EN

Case No COMP/M.6470 - TE / DEUTSCH

Only the English text is available and authentic.

REGULATION (EC) No 139/2004
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 02/04/2012

In electronic form on the EUR-Lex website under document number 32012M6470

Office for Publications of the European Union
L-2985 Luxembourg

EUROPEAN COMMISSION

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 Where possible the information omitted has been replaced by ranges of figures or a general description.

Brussels, 2.04.2012

C(2012) 2360

PUBLIC VERSION

MERGER PROCEDURE

To the notifying party:

Dear Sir/Madam,

Subject: **Case No COMP/M.6470 – TE / Deutsch**
Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004[1]

1. On 27 February 2012, the European Commission received a notification of a proposed concentration pursuant to Article 4 and following a referral pursuant to Article 4(5) of Council Regulation (EC) No 139/2004 by which the undertaking TE Connectivity Ltd[2] ("TE", Switzerland) acquires within the meaning of Article 3(1)(b) of the Merger Regulation control of the whole of the undertaking Deutsch Group SAS ("Deutsch", France) by way of purchase of securities.

1 OJ L 24, 29.1.2004, p. 1 ("the Merger Regulation"). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ("TFEU") has introduced certain changes, such as the replacement of "Community" by "Union" and "common market" by "internal market". The terminology of the TFEU will be used throughout this decision.

2 Previously known as Tyco Electronics Ltd, the company changed its name to TE Connectivity in March 2011.

I. THE PARTIES AND THE OPERATION

2. TE designs, manufactures and markets electronic products that connect and protect the flow of power and data inside products for customers in a range of applications including: automotive, non-automotive transportation, industrial and defence.

3. Deutsch manufactures a variety of interconnection solutions for a range of industries including defence, offshore oil and gas and non-automotive transportation. Deutsch's product range includes connectors, contacts and cable assemblies. Deutsch has particular expertise in producing electronic connectors for harsh environments which are capable of resisting severe temperature, pressure and other environmental conditions.

4. The acquisition of Deutsch by TE takes the form of the purchase by TE of the outstanding equity and debt securities of Deutsch (the holding company for the group of companies named Deutsch Group) for a total consideration of EUR 1.55 billion, including the amount of financial debt of Deutsch that TE will repay at closing. Following the transaction, Deutsch and its group of companies will be wholly owned by the TE group.

5. The transaction is a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

II. EU DIMENSION

6. This operation does not have an EU dimension within the meaning of Article 1 of the Merger Regulation because Deutsch's total EU turnover for the year 2010 is only EUR […] and it does not achieve a turnover of at least EUR 25 million in at least three EU Member States[3].

7. However, on 16 January 2012, the notifying party informed the Commission in a reasoned submission that the concentration was capable of being reviewed under the national competition laws of five Member States (Austria, Estonia, France, Germany and Portugal), as well as of Norway, and requested the Commission, pursuant to Article 4(5) of the Merger Regulation to examine it. None of these Member States, nor Norway, indicated its disagreement with the request for referral within the period laid down by the Merger Regulation. The case is therefore examined by the Commission.

III. ASSESSMENT

(1) Market definition

Product market definition

8. In previous decisions, the Commission identified electronic connectors as a distinct relevant product market from electrical connectors.[4] It also considered whether the market

---

3 The worldwide turnover of TE in its last financial year (year ending September 2011) was EUR 10.5 billion, its EU-wide turnover was EUR […]. The worldwide turnover of Deutsch in its last financial year (2010) was EUR 422 million, its EU-wide turnover was EUR […].

4 Commission decision of 8 October 1998 in Case COMP/M.1314 *Framatome/Berg Electronics*; Commission decision of 19 December 2003 in Case COMP/M.3296 *Areva /Alstom T&D*.

for electronic connectors may be further sub-divided by end-use (such as telecommunications and information technology, automotive, aerospace and defence and electrical engineering) but ultimately left this question open.[5]

9. The notifying party considers that, notwithstanding the need to tailor different design options to customers' specification requirements, all connectors form part of the same product market[6] due to a high degree of supply-side substitutability between different end-use applications (similar manufacturing processes). The notifying party points out that, for instance, TE connector products for non-automotive applications are generally based on or identical to connectors for use in automotive applications. Similarly, Deutsch, which has a particular focus on ruggedized or "harsh" connectors for use in aerospace and defence applications, sells them also into the non-automotive transportation sector, for use in harsh environments. Moreover, connector manufacturers generally manufacture connectors for various end-uses.

