

Anticipated acquisition by Bobst Group SA of Gordon Limited

ME/4752/10

The OFT's decision on reference under section 33(1) given on 14 January 2011.
Full text of decision published 31 January 2011.

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

PARTIES

1. **Bobst Group S.A (Bobst)**, a Swiss company, is a global producer and distributor of machines used in the production of packaging made from folding carton, corrugated board and plastic film. In the UK Bobst has two operating subsidiaries — Bobst Group (UK & Ireland) Limited and General Vacuum Equipment Limited, both of which are held through Bobst Group (UK Holdings) Limited. A number of other Bobst companies also sell products into the UK.
2. **Gordon Limited (Gordon)** is a private company incorporated in Hong Kong. Gordon controls a number of private companies active in the manufacture and supply of machinery used in the production of packaging, of which the principal company is **Shanghai Eternal Machinery Co. Limited. (Shanghai)**. Shanghai is a private company incorporated in China of which Gordon owns an 85.88 per cent share. Shanghai produces and distributes machines used in the production of packaging. While its sales are primarily focused on customers in the Far East, it also exports its products to countries around the world including the UK. In the year to 31 December 2009, Shanghai's UK turnover was £0.56 million.

TRANSACTION

3. Bobst has agreed to acquire 65 per cent of shares in Gordon for a consideration of approximately []. Bobst also has an option to acquire the remaining 35 per cent of Gordon.
4. The transaction has been notified in Brazil and the Ukraine as well as the UK. The Ukraine competition authority cleared the merger unconditionally on 9 December 2010. The parties notified the proposed transaction on 11 November and the administrative deadline for a decision is 14 January 2011.

JURISDICTION

5. As a result of this transaction Bobst and Gordon will cease to be distinct. The turnover test in section 23(1)(b) of the Enterprise Act 2002 (the Act) is not satisfied. However, Bobst and Shanghai overlap in the supply of die-cutter and folder gluer machinery for corrugated board in the UK, creating a combined share of supply of approximately [30 - 40] per cent (increment [10-20] per cent) and [30-40] per cent (increment [five-10] per cent) respectively, and the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is therefore met. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

RATIONALE

6. The acquisition will allow Bobst access to the low cost machinery manufactured by Shanghai that is in particular demand in China and more mature markets such as Europe.
7. Internal documents also describe Bobst's objective to achieve leadership in many Asian (and emerging) markets.

MARKET DEFINITION

8. Packaging material can either be solid, for example corrugated board, or folding carton, or flexible, for example paper or plastics. This transaction only concerns the supply of machinery used by packaging companies for the production of solid packaging, in particular corrugated board and folding carton.
9. A packaging company uses a range of printing and converting machinery to produce the finished packaging. There are two types of machine used in the process — die-cutters and folder gluers. Die-cutters cut out sections of board to create gaps in each sheet. Folder gluers are machines that subsequently fold and glue the boards together to make the packaging.
10. Although the production process for making packaging from folding carton and corrugated board is very similar, the parties stated that companies often use different machinery for folding carton and corrugated board.
11. The parties overlap in the supply of machinery used to produce packaging and associated support services. Specifically, they overlap in the supply of:
 - Die-cutters for use with (i) folding carton; and (ii) corrugated board.¹
 - Folder gluers for use with (i) folding carton; and (ii) corrugated board.
12. Both parties also supply related after sales services (including the supply of spare parts etc). However, no concerns were raised by third parties regarding such services (some of whom pointed to a wide set of potential suppliers for such services) and they are not considered further in this assessment.

¹ The parties also overlap in ancillary equipment such as 'breakers' (which separate and layer batches of substrate during the die-cutting process) and 'pile loaders' (which automatically feed sheets of substrate into die-cutters). The OFT's third party enquiries focused on the primary overlaps of die-cutters and folder gluers. No additional comments were raised by third parties regarding these closely related markets and it appears appropriate to consider that the same conclusions apply to the supply of these as to the supply of die-cutters.

