

***Case No IV/M.1159 -
SNECMA / MESSIER
DOWTY***

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

Article 6(1)(b) NON-OPPOSITION
Date: 18/06/1998

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 18/06/1998

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

Subject: Case No IV/M. 1159 SNECMA/MESSIER DOWTY

Notification of 14 May 1998 pursuant to Article 4 of Council Regulation N° 4064/89.

I. THE OPERATION AND THE PARTIES

1. On 14.05.1998, the Commission received the notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which the undertaking Snecma Group ("Snecma") acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of Messier-Dowty International Ltd. ("MD") and of the landing gear and hydraulics repair and overhaul business ("R&O Business") of the undertaking TI Group Plc.
2. Snecma is a French State-owned group. Its principal activity comprises the manufacturing and maintenance of aircraft engines and space propulsion.

3. MD is a joint venture between Snecma and TI Group, which is active in manufacturing of aircraft landing gear systems. R&O Business is carried out by the Dowty Aerospace Aviation Services which is a part of Dowty Aerospace, the aerospace division of Dowty Group plc., a wholly-owned subsidiary of TI. It comprises three repair stations in Singapore, Gloucester (UK) and Sterling (USA).

II. THE CONCENTRATION

4. The operation will give Snecma sole control over MD and R&O Business of TI Group. The operation thus constitutes a concentration within the meaning of Article 3 (1)(b) of the Merger Regulation.

III. COMMUNITY DIMENSION

5. Snecma, MD and R&O Business have a combined aggregate world-wide turnover in excess of ECU 2 500 million (Snecma, ECU 3 467 million; MD, ECU [] million and R&O Business, ECU []million). In each of three Member States, the combined aggregate turnover of all the undertakings concerned is more than ECU 100 million (France, UK, Germany). In each of these three Member States the aggregate turnover of each of at least two of the undertakings concerned is more than ECU 25 million. The aggregate Community-wide turnover of each of at least two of the undertakings concerned is more than ECU 100 million (Snecma, ECU 1 628 million; MD, ECU []million), 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 according to Article 1 (3) of the Merger Regulation, but does not constitute a co-operation case under the EEA Agreement, pursuant to Article 57 of that Agreement.

IV. COMPETITIVE ASSESSMENT

A. Relevant product market

6. The notifying party states that there are relevant product markets for landing gear systems and for repair and overhaul services for landing gear and associated hydraulic components.

Landing gear

7. The notifying party submits that the definition of the aircraft landing gear product given in the Commission decision N°IV/M.368 - SNECMA /TI of 17.01.1994, remains accurate.

Repair and overhaul services for landing gear and associated hydraulic components.

¹ See Commission decision of 17.01.1994, N°IV/M.368 - SNECMA / TI.

² Deleted business secret

³ Deleted business secret

⁴ Deleted business secret

8. SNECMA and R&O Business are both active in repair and overhaul services for aircraft landing gear and associated hydraulic components. Customers are airlines or airforces rather than aircraft manufacturers. Airlines who do not have in-house R&O services remove landing gear from their aircraft and send it by plane to R&O service providers which will do the work at their repair stations. Airlines send landing gear for R&O services periodically (usually every 8 years) or when there is a defect in the equipment. In the meantime, spare landing gear is installed on the aircraft to avoid immobilisation of the aircraft. Airlines either own spare landing gear or rent it out from R&O services suppliers.
9. However, it is not necessary to further delineate the relevant product markets because, in all alternative market definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area.

B. Relevant geographic market

10. The notifying party states that the relevant geographic markets are world-wide for landing gear and for repair and overhaul services. For landing gear, the Commission has already concluded that the market is world-wide for civil applications and also worldwide for military applications but tends to remain national when a domestic supplier exists.
11. For repair and overhaul services, it should be noted that i) from the demand side, customers are large and sophisticated operators (airlines or Ministries of Defense) who place orders to suppliers world-wide through open tender procedures, ii) from the supply side, transport costs are not significant (airlines take off the landing gear at their own hubs and send this landing gear by plane to the repair station), iii) suppliers are able to compete in the global market with a single repair station (for example AAR is located only in Miami and Sogerma in Bordeaux).

C. Assessment

Landing gear

12. The operation will not modify the structure of the market in either military or civil segments. Snecma has a global market share of []%, the main competitors are BF Goodrich: []% and Menasco [(...)]⁵: []%⁶. According to the notifying party, in recent years the purchasing power of customers has further increased. In particular, among the aircraft manufacturing groups, two customers (Boeing and Airbus) account for 80% of all purchases of landing gear for civil applications. Furthermore, aircraft manufacturers look to the landing gear supplier to share the risk of the programmes and request important price reductions on ongoing landing gear programmes.

⁵ Deleted business secret = between 30 and 40%

⁶ Deleted business secret = between 20 and 30%

⁷ Material error : Doltec Group

⁸ Deleted business secret = between 20 and 30%

Repair and overhaul services for landing gear and associated hydraulic components.

13. In the market for repair and overhaul services, the Snecma and R&O Business combined share will amount to around 13% in the civil segment and lower in the military segment. Major competitors are, first, airlines as Lufthansa and Iberia which offer services to third party customers, second, there are also OEM repair stations like Snecma (for example Messier-Bugatti and BFGoodrich), third, there are independent repair stations e.g. Sogerma or AAR. Moreover, contracts for repairs and overhaul services are awarded through worldwide tenders which give customers significant buying power.

Conclusion

14. Consequently, the proposed concentration does not create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

V. ANCILLARY RESTRICTIONS

15. Snecma and TI have agreed to non-compete clauses on landing gear business for a period of []⁹ years after the completion date. This duration is justified in particular by the economic life of the products involved. These clauses guarantee the transfer to Snecma of the full value of MD and R&O Business and are necessary for the implementation of the concentration.
16. Moreover, Snecma and TI have concluded for []⁰ a Trading Agreement to ensure the continuity of the supply to MD of Dowty Aerospace Gloucester Limited (a wholly owned subsidiary of TI Group) products. The products concerned are intermediary products for landing gear. This Agreement can be considered as ancillary to the concentration for a transitional period of []¹ years.
17. Snecma and TI have also entered into a number of Services Agreements for the supply of various services between MD and TI groups. All these Services Agreements may be terminated after []² year which gives the time which is necessary for Snecma to obtain such services from a third party or to provide them itself.
18. Snecma and TI have entered into a Licence Agreement for the licence to MD of the Dowty marks in relation to landing equipment for []³. This Agreement is necessary to the implementation of the concentration and therefore is considered as ancillary to the concentration.

VI. CONCLUSION

⁹ Deleted business secret

¹⁰ Deleted business secret

¹¹ Deleted business secret

¹² Deleted business secret

¹³ Deleted business secret

19. 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 (EEC) N° 4064/89.

For the Commission,