

***Case No COMP/M.2069 -
ALSTOM / FIAT
FERROVIARIA***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 18/09/2000

*Also available in the CELEX database
Document No 300M2069*



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, **18/09/2000**

SG(2000)D/106827

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.2069 – Alstom/FIAT Ferroviaria

Notification of 17 August 2000 pursuant to Article 4 of Council Regulation No 4064/89¹ (hereafter “the Merger Regulation”)

1. On 17 August 2000, the Commission received notification of a proposed concentration by which the undertaking Alstom Holdings (“Alstom”) will acquire sole control of Fiat’s rail transportation business Fiat Ferroviaria S.p.A. (“FF”).
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 serious doubts as to its compatibility with the common market and with the EEA Agreement.

1. THE PARTIES

3. Alstom is a French company operating world-wide whose main activities are the production of equipment for energy generation, transmission and distribution, power

¹ OJ L 395, 30.12.89 p.1; corrigendum OJ L 257 of 21.09.90, p.13; Regulation as last amended by Regulation (EC) No 1310/97 (OJ L 180, 09.07.97, p.1, corrigendum OJ L 40, 13.02.98, p.17).

conversion, shipbuilding and railway. Its railway product range includes rolling stock such as passenger and freight trains, locomotives, railway signalling, train control systems, train equipment and associated services.

4. FF is an Italian company active in the design, production, manufacture, marketing and sale of trains and train equipment.

2. CONCENTRATION

5. Alstom will acquire 51% of FF, with a call option to acquire the remaining 49% during [...] 2002. Fiat has a put option to sell its stake during [...] 2002 to Alstom. Fiat will have minority rights only and does, therefore, not have joint control over FF. Consequently, the notified operation constitutes a concentration within the meaning of Art. 3(1) b of the Merger Regulation.

3. COMMUNITY DIMENSION

6. The combined aggregate world-wide turnover in 1999 of the undertakings concerned exceeds EUR 5,000 million (Alstom EUR 16,229 million, FF EUR 375 million). The Community-wide turnover of both Alstom and FF exceeds EUR 250 million (Alstom EUR [...] million, FF EUR [...] million). Neither Alstom nor FF achieves more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. Therefore, the concentration falls within the scope of the Merger Regulation.

4. COMPETITIVE ASSESSMENT

7. The merger concerns the economic sector of railway transport.

A. Relevant product markets

8. In its decision M.580 ABB/Daimler Benz² the Commission has categorised the market for railway transport technology into the following five product groups: mainline trains, regional trains, local trains, wayside systems and miscellaneous. These product groups were further subdivided into, inter alia, electrical and diesel locomotives, electrical and diesel multiple units (EMU and DMU), passenger coaches and freight waggons, trams and underground trains, components, spare parts and maintenance etc. These subdivisions constituted relevant product markets. The market investigation in this case confirmed that the delineation as in ABB/Daimler Benz is, grosso modo, still valid.
9. The parties are, however, of the opinion, that the distinction between mainline and regional trains is not a clear one. The main difference between the two is speed. Alstom treats trains with an operating speed above around 220 km/h as mainline trains, whereas FF sets this threshold at 200 km/h. Others have proposed a speed range of between 160 and 250km/h for mainline trains. Moreover, mainline and regional trains could be fitted with various rail technologies and get close in terms of cost and comfort. This is,

² Case IV/M.580 ABB/Daimler- Benz, Decision of 18 October 1995. OJ L11/1997, p.1

according to the parties, evidence that the two products do overlap and, consequently, belong to the same product market.

