

***Case No COMP/M.2199 -  
QUANTUM / MAXTOR***

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: 08/12/2000

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 8.12.2000  
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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 Where possible the information omitted has been replaced by ranges of figures or a general description.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 parties**

Dear Sir/Madam,

**Subject: Case No COMP/M.2199 - Quantum HDD/Maxtor**

Notification of 08.11.2000 pursuant to Article 4 of Council Regulation No 4064/89

1. On 08.11.2000 the Commission received a notification of a proposed operation by which Quantum HDD and Maxtor will combine their operations into a single economic and legal entity.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Merger Regulation and that the concentration does not raise serious doubts as to its compatibility with the common market and with the EEA agreement.

**I. THE PARTIES**

3. **Quantum Corporation** is a US based diversified data storage company with two main activities carried out through separate businesses: the Quantum's Hard Disk Drive Group ("Quantum HDD") and the DLTape & Storage Systems group ("Quantum DSS"). Only Quantum HDD is involved in the current concentration. Quantum HDD produces hard disk drives which are used for the storage and retrieval of electronic data.
4. **Maxtor Corporation** is a US based undertaking producing information storage solutions, including hard disk drives and has manufacturing and service facilities in Singapore, Ireland and the US.

## **II. THE OPERATION**

5. As a result of the proposed operation, Quantum HDD will merge with and into a wholly owned subsidiary of Maxtor. The former holders of Quantum HDD tracking stock will become shareholders in Maxtor holding, in the aggregate, 50.1% of Maxtor's outstanding voting securities, with the original Maxtor shareholders holding, in the aggregate, 49.9% of Maxtor's outstanding voting securities. The Board of Directors of Maxtor will consist of seven members, six of whom (including the Chairman of the Board) will be designated by Maxtor and one of whom by Quantum. This type of operation is referred to in the US as a "Reverse Morris Trust" and it has been constructed in the manner described above in order to be as tax efficient as possible.

## **III. CONCENTRATION**

6. The operation is a concentration within the meaning of Article 3(1) of the Merger Regulation.

## **IV. COMMUNITY DIMENSION**

7. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion<sup>1</sup> [Quantum HDD EUR 3,248m; Maxtor EUR 2,317m]. Each of Quantum HDD and Maxtor have a Community-wide turnover in excess of EUR 250 million [Quantum HDD EUR [...] m; Maxtor EUR [...] m], 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.

## **V. RELEVANT MARKETS**

8. Both parties' activities overlap horizontally in the hard disk drive market. The parties produce hard disk drives both for OEM's and for other distribution channels. Unlike some of the other competitors in this line of business, such as IBM, neither of the parties is vertically integrated either upstream or downstream.

### ***Relevant product market***

9. Within the hard disk drive market several categories of products could be identified according to the final application (e.g. desktop; laptop and disk storage drives) with different sizes and storage capacity (e.g. 3½ inch, 40Mb and 2½ inch, 40Mb drives). In previous decisions the Commission, while noting the existence of different segments within the hard disk drive market, did not have to formally consider whether those segments constituted separate product markets. The only segment in which both Quantum HDD and Maxtor are active is that for 3½ inch drives.
10. Furthermore, hard disk drives can be differentiated on the basis of the interface between the microprocessor and the hard disk drive. The interface is the communication channel over which all the data that is read from or written to the hard

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<sup>1</sup> Turnover calculated in accordance with Article 5(1) of the Merger Regulation and the Commission Notice on the calculation of turnover (OJ C66, 2.3.1998, p25). To the extent that figures include turnover for the period before 1.1.1999, they are calculated on the basis of average ECU exchange rates and translated into EUR on a one-for-one basis.

disk flows. The most popular interface used on desktop PCs is the IDE/ATA interface<sup>2</sup>. A more advanced and flexible interface is SCSI<sup>3</sup>. The SCSI interface is used more for the server segment than for desktop PCs.

