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Case No COMP/M.2036 - VALEO / LABINAL

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REGULATION (EEC) No 4064/89
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 04.08.2000

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PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sirs,

Subject: Case No COMP/M. 2036 – VALEO/LABINAL
Notification of 30/06/2000 pursuant to Article 4 of Council Regulation No 4064/89

1. On 30.06.2000, the French company Valeo S.A. notified an operation by which it will acquire control over the automotive components activities of Labinal S.A., France, by way of share purchase.

I. THE PARTIES AND THE OPERATION

2. Valeo S.A. ("Valeo") is an independent industrial group which designs, manufactures and sells automotive components for cars and trucks in Europe, America and Asia. In 1999, it achieved a worldwide turnover of € 7.717 billion.

3. Labinal S.A. ("Labinal") specializes in small and medium size power gas turbines, connectors, as well as equipment for the aeronautics, defense, electronics and automotive industries. Labinal's automotive activities are regrouped within Sylea (which regroups Labinal's electrical and electronic wiring and switching control systems), Filtrauto (which comprises Labinal's vehicle filtration activities) and Telma Retarder (which produces and distributes electromagnetic retarders). In 1999, Labinal's automotive activities produced a worldwide turnover of € 1.435 billion.

4. On 16/06/2000, Valeo signed an agreement concerning the acquisition of the automotive activities of Labinal. This operation constitutes the acquisition of control of part of an undertaking and can therefore be qualified as a concentration within the meaning of Article 3 (1) (b) of Council Regulation 4064/89.

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II. COMMUNITY DIMENSION

5. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion[1]. Each of Valeo and the automotive activities of Labinal have a Community-wide turnover in excess of EUR 250 million. Neither party achieves more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension.

III. COMPETITIVE ASSESSMENT

A. Relevant product markets

6. The economic sector involved in the concentration is the supply of parts to the automotive industry. A competitive overlap exists between Valeo and Labinal's activities with respect to certain switches and sensors.

7. In line with previous Commission decisions in this sector[2], the notifying party noted that automotive parts are usually sold directly to car manufacturers for installation into new cars ("OEM" channel), or as replacement products to those same manufacturers and their authorised dealers ("OES"-original equipment spare parts). Replacement sales to the independent after market are referred to as "IAM" sales.

1. Switches

8. In *TRW/LucasVarity*, the Commission identified separate product markets for: (i) hidden switches (such as brake-light, handbrake, door, hood and trunk switches, fluid pressure switches and ignition switches) and (ii) driver-operated switches[3]. In that case, TRW/Lucas Varity submitted that in view of the supply-side substitution, there was no need to define separate markets for hidden switches and driver-operated switches. The Commission left open the precise definition of the relevant market since there was no creation or strengthening of a dominant position irrespective of whichever market definition were chosen.

9. In the present case, the results of the Commission's investigation show that switches can be divided into driver-operated switches and hidden switches. The only market on which the parties' activities overlap is the market for driver-operated switches.

10. Driver-operated switches are the interface between a driver and a number of actuators or signals. They are marked by their visibility and ergonomic characteristics. Such switches are generally grouped according to their geographical location within the interior of the

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1 Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Notice on the calculation of turnover (OJ C66, 2.3.1998, p25). To the extent that figures include turnover for the period before 1.1.1999, they are calculated on the basis of average ECU exchange rates and translated into EUR on a one-for-one basis.

2 See Commission Decision of July 6, 1998 (Case No IV/M.1207), Dana/Echlin, at para. 9; Commission Decision of February 5, 1999 (Case No IV/M.1363), DuPont/Hoechst/Herberts, at para. 14; Commission Decision of March 11, 1999 (Case No IV/M.1462), TRW/Lucas Varity, at para. 11, footnote 3.

3 Commission Decision of March 11, 1999 (Case No IV/M.1462), *TRW/Lucas Varity*, at para. 13-14.

vehicle (steering column switches, window-lift switches, instrument panel switches, rotating switches).

11. According to the notifying party, switches are produced following similar core manufacturing processes and generally have the same core technology. Moreover, manufacturers produce switches in accordance with customer specifications required for the vehicle platform in question and are therefore capable of manufacturing virtually all types of switches. Therefore, Valeo considers that the OEM/OES market for driver-operated switches would constitute a single product market due to similar product characteristics, identical sales channels and the increasing tendency of automobile manufacturers to order these switches from the same suppliers.