Product scope

13. Folder gluers and die-cutters fulfil different functions and are not therefore demand side substitutes. On the supply side, while some suppliers, for example Heidelberg and Bobst, supply both types of machine the parties advised that there were a number of important suppliers that supply either folder gluers or die-cutters. In a previous case² that dealt with machinery for the production of flexible packaging, the OFT assessed the transaction in respect of the different types of machinery, primarily because each machine carried out a different function and because there was limited supply side substitution between the machines. Similarly in a case involving machinery for paper packaging³ the Commission identified separate product markets for machines having different functions in the process for the production of packaging. The OFT has not received any evidence that suggests a different approach in this case and therefore has considered the market for folder gluers and die-cutters to be distinct, and has assessed each in turn.

Folder gluers

14. The parties suggest that defining separate markets for folder gluers by material type would potentially be inappropriate, since many folder gluers can be used with both folding carton and corrugated board. Indeed, Shanghai does not distinguish between folder gluers on this basis in its marketing.
15. However, Bobst does distinguish between folder gluers on this basis and the OFT understands that some smaller folder gluers may not be strong enough to fold, glue and press heavy corrugated board. Consequently the parties provided data on both a combined market and one split by material type.
16. Similar issues to those referred to below in respect of the die-cutters market apply to the folder gluer market also. For instance, the parties both supply a range of folder gluers which vary by size, price and suitability for

² ME/1508/03 – Completed acquisition by Bobst Group SA of the Valmet Converting business of Metso Corporation 2004

³ ECMR case M.478 – Voith/Sulzer (II) 1994

different substrate, for example folding carton and corrugated board, this raises the possibility of defining the market along various delineations. However, one competitor did consider that the different versions of Bobst's gluers were likely to compete with each other through a chain of substitution, with machines in different price categories.

17. However, the OFT has not had to conclude on the precise boundaries of the relevant product market given that no competition concerns arise.

Die-cutters

18. The parties proposed that the product market for die-cutters could be delineated by the type of material that each die-cutter is 'primarily' used for. Specifically, they suggested splitting the market into those models primarily used for folding carton and those primarily used for corrugated board. However, it is notable that Shanghai markets its die-cutters as suitable for use with both corrugated board and folding carton, and in its internal documents, Bobst also appears not to segment the market in such a way.
19. Of the 21 die-cutters within the Bobst range, the parties stated that only six are primarily for use with only folding carton or corrugated board. The remainder can be used with a range of folding carton and/or corrugated board and the ranges of material that Bobst's die-cutters are primarily used for often overlap. From material submitted by the parties, the OFT was able to infer that most Bobst die-cutters are primarily used with folding carton and micro flute corrugated board, or with micro flute and heavy corrugated board. Therefore the majority of die-cutters in the Bobst range overlap in the range of materials that they are primarily used with.
20. Consequently, while the parties' suggested delineation may be an appropriate starting point to consider the effects of the transaction, the OFT also considered whether the appropriate market is the overall supply of all die-cutters.
21. Both parties supply a portfolio of die-cutters — Bobst and Shanghai sell a range of 21 and 13 automatic or semi automatic die-cutters respectively. These vary in their price, size, volume, capacity, and dimensions of material that can be used etc. Internal documents from Bobst demonstrate

that it considers that competitive conditions vary across its product range. In particular, these documents show that both the number and manufacturer(s) of competing die-cutter models vary across its range. Bobst and Shanghai do not compete across the full range of die-cutters (for example Bobst has no entry level model or semi-automatic models, and Shanghai is not present in the higher specification segment).

22. Further, while one competitor told us that it produces a range of die-cutters, another told us that it only produces die-cutters that can be used with only some of the industry's standard packaging dimensions.
23. On the basis of the above, the conditions of competition may therefore vary in different segments of the die-cutter market. Consequently, although the OFT has not had to conclude on the precise boundaries of the relevant product market given that no competition concerns arise, the OFT has considered these possible differences between segments of the overall market for die-cutters in its competitive assessment.

