

Anticipated acquisition by AstenJohnson Holdings Limited of the paper machine clothing business of Heimbach GmbH

Decision on relevant merger situation and substantial lessening of competition

ME/6818/19

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 19 June 2019. Full text of the decision published on 26 June 2019.

Please note that [X] indicates 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

SUMMARY

1. AstenJohnson Holdings Limited (**AstenJohnson**) has agreed to acquire the paper machine clothing business of Heimbach GmbH (the **Heimbach Business**) (the **Merger**). AstenJohnson and the Heimbach Business are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of AstenJohnson and the Heimbach Business is an enterprise; that these enterprises will cease to be distinct as a result of the Merger; and that the share of supply test is met. Accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties overlap in the supply of paper machine clothing (**PMC**). PMC refers to a range of specialised fabrics used in the process of manufacturing paper. PMC comprises three principal categories: (i) forming fabric; (ii) pressing fabric; and (iii) dryer fabric.

4. AstenJohnson also supplies monofilaments¹ (an input used in the production of PMC) to Heimbach. However, AstenJohnson [REDACTED]. [REDACTED].² Since AstenJohnson does not supply third parties to a material extent, the CMA considers that there is no risk of input foreclosure.
5. **Horizontal unilateral effects:** The Parties overlap in the supply of PMC, specifically forming fabric and dryer fabric in the UK and the EEA.³ There is no overlap in pressing fabric. The CMA has assessed the impact of the Merger against separate product frames of reference for forming fabric and dryer fabric. As to the geographic scope, the CMA has assessed the Merger on an EEA-wide basis.
6. The CMA has assessed whether the Merger gives rise to horizontal unilateral effects in each of these candidate frames of reference: forming fabric in the EEA and dryer fabric in the EEA. In the frame of reference for forming fabric, the CMA found that the Parties' combined market share in the EEA is relatively low at [10-20]% and the increment arising from the Merger is minimal at [0-5]%.
7. In relation to dryer fabric, the Parties have a share of supply of [30-40]% on an EEA-wide basis, with an increment arising from the Merger of [10-20]%. The merged entity would be the largest supplier of dryer fabric in the EEA, however, four other suppliers have a share of supply of over 10%. Evidence from third parties confirmed that there are a range of suppliers within the EEA who will compete closely with the Parties following the Merger. Therefore, the CMA is satisfied that the Parties will face sufficient competitive constraints from other suppliers of dryer fabric within the EEA.
8. The CMA believes that these constraints are sufficient to ensure that the Merger will not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects.
9. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

¹ Monofilaments are a form of yarn, used in the manufacture of PMC as well as in various other applications in the industrial textile industry. Monofilaments used in PMC production are made with a variety of raw materials, including polymers, pigments and various other additives. See paragraph 51 of the Final Merger Notice.

² In 2018, Heimbach purchased [REDACTED] of monofilaments from AstenJohnson and at least [REDACTED] of monofilaments from other suppliers. AstenJohnson also supplies monofilaments to [REDACTED].

³ Paragraph 21 of the Final Merger Notice.

ASSESSMENT

Parties

10. AstenJohnson is the holding company of the AstenJohnson group, which is active globally in the manufacture and supply of industrial textiles, including PMC. The turnover attributable to the AstenJohnson group in the UK in 2018 was approximately [REDACTED].
11. Heimbach GmbH (**Heimbach**) is a manufacturer and supplier of PMC and related products with manufacturing sites in Germany, Spain, Switzerland, the UK and China. The turnover attributable to the Heimbach Business in the UK in 2018 was approximately [REDACTED].

Transaction

12. The Parties signed a letter of intent on 12 February 2019 and plan to enter into a Master Contribution Agreement in June 2019. [Please see End Note]
13. The Parties will create a joint venture via a new legal entity, a Luxembourg société à responsabilité limitée (the **JV Holding Company**). AstenJohnson will own [REDACTED] of the shares in the JV Holding Company and Heimbach will own [REDACTED] of the shares in the JV Holding Company.
14. The following businesses will be transferred into the new JV Holding Company:
 - (a) Heimbach's entire global PMC business except for its PMC business in Mexico; and
 - (b) AstenJohnson's global Advanced Fabrics business unit, as well as its PMC business, excluding its PMC business in the United States, Canada and Mexico.
15. In addition, Heimbach will transfer its Mexican PMC business directly to AstenJohnson, such that AstenJohnson will acquire sole control over the Heimbach Business. AstenJohnson will retain 100% direct ownership of its PMC business in the United States, Canada and Mexico. Heimbach will retain control over its filtration and technical textile businesses.
16. AstenJohnson will pay consideration of [REDACTED], subject to adjustment.
17. The Parties informed the CMA that the Merger was also the subject of review by the competition authority in Portugal. The Merger has been cleared by this

authority.⁴ Completion of the Merger is expected to follow UK merger control clearance.

