

***Case No IV/M.1164 -  
GEC ALSTHOM /  
CEGELEC***

Only the English text is available and authentic.

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

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Article 6(1)(b) NON-OPPOSITION

Date: 15/05/1998

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 15.05.1998

PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

**Subject :** Case No IV/M. 1164 - GEC Alsthom/Cegelec  
Notification of 8/4/1998 pursuant to Article 4 of (EEC) Council  
Regulation No 4064/89

1. On 8/4/1998, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which the undertaking GEC Alsthom SA acquires within the meaning of Article 3(1)b of the Council Regulation control of the whole of the undertaking Cegelec.

**I. THE PARTIES**

2. GEC Alsthom SA (GEC Alsthom) is a subsidiary of GEC Alsthom NV, an industrial holding company jointly owned by General Electric Company, p.l.c. and Alcatel Alsthom CGE, primarily active in the energy and transport sectors. The main business activities of the GEC Alsthom group include the manufacture and commissioning of power stations, the manufacture of switchgears, transformers and other power transmission and distribution equipment, the manufacture of railway rolling stock and signalling and automation equipment, the production of industrial equipment and marine equipment.
3. Cegelec is a wholly owned subsidiary of Alcatel Alsthom and is active in two main businesses, electrical contracting and industrial process control.

**II. THE OPERATION**

4. The operation consists of the acquisition by GEC Alsthom of Cegelec by purchase of shares.

### **III. CONCENTRATION**

5. Following the operation, GEC Alstom, jointly controlled by General Electric Company and Alcatel Alstom, will acquire sole control of Cegelec. On substantial grounds, the transaction involves a change in the quality of control of the target company in so far as a new parent company, namely General Electric Company, acquires, through the joint venture GEC Alstom, joint control of Cegelec. The transaction constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

### **IV. COOPERATIVE ASPECTS**

6. As the transaction concerns an acquisition by a joint venture thus involving an extension of its scope of activities, it might bring about cooperative aspects. However, in none of the sectors involved by the transaction both GEC Alstom parent companies are active. Therefore, the operation does not have as its object or effect the coordination of competitive behaviour of undertakings which remain independent.

### **V. COMMUNITY DIMENSION**

7. The undertakings concerned have a combined aggregate worldwide turnover in excess of ECU 5,000 million (GEC Alstom, ECU 9.437 million; Cegelec, ECU 3.554 million). Each of them has a Community-wide turnover in excess of ECU 250 million (GEC Alstom, ECU [...] million; Cegelec, ECU [...] <sup>1</sup> 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, but does not constitute a cooperation case under the EEA Agreement, pursuant to Article 57 of that Agreement.

### **VI. THE RELEVANT MARKETS**

#### **Relevant product markets**

8. The concentration involves a number of economic sectors: *i)* power generation, *ii)* transmission and distribution of electric power, *iii)* transport, *iv)* industrial process control and automation.
9. *i)* As for power generation, GEC Alstom and Cegelec are both active in different parts of this sector. GEC Alstom primarily manufactures and supplies main equipments for power plants, whereas Cegelec provides services relating to electrical contracting and control and instrumentation for power plants.
10. *ii)* As for transmission and distribution of electrical power (T&D), GEC Alstom is primarily an equipment supplier as it produces most components in a T&D system, in particular high voltage switchgears, i.e. individual circuit breakers, individual disconnectors and lighting arresters, gas insulated switchgear assemblies; medium voltage switchgears, notably individual circuit breakers, individual disconnectors, individual contactors, circuit breaker/contactator cubicles (air insulated), circuit breaker cubicles (gas insulated), load break disconnector switch cubicles,

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transformer substations; transformers, i.e. power transformers, distribution transformers; protection relays and control systems. In T&D Cegelec provides project management, electrical engineering, the cabling, design and erection of transmission lines, substation control and civil works.

11. *iii)* In the transport sector, GEC Alsthom is active in railway equipment and services to the rail transportation industry; it especially provides high speed passengers trains, suburban transport units, urban metro and urban light rail vehicles. In addition to rolling stock, GEC Alsthom supplies a range of transportation equipment, including signalling and control system. As for the services in the railway industry, GEC Alsthom provides maintenance contracts, technology transfer and equipment refurbishing. Cegelec is primarily active in the provision of project management and transportation-related services. In this context its activities include general project management of turnkey metro and tramway projects and other transport infrastructure projects, execution of electro-technical infrastructure packages for urban transport systems and other transport projects.
12. For all of the above mentioned sectors, it is not necessary to further delineate the relevant product markets because, in all alternative market definitions considered, there are no affected markets and, therefore, following the operation effective competition would not be impeded in the EEA or any substantial part of that area.
13. *iv)* In the industrial process control and automation, GEC Alsthom manufactures a wide range of equipment and systems for industrial uses. Cegelec supplies electrical process engineering and control systems and drives to a wide range of industrial users. GEC Alsthom and Cegelec both supply to the following industrial segments: paint finishing, bulk handling, automated assembly lines, marine propulsion and airport and industrial handling. In the first two segments there is no overlap between the parties, and their activities are complementary. In the automated assembly lines, the parties' overlap in the EEA is extremely marginal (GEC Alsthom will add Cegelec less than [...] to its share of [...] ) and there is no overlap at national level. Instead, the two remaining segments of this sector, notably a) marine propulsion systems and b) airport and industrial handling, are likely to constitute markets affected by the transaction.
14. a) Marine propulsion systems are used to equip vessels such as cruise ships, ferries, tankers, research vessels etc. Marine propulsion systems are mainly mechanical but there is also a segment of electrical propulsion systems which represents less than 10% by value of all marine propulsion systems. Mechanical propulsion systems consist of: a "prime mover", namely a diesel engine, gas turbine or steam turbine; one or several reduction gears; bearings; shaft lines; fixed or controlled propellers; associated circuits; controls. Electrical propulsion systems comprise three main sections: a generating plant (diesel generator sets or turbo alternator sets) which generates fixed voltage and frequency electrical power; a distribution and conversion system which provides optimised voltage and frequency to the propulsion motors; propulsion motors which drive the propellers. GEC Alsthom manufactures mainly mechanical marine propulsion

