

***Case No COMP/M.2608 -  
INA / FAG***

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

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Article 6(1)(b) NON-OPPOSITION  
Date: 18/10/2001

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 18/10/2001

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PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

**To the notifying parties**

Dear Sir/Madam,

**Subject: Case No COMP/M.2608 – INA/FAG**

Notification of 18.9.2001 pursuant to Article 4 of Council Regulation No 4064/89

1. The operation consists of the proposed acquisition of the majority of the outstanding shares of the German company FAG Kugelfischer Georg Schäfer AG (FAG) by another German company INA Holding Schaeffler KG (INA).
2. After examination of the notification, the Commission has concluded that the proposed 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 the functioning of the EEA Agreement.

**I. THE PARTIES AND THE OPERATION**

3. INA Holding is the ultimate holding company of the INA Group. [...] INA is active on the worldwide level in the development, production and sale of precision components for the automotive and other industries, including engine components, anti-friction bearings and linear technique products.
4. FAG is active on the worldwide level in the design, manufacture and sale of a wide range of anti-friction bearings and individual components thereof. The company's automotive division makes bearings for engines and power trains, as well as other components for automobile manufacturers. FAG also produces and sells textile machinery accessories, abrasives, special sewing technology and materials handling systems for the clothing and upholstery industries.

## **II. CONCENTRATION OF A COMMUNITY DIMENSION**

5. The notified operation constitutes a concentration within the meaning of Article 3(1)b of the Merger Regulation. The purpose of the operation is the acquisition of sole control of FAG by INA by means of a public tender offer. The tender offer has been launched by Lugo 26. Vermögensverwaltungs GmbH, a newly acquired acquisition vehicle, which is wholly owned by Industriebaufbaugesellschaft Schaeffler KG, Herzogenaurach, Germany, a 100% subsidiary of INA Holding.
6. INA and FAG have a combined aggregate world-wide turnover of more than EUR 5000 million<sup>1</sup> (INA, EUR [...] million; FAG, EUR [...] million). Each of the undertakings concerned has a Community-wide turnover exceeding EUR 250 million 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. It does not constitute a co-operation case under the EEA Agreement pursuant to Article 57 of that Agreement.

## **III. COMPETITIVE ASSESSMENT**

### **A. Relevant product markets**

7. There are different bearing types and it seems to be common in the industry to distinguish between two main categories: “plain” and “rolling” bearings, which can be further categorised. As also confirmed by the market investigation, the parties’ activities are largely complementary. Overlaps do, however, occur in the field of certain rolling bearings which have therefore been further analysed.
8. The results of the market investigation support the product market definition proposed by INA according to which there are seven rolling bearing types, which are not substitutable from either the supply or the demand side. As regards the supply side, separate production lines or separate manufacturing facilities are used for different bearing types. Even though it seems theoretically possible to use some rolling bearings types in different applications, it is obviously inefficient to do so and it requires at least additional adaptation costs. Most bearing suppliers produce all types of bearings but in spite of that, customers buy different types of bearings separately and from different suppliers.
9. A large majority (approximately [...]%) of the total rolling bearings turnover worldwide comes from “ball bearings”. Ball bearings are suited to applications requiring high speed but involving only moderate loads. As confirmed unanimously by the results of the market investigation, two special ball bearing products are outstanding within this category. These are “precision ball bearings” and “water pump bearings”, each of which constitutes its own product market. As opposed to these two special types of ball

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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.

bearings, the remaining ball bearings are mostly commodity type bearings that are used in many different applications. While for example some competitors have considered that also some other products within the ball bearing category might be outstanding products and would constitute their own product market, the majority of the replies supported the finding that a further segmentation of ball bearings into separate smaller product markets would be arbitrary. It may therefore be concluded that precision ball bearings and water pump bearings<sup>2</sup> constitute separate product markets which are distinct within the market of ball bearings.