10. Industry analyst Bishop and Associates[7] identifies the following end-use segments: industrial applications, automotive transportation, non-automotive transportation, aerospace and defence applications, and telecommunications. The segment of "non-automotive transportation" comprises a variety of sectors including trucks, buses, agriculture, construction and other recreational vehicles as well as aviation, rail, and ships.

11. The notifying party does not consider it is appropriate to further sub-segment the non-automotive transportation segment due to the high degree of demand- and supply-side substitutability between connectors used within this narrow sub-segment and connectors produced for use in other applications within the broader connectors market, including but not limited to the automotive segment. With respect to the possible sub-segment of trucks, buses, agriculture, construction and other recreational vehicles ("commercial vehicles"), the notifying party points out that, firstly, connectors in this sub-segment are structurally and functionally similar to connectors within the non-automotive transportation segment more generally, and the manufacturing process is the same. For example, TE connector products for non-automotive applications are generally based on or identical to connectors for use in automotive applications.[8]

12. Secondly, in many cases many of the largest customers in this sub-segment are cable harness manufacturers (such as Delphi, Leoni, Sumitomo, Yazaki) who are also active as purchasers of connectors in the automotive segment. Thirdly, the notifying party notes that with [0-5]% of worldwide demand, this sub-segment is a small part of the overall demand

---

5 See Commission decision of 18 September 1998 in Case No IV/M. IV/M.1300 – Allied Signal/AMP; Commission decision of 8 October 1998 in Case COMP/M.1314 - Framatome/Berg Electronics; and Commission decision of 16 November 1999 in Case No COMP/M.1711 – Tyco/Siemens.

6 The Parties note that the market for electronic connectors includes sales of: (i) contacts, which are components that provide the point of electrical contact within connectors; and (ii) connector accessories (such as backshells, which provide a shielding function in connectors). These are generally sold as part of a connector although in some cases they may also be sold separately. The market analyst *Bishop and Associates* includes contacts and, in some circumstances, accessories (where the accessory is an extension of the connector) in their estimates of the connector market.

7 Bishop and Associates is a market research firm specialising in the global electronic connector market.

8 The notifying party points to two examples of such identical products: […].

for electronic connectors, with the broader non-automotive segments representing [0-5]% and the automotive segment representing [10-20]% of demand.

13. The Commission observes that, on the basis of the market investigation, customers and competitors largely agree with the end-use segments as identified by Bishop and Associates. Some uncertainty concerns the non-automotive segment, as a competitor and a large customer in the segment suggests including the commercial vehicles sub-segment into a combined automotive and commercial vehicle segment.

14. Moreover, based on the result of the market investigation, the Commission notices that a large degree of supply-side substitutability across (most) end-uses exists as from a technical perspective, materials and processes are relatively similar. Potential switching barriers may exist, for instance, for producing connectors for aviation, aerospace and defence applications (due to different quality requirements), rail (due to high voltages) or certain telecommunication applications (due to high data throughput requiring high precision tooling).

15. Moreover, from a demand-side perspective, there does not seem to be immediate demand-side substitutability across end-use segments. A majority of customers consider that in case of a price increase of 10-15% of electronic connectors within a given end-use segment, they could not start sourcing connectors designed for another end-use without adapting their product.

16. As to the non-automotive transportation segment, a slight majority of customers as well as all responding manufacturers consider that, while electronic connectors in this segment potentially differ in terms of applicable norms and required robustness (depending on the environmental constraints), they do not differ significantly in terms of features.

17. The Commission considers that from a supply-side perspective, there appears to be a sufficient degree of substitutability at least with respect to the end-use segments industrial applications, automotive transportation, and non-automotive transportation. However, there appears to be a lack of sufficient demand-side substitutability. Furthermore, the Commission considers that for the purposes of the present case a sub-segmentation of the non-automotive transportation segment does not appear justified due to supply-side and demand-side considerations. Given that in some cases, identical connectors are used both in cars and commercial vehicles, commercial vehicles will be discussed as part of both the non-automotive segment and the automotive segment.

18. The end-use segments/ relevant product markets, in which the transaction would lead to an overlap, are as follows: industrial applications, non-automotive transportation (with or without commercial vehicles), automotive/ commercial vehicles[9], and aerospace and defence.

19. In any event, for the purpose of the assessment of the present transaction, it can be left open whether the market for electronic connectors needs to be further segmented according to end-uses, as the proposed transaction does not give rise to any competition concerns even on the narrowest possible definition of the relevant product markets.

