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***Case No IV/M.519 -  
Ericsson / Raychem***

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

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Article 6(1)(b) NON-OPPOSITION  
Date: 21/11/1994

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21.11.1994

PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

Registered with advice of delivery

TO THE NOTIFYING PARTIES

Dear Sirs,

Subject : Case No IV/M.519 - ERICSSON/RAYCHEM

Your notification of 14.10.94 pursuant to Article 4 of Council Regulation No 4064/89

1. On 14.10.94 Telefonaktiebolaget LM Ericsson (ERICSSON) and Raychem Corporation (RAYCHEM) jointly notified an operation by which they will acquire joint control of a newly created company which will incorporate all the activities and assets of Raynet Corporation (RAYNET) which was prior to the above mentioned operation wholly controlled by RAYCHEM.
2. After examination of the notification, the Commission has concluded that the proposed operation falls within the scope of the Council Regulation No4064/89 and does not raise serious doubts as to its compatibility with the common market and the functioning of the EEA Agreement.

## I THE PARTIES AND THE AGREEMENT

3. ERICSSON is a Swedish company which develops, manufactures and sells transmission and switching telecommunications equipment, electronic components and defense systems.  
RAYCHEM is a USA enterprise which develops, manufactures and sells high performance industrial products used, inter alia, by the aerospace, automotive, electronic and telecommunications industries.  
RAYNET activities consist in the development, manufacturing and selling of fibre optic transmission systems for narrow and broadband access (local) telecommunications networks.
4. Under the proposed agreements ERICSSON will first, acquire certain assets of RAYNET and then transfer these assets to a newly created joint venture between ERICSSON and RAYCHEM under Delaware law. Simultaneously, RAYCHEM will transfer to the joint venture essentially all of the remaining assets of RAYNET. ERICSSON will hold 51% of the capital of the joint venture and RAYCHEM 49%.

## II CONCENTRATION

5. The joint venture will be managed by its board of managers which will consist of 5 members, 2 to be designated by RAYCHEM and 3 by ERICSSON. Major decisions concerning the activity of the joint venture such as the approval of the annual operating budget and capital expenditure plan and the conclusion of any agreement outside the operating budget between the joint venture and any other partner, including its parents, require an unanimous vote of the board. Therefore, the joint venture will be jointly controlled by RAYCHEM and ERICSSON.
6. Substantially all of RAYNET's assets, intellectual property rights and personnel will be transferred to the joint venture. The joint venture will thus be an autonomous full-function undertaking which will continue the activities of RAYNET.
7. The basic activities of RAYNET consist in the manufacturing and selling of fibre optic access transmission systems for voice, video and data to telecommunications network operators. RAYCHEM's business activities relating to the access part of telecommunications networks were exclusively conducted through RAYNET and the whole of these activities will be transferred to the JV. Therefore, in spite of the fact that ERICSSON will continue to be active on the JV's product markets, there will be no risk of coordination of the competitive behaviour of both parents, ERICSSON and RAYCHEM, as far as the JV product markets are concerned.  
Regarding other activities within the overall telecommunications equipment markets carried out by both parents, ERICSSON and RAYCHEM, there are no significant overlaps between these companies. ERICSSON is a global player in these markets with a broad product range which includes the manufacturing and sales of public and private switching equipment and systems, line transmission systems equipment for access and trunk networks, mobile communications systems and equipment, terminal equipment and components. RAYCHEM's activities on the telecommunications equipment area are limited to the manufacturing and sale of several types of components.
8. Furthermore the components products manufactured by ERICSSON and RAYCHEM are fundamentally different. ERICSSON is mainly concerned with the manufacturing and sales of "active" components which perform specialized functions in relation to the

transmission and switching of signals. These types of components include inter alia microelectronic products (microprocessors, memory chips and custom-made semi-conductors), cables and energy systems including power components for assembly in printed circuits. By contrast, RAYCHEM is basically active on the manufacturing and selling of "passive" components which carry no signal or data and do not provide power or active functions; rather they are accessories designed to connect or protect data carriers.

Components products manufactured by RAYCHEM include inter alia cable connectors, wraparound sealing and protection products, splice enclosures and terminal blocks. The only "active" component currently manufactured and marketed by RAYCHEM is a digital subscriber line multiplexing product the sales of which represent an insignificant part [...] <sup>(1)</sup> of the total sales of RAYCHEM telecommunications products. Taking into account the above mentioned elements and also the fact that outside the joint-venture there are no cooperation agreements between ERICSSON and RAYCHEM the creation of the joint venture is not likely to give rise to a coordination of the competitive behaviour between ERICSSON and RAYCHEM neither in the JV product markets nor in other activities within the overall telecommunications equipment markets.

9. Therefore the creation of the joint venture between ERICSSON and RAYCHEM will constitute a concentration in the sense of the Merger Regulation since the joint venture will be an autonomous full function undertaking which will be jointly controlled by its parents and the potential scope for the coordination of competitive behaviour between its parents is not significant.