12. Most competitors and customers during the investigation have confirmed this assessment. However, some customers stressed that steering column switches could be distinguished from smaller switches (i.e. window-lift, rotating and instrument panel switches) because they require specific know-how and technical capabilities.

13. Another difference considered important for market definition purposes is that between products for "light vehicles" (passenger cars and light trucks) and "heavy vehicles" (heavy duty trucks, buses and coaches, off the road and agricultural vehicles). Valeo considers, however, that the different types of driver-operated switches for light and heavy vehicles constitute a single market in view of the important supply-side substitutability demonstrated by the similar production processes and cost structures of these two categories of products.

14. Even though this approach was supported by a majority of customers and competitors during the investigation, a significant minority of responses received suggested that a distinction could be made between products destined for "light" and "heavy" vehicles in terms of their product characteristics (e.g. style, voltage, durability, technological sophistication), volumes required (switches for light vehicles are manufactured in much larger volumes that those for heavy vehicles), degree of standardisation (switches for light vehicles are much more customer specific products designed for a specific model or platform whereas switches for heavy vehicles are more standardised).

15. For the purpose of the present case, the relevant product market can be left open since the operation does not raise concerns whichever product market definition is chosen.

2. Sensors

16. Sensors are devices used to provide information in a range of automotive electronic systems, such as the engine control module or the air-conditioning system. In *Mannesmann/Philips*, the Commission noted that sensors may be divided according to their function and identified separate product markets for: (i) temperature sensors; (ii) pressure sensors; (iii) level sensors; (iv) speed sensors (ABS and powertrain); and (v) accelerometers[4]. This represents those sensors that are the most commonly found on vehicles. New categories of sensors such as obstacle sensors (collision warning/park-assist sensors), rain sensors, or steering angle sensors are currently emerging with significant unit shipments possible in the future. As for switches, the parties consider

[4] Commission Decision of February 12, 1998 (Case No IV/M.1053), *Mannesmann/Philips*.

that sensors for light and heavy vehicles constitute a single market in view of the important supply-side substitutability demonstrated by the similar production processes and cost structure of these two categories of products.

17. The parties' activities only overlap on the OEM/OES markets for speed sensors and on powertrain temperature sensors. Competitors and customers during the Commission's investigation considered both markets as relevant.

B. Relevant geographic markets

18. A number of third parties stated that the relevant geographic market for switches is world-wide in scope, since car manufacturers (the customers for such products) follow to a large extent a global sourcing policy. Therefore, in line with previous decisions[5], the Commission considers that the relevant geographic for switches and sensors sold on an OEM/OES basis is at least the EEA. The main reasons are that: (i) transportation costs within the EEA are not significant; (ii) there are no other obstacles to intra-EEA trade; (iii) prices are similar throughout Europe, given that OEM/OES sales are usually made to the European production sites of the automobile manufacturers; (iv) suppliers tend to serve the entire EEA from only a few plants located within the EEA; (v) there is extensive inter-State trade and similar conditions of competition apply throughout the EEA.

19. For IAM sales of driver-operated switches, it appears that the geographic scope of the market is national, rather than EEA, in spite of the fact that transport costs are limited and no other barriers to intra-EEA trade exist. The main reasons are that distribution of switches on the Independent After Market is organised on the basis of national structures (via national distributors), reflected by important divergences in sales prices and strong differences in the market shares of the different EEA suppliers per Member State. Most competitors and customers have agreed with this geographic market definition.

20. For the OEM/OES markets for speed sensors and powertrain temperature sensors, the reasoning in paragraph 18 applies *mutatis mutandis*. Thus, for these two markets, the relevant geographic market is at least EEA-wide.

