EN

Case No COMP/M.5294 - SCHAEFFLER / CONTINENTAL

Only the English text is available and authentic.

REGULATION (EC) No 139/2004
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 19/12/2008

In electronic form on the EUR-Lex website under document number 32008M5294

Office for Official Publications of the European Communities
L-2985 Luxembourg

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 19.12.2008

SG-Greffe(2008) D/208506

C(2008) 8916

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

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 Where possible the information omitted has been replaced by ranges of figures or a general description.

To the notifying party:

Dear Sir/Madam,

Subject: Case No COMP/M.5294 - Schaeffler/ Continental
Notification of 14.11.2008 pursuant to Article 4 of Council Regulation No 139/2004

1. On 14 November 2008, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004[1] by which the undertaking Schaeffler KG ("Schaeffler", Germany) belonging to the INA-Holding Schaeffler KG group ("Schaeffler group", Germany) acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the undertaking Continental AG ("Continental", Germany) by way of a public bid announced on 29 July 2008.

I. THE PARTIES

2. **Schaeffler** is a German privately owned limited partnership that belongs to the Schaeffler group. The Schaeffler group is active in the development, production and sale of all kinds of bearings and other mechanical components for automotive, industrial and aerospace applications.

3. **Continental** is a German publicly listed company. Continental is an internationally active supplier of the automotive industry. More recently, end of 2007[2], it has enlarged its activities of supplies to the automotive industry in electrical and electronic products and systems mainly through its acquisition of Siemens VDO.

---

1 OJ L 24, 29.1.2004 p. 1.

2 Case No. COMP/M.4878 – Continental / Siemens VDO.

II. THE OPERATION AND THE CONCENTRATION

4. On 29 July 2008 Schaeffler published an offer to acquire all outstanding shares of Continental. On 20 August 2008, Schaeffler committed itself in the 'Investment Agreement' to maintain certain structures and business concepts of Continental. Also, Schaeffler committed to limit its shareholding in Continental during the next four years to a stake of 49.99%. The tender offer expired on 16 September 2008 with an acceptance rate of 82.41%.

5. In line with the terms of the offer, Schaeffler has not yet acquired the shares; after the required merger clearance, the shareholdings exceeding 49.99% will be sold in the market.

6. The attendance rate in Continental's shareholder meetings in the past five years was on average 39.65%[3]. Also, apart from Schaeffler there are no other major shareholders in Continental and, following the settlement of the tender, the remaining shareholders would not be able to outvote Schaeffler on the basis of the historic attendance rates.

7. Therefore, on the basis of its future shareholding of 49.99%, the historic voting pattern at the shareholders's meeting and the position of other shareholders, Schaeffler is taken to have sole control over Continental after the transaction. The proposed operation is a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

III. COMMUNITY DIMENSION

8. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion (Schaeffler: EUR 9,017 million, Continental[4] EUR 16,619 million)[5]. Each of them have a Community-wide turnover in excess of EUR 250 million (Schaeffler: EUR […] , Continental EUR […]), 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

9. The activities of the parties do not overlap horizontally. Schaeffler is active in the development, production and sale of all kinds of bearings and other mechanical components for automotive, industrial and aerospace applications. Continental is a manufacturer of tires and other industrial rubber products as well as electrical and electronic products.

10. Supply relationships between Schaeffler and Continental are very limited. In 2007, Continental bought Schaeffler's products for around EUR […], whereas Schaeffler purchased Continental products worth around EUR […]. Supplies between Schaeffler

---

3 2004: 34.44%; 2005: 23.55%, 2006: 39.84%; 2007: 47.35%; 2008: 53.07%.

4 In 2007, Continental acquired Siemens VDO. Its turnover was consolidated since 1 December 2007. The combined (not consolidated) turnover would be EUR 26,367 Mio for 2007.

5 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).

and Continental account for substantially less than [0-5]% of the respective requirements of the parties.

