



Determination No. M/03/012 of the Competition Authority, dated 17 July 2003, under Section 21 of the Competition Act, 2002

Notification No. M/03/012 – Smurfit Ireland Limited/Lithographic Universal Limited

Introduction

1. On 28 May 2003 the Competition Authority, in accordance with Section 18(3) of the Competition Act, 2002 (“the Act”) was notified, on a voluntary basis, of a proposal whereby Smurfit Ireland Limited and Lithographic Universal Limited would create a joint venture to which they would transfer their printing and pre-press assets and business.

The Parties

2. Smurfit Ireland Limited (“Smurfit”) is a manufacturer of packaging products - cartons and corrugated containers. Smurfit is also active in Ireland, through various branches, in the areas of magazine publishing, publishing school books, and the provision of printing services. The assets and business of Smurfit to be transferred to the proposed joint venture are those of Smurfit Web Press and Smurfit Web Pre-Press (together “SWP”), two branches of Smurfit Ireland Limited.
3. Lithographic Universal Limited (“LUL”) is a provider of printing services in Ireland and the UK. LUL does not provide pre-press services.¹

Overlap

4. Smurfit and LUL overlap in the area of heat set web offset printing services. Both SWP and LUL provide printing services to various customer types, in connection with the production of, amongst other things: newspaper supplements, magazines, catalogues, brochures, and commercial print runs (forms and inserts). SWP and LUL are the two largest Irish-based providers of heat set web offset printing services to these customers, located in Glasnevin and Bray respectively; there is one other significant Irish-based provider, Boylan Group (“Boylans”), located in Drogheda.
5. The parties state that the rationale for entering the joint venture arrangement is to achieve maximum synergies between their businesses in order to develop economies of scale to compete more effectively, and in particular to better compete with larger printers in the UK and elsewhere in Europe.

¹ The term “pre-press” is used here to describe interaction with the publishing stage where Smurfit Pre-press provides a service to publishers relating to the layout and design of the publication. It does not cover interaction with the publishing stage regarding quality control or the preparation of the plates that are to be used to create the final product through the printing process. Both LUL and SWP prepare the plates they use for printing themselves and interact with their customers on issues such as quality control.



Analysis

Printing Technologies

6. There are two main printing technologies used in Ireland – web offset and sheet fed.² Web offset, which involves printing on continuous rolls of paper, is in turn divided into cold set and heat set printing. The competitive relationship between these three technologies reflects three factors: quality, turnaround time, and cost. SWP and LUL each have heat set web offset technology and are able, given the size of their presses, to print runs exceeding 100,000 copies. Currently, SWP operates two 32-page web presses and LUL operates one 32-page web press and one 16-page web press. SWP also operates two sheet fed presses. The parties do not own any cold set printing facilities.
7. Cold set printing implies that the ink dries by natural means and is assisted in this by absorption into the paper. This technology produces the lowest quality product, in terms of its appearance and durability, at a lower cost for longer runs. Thus, newspaper printing is invariably done by large cold set web presses, which are often owned (or partly owned) and operated by the publishers of the newspaper title(s) being printed. Cold set presses are also used to print newspaper magazines and supplements.
8. Heat set printing implies that the ink is dried by passing the printed roll of paper through an oven (and, sometimes, through coolers afterwards). Emissions from the ovens used to dry the ink are treated to protect the environment. Heat set printing is more costly than cold set printing but produces a better quality product in a similar turnaround time. This technology is used for printing better quality magazines, brochures and similar materials, on either matt or glossy paper. Heat set web offset presses are also used to print higher quality newspaper magazines and supplements.
9. Sheet fed printing involves feeding individual sheets of paper into the printing press and is slower than web offset printing. Sheet fed printing uses a higher quality range of paper than web offset printing and is used to produce materials similar to those produced by heat set printing, and even higher quality materials.

