

***Case No COMP/M.2738 -
GEES / UNISON***

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

Article 6(1)(b) NON-OPPOSITION
Date: 17/04/2002

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 17/04/2002

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Subject: Case No COMP/M.2738 – GEES / Unison

Joint request of several Member States pursuant to Article 22 of Council Regulation No 4064/89 (Merger Regulation)

I. JOINT REQUEST PURSUANT TO ARTICLE 22 (3) OF THE MERGER REGULATION

1. On 14,15 and 27.02.2002 as well as on 15.3.2002, the Commission received joint referral requests from the authorities of Germany, France, Spain, Italy, the United Kingdom and Greece, respectively, pursuant to Art. 22 of the Merger Regulation, to investigate a concentration by which the General Electric Company (“GE”) acquires the undertaking Unison Industries Inc. (“Unison”).
2. The Commission found that the above-mentioned requests meet the requirements laid down in Article 22 (3) of the Merger Regulation. The latter have dispatched to the Commission documentation at their disposal consisting mainly of parties' submissions and results of preliminary investigations.

3. After examination of this information, the Commission has concluded that the operation does not raise serious doubts as to its compatibility with the common market and with the EEA agreement.

II. THE PARTIES TO THE OPERATION

4. The General Electric Company (“GE”, US) is a diversified industrial corporation active in numerous fields including aircraft engines, power systems, transportation systems, industrial systems, plastics, lighting, medical systems, appliances, media, financial services, software and Internet services.
5. Unison Industries Inc. (“Unison”, US) designs, produces and sells accessories and controls for (aircraft) engines and power systems.

III. THE OPERATION

6. GE, through its wholly-owned subsidiary, GE Engine Services Inc. (GEES), will acquire sole control of Unison by way of a stock purchase agreement. Unison will become a separate business unit of GEES. Therefore the proposed operation constitutes a concentration within the meaning of Article 3 (1) (b) of the Merger Regulation.
7. The concentration under examination has no community dimension, since the thresholds of Article 1 of the Merger Regulation are not met. GE's turnover is EUR [...] world-wide and EUR [...] EU-wide (2000 figures). The turnover of Unison is EUR [...] world-wide and EUR [...] EU-wide (2000).

IV. COMPETITIVE ASSESSMENT

Relevant Market Definition

8. The parties consider that Unison’s products are part of one market for Engine Accessories and Controls which is presented as world-wide in scope.
9. Unison’s aerospace turbine engine accessories and controls product range can be broken down into the ignition system, wiring harnesses, alternators, switches and sensors. The market investigation has indicated that all these systems and components perform distinct functions in the operation of aero-engines, as such limiting the potential for demand-side substitution. Each of the above mentioned components can therefore be considered as a separate product market.
10. The ignition system itself can be sub-divided into three separate relevant product markets, namely exciters, leads and igniters. Exciters are boxes that take in low voltage electricity and deliver high voltage pulses to the leads. The leads are wires that take these pulses to the igniter. The igniter will then convert the high voltage pulses into sparks that will ignite the jet fuel into the combustion chamber of the engine. Exciters typically cost between EUR [...] and 6,000, leads between EUR [...] and 1,000 and igniters between EUR [...] and 800.
11. Wiring harnesses are low-voltage cables that connect various parts of the aircraft, including the engines. Their average price is between EUR [...] and 5,000. Alternators convert the mechanical energy of the engine into electrical energy. This provides electrical power to the engine subsystems, such as the ignition systems. Alternators

typically cost between EUR [...] and 6,000. Switches and sensors are used in a number of applications to sense changes in position or indicate differences in navigational conditions. They typically cost between EUR [...] and 500.

12. On the basis of the above, the Commission has concluded that exciters, leads, igniters, wiring harnesses, alternators, switches and sensors constitute distinct markets and that, in line with previous aerospace decisions¹, these markets are world-wide in scope.

Competition effects

2.1. Vertical integration

13. Being a manufacturer of aero-engines, GE is a purchaser of some of Unison's products, in particular ignition systems, electrical wiring harnesses and alternators. Such engine accessories and controls are custom-made for every specific engine platform. Following a bidding procedure, a supply contract is usually awarded to a single supplier who will enter into a long term supply contract with the engine OEM. None of the engine OEMs is currently vertically integrated in relation to the products which Unison manufactures and sells.

