

Past, present and future: the blank media market in Europe

Blank media manufacturers have welcomed the recent introduction of a new European Union 'anti-dumping' levy to combat the deluge of cheap CD-R media coming into Europe from the Far East. However, the need for blank CD-R media has doubled, which raises the question: can European manufacturers meet such a huge increase in demand?

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The proliferation of cheap CD-RW drives and CD-RW units being bundled with most PCs has created an almost unquenchable thirst for blank media. But while the outlook is good for blank media, the fact is that the European suppliers cannot keep up with demand and have relied on cheap imports from Taiwan to make up the bulk of the shipments. But the blank media battlefield is about to change since the European Union has introduced an 'anti-dumping' tariff to discourage the flood of cheap media and to stimulate the European blank media market.

The current figures predict the demand for blank CD-R this year in Western Europe will reach 2,100 million units, but according to Understanding, and Solutions. This is good news for the industry, at the centre of every silver lining there tends to be a dark cloud. The bad news is that actual production of CD-R media in the region will only reach 843 million units – a dramatic shortfall. Jean-Paul Eekhout, senior marketing manager for TDK Recording Media Europe explains, "We currently produce 10 million units of CD-R a month, but unfortunately this just isn't enough and we currently outsource to keep up with demand. In terms of revenue, CD-R is our largest revenue stream, equal to our blank cassettes."

The popularity and demand for blank CD-R media has doubled over the last four years and the industry has been hard pressed to keep up. In order to do so, outsourcing is common and the majority of media coming into Europe has been from the Far East, predominately Taiwan. The saturation point was critical and the effects of these cheap imports were being noticed. The European Union reacted by investigating the industry over a two-year study period and the results made interesting reading. It showed that the European blank media manufacturers originally had a market share of 16.8% in 1998, when the investigation began, but lost a significant part of that share to Taiwanese importers. By the end of the investigation period (December 2000), the European manufacturers share of the market had shrunk to just 12.6%. To pour oil on the flames, the fact that these imports undercut European manufacturers prices by an average of 29%, the magnitude of dumping by the Taiwanese was found to be very significant.



Slotting CD-R into a larger marketplace

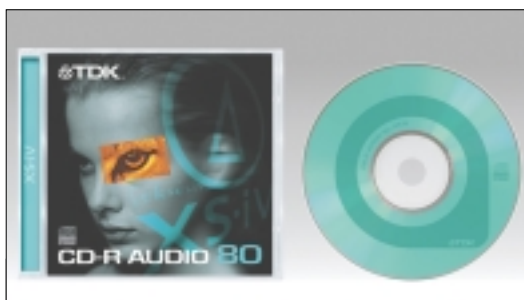
But the cheap imports weren't just affecting EU manufacturers, as during the study period it was noted that imports from other countries had also fallen dramatically. Market share had dropped from 78% to 21%, with

The average EU factory size, over that period, produced 40 million CD-Rs per year, compared to the Taiwanese factory average of 530 million. However, despite the possibilities of the economies of scale being a factor behind these cheap

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Japan and Singapore being hit hardest. In response to seeing their market share tumble from 33% to 9.5%, the Japanese exporters cut their prices by 27% and increased their exports from 53 million units to 192 million units during the investigation period, just to keep up with the Taiwanese. The EU investigation also found that the cheap Taiwanese imports held a steady 60% of the EU market share, and it was decided that the Japanese and Singaporean imports were not to blame for holding the EU market down.

imports, it was shown that despite having larger factories, the Taiwanese did not appear to have any advantages regarding manufacturing or the raw materials, compared to the EU competitors, that could justify the lower prices of the media. Taking into account that Taiwanese import prices had fallen by 73% over the investigation period, and five European producers completely abandoned CD-R manufacturing in 2000, the EU decided that these Taiwanese companies were acting deliberately to undercut their competitors and were significantly harming market growth in Europe.



