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***Case No COMP/M.7400 -  
FEDERAL-MOGUL  
CORPORATION / TRW  
ENGINE  
COMPONENTS***

Only the English text is available and authentic.

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

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Article 6(1)(b) NON-OPPOSITION  
Date: 15/12/2014

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## EUROPEAN COMMISSION

Brussels, 15.12.2014  
C(2014)9873 final

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

### To the notifying party

Dear Sir/Madam,

**Subject: Case M.7400 - Federal-Mogul Corporation / TRW Engine Components Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004<sup>1</sup> and Article 57 of the Agreement on the European Economic Area<sup>2</sup>**

- (1) On 10.11.2014, the European Commission received notification of a proposed concentration pursuant to Article 4 of the Merger Regulation by which Federal-Mogul Corporation ("FDML", USA) acquires within the meaning of Article 3(1)(b) of the Merger Regulation sole control over the engine valve components business of TRW Automotive Inc. ("TEC", USA), by way of purchase of shares and assets<sup>3</sup> (*Federal-Mogul Corporation* and *TRW Automotive Inc.* are designated hereinafter as the "Parties" or "parties to the proposed transaction".)

#### **1. THE PARTIES**

- (2) FDML is an international company which develops, manufactures and sells engine, transmission and driveline components as well as brake friction material, chassis, sealing and wiper products for automotive, rail and other applications. FDML also distributes,

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<sup>1</sup> 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.

<sup>2</sup> OJ L 1, 3.1.1994, p.3 ("the EEA Agreement").

<sup>3</sup> Publication in the Official Journal of the European Union No C 407, 15.11.2014, p. 16.

markets and sells brake fluids and hardware (e.g. discs), chassis, sealing and engine components as well as ancillary equipment.

- (3) TEC is active at worldwide level in the engine components business relating to the designing, developing, simulation, testing, manufacturing and selling of engine valves, valve train components, valve rotators, retainers, tappets and rocker arm assemblies, in each case for the automotive industry or heavy duty engine applications.

## **2. THE CONCENTRATION**

- (4) The proposed concentration concerns the acquisition by FDML of sole control over the engine valve components business of TRW, consisting of certain TRW companies and joint venture interests as well as certain TRW assets collectively referred to as TEC.
- (5) The proposed transaction therefore constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

## **3. EU DIMENSION**

- (6) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 2 500 million<sup>4</sup> (FDML: EUR [...] million; TEC: EUR [...] million). Each of them has an EU-wide turnover in excess of EUR 100 million (FDML: EUR [...] million; TEC: EUR [...] million), but they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State. Furthermore, the aggregate Community-wide turnover of each of the undertakings concerned is more than EUR 100 million. In addition, in at least three Member States, being Germany, Spain and Austria, the combined aggregate turnover of all the undertakings concerned is more than EUR 100 million and in each of these three Member States, the aggregate turnover of FDML as well as of TEC is more than EUR 25 million.
- (7) The notified operation therefore has an EU dimension according to Article 1(3) of the Merger Regulation.

## **4. COMPETITIVE ASSESSMENT**

- (8) The Parties' activities mainly overlap with respect to engine valves. There are no vertical relationships between the Parties' activities.

### **4.1. Market definition**

- (9) The valve train is an essential part within the combustion engine. Its main function is to allow the gas exchange in the combustion chamber. The valve train mainly consists of engine valves, valve cotters, valve rotators, retainers, tappets, and rocker arm assemblies. In the specific case of engine valves, a general distinction can be made between monometallic and bimetallic valves.

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<sup>4</sup> Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Consolidated Jurisdictional Notice (OJ C95, 16.04.2008, p1).

(10) In the past, the Commission has not specifically addressed the market of valves and valve train components for internal combustion engines, except for valve train actuation products (valve lifters)<sup>5</sup>. However, the Commission has previously analysed the markets of other automotive components<sup>6</sup>. The approach taken in these cases has been applied to the case at hand and has been confirmed during the market investigation.

#### 4.1.1. *Product market definition*

(11) In the past decisional practice regarding automotive components, the Commission considered that each individual component may form a separate product market, at least from a demand-side perspective. Each component would perform a highly specific function within a system and these components would not be substitutable among each other<sup>7</sup>.

(12) In addition, in the past the Commission has further distinguished automotive components by different applications. For instance, the Commission considered it appropriate to segment the relevant market for diesel engines by end-use application<sup>8</sup>, in most of the cases as follows<sup>9</sup>: industrial, on-highway trucks, power generators and marine applications. A distinction has also been made between components for light vehicles ("LVs"), namely passenger cars and light commercial vehicles weighing up to 6 tonnes, and for heavy commercial vehicles ("HCVs"), which includes medium and heavy-duty commercial vehicles such as trucks, buses and trailers<sup>10</sup>.