### III COMMUNITY/EEA DIMENSION

10. The aggregate worldwide turnover of both ERICSSON and RAYCHEM exceeds 5,000 Million ECU (ERICSSON 6,902 Million and RAYCHEM 1,298 Million). Each party has an aggregate community-wide turnover exceeding 250 Million ECU and none of the undertakings concerned achieves more than two-thirds of its community-wide turnover in a single Member State. The operation has thus a community dimension.
11. The proposed concentration constitutes a cooperation case under the EEA Agreement since the combined turnover of the undertakings concerned in the territory of the EFTA States exceeded 25 % of their total turnover in the EEA.

### IV COMPATIBILITY WITH THE COMMON MARKET AND THE EEA AGREEMENT

12. The access portion of telecommunications transmission systems (the local loop) with which this transaction is concerned may be considered as a segment of a wider product market defined as line transmission systems and equipment <sup>(1)</sup> (which also includes trunk transmission systems and equipment).

Access transmission systems and equipment present different characteristics and applications which clearly distinguish them from trunk transmission systems.

First, trunk transmission systems are designed and employed to cover long distances and high capacities. The distances concerned range from 10-200 km and the capacities from 5,000-10,000 speech channels. In contrast, access transmission systems are designed to cover distances of 1-10 km with capacities ranging from 3-1,000 speech channels. Given

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<sup>(1)</sup> Business secret - less than 5 %

<sup>(2)</sup> see case n° IV/M.042 - Alcatel/Telettra

the greater demands to which they are subjected, trunk transmission systems require more expensive, higher grade components.

Second, access transmission systems and trunk transmission systems have different interface characteristics. Trunk transmission systems have an interface towards central office or transit switches at both ends of the systems. Access transmission have a central office switch at one end and a subscriber set interface at the other end. These two transmission systems are therefore not interchangeable.

Third, interface specifications for both systems also differ. International interface specifications for trunk transmission systems have long been established while those for access transmission systems are usually based on national or vendor specific interfaces.

- 13 However, in the present circumstances there is no need to formally define the relevant product market since even taking into account the narrowest product market definition the notified operation will not give rise to competition concerns (see below).
14. The access portion of telecommunications networks has traditionally made use of copper cable. Copper cable technology is now being replaced by alternative technologies, i.e. fibre optic systems as telecom operators are required to meet demands for better and more extensive service offerings. As fibre optic systems becomes more cost effective, the penetration of this technology is expected to increase at the expense of copper cable. Furthermore, network operators also become more willing to invest in systems that can accommodate new, emerging telecommunications services. Again, for the purposes of the present case it is not necessary to determine whether fibre optic and copper access network systems belong to the same product market since even taking into account the narrowest product market definition the notified operation will not give rise to competition concerns .
15. In the present circumstances, the precise definition of the relevant geographic market can also be left open for the same reasons as advanced in paragraphs 13 and 14.
16. Total size of the market for transmission systems and equipment (access portion only) at worldwide level is estimated by the parties to amount to 25-30 Billion ECU annually.
17. ERICSSON estimates that its market share for the supply of copper cable access systems accounts for [...] <sup>(1)</sup> on a worldwide or EC basis. For fibre optic access systems ERICSSON's market share at worldwide level is [...] <sup>(1)</sup>.  
If copper and fibre optic access systems are considered together ERICSSON has about [...] <sup>(1)</sup> market share at worldwide level.
18. RAYNET which only supplies fibre optic transmission systems has [...] <sup>(4)</sup> market share of this market segment either on a worldwide, EEA or EC basis.  
RAYNET has no sales in the EFTA countries and in the community the only national markets in which it is active are Germany and Spain.

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(3) Business secret - less than 5 %

(4) Business secret - less than 5 %

(5) Business secret - less than 5 %

(6) Business secret - less than 5 %

If the total market for access transmission systems and equipment (copper and fibre optic together) is considered RAYCHEM had market shares of about [...] in Germany and [...] <sup>(1)</sup> in Spain.

If fibre optic systems only are taken into account RAYCHEM estimates it has about [...] of the sales of new installations in those two countries.

ERICSSON has no activities in Spain with regard to access transmission systems (either copper or fibre optic). In Germany, ERICSSON is not active in the supply of fibre optic transmission systems and has [...] <sup>(1)</sup> of the market for copper cable access systems.

## V CONCLUSION

19. Based on the above findings, it appears that the proposed concentration does not raise serious doubts as to its compatibility with the common market.

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The Commission has decided for the above reasons not to oppose the notified operation and to declare it compatible with the common market and with the functioning of the EEA Agreement. This decision is adopted in application of Article 6(1)b of Council Regulation No 4064/89 and article 57 of the EEA Agreement.

For the Commission,

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<sup>(7)</sup> Business secret - less than 5 %  
<sup>(8)</sup> Business secret - less than 5 %  
<sup>(9)</sup> Business secret - between 5 and 15 %  
<sup>(10)</sup> Business secret - less than 5 %