CD-R is TDK's largest revenue stream

The EU levy

With the culprits identified by the European Union, the EU decided that it would take action in the form of an 'anti-dumping' levy imposed on all CD-R imports coming from Taiwan. The Taiwanese manufacturers were approached by the EU and asked to support the investigation, resulting in many of these companies engaging in a dialogue with the European Union. December 2001 saw the decision to impose penalties on all Taiwanese imports and all Taiwanese producers were given up until January 21, 2002, to raise any comments or appeals on the findings of the EU investigation.

However, rather than implementing a country-wide levy, the EU based its charges on the information collected during its investigation and on whether or not the Taiwanese companies had supported the anti-dumping investigation. Ritek Corp, together with affiliate Prodisc Technology, Auvistar Industry Co and Unidisc Technology Co, all co-operated with the study and received the

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lowest rate of 18.8%. Despite helping with the investigation, Princo Corp attracted a rate of 29.9% because it hadn't completed and returned the EU questionnaire in time. The highest rate set was 39.5%, which was handed out to CMC Magnetics, one of the leading blank media manufacturers in Taiwan, as it refused to co-operate with the investigation. All other companies that failed to take part in the EU probe are also to be hit by the highest duty level.

So what do the Taiwanese think of the levy? It is difficult to elicit a response from companies who feel that they have been unfairly treated, but Bryan Smyth of Multimedia Info-Tech, a subsidiary of Taiwan's Ritek and Hanney, had something to say about the changing climate in Europe. "Being owned by the largest exporter of CD-R media from Taiwan, we may have a different view of the tax levy than most other European manufacturers. But we are financially accountable, so I think the levy is a good thing. European suppliers complained to the EU about the low cost CD-R from Taiwan and after getting a duty applied to these CD-R, they were unable to meet the demand of the European market!"

When asked if the tariff was fair, Smyth had this to say, "I think that the duty would be fair if it applied to all non-EU countries. Why should blank media manufacturers from India not have to pay a tax? But as it stands, this duty has done little to improve prices."

European manufacturers take a different view. TDK's Jean-Paul Eekhout welcomes the breathing space the tariffs offer. "The tariff is most certainly beneficial. It has given European manufacturers time to breathe, but we won't see the full effect of the action until the end of the year, as it is still early days. There has been this gradual shift towards Europe from the affected manufacturers, so it is a healthy increase in market competition."

That seems to be one of the ways the Taiwanese can avoid the levy – relocation to Europe. Daniel Mayer, marketing director at STEAG HamaTech, explains, "Anti-dumping measures may make the decision easier to establish a plant or to increase capacity in Europe. The big players will reallocate production capacity outside Asia – the overall result of the levy might be that local markets are served locally rather than globally. Anyway, competition will always remain fierce, it's only the battlefield that is changing."

The levy is good news for Philips and Sony, the holders of the CD-R licences. Both companies are finding it increasingly difficult to collect licence fees from some Far Eastern manufacturers. Bernhard Kirschner, president of the International Disc Duplicating Association (IDDA), explains, "The measures have probably saved the European

disc manufacturing industry. The problem was not only dumping, but also that some Far Eastern manufacturers were not paying licence fees to Philips and others, giving them an unfair advantage. There is less chance of European manufacturers avoiding licence fees." It is unlikely that any CD-R manufacturer moving production into Europe would be able to avoid the watchful eye of Philips and Sony.

But has the levy actually been effective? The general feeling in the industry has been that it is early days to tell, but analysts point out that the anti-dumping levies have had no impact on retail prices. Simon Bryant from Understanding and Solutions explains, "Some C-branded CD-Rs in Europe have increased in price since the first quarter of 2002, but the figure is negligible. A/B branded products have not been impacted to date. As well as manufacturers shifting production outside Taiwan, large numbers of CD-Rs were stockpiled in Europe for the beginning of 2002, and some of that product remains unsold." In fact, the general opinion is that the effects of the levy won't be seen until the first quarter of 2003.

