

*Case No COMP/M.1849 -
SOLETRON /
ERICSSON SWITCHES*

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 29/02/2000

*Also available in the CELEX database
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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 29.02.2000

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EEC) No 4064/89 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 Where possible the information omitted has been replaced by ranges of figures or a general description.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 Sirs,

Subject: Case No COMP/M.1849 – SOLECTRON/ERICSSON

Notification of 31.01.2000 pursuant to Article 4 of Council Regulation No 4064/89

1. On 31.01.2000, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which the US company, Solectron Corporation (“Solectron”), acquires sole control over part of the Swedish corporation, Telefonaktiebolaget LM Ericsson (“Ericsson”). The part of Ericsson concerned consists essentially of its manufacturing units for the production of hardware for telecom switching systems, located in Sweden and in France, and certain assets supporting the said production, located in Sweden.
2. Following examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EEC) and does not raise serious doubts as to its compatibility with the common market and with the EEA Agreement.

I. THE OPERATION AND THE PARTIES

3. The proposed operation consists of the acquisition by Solectron of certain assets (machinery, equipment and inventory), as well as the transfer of personnel, belonging to four wholly-owned subsidiaries of Ericsson. Three of the said subsidiaries, Ericsson Utvecklings AB, Ericsson Telecom AB and Ericsson Radio Systems AB, are located in Sweden and the fourth, MET, is located in France.

4. Solectron is a global undertaking in the electronics industry providing manufacturing solutions to original equipment manufacturers (“OEM’s”), most particularly in the telecommunications and computer industries. The manufacturing services provided by Solectron include, inter alia, assembly, testing, volume production and new production introduction.
5. Solectron is mainly active in the assembly and supply of printed circuit boards (“PCBA’s”) for the telecommunications and computers sectors. In Europe, Solectron is present across several member states, including Sweden and France, where its subsidiaries are participating in the operation.
6. Ericsson is a global corporation involved in the manufacture and supply of telecommunications systems and equipment and operating in various fields related to the telecommunications sector. The units of the four Ericsson subsidiaries, of which the assets (“the target”) are the object of the proposed operation, are dedicated essentially to the production of telecom switching hardware.

II. CONCENTRATION OF A COMMUNITY DIMENSION

7. The operation will result in the acquisition by Solectron of sole control over the target and thus constitutes a concentration within the meaning of Article 3.1.b. of the Merger Regulation.
8. Solectron and the target have a combined aggregate worldwide turnover in excess of €5,000 million (Solectron, €7,485 million and the target, [...]). Both Solectron and the target have a Community-wide turnover in excess of €250 million (Solectron, [...] and the target, [...]), and they do not both achieve more than two-thirds of their respective aggregate Community-wide turnovers within one and the same Member State. The notified operation, therefore, has a Community dimension.

III. COMPATIBILITY WITH THE COMMON MARKET

A. Relevant markets

9. Solectron’s main activity concerns PCBA’s, for which it provides physical design, component engineering, test program development and prototype building. PCBA’s are used in telecom switches and in computers. Through the concentration Solectron will acquire Ericsson’s manufacturing units for the production of telecom switching systems hardware, a product in which Solectron has no activities and which is downstream to that of the PCBA’s Solectron produces. Thus the operation does not lead to any horizontally affected market.
10. With regard to the vertical aspect of the proposed operation, the telecom switching hardware activities, being acquired by Solectron, have, within Ericsson, constituted an intermediate part of the production process for telecom switching systems, in which an additional industrial step, in the form of the incorporation of the relevant switching software (which activities will remain within Ericsson), took place before the product was finalized for sale to Ericsson’s customers. Thus, the switching hardware resulting from these activities was a captive product within Ericsson and, as such, did not generate, in itself, a turnover in the market to which any market share can be attributed. Thus the particular nature of the operation does not allow for any vertically affected market.

B. Background and rationale of the operation

11. It seems, from the information provided by Solectron, that in 1997, within the context of Ericsson's strategy of outsourcing non-core activities, Solectron became a non-exclusive supplier of Ericsson's for PCBA's for telecom switches. The present operation is described as constituting an expansion by Ericsson of that outsourcing strategy, so as to allow it to focus on its core activity of developing new telecom products and systems. For Solectron, it is described as an expansion of its industrial activities in order to benefit further from economies of scale in the electronics manufacturing services industry. In this context, Solectron expects that the operation, apart from affording it the capacity to offer Ericsson a full assembly service of switches, will provide it with the potential to broaden its customer base for telecommunications switches to include other OEM's.

C. Conclusion

12. Thus, the only immediate effects of the operation would seem to be, on the one hand, an expansion of Solectron's range of industrial activities with the addition of telecom switching hardware to its product portfolio, and, on the other hand, an internal streamlining by Ericsson of its manufacturing activities, in the context of its on-going strategy of outsourcing non-core activities. In the circumstances, it is considered that the proposed operation does not lead to the creation or strengthening of a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

IV. ANCILLARY RESTRAINTS

13. Solectron has entered into a non-exclusive Specific Supply Agreement with Ericsson which, pursuant to Section 3.2 of the Agreement, provides for the supply by Solectron to Ericsson of [...] volumes of telecom switching hardware during the [...] years following the implementation of the concentration. In relation to this provision, Solectron submits that, to enter the concentration, Ericsson needed to secure continuity during a transitional period in its supply of telecom switching hardware (previously supplied within its integrated business). In this context, this particular provision of Section 3.2 of the Agreement can be considered to constitute an integral part of the concentration.

V. CONCLUSION

14. 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.

For the Commission,