

***Case No COMP/M.2703 -
MERLONI / GE / GDA
JV***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 04/03/2002

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, **04.03.2002**

SG (2002) D/228754

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

**Subject: Case No COMP/M.2703 – MERLONI/GE/GDA JV
Notification of 01.02.2002 pursuant to Article 4 of Council Regulation
No 4064/89¹.**

1. On 1 February 2002, the undertaking Merloni Elettrodomestici SpA ("Merloni" - Italy) notified a proposed agreement by which it proposes to acquire from Marconi Corporation Plc ("Marconi"), the 50% shareholding in General Domestic Appliances Holdings Limited ("GDA") currently held by Marconi. The remaining 50% of the shares in GDA are held by International General Electric (USA), a member of the General Electric Group (GE).
2. After the examination of the notification the Commission has concluded that the proposed operation falls within the scope of Council Regulation No 4064/89 and does not give rise to serious doubts as to its compatibility with the common market and the EEA agreement.

I. THE PARTIES

3. Merloni is a company active in the manufacture and supply of major domestic appliances such as cold food storage equipment, cooking and laundry appliances and the supply of

¹ OJ L 395, 30.12.1989 p. 1; corrigendum OJ L 257 of 21.9.1990, p. 13; Regulation as last amended by Regulation (EC) No 1310/97 (OJ L 180, 9. 7. 1997, p. 1, corrigendum OJ L 40, 13.2.1998, p. 17).

out-of-warranty repair services. It supplies these products in Europe, primarily under the Ariston and Indesit brands.

4. GDA is a joint venture jointly controlled by Marconi and General Electric, active in the manufacture and supply of major domestic appliances including cookers, washing machines, tumble dryers, refrigerators, freezers and the supply of out-of-warranty repair services. It supplies these products primarily in the United Kingdom, under the Hotpoint, Creda and Cannon brands.
5. GE is a company active worldwide in numerous fields including aircraft engines, transportation systems, industrial systems, power systems, plastics, lighting, medical systems, appliances, media, financial services, software and Internet services. In the sector of domestic appliances, GE is primarily in the United States. In Europe, its products are sold under the General Electric brand.

II. THE OPERATION

6. The proposed operation consists in the acquisition by Merloni of the joint control of undertaking GDA by way of purchase of 50% shareholding from the British undertaking Marconi Corporation Plc. The remaining 50% of the shares in GDA are held by International General Electric (United Kingdom).

III. COMMUNITY DIMENSION

7. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion² (Merloni: [] m€; GE: [] m€; GDA: [] m€). Each of Merloni, GE and GDA also have a Community-wide turnover in excess of EUR 250 million (Merloni: [] m€; GE: [] m€; GDA: [] m€), but 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.

IV. COMPETITIVE ASSESSMENT

A. RELEVANT PRODUCT MARKETS

8. Merloni and GDA are both active in several product markets involving (i) manufacture and supply of domestic appliances such as cooling, cooking and washing appliances, and (ii) out-of-warranty servicing of domestic appliances.

1. Domestic appliances

9. The domestic appliances sector comprises the following product categories:

² 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.

(i) fridges: these machines are designed to store food at a low temperature. They include single-door refrigerators, with or without a freezer compartment, and combine fridge-freezers with two separate doors.

(ii) freezers: these are appliances designed to store food below freezing point. They can generally be divided into upright freezers (where the door is on the front) and chest freezers (where the door is on the top).

(iii) cooking appliances: these appliances are designed to cook food. They typically consist of a hob (a series of gas or electric rings), and/or one or more ovens. They may also include a grill, which may form part of the same compartment as the oven. They include traditional cooking appliances with a single oven cavity, as well as wider “range” style cooking appliances, which often have two ovens and additional rings or warming areas on top. A hob and an oven may be supplied separately or together. Specific dual capacity ovens/cookers are particularly sold in the UK market.

(iv) cooker hoods: these are appliances for extracting cooking vapours from above a cooking appliance (whether free-standing or built in). They either pass the vapours outside the house by way of a dedicated vent or filter and recycle them into the kitchen.