Jurisdiction

18. Each of AstenJohnson and the Heimbach Business is an enterprise. As a result of the Merger, these enterprises will cease to be distinct.
19. The Parties overlap in the supply of dryer fabric, with a combined share of supply of [25-35]% by value (with an increment of [10-20]%) in the UK.⁵ The CMA therefore believes that the share of supply test in section 23 of the Act is met.
20. The CMA 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.
21. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 30 April 2019 and the statutory 40 working day deadline for a decision is therefore 26 June 2019.

Counterfactual

22. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (i.e. the counterfactual). For anticipated mergers the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.⁶
23. In this case, there is no evidence supporting a different counterfactual, and the Parties and third parties have not put forward arguments in this respect. Therefore, the CMA believes the prevailing conditions of competition to be the relevant counterfactual.

⁴ Ccent. 18/2019, *AstenJohnson / Negócio de PMC da Heimbach*

⁵ This estimate is based on information provided to the CMA by the Parties and third parties.

⁶ *Merger Assessment Guidelines* (OFT1254/CC2), September 2010, from paragraph 4.3.5. The *Merger Assessment Guidelines* have been adopted by the CMA (see *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, Annex D).

Frame of reference

24. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.⁷

Product scope

25. PMC refers to a range of specialised fabrics used in the process of manufacturing paper. PMC fabrics comprise three principal categories:
- (a) Forming fabric;⁸
 - (b) Pressing fabric;⁹ and
 - (c) Dryer fabric.¹⁰
26. Each category of PMC performs a different function in the paper manufacturing process and each is manufactured in a different way, using different inputs, to produce the required kind of fabric.
27. The Parties submitted that, recently, certain major paper manufacturer customers in Europe have moved towards requiring ‘total length clothing’ (‘TLC’), where they have the ability to purchase all three forms of PMC from one supplier.¹¹

Segmentation by type of PMC fabric

28. The Parties overlap in the supply of forming fabric and dryer fabric. The Parties submitted that there are separate markets for forming, pressing and

⁷ [Merger Assessment Guidelines](#), paragraph 5.2.2.

⁸ Forming fabric is made of synthetic polymers and primarily polyester monofilament. The forming fabric is in the form of a mesh screen and will generally last for around [§]. Paragraph 44 (a) of the Final Merger Notice.

⁹ Pressing fabric is primarily made of polyamide (nylon) polymers and consists of two basic components: the base fabric and the batt (a nylon multifilament that helps to protect the paper sheet). A press fabric usually has a lifespan of around [§]. Paragraph 44 (b) of the Final Merger Notice.

¹⁰ Dryer fabric is most often made of polyester monofilament. Paragraph 44 (c) of the Final Merger Notice. Generally, dryer fabrics will last in a paper machine for [§]. Paragraph 103 of the Final Merger Notice.

¹¹ Paragraph 11 of the Final Merger Notice.

dryer fabrics,¹² as there is no interchangeability from the demand side and limited substitutability from the supply side between different types of PMC.

29. The Parties submitted that from a demand side perspective, customers cannot switch between each form of PMC as the paper making process requires all three forms of PMC. Each type of PMC fabric serves a particular purpose in the paper manufacturing process and cannot be used in another part of the process. The Parties indicated that the shift toward purchasing a TLC package is only a relatively recent trend in Europe, and many customers continue to purchase each form of PMC separately. The market investigation confirmed that customers generally do not acquire all three forms of PMC from a single supplier.¹³
30. The Parties also submitted that there is limited supply side substitutability between each form of PMC.¹⁴ In particular:
 - (a) The manufacture of each type of PMC requires separate machinery and inputs, and a different production process.
 - (b) Switching between producing different types of PMC would require significant further investment and would likely require a factory to be non-operational for a significant period of time. For example, AstenJohnson estimates that a manufacturer of forming fabric that wanted to switch some or all of its capacity to the manufacture of dryer fabric would need to invest approximately [X] in new equipment in order to change that capacity, and that this could take around [X]. For these reasons, PMC manufacturers seldom convert dedicated manufacturing capabilities from one type of PMC fabric to another.
 - (c) It is even more costly for a business that is currently only active in the manufacture and sale of dryer or forming fabrics to switch production to pressing fabrics. Pressing fabric production machinery and equipment is significantly different from that required for the production of dryer and forming fabrics. AstenJohnson estimates that at least [X] of investment would be required in order for a manufacturer of dryer fabric or forming fabric to enter the market for manufacturing pressing fabric in Europe. As a result of these significant costs, companies will generally not make the required investments unless they are sufficiently confident that they can develop a pressing fabric customer base.