Stitchers

24. The parties also highlighted a potential overlap in the supply of 'stitchers'; machines that can substitute for large folder gluers. Shanghai, however, has to date only sold these in China and there is therefore no overlap in the UK or the EEA. Therefore this product market is not considered further in this assessment

Other potential overlaps

25. There are several additional products sold by either Bobst or Shanghai, which, while there is technically no overlap on the narrowest definition, may nevertheless overlap within a wider product market. For example:
 - Bobst supplies several related products including: in-line rotary die-cutters, rotary die-cutting lines for the production of die cut boxes, standalone folder gluers, 'flexo' folder gluer converting lines for regular slotted cases, and automatic handling systems for corrugated converters.
 - Shanghai also supplies hand-fed die-cutters.

26. The parties stated that the degree of substitutability of the above products with automatic and semi automatic die-cutters and folder gluers was limited. For example hand-fed die-cutters are simpler and less productive than auto and semi automatic models, and therefore provide a weak demand side substitute.
27. The question of whether any of these related products may form part of the relevant market has been left open. The parties' have stated that the market shares provided give rise to the highest combined shares of supply, and therefore represent the most conservative basis on which to assess the acquisition. The OFT accepts that competition between the parties is likely to be strongest, and competition concerns most likely to arise, within the markets upon which market shares have been based (that is, in the supply of die-cutters and folder gluers) and has therefore not considered a potential wider product market further.

Geographic scope

28. The parties refer to precedent set in two previous cases⁴ in the packaging industry:
- the parties state that in Voith/Sulzer (II), the EC concluded that the market for machinery used for paper packaging was global in scope
 - while in Bobst/Valmet, in which the horizontal overlap was in the manufacture and sale of machines used to apply the finishing process to flexible packaging, the OFT considered the acquisition on the basis of a European frame of reference in light of some customer views that they would tend to only consider European suppliers because of the need for relatively local technical assistance.
29. In the current case, the parties argued that the market is likely to be global, since many suppliers of die-cutters and folder gluers have just one or two manufacturing sites yet supply customers around the world via global sales networks. The parties' claim that prices do not vary from region to region, and that transport costs (less than [] per cent) are small in relation to the cost of the machines.

⁴ Voith/Sulzer (II) 1994, Bobst / Valmet 2004. See foot notes 2 and 3.

30. On the other hand, the parties also consider that some suppliers are stronger in their home territories, not least Bobst (which is stronger in Europe) and Shanghai (stronger in China). Even within Europe, the parties claim that Shanghai [].
31. Customer views were mixed on the necessity of a UK or European presence for suppliers of die-cutters and folder gluers. However, consistent with Bobst/Valmet, one customer considered that poor after-sales service precludes them from considering Chinese suppliers. Another customer explained that they would have concerns that it would take longer to repair Chinese die-cutter machines compared to European models.
32. On the basis of this mixed evidence, the OFT considers it appropriate to consider the acquisition on the basis of UK, EEA and (where possible) global market shares. However, since competition concerns do not arise on any definition, it has not been necessary to conclude on the appropriate geographic market definition.

HORIZONTAL ISSUES

Market shares

33. The parties overlap in the supply of die-cutters, for use with folding carton and corrugated board, and folder gluers for use with folding carton and corrugated board. Die-cutters and folder gluers are high value, durable machines (lasting anywhere between 15 to 22 years), and the number of sales made in any one year is relatively low. For instance, Bobst only sold [] die-cutters in the UK during 2009.
34. Consequently, given the relatively low number of high value sales, market shares can vary markedly from one year to the next. Because of the relatively 'lumpy' nature of the market, the parties' provided market share estimates both for 2009, and also for the five-year period 2005-2009 — which may be more reflective of actual competitive conditions than market shares for any one year.