Market growth

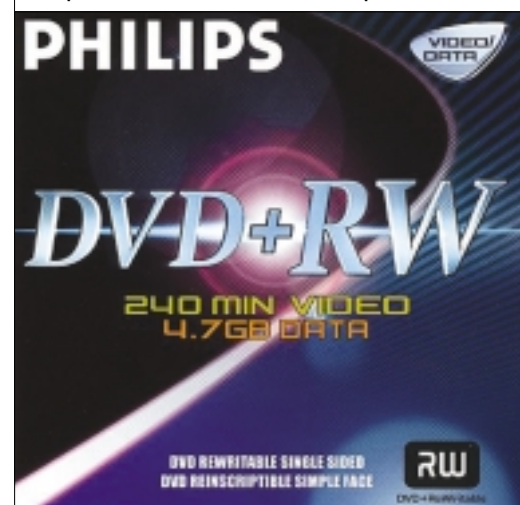
While the levy seems to have given European manufacturers some respite from the deluge of cheap imports, it is too early to say what the overall effect will be. However, like daffodils in the springtime, something is stirring in Europe. Already, Sky Media Manufacturing of Switzerland is expanding its operation. It recently announced a new manufacturing site in Yvonand, which is producing media, day and night, seven days a week, to meet European demand. The factory, with its 120 employees, has a potential daily capacity of 250,000 discs. And, of course, the units from Sky Media Manufacturing are free from any EU levy.

But it is not just homegrown companies who are expanding into Europe. Multimedia Info-Tech is also expanding its European operation. Having better local production facilities has a two-fold benefit to the company that normally relies on Taiwanese imports. Bryan Smyth explains, "Yes, we are expanding our European production. The major advantage in this is delivery time. Most goods from Taiwan take six weeks to be delivered, and we generally can deliver anywhere in Europe in under a week." So not only will they be able to avoid the levy, but they will be giving European manufacturers a run for their money too.

Even if there is a massive investment by the EU manufacturers, there is still little chance of them catching the coat-tails of future CD-R demand. In Western Europe, demand for CD-R media is set to rise every year until 2005, when it is estimated by Understanding and Solutions that it will level out at around 2,625 million units, but European CD-R production will be left standing at 1,261 million units. So European manufacturers will need to increase output by 100% just to keep up. Of course, this is an unrealistic prospect and media will still need to be outsourced to manufacturing bases outside the EU.

Meanwhile, other media companies are expanding in other directions and are avoiding the whole issue of cheap CD-R media altogether. Sentinel, the Belgium based CD manufacturing plant, is investing €4.8 million into a new production plant for DVD+RW media. Sentinel's actions are indicative of a future trend, a trend

Philips now concentrate on DVD+RW production





HP's DVD writer allows home users more storage capability

that negates the current EU CD-R levy. While the European Union has taken action against the disposable CD-R format, it hasn't considered how the media market is developing and has not addressed any issues concerning re-writable CD or DVD media. In fact, CD-RW and DVD-R/RW media aren't covered by the EU levy, a fact that could leave European manufacturers flooded by cheap blank re-writable media. And, of course, the levy doesn't prevent dumping from manufacturers from other geographical regions.

While CD-R is very popular, Sentinel is following a trend by getting into DVD+RW and current forecasts show that as a medium, CD-R will reach its saturation point in 2005. The market is already changing and DVD-R formats are being introduced to a media-hungry public. Six months ago, a DVD-RW drive for a PC would have been considered prohibitively expensive, but recently drives have broken the sub-€450 barrier, making them very attractive purchases for the home consumer. Also, in the home entertainment sector, the price of home DVD recorders has been slashed by half since their initial release last Christmas, and it won't be long before other electronics companies start competing in the home DVD recorder market.