¹² Paragraph 56 of the Final Merger Notice.

¹³ Paragraph 65 of the Final Merger Notice.

¹⁴ Paragraph 68 of the Final Merger Notice.

31. The CMA considers there to be a distinction between dryer fabric and forming fabric for the reasons set out below.
- (a) The Parties' internal documents discuss the market shares and position of competitors separately for each type of PMC.
 - (b) Third party competitors confirmed that switching between producing each type of PMC would require significant investment and time.¹⁵
 - (c) Customers cannot switch between each form of PMC as the paper making process requires all three forms of PMC.
32. The CMA considered whether there is a separate frame of reference for the supply of TLC. Although the Parties indicated that some customers are shifting towards purchasing TLC, the CMA received mixed evidence from customers on the advantages of TLC and on the extent of TLC purchases.¹⁶ Some customers told the CMA that purchasing all three types of fabric from the same supplier would be advantageous due to the ability to obtain higher discounts. However, the majority of customers told the CMA there would not be advantages in TLC and that there would be few suppliers offering the full range at a suitable quality to purchase in this way. On the basis of the above, the CMA does not consider it necessary to consider TLC as a separate frame of reference.

Conclusion on product scope

33. For the reasons set out above, the CMA has considered separately the impact of the Merger on the supply of dryer fabric and on the supply of forming fabric. The CMA has not considered the impact of the Merger on the supply of pressing fabric, as only Heimbach manufactures pressing fabrics in the EEA and so there is no overlap.

¹⁵ Two competitors told the CMA that each type of PMC fabric should be treated separately. See third party call notes with [REDACTED] and [REDACTED].

¹⁶ The CMA notes that the Parties combined market share for all forms of PMC is [20-30]% at the EEA level, with an increment of approximately [5-10]%. In the UK the Parties combined market share for all forms of PMC is lower at [10-20]% with an increment of [0-5]%. The CMA received no evidence suggesting that an SLC would arise with respect to the supply of TLC, if it was a separate frame of reference.

Geographic scope

34. The Parties submitted that the narrowest plausible geographic scope for each type of PMC is the UK and that there are a number of factors that suggest the geographic scope is at least EEA-wide. In particular:
- (a) All manufacturers supply customers across Europe from a limited number of sites, with some suppliers manufacturing in China or Malaysia.¹⁷
 - (b) Due to the relatively small size and light weight of PMC, transport costs for PMC are low, accounting for [REDACTED] of the purchase price of PMC.
 - (c) The majority of customers purchase PMC on the basis of Europe-wide price lists, meaning the customer pays the same price for supply of PMC to all of its European paper mills.
 - (d) While it is common for customer services such as engineering to be set up on a regional basis, for example in a location with access to a number of paper mills, such engineers have only a technical role.¹⁸
35. The evidence the CMA received during its market testing was consistent with the Parties' submissions.
36. First, several third party competitors have sites located across the EEA and none of them considered that competition for the supply of PMC was different between the UK and EEA.
37. Second, third party customers told the CMA that they purchase dryer fabric from suppliers in a variety of locations both within and outside the EEA.
- (a) For example, one customer, [REDACTED] also purchases dryer fabric from both [REDACTED].¹⁹
 - (b) Another customer, [REDACTED], purchases dryer fabric from three different competitors in [REDACTED].²⁰

¹⁷ For example, [REDACTED] and [REDACTED] manufacture all dryer fabrics for the European market in Asia. Paragraph 75 of the Final Merger Notice.

¹⁸ Paragraph 74 of the Final Merger Notice.

¹⁹ [REDACTED] Third party response to questionnaire.

²⁰ [REDACTED] Third party response to questionnaire.

