

# UTIPULP

## Group of European Market Wood Pulp Users

European Commission  
Directorate General for Competition  
Mr. Stefan SIEBERT

Paris, June 8 2018

### Merger of Fibria and Suzano would significantly impede effective competition on the market of Eucalyptus pulp

Dear Mr. Siebert,

UTIPULP, the European association representing the paper companies purchasing pulp, would like to alert the European Commission about the potential market impact of the announced merger of Fibria Celulose S.A. ("Fibria") and Suzano Papel e Celulose S.A. ("Suzano") two large Brazilian companies producing pulp.

After a brief presentation of the intended concentration and the duty to notify we will present why the European Commission cannot clear the concentration.

#### **I. Intended concentration**

Suzano and Fibria have agreed on the sale of all of Fibria's shares to Suzano. Fibria's current shareholders will be compensated by Suzano shares as well as a cash payment. Fibria has published a "Material Fact" release that contains more details on the transaction structure. Suzano has also released a presentation outlining the structure and the expected synergies.

UTIPULP understands that the announced merger constitutes a concentration that meets the turnover thresholds of the EUMR.

## II. The merger would significantly impede effective competition.

The merger would create a dominant position with regard to Bleached Eucalyptus Kraft Pulp (BEKP).

### 1. The relevant product market

Wood pulps are diverse global commodities

Paper and board products (office paper, hygiene products, corrugated boxes, specialty papers...) are predominantly made out of fibres.

Depending on the type of paper products, paper companies either produce the fibres they need (out of wood or recovered paper) or purchase these fibres. In the latter case, the papermaking companies buy "market pulp", that is a set of fibres constituting a bale of approximately one cubic meter.

Bales of market pulp are traded worldwide, and buyers and sellers operate on a global market. For instance, market pulp can be produced in Finland and shipped to Japan or made in Brazil and conveyed on a boat until China.

Pulp markets are differentiated

Fibres are very diverse and have different physical and optical properties (length, strength, smoothness, colour....) based on the type of tree species (eucalyptus, birch, spruce, pine...) and on the pulping process used to isolate the fibres (naturally "glued" to each other in the wood).

Pulp market is therefore divided in several pulp grades, e.g: Bleached Softwood Kraft Pulp (BSKP), Bleached Hardwood Kraft Pulp (BHKP), Bleached Eucalyptus Kraft Pulp (BEKP), etc. Each of these grades has its own market and its own price dynamic.

The "art" of papermaking is therefore to mix the fibres having the right properties, depending on the type of paper product to be made. For instance, spruce fibres are very resistant and appropriate to make packaging, eucalyptus fibres deliver an excellent smoothness (hygiene paper) and good bulk and opacity (office paper....).

In other words, depending on the paper product to be made, the paper maker uses one pulp grade, or a mix of pulp grades (eg: BSKP delivers strength and BEKP smoothness). The possibility for paper maker to switch from one grade to another is nil or very limited.

## 2. Merger would create dominant position

The merger would significantly impact the market of one of the major pulp grades (Bleached Eucalyptus Kraft Pulp).

This transaction would result in the creation of, by far, the largest global pulp producer. The merged entity, with a capacity of more than 11 million tons a year of market pulp, would control more than twice as much capacity as the second largest.

This dominant position would be even more substantial on the BEKP market. *Pulpwatch*, a monthly news and analysis of the international pulp market service published by Hawkins Wright, estimates the market shares shown in the table below.

*Table: Combined market share of Suzano and Fibria in the various part of the world (2017)*

North America	79 %
Europe	37 %
Asia	43 %
Latin America	45 %
Global	45 %

Source: HAWKINS WRIGHT (vol 24, 6 April 2018)

## 3. Merger would affect a market that is already supplier-friendly

**Risk of price increases.** In various public documents, the parties themselves acknowledge that they benefit from a situation in which demand exceeds supply.

Given that prices are negotiated at an individual level, the increased capacity and supply share of the merged entity will allow it to further increase the price. Purchasers will have no significant alternative supplier.

**Risk of limited capacity increases.** Furthermore, the merger reduces the incentive for the parties to compete with regard to capacity increases. Without a merger both parties have an incentive to invest and to increase capacity to satisfy the growing demand. The merger significantly reduces that incentive as the parties, which will become unavoidable trading partners, can merely increase the price.

#### **4. Paper producers will not be able to compensate merger's effects**

Given the recent price increases the paper producers are in no position to compensate the merger effects. They will have no alternative than to pass the anticipated price increases through to the consumer resulting then in a price increase of the paper products sold on the European market.

#### **IV. UTIPULP will remain at the European Commission's disposal**

The European paper companies purchasing BEKP represented by UTIPULP are very concerned by the merger announcement and will continue to closely follow the merger and remain at the European Commission's disposal for any clarifications or additional information. They are in particular willing to respond to any requests for information and to actively participate in your market investigation.

Sincerely yours,

Paul-Antoine LACOUR  
  
Secretary General