Folder gluers

35. The parties' combined market shares by value for the supply of all folder gluers in the EEA including the UK over the period 2005 – 2009 are estimated to be [30-40] per cent (increment [zero-five] per cent). In the five years since 2005 Shanghai has only sold [] folder gluer[] in the UK and the transaction results in a negligible increment, less than [zero-five] per cent by value and volume, to Bobst's UK share. In the EEA including the UK, Shanghai sold only [] machines in the period 2005 to 2009 resulting in an increment to Bobst's share of [zero-five] per cent by volume and [zero-five] per cent by value.
36. Customers that responded to the OFT's enquiries did not consider the parties to be close competitors. Indeed, the degree of choice in the market appears to be much wider than for die-cutters. The parties referred to the 2010 IPEX catalogue⁵ which lists over 20 alternative manufacturers of folding and gluing machines, while one die-cutter supplier stated that there are 'at least five times more' suppliers of folder gluers than die-cutters. Customers that the OFT contacted were aware of – in total – eight alternative suppliers.⁶
37. Barriers to entry appear low, a competitor referred to the recent entry of cheap machines from Turkey, China and India. One supplier of die-cutters suggested that, while it had not yet launched a folder gluer range, it may yet do so and did not expect any specific costs or barriers to doing so.
38. No concerns about the folder gluer sector were raised by customers. One respondent stated that the market was very fickle and price sensitive.
39. On this basis the OFT considers that the acquisition is unlikely to result in a significant lessening of competition in the supply of folder gluers to the UK or Europe.

⁵ www.opex.org/page.cfm/Link=571/t=m/goSection=5

⁶ Tanabe, Bahmüller, Revicart, Jagenberg, Omega, Vega, Emba, and Andrew & Suter.

Die-cutters

40. Bobst provided estimated shares of supply for die-cutters for folding carton and corrugated board for the UK and the EEA for 2009 and, due to the 'lumpy' nature of sales in the market, for the period 2005 to 2009.
41. When considering die-cutters used primarily with folding carton, in the EEA including the UK the parties' combined market share is estimated at [30-40] per cent by value (increment [zero-five] per cent). However, Shanghai []. In the EEA the increment of [zero-five] per cent represents the sale of [] machines in 2009.
42. The greater overlap for the parties is with regard to die-cutters primarily used with corrugated board, where the combined market shares in the EEA including the UK, are [30-40] per cent by value (increment [zero-five] per cent) for the period 2005 to 2009. In the UK the parties' have a combined share of [40-50] per cent (increment [five-10] per cent) for the same period. While acknowledging that shares in any one year may possibly be less representative than a longer period, the OFT notes that in 2009 in the UK, the parties had a combined share of [30-40] per cent (increment [10-20] per cent), with both parties selling [] units each.

Closeness of competition

43. The parties' combined market shares for the supply of die-cutters for corrugated board are at a level which, absent any mitigating factors, would potentially raise concerns over the loss of competition between the parties. In addition, given that the market share estimates attributed to Bobst in internal documents appear higher than those in the parties submission to the OFT, the OFT has taken a cautious approach and not relied solely on the estimated market shares provided by the parties.
44. However, notwithstanding this cautious approach, there is evidence to suggest that the market shares presented in internal documents may, by themselves, overstate the degree to which the parties may compete in the overall supply of die-cutters for corrugated board. This is explored below.

Differentiated portfolios

45. The parties consider that Bobst's die-cutters are expensive, highly sophisticated pieces of machinery which are sold at between [] times the price of the more basic equipment from Shanghai. A comparison of the parties' price lists for die-cutters shows that although the list-price of Bobst machines are always more expensive than those of Shanghai, the price differences between the higher end Shanghai range and the lower end Bobst range (particularly those for corrugated board) are relatively small (that is, a list price of [] for the high-end Shanghai model versus [] for the low end Bobst model).
46. While the OFT does not accept that cheaper, less sophisticated models could not impose a constraint on suppliers of relatively expensive, more complex ones, such price differences may nevertheless indicate that the parties are not close competitors.
47. There is comparable evidence regarding the differentiated technical specifications of each party's die-cutter range. For instance, Bobst only produces fully automatic die-cutters whereas Shanghai produces both semi-automatic and fully automatic models. Of the [] die-cutters for corrugated board sold by Shanghai in the UK between 2005-2009, [] were fully automatic.
48. Further, internal Bobst documents suggest that it only considers Shanghai to be a competitor across a proportion of its automatic die-cutter range. In internal documents, Bobst splits the market (and its product portfolio) in two ways:
 - by model ranges — here a Bobst presentation lists competitors to its different ranges of die-cutter models (Nova, Vision, Expert and Master). Bobst lists Shanghai Eternal [] or
 - by category based on price and volume into four categories. In only the [] categories does Bobst list Shanghai (in particular []) as a competitor to itself (in the range of die-cutters that have a volume capacity of [] square metres per hour and are priced around []). Indeed, this document demonstrates that Shanghai does not compete at all in the

highest specification and price category and similarly Bobst does not have an entry level machine to compete with Shanghai.