- (c) Another customer [X] told the CMA that in addition to purchasing dryer fabric from the Parties, it also purchases it from four competitors to the Parties based in [X].
38. The majority of third party customers told the CMA that the location of the supplier of PMC was not important.
39. Only two customers, [X] and [X], considered the location of the supplier of PMC could be important, due to shorter lead times. [X] considered that the supplier needed to be based within Europe and [X] stated that location was relevant, but that suppliers in Asia had improved the quality of their PMC.²¹
40. In light of the third party evidence and given the fact that AstenJohnson does not produce PMC in the UK, (only Heimbach has a PMC production site in the UK), the CMA considers that the appropriate geographic frames of reference for forming and dryer fabric are at least EEA-wide.

Conclusion on frame of reference

41. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of:
- (a) forming fabric in the EEA; and
 - (b) dryer fabric in the EEA.
42. However, it was not necessary for the CMA to reach a conclusion on the precise frame of reference as no competition concerns arise on any plausible basis.

Competitive assessment

Horizontal unilateral effects

43. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or to degrade quality on its own and without needing to coordinate with its rivals.²² Horizontal unilateral effects are more likely when the merging parties are close competitors. The CMA assessed whether it is or may be the case that the Merger has resulted, or

²¹ [X] Third party response to questionnaire. [X] Third Party response to questionnaire.

²² [Merger Assessment Guidelines](#), from paragraph 5.4.1.

may be expected to result, in an SLC in relation to horizontal unilateral effects in the supply of:

- (a) forming fabric in the EEA; and
- (b) dryer fabric in the EEA.

Forming Fabric in the EEA

Shares of supply

Table 1: Forming fabric value shares at the EEA-wide level (2017)

	EUR 000s	%
AstenJohnson	[REDACTED]	[0-5]%
Heimbach	[REDACTED]	[10-20]%
Combined	[REDACTED]	[10-20]%
Albany	[REDACTED]	[20-30]%
Valmet	[REDACTED]	[10-20]%
Voith	[REDACTED]	[10-20]%
Andritz	[REDACTED]	[30-40]%
Cristini	[REDACTED]	[0-5]%
Others	[REDACTED]	[5-10]%

Source: Parties' information.

44. The Parties' combined market share at the EEA-wide level with respect to forming fabric is relatively low at [10-20]% with a minimal increment of [0-5]%.²³ A number of competitors, including Albany, Valmet, Voith, and Andritz have a similar or larger share. Customers and competitors generally did not raise concerns in relation to forming fabrics, with only one customer expressing a concern that the Merger may lead to an increase in price.²⁴ Based on the overall evidence from the market investigation, the CMA does not consider there is any likelihood of the Merger impacting the price of forming fabric.
45. Taken together, the Parties' low combined market share, the minimal increment at the EEA level, the constraint from a number of other competitors in the market, and the general lack of concerns raised by third parties, indicate that the Merger does not give rise to a realistic prospect of an SLC in relation to forming fabric in the EEA and therefore it is not considered further.

²³ The CMA notes that the Parties' combined market share at the UK-wide level with respect to forming fabric is also low at approximately [10-20]% with a minimal increment of approximately [0-5]%.
²⁴ [REDACTED] Third party response to questionnaire.

Dryer Fabric in the EEA

Shares of supply

Table 2: Dryer fabric value shares at the EEA-wide level (2017)

	EUR 000s	%
AstenJohnson	[X]	[20-30]%
Heimbach	[X]	[10-20]%
Combined	[X]	[30-40]%
Albany	[X]	[10-20]%
Valmet	[X]	[10-20]%
Voith	[X]	[10-20]%
Andritz	[X]	[0-10]%
Cristini	[X]	[10-20]%
Others	[X]	[0-5]%

Source: Parties' and third parties' information.

46. The Parties' combined market share for dryer fabric at the EEA-wide level²⁵ is [30-40]%. The merged entity will be the largest supplier, almost twice as large as the next competitor, with an increment arising as a result of the Merger of [10-20]%. The CMA notes however that there are four other suppliers with shares over 10%. The CMA has considered a range of evidence to assess the competitive constraints imposed by the Parties' competitors in relation to dryer fabric at the EEA level.