11. Notwithstanding, given that for some specific products where the parties' activities relate vertically the parties have market shares above 25%, the Commission assessed these markets given that they are vertically affected markets.

12. Furthermore, the parties manufacture to some extent complementary products. On some of these neighbouring markets the parties hold market share above 25%, and accordingly they are assessed below.

1. Relevant Product Markets

13. Schaeffler produces needle roller bearings which are used in different automotive applications. This potential product market is upstream to the automotive components markets where Continental is active, namely Anti-lock Braking Systems (ABS), Electronic Stability Control (ESC), Electronic Throttle Control (ETC), and Exhaust Gas Recirculation (EGR). Furthermore, Schaeffler produces mechanical brake assistant systems which might be considered to be an upstream market to one of the automotive components Continental produces, the electromechanical brake booster. […]. Therefore, mechanical brake assistants are not considered further. The parties manufacture complementary products in the field of belt drives (Schaeffler: Mechanical Components for Belt Drive Systems, Continental: Drive belts) and of the transmission (Schaeffler: Automatic Shift Geraboxes (ASG) components and Parallel Shift Gearboxes (PSG) components), Continental: Transmission Control Units and Sensors).

1.1 Needle Roller Bearings

14. In previous decisions, the Commission has already defined a product market for needle bearings.[6] A needle roller bearing is a bearing which uses small cylindrical rollers as the rolling elements of the bearing. Depending on the application, the needles can be long or short with varying degrees of diameters and thus influence the size of the bearing. Needle roller bearings can have one row or multiple rows of needles. Needle roller bearings are employed to reduce friction of rotating surfaces. As the needles have an overall larger surface than, e.g., balls used in ball bearings, they can carry heavier loads than other bearings. In addition, as the needles can have a very small diameter, they use less space than regular ball bearings and therefore can be employed in applications and environments where installation space is limited. Needle roller bearings can come in different designs. The typical structure consists of an inner race (or sometimes merely a shaft), a needle cage which orients and contains the needle rollers, the needle rollers themselves, and an outer race (or housing). To a very limited extent, loose needles are manufactured and sold to third parties. The parties submit that loose needles should be included in the market for needle roller bearings because needle bearings and loose needles are produced in the same manufacturing process and on the same machines. Loose needles as such are only a by-product of the needle bearing production and in terms of turnover insignificant in comparison with the

6 Cases No. COMP/M.2608 – INA/FAG, recital 10; COMP/M.3011 – Timken / Torrington, recital 11.

production of entire needle bearings.[7] The results of the market investigation support this market definition. In particular, Schaeffler's competitors have confirmed that from a supply side perspective a distinction should not be made. Therefore, it is concluded that needle roller bearings and loose needles belong to the same market (referred to as "the market for needle roller bearings" in this decision).

15. Although it appears that Schaeffler produces needle roller bearings of a particular high quality, this does not lead to the definition of a distinct market but merely reflects the different quality standards of manufacturers as they are perceived in the market. Customers for needle roller bearings have confirmed in the market investigation that they are aware of alternative suppliers who could supply the needle bearings in the qualities they need. Therefore, a further sub-segmentation according to qualities is not necessary.

16. In previous decisions, the Commission has also defined distinct markets according to customer groups.[8] In particular, separate markets for different bearing types which may be further divided into separate markets according to customer type (automotive Original Equipment Manufacturer ("OEM") / Original Equipment Supplier ("OES") or Independent Aftermarket ("IAM") and industrial OEM/OES or IAM) were considered.[9] The question, whether a narrower segmentation according to the end use or application of the bearing is necessary has been left open.[10] The parties submit that a segmentation of the market for needle bearings would not be adequate. According to them, needle bearings are standardized products with standardized product characteristics. Depending on the application, the needle bearings may have different designs and may have to respond to different product requirements, but they are generally produced on the same production machines. All types of needle bearings can be produced on the same machines and production facilities without incurring significant adaptation costs. Production machines are specifically designed to allow for the production of different designs of needle bearings by simple adaptation or exchange of certain production tools of these machines.