C. Competitive impact of the operation

1. Switches

21. The following table summarises the parties' market shares (by value) on the OEM/OES market for driver-operated switches :

EEA market share in value	**1997 [approximately 750 million EUR]**	**1998 [approximately 800 million EUR]**	**1999 [approximately 8900 million EUR]**
Valeo	[10-20%]	[10-20%]	[10-20%]
Labinal	[15-25%]	[15-25%]	[15-25%]
Total Valeo/Labinal	**[30-40%]**	**[30-40%]**	**[30-40%]**

5 E.g. case IV/M.768 – *Lucas/Varity* (Commission Decision of 11.7.1996).

TRW	[15-25%]	[15-25%]	[15-25%]
Eaton	[10-20%]	[10-20%]	[10-20%]
Kostal	[10-20%]	[10-20%]	[10-20%]

Source: notification

22. From the above it appears that Valeo will become the new market leader for driver-operated switches. One of its largest competitors will be removed form the market as a result of the transaction. Nevertheless at least three particularly strong competitors will remain on the market: TRW, Eaton and Kostal with market shares of between 10-25%.

23. The client base on the market consists of automobile manufacturers, which normally purchase large quantities of switches for insertion into cars. Generally, suppliers such as Valeo have a longstanding relation with their customers, amongst other due to the particular development of switches, which need to be adapted individually for each type of car. This explains the relative stability of market shares. Valeo has stated however that these market positions are vulnerable, given that the loss of a particular client or the loss of a contract for a particular car type will have a strong incidence on market share. This appears to have been confirmed by the degree of dependence of the merging parties' on certain large scale customers for a large proportion of their turnover.

24. As regards new entry by producers into the automotive parts market for OEM sales, this is restricted by the fact that any new supplier would have to engage in important R&D and product development and would have to be able to supply large quantities of a particular product for insertion in a particular car type. This would be especially true where a particular vehicle is produced in the EEA for more than one regional car market (e.g. intended for sale in Europe, and Asia). Therefore, for any new entrant investment costs are significant. Nevertheless, the parties have stated that a number of recent or potential entrants are expected to exert competitive pressure on the current leading suppliers in the EEA such as the Japanese leader Tokai Rika. Moreover, it would seem that captive automotive component facilities of certain car manufacturers have been spun off recently such as the creation of Delphi previously General Motors' in-house supplier.

25. On the demand side, in the market for OEM driver-operated switches, the customer base is concentrated and consists of a small group of large clients, i.e. major car and truck manufacturers that generally purchase high volumes of a particular component. Due to the consolidation, which is taking place at the level of the car and truck manufacturers and the increasing trend toward global sourcing by these manufacturers, it is anticipated that the client base will become even more concentrated in the future.

26. Purchases by the car manufacturers usually take place through a bidding process, whereby products are first developed on the basis of the customers' specifications. After the development stage, orders are often placed with two or more suppliers, who are given orders for the delivery of particular quantities at set times. As a result of this system, fierce price competition between suppliers of driver-operated switches takes place. It is also important to note that, car and truck manufacturers usually retain intellectual property rights on many components developed for them.

27. In view of these factors, the notifying party underlines that Valeo/Labinal will remain subject to the buying power of the car and truck manufacturers, because even after the concentration, the new entity, like its competitors, will be increasingly dependent on relatively few customers, which are engaged in co-operative or structural agreements

between themselves and are constantly seeking to reduce the number of companies (2 or 3) from which they source their automotive components. Valeo has stressed that component suppliers are under constant and unremitting pressure to lower unit prices.

28. The Commission's own investigation has shown that from the customers' point of view, the merger generally does not raise concerns, other than to lead them to reconsider their supplier panel strategy by sourcing from another third party where they had previously sourced from the merging parties, for example.

29. In the steering column switches sector (which represents around 40% of the total driver-operated switches market), the new entity will have, after the transaction, a market share of around [45-55%] (by value) at EEA level. The parties will have to face competition from Kostal ([20-30%]), Eaton ([15-25%]), Lucas and Seuffer. In addition, for steering column switches for heavy vehicles (which represents around 5% of the total steering column switches segment i.e. c.2% of the total driver-operated switches sector), Valeo/Labinal may obtain after the operation a market share as high as [75-85%] as compared to [40-40%] in the light vehicle segment. Nevertheless, these market shares are not fully representative of the merged entity's market position because it is heavily dependent on specific large-scale orders which can vary significantly over time.

30. Thus, in 1997, the combined market share of the parties for heavy vehicles was [50-60%] (Valeo [35-45%] and Labinal [15-25%]). Yet, by 1999 this was increased to [75-85%] (Valeo [50-60%] and Labinal [15-25%]) due to Valeo increasing its sales of steering column switches for heavy vehicles to one major customer. However, based on the Commission's investigation the same major customer is currently seeking alternative sources of supply through a global tender, since Valeo is unable to match their pricing requirements. This will result in a considerable reduction in the parties combined market share.