---

9 The transaction does not lead to any overlap in the automotive segment if commercial vehicles are included into the non-automotive transportation segment.

Geographic market definition

20. In its decision in the case COMP/M.1711 - *Tyco / Siemens*, the Commission considered that the relevant geographic market for electronic connectors (possibly sub-divided by end use) is at least EEA-wide. Most companies operate at international level, transport costs are low and purchasing is EEA-wide and often global.

21. The notifying party considers that the product market for electronic connectors (as well as for any sub-segments) is at least EEA-wide, if not worldwide in scope. Pricing and manufacturing is global, resulting in substantial imports (around 70%) of European demand. Moreover, standards are Europe-wide (e.g. in the area of non-automotive transport) or de-facto worldwide (e.g. the US MIL specifications in the defence segment).

22. From the results of the market investigation, the Commission can conclude that both customers and manufacturers consider that the market for electronic connectors and for the non-automotive transportation (including commercial vehicles) segment is worldwide in scope. Transport costs are low and a majority of customers do not identify regional variations. A minority of respondents point out, however, that there are some regional variations in particular in relation to standards.

23. The Commission considers that the relevant geographic market is at least EEA-wide and may have evolved towards a worldwide market as manufacturers operate globally, transport costs are low and procurement appears to be increasingly global. In any event, for the purpose of the assessment of the present transaction, the precise delineation of the relevant geographic market can be left open, as the proposed transaction does not give rise to any competition concerns even under the narrowest possible definition, i.e. an EEA-wide market.

(2) Competitive assessment

24. According to the notifying party, the rationale of the transaction is to strengthen TE's product portfolio by enabling the combined entity to provide a broader product portfolio worldwide, in particular by integrating Deutsch's range of circular and other connectors suitable for use in harsh environments in particular for non-automotive, offshore oil and gas as well as defence applications. Moreover TE's existing operations in China in particular will provide a platform for the wider distribution of Deutsch products. In 2010, the electronic connector market was worth EUR […] billion worldwide and EUR […] billion EEA-wide.

25. TE and Deutsch mainly overlap in the production of electronic connectors for industrial applications, non-automotive transportation (with or without commercial vehicles), automotive/ commercial vehicles[10], and aerospace and defence.

26. On the basis of the notifying party's internal figures and Bishop and Associates market research, the transaction will not give rise to an affected horizontal market for the manufacturing and supply of electronic connectors at worldwide level. On this market, the combined market share of TE and Deutsch for 2010 would be [10-20]% (TE [10-20]%,

---

10 The transaction does not lead to any overlap in the automotive segment if commercial vehicles are included into the non-automotive transportation segment.

Deutsch [0-5]%). However, the market is affected at EEA-level, with a combined share of [10-20]% (TE [10-20]%, Deutsch [0-5]%).

27. If the market for electronic connectors is delineated according to end-uses, the segments of industrial applications and aerospace and defence would not be affected. However, the transaction will give rise to an affected market for electronic connectors for non-automotive transportation applications (including commercial vehicles). The market shares of the combined entity in 2010 would be [30-40]% (TE [10-20]%, Deutsch [10-20]%) worldwide and [20-30]% (TE [10-20]%, Deutsch [10-20]%) for the EEA.

Estimated market shares for the non-automotive transportation segment in 2010				
Supplier	**2010**			
	Sales (€m)		**Market share (%)**	
	Worldwide	EEA	Worldwide	EEA
TE	[…]	[…]	[10-20]	[10-20]
Deutsch	[…]	[…]	[10-20]	[10-20]
Combined	***[…]***	***[…]***	***[30-40]***	***[20-30]***
Delphi	[…]	[…]	[10-20]	[5-10]
Amphenol	[…]	[…]	[5-10]	[5-10]
Yazaki	[…]	[…]	[5-10]	[5-10]
Souriau	[…]	[…]	[0-5]	[5-10]
ITT Cannon	[…]	[…]	[0-5]	[0-5]
Others	[…]	[…]	[30-40]	[40-50]
Total	**[…]**	**[…]**	**100**	**100**

Source: Parties' best estimates based on Bishop and Associates

28. If commercial vehicles were to be included into the automotive transportation segment, the parties would also overlap in this segment and the combined entity would account for [30-40]% (TE [30-40]%, Deutsch [0-5]%) at worldwide level and [30-40]% (TE [30-40]%, Deutsch [0-5]%) at EEA-level based on 2010 revenues.

