

EN

***Case No COMP/M.5735 -
UTC/ GE SECURITY***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 22/02/2010

***In electronic form on the EUR-Lex website under document
number 32010M5735***



EUROPEAN COMMISSION

Brussels, 22.02.2010
C(2010)1121
SG-Greffe(2010) D/2140

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Dear Sir/Madam,

**Subject: Case No COMP/M.5735 – UTC/ GE Security
Notification of 19/01/2010 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 19.01.2010, the Commission received a notification of a proposed concentration by which the undertaking United Technologies Corporation ("UTC", USA) acquires within the meaning of Article 3(1)(b) of the Merger Regulation control of certain subsidiaries and certain assets of the undertaking General Electric Company ("GE", USA) that together constitute the GE Security business by way of purchase of shares and assets.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Merger Regulation but does not raise serious doubts as to its compatibility with the internal market and the functioning of the EEA Agreement.

I. THE PARTIES

3. UTC is a diversified industrial corporation which is active in numerous fields, including manufacturing, technology and services for building systems and aerospace industries. UTC is active in the fire and security sector through its UTC Fire and Security business division ("UTCFS").

¹ OJ L 24, 29.1.2004 p. 1 ("Merger Regulation").

4. GE Security comprises the fire detection and electronic security equipment business of General Electric ("GE").

II. THE OPERATION

5. The Parties signed a Stock and Asset Purchase Agreement on November 12, 2009. Pursuant to the agreement the proposed transaction involves the acquisition of sole control over the GE Security business and constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

III. COMMUNITY DIMENSION

6. The combined aggregate worldwide turnover of the undertakings concerned exceeds EUR 2 500 million (UTC EUR [...] million and GE Security EUR [...] million). The combined turnover of the undertakings concerned is above EUR 100 million in [...]. In three of these member States [...], the aggregate turnover of each of the undertakings concerned is above EUR 25 million. Each of the undertakings concerned achieves a Community-wide turnover of more than EUR 100 million. The undertakings concerned do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State.
7. Therefore, pursuant to Article 1(3) of the Merger Regulation the operation has a Community dimension.

IV. THE RELEVANT MARKETS

1. Relevant product markets

a. Electronic Security Systems ("ESS")

8. The Parties are active in Electronic Security Systems ("ESS"). ESS are a combination of products designed for the protection of people, assets and property by electronic means. ESS mainly comprise the following components: (i) intrusion alarm systems, designed to alert the user where an intrusion to a designated area has occurred; (ii) video surveillance systems, or closed circuit television ("CCTV"), used to monitor a designated area and to warn, and detect the identity, of intruders; (iii) access control systems, aimed to prevent unauthorized entry to a designated area². End-customers include residential and commercial customers, as well as public and governmental entities.

² In some cases, end-users will require more than one component and they may be integrated using software to form an interoperable system. In other cases, end-users will simply require one of the components. The equipment and components for ESS together with the interoperable system are referred to as ESS products.

9. In *Siemens / Elektrowatt*³ the Commission defined separate product markets for intrusion protection and other security installations. In *Honeywell / Novar*⁴, the Commission however left open the precise delineation of the markets related to intrusion and other security systems.
10. The market investigation showed that the market for all ESS products is a market separate from the market for all fire detection and alarm products. The Commission has therefore analyzed the ESS market as a separate market.
11. The Parties further identify two relevant markets in the ESS supply chain: the supply of ESS products; and the installation and maintenance of ESS.

b. The supply of ESS products

12. The Parties submit that the supply of equipment and components for ESS comprises a relevant product market. They consider that there is no need to further sub-divide the market between the supply of individual components (*i.e.* intrusion alarm systems, "CCTV", access control systems) and the supply of complete systems given the limited significance of the "OEM relations"⁵ and Parties' negligible activities with respect of the supply of the ESS components⁶.
13. The Commission previously considered a separate product market for the supply of equipment and components for ESS in the cited *Honeywell / Novar* case. It, however, left open the precise market definition.
14. The market investigation generally supported the Parties' submission. However, given the absence of serious doubts under any and all market delineations, the precise market definition can be left open for the purposes of this decision.

c. The installation and maintenance of ESS⁷

15. The Commission has previously considered that the installation and maintenance of ESS constitutes a separate product market⁸. In case *COMP/M.4671-UTC / INITIAL ESG*,

³ IV/M.913 *Siemens / Elektrowatt*.