(13) Moreover, the Commission has previously established that the market for each component (possibly distinguished by end-use application) can be further segmented by supply channel: the supply of components to automotive manufacturers for installation on new vehicles, the Original Equipment Manufacturer ("OEM") and the replacement of components to OEMs and their authorised dealers, the Original Equipment Service ("OES"), constitutes a different market from the supply of replacement products to independent customers, this is, the independent aftermarket ("IAM")<sup>11</sup>.

(14) The Parties generally share the Commission's approach. With particular regard to the distinction by component, the Parties argue that defining different product markets

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5 COMP/M.1789 – INA / Luk, para. 11.

6 Among others, IV/M.1189 – Teksid / Norsk Hydro Produksjon / Meridian; COMP/M.1587 – Dana / GKN, COMP/M.4456 – Mahle / Dana EPG; COMP/M.4524 – NemaK / Hydro Castings; COMP/M.5500 – General Motors / Delphi Steering Business; COMP/M.5799 – Faurecia / Plastal; COMP/M.6083 – FIAT / GM / VM Motori JV; COMP/M.6714 – U-Shin / Valeo CAM;

7 COMP/M.4524 – NemaK / Hydro Castings, para. 13, 15; COMP/M.6714 – U-Shin / Valeo CAM, para.6

8 IV/M.768 – Lucas / Varsity, para. 9.

9 IV/M.1094 – Caterpillar / Perkin Engines, para. 10, 12; COMP/M.2127 – DaimlerChrysler/Detroit Diesel Corporation, para. 20; COMP/M.5157 – Volkswagen / Scania, para. 23; COMP/M.6083 – FIAT / GM / VM Motori JV, para. 12

10 COMP/M.1587 – Dana / GKN, para. 11, 12; COMP/M.4456 – Mahle / Dana EPG, para. 13; COMP/M.5799 – Faurecia / Plastal, para. 7, COMP/M.6714 – U-Shin / Valeo CAM, paras.7, 9.

11 COMP/M.4456 – Mahle / Dana EPG, para. 10; COMP/M.5799 – Faurecia / Plastal, para. 7; COMP/M.6714 – U-Shin / Valeo CAM, para. 7

for each valve train component, as done in the past by the Commission, would indeed be appropriate, given the absence of any demand for pre-assembled groups of valve train components. The Parties even suggest a possible sub-segmentation for mono-metallic valves and bi-metallic valves since significant differences exist between these two types of valve in terms of costs, materials used and application.

- (15) The Parties however consider that for the present case the exact product market definition can be left open as the proposed transaction would not lead to any competitive concern.
- (16) The market investigation indicates that with regard to the IAM the relevant product market could be further segmented into mono-metallic and bi-metallic markets while it has not been conclusive on a possible segmentation of engine valves by end-use application.
- (17) The Commission considers for the purpose of this decision that the exact product delineation of the relevant market involving the engine valve supply to OEM/OES and IAM can be left open as the proposed concentration does not give rise to competition concerns even under the narrowest plausible product market.

#### *4.1.2. Geographic market definition*

- (18) In the past the Commission indicated that the geographic scope for the sale of automotive components to the OEM/OES market is, at least, EEA-wide<sup>12</sup>. With respect to the IAM, the Commission has considered these markets at least national in scope<sup>13</sup>, with a possible trend towards an EEA-wide market. In most of the cases, the Commission did not conclude on the exact geographic market definition.
- (19) The Parties agree on the geographic scope of the OEM/OES market previously adopted by the Commission.
- (20) With respect to the IAM, the Parties submit that the scope of the market should be defined as EEA-wide. Indeed, they state that from a demand side perspective, customers are organized as international wholesalers or pan-European buying groups, sourcing at EEA level. On the other side, they also submit that from a supply perspective, production plants, serving the entire EEA, would only be located in a few countries.
- (21) The Commission considers for the purpose of this decision that the exact geographic scope of the relevant markets involving the engine valve supply to OEM/OES and IAM can be left open as the proposed concentration does not give rise to competition concerns even under the narrowest plausible geographic market.

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<sup>12</sup> COMP/M.1587 – Dana / GKN, para. 16 (despite no direct reference to OEM); COMP/M.1959 – Meritor / Arvin, para. 11; COMP/M.3789 – Johnson Controls / Robert Bosch / Delphi SLI, para. 10; M.5500 – General Motors / Delphi Steering Business, para. 23 (despite no direct reference to OEM); COMP/M.5799 – Faurecia / Plastal, para. 15; COMP/M.6714 – U-Shin / Valeo CAM, para. 32

<sup>13</sup> COMP/M.1959 – Meritor / Arvin, para. 11; COMP/M.3789 – Johnson Controls / Robert Bosch / Delphi SLI, para. 12. COMP/M.2939 – JCI / Bosch / VB Autobatterien JV, p. 6 *infra*. "Regarding the IAM market, the market conditions, including (...) low transport costs, lead us to conclude that the IAM market is EEA-wide"

## 4.2. Competitive Assessment

(22) Based on the Parties' activities, the proposed transaction involves a number of horizontal overlaps in the sector of engine valves, leading to the following horizontally affected markets:

- a. the EEA OEM/OES market for monometallic engine valves for marine/stationary
- b. the German IAM for monometallic engine valves for light vehicles
- c. the German IAM for monometallic engine valves for commercial vehicles
- d. the German IAM for bimetallic engine valves for marine/stationary

### 4.2.1. EEA OEM/OES market for monometallic engine valves for marine/stationary

(23) On the EEA OEM/OES market for monometallic engine valves for marine/stationary the Parties' combined market share would be [10-20]% by value and [20-30]% by volume based on 2013 data. TEC has market shares of [10-20]% by value and [10-20]% by volume. FDML has only a limited share of the market by value ([0-5]% by value and [10-20]% by volume) with [identity of customer].