17. In the market investigation customers for needle roller bearings explained that they source needle bearings according to the specifications they give to the needle bearing producer. Producers offer a broad range of needle bearings from which a customer might choose, and in principle suppliers are able to produce different types of needle bearings according to customers needs. For others, it is to a large extent a commodity product which is determined by industry standards (DIN-Norm). In the market investigation it has also largely been confirmed that needle bearings manufacturers can offer a broad range of products and, in particular, that they are able to offer customized solutions for automotive applications. The question whether needle roller bearings in automotive applications represent a separate market can be left open as under both market definition (an overall market for needle roller bearings and a market for needle roller bearings in automotive applications) the concentration does not raise serious

---

7 Submission of the notifying party 0f 4 November 2008, at 2.1.

8 Cases No. COMP/M.2608 – INA/FAG, recital 13 -14; COMP/M.3011 – Timken / Torrington, recital 14.

9 Case No. COMP/M.2608 – INA/FAG, recital 15.

10 Case No. COMP/M.3011 – Timken / Torrington, recital 13.

doubts as to its compatibility with the common market. Therefore, the question whether a distinct market for needle roller bearings in (OEM) automotive applications is to be defined may be left open.

18. The independent aftermarket (IAM) which was assessed distinctly for different bearing markets in previous decisions[11] plays only an insignificant role as needle bearings for automotive applications are concerned. Only [0-5]% (world-wide) and [0-5]% (EEA-wide) of the overall needle bearings supplies falls into the IAM segment.[12] However, the competitive assessment does not change even if this sub-segment is assessed separately. Therefore, the question whether an IAM for needle roller bearings in automotive applications is to be defined may be left open.

1.2 Automotive Systems containing needle roller bearings

19. Needle roller bearings are used in Anti-lock Braking Systems, Electronic Stability Control, Electronic Throttle Control, and Exhaust Gas Recirculation.

1.2.1 Anti-lock Braking Systems and Electronic Stability Control

20. In previous decisions, the Commission has already defined a market for electronic brake systems but left the question open whether a further segmentation is necessary. In particular, ABS and ESC[13] were considered as possible segmentations.[14]

21. The purpose of an ABS system is to assist the driver in extremely dynamic situations by selectively reducing the brake pressure on one or more wheels. ABS prevents the locking of one or more wheels. Wheel sensors on all four wheels continually monitor the actual wheel speeds. If, based upon the measured values, the ABS control unit recognizes that one or more wheels indicate a locking tendency, the valves of the corresponding brake circuit are activated by the electronic controller to reduce brake pressure. This takes the ABS only a short time until the wheel regains speed. Then, brake pressure is increased once again until a locking tendency is again recognized and the pressure is subsequently reduced. In this way locking is prevented consistently, the wheels have optimal deceleration and the steerability and stability of the vehicle is maintained. Needle roller bearings for its pressure pumps are used in the ABS brake system.

22. ESC is an active safety system that recognizes unstable driving conditions and applies automatic, corrective action. Utilizing the active build-up of direction-stabilizing brake forces, ESC helps the driver overcome critical situations and keep his vehicle safely under control. ESC continuously evaluates the measured data from numerous sensors and compares the driver's input with the actual behaviour of the vehicle. If an unstable condition develops - such as a sudden evasive manoeuvre - ESC intervenes via engine electronics and the brake system to help stabilize the vehicle. Needle bearings are used in the ABS pressure pump which forms part of an ESC system.

---

11 Cases No. COMP/M.3011 – Timken / Torrington, recital 11; COMP/M.2608 – INA / FAG, recital 21.

12 See annex to the submission of the notifying party of 9 December 2008.

13 Electronic Stability Control and Electronic Stability Programme are used synonymously.

14 Case No. COMP/M.2421 – Continental / Temic.

23. For the purpose of this procedure, the market definition can be left open as Continental's market position considered in both segments is rather similar.