Users of Printing Services

10. Printing services are supplied for the production of a wide range of publications including newspapers and magazines, advertising materials including brochures and catalogues, and corporate printing needs including annual reports, in-house or subscriber magazines. Accordingly, users' printing requirements vary based on a range of factors including number of copies required, number of pages, look of publication (i.e. glossy, thickness of paper, etc.), regularity (i.e. periodical versus one-off jobs), and time-sensitivity (lead in time from copy to shelf).
11. Market enquiries indicated that in the area of competitive overlap (i.e. heat set printing), printers compete for business by way of formal or informal tender

² A third technology – gravure – is, in Ireland, used only for printing packaging, though it is used in the UK for very long-run magazine or catalogue printing.



processes. Almost all public sector printing jobs must go through a tendering process. Very large scale public sector jobs must be tendered for under European-wide tender processes. For other jobs, customers will generally run their own informal tender process, inviting various printers to tender for work. Length of contracts vary from quoting for each individual print run to several years in duration. Enquiries indicate that most users will seek tenders on at least a yearly basis in relation to periodical publications.

12. Market enquiries indicated that the cost of heat set printing a magazine, brochure or newspaper supplement amounts to 40-50% of the total publishing cost.

Competitive Constraints on the Parties - Services

13. The parties submitted that the relevant market in this matter is a market for printing services generally, for all printing materials with the exception of newspapers and packaging materials. This would imply that heat set, cold set and sheet fed printing services all exercise a significant competitive constraint on the parties.
14. Sheet Fed Printing: Market enquiries indicated that as sheet fed printers are slower they do not require expensive ovens to dry the ink, but that sheet fed printing is only cost-effective for smaller runs as web offset machines benefit from huge economies of scale. Also, in terms of turnaround time, sheet fed printing cannot compete with web press printing for larger print runs. Respondents to market enquiries all confirmed that the set up cost and associated waste (up to 5,000 copies) of a web offset machine implies that these printers cannot price competitively against sheet fed printers for print runs of less than 10,000 copies. Enquiries indicated that customers of heat set printers, on occasion, obtain quotes from sheet fed printers eager to obtain more work. However, customers have not considered sheet fed operators to be able to provide competitive quotes in relation to jobs over a certain print range. The upper limit of the range where heat set printing and sheet fed printing compete for the same print jobs, was identified, in the main, as being somewhere between 15,000 and 20,000 copies. For certain products, the main example being school books, the range of overlap between sheet fed and heat set may be wider. Thus, sheet fed printing services provide a strong competitive constraint on heat set printers for print runs of up to 20,000 copies, but provide only a marginal competitive constraint for runs over 20,000 copies.
15. Cold Set Printing: In recent years a technological jump has enabled cold set web offset printers to produce much higher quality colour printing than previously. This technological change sparked a trend in Ireland and the UK whereby newspapers (and a few magazines) switched from using heat set printing to the lower (though higher than previous) quality of cold set printing, for their colour supplements. The parties argued that cold set printers of newspapers have installed significant new capacity in Ireland and, because of the better quality of new cold set presses, are significant competitors to heat set printers and should be included within the market. Respondents to market enquiries all confirmed that the newspaper supplements produced by cold set printers cost 20% less than their



heat set equivalents and that the drop in quality is commensurate with this cost saving. All respondents indicated that newspapers first decide whether to have a cold set type supplement or a heat set type supplement and then obtain quotes from the relevant printers for their chosen product type. Respondents stated that a newspaper's choice between cold set and heat set printing largely reflects the type of advertising that it wishes to attract. Accordingly, small but significant changes in the prices charged by cold set printers or heat set printers would not cause customers to switch between the two product types. Thus, cold set printing services provide only a marginal competitive constraint on heat set printers.

Competitive Constraints on the Parties - Geographic

16. Time-sensitive v non-time-sensitive publications: Traditionally, the geographic location of the customer played an important part in determining where printing was done. The physical delivery of content, the need to check proofs and the need to assure timely delivery when printing was completed meant that printing for Irish based customers tended to be done in Ireland. The position has changed in recent years as a result of advances in the technology of information transfer, of pre-press preparation and of quality monitoring and control. Market enquiries indicated that technological advances, particularly in communications have significantly reduced the need for proximity between customer and printer. The publisher and printer can be connected electronically and all of these functions can be performed using digital technology.
17. The conditions for the physical delivery of the printed product have also improved. The parties submitted that improvements in speed, cost and reliability of transport to Ireland means that operators in Britain and mainland Europe can generally compete without any material location disadvantage. Market enquiries have confirmed that many overseas printers are suffering from over capacity, and a number of UK printers have larger, more efficient machines than those installed in Ireland that gives them the ability and the incentive to offer Irish customers low prices.
18. All printing requirements have some time sensitivity in terms of the possible lead time between delivery of proofs (usually by disk or via the Internet) and delivery of copy. However, this varies among publications. In general, one-off jobs or infrequent periodicals such as seasonal catalogues, brochures, and one-off or seasonal magazines and corporate printing have longer lead times than weekly or monthly magazines. One-off jobs have the capacity to adjust lead times because there is more time to develop editorial and advertising content. Monthly and weekly magazines are considered to be more time-sensitive - they have tighter timeframes for advertising and editorial content - meaning that there is far less flexibility available for lead times for printing. Although the nature of the printing service provided does not differ between time-sensitive and non-time sensitive publications, market enquiries indicated that, despite technological changes, there are still additional risks associated with printing overseas which are of more significance to publishers of time-sensitive publications.



