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Case No IV/M.1204 - DAIMLER - BENZ / CHRYSLER

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REGULATION (EEC) No 4064/89
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 22/7/1998

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Subject: Case No IV/M. 1204 DAIMLER-BENZ / CHRYSLER
Notification of 22 June 1998 pursuant to Article 4 of Council Regulation No 4064/89

1. On 22 June 1998 the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No. 4064/89 [1] by which Daimler-Benz AG ("Daimler-Benz") and Chrysler Corporation ("Chrysler") merge within the meaning of Article 3(1)(a) of the Council Regulation.

2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EEC) No 4064/89 and does not raise any serious doubts as to its compatibility with the common market and the functioning of the EEA Agreement.

I. THE PARTIES AND THE OPERATION

3. Daimler-Benz AG, a German corporate company, and its consolidated subsidiaries are active in the development, manufacture and distribution of automotive vehicles, automotive electronics, rail systems, diesel engines, aerospace and defense systems, and the provision of financial services, insurance brokerage, information technology services, telecommunication services, trading and real estate management services.

4. Chrysler Corporation is a US-based car manufacturer which markets vehicles in Europe under the brand names of Chrysler and Jeep.

5. Under the terms of a business combination agreement of 7 May 1998, Daimler-Benz and Chrysler will combine their respective businesses, stockholder groups,

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[1] OJ L 395, 30.12.1989 p. 1; corrected version OJ L 257 of 21.9.1990, p. 13, as last amended by Regulation (EC) No 1310/97, OJ L 180, 9.7.1997, p. 1, corrigendum in OJ L 40, 13.2.1998, p. 17.

managements and other constituencies in a newly incorporated company under German law ("DaimlerChrysler Aktiengesellschaft"). The shares in the new corporation will be offered to Daimler-Benz' and Chrysler's present shareholders. The transaction constitutes a concentration within the meaning of Article 3(1) (a) of the Council Regulation.

III. COMMUNITY DIMENSION

6. In 1997, the combined aggregate worldwide turnover of the undertakings concerned exceeded ECU 5 billion (Daimler-Benz: ECU 64.9 billion; Chrysler: ECU 53.9 billion). The aggregate Community wide turnover of each party exceeds ECU 250 million (Daimler-Benz: ECU 37.9 billion; Chrysler: ECU 1.8 billion). They do not achieve more than two-thirds of their turnover in one and the same Member State. The operation has therefore a Community dimension.

IV. THE RELEVANT MARKETS

A. Relevant product market

7. The concentration affects the passenger car sector. Passenger cars serve the general purpose of individual transport of passengers on public roads and, unlike commercial vehicles, are not primarily designed for commercial use.

8. The parties define the relevant product market as the market for *all* passenger cars. They argue that there is no product characteristic or combination of characteristics on which consumer preferences or supplier technologies concentrate sufficiently to define an economically significant product market narrower than the overall passenger car market.

9. In previous decisions concerning the passenger car market, the Commission has held it possible to subdivide this market, on the basis of a number of objective criteria like engine size or length of cars, in several segments which could constitute distinct product markets. However, a final definition was not required, and the exact market definition was left open (Decisions of 14 March 1994, Case no IV/M.416 – BMW/Rover; Decision of 24 May 1996, Case no IV/M.741 – Ford/Mazda; Decision of 22 December 1997, Case no IV/M.1036 – Chrysler/Distributors). The narrowest segmentation previously used by the Commission is the following:

- A : mini cars
- B : small cars
- C : medium cars
- D : large cars
- E : executive cars
- F : luxury cars
- S : sport coupés
- M : multi purpose cars
- J : sport utility cars (including off-road vehicles)

10. The boundaries between segments are blurred by factors other than the size or length of cars. These factors include price, image and the amount of extra accessories. Also, the tendency to offer more and more options like ABS, airbags, central locking etc. in

small cars further dilutes the traditional segmentation. Customers choose their cars using a combination of parameters, such as brand, size, equipment and price. On the other hand, the traditional segmentation is generally used by the industry and it still seems to be regarded as an important indicator for the positioning of a car in the market place. In particular some differences still exist in price, technology and engineering requirements within the market. For the purposes of the competitive analysis of the present case, it is not necessary to further delineate the relevant product market, because in all the alternative market definitions considered, effective competition would not be significantly impeded, as explained below.

B. Relevant geographic market

11. The notifying parties are of the view that the relevant geographic market is a worldwide market. They refer to the fact that most passenger car manufacturers distribute their products in many parts of the world, and the tendency towards globalization has grown even stronger in the last few years.

12. The parties suggest that even if a smaller geographic market is taken into consideration, it would at least comprise the territory of the EEA. They argue that the market structure in Europe is uniform, each European consumer is able to purchase the same passenger car anywhere in Europe, and the tendency towards cross-border purchases increases if the consumer is able to purchase cars for lower prices in other countries.

13. From a supply-side perspective, production in the car industry is international or even global in its outlook (Decision of 24 May 1996, Case no IV/M. 741 - Ford/Mazda). From a customer perspective, the last years have brought a progressive harmonization of the competitive environment within the Community with respect to technical barriers, restrictions concerning distribution systems, and the transparency of car pricing. However, differences remain with regard to prices, vehicle taxation, distribution systems and penetration rates of major competitors within Member States. In the present case, the exact definition of the relevant geographic market can be left open since, in all the alternative geographic market definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area, as explained below.