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systems, but also has a small electrical marine propulsion system business. Cegelec manufactures only electrical systems.

15. The parties submit that the relevant market for marine propulsion systems should include both mechanical and electrical systems as *i*) electrical systems have developed only recently and the sector is growing at the expense of mechanical systems, indicating substitution; *ii*) mechanical systems still account for some 90% of the market; *iii*) although electrical systems have certain advantages over mechanical systems, where space is at a premium (e.g. on cruise liners), purchasers in every case have the alternative of mechanical propulsion systems. However, a number of elements indicate that electrical marine propulsion systems may be considered as a distinct product market. In this respect, it should be noted firstly that from the demand side, electrical systems offer to customers a significant number of advantages such as good manoeuvrability, quiet operation, flexibility of installation and engine room layout, lower fuel consumption and lower exhaust gas emission. As a consequence, it appears that ships with silent propulsion requirements (e. g. navy ships, research vessels and cruise vessels), ships with high manoeuvrability requirements (e.g. cable layers, pipe layers, icebreakers, passengers vessels), and ships with high speed range (e. g. parcel tankers) are more and more equipped with electrical propulsion systems. Secondly, prices differences between these two systems are quite significant. In addition, in terms of supply side substitutability, mechanical and electrical propulsion systems are based on very different technologies. Therefore, a degree of substitution between mechanical and electrical systems is hard to envisage. In any event, this question can be left open since, even taking the narrowest option, effective competition would not be significantly impeded in the EEA or any substantial part of that area. As for the possibility to further segment the product market depending on the output powers, it appears that there is no real limitation to the unit output power of an electric propulsion system. Consequently, from this point of view, the relevant product market should be considered as a whole, irrespective of the output power.
16. b) Airport and industrial handling services consist of system engineering in a range of airport and industrial handling applications: baggage handling, cargo handling, parcel mechanisation and automated warehousing. In particular, airport handling consists of undertaking complete projects for the engineering, design, supply, erection and commissioning of systems to handle passenger baggage through the terminal complexes at airports, and freight and cargo handled at specialised cargo facilities. Industrial handling consists of supplying the systems and equipment necessary for industrial activity in the warehousing and parcel mechanisation industries (e.g. catering and postal). The parties submit that airport handling and industrial handling belong to the same product market as the technology used in these two sectors is very similar. In this respect, the same engineering expertise is used to meet project specifications across the range. This is particularly evident in the airport cargo handling, which has a number of elements in common with both regular airport handling and with industrial handling. However, the question whether airport and industrial handling belong to the same product market can be left open since, even on the narrowest option, effective competition would not be significantly impeded in the EEA or any substantial part of that area.

## **Relevant geographic markets**

17. According to the parties the relevant geographic markets of all the economic sectors involved by the transaction are at least EEA-wide.
18. Relating in particular to the markets affected by the operation, firstly marine propulsion systems, the relevant geographic scope to be taken into account appears to be world-wide. In this respect, it should be noted that *i)* marine propulsion systems are high value products and their transport costs are, comparatively, not significant; *ii)* from the demand side, customers are large and sophisticated operators (shipyards and shipowners) who place orders to suppliers world-wide through open tender procedures, irrespective of the location of the supplier; *iii)* from the supply side too, those operators who supply marine propulsion systems are large companies competing with each-other at a global level; *iv)* there are no specific entry barriers which might cause a geographic segmentation of the relevant market; *v)* competitors and customers, asked by the Commission, have unanimously agreed that the relevant geographic market is global; *vi)* trade flows confirm that the market is wider than the EEA.
19. As for airport and industrial handling, the geographic market to be taken into account is at least EEA-wide. In this respect, it should be noted that these systems are supplied throughout Europe and world-wide by global competitors. Accordingly, customers bid for each project through open tender procedures. Moreover, competitors active in this sector, asked by the Commission, have confirmed that the relevant geographic market is at least EEA-wide. Finally, while industrial and airport handling suppliers are also required to ensure the upkeep and the maintenance of the facilities, that is to say that their proximity to the customer is relevant, it should however be reminded that the value of maintenance services appear to be marginal compared to the whole value of such projects. In any event, for the purpose of this case it is not necessary to further delineate the geographic market, since, in all alternative market definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area.