19. Non-time-sensitive publications: Market enquiries have supported the view that non-time sensitive printing jobs are contested by overseas printers - mainly from the UK, Spain and Italy - to a sufficient extent to provide a strong competitive constraint on Irish heat set printers. Non-time sensitive jobs are, in the main, one-off print jobs. The number and price competitiveness of the quotations received for a one-off job will depend on which printers have the capacity available to do the job at the appropriate time and the current euro/sterling exchange rate. Each printer's quote for that job represents only a "snapshot" of the competitiveness of each printer at that particular moment in time. One significant UK provider of heat set printing services to Irish customers (and to UK customers producing Irish editions of their publications) stated that the cost of transporting printed materials to Ireland makes it unviable for them to compete with Irish based heat set printers on print runs below 75,000 copies. However, at least two other UK printers stated that they are able to price competitively, and regularly supply heat set printing services to Irish customers, on runs below 75,000 copies. Moreover, almost all customers contacted stated that overseas printers provided a competitive alternative to Irish heat set printers on non-time-sensitive jobs under or over 75,000 copies.
20. Time-sensitive publications: Market enquiries indicated that printers based in mainland Europe are considered to be too far away to satisfy the turnaround times required by customers with time-sensitive print jobs. Enquiries also indicated that a number of customers believe that UK-based printers must be at least 5-10% cheaper (and in many cases 20% cheaper) than their Irish-based counterparts in order to attract time-sensitive publications to switch. Customers stated that this was due to a range of factors including the need to protect against currency fluctuations and the trade-off in terms of less certainty of supply (due to adverse weather conditions affecting shipping). Customers with time-sensitive printing jobs are, in the main, publishers of weekly and monthly magazines and newspaper supplements. Unlike customers seeking one-off printing jobs, customers with periodical time-sensitive publications are generally interested in the competitiveness of different printers over a period of time (rather than at a "snapshot" point in time). As such, the potential for exchange rate fluctuations to erode the cost savings of using a cheaper UK printer is an additional factor these customers take into consideration. Monthly "glossy" magazines also noted the extra cost of checking quality in person abroad. These factors indicate a potential for domestic printers to exert a significant price premium over UK printers, which, if realised, would thus suggest that the competitive constraint exerted by UK printers on Irish heat set printers for time-sensitive jobs is limited by these factors. Market enquiries have also indicated, however, that UK-based printers have larger, more efficient web presses that enable them to price lower than their Irish-based counterparts (by up to 20% in some cases) without making losses, which they do a frequent basis. This means that despite the potential for a price differential, the UK-based companies are capable of exercising a competitive constraint on the parties.