V. COMPETITIVE ASSESSMENT

14. In 1997 approximately 13.1 million passenger cars were sold in the EEA. Daimler-Benz and Chrysler sold 446 000 and 88 000 passenger cars respectively and thus held respective market shares of 3,4 % and 0,7 %. Their combined share in the supply of all passenger cars in the EEA amounted to 4,1 % in terms of registered cars in 1997. The new entity will rank eighth amongst its competitors, behind the Volkswagen group (16,5 %), Ford/Mazda (12,4 %), General Motors (12,1 %), the PSA group (11,7 %), Renault (10,3 %), Fiat (9,7 %) and BMW/Rover (5,7 %). If national passenger car markets are considered, Daimler-Benz' and Chrysler's combined shares do not exceed 8,5 % in any EEA country. Therefore, as far as the overall passenger car market at EEA or national level is concerned, the concentration will not create or reinforce a dominant position.

15. On the basis of the above segmentation (paragraph 9), the concentration will not have any significance with regard to segment B (small cars) in which neither Daimler-Benz

nor Chrysler are active, nor segments A and F in which their activities do not overlap. Only Daimler-Benz is active in segments A (mini cars – after the release of the Smart car planned for October 1998) and F (luxury cars).

16. With regard to segments C (medium cars), D (large cars) and J (sport utility cars including off-road vehicles), combined market shares were below 15 % in 1997 in the EEA and in any individual EEA country where an overlap exists. The Commission has taken into consideration the recent launch of new Daimler-Benz models in segment C (the A-class) and segment J (the M-class). Preliminary market data for the first months of 1998 do not provide any evidence that the parties' combined market shares will increase significantly.

17. The Commission has considered whether an overlap exists with respect to segment M (multi-purpose vehicles). While Chrysler's Voyager model can be allocated to this segment, the parties submit that Daimler-Benz does not produce a comparable vehicle since its V-class model, although offered with passenger seating, is derived from a light commercial vehicle. In its Decision of 23 December 1992 (Case no IV/33.814 – Ford/Volkswagen) the Commission accepted that multi-purpose vehicles can be distinguished from commercial vehicles by their passenger car-like conception and comfort and their usually lower height. A detailed delineation is not necessary in the present case as the combined position of the parties would not lead to the creation or reinforcement of a dominant position. Even if the V-class sales were added to Chrysler's market share of 11.4 % in segment M, the increase would not exceed 3.4 % EEA-wide. Chrysler's shares exceed 25 % in some individual countries (Finland: 44,8 %; Sweden: 31,6 %; Spain: 25,8 %; Norway: 46,2 %), but the increment resulting from V-class sales would be limited (Finland: 0,3 %; Spain: 3,6 %; Sweden: 1,6 %; Norway: 6,9 %). The multi-purpose car sector is characterised by strong competition, new market entries and shifts in market shares. Since 1992, five major car producers have entered this market, increasing the number of competitors to 13. The previous market leader for multi-purpose cars, Renault, has seen its share reduced from 50,7 % in 1992 to 13,7 % in 1997. It should also be noted that from the customer's point of view multi-purpose vehicles can often be substituted with cars belonging to other segments, for instance estate cars. Other major European and Japanese manufacturers hold market positions above 10 % in segment M in those countries where Chrysler's share is high (Finland: General Motors with 21 % and Mitsubishi with 12.7 %; Spain: Volkswagen with 12,5 %, Nissan with 12,1 % and Renault with 11,2 %; Sweden: Volkswagen with 25,8 % and Ford with 15,6 %; Norway: Mitsubishi with 14,1 %). Finally, it should be noted that the multi-purpose vehicle segment in these countries is a small one. In Finland it accounts for 1,1% of the national passenger car market, in Sweden for 3,1 %, in Spain for 1,8 % and in Norway for 4,4 %.

18. In segments E (executive cars) and S (sport coupés), the combined shares at EEA level are 24.5 % each. At national level, combined market shares exceeding 25 % are attained in segment E (Austria: 33.2 %; Germany: 32.5 %; Greece: 40.5 %; Ireland: 29 %) and segment S (Austria: 28.3 %; Belgium: 28.4 %; Finland: 44.8 %; France: 27 %; Germany: 32.1 %; Greece: 25.5 %; Ireland: 29.7 %; Luxembourg: 31.1 %; Portugal: 36.7 %; Spain: 26.5 %). However, in each of these segments the overlap between both companies' products is limited. Daimler-Benz' present position largely accounts for the scale of the combined market share. The increment of market shares is low. In segment E, Chrysler adds 0.2 % EEA-wide, 3,3 % in Austria, 0,1 % in Germany, 0,1 % in Greece and less than 0,1 % in Ireland. With its Vision and 300 M models,

Chrysler offers cars which are primarily designed for the North-American market. The market for executive cars is highly competitive. BMW/Rover's share is 22,2 % at EEA level, followed by Volvo with 12,1 %, General Motors with 12,1 % and Volkswagen (Audi) with 11.8 %. In those countries listed above where Daimler-Benz has the highest shares in segment E, BMW also has high shares (between 21,2 % and 27,2 %). In segment S, Chrysler offers the Viper, a high-performance sports car targeted at enthusiasts and collectors. The addition resulting from Chrysler's sales in this segment, i.e. 0,1 % EEA-wide and less than 0,3 % in any of the countries listed above, is negligible. BMW/Rover, the main competitor in this sector, holds a higher share than Daimler-Benz and Chrysler together in the EEA (28,5 %) and similar or higher shares in the individual countries mentioned above (between 20,4 % and 33,3 %).

VI. CONCLUSION

19. The overlap between the product ranges of Daimler-Benz and Chrysler is limited. The merger will only have a limited effect on the industry's level of concentration. The position of other competitors remains unaffected. In particular, there are no indications that the merger will raise entry barriers in the passenger car market or any distinct part of it. Therefore, the Commission has concluded that the proposed concentration is not likely to create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the common market or the EEA, or a substantial part thereof.

20. 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 functioning of the EEA Agreement. This decision is adopted in application of Article 6 (1)(b) of Council Regulation No 4064/89.

For the Commission,