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*Case No IV/M.290 -  
SEXTANT / BGT-VDO*

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

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Article 6(1)(b) NON-OPPOSITION  
Date: 21.12.1992

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PUBLIC VERSION

MERGER PROCEDURE  
Article 6(1)b decision

To the Notifying Parties

Dear Sirs,

Subject: Case No. IV/M.290 - Sextant/BGT-VDO

Your notification pursuant to Article 4 of Council Regulation No. 4064/89

## I. THE TRANSACTION

1. This notification concerns the proposed joint acquisition of VDO-Luftfahrtgeräte Werk (VDO-L) by Bodenseewerk Gerätetechnik GmbH (BGT), a subsidiary of the group Diehl, and Sextant Avionique SA (Sextant), a subsidiary of Aérospatiale and Thomson CSF.
2. Sextant currently owns 25% of VDO-L's shares, the remaining being held by VDO Adolf Schindling AG (VDO). Through the proposed operation Sextant will increase its shareholding to 49.5% and BGT will acquire from VDO the remaining 50.5%.
3. The main purpose of the notified transaction is to establish VDO-L as a "centre of excellence" for the development of symbol generators, i.e. computers used in aircraft displays. In addition, BGT/Diehl's particular objective is to acquire the expertise necessary for expansion of its currently limited activities in the civil aircraft sector.

## II. THE PARTIES

4. BGT, a subsidiary of Diehl GmbH, is engaged in the production and sale of aircraft avionic equipment, land navigation equipment, missiles and automation systems. With regard to aircraft avionics in particular, BGT is mainly active in the military sector,

where it manufactures intelligent, control and navigation systems for aircraft and missiles. In the civil sector, BGT produces flight guidance equipment for the Airbus 320.

5. Sextant produces and sells equipment for civil and military aircraft, including flight control, displays and navigation systems, as well as industrial and domestic appliance components. In the aircraft sector in particular, Sextant is inter alia a major supplier to the Airbus and a participant in various military programmes, including the Mirage and the new-generation Rafale.
6. VDO-L is a small company (1991 turnover of 65.9 MECU), which specialises in the production of certain aircraft instruments, namely symbol generators, probes and displays with mechanical movement. VDO-L produces symbol generators for the Airbus as a sub-contractor to Sextant.

### III. PRODUCT AND GEOGRAPHIC MARKETS

#### Product markets

7. The proposed operation concerns the following types of aircraft instruments and equipment:
  - Indicating instruments with mechanical movement containing a moving coil or a cross coil with a pointer. They indicate various aircraft operational parameters such as oil pressure, fuel consumption, engine temperature, altitude and air speed.
  - Indicating instruments with solid state displays based on computer (symbol generator) technology. Their advantage is that a number of different parameters can be shown simultaneously and/or sequentially on a single display. They normally consist of liquid crystal displays or cathode ray tubes.
  - Symbol generators i.e. computers generating electrical signals which produce symbols and pictures on solid state displays.
  - Probes situated either inside or outside the aircraft. Their function is to receive information on internal or external parameters, such as temperature, pressure, speed, etc. For the purpose of market definition internal probes should be distinguished from external probes, because each category performs a different function and its manufacture requires different technological expertise.
8. Symbol generator computers, solid state displays, displays with movement and probes each constitute separate product markets for the following reasons. First, they are different, non-interchangeable types of aircraft components, which are used in a complementary way. Aircraft computers receive information collected by external or internal probes which they then transmit to solid state displays in the form of symbols and pictures. Displays with movement are mechanical instruments which are installed in modern aircraft as back-up equipment to be used in case of breakdown of electronic instruments. Second, each type of instrument is based on different specialised technology and know-how, as a result of which the manufacturer of one type of instrument is not necessarily in a position to produce other types, let alone the entire range.

### Geographic markets

9. The market for the production and sale of equipment for civil aircraft can be considered as a world market. There are several indicators which strongly support this conclusion: physical presence or activities by the same suppliers throughout the world and purchasing policy on the part of aircraft manufacturers on a worldwide basis.
10. In the field of equipment for military aircraft, strong indicators, such as the high market shares of suppliers in their own national markets and monopsonistic features of the national defense industry, support the conclusion that markets are national.

## IV. CONCENTRATION

### Joint control

11. According to the provisions of the Shareholders' Agreement, BGT and Sextant, the parent companies, will have equal voting rights in all shareholder meetings of VDO-L(50/50). Moreover, the Managing Directors and the President of VDO-L will be elected by unanimous consent of its shareholders. As a result, BGT and Sextant will jointly control VDO-L.

### Full-function joint venture

12. VDO-L, a previously independent company, will continue to perform on a lasting basis all the functions of an autonomous economic entity for the following reasons. After the completion of the proposed operation, VDO-L will continue to produce aircraft instruments (indicating instruments with movement, probes) for sale to third parties. Moreover, with regard to symbol generators, although VDO-L will continue to be a sub-contractor to Sextant for the Airbus programme (this represents less than 25% of VDO-L's total sales), it will also continue to have separate activities i.e. the provision of spare parts and after-sales service to third parties (airlines operating Airbus aircraft). Therefore, the JV will stand as a separate identifiable company in the market.

