EN

Case No COMP/M.2048 - ALCATEL / THOMSON MULTIMEDIA / JV

Only the English text is available and authentic.

REGULATION (EEC) No 4064/89
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 26/10/2000

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 26.10.2000
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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EEC) No 4064/89 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus […]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sir,

Subject: Case No COMP/M.2048 – Alcatel/Thomson Multimedia/JV
Notification of 26.09.2000 pursuant to Article 4 of Council Regulation (EEC) No 4064/89

1. On 26.09.2000, the Commission received notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 (the "Merger Regulation") by which the French undertakings Alcatel and Thomson Multimedia S.A. (which is controlled by Thomson S.A. and which in turn is controlled by the French State) acquire within the meaning of Article 3(1)(b) of the Merger Regulation joint control of a newly created holding company by way of purchase of shares in this company constituting a joint venture.

2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Merger Regulation and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

I. THE PARTIES AND THE OPERATION

3. Alcatel is mainly active in the sector of telecommunication/Internet network infrastructure equipment, such as switches, routers and optical transmission systems. Thomson Multimedia ("TMM") is mainly active in the sector of consumer electronics products, such as set-top boxes, cable modems, and television broadcast studio products such as cameras and mixers.

4. The aim of the parties is to merge their existing activities in MPEG[1] transmission and cable access to create a new company which will address the emerging sector of supplying systems or subsystems for interactive video networks. These are networks based on new technologies that are offering or will offer various digital video services. The JV Company will not offer such services, but will merely supply the equipment enabling its customers (telecommunication operators, television broadcasters and cable-based multi-service operators) to do so.

II. CONCENTRATION

Joint Control

5. The share capital of the JV Company will be held in equal proportions by Alcatel and TMM (through its subsidiary Thomson Broadcast Systems S.A.). The parties will be equally represented on the Board of Directors and will have veto rights regarding important management decisions. The notified operation therefore constitutes a concentration within the meaning of article 3(1)(b) of the Merger Regulation.

Full Function Joint Venture

6. The JV Company will combine the parties' existing activities in MPEG transmission and cable access. The parties will transfer to the JV Company: a manufacturing plant; three R&D groups, and several product management and technical pre-sales functions; business strategy, business development and corporate marketing functions, a dedicated sales force, installation and maintenance personnel and licences of necessary technology. In addition, the JV Company will have its own dedicated management team.

7. The JV Company will obtain some corporate functions - such as IT infrastructure and services, order processing, office space, human resources - from the parent companies by way of the service agreements that form part of the JV Agreement. The parties also envisage that the JV Company will source some equipment from Alcatel – amounting to an estimated 25% of output in 2001, falling to around 10% in 2002 and around 5% in the long term. The JV Agreement permits this purchasing to be done on an arm's length basis.

8. Although the JV Company will be fully autonomous in the development and selection of its distribution channels, the parent companies will continue to distribute its products as part of larger solutions for certain projects already in progress or planned at the time the JV Agreement was signed. These are, however, not expected to amount to more than 25% of the JV Company's business during the first two years. After that period, the parties' expect that the percentage of the JV Company's business for which the parent companies will remain prime contractor or distributor will decrease.

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1 "MPEG" stands for "Moving Picture Experts Group", a working group of the International Organisation for Standardisation/International Electro-technical Commission in charge of the development of international standards for compression, decompression, processing, and coded representation of moving pictures, audio and their combination.

9. The JV Company will therefore perform on a lasting basis all of the functions of an autonomous economic entity within the meaning of Article 3(2) of the Merger Regulation.

III. COMMUNITY DIMENSION

10. The combined aggregate world-wide turnover of Alcatel (€23,023 million) and TMM (€6,690 million) is in excess of €5,000 million. The aggregate Community-wide turnover of each party is in excess of €250 million (Alcatel €11,938 million, TMM €1,415 million). They do not achieve 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 according to Article 1(2) of the Merger Regulation.

IV. THE RELEVANT MARKETS

Relevant product market

11. The relevant product markets concerned by the proposed operation relate to a range of products used in interactive video networks . These networks as a whole comprise products used to generate, transport and process digital video signals along the so-called "MPEG chain" ("MPEG networks") and products used for the two-way transmission of analogue and digital signals via existing or upgraded cable infrastructures ("cable access networks"). Alcatel and TMM are essentially designers and manufacturers of a wide range of components and systems for incorporation in equipment used in the interactive video network market. The provision of digital video services as such is not concerned.

12. According to the parties, the relevant market for this transaction is the market for interactive video networks. According to the Commission's market investigation, this market could be further segmented. For example, a distinction can be made between: <u>MPEG network products</u>, such as MPEG compression equipment, video servers, tape machines and cameras, telecommunication network interface units; and <u>cable access network products</u>, such as modulators and demodulators, hybrid coaxial cable, optical receivers, transmitters and amplifiers, and interactive network adaptors. A further segmentation into different products manufactured by the parties could be relevant as well.

13. For the purpose of this case, however, the precise definition of the relevant product market or markets can be left open, since, irrespective of the market definition chosen, the notified operation would not lead to the creation or strengthening of a dominant position.

Relevant geographic market

14. The parties submit that the relevant geographic market is world-wide. Customers tend to buy interactive video network products from multiple sources on a world-wide basis and the parties and their competitors are also active on a global basis. This view has not been contradicted by the Commission's market investigation.

15. For the purpose of this case, however, the definition of the geographic market or markets can be left open, since, irrespective of the geographic market definition

chosen, the notified operation would not lead to the creation or strengthening of a dominant position..

V. ASSESSMENT

16. The parties submit that this transaction will not lead to any affected markets. Interactive video networks is an emerging market and the parties predict strong growth of this market in Europe. There are a number of competitors[2], several of which the parties believe are supplying, or are capable of supplying, to customers on a world-wide basis. In general, third parties confirmed this description of the market.

17. There are no significant overlaps between the activities of the parties. In the only product segment in which there is an overlap - MPEG encoders – the parties' estimate their combined market shares to be [10-20%] in the EEA as a whole and not exceeding 20% in any individual Member State. Regarding the possible vertical relationships, the parties submit that they have no significant market shares (i.e. none exceeding 10%) in any downstream markets. These estimates have not been contradicted by the Commission's market investigation.

18. In view of the parties' relatively low market shares and the existence of a number of strong incumbent or potential competitors the proposed concentration does not raise serious doubts as to its compatibility with the common market.

VI. CONCLUSION

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

For the Commission,

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2 Motorola GI, Scientific Atlanta, Harmonic Divicom, Cisco, Nortel, ADC, NDS Tandberg, Philips, Barco