

***Case No COMP/M.2260 -
HITACHI / LG
ELECTRONICS / JV***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 14/09/2001

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14/09/2001

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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 Sirs,

Subject: Case No COMP/M.2260 HITACHI / LG ELECTRONICS / JV

Notification of 13 August 2001 pursuant to Article 4 of Council Regulation No 4064/89

1. On 13 August 2001, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which the undertakings Hitachi, Ltd. ("Hitachi") and LG Electronics, Inc. ("LGE") acquire within the meaning of Article 3(1)(b) of the Council Regulation joint control of the undertaking Hitachi-LG Data-Storage, Inc. ("Hitachi-LG") by way of purchase of shares in a newly created company constituting a joint venture.
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.

I. THE PARTIES' ACTIVITIES AND THE OPERATION

3. Hitachi is a Japanese company with activities in IT and telecommunications systems, electronic devices, consumer products, power and industrial systems, chemicals, metals and cables.

4. LGE is a Korean company with activities in consumer electronics, household products; communication, switching, transmission and network equipment as well as computer peripherals.
5. Hitachi will acquire a 51 % stake of Hitachi-LG, while the remaining 49 % will be acquired by LGE. After implementation of the transaction, Hitachi and LGE will jointly control Hitachi-LG. Hitachi LG will be active in the design, development and sale of optical data storage disk drives (“ODD drives”).

II. COMMUNITY DIMENSION

6. The undertakings Hitachi and LGE have a combined aggregate world-wide turnover in excess of EUR 5,000 million¹ (Hitachi, EUR 65,926 million; LGE EUR 8,321 million). Each of them has a Community-wide turnover in excess of EUR 250 million (Hitachi [...]; LGE [...]), 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 co-operation case under the EEA Agreement, pursuant to Article 57 of that Agreement.

III. FULL FUNCTION JOINT VENTURE

7. The parties will transfer their complete ODD-drive technology portfolios to the JV and withdraw from the market. The main activities of Hitachi-LG will be R&D, design and marketing of the drives, but they will not manufacture them. The drives will be either manufactured by the parents or independent EMS² providers.
8. The joint venture will be the first of its kind for ODD-drives. It can be considered fully functional nevertheless, since the outsourcing of manufacturing is generally a trend in the high-tech industries³, especially computers and telecommunications. Furthermore, the products will be marketed under an independent brand neither referring to Hitachi nor to LG.

IV. COMPETITIVE ASSESSMENT

A. Relevant product market

9. The notifying parties state that there is a relevant product market for optical data-storage disk drives (“ODD-drives”). This market comprises both CD⁴ and DVD⁵ drives. According

¹ 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).

² Electronic Manufacturing Services: Companies who provide manufacturing services, mainly in the IT, electronics and telecom industries.

³ See cases M.2394 SCI/Nokia Networks, M.2534 SCI/Nokia Networks, M.2479 Flextronics/Alcatel, M.2358 Flextronics/Ericsson, M. 1968 Solectron/Nortel, M.1849 Solectron/Ericsson, M.2217 Celestica/NEC, M.1841 Celestica/IBM

⁴ Compact Disk: optical medium mainly used for music and data storage

⁵ Digital Versatile Disk: optical medium mainly used for videos and data storage

to the parties there are separate product markets for ODD-drives for computers and ODD-drives for living room equipment. Both parties only produce ODD-drives for computers.

CD-ROM Drives

10. This is the oldest and most basic form of ODD-drive. The capacity is about 650 MB, and they are only able to read CD-ROMs, but can not write information.

DVD-ROM Drives

11. These are more sophisticated ODD-drives, similar to CD-ROM drives, but with a much higher capacity of 4.7 GB. They are also capable of reading information, but not writing information on a disc. Due to falling prices DVD-ROM drives are increasingly replacing CD-ROM drives.

CD-R/RW

12. In addition to the functionality of a CD-ROM drive, these drives are also able to write information on an optical disk. The more modern CD-RW drives can use the same disk many times, while the older CD-R drive technology is only able to use a disk once. Because of diminishing price differences the older CD-R technology is being replaced by the newer CD-RW technology.

DVD-RAM, DVD-R, DVD-RW and DVD+RW

13. For DVDs, there are currently four primarily competing formats for writers on the market: DVD-RAM, DVD-R, DVD-RW and DVD+RW. These formats are supported by different manufacturers, have different features and are normally not compatible with each other. Due to the limited quantities produced prices for these drives are significantly higher than prices for the other types of drives.
14. Although there are significant differences between the various types of drives, there are similarities. Producers continually ensure that their products are backwards compatible, meaning that the latest DVD drive is capable of reading a first-generation CD-ROM.
15. However, it is not necessary to further delineate the relevant product markets because, in all alternative market definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area.

B. Relevant geographic market

16. The parties argue that the market is world-wide or at least EEA-wide in scope. This is due to low transportation cost, low trade barriers, high trade volumes, global products standards and globally active suppliers and customers. This has been confirmed by the market test which showed that the relevant geographic market appears to be at least EEA-wide if not world-wide.
17. It is not necessary to further delineate the relevant geographic markets because, in all alternative geographic market definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area.

C. Assessment

18. Hitachi and LGE have a combined EEA-wide market share of [10-20] % by volume (Hitachi [0-10] %, LGE [10-20] %). Their main competitors are Samsung (South Korea, [5-15] %) and Lite-ON (Taiwan, [5-15] %).
19. On a global market, the parties would have a combined market share of [10-20] % by volume (Hitachi [0-10]%, LGE [10-20]%) as well. Their main competitors are Toshiba (Japan) and Samsung (South Korea) with a market share of [5-15] % each.
20. In view of the market position of the parties to the concentration, it appears that the notified operation will have no impact on competition in the EEA. Consequently, 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.

V. CONCLUSION

21. 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