(v) microwave ovens: these products are different to other domestic appliances because their manufacturers are typically the consumer electronics suppliers.

(vi) dishwashers: these are machines designed to wash cutlery, crockery, cooking equipment and similar items. They consist of a cavity, usually made of stainless steel, into which the items to be washed are stacked. Hot water is sprayed over the items to wash them. Dishwashers come into standard size: slimline machines 45 cm wide, and standard width machines 60 cm wide.

(vii) washing machines: these are appliances designed to wash clothes and other fabrics. The washing machine may be supplied with cold water, which is then heated by the machine, or with hot and cold water from the domestic water system. With the exception of France, washing machine in the EEA usually have a front-opening door. Some washing machine incorporate a drying function (washer-dryers). It can be noted that the washing machines sold in United Kingdom are typically frontloaders, with hot/cold-fill feature and higher spin speed than average in the EEA.

(viii) tumble dryers: these are machines designed to dry clothes or other fabrics, by means of heated air blown into rotating drum.

10. According to the parties, each category constitutes a separate product market because there is no demand substitutability and limited supply substitutability between the various categories.

11. In addition, the parties argue that there are no grounds for identifying any sub-markets within each category of domestic appliances. The parties regard all models/sizes in each product group of major domestic appliances as part of the same product market since their intended end uses are the same, and since the core technology and components used in the manufacture of these different models are largely identical. In this connection the parties argue that the high degree of supply-side substitutability has to be taken into consideration. According to the parties all major manufacturers produce a full range of models and the flexibility of manufacturing lines used to produce domestic

appliances allows products that are differentiated both technically and aesthetically to be manufactured on the same line.

12. The Commission enquiry tends to confirm the definitions proposed by the parties. But, for the purpose of the present case, it is not necessary to define conclusively the relevant product markets, since on no alternative market definition considered would the concentration create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or in any substantial part of that area.

2. Out-of-warranty repair services

13. The proposed operation also affects the market of out-of-warranty repair services, which are after sale repair services for domestic appliances no longer under the manufacturer's initial warranty. These services are provided in two ways: under an extended warranty or on an *ad hoc* basis, generally by independent repairers.
14. Large retailers sell their after-sales services to their customers and offer "extended warranties" running for up to four years after expiry of the manufacturer's (usual) one year warranty. Extended warranty repair is typically underwritten by an insurer. Manufacturers also seek to sell extended warranties to their customers. Both the manufacturers' service organisation and the large independents competing with them for extend warranty business frequently appoint smaller independents service organisation to act as their local agents.
15. Most customers do not take out an extended warranty and, after expiry of the manufacturer's warranty, will usually employ a service engineer on *ad hoc* basis if their appliance breaks down. Independent service providers range in size from the typical "man with a van", through organisations employing a number of engineers on a regional basis, to those large national organisations which also bid directly for extended warranty service contracts. All typically offer multi-brand servicing.
16. The parties argue that these two types of service are substitutable in both demand and supply terms and therefore form part of the same market. The Commission enquiry tends to confirm the definition proposed by the parties. But, for the purpose of the present case, it is not necessary to define conclusively the relevant product markets, since on no alternative market definition considered would the concentration create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or in any substantial part of that area.

B. RELEVANT GEOGRAPHIC MARKETS

1. Domestic appliances

17. The parties submit that the relevant geographic market for the supply of each category of domestic appliances is EEA-wide for the following reasons: European presence of all suppliers, centralised manufacturing, products' commonality, EEA-wide branding and marketing, no legal, regulatory or technical barriers, low transport costs and similarity of prices. The parties also refer in support of their view to the case *n° IV/M.458-Electrolux/AEG*, where the Commission had concluded that the markets for major domestic appliances were Western European in scope.

