties in relation to vertical effects.

THIRD PARTY VIEWS

24. Certain smaller customers were concerned about the lack of choice post-merger, however, given the expansion plans of Norhaven and larger customers' willingness to sponsor entry, there appears to be sufficient existing and potential competition post-merger to constrain the merged entity.

25. On balance, the majority of customers were not concerned with the merger, stating that they could source elsewhere were the merged entity to raise prices. Competitors were also generally not concerned.

ASSESSMENT

26. In conclusion, while the merger may reduce the number of monochrome book printers in the UK and may create an entity with relatively high shares of supply, in both A and B monochrome book manufacturing, the combination of low barriers to entry by competitors in neighbouring or similar sectors; expansion from other players in the market; and customers' willingness to sponsor entry is sufficient to constrain the merged entity were it to attempt to raise prices/reduce service quality.

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[5] Comp/M.3939- Electra/CVC/CPI; 27 September 2005

27. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

28. This merger will therefore **not be referred** to the Competition Commission under section 33(1) of the Act.