11. The Commission's market investigation has, in general, supported the view that a separate relevant market exists for 3½ inch IDE/ATA hard disk drives. Minority support for a wider relevant market incorporating all "data storage devices" was also received. However, it is not necessary to define the precise boundaries of the relevant product market, since, even on the narrowest view of the relevant product market, the concentration does not threaten to strengthen or create any dominant position.

### ***Relevant geographic market***

12. In a previous case in the hard disk drive sector<sup>4</sup> the Commission noted that "the relevant geographic market is probably a global market", although no formal definition was taken. The notifying parties have argued that the relevant product market (however defined) has a global dimension. Quantum HDD and Maxtor, and their competitors, either manufacture or source their disk drive products at facilities throughout Asia. Trade costs are low relative to the value of the products, and there appear to be no barriers to trade. Products are shipped from these facilities world-wide. Sales are typically initiated with OEMs through one central purchasing department where product qualification is conducted and pricing is set. There do not appear to be any significant differences in average unit prices between Europe and elsewhere.
13. As in *Seagate/Conner*, it is not necessary to reach a formal decision on the scope of the geographic market since, for the purposes of the EC Merger Regulation, it is sufficient to verify that the transaction does not give rise to competition issues at the EEA level.

## **VI. COMPETITIVE ASSESSMENT**

14. In the market for all hard disk drives the parties will be in [...] position in the world market with a combined market share of [20-30]%, with direct competitors holding market shares between [0-10]% and [20-30]% (Seagate will remain market leader with [20-30]%). At the EEA level the combined market share would be similar ([20-30]%). The merged entity would face competition from the same main competitors as at the global level: namely Seagate; IBM; Fujitsu; and Western Digital, all with market shares between [0-10]% and [20-30]%.
15. On the narrower basis of a market for 3½ inch IDE/ATA hard disk drives, after the concentration the merged entity will be the market leader with a global market share of [35-45]% by value, based on 1999 figures<sup>5</sup>. On the same basis, there will remain four competitors with global market shares (by value) over 10% [Seagate ([10-20]%), Western Digital ([10-20]%) Fujitsu ([10-20]%) and IBM ([10-20]%)]. On the basis of a geographical market incorporating just the EEA, the combined entity will again be

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<sup>2</sup> IDE/ATA refers to the Integrated Drive Electronics / AT Attachment Interface.

<sup>3</sup> SCSI is the abbreviated form of "Small Computer Systems Interface"

<sup>4</sup> Case No. IV/M. 656 – Seagate/Conner, 17.11.1995

<sup>5</sup> Source: IDC electronic reports

the market leader, but with a lower market share of [30-40]%.<sup>6</sup> In the EEA, the main competitors will be the same as at the global level [Seagate ([10-20]%), Western Digital ([10-20]%), Fujitsu ([10-20]%) and IBM ([10-20]%)].

16. There is also some evidence that market shares can fluctuate quite significantly in a relatively short period of time. For example, on an EEA basis, Maxtor increased its market share from [5-15]% to [15-25]% between 1997 and 1999, while Seagate's market share was [15-25]% in 1997, [10-20]% in 1998 and [15-25]% in 1999. Over the same period, Quantum's EEA market share fell from [25-35]% to [10-20]%. The results of the Commission's investigation indicate that there are few, if any, factors that would prevent manufacturers from being able to increase their output by [0-10]% to [5-15]%. It also appears that such increases in output could be achieved without having to incur major investment.
17. In addition, relationships between hard disk drive manufacturers and their customers are not on an exclusive basis. Customers have given evidence that, for reasons of security of supply and in order to enhance their ability to exert downwards pressure on the suppliers' prices, they have at least three suppliers of hard disk drives qualified to supply them at any one time. These customers have also indicated that the costs of switching demand between qualified suppliers are low. As a result of the lack of exclusivity and the ease of switching between suppliers, the combined Quantum HDD/Maxtor would not obtain a dominant position on a market for hard disk drives, however defined.

## VII. CONCLUSION

18. 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 and Article 57 of the EEA Agreement.

For the Commission,

**Mario MONTI,**  
**Member of the Commission**

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<sup>6</sup> Source: IDC 2000