10. While there is a certain degree of overlap between the two product markets for at least some products in the market there are several features which render a distinction valid. For regional trains speed is not an overriding issue due to frequent stops on those routes. There seems to be agreement that regional trains operate at speeds of up to 160 km/h. Car capacity is more important for regional trains than comfort. These product requirements are reflected in the technical profile of the product, e.g. propulsion systems are designed for lower operating speed, the interior layout is focussing on functionality. A majority of competitors and customers supports the view of two distinct product markets for mainline and regional trains.
11. Some market operators are of the opinion that high-speed trains constitute a separate market. High speed trains such as the French TGV by Alstom or the German ICE are complete train sets which operate at speeds of above 250 km/h, usually between 270 and 300 km/h, on dedicated tracks. However, the question of whether high speed trains constitute a separate product market can be left open since FF does not have specific high speed train technology, and hence there is no overlap.
12. Lastly, tilting trains could be seen as a separate product market. Tilting trains allow higher speeds up to 250 km/h on existing tracks due to the ability of the train to lean into curves. Tilting technology has been introduced by FF in the mid-seventies. According to the parties, tilting equipment represents about [less than 15%] of the value of a train. Today, all major suppliers have developed their own tilting technology, apart from Alstom. Therefore, the question whether tilting trains constitute a market of their own can be left open since there would not be any overlap.

B. Relevant geographic markets

13. The parties submit that the rail transport industry has evolved considerably towards internationalisation since the ABB/Daimler-Benz decision was adopted. The market for trains is now a European one. Arguments brought forward by the parties include the following. First, all European rail transport companies bid across Europe and outside Europe. Second, the EU public procurement rules are applicable also to train tenders and have undermined the practice to award significant contracts to national champions. An increasing number of EU countries such as Finland, Great Britain, Portugal and Spain have awarded contracts to rail transportation companies from other EU countries and, in one instance, to a Japanese manufacturer (Ireland).
14. European-wide bidding has, furthermore, led to increasing standardisation of rail equipment and infrastructures, leading not only to reduced costs but also to interoperability of rail vehicles. By way of example, the integrated *Thalys/Eurostar* network spans France, Benelux and Germany. There is, therefore, a trend towards the creation of a pan-European, standardised railway system.
15. Thirdly, local service and maintenance operations are increasingly not required in order to win bids. Suppliers have won bids in countries where the bidder has no local production facilities or presence. For example, FF has won a contract in Finland without a local presence. There is also a trend towards separating contracts for supply of rail vehicles from contracts for their maintenance for which a local presence is usually required.

16. Lastly, the parties point at the fact that even in certain EU countries such as Germany, France and Italy where contracts were traditionally awarded to companies with a national foothold or to a consortia that included a local company as the prime contractor, bids were won by train manufacturers from other EU Member States. For example, Adtranz has won a contract for trams in Milan and for locomotives in Italy.
17. However, in those member states where there is a national supplier market shares for companies outside that state are usually very low. It might be noted that Alstom has 100% of the French market for mainline and regional trains and 70% for local trains. FF, on the other hand, shares the Italian market with AnsaldoBreda and Firema for mainline and regional trains and had more than [...] of the market for local trains over the period of 1995-1999. Figures for Germany are similar, where Siemens got 100% of the market for mainline trains. This might be for historic reasons, because of familiarity with national technical specifications or the requirement to have some form of local product support. In any event, despite a trend towards a European-wide market, the markets for those countries where there are strong national suppliers such as France, Germany and Italy, but also Spain and, to a lesser extent, Great Britain still seem to be national markets. The rationale of Alstom for the acquisition of FF is not the least to buy its way into the Italian market.
18. In this case the question whether the geographic scope for railway trains is still national or already European-wide can be left open since in both possible scenarios the present concentration does not give rise to competitive concerns.
19. As concerns components such as converters and sub-systems such as bogies and propulsion the parties are of the opinion that the relevant geographic market is the at least the EEA, if not the world. Customers are railway manufacturers such as Bombardier, which does not produce propulsion systems. It is common in the industry that customers from Member States purchase components and subsystems from suppliers in other EEA countries. This view has been confirmed by the market investigation. Therefore, the relevant geographic market for components and subsystems is, for the purpose of this decision, the EEA.

C. Assessment

20. The parties have overlapping activities in the following product markets: mainline, regional and local trains, propulsion, bogies and converters.

Mainline trains

21. Alstom offers two mainline train products: the TGV, which has formed the object of successful bids in France, Spain, Belgium and Korea and is being considered in other non-EU countries, and the CORADIA. The TGV reaches a maximum operating speed of 350 km and is principally used for international routes. The CORADIA is a versatile EMU train with a considerable capacity (up to 500 seats) and a maximum speed of 220 km/h. It is used for both intercity and regional routes but is mostly marketed for short distances where a high speed is required. FF's only mainline products are the Pendolino trains, the first to bear tilting technology. Pendolino are also versatile trains that include electric railcars operating at speeds of up to 250 km/h, and diesel railcars reaching a maximum speed of 160 km/h.