(24) The Commission considers that the market is characterized by several competitors, such as MWH (Germany) with [5-10]% by value and [5-10]% by volume, Zanzi (Italy) with [5-10]% by value and [5-10]% by volume, Mahle (Germany) with [5-10]% by value and [10-20]% by volume and Eaton (USA) with [10-20]% by value and [0-5]% by volume.

(25) In addition, the Commission has no indications that FDML and TEC are close competitors. [Information on FDML's manufacturing] According to the Parties, this is illustrated by the average price per unit which was approximately EUR [40-60] per TEC valve and approximately EUR [0-10] per FDML valve in 2013. Thus, the Commission considers that with its offering, FDML does not compete for a large portion of the Marine/Stationary segment offered by TEC.

(26) On the basis of the above and all available evidence the Commission considers that the concentration does not raise serious doubts as to its compatibility with the internal market with regard to EEA OEM/OES market for monometallic engine valves for marine/stationary.

### 4.2.2. German IAM for monometallic engine valves for light vehicles

(27) On the German IAM for monometallic engine valves for light vehicles the Parties' combined market share would be [20-30]% by value and [10-20]% by volume based in 2013. FDML has a share of the market of [5-10]% by volume and [10-20]% by value. TEC's position on the German market for valves light vehicles is only slightly stronger with market shares of [10-20]% by volume and [10-20]% by value. However, the Parties underline that TEC's market share is overestimated, [information on TEC's distribution system].

(28) The Commission considers that the combined entity will continue to face strong competition by undertakings with similar or higher market shares such as, inter alia, Mahle ([10-20]% by both value and volume), Eaton ([10-20]% by both value and volume) and Osvat (Italy) ([20-30]% by both value and volume).

(29) On the basis of the above and all available evidence the Commission considers that the concentration does not raise serious doubts as to its compatibility with the internal market with regard to the German IAM for monometallic engine valves for light vehicles.

#### 4.2.3. *German IAM for monometallic engine valves for commercial vehicles*

(30) On the German IAM for monometallic engine valves for commercial vehicles the Parties' combined market shares would be [20-30]% by value and [10-20]% by volume based on 2013 data. TEC's position on the German market for valves for commercial vehicles is [10-20]% market share by volume and [5-10]% by value. FDML has a limited share of the market of [0-5]% by volume and [0-5]% by value.

(31) The Commission considers that the merged entity faces significant competition from competitors which have post-merger similar market shares such as Mahle ([10-20] by both value and volume), Eaton ([10-20]% by both value and volume) and Osvat ([20-30]% by both value and volume).

(32) On the basis of the above and all available evidence the Commission considers that the concentration does not raise serious doubts as to its compatibility with the internal market with regard to the German IAM for monometallic engine valves for commercial vehicles.

#### 4.2.4. *German IAM for bimetallic engine valves for marine/stationary*

(33) On the German IAM for bimetallic engine valves for marine/stationary the Parties' combined market share would be [10-20]% by value and [20-30]% by volume based on 2013 data. TEC's market share on the German market for valves for marine/stationary is [10-20]% by volume and [10-20]% by value. FDML holds a more limited share of the market of [10-20]% by volume and [0-5]% by value.

(34) The Commission considers that FDML and TEC are not close competitors as [different supply foci]. Therefore, the market shares provided overstate the market position the combined entity has vis-à-vis its competitors, namely MWH ([10-20]% by value, [5-10]% by volume), Eaton ([5-10]% by value, [0-5]% by volume) and Mahle ([5-10]% by value, [10-20]% by volume).

(35) On the basis of the above and all available evidence the Commission considers that the concentration does not raise serious doubts as to its compatibility with the internal market with regard to German IAM for bimetallic engine valves for marine/stationary.

#### 4.2.5. *Conclusion*

(36) The market investigation confirmed that the proposed concentration is unlikely to raise competition concerns mainly because none of FDML or TEC is considered as an indispensable supplier, customers would be able to switch in case of a permanent price increase and no effect on the availability and on the price of the engine valves is expected as a result of the proposed concentration.

(37) Based on the above and all available evidence, the Commission considers that the proposed concentration does not raise serious doubts as to its compatibility with the internal market.

## **5. CONCLUSION**

(38) 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 and Article 57 of the EEA Agreement.

*For the Commission*

*(Signed)*

*Margrethe VESTAGER*

*Member of the Commission*