49. However, while such evidence suggests that the parties' market shares may overstate the level of competition between the parties across the 'die-cutter for corrugated board' market, it does not preclude the possibility that competition between Bobst and Shanghai may be significant in the sub-segments identified.
50. Indeed, the parties provided an internal global marketing presentation which identified Brausse (a brand name of Shanghai) as [], although the presentation shows the level of competitive threat to be no higher than other identified Asian competitors, for example [] and []. The internal documents place Brausse as one of Bobst's competitors globally for its [] range of die-cutters.
51. The OFT therefore considered the degree of competition between the parties in the low to mid range of automatic die-cutters that correspond to the Bobst [] die-cutter and/or die-cutters intended for use with corrugated board costing between [£300,000 - £650,000].
52. There are three particular pieces of evidence that suggest that competition in these sub segments may not be particularly strong in the UK or Europe:
 - First, the internal documents referred to above were not specific to one region (that is the UK or Europe). In this regard competitor views are informative. A supplier [] considered that the parties' respective ranges competed head to head. However, two other competitors [] gave converse views. One stated that although the parties competed in China, and the rest of Asia there was little competition in Europe and North Africa. Another told us that the parties do not compete closely due to their ranges of die-cutters varying in terms of specification, performance, quality and price.
 - With reference to competition between Bobst's [] range and Shanghai, the [] range appears to be intended for use primarily with folding carton, and, as mentioned above, Shanghai [] in the UK over the period 2005-2009.

- Even when the OFT considered the parties' competing models of die-cutters for corrugated board priced between [£300,000 - £650, 000], no customers raised substantial concerns, [].

Customer views

53. The OFT contacted a number of the parties' largest customers. Of these, [] UK Bobst customers responded who specifically use die-cutters with corrugated board, [] did not consider the parties to be close competitors to one another. A [further] customer originally stated that the parties did compete closely, but in further discussions stated that they did not consider Shanghai (or indeed any other Chinese brand) to be a real option for their company in Europe due to the lower quality of after-sales service. Therefore the OFT considers that the merger would not alter their choice of die-cutters within Europe.
54. [] large Bobst customers, who use die-cutters primarily with folding carton, stated that they had not considered Shanghai before purchasing their Bobst products.
55. The OFT also contacted a further 38 Bobst customers across its die-cutter range. The response rate to OFT enquiries was low. Four smaller Bobst customers told the OFT that Shanghai had not been considered when making their purchase.

Conclusion on closeness of competition

56. The parties' portfolios of die-cutters are differentiated, although they do appear to compete more closely in the low to mid range of automatic die-cutters. However, evidence from customers and competitors (as well as sales data) suggests that the level of competition between these models in Europe, and particularly the UK, is limited.

Other competitors

57. The parties named 10 alternative suppliers of die-cutting machinery for use with corrugated board⁷ (with a couple based in Europe and several in China/South Korea). The parties also named 11 alternative suppliers⁸ of die-cutting equipment primarily for use with folding carton.
58. [] large customers, who use die-cutters with corrugated board named four alternative suppliers (ASAHI, Marumatsu, Diecut UK, Cuir Klett). While [] large customers who use die-cutters primarily with folding carton named three alternative brands (Iberica, Sanwa, Heidleberg) as possible suppliers.
59. [] competing suppliers of die-cutters, primarily for folding carton, responded to the OFT's third party enquiries. One said that it competed closely with the parties while a second considered that while it competed closely with Bobst it only competed to a small degree with Shanghai.
60. A further four alternative suppliers were named by respondents to the OFT's wider third party enquiries; namely Karma, WOOK IL, Mirae, and Young Shin.