### Absence of coordination of competitive behaviour

13. As explained below, BGT is not currently active in any of the product markets of the joint venture. BGT is specialised in German defense projects and it does not currently possess the technical and commercial expertise necessary for entry into the civil sector. There is a small overlap between the activities of the other parent, Sextant and the joint venture, but for the reasons set out below there will be no coordination of their competitive behaviour in this respect.
14. In particular, with regard to symbol generator computers for civil aircraft, neither of the parent companies is active in this field. BGT does not produce or sell this type of instrument at all nor can it be considered as a likely potential entrant in this field. Sextant does not produce symbol generators for civil aircraft, but sub-contracts to VDO-L the production of its supplies to Airbus. In view of the traditional contractual relations between Sextant and VDO-L, Sextant has not been active in this area. Following the proposed operation, it would not seem a reasonable course of action for Sextant to enter this field separately. In the military sector, Sextant manufactures a type of symbol generator specifically designed for French military aircraft, while VDO-L is currently

working only on German defense projects. They cannot realistically be considered as being either actual or potential competitors in each other's markets.

15. With regard to probes, BGT does not produce nor sell them. Sextant produces only probes for external use, but these are not interchangeable with the probes for internal use produced by VDO-L, because they perform different functions. These different products are very specialized and there is no possibility for one company to challenge the other without long and costly development work.
16. With regard to displays with movement: Sextant produces gyro-horizon mechanical instruments. However, these instruments are not currently produced by VDO-L nor are they accessible to it. As to BGT, it does not manufacture these instruments, but only repairs them and sells spare parts mainly under Sextant licences and in Germany only (worldwide annual turnover is 0.5 MECU, which is very small compared to Sextant's annual turnover of 32 MECU.)

As regards other displays with movement, in the military sector there is no overlap, because Sextant is exclusively active in France and VDO-L only does work related to German defense projects. In the civil sector, both parties manufacture displays with movement for medium size aircraft and helicopters. However, the parties' activities in this respect are limited (combined market share of about 5%). In addition to this, and in view of Sextant's broad expertise in the field of aircraft avionics and in particular in the civil sector, it seems that Sextant will play a leading role in the management of the joint venture whose main object will be the development and production of symbol generators.

17. The parent companies, BGT and Sextant, are active in the production and sale of instruments for the Airbus other than those produced by the joint venture, in particular flight control equipment. However, the instruments produced by each parent belong to different product markets: BGT produces certain specific flight control units which are not interchangeable with the auto-flight system manufactured by Sextant. These activities are clearly peripheral both to the core business of the parents and to the main purpose of the joint venture. As a result, it does not appear likely that the parties intend to use the joint venture as a vehicle for coordination in these neighbouring areas.
18. In view of the considerations presented above, the proposed transaction does not have as its object or effect the coordination of the competitive behaviour of undertakings which remain independent and is therefore to be examined in the light of the provisions of Regulation No. 4064/89.

## V. COMMUNITY DIMENSION

19. The proposed concentration has a Community dimension within the meaning of Article 1(2) of the Merger Regulation for the following reasons. First, the combined aggregate worldwide turnover of Diehl, Aérospatiale and Thomson-CSF exceeded 5,000 MECU in 1991 (BGT/Diehl 3,016 MECU, Aérospatiale about 6,900 MECU, Thomson-CSF about 5,000 MECU). Second, the aggregate Community-wide turnover of two of the undertakings concerned exceeded in 1991 250 MECU (BGT/Diehl 2,528 MECU, Aérospatiale about 3,700 MECU). Finally, each of the undertakings concerned did not achieve more than two-thirds of its Community-wide turnover in one and the same Member State.

## VI. COMPATIBILITY WITH THE COMMON MARKET

### Horizontal assessment

20. In the civil sector, there is no overlap between the activities of the parties except in the area of indicating instruments with movement (see section IV above).
21. Both Sextant and VDO-L manufacture certain displays with movement for medium-size aircraft and helicopters, but their market shares in this market segment are low (combined market shares of about 5% of the world market for displays with movement).
22. With regard to military markets, both VDO-L and Sextant manufacture symbol generators and displays with movement but are active in different geographic markets (see section IV above).

### Vertical aspects

23. The operation will not have any significant vertical effects because it will only lead to a consolidation of the already existing vertical relationship between VDO-L and Sextant: VDO-L currently delivers all its production of symbol generators to Sextant for the Airbus programme.
24. This consolidation will have no significant foreclosure effect for the following reasons:
  - first, there are many other competitors with considerable financial and technological resources in each product market where the JV is active (such as Honeywell, Rockwell Collins, Smiths, Allied Signal-Bendix, Alenia and GEC).
  - secondly, the joint venture has a commercial interest in continuing to supply third parties with spare parts for symbol generators as well as probes and indicating instruments with movement.

### Conglomerate aspects

25. From a conglomerate point of view, VDO-L may benefit from the market power of its parent companies Diehl, Aérospatiale and Thomson-CSF. All three groups have substantial financial and technological resources and they are all present in different product and geographic markets which can lead to synergies.
26. However, competitors of these three groups have similar or superior competitive advantages (similar or wider range of products, ability to manufacture complete range of aircraft instruments, considerable technological expertise and financial resources), so that the proposed operation will not significantly reduce the possibilities of competition, but may even improve the competitive structure by putting the new entity in a stronger position on the market.

27. In conclusion, it cannot be considered that the proposed acquisition will lead to the creation or strengthening of a dominant position as a result of which effective competition would be significantly impeded in the common market.

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For the above reasons, the Commission has decided not to oppose the notified concentration and to declare it compatible with the common market. This decision is adopted in application of Article 6(1)(b) of Council Regulation No. 4064/89.

For the Commission