1.2.2 Electronic Throttle Control

24. An ETC actuator controls the air supply for gasoline engines, facilitating simpler and more economical implementation of other functions such as cruise, vehicle stability, anti-slip, and idle speed control in the engine management system in comparison to mechanical throttle bodies. Needle bearings are used in the throttle valve and loose needles are used as axles and pistons in the ETC. The needle bearings ensure that the throttle valve works correctly and with as little friction as possible in order to provide an exact supply of air.

1.2.3 Exhaust Gas Recirculation

25. EGR works by recirculating a portion of an engine's exhaust gas back to the engine cylinders. Intermixing the incoming air with recirculated exhaust gas dilutes the mix with inert gas, lowering the adiabatic flame temperature and (in diesel engines) reducing the amount of excess oxygen. The exhaust gas also increases the specific heat capacity of the mix lowering the peak combustion temperature. Because the formation of mono-nitrogen oxides (NOx) progresses much faster at high temperatures, EGR serves to limit the generation of mono-nitrogen oxides, which is primarily formed when a mix of nitrogen and oxygen is subjected to high temperatures. Needle bearings are used to reduce friction and loose needles are used as axles for a plastic wheel in the EGR.

1.3 Neighbouring Markets

26. The parties offer complementary products in the field of belt drive systems and of transmission systems.

1.3.1 Components for Belt Drive Systems

27. *Belt drive systems* are widely used for the transmission of power where shafts are separated at distances greater than that for which gears are practical. Belt drive systems consist usually of a pair of pulleys that is attached to parallel shafts and connected by an encircling flexible belt that can transmit power and modify rotary motion from one shaft to the other. Most belt drive systems are made of rubber, fabric and tension cord running on cylindrical pulleys or of belts with a V-shaped cross section running on grooved pulleys. Another type of belt, used on some internal-combustion engines for connecting the crankshaft and camshafts, is the toothed or timing belt, a flat belt with evenly spaced transverse teeth that fit in matching grooves on the periphery of the pulley. The overrunning alternator pulley consists of a pulley with the appropriate multi-ribbed profile on its outside diameter for a multi-ribbed belt, an overrunning clutch unit with a double bearing support, a drawn inner ring and outer ring and two sealing rings. The function of the overrunning alternator pulley is to decouple the alternator from the rotational irregularities of the crankshaft in an internal combustion engine, since the alternator has the highest mass moment of inertia in the accessory belt drive. In this way, the alternator is driven using only the acceleration components of the rotational irregularity of the crankshaft.

28. The notifying party submits that an overall market for mechanical components for belt drive systems (e.g. idlers, tensioners, overrunning alternator pulleys etc.) can be

defined, where Schaeffler is active and which is distinct from the market for drive belts where Continental is active.

29. Replies to the market investigation indicate that the market for *mechanical components* of belt drive systems could be further subdivided. In particular, most OEMs[15] prefer to request quotes for individual mechanical components and source them separately instead of relying on one and the same supplier for all components.[16] […]. Therefore, it is not necessary to assess a possible market for belt drive systems further as none of the parties has relevant activities on such a market. The question if the market for mechanical components of belt drive systems should be further subdivided may be left open because [...].[17]

30. *Drive belts* are manufactured in a lot of different designs according to the individual technical solution they have to serve. However, it was confirmed in the market investigation that Continental and its competitors (mainly Dayco and Gates) manufacture and supply a broad range of drive belts to meet their customers' needs. For the purposes of this decision and given the supply side substitutability it is therefore not necessary to further subdivide the product market for drive belts.[18]

31. Continental is also active on the aftermarket as it offers replacement drive belts and drive belt replacement kits which include belts, tensioners and pulleys and are sourced from third parties. The Commission has constantly distinguished spare parts supplied to the independent aftermarket (IAM) from OEM components.[19] For the purpose of this decision a product market for replacement drive belts and a product market for drive belt replacement kits which includes belts, tensioners and pulleys will be assessed separately. In both segments, Continental's market shares are almost identical. To the extent that Continental offers replacement kits which include belts *and* mechanical components, which it buys from third parties, the markets for belts and mechanical components on the one hand and for replacement kits on the other hand are vertically related.