22. Both parties to the operation have relatively high market shares in the mainline trains sector in some member states as well as on the European level. The following table submitted by the parties provides an overview of the market shares of the two companies. The table covers the period 1995-1999 and is based on contracts awarded, not coaches delivered.

	ADTRANZ		ALSTOM		FIAT		SIEMENS		TALGO / RAUTARUUKI		ANSALDO/ BRED A		BOMBARDIER	
	nb	%	nb	%	nb	%	nb	%	nb	%	nb	%	nb	%
BEL			90	100%										
DEN	51	100%												
FIN					[...]	[...%]								
FRA			531	100%										
GER							1084	100%						
ITA					[...]	[...%]					260	57%		
NL			20	7,3%									252	92,6%
POR					[...]	[...%]								
SPA			78	30,7%	[...]	[...%]			164	64,5%				
SWE	126	100%												
UK			350	39%	[...]	[...%]							352	39,2%
Total EU	177	4,5%	1069	27,6%	[...]	[...%]	1084	28%	164	4,2%	260	6,7%	604	15,6%

23. A first glance at the above figures gives the impression of a highly concentrated market at the national level. Alstom has in fact won all awarded contracts in Belgium and France in the past five years, reaching therefore a market share of 100% in these countries, and FF has a comparable position in Finland and Portugal [...%], while its market share in Italy is [...%]. Besides Alstom and FF, other competitors also reach 100% market shares in certain EU member States. Siemens has won all bids in Germany in the relevant period giving it 100% of the market, while Adtranz accounted for 100% of the market in Denmark and Sweden. However, there are a variety of important factors that should be taken into account in the competitive analysis. As the parties underlined in their notification:

- The size of the market fluctuates considerably from year to year, since contracts are awarded infrequently. This explains why successful bidders may frequently reach as high market shares as 100% in single national markets, and it is the reason why market shares are provided for extended time periods (normally five years).
- The size of the market varies greatly in different member States and at different times. For example, in the 1995-1999 time span, Germany accounted for 28% of all mainline trains ordered in the EU and 48% of the UK orders for the same products were placed in a single year (1999).

- Also the shares of single manufacturers vary greatly from year to year. For example, Siemens won an order for mainline trains in Germany in 1996, which represented 65% of all EU orders that year. During the previous year, Siemens had 0% share of EU orders.
24. All this conjugates with a wider trend that in recent years has driven operators to reduce costs and increase efficiency, resulting in downward pressure on prices, reduced EU demand, and over-capacity.³ In figures, the notifying parties estimate that over the period 1995-1999, prices have declined by at least 30%.
25. The parties have overlapping market activities in the UK and in Spain in the 1995-1999 time period. The combined market share in the UK would be [between 55% and 65%] (Alstom 39% and FF [...%]) and [between 35% and 45%] in Spain (Alstom 31%, FF [...%]). However, there is no real addition of market shares since in both Member States FF only won contracts in a consortium with Alstom. Alstom/FF were awarded a supply contract for Alaris trains to operate on the Madrid-Valencia route and have won a contract to supply tilting trains to Virgin trains which will operate between London and Scotland. This latter consortium was formed on the basis of a co-operation agreement for the supply of tilting trains, notified to the Commission on 7 June 1999⁴. This co-operation agreement is on a non-exclusive case by case basis except in France where co-operation is exclusive in relation to the Pendolino, the X-TER and the Z-TER (two regional trains). The proposed operation, therefore, leads to the removal of a potential competitor outside France.
26. Still, since the co-operation agreement has been concluded, the parties have always submitted joint bids. Moreover, FF as a smaller supplier of mainline trains does not have the resources to always submit bids for large contracts as prime contractor. During the period of 1995-1999 it has bid on its own or as prime contractor in only [...] tenders out of a total of [...]. [...] were for the supply of tilting trains to [...]. It follows from the foregoing that the proposed operation would not bring about a substantial change in the competitive situation on the market for mainline trains.
27. Analogous considerations can be made if the relevant geographic market were the EU. By means of EU orders for the 1995-1999 period, Alstom's and FF's market shares would reach 28% and [...%] respectively. As a result of the operation, their combined market share would thus amount to [between 35% and 45%] EU-wide. However, these figures do not adequately reflect the market position of FF in the relevant market. A careful analysis of the available data on the total number of coaches supplied by FF in the EU during the 1995-1999 period reveals a downward trend for the years in which FF competed alone, with [...] coaches supplied in 1995, [...] in 1996 and only [...] in 1997. In 1998 FF did not win any contract. In 1999, FF won one contract for [...] coaches supplied in the EU, as a result of a joint bid with Alstom. The proposed concentration will therefore not have the effect of creating or strengthening a dominant position in the mainline trains market.