18. The results of the market investigation undertaken by the Commission indicate that :
- a- Although there is a trend within a small number of pan-European retailers to negotiate agreement on a European level, negotiations and agreement are mostly national in nature as far as the pricing and quantities of the individual products are concerned.
 - b- Pricing strategies and price levels are different in each Member States. In particular, the enquiry points out that the average market price in the United Kingdom, Ireland and in the other countries of the EEA vary according to the margin structure of the distribution, cost structure of the manufacturer, services organisation and local taxes.
 - c- An increase in the prices by 5% to 10% for each domestic appliance sold in United Kingdom and/or Ireland would not provoke imports by retailers from other Member States.
 - d- As expressed above, there are some specific characteristics of the different product categories in the UK market. It can be also added that this market requires a particular plug different from those used in the rest of the European Union.
19. Therefore, the geographic market for each category of domestic appliances seems to be national in scope, at least as far as the United Kingdom and Ireland are concerned. However, in this case it is not necessary to decide whether the geographic market for each domestic appliance is national or EEA-wide. Even on the basis of national markets, the proposed operation will not lead to the creation or strengthening of dominant position as a result of which effective competition would be significantly impeded in the EEA or in any substantial part of that area.

2. Out-of-warranty repair services

20. The parties submit that the relevant geographic market for out-of-warranty repair services is at most national in scope. In fact, in order to provide such repair services, an effective service organisation is required, while rapid response times require local coverage. The major domestic appliance manufacturers typically provide these services on a national basis, although they face competition from any number of small local or regional competitors.
21. The Commission enquiry tends to confirm the definition proposed by the parties.

C. ASSESSMENT

22. The transaction gives rise to overlaps almost exclusively between Merloni and GDA, essentially in the UK and Ireland. There is minimal overlap with GE, which has only negligible activities within the domestic appliances sector in the EEA, accounting for less than [0-10]% by value of the overall EEA domestic appliances market and only [0-10]% of the fridge market.

1. Domestic appliances

23. In the sector of major domestic appliances, the larger manufacturers (such as Electrolux, Bosch-Siemens, or Whirlpool) manufacture, brand, market and distribute the complete range of products on a pan-European scale. There also exist a large number of smaller manufacturers, who together account for approximately 40% of European supply, and who are either only present in certain categories of products or in one geographical market, or marketing only one brand. The major manufacturers each own a range of brands, either European, national or regional.
24. The structure of distribution for each type of large domestic appliance follows similar patterns across Europe. In all countries, white goods are generally sold directly by the manufacturer to retailers. Retailers comprise a combination of specialist electrical retail chains, non-specialist department stores with an electrical department, small independent electrical retailers and supermarkets.

At EEA level

25. In the overall sector of domestic appliances, the parties account for a combined share of sales of [5-15]% (Merloni: [0-10]%; GE: [0-10]%; GDA: [0-10]%), placing them in third place behind Bosch-Siemens ([10-20]%) and Electrolux ([10-20]%). With regard to each of the 8 domestic appliances categories, the parties account for a combined share of less than [15-25]%.
26. The transaction will not decrease the level of competition as, in each product market, there is a significant number of major pan-European competitors, such as Electrolux, Bosch-Siemens, Whirlpool, Candy Hoover and Miele, with significant amount of sales and corresponding market shares. For example, Bosch-Siemens is the leader of the EEA market of cooking appliances with [10-20]% market share followed by Electrolux with [10-20]% and the parties with [5-15]%. For the freezers, Electrolux has the largest share of the EEA market with [5-15]%, followed by Whirlpool with [5-15]%, Candy with [0-10]% and the parties with [0-10]%. For the tumble dryers, the strongest competitors are Bosch-Siemens ([10-20]%), Miele and the parties ([5-15]% each), and Electrolux and Whirlpool ([5-15]% each).

At national level

27. In the overall sector of domestic appliances, the combined share of sales of the parties are below [25-35]% in all Member States. The United Kingdom is the only Member State where there is a significant overlap between Merloni's and GDA's activities (Merloni: [0-10]%; GE: [0-10]%; GDA: [15-25]%). However, the parties would still be facing competition notably from Electrolux ([5-15]%) and Bosch-Siemens ([5-15]%).
28. With regard to each of the 8 domestic appliances categories, the transaction gives rise to affected markets in a limited number of Member States (France, Belgium, Italy, Portugal, the United Kingdom and Ireland).
29. In France and Belgium the transaction does not give rise to addition of market shares in these affected markets. In Italy and in Portugal the combined market shares of the parties are below 30% for each domestic appliances categories and the overlap is marginal.

