

***Case No COMP/M.2479 -
FLEXTRONICS /
ALCATEL***

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

Article 6(1)(b) NON-OPPOSITION
Date: 29/06/2001

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 29.06.2001

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Dear Sir/Madam,

Subject: Case No COMP/M.2479 - FLEXTRONICS/ALCATEL

Notification of 23.05.2001 pursuant to Article 4 of Council Regulation No 4064/89

1. On 23 May 2001, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No. 4064/89¹ (the “Merger Regulation”), by which the undertaking Flextronics International Ltd (Flextronics) acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the mobile handset manufacturing operations at Laval, France (“the Business”) of Alcatel Business Systems, belonging to the Alcatel Group (“Alcatel”) by way of purchase of assets.
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 or with the functioning of the EEA Agreement.

¹ OJ L 395, 30.12.1989 p. 1; corrigendum OJ L 257 of 21.9.1990, p. 13; Regulation as last amended by Regulation (EC) No 1310/97 (OJ L 180, 9. 7. 1997, p. 1, corrigendum OJ L 40, 13.2.1998, p. 17).

I. THE PARTIES

3. Flextronics is a global provider of Electronics Manufacturing Services (“EMS”) to Original Equipment Manufacturers (“OEMs”) in the telecommunications, networking, consumer electronics, computer, and medical device industries. Its main activity is Printed Circuit Board (“PCB”) assembly. Flextronics is a stock company under Singapore law, listed on NASDAQ.
4. Alcatel is a French corporation. It is a supplier in the telecommunications and data communications industry, offering communication solutions for mobile and fixed networks, as well as consumer products. The Business consists of the manufacturing of Alcatel mobile telephones and accessories at the Laval plant in France.

II. THE OPERATION

5. The concentration consists of the acquisition by Flextronics of the Business by way of purchase of assets.

III. COMMUNITY DIMENSION

6. The undertakings concerned had a combined aggregate world-wide turnover of more than EUR 5 billion² (Flextronics: € [...] [...], the Business, € [...] [...]) in 2000. Each of the undertakings concerned had a Community-wide turnover in excess of EUR 250 million in 2000. None of the undertakings concerned achieved more than two-thirds of their aggregate Community-wide turnover within one and the same Member State in 2000. The notified operation therefore has a Community dimension. It does not constitute a co-operation case under the EEA Agreement, pursuant to Article 57 of that Agreement.

IV. COMPETITIVE ASSESSMENT

Relevant product market

7. The parties submit that the relevant product market is the market for EMS provided to OEMs and do not consider it appropriate to subdivide the EMS sector into specific product segments. EMS relates primarily to the assembly of printed circuit boards, mainly in the consumer electronics, telecommunications, computer, medical, and automotive industries. According to the parties, EMS providers frequently do and have the capability to supply different electronic products primarily to the consumer electronics, telecommunications, computer, medical, and automotive industries.
8. The Commission’s investigation has shown that EMS providers are normally capable of manufacturing on an outsourcing/procurement basis various types of electronic products for OEMs operating in different end user sectors. All EMS providers seem to have the capability to switch their production, as required, according to orders from time to time received from the OEMs. In particular, the fixed assets, manufacturing personnel and the process required to manufacture such products can easily be shifted over and/or modified

² 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.

to manufacture any of the various electronic products required for different companies operating in the various end user sectors. There is no manufacturing process related to the mobile phone assembly which differentiates from other mass production process.

9. Therefore, there are indications that the market is wider than EMS to manufacturers of mobile handsets. In any event, it is unnecessary to define the market further since the transaction would raise no competition concerns even under the narrowest market definition.
10. Thus effective competition would not be significantly impeded in the EEA or any substantial part of that area.

Relevant geographic market

11. According to the notification, the geographic scope of EMS for OEMs is world-wide, because customers source their supplies globally and transport costs as well as customs duties are low. In *Celestica/IBM*³, the geographic market definition was left open, but the Commission considered that the geographic market for EMS appeared to be at least EEA-wide.
12. The investigation has confirmed that given the low transport costs, low customs duties and the increased level of sourcing from various countries around the globe, the market is at least EEA-wide.

Assessment

13. If EMS were considered to form one single product market, Flextronics's post-merger market share would be about [10-20]% ([...]% Flextronics + < [...]% the Business) world-wide. In the EEA, Flextronics's post-merger market share would be [30-40]% ([...]% Flextronics + [...]% the Business). If captive production were included, the combined market share would be less than [0-10]% world-wide and about [10-20]% in the EEA.
14. As the acquisition of the Business concerns exclusively EMS to manufacturers of mobile handsets, the parties have provided market share information on this basis. Accordingly, world-wide and excluding captive production, their combined market share would be approximately [40-50]% ([...]% Flextronics + [...]% the Business). In the EEA, and on the basis of these narrow premises, their post-merger market share would be [50-60]% ([...]% Flextronics + [...]% the Business). Despite these high figures the transaction does not raise competition concerns.
15. The market investigation has confirmed that strong competitors such as Solectron, SCI, Celestica and Jabil ensure competition on the relevant market and preclude any possibility that Flextronics could acquire a dominant position. Furthermore, there are several potential competitors such as other suppliers of EMS to OEMs that at the moment do not produce mobile telephone handsets that could start to do so. Moreover, a number of the leading mobile telephone handset suppliers, such as Nokia, Motorola, Siemens and Philips, representing more than two thirds of the mobile handsets, have significant in house production capabilities. They outsource only a minor part of their

³ *Decision of 25 February 2000 in case No M. 1841.*

production requirements (ranging from 10% to 30%). Others who have outsourced their production of mobile telephone handsets could within reasonable time re-establish their own production. Moreover, as regards outsourcing, the OEMs tend to work with several EMS providers in parallel on the basis of project contracts which are of a short term (6-9 months) and which usually can be terminated on relatively short notice. These factors will represent significant competitive constraints for the new entity.

V. CONCLUSION

16. 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

Signed,
Mario MONTI
Member of the Commission