

***Case No COMP/M.3747 -
RAUTARUUKKI /
WÄRTSILÄ / SKF / JV***

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 03/05/2005

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 03/05/2005

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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.3747 – RAUTARUUKKI / WÄRTSILÄ / SKF / JV
Notification of 29/03/2005 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 29/03/2005, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 (“the Merger Regulation”), according to which the undertakings Rautaruukki Oyj (“Ruukki”, Finland), Aktiebolaget SKF (“SKF”, Sweden) and Wärtsilä Corporation (“Wärtsilä”, Finland) acquire within the meaning of Article 3(1)(b) of the Merger Regulation joint control of a newly created company constituting a joint venture (“the JV”).
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Merger Regulation and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

I. THE PARTIES

3. Ruukki is active in the production of steel and metal based products for different applications such as construction, mechanical engineering and metal fabrication industries. Through its three subsidiaries Fundia Wire Oy Ab (Finland), Fundia Special Bar AB (Sweden) and Fundia Bar & Wire Processing AB (Sweden), Ruukki is active in the production of wire rod and wire, special bars as well as chrome-plated bars and tubes.

¹ OJ L 24, 29.1.2004 p. 1.

4. Wärtsilä is a producer of power systems for ships and offshore installations, power plants and related services and steel products. Through its subsidiary Imatra Steel Oy Ab (“Imatra”, Finland), Wärtsilä is active in the production of steel bars and forged engine and front axle components.
5. SKF is a supplier of goods, customer solutions and services in the bearing and seals business, as well as a supplier of lubrication systems. Through its subsidiary Ovako Steel AB (“Ovako”, Sweden), SKF is also active in the production of steel products such as tubes, rings, bars and wire rod.

II. THE OPERATION AND THE CONCENTRATION

6. The three parent companies will contribute to the JV part of their activities. Ruukki will contribute three of its subsidiaries: Fundia Wire Oy Ab (Finland), Fundia Special Bar AB (Sweden) and Fundia Bar & Wire Processing AB (Sweden) (hereinafter referred to as “Fundia”. Wärtsilä will contribute its subsidiary Imatra. SKF will contribute its subsidiary Ovako. As strategic decisions, including the approved of budget and significant changes to the Initial Strategic Plan, require the unanimous consent of all the parties, the joint venture will be jointly controlled by its three parent companies. The JV will perform all the activities of an autonomous economic entity on a lasting basis. Therefore, the operation constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

III. COMMUNITY DIMENSION

7. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion². Each of Ruukki, Wärtsilä and SKF have a Community-wide turnover in excess of EUR 250 million, 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

Relevant markets

Production of steel products

8. On the basis of previous Commission’s decisions³, steel products can be broadly segmented depending on the type of steel used into carbon steel products (including low alloy steels), special or high alloyed steel products and stainless steel products. Each of these steel products can also be segmented into semi-finished and finished products, which can be further sub-segmented into flat and long products.
9. At the level of semi-finished carbon long steel products, three sub-segments can be considered: blooms, billets and tubes round. These three products can then be further processed into different finished products such as heavy sections (from blooms), hot

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).

³ Case No COMP/M.3326 - LNM/PHS, decision of 5 February 2004, and Cf. ECSC.1351 Unisor/Arbed/Aceralia

rolled bars, wire rods, bars or light sections (from billets) and seamless tubes from tubes round.

10. The Commission has previously⁴ assessed the production of steel products at the level of the various sub-segmentations given above (hot rolled bars, wired rods, and so on). However the final definition has been left open. The same approach can be taken in this case since, on all the alternative product market definitions considered, the transaction does not give rise to competition concerns.
11. With respect to the geographic scope, the parties submit that the relevant geographic market is at least EU-wide for all the possible relevant product markets, which is in line with past Commission's decisions in the steel sector⁵.

Distribution of steel products

12. In previous decisions the Commission has differentiated between the production and direct sale of steel products and the distribution of steel products⁶. With respect to distribution of steel products, the Commission has previously considered both steel trading and steel distribution⁷, leaving the final definition open. For the purposes of this decision, in which the JV will be active only in the distribution of long steel products, the same approach can be taken since, on all the alternative product market definitions considered, the transaction does not give rise to competition concerns.
13. With respect to the relevant geographic market, the Commission has assessed steel distribution at national level, but has left the final definition open, not concluding on whether it could be wider. For the purposes of this decision, the same approach can be taken since, on all the geographical markets considered, the transaction does not give rise to competition concerns.

Assessment

Horizontal overlaps

14. The JV will be active in the production of carbon and low alloyed semi-finished and finished long steel products, and the only overlapping activities will occur with respect to the following products: (i) billets (semi-finished product), (ii) hot rolled bars (finished product), (iii) wire rods (finished product) and (iv) bright bars (finished product).
15. However, the combined market shares after the transaction will be very small: (i) billets [0-5]%, (ii) hot rolled bars [0-5]%, (iii) wire rods [5-10]% and (iv) bright bars [0-5]%. Furthermore, there are various larger competitors such as ASCO Metal, Corus,

⁴ Case No COMP/M.3326 - LNM/PHS, decision of 05 February 2004.

⁵ Cf. ECSC.1351 Unisor/Arbed/Aceralia ; ECSC. 1310 British Steel/Hoogovens.

⁶ Case No COMP/M.3326 - LNM/PHS, decision of 05 February 2004, Case M.2481 – Balli / Klöckner, decision of 27.09.2001

⁷ Case M.2481 – Balli / Klöckner, decision of 27.09.2001

Georgsmarienhütte, Sidenor, Ispat, Saarstahl or Thyssen-Krupp. Therefore, the transaction does not give rise to competition concerns with respect to these products.

Vertical relationships

16. The transaction will give rise to two vertical relationships between the JV and the parent companies: (i) the presence of Ruukki in the distribution of long steel products, and (ii) the continuation of the pre-existing supply agreement between SKF and Ovako (which will be contributed to the JV).
17. Ruukki is active in the steel distribution in Finland (market share of [25-35]%), Norway (market share of [35-45]%) and Sweden (market share below 25%). However, foreclosure effects are unlikely.
18. Firstly, the presence of the JV in the upstream markets is very limited (all market shares are below [5-10]%). The upstream markets are at least EU-wide which means that, even if the JV tried to foreclose Ruukki's competitors in the distribution market by limiting or stopping their supplies, these competitors could easily turn to alternative European producers for their requirements.
19. Although Ruukki has a comparatively strong position in steel distribution in Norway and Finland, its purchases are limited and represent less than [0-10]% of the JV's sales. Therefore, the impact on the JV's competitors if Ruukki were to source all its needs from the JV would be negligible.
20. With respect to the supply agreement between Ovako and SKF, it covers the supply of hot rolled bars, bright bars, rolled rings and tubes from Ovako to SKF for the production of bearings. The transaction does not change this pre-existing relationship, the only difference being that before the transaction SKF had sole control over Ovako while after the transaction Ovako will be jointly controlled by the parties. In addition, the parties estimate that the sales derived from the supply agreement will represent less than [10-20]% of the JV's overall sales.

V. CONCLUSION

21. 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 (EC) No 139/2004.

For the Commission,
signed,
Neelie KROES
Member of the Commission