

Mergers: Commission opens in-depth investigation into proposed acquisition of Solvay's nylon business by BASF

Commissioner Margrethe **Vestager**, in charge of competition policy, said: *"Nylon is used in everyday products like clothes, sports shoes and carpets. But it's also an important industrial input, for example contributing to make lighter engines and cars. However, only a few manufacturers provide essential inputs to produce different nylon products, so we need to carefully assess whether the proposed acquisition would lead to higher prices or less choice for European businesses and, ultimately, consumers."*

The proposed transaction involves Solvay and BASF, two companies active in the nylon industry, where both manufacture nylon compounds and nylon fibres.

Nylon compounds are used in a wide range of applications, particularly in the automotive and electronics industries, due to their light weight and good thermal resistance. As such, they are among the advanced materials used to develop lighter cars which produce less noxious emissions. **Nylon fibres** are used in particular for clothing and sportswear. The manufacture of nylon compounds and nylon fibres requires as a key input Adiponitrile ("ADN"), an oil derivative.

Solvay is currently the only manufacturer in the European Economic Area with production assets at all levels of the nylon production chain, from ADN to nylon compounds and nylon fibres. Currently, Solvay sells an important part of its production of intermediates at various levels of the value chain to other companies active in making nylon compounds and fibres. **BASF** is also vertically integrated, but does not produce ADN. It currently only sells a small part of its production of intermediates because it uses almost all of its production internally, for the production of nylon compounds and fibers.

The proposed transaction would create an important player in the nylon compounds market with a market size almost double that of the closest competitor. The merged entity would also control substantial parts of the merchant markets and of the production capacities at all levels of the nylon production chain. Moreover, no other player would be similarly fully integrated in the production chain. Competitors will thus depend on the merged entity to continue to supply them with one or more essential inputs.

In addition, there is no indication that competition could be preserved by new entrants, since access to essential inputs (such as ADN) is limited and critical to be able to compete effectively.

The Commission's preliminary competition concerns

At this stage, the Commission is concerned that the proposed transaction would reduce competition in the markets where the merged entity would be active. In particular, the Commission is concerned that this transaction could lead to higher prices due to the increased market power of the merged entity in the nylon compounds market, as well as due to its enhanced position in the nylon production chain.

In particular, the Commission's initial market investigation raised competition concerns for the supply of the following essential inputs for the nylon production chain: ADN, Hexamethylene Diamine, Adipic Acid, Hexamethylenediamine adipate Salt, Polyamide 6.6 Base Polymer and Polyamide 6.6 Engineering Plastics.

The initial market investigation also showed that competitors of the merged entity fear that it would stop supplying them with these essential inputs because of its own increased needs downstream.

The Commission will now carry out an in-depth investigation into the effects of this transaction to determine whether its initial competition concerns are confirmed.

The transaction was notified to the Commission on 22 May 2018. The Commission now has 90 working days, until 31 October 2018, to take a decision. The opening of an in-depth investigation does not prejudice the outcome of the investigation.

Companies and products

BASF, headquartered in Germany, is a large diversified chemical company active in a range of sectors including chemicals, performance products, functional materials and solutions, agricultural solutions and oil & gas. It is active in the polyamide value chain, in particular in the production of Hexamethylene Diamine, Adipic Acid, adipate Salt, Base Polymers and Engineering Plastics.

Solvay, headquartered in Belgium, is active in the polyamide value chain, in particular in the production of ADN, Hexamethylene Diamine, Adipic Acid, adipate Salt, Base Polymers and Engineering Plastics.

Merger control rules and procedures

The Commission has the duty to assess mergers and acquisitions involving companies with a turnover above certain thresholds (see Article 1 of the Merger Regulation) and to prevent concentrations that would significantly impede effective competition in the European Economic Area or any substantial part of it.

The vast majority of notified mergers do not involve competition problems and are cleared after a routine review. From the moment a transaction is notified, the Commission generally has 25 working days to decide whether to grant approval (Phase I) or to start an in-depth investigation (Phase II).

In addition to the current transaction, there are four ongoing Phase II

merger investigations: the [proposed acquisition of Tele2 NL by T-Mobile NL](#), the [proposed acquisition of Cristal by Tronox](#), the [proposed acquisition of Shazam by Apple](#) and [the proposed merger of Praxair and Linde](#).

More information will be available on the [competition](#) website, in the Commission's [public case register](#) under the case number [M.8674](#).