Case No COMP/M.2901 -MAGNA / DONNELLY

Only the English text is available and authentic.

REGULATION (EEC) No 4064/89 MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION Date: 16/09/2002

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COMMISSION OF THE EUROPEAN COMMUNITIES



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 Where possible the information omitted has been replaced by ranges of figures or a general description. Brussels, 16.09.2002

SG (2002) D/231638

PUBLIC VERSION

MERGER PROCEDURE ARTICLE 6(1)(b) DECISION

To the notifying party,

Dear Sir/Madam,

<u>Subject</u>: Case No COMP/M.2901 – MAGNA/DONNELLY Notification of 14.08.2002 pursuant to Article 4 of Council Regulation No 4064/89¹

- 1. On 14.08.2002, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation No 4064/89 ("Merger Regulation") according to which the Canadian undertaking Magna International Inc. ("Magna") intends to acquire within the meaning of Article 3(1)(b) ECMR all shares of Donnelly Corporation ("Donnelly") of the U.S.
- 2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Merger Regulation and that the concentration does not raise serious doubts as to its compatibility with the common market and with the EEA Agreement.

I. THE PARTIES

3. Magna is a diversified global automotive supplier based in Canada which provides a wide variety of automotive systems and components primarily to Original Equipment Manufacturers ("OEMs") of cars and light trucks. Magna's products include: seats, instrument and door panel systems, closure systems and sound insulation; various metal parts and assemblies; exterior and interior rear view mirror systems; plastic parts and exterior decorative systems including body panels and fascias; engine, powertrain and fuelling and cooling components; drivetrain components and complete vehicle engineering and assembly.

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).

4. Donnelly is a global automotive supplier based in the U.S. that manufactures and supplies components to OEMs of cars and light trucks. Donnelly's products include: exterior and interior rear view mirror systems; electronic automotive components; modular window systems; and door handle products.

II. THE OPERATION

5. The transaction is structured as a merger of Donnelly and a wholly-owned subsidiary of Magna, following which Donnelly will become a wholly-owned subsidiary of Magna.

III. CONCENTRATION

6. Magna will acquire sole control of Donnelly within the meaning of Article 3(1)(b) of the Merger Regulation.

IV. COMMUNITY DIMENSION

7. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion²(EUR 12,306 million for Magna in 2001and EUR 947 million for Donnelly in 2001). Each of Magna and Donnelly have a Community-wide turnover in excess of EUR 250 million (EUR [...] million for Magna in 2001 and EUR [...] million for Donnelly in 2001). Neither Magna nor Donnelly 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 in accordance with Article 1(2) of the Merger Regulation.

V. COMPETITIVE ASSESSMENT

Product Market Definition

- 8. Both parties are active in the supply of various automotive components to OEMs and Original Equipment Service ("OES") businesses and to the independent aftermarket ("IAM"). The only significant overlap with respect to the current transaction relates to two product markets: the supply to OEMS of interior rear view mirror systems and exterior rear view mirror systems for passenger cars and light commercial vehicles. Products range from a basic glass panel, outer casing and fixtures to more expensive mirrors with various added features. Differences in functionality and production distinguish interior and exterior mirrors as separate markets.
- 9. Interior mirror products can include a variety of features such as prismatic mirrors which are tilted manually to reduce glare from headlights of vehicles approaching from the rear, compass and/or temperature sensors, anti-theft sensors, electrochromic mirrors which automatically dim glare, integrated lights, telematic mirrors allowing communication with the vehicle's communication system, and integrated microphones for use with mobile phones. Manufacturers generally provide a range of options with prices varying significantly depending on the options chosen.

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.

- 10. Exterior mirror products can include security lights which illuminate when the driver approaches the vehicle, electrochromic mirrors, power folding mirrors for congested streets or tight parking conditions, heated glass for defrosting, mirrors which automatically tilt downwards in reverse gear, and aspheric glass mirrors which use convex glass to improve the range of sight. As for interior mirror products, manufacturers of exterior mirror products generally provide a range of options with prices varying depending on the options chosen.
- 11. The type of vehicle influences the type of mirror features selected and therefore the price of the mirror products, with economy car mirrors usually incorporating more basic features compared to higher end vehicles.