30. In Ireland, the market shares by volume of the parties are higher than 30% for tumble dryers ([25-35]%) and for cooking appliances ([30-40]%), but the additions of market shares are low (less than [0-10]% for tumble dryers and [0-10]% for cooking appliances). Moreover, for the tumble dryers market, the parties would be facing the competition from Electrolux, with an estimated market share between [15 and 25]% and Candy, Whirlpool and Bosch-Siemens, each with market shares between [0 and 15] and for the cooking appliances market, the major competitors are Electrolux (between [10 and 25]%), Bosch-Siemens (between [0 and 15]%) and Whirlpool (between [0 and 10]%). Based on this evaluation, the transaction does not give rise to competition issue in Ireland.
31. In the United Kingdom, the parties accounted for a combined market share higher than 30% for : washing machines ([35-45]% - Merloni: [5-15]%; GE: [0-10]%; GDA: [25-35]%), tumble dryers ([45-55]% - Merloni: [0-10]%; GE: [0-10]%; GDA: [40-50]%) and dishwashers ([25-35]% - Merloni: [10-20]%; GE: [0-10]%; GDA: [10-20]%).
32. For the other five product categories, the parties achieved the following market shares: [15-25]% (Merloni: [0-10]%; GE: [0-10]%; GDA: [10-20]%) for fridges, [10-20]% (Merloni: [0-10]%; GE: [0-10]%; GDA: [5-15]%) for freezers, [20-30]% (Merloni: [0-10]%; GE: [0-10]%; GDA: [15-25]%) for cooking appliances, [0-10]% by volume (Merloni: [0-10]%; GE: [0-10]%; GDA: [0-10]%) for cooker hoods and less than [0-10]% by volume for microwave ovens. However, competitors such as Electrolux, Bosch-Siemens and Candy-Hoover have significant positions on these product markets. Retailer customers have alternative brands with strong presence and with a full range of the domestic appliances in substitute of those of the parties. Any anti-competitive behaviour attempt on these markets would therefore be punished by less purchase of the products of the parties. The market positions of the parties therefore do not give rise to competition concerns.
33. For tumble dryers, transaction does not alter the working of competition as the addition of market shares is very low ([0-10]%). In any event, the new entity would be constrained by competition from White Knight ([10-20]%), Electrolux ([5-15]%) and Whirlpool ([0-10]%) to whom distributors could turn in case the combined entity would raise its prices.
34. For washing machines, the major competitors of the parties are Electrolux ([10-20]%), Candy-Hoover ([5-15]%) and Bosch-Siemens ([5-15]%). These three competitors have significant positions on numerous product markets. Distributors have alternative brands with strong presence and recognition and with a full range of the domestic appliances in substitute of those of the parties. Any anti-competitive behaviour attempt on these markets would therefore be punished by less purchase of the products of the parties and be made non-profitable.
35. For dishwashers, the major competitors of the parties are Bosch-Siemens ([25-35]%) and Electrolux ([10-20]%). For similar reasons than those exposed as to washing machines, the proposed transaction does not enable the combined entity to exercise market power.
36. On the basis of the foregoing, the Commission does not consider that the operation notified would lead to competition concerns.

2. Out-of-warranty repair services

37. The transaction also gives rise to an overlap in the market for out-of-warranty servicing of domestic appliances in the United Kingdom, which is the only geographic market concerned by the transaction, where GDA provides repair services.
38. The parties accounted for a combined market share of [15-25]% (Merloni: [0-10]%; GE: [0-10]%; GDA: [10-20]%). They mainly faced the competition of Centrica ([5-15]%), Comet ([0-10]%) and of other national and local independent repair companies which represented [30-40]% of the number of repair services.
39. On the basis of the foregoing, the Commission does not consider that the operation notified would lead to competition concerns in the market of out-of-warranty repair services.

V. CONCLUSION

40. 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.

For the Commission
(Signed)
Mario MONTI
Member of the Commission