

***Case No COMP/M.2127 -  
DAIMLERCHRYSLER /  
DETROIT DIESEL  
CORPORATION***

Only the English text is available and authentic.

**REGULATION (EEC) No 4064/89  
MERGER PROCEDURE**

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Article 6(1)(b) NON-OPPOSITION  
Date: 09/10/2000

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, **09/10/2000**  
**SG(2000)D/107411**

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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 Sirs,

**Subject: Case No COMP/M.2127 – DaimlerChrysler/Detroit Diesel**

Notification of 07.09.2000 pursuant to Article 4 of Council Regulation No 4064/89

1. On 7 September 2000, the Commission received a notification of a proposed concentration pursuant to Article 4 of the Council Regulation (EEC) No. 4064/89 by which the German undertaking DaimlerChrysler AG (“DaimlerChrysler”) acquires within the meaning of Article 3(1)(b) of the Regulation the whole of the US undertaking, Detroit Diesel Corporation (“Detroit Diesel”) by purchase of shares.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EEC) No.4064/89 and does not raise serious doubts as to its compatibility with the common market and with the EEA agreement.

**I. THE PARTIES**

3. **DaimlerChrysler** was created by a merger between Daimler-Benz AG and Chrysler Corporation in 1998<sup>1</sup>. The main activities of DaimlerChrysler are automotive (passenger cars and commercial vehicles), aerospace, financial services, information technology services, rail systems, automotive electronics and diesel engines.

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<sup>1</sup> cf. Case No. M.1204 – *Daimler-Benz/Chrysler*

4. DaimlerChrysler's subsidiaries include MTU Motoren-und-Turbinen-Union Freidrichshafen GmbH (MTU-F) [Germany] specialists in the development and manufacture of engines for vessels, industrial applications and other end-uses.
5. DaimlerChrysler owns via its subsidiary MTU-F 33.4% of the shares of the French engine manufacturer, S.E.M.T Pielstick ("Pielstick"). Pielstick is active in the development, manufacture and distribution of heavy-duty diesel engines (over 2200 kW) and engine components for ships, locomotives and power stations. The remaining 64.6% of the shares are held by the German company MAN AG ("MAN") which is active in the manufacture of medium and heavy duty trucks. Pielstick is jointly controlled by MTU-F and MAN.
6. **Detroit Diesel** is, at present, jointly controlled by DaimlerChrysler (21.3%) and Penske Corporation [USA] (48.6%). It designs, manufactures, markets, and services high performance diesel and alternative fuel engines.
7. Detroit Diesel acts through two wholly owned subsidiaries, Detroit Diesel Remanufacturing Corporation [USA], manufacturer of four-cycle and two-cycle engines and component parts, and VM Holdings Inc. [USA] which owns 100% of the capital stock of VM Motori S.p.A [Italy]. VM Motori S.p.A is a primary supplier of diesel engines to the European automotive industry and for certain industrial and marine applications and its main customer is DaimlerChrysler. VM Holdings Inc. owns 99.9% of the outstanding quotas of Detroit Diesel Motores do Brasil Ltda., [Brazil] which also supplies diesel engines to the automotive industry in Latin America.

## **II. THE OPERATION**

8. DaimlerChrysler intends to acquire sole control of Detroit Diesel. It has made a public offer for all the outstanding shares. It has also entered into an agreement with Penske to purchase their 48.6% shareholding in Detroit Diesel.
9. The proposed acquisition will allow DaimlerChrysler ensure that Detroit Diesel remains the main engine supplier for its subsidiary, Freightliner Corporation [USA]. Currently, Detroit Diesel sells heavy-duty diesel engines primarily to commercial vehicle manufacturers in the US and diesel engines for passenger cars primarily to DaimlerChrysler, for Chrysler models produced in Europe.

## **III. CONCENTRATION**

10. The operation involves a change from joint to sole control of Detroit Diesel and therefore constitutes a concentration in the sense of Article 3(1)(b) of the Merger Regulation.

## **IV. COMMUNITY DIMENSION**

11. The EU turnovers in 1999 of DaimlerChrysler and Detroit Diesel are €52 525 million and €221 million respectively. Therefore, the conditions set out in Article 1(2) are not met with respect to Community turnover.

12. The undertakings concerned had a combined aggregate world-wide turnover of more than €2 500 million (DaimlerChrysler €149 985 million and Detroit Diesel €2 217 million).
13. The parties had a combined aggregate turnover of more than €100 million in each of at least three Member States, Austria (DaimlerChrysler €[...] million; Detroit Diesel €[...] million) Italy (€[...] million, €[...] million) and Belgium (€[...] million, €[...] million).
14. The aggregate turnover of each of the parties was more than €25 million in each of the three Member States referred to in paragraph 13 above.
15. The aggregate turnover of at least two undertakings concerned was more than € 100 million, see paragraph 13 above.
16. The parties did 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 on the basis of Article 1 (3) of the Merger Regulation.