⁴ COMP/M.3686 *Honeywell / Novar*.

⁵ The Parties define OEM relations as the supply of individual components to system manufacturers for incorporation into their systems.

⁶ UTC does not sell ESS components to any ESS manufacturer in the EEA. GE Security has a very limited presence as supplier of ESS components (in 2009, these sales amounted to approximately EUR [...] million and accounted for approximately [0-5]% of GE Security's sales of ESS products in the EEA and less than [0-5]% of the total sales of ESS components in the EEA). Both Parties source ESS components to incorporate in their ESS systems, but only to a very limited extent: in 2009, UTC's purchases of ESS components amounted to around EUR [...] million, while GE Security's purchases in 2008 amounted to approximately EUR [...] million.

⁷ The market investigation was inconclusive as to whether installation and maintenance of ESS can be separated from the installation and maintenance of Fire D&A. For the purposes of this decision, it is not necessary to analyze a potential market comprising the combined activities due to the fact that GE Security is not active in any of these services markets in the EEA. Therefore in the competitive assessment, the Commission has analyzed separate markets for installation and maintenance of ESS and Fire D&A respectively.

⁸ COMP/M. 3396–*Group 4 Falck / Securicor*.

although the precise market delineation was left open, the market investigation conducted by the Commission provided indications that a further segmentation of the market could be appropriate (*i.e.* by the size of customers)⁹.

16. The Parties submit, in line with the Commission's previous decisions, that the relevant market is composed of both the installation and maintenance of ESS. The market investigation provided strong indications that both installation and maintenance activities are within the same markets. Given the absence of serious doubts under any and all market delineations, the precise market definition can be left open for the purposes of this decision.
17. A potential further segmentation of the market by the size of customers would, according to the Parties, not be appropriate, as (i) the majority of products used to construct all ESS are the same, as are the installation methods and know-how; and (ii) smaller installers are able to and do install ESS for commercial and governmental customers, as larger installers can and do install systems at residential homes.
18. The market investigation supported the Parties' view that segmentation by the size of customer is not appropriate in this case. Therefore the markets will not be analyzed further using the criteria of customer size.

d. Fire detection and alarm systems ("Fire D&A")

19. The Parties are active in Fire D&A. The purpose of Fire D&A is to protect lives and preserve property in the event of fire¹⁰. A Fire D&A system consists primarily of three products: (i) detectors, designated to detect whether a fire has started; (ii) notification devices which warn of fire; (iii) control panels, designated to monitor and control numerous detection devices in commercial, industrial and other large premises.
20. In *Siemens / Elektrowatt*¹¹ the Commission defined product markets for fire protection installations as separate from intrusion protection and other security installations (*i.e.* the systems and equipment identified by the Parties as ESS).
21. The market investigation in the present case has confirmed this finding. The Commission has therefore analyzed the Fire D&A market as a separate market.
22. Also with regard to Fire D&A, the Parties submit that there are two relevant markets in the Fire D&A supply chain: the supply of equipment and components for Fire D&A; and the installation and maintenance of Fire D&A.

⁹ COMP/M.4671 –UTC / INITIAL ESG.

¹⁰ The fire protection industry encompasses both "passive" and "active" fire protection: "passive" fire protection includes fire segregation and/or structural protection products, such as building materials that resist flame or heat; "active" fire protection consists of fire detection and fire suppression products (such as heat, smoke, and gas detectors, sprinklers, and fire extinguishers). As the Parties are only active in the "active" fire protection products and services, "passive" fire protection products and services will not be addressed.