21. Time-sensitive publications over 75,000 copies: Market enquiries and information provided by the parties did however confirm examples of large contracts (well over 100,000 copies), regarding monthly and weekly newspaper supplements and magazines, being printed on heat set presses in the UK. Evidence provided by the parties revealed that significant price reductions had been given to some customers to remain in Ireland, and the printer's margin dropped, in response to competition from overseas printers, especially UK printers, in relation to the particular contracts.
22. This supports the argument that UK-based printers should be considered a sufficient competitive constraint on Irish heat set printers for large contracts (over 75,000). Customers with time-sensitive publications of over 75,000 copies also considered that the combination of the moderate competitive pressure from UK printers and the moderate competitive pressure from remaining Irish heat set printer, Boylans, would provide them with sufficient viable alternatives and would exercise a sufficient constraint on the proposed Smurfit/LUL joint venture.
23. Time-sensitive publications of 20,000 to 75,000 copies: For "medium-sized runs"³, there is less evidence of actual switching between domestic and UK printers. Nevertheless, the majority of UK providers of heat set printing services to Irish customers (and to UK customers producing Irish editions of their publications) contacted stated that they are able to price competitively, and regularly supply heat set printing services to Irish customers, on runs below 75,000 copies. Other Irish based printers/print brokers supported the parties' view that the main competition faced by all of them, for medium sized time-sensitive runs, came from UK printers, and that they must be able to match, or stay within 5% of, UK prices to obtain/retain printing jobs.
24. Market enquiries indicated that a significant proportion of customers with runs between 20,000 and 75,000 copies have investigated the possibility of going overseas and some have used this as a benchmark/bargaining tool in negotiating with either SWP or LUL and have been successful in achieving price reductions. Of customers contacted who fall within the category of managing time-sensitive publications with runs of between 20,000 and 75,000 copies, over half considered that UK-based printers provided a strong competitive constraint on Irish heat set printers such that they would not be able to increase prices by 5% or more above their current prices. All but one of the remaining customers considered that the combination of the moderate competitive pressure from UK-based printers and the moderate competitive pressure from the remaining Irish heat set printer, Boylans, would provide them with sufficient viable alternatives and would exercise a sufficient constraint on the proposed Smurfit/LUL joint venture. The one customer that did not consider the UK to be a viable alternative did however consider the existence of Boylans to be a viable alternative to the proposed Smurfit/LUL joint venture.

³ Runs of 20,000 to 75,000 copies are considered medium sized runs in Ireland but would be considered small runs in the UK.



Competitive Constraints on the Parties - Supply Substitution

25. There exist in Ireland a number of heat set web presses which are not currently used to print brochures, catalogues, consumer magazines, and other such end products printed by SWP, LUL and Boylans. These presses are owned by sheet fed printers as a back up (8-page presses) or by (sheet fed and heat set) printers focussed on printing for information technology (“IT”) companies. Printers operating in the IT area typically compete for long term contracts to service all the printing needs of large IT companies. The heat set presses (16-page or 32-page presses) are used for printing the in-house magazines and other requirements of the IT companies.
26. The owners of these heat set presses do not operate as a sufficient competitive constraint on the parties such that their services should be viewed as supply substitutes for LUL and SWP. Enquiries indicated that print customers publishing brochures, catalogues, consumer magazines, etc. place considerable weight on the skill and experience of a heat set printer when choosing whether to place a contract with that printer. The competitive constraint provided by these heat set presses is therefore best considered under the heading of potential entry.

Competitive Constraints on the Parties - the Threat of Entry

27. The parties submitted that the cost of market entry is low given that (a) there is a readily available second hand market for the sale and purchase of equipment required to enter this business, (b) there are no regulatory barriers to market entry in that there are no authorisations, permits or consents necessary for the commencement and operation of a business in this market which are specific to the business, and (c) there are no technological barriers to market entry given that the technology required to enter and compete in this business is freely available in the market.
28. Enquiries indicated that second hand machines can be purchased for a fraction of the price of new presses. Second hand machines run at lower speeds or with more initial waste than new machines, however, and may suffer from a lower quality of output.
29. Enquiries also indicated that there may be additional entry costs, relating to the procurement of environmental protection equipment and licences. SWP and LUL hold licences from the Environmental Protection Agency for their emissions control equipment. It is not clear, however, at what level of capacity the EPA licence becomes a requirement.
30. Enquiries indicated that certain print customers place considerable weight on the skill and experience of a heat set printer when choosing whether to place a contract with that printer. Customers sometimes request samples of a printer’s work along with a quote. This “reputation” factor suggests that potential entry into heat set printing does not pose a significant competitive threat in the short term. It also suggests, however, that entry is most likely to be successful if the



entrant is already active in the printing industry, for example a sheet fed printer or an IT focussed printer. There is some evidence that IT focussed printers are moving into commercial printing (though not into magazine printing, which is considered more “specialist”).