³ "Challenges for the year 2000", a Mercer Management Consulting Report of December 1996 prepared for DG Industry.

⁴ Case IV/F-2/37.532

Regional trains

28. On the market for regional electrical trains FF has won only one bid in the relevant period. In 1996 FF supplied [...] EMU of the Sm 4 type to Finland. Since Alstom has not won any contract over the past 5 years in Finland, there are no overlapping activities between FF and Alstom in any member state. European-wide the addition of FF to Alstom's market share of 35% is minimal [...%]. Therefore, the proposed transaction does not give rise to any competitive concern.

Local trains (trams, light railway vehicles and metros)

29. FF has won contracts only in Italy. It has manufactured trams and light railway vehicles for the municipalities in Turin and Rome. It is also a member of a consortium with AnsaldoBreda and Firema for the Rome underground system. FF's responsibility in that consortium is to manufacture the bodysells and bogies. Alstom has not won any contract in Italy in the relevant period. There is, therefore, no overlap in any member state. On a European level FF would add [less than 10%] to Alstom's 13%, totalling [between 10% and 20%] for trams and light railway. Competitors include Adtranz (25%) and Bombardier (22%).
30. Although FF has not won a contract outside Italy, FF has submitted two bids for the supply of trams in Montpellier and Lyon, which were won by Alstom. Therefore, the take-over of FF by Alstom removes one potential competitor from the market for trams in France. However, Alstom has 55% of the market, followed by Adtranz (26%) and Bombardier (19%). Moreover, there are other competitors besides FF which have submitted bids in France for local trains, albeit unsuccessfully so far. Therefore, it cannot be concluded that the impact of FF even in the event of successful bids would have changed the competitive situation in a substantial way.

Components

Propulsion

31. Propulsion (or traction) powers the movement of the train. Almost all major train manufacturers make propulsion equipment. The only exceptions are Bombardier and the Spanish CAF who purchase propulsion equipment from third parties. FF's sales to third parties are minimal and add only one percent to Alstom's 28%. The clear market leader remains Adtranz with 52%. Other competitors include Kiepe (8%), Elin (8%) and Siemens (4%). Therefore, the proposed concentration does not raise competition concerns.

Bogies

32. Bogies are the wheels and frame supporting the coaches of a train. All train manufacturers make bogies. However, less than 10% of bogies produced are sold to third parties. FF has a share of about [>50%] of the European market, followed by Siemens with 25%, Adtranz (8%) and CAF (2%). FF's high market share is the result of its successful tilting technology. An estimated [>50%] of all tilting trains in the EU incorporated FF's tilting technology. However, FF's advantage of a first mover has steadily eroded over the last 25 years, when FF first introduced tilting technology. Its share of new orders during the period 1995-1999 has decreased to [<50%].

33. Alstom has no sales of bogies to third parties in the EU. There is, therefore, no current overlap in the EU. Nevertheless, Alstom could be seen as a potential competitor. However, Alstom has no tilting technology of its own, the segment, in which FF is particularly successful. Therefore, any potential overlap will be minimal.

Converters

34. Converters convert power from the overhead lines to the train. The combined entity would become the market leader in Europe with [between 10% and 20%] of the market (Alstom [between 5% and 15%], FF [0-10%]). Competitors include Sepsa (14%), Transtechnik (12%), Siemens (10%) and various smaller companies. Therefore, the proposed transaction does not raise any competition concerns.

5. CONCLUSION

35. 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,