2.2. Market Positions

14. At present, Unison has relatively strong market positions for all products it produces except for switches, sensors and wiring harnesses. Unison is the market leader for exciters [>70]%, leads [>60]% and alternators [>40]%. On igniters, Unison ranks second [20-30]% behind Champion [70-80]%.²
15. The market investigation, has confirmed that for all these products, credible, non-vertically integrated alternative suppliers exist. Champion, Smiths, TRW/Lucas and ECET are active in the markets for exciters and leads. Most of Unison's customers have indicated that these suppliers have been and/or will be able to constrain the market position of Unison. On engine alternators, Unison faces strong competition from Pacific Scientific, which has a market position comparable to that of Unison, and several other smaller competitors. In addition, Honeywell, UTC (Hamilton Sundstrand) and TRW/Lucas are the leading players for large aerospace alternators, a market in which Unison has no presence. As the technology used for both large and engine alternators is identical, these players would quickly and readily be able to downsize their alternators in order these to supply engine OEMs.

2.3. No vertical foreclosure effects

16. The recent in-depth investigation that the Commission carried out in the GE/Honeywell case established that GE holds a dominant position in the supply of jet engines for large commercial aircraft (e.g., Airbus and Boeing) as well as for large regional aircraft (e.g.,

¹ See Case IV/M. 697 – Lockheed Martin/Loral Corporation, Case COMP/M. 2220 – GE/Honeywell.

² Source: Form CO

Embraer, Bombardier, Fairchild-Dornier and BAe Systems). As described above, Unison holds high market shares for exciters and leads and to a minor extent for alternators.

17. A third party, being a competitor of GE, has indicated that the proposed transaction could lead to vertical foreclosure likely to prevent effective competition from taking place in the up-stream or down-stream markets. The market investigation has not confirmed these concerns.
18. From a supply-side point of view, GE's purchases of Unison products represent on average no more than [<20] % of the latter's output. Although Unison has a high market share for exciters, leads and alternators, it has significant lower market shares for the other products it produces for the aerospace and industrial power market. It is therefore unlikely that the integration of GE as a buyer and Unison as a seller will preclude Unison's rivals from supplying their products down-stream.
19. From a demand-side point of view, the results of the Commission's investigation have pointed to the contestable character of the up-stream markets. Indeed, the products in question are, relative to the other aerospace markets, of low technological value and are not the object of significant technological progress. As a result, barriers to entry or to expansion can be considered as relatively low. The Commission's investigation has indicated that existing alternative suppliers, notwithstanding their current market positions, may supply engine OEMs readily and quickly at relatively low cost. In order to prevent dependence from a sole source, engine OEMs increasingly contract a second source of supply. Other than targeting the primary market (the engine OEMs), alternative sources of supply can also start to enter the market as PMA suppliers³. Moreover, potential entry into the aero-engines applications by manufacturers of similar products sold to ground applications could take place quickly (on average between 6 and 18 months) and at a relatively low cost, typically these costs associated to obtaining the airworthiness certification (around EUR 200 000). Taking into account the existence of long term supply contracts and the relatively low switching costs, credible actual and potential suppliers could therefore prevent any possible foreclosure of competing down-stream engine OEMs, be it as a result of a refusal, delay, disruption or a quality down-grade of supply.
20. In addition, the Commission's investigation has indicated that the merged entity would have little scope for raising rival engine OEMs costs, for instance by increasing the price of Unison's products. Owing to the low input cost that these products represent in the overall price of the engine, any possible price increase could not materially affect the ability of rival engine OEMs to compete in the down-stream markets. The investigation has indicated that the cost of Unison's products represent on average a infinitely small fraction of [<1] % of the cost of an engine (i.e., between [...] % and [...] %).
21. Finally, the Commission's investigation has indicated that, following its vertical integration, GE will not be able to gain any competitive advantage over its rivals, for

³ PMA's (Parts Manufacturing Authority) are replacement parts that are manufactured under licence after having received the approval of the relevant authorities. PMA parts are sold to the aftermarket (the airlines as the operator of the aircraft).

instance by having access to sensitive technical data or business-related information of the latter's engine programmes. The degree of technical integration of Unison's products with the engines is rather low and as such, the sensitive information exchanged between the engine OEM and the supplier of the above mentioned parts is minimal.

V. CONCLUSION

22. In light of the above, the Commission has concluded that the proposed transaction is not likely to create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.
23. 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) and 22(4) of Council Regulation (EEC) No 4064/89.

For the Commission

Mario MONTI
Member of the Commission