1.3.2 Components for Transmission Systems

32. Transmission systems use gearing or torque conversion to effect a change in the ratio between engine revolution per minute ("rpm") and driving wheel rpm. When engine rpm goes up in relation to wheel rpm, more torque but less speed is produced. A

---

15 OEMs or original equipment manufacturers are vehicle manufactures who integrate components such as mechanical components of belt drive systems in vehicles.

16 Examples for such a quote is given in Annexes 26 A – C to the Form CO.

17 […].

18 See Commission Notice on the definition of relevant market for the purpose of Community law, OJ C 372, 9.12.1997, paragraph 21: "These situations [of supply-side substitutability] typically arise when companies market a wide range of qualities or grades of one product; even if, for a given final customer or group of consumers, the different qualities are not substitutable, the different qualities will be grouped into one product market, provided that most of the suppliers are able to offer and sell the various qualities immediately and without the significant increases in costs […]."

19 Cases No. COMP/M.5250 – Porsche / Volkswagen, recitals 29 – 34, COMP/M.3198 – VW-Audi / VW – Audi Vertriebszentren, recital 12.

reduction in engine rpm in relation to wheel rpm produces a higher road speed but delivers less torque to the driving wheels. Most transmissions, whether manual or automatic have a fixed number of forward gears ranging from two up to ten. Belt driven transmissions instead have an infinite number of positions of engagement. Thereby, a continuously variable transmission is sensitive to the changes in the throttle position and adjusts the gear ratio accordingly. In this way, the most efficient gear ratio is selected thus improving fuel economy.

33. The gearbox is part of the drive train consisting of an input shaft, a system of gears, and an output shaft that multiplies engine torque. A manual transmission consists of a clutch assembly plus a gearbox whereas an automatic transmission generally consists of a torque converter plus gearbox. Automatic, parallel, and electric shift gearboxes offer alternatives to conventional solutions. Together these transmission variants are referred to as the XSG range. Automatic shift gearbox components (ASG) form the technical basis of the XSG range. Three electrical motors carry out the movements effected by the driver via the clutch pedal and selector lever directly at the gearbox. The gearbox itself remains unchanged in a compact design. For convenience, a gearbox with ASG components may be optionally shifted manually or automatically. Schaeffler is active in the production of clutch and transmission actuators in ASG.[20]

34. Parallel shift gearbox components (PSG) are part of a double-clutch gearbox and comprise two part gears, divided into even and odd gears, and a double-clutch. During shifting, the torque is continually passed from one clutch to the other. PSG is a rather recent product.

35. An electric shift gearbox (ESG) is a hybrid concept based on a gearbox with PSG components. The concept envisages that a starter alternator is connected to one of the transmission intake shafts. This starter alternator can take on several functions. When driving normally, the starter alternator serves as a replacement for the dynamo. Furthermore, it may also replace the starter and start the engine via the gearbox. This starting process is quicker and more convenient than with a conventional starter, which means that it is possible to turn off the engine while at traffic lights for example. So far, ESG products are still under development and it may take some years until they can be put on the market. Therefore, this potential market is not assessed further.

36. In a previous decision, the Commission considered a market for Transmission Control Units.[21] The question was left open whether a further distinction according to the type of transmission system should be defined. The transmission control unit operates a stepped automatic transmission. It controls all the transmission functions (shifting operations) and the torque converter lockup clutch of the transformer. Sensors register the output and driving speed (according to the torque converter) of the transmission. Furthermore a temperature transducer located in the transmission is valuated and the current gear detected. Continental produces transmission control units. For the purpose of this procedure, an overall market for all Transmission Control Units and distinct markets will be considered.