10. The other main category of rolling bearings are “roller bearings”. Differently from ball bearings, roller bearings are used to applications involving heavier loads and moderate average speed. As clearly confirmed by the market investigation, a distinction may be made between four different roller bearing types depending on the rolling elements used. These four types are: “tapered roller bearings”, “spherical roller bearings”, “cylindrical roller bearings” and “needle roller bearings”.
11. A narrower segmentation of bearing types according to application has not been supported by the market investigation (or in the previous Commission decision on water pump bearings).
12. INA has submitted that in addition to making a distinction according to the applications, a distinction should furthermore be made on the basis of the customer type; between the Original Equipment Manufacturers/Suppliers (OEM/OES) and the Independent Aftermarket (IAM) on the one hand and automotive and industrial customers on the other hand. This has been largely supported in the market investigation and is also in accordance with the Commission’s past practise.
13. It is commonly recognised in the industry to make a distinction between OEM/OES and the aftermarket, for example on the basis of the different purchasing mechanisms applied. Most of the OEM/OES purchase directly from the bearing manufacturers. The majority of bearings (above [...]%) are sold to OEM/OES. They buy bearings in large quantities in order to integrate them into their own more complex products. The IAM covers the sales of bearings as replacement parts for cars or machines. A customer in the aftermarket seems to desire a wide variety of standard bearings in standard packaging and smaller lot sizes whereas an OEM/OES requires a customer-specific range of bearings in bigger lot sizes and often also customer-specific packaging. As a consequence, prices to IAM customers seem to be higher than to OEM/OES customers in general.
14. As regards the separation between automotive and industrial bearing markets, the investigation confirms that there are clear differences between these two. Bearings are designed for specific customers with specific requirements. On the product side the various applications require different technical solutions and technical support. For example the development of a new automotive product may be relatively demanding for a bearing supplier whereas industrial customers don’t require sophisticated development processes so often. Also the customer structure is different with a few bigger automotive OEMs and many more – but often smaller - industrial OEMs. In addition, automotive

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<sup>2</sup> The market for water pump bearings, which are used only in automotive applications, has already previously been analysed by the Commission in case IV/M.694 - SKF/INA/WPB. In its decision of 19.2.1996 the Commission defined the market for water pump bearings.

customers usually buy large quantities but a relatively small number of different parts, whereas industrial customers purchase smaller numbers of units but a larger variation of parts. This has an impact on the length of the production run. According to the market investigation it is very unlikely that a bearing produced for a non-automotive application could be used in the automotive industry.

15. On the basis of the above it may be concluded that there are separate markets for seven different bearing types which may be further divided into separate markets according to the customer type (automotive OEM/OES or IAM and industrial OEM/EOS or IAM).

## **B. Relevant geographic markets**

16. INA submits that the markets for the different types of rolling bearings sold to automotive and industrial OEM/OES are world-wide in scope. According to INA the products and production processes are the same, all main suppliers are active globally, transportation costs and trade barriers are low, prices are similar and there are significant imports into the EEA.
17. The geographic dimension of the water pump bearings market was left open in the above mentioned decision of 19.2.1996 on case IV/M.694 - SKF/INA/WPB but the Commission did consider indications towards a market larger than the EEA, due to, for example, the high level of global import activity.
18. According to the market investigation, which was confirmed by the examination of import statistics, competition in bearings does not take place on the European market but on a world-wide basis. Europe, which is the former world leader in bearings, has continuously lost market shares to Japan. EU imports of bearings have grown by [40 – 50]% in current terms since 1997 - from a recorded EUR [...] million in 1997, import increased to EUR [...] million in 1998, and to EUR [...] million in 1999 at pace with the temporary slow-down in economic activity and finally soared up to EUR [...] million last year. In the same period EU exports have increased only by [5 – 10]%.
19. Based on the market investigation, both bearing suppliers and OEM/OES which purchase bearings are active world-wide. The majority of OEM/OES apply centralised and global purchasing strategies. Both suppliers and purchasers consider bearings to be universally standardised products which are easily transported at low cost. In fact, bearings are considered to be one of the oldest and most universally normalised products; the end products and also the machines used in their production are the same worldwide. As costs for logistics are low, prices and quality of all substantial players are compared on the global market. This has been enhanced by the introduction of the Internet. Even though some variations in price and quality exist, these are not significant, and are mainly due to the different standards of automation and different labour and raw material costs. As a result, EEA imports of bearings such as those considered in the present decision vary between 20% and 30% of EEA consumption.
20. The market investigation confirmed that a small but significant, non-transitory increase in prices in the EEA would provoke imports that could constrain such a price increase. The OEM/OES purchase directly from the bearing manufacturers and do not consider it to be important that bearing suppliers are located in the proximity of their operations. Even as regards just-in-time (“JIT”) deliveries it is considered irrelevant whether the bearing suppliers’ plants are in their proximity if suitable logistics can be put in place.

JIT may therefore not be excluded by lack of proximity. Problems with supply can usually be resolved with consignment stock. It may therefore be concluded that the bearing markets for automotive and industrial OEM/OES are world-wide in scope.