Internal documents

61. The internal documents provided by Bobst largely dealt with its global position. [] competitors were listed as competing with its [] range, such that the merger might represent a [] with Shanghai representing its largest threat on a global basis. However, as mentioned above, Shanghai has a very low European market share ([zero-five] per cent) and a [] UK market share ([]) in the folding carton die-cutters that might be expected to compete with the [] range.
62. Within the mid range of automatic die-cutters, from Bobst's global view the merger appears to represent a [] in suppliers. [] UK customers in this segment who responded to the OFT [did not] consider Bobst and Shanghai

⁷ Diecut UK, IMG Klett, Yoco, Meiguang, Shanghai A-Trading, Xiamen Fuyin, Beijing Shengli, Young Shin, BFK, and Nuri BM Tech.

⁸ Heidelberg, Iberica, ASAHI, Crosland VK, Masterwork Machinery, Yoco, Yawa, Tangshen, YuYin, Beiren, and Shin Tsair Shuenn SBL.

to be close competitors and cited Young Shin, Klett, Diecut UK, Cuir Klett, Crosland and Maramatsu as alternative suppliers.

63. On this basis the OFT considers that the acquisition is unlikely to result in a significant lessening of competition in the supply of die-cutters to the UK or Europe.

BARRIERS TO ENTRY AND EXPANSION

64. A competitor considered it would be difficult to enter the market to supply die-cutters in Europe given that Bobst 'already dominates' in this area'. Another competitor considered that high development costs and technology levels make entry nearly impossible. One third party estimated that entry might cost 20 million Euros, taking 10 years to recoup.

65. The parties argue that at the lower end of the market (that is of the type supplied by Shanghai) intellectual property is readily obtainable and that meeting EU (and national) legislation would not incur significant costs.

66. With regard to potential expansion, the parties argue that companies not currently targeting the UK could appoint an agent for just [] thousand a year. Further to this, three suppliers referred to entry by Asian die-cutter brands into Europe in the last five years.

67. However, it has not been necessary for the OFT to conclude, in this instance, whether barriers to entry/expansion are sufficiently low to defeat any attempted price rise by the parties.

Conglomerate effects⁹

68. Given competitor concerns, the OFT considered whether the merged party would have either the incentive or ability to foreclose the market via a strategy of tying or bundling.

⁹ See OFT1254— Merger Assessment Guidelines paragraph 5.6.13 third bullet point.

Tying and bundling

69. In order to have the ability to foreclose the market via a strategy of tying or bundling, three criteria need to be fulfilled, that is:
- market power in at least one product market that customers view as important
 - tied/bundled products need to be supplied to mostly the same customer base, and
 - parties can credibly commit to a strategy of tying/bundling.
70. Given the OFT's conclusions above on the absence of unilateral effects, the first criteria is not obviously met.¹⁰ Further the parties stated that although some customers do buy both die-cutters and folder gluers from the same supplier, they claim that this is not due to any tying, bundling or technical link between the two types of equipment. They state that, more often than not, customers will not buy these two types of equipment at the same time due to differing investment cycles.
71. No customer responses suggested that tying or bundling was prevalent in this market, nor were any concerns expressed that it may arise post merger.
72. On the basis of the above, the merger is not expected to give rise to a realistic prospect of an SLC on the basis of conglomerate effects.

¹⁰ Although we note a competitors view that it would be difficult to for a new supplier to enter Europe.

THIRD PARTY COMMENTS

73. Where relevant third party comments have been included above. Two of the competitors that responded to the OFT raised concerns about the acquisition. These concerns included that Bobst is already dominant and that the merger would threaten the competitor's business. Another stated that it would give Bobst a bigger hold over a wider range of machines. Another competitor thought that the acquisition is motivated by Bobst's desire to increase its presence in the Chinese market and to have an inexpensive machine to offer worldwide.
74. Only one complaint was received from a customer, who in its first response to the OFT commented that the acquisition would 'seriously reduce the competition in the purchase of machinery for sheet plants' from a four to three. However, the customer later clarified that in Europe, Shanghai was not really an option for the company, one reason being the low quality of after-sales activity (spare parts, maintenance, servicing, etc), and that ASAHI was the only real alternative to Bobst in Europe.
75. This customer had two remaining concerns that:
- if there were any impact on ASAHI then this would be an issue since ASAHI were the only real alternative to Bobst in Europe, and
 - in the future, if their company entered the Indian/Chinese markets, then Bobst would have a dominant position through selling both low value and high value machines.
76. As mentioned above, the OFT has not received any evidence that suggests that, as a result of this transaction, that ASAHI would be foreclosed from the market and that, since the second concern refers to future competition in India and China and not the UK, it is not merger specific.