¹¹ IV/M.913 *Siemens / Elektrowatt*.

e. The supply of Fire D&A products

23. The Parties submit that there is no need for the Commission to distinguish between the supply of individual components and the supply of packaged systems. These two categories would be entirely substitutable from the demand side.
24. With regard to the supply side, both individual components (i.e. detectors, notification devices and control panels) and complete Fire D&A systems are supplied. The Parties' further submit that the Commission does not have to conclude on the product market definition as under any possible sub-segmentation, the transaction would not raise serious competition concerns.
25. The Commission has previously considered in *Honeywell/Novar* that the supply of individual components for commercial Fire D&A systems constitutes a separate product market, vertically linked to a market for the supply of packaged fire alarm systems¹². The question whether a further sub-segmentation of the market should be considered (i.e. whether the supply of components should be seen as one and the same market or each component constitutes a distinct market) was ultimately left open.
26. The market investigation was inconclusive on the exact delineation of the Fire D&A products markets. Given the absence of serious doubts under any and all market delineations, the precise market definition can be left open for the purposes of this decision.

f. The installation and maintenance of Fire D&A¹³

27. With regard to the installation and maintenance of Fire D&A, the Parties submit, in line with previous Commission decisions¹⁴, that the relevant market comprises both installation and maintenance of Fire D&A.
28. The market investigation provided strong indications that both installation and maintenance activities are within the same market. Given the absence of serious doubts under any and all market delineations, the precise market definition can be left open for the purposes of this decision.

2. Relevant geographic markets

a. ESS and Fire D&A products

(a) ESS products

29. With regard to the market for the supply of ESS products, the Parties submit that the relevant geographic market is at least EEA-wide since there is a substantial degree of

¹² COMP/M.3686 – *Honeywell/Novar*.

¹³ See footnote 5.

¹⁴ COMP/M.3396–*Group 4 Falck / Securicor*.

import movement in the EEA from third countries¹⁵. Also, a local presence is not according to the Parties required to sell ESS products to customers. Moreover, transport costs relative to the value of the product are not significant.

30. In the cited *Siemens / Elektrowatt* case the Commission defined the markets for intrusion protection and other building security installations and in *UTC / INITIAL ESG* the market for electronic security systems (ESS) as national.
31. According to the market investigation in this case, the majority of customers is able to source these products either at EEA or world wide levels. The clear majority of competitors also confirmed that they are selling these products cross-border in the EEA and outside the EEA. The clear majority indicated that they have parallel national and/or EEA-wide distribution systems. However, the precise geographic market definitions can be left open, since the proposed transaction will not give rise to serious doubts under any reasonable geographic market definition.

(b) Fire D&A products

32. The Commission defined the markets as national for fire protection installations in *Siemens / Elektrowatt* and for fire detectors and alarms in *UTC / INITIAL ESG*. The Parties consider that the geographical scope of the market could be wider than defined by the Commission (*i.e.* EEA-wide).
33. According to the market investigation, a majority of the customers could source these products also at EEA level. The clear majority of competitors explained that they are selling these products cross-border in the EEA and outside the EEA. They indicated that they have parallel national and/or EEA-wide distribution systems. However, the precise geographic market definitions can be left open, since the proposed transaction will not give rise to serious doubts under any reasonable geographic market definition.

b. Installation and maintenance

34. The Parties submit that the geographic scope of all downstream installation and maintenance services of ESS and Fire D&A is national in scope in line with the Commission's findings¹⁶.
35. According to the market investigation, a majority of the customers provide these services on a national basis. The majority of competitors also consider the services markets national. However, the precise geographic market definitions can be left open, since the proposed transaction will not give rise to serious doubts under any reasonable geographic market definition.

¹⁵ [...].

¹⁶ *Siemens / Elektrowatt* and *UTC / INITIAL ESG* cases.

V. COMPETITIVE ASSESSMENT

a. Horizontal assessment

(a) ESS products

36. The Parties' combined market share in the EEA is [5-10]% for the supply of ESS. The Parties' combined market share exceeds 15% in only two Member States, Denmark and the Netherlands.
37. UTC is only to a minor extent active on the market for the supply of ESS products in Europe, with total sales of approximately EUR [...] million and a market share below [0-5] %. Accordingly, the increment by the transaction to GE Security is limited.
38. The proposed transaction would lead to slightly higher market shares at national level under the potential narrower product market definition (*i.e.* separate product markets for each type of ESS product). As shown below, affected markets would be: (i) the supply of products for intrusion alarm systems at EEA level and in Belgium, France, Italy and the Netherlands; and (ii) the supply of products for access control systems in Norway and Portugal. The related market shares are shown in the table below:

Sector	Geographical scope	GE Security (%)	UTC (%)	Combined (%)
Supply of ESS	EEA	[5-10]	[0-5]	[5-10]
	Netherlands	[10-20]	[0-5]	[10-20]
	Denmark	[10-20]	[0-5]	[10-20]
Supply of intrusion alarm systems (part of the ESS)	EEA	[10-20]	[0-5]	[10-20]
	Belgium	[20-30]	[0-5]	[20-30]
	France	[20-30]	[0-5]	[20-30]
	Italy	[10-20]	[0-5]	[10-20]
	Netherlands	[30-40]	[0-5]	[30-40]
Supply of access control systems (part of the ESS)	Norway	[5-10]	[10-20]	[20-30]
	Portugal	[10-20]	[0-5]	[10-20]

Source: Parties' submission based on IMS research. The market participants confirmed IMS to be a reliable source in equipment markets.

39. The market investigation demonstrated that there are alternative suppliers in all of these markets. The customers or competitors did not generally consider the Parties each other's closest competitors. During the market investigation no substantiated concerns were submitted to the Commission.
40. The Parties would have the highest combined market share on a potential market for supply of intrusion alarm systems in the Netherlands (combined market of [30-40]%, with a very limited increment of less than [0-5]%). However, the new entity would face competition from companies such as Honeywell ([10-20]%), Lobecco ([5-10]%), Risco ([5-10]%), and Siemens ([0-5]%) as well as numerous smaller companies present on this market.
41. In view of the modest combined market share of the parties (below 30%, except for the supply of intrusion alarm systems in the Netherlands), and the limited increment to GE

Security's position, serious doubts with regard to the compatibility of the merger with the internal market can be excluded even on the basis of the narrowest product or geographical market definitions.

(b) Fire D&A products

42. The Parties' combined market share in the EEA is [5-10]% for the supply of Fire D&A products. The Parties' activities are geographically complementary, with UTC's main activities in France, Norway and the Netherlands (where GE Security has a limited presence) and GE Security's focus in Spain, the UK and Italy (where UTC has a limited presence).
43. The proposed transaction would only lead to two affected markets, in Norway and Portugal. In Norway, the merged entity would hold a combined market share of [30-40]% (UTC [20-30]%; GE Security [0-5]%), while the combined market share would be [10-20]% in Portugal (UTC [0-5]%; GE Security [10-20]%). The merged entity would continue to face competition from companies like Honeywell ([20-30]% in Norway, [10-20]% in Portugal) and Siemens ([10-20]% and [10-20]%, respectively).
44. The competitors and customers did not raise any substantiated concerns during the market investigation. Based on the above, serious doubts with regard to the compatibility of the merger with the internal market can be excluded even for the narrowest product or geographic market definitions.

b. Vertical assessment

45. In the Fire D&A and ESS sectors, UTC is primarily active downstream (*i.e.* the installation and maintenance of Fire D&A and ESS products), while GE Security is only active in the supply of ESS and Fire D&A products. UTC has a minimal market presence in equipment markets except for the supply of Fire D&A products in Norway.

(a) ESS products

46. The proposed transaction will lead to vertically affected markets only for the narrower definition of ESS products, and only if the geographical scope of these markets is considered national. These vertically affected markets are discussed below.

Belgium

47. The Parties' market shares in Belgium are shown in the table below:

Level	UTC (%)	GE Security (%)	Combined (%)
Supply of intrusion alarm systems in Belgium (Upstream Market)	[0-5]	[20-30]	[20-30]
Installation and maintenance of ESS in Belgium (Downstream Market)	[5-10]	-	[5-10]

Source: Parties' submission based on IMS research and the Parties' own estimations. The market participants confirmed IMS to be a reliable source in equipment markets.

48. The Parties' combined market shares are just above [20-30]% on the potential market for the supply of intrusion alarm systems and UTC holds a market share of [5-10]% on the downstream market in Belgium.
49. At both levels, there are a number of alternative suppliers which excludes input and customer foreclosure. For the supply of intrusion alarm systems there are other competitors with significant market shares, such as ADI Gardner ([10-20]%), AIS ([10-20]%), Bosch ([10-20]%), and Euromatec ([5-10]%). On the downstream market UTC currently accounts for a very small percentage of GE Security's sales in Belgium (less than [0-5]% in 2008). Therefore, serious doubts can be excluded.