## **VII. ASSESSMENT**

20. For most sectors involved by the transaction, there is no impact on the relevant markets as the parties' activities appear to be essentially complementary. In this respect, it should be noted that the underlying logic of this operation is to reintegrate complementary businesses in order to better face competition by global competitors such as ABB, Siemens, Mitsubishi and Westinghouse, all of whom currently propose an integrated offering. Moreover, all over these years GEC Alsthom and Cegelec have been already working together in a large number of projects as an integrated company.
21. The only markets affected by the operation are the market of marine propulsion systems and the market of airport and industrial handling where the parties activities to some extent overlap.
22. In the market of marine propulsion systems, taking the narrowest possible product market definition, namely the electrical marine propulsion systems, it appears that, following the acquisition of Cegelec, GEC Alsthom will have a

market share of [...]⁴ in the EEA, and around [...]⁵ worldwide. The parties' main competitors will remain ABB with a market share of "[...]" in the EEA and of [...]⁷ worldwide, Siemens with a share of more than [...]⁶ in the EEA and of [...]⁹ worldwide, General Electric US with a share of [...]⁸ worldwide. While the degree of concentration in this market appears to be significant with few large operators active on the market, and two of them counting for around [...]¹ of the world market, it should be noted that *i)* the addition of market power following the operation is very small as GEC Alsthom will add its small share of [...]¹² in the EEA to Cegelec's share of [...]³ in the EEA market; *ii)* the market in question is very young and dynamic and is growing at a very high rate (the electrical segment is growing at a rate of 10% to 20% per annum, and it has especially developed over the last four or five years); *iii)* customers procure through open tender procedures highly sophisticated products, so that this market is not sufficiently transparent and, therefore, any tacit collusion between suppliers appears to be unlikely; *iv)* other operators active on this market are mostly large companies with significant technical and financial resources such as Ansaldo (Italy), Toshiba (Japan) and STN Atlas (Germany); *v)* from the demand side customers, notably shipyards and shipowners, have a significant buying power; *vi)* from the supply side the operators active in this segment are exposed to the pressure of potential competition coming from other companies active in the power generation sector and in automated systems, as well as from the major suppliers of marine mechanical propulsion systems. From the above it follows that the parties' current market shares cannot be considered as absolute indicators of long term market power. Consequently, the possibility of a dominance on such a market, even a joint dominance between the new entity following the operation and ABB, despite their significant combined market shares, is to be excluded. Therefore, 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.

23. In the market of airport and industrial handling taken as a whole, following the proposed operation, the parties' combined shares in the EEA market will amount to [...]¹⁴ . Major competitors in this sector are Mannesmann Dematic with a share of [...]¹⁵ of European market, Daifuku/Vanderlande with a share of [...]¹⁶ , Digitron with a share of [...]¹⁷ .

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24. If, then, airport handling and industrial handling are considered as distinct product markets, it appears that following the operation, in the former market GEC Alstom will add to its [...] <sup>8</sup> share of the EEA market Cegelec share of around [...] <sup>19</sup> , reaching a combined share of around [...] <sup>0</sup> in the EEA; in the latter market, GEC Alstom will add to its [...] <sup>1</sup> of the EEA market Cegelec share of around [...] <sup>22</sup> reaching a combined share of around [...] <sup>3</sup> in the EEA.
25. While, following the operation, GEC Alstom will strengthen its position on both segments, reaching a more significant share in the airport handling market, it should however be noted that in this sector market shares are very volatile as the sales are mainly linked to large project. Indeed, market shares can substantially vary depending on the outcome of a single tender. In this respect, between 1995 and 1997 GEC Alstom itself has very significantly increased its market share thanks to its involvement in one large project, namely the British Airways World cargo project at Heathrow. As a consequence, present market shares cannot be considered as absolutely faithful indicators of long term market power. In addition, there are strong competitors active on this market with similar positions such as Mannesmann, Vanderlande and others. Finally, it should also be pointed out that from the demand side, customers in this sector have a significant buying power. Therefore, 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.

### **VIII. ANCILLARY RESTRAINTS**

26. The parties have agreed on: *i*) a non competition clause for a period of five years under which the seller Alcatel Alstom will not seek to compete with the existing activities of the Cegelec business being sold to GEC Alstom; *ii*) [...] <sup>24</sup>; *iii*) the transfer to the acquirer of certain intellectual property rights which relate predominantly to the business being sold, and the maintenance in favour of the vendor of the ability to continue using those rights, provided that such use does not amount to a negation of the non competition clause. As these clauses serve to guarantee the transfer to the acquirer of the full value of the business of Cegelec and to ensure that the vendor will not compete with the acquirer in the markets in which the acquired company is active, they are directly related and necessary to the implementation of the concentration.

### **IX. CONCLUSION**

27. 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) No 4064/89.

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For the Commission,