Estimated market shares for the "automotive/commercial vehicle" segment in 2010				
Supplier	**2010**			
	Sales (€m)		**Market share (%)**	
	Worldwide	EEA	Worldwide	EEA
TE	[…]	[…]	[30-40]	[30-40]
Deutsch	[…]	[…]	[0-5]	[0-5]
Combined	***[…]***	***[…]***	***[30-40]***	***[30-40]***
Delphi	[…]	[…]	[5-10]	[10-20]
Yazaki	[…]	[…]	[10-20]	[5-10]
FCI	[…]	[…]	[5-10]	[5-10]
Sumitomo	[…]	[…]	[5-10]	[5-10]
Molex	[…]	[…]	[0-5]	[5-10]
Others	[…]	[…]	[20-30]	[20-30]
Total	**[…]**	**[…]**	**100**	**100**

Source: Parties' best estimates based on Bishop and Associates

29. The notifying party submits that the transaction would not raise concerns under any of the affected markets for several reasons. Firstly, there are a variety of other connector manufacturers active worldwide and in the EEA on the market for electronic connectors as well as the segment for non-automotive transportation and on all other possible end-use segments. This is equally true for the automotive/commercial vehicle segment, where the combined entity will face competitors like Yazaki, Delphi, Sumitomo, FCI, Molex and others, who will continue to constrain it post-merger. Due to the bidding nature of the market, manufacturers would compete when OEMs or the wire harness manufacturers selected by OEM customers put out a tender.

30. Second, the notifying party submits that, while supply arrangements are generally concluded for a duration of around 5-7 years for non-automotive transportation and commercial vehicles in particular (depending on the lifetime of the production platform), customers' standard terms and conditions generally include break clauses which allow customers to switch to an alternative supplier. Furthermore, it claims that there are no technical barriers to switching even for an existing design / production platform.

31. Third, the notifying party considers that there are low barriers to entry and new market players, in particular from emerging markets are expected to intensify competition in the coming years.[11]

32. Fourth, the notifying party submits that TE and Deutsch's connector products are differentiated to a significant degree, in particular in terms of their degree of ruggedisation. They are generally at different ends of the "harshness" spectrum. For instance with respect to non-automotive transportation and commercial vehicles in particular, the Deutsch products are more robust and therefore used in engine applications where there is a greater need to withstand harsher conditions (extreme temperatures, vibration levels, fire and current capacity). TE connectors instead are included into terminals used in applications within the commercial vehicle. They are identical to, or based on, connectors for use in automotive applications. A bidding analysis provided by the parties confirms that TE and Deutsch are not close competitors with respect to connectors for commercial vehicles, as Deutsch participated in less than one out of five tenders.[12]

33. The Commission, on the basis of the market investigation, believes that it is straightforward to switch connector suppliers for new designs/ platforms. The notifying party's argument that switching of manufacturers supplying connectors is possible at reasonable cost and time for an existing design/ production platform has not been confirmed.

34. However, the fact that switching for existing designs (in particular for non-off-the-shelf connectors) may be costly and take time in cases where a tender has already been awarded is not merger-specific as this applies already pre-merger and is not affected by the proposed transaction.

35. The Commission considers that the proposed transaction does not raise serious doubts for the electronic connector market, given the combined entity's limited market shares of [10-20]% and [10-20]% at worldwide and EEA level, respectively. In the possible market of non-automotive transportation and the possible market of automotive and commercial vehicles, the merged entity will continue to face a sufficient number of manufacturers. Moreover, the bidding analysis shows with respect to non-automotive transportation and commercial vehicles in particular, that the proposed transaction does not remove a close competitor of TE. As for a possible automotive and commercial vehicles market, the increment would be small ([0-5]%) and the parties are not close competitors given that Deutsch is producing connectors used in harsch enviroments.

---

11 Bishop & Associates predicts the Chinese connector market will become the world's largest connector region by 2014 or earlier. See 2010 European Connector Market, June 2010, Bishop and Associates Report M-720-10, Ch. 1 – p. 1.

12 The bidding analysis is based on the biggest tenders issued by TE's top customers for commercial vehicles in which TE's Europe Middle East and Africa business participated during the last 18 months.

IV. CONCLUSION

36. For the above reasons, the European Commission has decided not to oppose the notified operation and to declare it compatible with the internal market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of the Merger Regulation.

For the Commission

(signed)
Joaquín ALMUNIA
Vice-President