Closeness of competition

47. The Parties submitted that Albany and Voith are leading competitors for dryer fabric in the EEA.²⁶ Evidence from third parties supported this conclusion and confirmed that the Parties are not each other's closest competitors: it indicated that AstenJohnson is considered a stronger competitor for dryer fabric than Heimbach,²⁷ which ranked similarly to the other three main suppliers of dryer fabric.
48. Furthermore, all third party customers informed the CMA that there would be a number of alternative suppliers to the Parties of dryer fabric available post-Merger.

²⁵ The Parties' combined market share for dryer fabric at the UK-wide level is lower at [25-35]% with an increment by AstenJohnson of [10-20]%.

²⁶ Paragraph 120 of the Final Merger Notice.

²⁷ Third party customers indicated that AstenJohnson was similar to [X] in terms of strength as a competitor in dryer fabric.

49. The CMA considered whether the location of manufacturing facilities affected the competitive analysis. Both the Parties manufacture dryer and forming fabrics in the EEA, while some competitors manufacture in Asia. The evidence shows that the location of suppliers' sites is not considered a vital factor by customers when choosing a supplier²⁸ and even to the extent certain customers have a preference for production based in the EEA, other options remain available, for example [X] and [X].
50. For the reasons above, the CMA considers that the Parties are not each other's closest competitors for dryer fabric.

Competitive constraints

51. The Parties submitted that post-Merger, the merged entity will continue to face competition from a number of competitors supplying dryer fabric in the EEA.²⁹ The Parties' internal documents discussing competition [X],³⁰ [X].
52. The CMA's market investigation confirmed that these competitors exert a significant constraint on the Parties. These competitors are already supplying dryer fabric to many of the Parties' customers.³¹ Most customers source dryer fabric from multiple suppliers. For example, a third party customer, [X], purchased dryer fabric from seven competitors to the Parties in the last 12 months indicating the presence of a wide range of suitable alternatives.
53. Evidence from third party customers confirmed that these alternative suppliers of dryer fabric are close competitors to the Parties. For example, customers ranked these competitors as similar to the Parties in terms of quality and price.³²
54. Consistent with the evidence from the majority of customers, competitors confirmed there would be sufficient alternative suppliers of dryer fabric available.

Conclusion on competitive constraint

55. Overall, third party evidence confirmed there are a range of alternative suppliers for dryer fabric and that the Parties are not each other's closest competitors.

²⁸ See paragraphs 38 and 39.

²⁹ Paragraphs 119 to 120 of the Final Merger Notice.

³⁰ Internal documents, Annex 11(c).

³¹ Third party customers' responses to questionnaires.

³² Customers ranked the Parties and competitors on quality and price in response to the CMA's questionnaires.

Third party views

56. The majority of third parties expressed no concerns about the Merger. A small number of customers indicated that they were unhappy that the Merger would result in the loss of a supplier, however, these customers did indicate that they would be able to switch to alternative suppliers. For example:
- (a) A customer suggested that the choice of dryer fabric suppliers may be reduced as a result of the Merger.³³ However, this customer used one other supplier and identified two other suppliers who could also supply them.
 - (b) Another customer [redacted] that currently purchase half their dryer fabric from each of the Parties told the CMA that they split purchases between different suppliers to ensure security of supply, so the Merger may lead them to switch away from the Parties earlier than expected. However, they stated that on the last contractual review there were other suitable suppliers of dryer fabric.³⁴

Conclusion on horizontal unilateral effects

57. For the reasons set out above, the CMA believes that the Parties would face sufficient constraints from competitors in relation to the supply of dryer and forming fabric at the EEA level. Accordingly, the CMA found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of dryer fabric or forming fabric at the EEA level.

Barriers to entry and expansion

58. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC. In assessing whether entry or expansion might prevent an SLC, the CMA considers whether such entry or expansion would be timely, likely and sufficient.³⁵
59. However, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

³³ [redacted] Third party response to questionnaire.

³⁴ When they were bidding for the deal [redacted] and [redacted] were a similar price and quality to the Parties and [redacted] was similar quality but more expensive.

³⁵ [Merger Assessment Guidelines](#), from paragraph 5.8.1.

Decision

60. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the United Kingdom.

61. The Merger will therefore **not be referred** under section 33(1) of the Act.

Sorcha O'Carroll
Director, Mergers
Competition and Markets Authority
19 June 2019

End Note - following the announcement of the decision, the merger parties informed the CMA that the Master Contribution Agreement referred to at paragraph 12 of the decision is likely to be entered into in July 2019. This factual adjustment does not change the substance of this decision.