ASSESSMENT

77. The parties overlap in the supply of die-cutters, for use with folding carton and corrugated board, and folder gluers for use with folding carton and corrugated board. These are high value, low volume products creating a

'lumpy' market. Therefore the parties supplied estimated market shares over a five year period 2005 to 2009.

78. The parties' combined market shares by value for the supply of all folder gluers in the EEA including the UK over the period 2005 – 2009 are estimated to be [30-40] per cent (increment [zero-five] per cent). In the five years since 2005 Shanghai only sold [] folder gluer[] in the UK and the transaction results in a negligible increment, less than [zero-five] per cent by value and volume, to Bobst's UK share. It is therefore considered that the transaction will not create a significant lessening of competition with regard to the supply of folder gluers in either the EEA or the UK.
79. Competition concerns were greater in regard to the supply of die-cutters. When considering die-cutters used primarily with folding carton, the parties' combined market share in the EEA including the UK is estimated at [30-40] per cent by value (increment [zero-five] per cent). However, the parties stated that Shanghai [], while in the wider EEA the increment of [zero-five] per cent represents the sale of [] machines in 2009. It is therefore considered that the transaction would not create a significant lessening of competition with regard to the supply of die-cutters for folding carton in either the EEA or the UK.
80. In the supply of die-cutters that are intended primarily for use with corrugated board, the parties have a combined market share in the EEA including the UK, of [30-40] per cent by value (increment [zero-five] per cent) for the period 2005 to 2009. While in the UK the parties' combined share is [40-50] per cent (increment [five-10] per cent) for the same period.
81. However, each party's portfolio of die-cutters is relatively differentiated, with Bobst at the more expensive, complex end of the market and Shanghai at the lower end of the market.
82. The OFT contacted around 50 customers, primarily of Bobst, during its enquiries and no customer respondents considered Bobst and Shanghai to be close competitors in Europe. No respondents had considered Shanghai when purchasing a die-cutter. Furthermore, each customer of die-cutters

for corrugated board named at least one alternative supplier, and overall a total of eight alternative suppliers were named.¹¹

83. From its internal documents, Bobst appears to consider Shanghai to be a competitor for certain models — specifically in the low to mid range of die-cutters. If a narrower market were to be defined covering just these products the parties' market share may be higher than for the overall market. However, these internal documents reflect Bobst's views on global competitive conditions. Two competitors told the OFT that competition between the parties is likely to be limited in Europe (with one specifying that it is more likely to occur in China, Africa etc). On further examination of the sub segments in which internal documents suggest the parties compete, there is little evidence that this competition occurs in Europe. For example, in internal documents Bobst lists Shanghai as a global competitor for its [] brand of die-cutters. However, Shanghai has only a low European market share in the folding carton die-cutters that would be expected to compete with the Bobst [] range.
84. Bobst also listed Shanghai as a competitor in mid-priced machines for use with corrugated board. On this basis the documents suggest that the merger may represent a [] in suppliers of such machines. However, those UK customers contacted in this category did not consider the parties to be close competitors and could name alternative suppliers that they would consider.
85. Since the OFT considers that Shanghai and Bobst are not close competitors in Europe, it has not been necessary to conclude on whether barriers to entry or expansion are sufficiently low to defeat a price rise.
86. Although several competitors raised concerns about Bobst adding to its range of die-cutters, the OFT does not consider that the acquisition is expected to allow foreclosure through conglomerate effects of the merger.
87. The OFT targeted a large number of third party enquiries at Bobst's customers, and the responses were consistent in that they did not consider the parties to be close competitors.

¹¹ See paragraphs 57 and 58 above.

88. 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

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