---

20 Submission of the notifying party of 3. December 2008, at 3.

21 Case No.COMP/M.4878, Continental / Siemens VDO, recital 13.

37. Transmission systems of the XSG range contain sensors, which register the output and driving speed (according to the torque converter) of the transmission. In previous decisions, the Commission distinguished separate product markets for various fields of sensor applications, such as, for example, temperature sensors, pressure sensors, liquid sensors, speed sensors and acceleration sensors.[22] Continental produces sensors for ASG transmission systems. For the purpose of this procedure, only a separate market for sensors for ASG will be considered, whereas Continental's position in PSG will be considered separately. As to PSG, so far only Continental produces a Transmission Control Unit which contains a sensor.[23]

2. Geographic Markets

2.1 Needle Roller Bearings

38. In previous decisions, the markets for different types of roller bearings sold to OEMs, and in particular for needle roller bearings sold to OEMs, were considered to be world-wide in scope.[24] This has been confirmed in the market investigation. The IAM – which is insignificant for needle roller bearings in automotive applications – is at least EEA-wide in scope.[25]

2.2 Automotive Components

39. In previous decisions, the Commission has constantly held that the markets for automotive components are at least EEA-wide if not worldwide.[26] It has been confirmed in the market investigation that the markets for automotive components are at least EEA-wide.

3. Assessment

3.1 Vertical Aspects

---

22 Case No. COMP/M.4878, Continental / Siemens VDO, recital 39. The question if the sensors produced by Continental and used in the XSG range may be attributed to other broader sensor markets may be left open for the purpose of this decision as the competitive assessment would not change.

23 Submission of the parties of 2 December 2008.

24 Cases No. COMP/M.2608 – INA/FAG, recital 20; COMP/M.3011 – Timken / Torrington, recital 19.

25 Cases No. COMP/M.3011 – Timken / Torrington, recital 20.

26 Cases No. IV/M.1245 – Valeo/ITT Industries, recital 20; IV/ M. 1342 – Knorr-Bremse/Bosch, recital 23; IV/M.1462 – TRW/ Lucas Varity, recital 24; COMP/M.1907 – Woco/Michelin, recital 14; COMP/M.2036 – Valeo/Labinal, recital 18, 20; COMP/M.2059 – Siemens/Dematic/VDO/Sachs, recital 125; COMP/M.2421 – Continental/ Temic, recital 23; COMP/M.3436 – Continental/Phoenix, recital 18; COMP/M.3972 – TRW Automotive/Dalphi Metal España, recital 13, M./4878 Continental / Siemens VDO, recital 51.

40. Schaeffler's market share on the world-wide market for all needle roller bearings, for needle roller bearings only for automotive applications (OEM), and on the EEA-wide IAM for needle roller bearings only for automotive applications and Continental's market share on the EEA-wide markets for ABS, ESC, electronic brake systems (ABS and ESC combined), ETC, and EGR can be seen in Table 1.

Table 1

<table>
<tr><td colspan="2">Schaeffler</td><td colspan="3">Continental</td></tr>
<tr><td>Needle Roller Bearings</td><td>[20-30]%</td><td>ABS</td><td>[40-50]%</td><td rowspan="2">[40-50]%[27]</td></tr>
<tr><td>Needle Roller Bearings only for automotive applications (OEM)</td><td>[20-30]%</td><td>ESC</td><td>[40-50]%</td></tr>
<tr><td rowspan="2">Needle Roller Bearings only for automotive applications (IAM)</td><td rowspan="2">[10-20]%</td><td>ETC</td><td colspan="2">[40-50]%</td></tr>
<tr><td>EGR[28]</td><td colspan="2">[5-10]%</td></tr>
</table>