Geographic Markets

12. The parties claim that the geographic market is at least EU or EEA-wide for automotive components which is supported by previous Commission decisions.³ The market investigation carried out by the Commission confirmed that mirror products are generally sourced in regional proximity to automobile manufacturing facilities and that facilities or suppliers in Japan or the U.S. do not generally supply automobile manufacturers in the EEA. Transport costs and tariffs are low and significant cross-border sales of interior and exterior mirrors occur in the EEA. On the basis of the foregoing, the relevant geographic market is at least EEA wide.

Competitive Assessment

- 13. Interior and exterior mirrors for passenger cars and light commercial vehicles are supplied to automobile original equipment manufacturers ("OEMs") such as Volkswagen, BMW, DaimlerChrysler, Renault, PSA, Opel and Ford. Automakers provide specifications and accept tenders from competing mirror manufacturers for a specific model, usually resulting in a single winning bidder selected to supply that type of mirror for the life of that particular model or until a significant design change in the model occurs. In some cases, two competing mirror companies may be selected to provide a portion each of the mirror requirements. Automobile OEMs are large and sophisticated buyers who generally impose strict specification and cost requirements on manufacturers of automobile components including mirror systems. Purchase decisions for interior and exterior mirrors are usually made separately.
- 14. The market for tenders is highly competitive at the tender level. While market shares are relatively stable, substitution of mirror suppliers on particular models can and does occur. The potential to switch is facilitated by excess production capacity among competing suppliers.
- 15. With respect to exterior mirror systems, the parties' data indicates a combined market share of approx. [25-35]% by volume and [30-40]% by value in the EEA for exterior mirrors. Magna currently has [>10]% (vol.) and [>10]% (value), and Donnelly has [20-30]% (vol.) and [20-30]% (value). Other significant competitors include Ficosa International SA with [35-45]% (vol.) and [25-35]% (value), Schefenacker AG with

³ E.g., Case IV/M.872 TRW/Magna, Case IV/M.937 Lear/Keiper, Case IV/ M.1196 Johson Controls/Becker, Case IV/M.1207 Dana/Ecklin, Case IV/M.1481 Denso/Magnetic Marelli, Case IV.M.1587 Dana/GKN and Case IV/M.1789 INA/LuK.

[20-30]% (vol.) and [20-30]% (value), and Engelmann with [>10]% (vol.) and [>10]% (value). The market investigation carried out by the Commission indicated no significant concerns with respect to this segment.

- 16. With respect to interior mirror systems, the parties' data indicates a combined market share of approx. [40-50]% by volume and [40-50]% by value in the EEA for interior mirrors. Prior to the transaction, Magna is a smaller competitor with a market share of [>10]% (vol.) and [5-15]% (value), while Donnelly is the market leader with [40-50]% (vol.) and [30-40]% (value). Other significant competitors include Ficosa International SA with [10-20]% (vol.) and [5-15]% (value). Schefenacker AG with [10-20]% (vol.) and [10-20]% (vol.) and [5-15]% (vol.) and [5-15]% (vol.) and [10-20]% (vol.) and [10-20]% (vol.) and [10-20]% (value). Customers and suppliers indicated no significant concerns with this transaction. Although the transaction will result in a higher market share of the leading position for interior mirror systems in the EEA, it should not give rise to competition concerns due to the existence of strong countervailing buyer power of automobile OEMs and the existence of large and medium-sized competing mirror suppliers.
- 17. In terms of vertical relationships, Donnelly and Gentex are the only two suppliers to mirror manufacturers in the EEA of electrochromic mirror glass which is a specialised technology used to reduce glare from the lights of approaching vehicles which is used in mirrors for certain higher-end automobiles. Although both companies are vertically integrated with respect to the production of electrochromic glass mirrors, both currently supply EC glass to interested third party mirror manufacturers. Information supplied by the parties indicate that Gentex accounts for 80% of worldwide electrochromic glass and 96% of supply in Europe. As the merger will not change the number of suppliers of this specialised glass, and since Gentex will remain by far the dominant producer of electrochromic glass to third party mirror manufacturers.
- 18. As mentioned, the automobile components industry is strongly disciplined by the countervailing power of large and sophisticated OEMs, and several large to medium-sized competitors with excess production capacity remain in each of the mirror segments. In addition, barriers to entry for existing mirror manufacturers for heavy commercial vehicles are relatively low.

VI. CONCLUSION

19. 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 Mario MONTI Member of the Commission