## V. ASSESSMENT

### Product Market

17. Diesel engines generate rotary motion, which can be used to perform work in different applications and are therefore used in a broad range of applications. The choice of engine for each application depends on a variety of factors e.g. size, power, weight, speed and cost etc.
18. DaimlerChrysler manufactures engines for use in their own vehicles, however, for the purposes of this assessment, the Commission is only concerned with those engines which are sold to third parties.
19. The parties suggest that the only product relevant for an assessment of the transaction is diesel engines, rating above 40 kW but that it is possible to sub-divide the market in several different ways.
20. For the purposes of market definition diesel engines could be subdivided according to the different end-use applications e.g. industrial, marine, railway, military etc. Within, each end use application the products could be further sub-divided into power ranges<sup>2</sup>. The power ranges chosen in the present decision, 40-300 kW, 301-1000 kW and greater than 1000 kW are in line with the statistics produced by the independent market research institute, Power Systems Research..
21. It is not necessary to give a precise definition of the product market, as irrespective of the market definition chosen, the concentration does not result in the creation or strengthening of a dominant position under any envisageable market definition.

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<sup>2</sup> See M.1094 – *Caterpillar/Perkins Engines* 23.02.1998, para.13

### Geographic market

22. According to the parties the geographic scope of the manufacture of diesel engines is international. The Commission has in previous decisions<sup>3</sup> considered that the relevant geographic market for diesel engines is at least EEA-wide but that it may even be wider. This was based on the fact that transportation costs within Europe are insignificant, no obstacles to intra-EEA trade exist and prices are normally set on an EEA-wide basis.
23. Since the earlier decisions were adopted no new factors have come to light that would indicate a relevant geographic market narrower than the EEA. However for the purposes of this decision it is not necessary to decide whether the relevant geographic market is the EEA or wider as no competition problems would arise whatever the definition.

### Assessment

24. The assessment of the present case has to take into account the fact that DaimlerChrysler already jointly controls Detroit Diesel. However, as will be shown below, no competition problems would arise even if DaimlerChrysler were to acquire Detroit Diesel *ex novo*.

### *EEA Market*

#### Overall

25. On the basis that the geographical market for all types of diesel engines is EEA-wide, the parties combined market share for 1999 was [between 5-10 %], which does not give rise to competition concerns.

#### Breakdown by end-use applications and power ranges

26. The table below gives market shares for the broader end-use applications: automotive, on-highway and off-highway.

**Table 1 (market shares in 1999: broad end-use applications)**

End- Use Application	DaimlerChrysler	Detroit Diesel	Combined
Automotive (cars)	[between 0-10 %]	[between 5-15 %]	[between 5-15 %]
On-highway (trucks/ buses)	[between 0-10 %]	[between 0-10 %]	[between 0-10 %]
Off-Highway			[between 0-10 %]
Overall			[between 5-15 %]

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<sup>3</sup> *Caterpillar/Perkins Engines*, para 18-23; *Cummins/Wärtsilä*, para 19-20; *M.768 – Lucas/Varity*, para 12.

27. Very few of Detroit Diesel sales in the EEA for 1999 were accounted for by diesel engines with an output >300 kW which were imported from the USA. However, Detroit Diesel has recently discontinued production of most of its >300 kW diesel engines, and the small amount which Detroit Diesel still produces is only for the sale in the US for military applications. Based on the most recent figures therefore, there are no more affected markets in the power ranges above 300 kW in the EEA.
28. This implies also that DaimlerChrysler's joint control Pielstick (whose sales are included in the figures given in Table 1) has no material impact in the assessment of this case. Indeed, Pielstick only produces very large engines, with a power range greater than 2200 kW<sup>4</sup>.
29. In the sector below 300 kW, there is no need to consider further the on-highway engines since there is, for these engines, no sub-division into narrower end-use applications.<sup>5</sup> The only sector which remains to be considered in more detail is the off-highway sector below 300 kW. Here, the combined market share of the parties is [between 0-10 %] for all end-use applications.
30. Assuming that the off-highway market is segmented according to narrower end-use applications required for the diesel engine, the combined market shares of the parties for diesel engines with a power range of <300 kW would be as follows:

**Table 2 (market shares in 1999: off-highway engines below 300 kW)**

<b>End- Use Application</b>	<b>DaimlerChrysler</b>	<b>Detroit Diesel</b>	<b>Combined</b>
Off Highway total	[between 0-10 %]	[between 0-10 %]	[between 0-10 %]
Of which:			
Agricultural	[between 0-10 %]	[between 0-10 %]	[between 0-10 %]
Industrial	[between 0-10 %]	[between 0-10 %]	[between 0-10 %]
Marine	[between 0-10 %]	[between 5-15 %]	[between 5-15 %]
Military	[between 0-10 %]	[between 0-10 %]	[between 5-15 %]
Railway	[between 5-15 %]	[between 0-10 %]	[between 5-15 %]
Welders and GenSets	[between 0-10 %]	[between 0-10 %]	[between 0-10 %]

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<sup>4</sup> The combined market share between Pielstick and MTU-F in greater than 2200 kW sector is [between 5-15 %].

<sup>5</sup> It is also worth noting that almost all on-highway engines are less than 300 kW.

## World Market

31. The parties combined share of a possible world market for all types diesel engines is only [between 0-10 %]. The Commission has examined the effect of the proposed operation under various narrower product market definitions. It has concluded that the operation would not create or strengthen a dominant position whatever the product market definition. Furthermore there are strong competitors active in each of sectors who would be able to constrain the parties' behaviour.

## **VI. CONCLUSION.**

32. 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,