Source: Parties' Best Estimates (Form CO, Annexes 28, 29; Submission of 9 December 2008)

41. Among Schaeffler's competitors for needle roller bearings are Timken ([10-20]%), NTN [5-10]%, NSK ([5-10]%), IKO ([0-5]%), McGill ([0-5]%), SKF ([0-5]%) and others. Among Schaeffler's competitors for needle roller bearings for automotive components (OEM) are Timken ([10-20]%), NSK ([5-10]%), NTN [5-10]%, IKO [0-5]%, McGill [0-5]% and others. Schaeffler's market share on an EEA-wide automotive IAM for needle roller bearings would even be lower ([10-20]%). On the market for ABS Bosch is the market leader ([50-60]%); TRW has a market share of [0-5]%. For ESC, Continental is the market leader, followed by Bosch ([40-50]%) and TRW ([10-20]%). In ETC, Bosch holds a market share of [20-30]%, followed by Aisan ([0-5]%), Visteon ([5-10]%), Pierburg ([5-10]%) and other smaller suppliers. In EGR, the market leader is Pierburg ([40-50]%), followed by Wahler ([10-20]%).[29]

42. The merged entity will not have the ability to foreclose access to needle bearings which are used in automotive applications. Continental's total demand of needle roller bearings represents only a negligible part of the overall demand of needle roller bearings in the EEA. In 2007, it sourced needle roller bearings for EUR […] or [0-5]% of the overall demand.[30] Furthermore, needle bearings represent only an insignificant cost factor for automotive components. Schaeffler estimates that it would be approximately [0-5]%, and in the market investigation it was confirmed that needle

---

27 Market share for ASC and ESC.

28 Only for Diesel engines. Continental's market share on EGR for gasoline engines is negligible ([0-5]%).

29 Only for Diesel engines.

30 Schaeffler's memorandum of 4 November 2008, answer 10.

roller bearings are not considered to be a significant cost factor.[31] Finally, alternative suppliers for needle roller bearings are readily available. The merged entity does therefore not have the ability to foreclose supplies of needle roller bearings to Continental's competitors after the transaction.

43. Customer foreclosure is also unlikely after the transaction, as Continental represents only a negligible customer for needle roller bearings. Thus, the merged entity would lack the ability to foreclose access to downstream markets to which Schaeffler's competitors supply needle roller bearings at present. […]. Accordingly, assuming that Continental would favour Schaeffler as a supplier post transaction, […].

3.2 Conglomerate Aspects

3.2.1 Components for Belt Drive Systems

44. Schaeffler's market share on the EEA-wide market for Mechanical Belt Drive Systems Components and Continental's market share on the EEA-wide market for Drive Belts can be seen in Table 2.

Table 2

Schaeffler		Continental	
Mechanical Belt Drive Systems Components	[40-50]%[32]	Drive Belts (OEM)	[20-30]%
Tensioners / Idlers	[30-40]%	Drive Belts (IAM)	[20-30]%
OAPs[33] and OADs[34]	[30-40]%[35]	Drive Belts Replacement Kits (IAM)	[20-30]%

Source: Parties' Best Estimates (Form CO, Annexes 28, 29, Submisson of the notifying party of 12 December 2008.)

45. Schaeffler's competitors for Belt Drive System Components are Litens ([20-30]%), Gates ([10-20]%), Dayco ([10-20]%), Mubea ([0-5]%), and NSK ([0-5]%). Continental's competitors for Drive Belts (OEM) are Gates ([30-40]%), Dayco ([20-30]%), MBL ([0-5]%), for Drive Belts (IAM) Gates ([40-50]%), Dayco ([10-20]%), Goodyear ([0-5]%), and Mitsubishi ([0-5]%).