31. Moreover, the Commission's investigation demonstrates that a number of other customers may be switching their production of steering column switches be it heavy and/or light from the merging parties', notably where there currently exists customer overlap between the merging parties' respective customers. This is due to the customers' commercial strategy to ensure that they retain multiple sources of supply. The Commission's investigation revealed that customers could switch their sources of supply in the short term relatively easily.

32. The Commission's investigation has also confirmed the contestability of the steering column switches market for heavy vehicles on the supply side because: (i) other competitors with sufficient capacities (such as Kostal and Seuffer) are active in the production of both heavy and light steering column switches; (ii) manufacturers of steering columns switches for light vehicles such as Eaton and TRW could switch to the production of steering column switches for heavy vehicles; (iii) the market for heavy vehicle column steering switches follows that for light vehicles in terms of technical developments (such as the introduction of electronic components and the harmonisation of production standards).

33. Furthermore, it should be noted that the degree of concentration with regard to customers producing heavy vehicles is even more pronounced than for light vehicles (e.g. around 70-80% of each party's total sales of steering column switches for heavy vehicles is represented by 2 or 3 customers).

34. It follows from the above factors taken together that the combined market share of Valeo/Labinal at the time of the merger does not accurately reflect its real market power. Its real power appears not such as to confer to it the possibility to behave to an appreciable extent independently of its competitors, customers or the consumers. Therefore, the operation does not lead to the creation or strengthening of a dominant position on the relevant markets.

IAM sales of driver-operated switches

35. Regarding IAM sales in the different national markets, the only market where there a question might arise is the Italian market. On this market, Valeo has a market share of [<10%]. Labinal has no distribution network in Italy but supplies in bulk to Magneti Marelli, switches bearing trademarks belonging to Magneti Marelli, which are manufactured in accordance with the Magneti Marelli's specifications. In turn, Magneti Marelli packages the switches and re-sells them onto IAM wholesalers, not only in Italy, but also in other European countries and elsewhere in the world. Thus, Labinal have no independent presence of its own in the Italian IAM market but acts as a mere sub-contractor for Magneti Marelli.

36. Even if taking into account the market share realised by Labinal through Magneti Marelli (around [30-40%]), the operation does not raise concerns, particularly since the parties will face strong competition from Kostal ([20-30%]) and TRW ([10-20%]) on the Italian market for IAM sales. Moreover, the Commission's inquiry has shown that certain competitors could substantially increase their current production capacities in a relatively short time. It can be added that transport costs for driver-operated switches are not an impediment to trade.

37. Therefore, the operation, although reinforcing the position of Valeo/Labinal for IAM sales of driver-operated switches in Italy, does not lead to the creation or reinforcement of a dominant position.

2. Sensors

38. The following table summarises the parties' market shares (by value) on the OEM/OES market for powertrain speed sensors :

EEA market share in value	**1998 [approximately 100 million EUR]**	**1999 [less than 100 million EUR]**	**2000 (estimate) [less than 100 million EUR]**
Valeo	[15-25%]	[15-25%]	[15-25%]
Labinal	[5-15%]	[5-15%]	[5-15%]
Total Valeo/Labinal	**[25-35%]**	**[25-35%]**	**[25-35%]**
Bosch	[20-30%]	[20-30%]	[20-30%]
Siemens	[5-15%]	[5-15%]	[5-15%]
Denso	[<10%]	[<10%]	[<10%]

Source: notification

39. Valeo/Labinal will become the new market leader for powertrain speed sensors. Nevertheless at least 2 particularly strong competitors will remain on the market: Bosch and Siemens.

40. In the OEM/OES market for powertrain temperature sensors, the parties will have a combined market share of around [20-30%] in value (1999). However, the addition of Valeo's market share is minimal ([<1%]). Other strong competitors are active on this market such as Bosch ([10-20%]), Siemens ([10-20%]) and VDO ([5-15%]).

IV. CONCLUSION

41. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EEC) No 4064/89 and Article 57 of the EEA Agreement.

For the Commission,