31. Market enquiries have not indicated a strong history of successful new entry into heat set printing. There has been one significant new entrant in the last five years, however: Boylans entered heat set printing through the acquisition of a second-hand 32-page press.⁴ Boylans has recently increased its heat set capacity through the acquisition of a 16-page second-hand machine. Enquiries also indicated that if the parties were to merge, other printers would see this as an opportunity to obtain business and may choose to enter. Furthermore, one UK based printer not currently operating within Ireland has indicated that if there were significant interest from Irish customers due to increasing domestic prices, it could use its spare capacity to supply into Ireland.
32. On this basis, actual entry or the threat of entry does not exercise a competitive constraint on the parties in the short term. However, evidence of prior entry and expansion by that entrant indicates that potential entry is likely to exercise a competitive constraint on the parties in the medium to longer term.

Competitive Constraints on the Parties - Countervailing Power

33. The parties have argued that their ability to raise price is constrained by customers, particularly in the time-sensitive magazine area, because their customers face aggressive competition from overseas magazines. That is, if Irish printers increase prices significantly, their customers will go out of business. Enquiries indicated that printing costs account for a high proportion of magazine publication costs (about 50%). Nevertheless, the magazine publishing industry is relatively fragmented, so the degree to which this factor would constrain the ability of printers to raise prices or exert market power in other ways is questionable. Accordingly, while there may be some degree of countervailing power, it is limited.

Coordinated Effects

34. The creation of the Smurfit/LUL joint venture could lessen competition among heat set printers if it would facilitate printers engaging in coordinated action to raise prices. The creation of the joint venture will not change the degree of price transparency regarding market conditions (in particular regarding competitors’ prices); nor will it promote collusion through increased symmetry of market shares or cost structures of the various competitors. Boylans has recently invested in a new 16-page heat set press. Enquiries have indicated that the significant cost of heat set presses, even second hand presses, implies that they need to operate at close to full capacity to cover their associated fixed costs. Boylans’ need to utilise its new capacity should encourage rivalry between the two Irish-based heat set printers and between the Irish-based printers and their

⁴ Boylan Group has been and continues to be active in other areas of the Irish printing industry, primarily the printing of labels.



UK counterparts. Furthermore, fluctuations in the euro-sterling exchange rate should operate as an additional destabilising effect on any tendency towards coordination among suppliers of heat set printing services in Ireland.

Conclusion

35. Using evidence detailed above, the Authority has identified the following competitive constraints on the proposed Smurfit/LUL joint venture:
 - (a) the numerous providers of sheet fed printing services based in Ireland will exert a strong competitive constraint on providers of heat set printing services for print jobs up to 20,000 copies;
 - (b) Boylans is the only heat set competitor to SWP/Smurfit and Lithographic based on the island of Ireland and will exert a moderate competitive constraint on the proposed Smurfit/LUL joint venture in relation to both time-sensitive and non-time-sensitive jobs;
 - (c) overseas providers of heat set printing services will exert a strong competitive constraint on providers of heat set printing services based in Ireland for non-time-sensitive print jobs over 20,000 copies;
 - (d) UK based providers of heat set printing services will exert a moderate competitive constraint on providers of heat set printing services based in Ireland for time-sensitive print jobs over 20,000 copies;
 - (e) potential entry is likely to exercise a competitive constraint on the parties in the medium to long term.
36. In regard to heat set printing services for time-sensitive print jobs over 20,000 copies, UK-based printers and the expanding Irish based printer, Boylans, individually have been found to impose a moderate constraint on the parties. In combination with the longer term threat of potential entry, these competitive constraints together ensure that the proposed creation of the joint venture will not lead to an overall increase in prices, or decrease in the quality of service, to customers as a result of the reduction in the number of heat set printers on the island of Ireland.
37. In regard to the potential for coordination, Boylans' spare capacity and fluctuations in the euro-sterling exchange rate should operate as destabilising influences on any tendency towards coordination among suppliers of heat set printing services in Ireland.
38. In summary, it is the combination of competitive pressure from UK heat set printers, rivalry between Boylans and the Smurfit/LUL joint venture, and the threat of entry in the longer term, that will ensure that the creation of the joint venture will not result in a substantial lessening of competition in markets for goods or services in the State.



Determination of the Competition Authority

Determination

The Competition Authority, in accordance with Section 21(2) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed joint venture will not be to substantially lessen competition in markets for goods and services in the State and, accordingly, that the joint venture may be put into effect.

For the Competition Authority

John Fingleton
Chairperson of the Competition Authority

17 July 2003