The Netherlands

50. The Parties market shares in the Netherlands are shown in the table below:

Level	UTC (%)	GE Security (%)	Combined (%)
Supply of intrusion alarm systems in the Netherlands (Upstream Market)	[0-5]	[30-40]	[30-40]
Installation and maintenance of ESS in the Netherlands (Downstream Market)	[10-20]	-	[10-20]

Source: Parties' submission based on IMS research and the Parties' own estimations. The market participants confirmed IMS to be a reliable source in equipment markets.

51. The Parties' combined market share is above [30-40]% on the potential market for the supply of intrusion alarm systems and UTC holds a market share of [10-20]% on the downstream market in the Netherlands. The proposed transaction does however not raise any competition concerns.
52. At both levels, there are a number of alternative suppliers which excludes input and customer foreclosure. For the supply of intrusion alarm systems there are other important alternative suppliers such as Honeywell ([10-20]%), Lobeco ([5-10]%), Risco ([5-10]%) and Siemens ([0-5]%). On the downstream market, UTC currently accounts for a small percentage of GE Security's sales in the Netherlands (about [10-20]% in 2008). Therefore, serious doubts can be excluded.

Ireland

53. The Parties have no horizontal relationships in Ireland. However, due to GE Security's important market presence in the potential market for the supply of intrusion alarm systems and UTC's presence downstream in Ireland, there is a potential vertically affected national market. The Parties' market shares on both levels in Ireland are shown in the table below:

Level	UTC (%)	GE Security (%)	Combined (%)
Supply of intrusion alarm systems in the Ireland (Upstream Market)	-	[30-40]	[30-40]
Installation and maintenance of ESS in Ireland (Downstream Market)	[5-10]	-	[5-10]

Source: Parties' submission based on IMS research and the Parties' own estimations. The market participants confirmed IMS to be a reliable source in equipment markets.

54. The Parties' combined market share is above [30-40]% on the potential market for the supply of intrusion alarm systems and UTC holds a market share of [5-10]% on the downstream market. The proposed transaction does however not raise any competition concerns.
55. At both levels, there are a number of alternative suppliers which excludes input and customer foreclosure. For the supply of intrusion alarm systems there are other important alternative suppliers such as HKC ([40-50]%), Europlex ([5-10]%), and Honeywell ([5-10]%). On the downstream market, UTC currently accounts for a very small percentage of GE Security's sales in Ireland ([0-5]% in 2008). Therefore, serious doubts can be excluded.

(b) Fire D&A products

56. With regard to Fire D&A products, there is a potential vertically affected market in Norway.
57. The Parties market shares in the upstream and downstream sectors in Norway are shown in the table below:

Level	UTC (%)	GE Security (%)	Combined (%)
Supply of Fire D&A products	[20-30]	[0-5]	[30-40]
Installation and Maintenance of Fire D&A products	[5-10]	-	[5-10]

Source: Parties' submission based on IMS research and the Parties' own estimations. The market participants confirmed IMS to be a reliable source in equipment markets.

58. The Parties' combined market share is just above [30-40]% on the potential market for the supply of Fire D&A products and UTC holds a market share of [5-10]% on the downstream market. The proposed transaction does however not raise any competition concerns.
59. UTC is active on the markets for manufacture and supply, as well as installation and maintenance services for Fire D&A products, unlike in the other potential affected markets. GE Security is not present downstream. On either the equipment or the services level, the increases in market shares are marginal or non-existent. Given the limited or

non-existent market presence of GE Security in Norway, the merger does not change the structure of the market.

60. At both levels, there are a number of alternative suppliers which excludes input and customer foreclosure. For the supply of Fire D&A products there are other important alternative suppliers such as Honeywell ([20-30]%), Siemens ([10-20]%) and Schneider ([10-20]%). GE Security is not a customer in the downstream market. Therefore, serious doubts can be excluded.

c. Conclusion

61. In light of the above, the proposed transaction does not give rise to serious doubts as to its compatibility with the internal market and the functioning of the EEA Agreement.

VI. CONCLUSION

62. For the above reasons, the 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 Council Regulation (EC) No 139/2004.

For the Commission
(*signed*)
Joaquín ALMUNIA
Vice-President of the Commission