---

31 Schaeffler's memorandum of 4 November 2008, answer 11.

32 The notifying party included only tensioners/idlers and OAPs but not OADs which it does not produce.

33 Overrunning Alternator Pulley.

34 Overrunning Alternator Decoupler.

35 The notifying party would have a share of [70-80]% for OAPs alone and estimates that its market share would be reduced by half if OADs is included. However, as is set out in recital 29, footnote 17, at least OADs must be included in the market definition.

46. The merged entity will not be in a position to engage in a bundling or tying strategy in order to leverage its market power on the market for mechanical belt drive systems components on the markets for drive belts (OEM) and replacement drive belts / drive belt system replacement kits (IAM). First of all, Schaeffler's market power on the market for mechanical belt drive systems components is limited as alternative suppliers are available. Furthermore, OEMs are well-informed and highly professional buyers, with an overall strong negotiation power. Moreover, contracts for automotive components are normally awarded on the basis of some type of tendering procedure (often quotations are asked from potential suppliers). In most cases, OEMs prefer to have alternative suppliers as they do not wish to become dependent of one single source. None of the OEMs raised concerns as to a possible strategy of the merged entity to bundle mechanical components and the belt drive which make up a drive belt system. For the IAM it was confirmed in the market investigation that Continental's competitors in the markets for replacement drive belts / drive belt system replacement kits could turn to alternative suppliers after the transaction. For that reason, it can also be excluded that the vertical link between the markets for mechanical components for drive belt systems and drive belts on the one hand and replacement kits on the other hand will lead to foreclosure.

3.2.2 Components for Transmission Systems

47. Schaeffler's market share on the EEA-wide market for Automatic Shift Gearboxes (ASG) and Continental's market share on the EEA-wide market for TCUs for ASG and for Sensors for ASG can be seen in Table 3.

Table 3

Schaeffler		Continental	
Automatic Shift Gearbox Components (ASG)	[10-20]%	TCUs[36] for ASG	[5-10]%
		TCUs for all applications	[40-50]%
		Sensors for ASG	[20-30]%

Source: Parties' Best Estimates (Form CO, Annex 29, Submission of 2 December 2008)

48. Schaeffler's competitors for ASG Shift Gearbox Components are Borg Warner ([30-40]%), ZF Sachs ([20-30]%), Magnetti Marelli ([10-20]%), and Getrag ([5-10]%). Continental's competitors for TCUs used in ASG are Magnetti Marelli ([70-80]%) and Bosch ([10-20]%). Continental's competitors for TCUs in general are Bosch ([20-30]%), Hitachi ([5-10]%), and Delphi ([0-5]%). Continental's competitors for sensors used in ASG are Electrifil ([10-20]%), Aisin ([10-20]%), Valeo ([10-20]%) and Bosch ([5-10]%).[37]

---

[36] Transmission Control Unit.

[37] The competitive assessment would not change under any other product market definition for sensors.

49. PSG is a rather recent product. From 2003 until 2007, only Borg Warner produced double clutches for PSG, exclusively for Volkswagen. The turnover which is achieved in this market is rather low (between EUR […] and EUR […] per year from 2005 – 2007). […]. Schaeffler estimates that it will achieve a market share of [10-20]% in the PSG segment 2008. […]. However, it can be expected that alternative suppliers such as Bosch or Magnetti Marelli which are already active in TCUs will enter the market in the foreseeable future.

50. It is highly unlikely that the merged entity could engage into a bundling strategy. Schaeffler's market position is rather weak in the ASG segment and Continental's market share – which is rather significant for TCUs in general – is moderate in the ASG segment. Furthermore, the OEMs sourcing strategy makes it rather unlikely that the merged entity could successfully implement a bundling strategy. None of the OEMs raised concerns as to a possible strategy of the merged entity to bundle ASG or PSG components and TCUs / sensors.

3.3 Conclusion

51. The concentration does not raise serious doubts as to its compatibility with the common market.

V. CONCLUSION

52. 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)*
Vladimir ŠPIDLA
Member of the Commission