But while DVD-R/RW media is set to be the up and coming new format, it is unlikely that it will dislodge CD-R from its lofty position as the consumer's choice of blank media. Recent forecasts show that it won't be CD-R that will be affected by the introduction of DVD-R/RW media, but CD-RW shipments. As Jean Tavenas, European product manager for Hewlett Packard points out, "While the public enjoys the flexibility of CD-RW media, we think that they are keen for more storage capability. And with video editing becoming more popular amongst the home user, DVD+RW has a distinct advantage, offering more storage capacity than CD-RW. But it won't be used just for video applications, we see DVD+RW also being used for archival purposes too."

Indeed, the forecasts show that while CD-RW sales and production will rise steadily in Western Europe over the next four years, its performance

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will be swamped by both DVD-R and DVD+RW formats. The poor performance of CD-RW has already been picked up by Philips, which stopped producing CD-RW last year. Renier ten Kate from Philips explains, "We began producing CD-RW in 1997 and this production was stopped in July 2001. We now concentrate on DVD+RW, which we began producing in July 2001 and we generate approximately 150,000 discs per month. These new formats are the largest revenue stream for Philips."

Early estimates see DVD-R and DVD+R performing well, notching up potential sales of over 500 million units by 2006, while DVD-RW, DVD+RW and DVD-RAM formats could muster sales of nearly 180 million units. Of course, these figures pale into insignificance compared to CD-R, but one thing is evident: production in Europe for all blank DVD formats will still be way short of demand. Early estimates say that by 2006 there will be a shortfall of 47% for DVD recordable media. In fact, if the forecasts are correct, Western European manufacturers will be hard pressed to make up the 137 million unit shortfall for DVD re-recordable formats, and outsourcing to keep up with this demand will be the norm. STEAG HamaTech's Daniel Mayer argues against this possible trend and makes a valid point against DVD-RW formats, "CD-RW never gained significant market share as the CD-RW discs were more expensive and the vast majority of end consumers don't need to erase

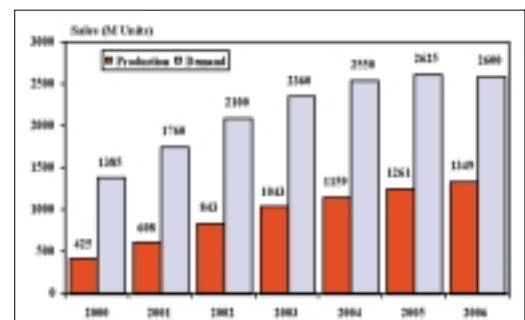
and rewrite data a thousand times. Consumer habits drive the future of any format, and why should these habits change when it comes to DVD-RW? Also, consumers have been confused by the format fights for rewritable DVD and it is most likely, as a format, to be used solely for archival purposes."

Will history repeat itself?

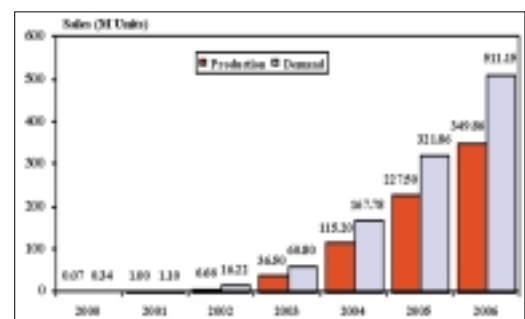
When it is shown that there aren't enough European manufacturing facilities to cope with the market, is it only a matter of time before there is another deluge of cheap blank DVD media coming into the EU to quench the demand? The big question is: will the EU change the current levy to take into account blank DVD media, or will it wait for the EU market to be damaged by these imports again before it takes these actions?

Whatever happens, the responsibility for the current and future state of the blank media market in the EU lies solely with local manufacturers. Of course, this doesn't even take into account any future developments that may be occurring in the optical storage world. Already, the big players are looking into developing blue laser products and the Chinese are planning to create their own digital video format with Enhanced Versatile Disc

(EVD). So in the five years it is perfectly feasible that there could be a further series of format fights to decide which is the crowned King of the next generation of high density optical media. And whoever wins that battle, you can bet that the European manufacturers will be ill equipped to compete with the Far East. ■



CD-R media market outlook: Western Europe



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