21. INA assumes the geographic scope of the aftermarket to be EEA-wide. INA refers for example to Commission cases concerning car components which have concluded on an EEA-wide geographic market. Based on the market investigation there are indications towards a European market. This is due to especially the low transportation costs of bearings, uniform technical standards, absence of non-tariff barriers, the considerable trade within the EEA and the centralized sourcing strategies. A substantial amount of aftersales are accounted for by large multi-national distributors which resell to all kinds of different industries. On the other hand, the existence of a strong local distribution network seems to be an important criterion in choosing a bearings' supplier in the aftermarket. However, it is not necessary to decide on the geographic dimension of the independent aftermarkets 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, as a result of the notified concentration.

### **C. Assessment**

22. The parties' activities are largely complementary, which is mirrored, for example, in their different customer segments; INA concentrates on automotive and FAG on industrial customers which both have specific requirements as described above.
23. INA is not active in the production of precision ball bearings. The two ball bearing product types in the supply of which an overlap exists are therefore water pump bearings and other ball bearings. In roller bearings the only overlap concerns cylindrical roller bearings as INA is not active in the production of tapered roller bearings or spherical roller bearings and as FAG does not manufacture needle roller bearings.

#### *Water pump bearings*

24. Water pump bearings account for [a very small part] of global sales of rolling bearings. They are designed to reduce friction in water pumps used in combustion engines of automotive vehicles. There are no industrial applications of water pump bearings. Nor is there an aftermarket for water pump bearings as water pumps are replaced rather than repaired in case of failure. The number of water pump bearing units sold is closely related to the number of cars in service. The only market which needs to be considered is therefore the worldwide market of water pump bearings to the automotive OEM/OES.
25. Based on the market share estimates provided by both INA, FAG, their competitors and customers, the combined market share of the parties would be approximately [35 – 45]% in water pump bearings worldwide, with INA currently having a market share of [15 – 20]% and FAG [20 – 25]%. Following the acquisition INA would therefore become the market leader. Competition will, however, be secured by the presence of two big Japanese suppliers, which are NSK with a market share of approximately [...] % and Koyo with a market share of approximately [...] %. Taking into account also the considerable buyer power which the automotive manufacturers have confirmed to the Commission in their replies concerning their purchases of water pump bearings, it may be concluded that proposed concentration would not lead to the creation or strengthening of a dominant position in the supply of water pump bearings.

### *Other ball bearings*

26. The combined world-wide market share of INA and FAG in other ball bearings has been estimated to be approximately [10 – 20]% in the automotive OEM/OES market where INA would become the market leader ahead of the previous market leaders NSK and Koyo with their estimated market shares of [5 – 15]% each and SKF with its estimated market share of [5 – 15]%. In the industrial OEM/OES market INA would become approximately equal with the current market leader SKF, both having a market share of approximately [15 – 20]%. The Japanese manufacturers NSK, Koyo and NTN also have considerable market shares between 12% and 15%. According to the replies of customers, the transaction would increase competition within these markets by creating a new strong competitor of two previously smaller players.
27. Similarly, competition problems would not arise in other ball bearings for the automotive or industrial Independent Aftermarket in either EEA or national level. Following the transaction INA would not have market shares higher than 20% on EEA level and only slightly above 20% in some Member States. In both automotive and industrial after-sales, SKF would clearly remain the market leader in both the EEA and in all national markets. The position of SKF is especially strong in the industrial markets. In addition, NSK and Koyo also have considerable positions. As in the OEM markets, the market investigation suggested that the transaction would increase competition within the IAM markets by creating a new strong competitor of two currently smaller players.

### *Cylindrical roller bearings*

28. Cylindrical roller bearings account for [less than 10]% of the global rolling bearing market. They carry heavier loads than ball bearings and are used predominantly in industrial applications.
29. The combined market share of INA and FAG world-wide would not exceed 20% in the automotive OEM/OES market. In the industrial OEM/OES market their combined market share would be slightly higher, approximately [20 – 25]%. The global market leader continues to be SKF with a market share of approximately [20 – 25]% in the automotive sector and [30 – 40]% in the industrial sector. Taking into account the customer buyer power and the considerable positions of competitors, including also NSK, Koyo and NTN as well as the American manufacturer, Torrington, competition problems are unlikely to arise. The market investigation confirmed that the transaction would on the contrary increase competition by creating a new strong competitor.
30. Similarly, competition problems would not arise in cylindrical roller bearings for the automotive or industrial Independent Aftermarket in either EEA or national level. Following the transaction INA would not have market shares above 20% in EEA in either the industrial or the automotive sector. On Member State level INA would have market shares higher than 20% in some Member States but only in the automotive sector. However, even in those Member States SKF continues to be the clear market leader. On EEA level and in most of the Member States, NSK and the American manufacturers Timken and Torrington also have considerable positions.

### *Additional demand side considerations*

31. Even though entry of new suppliers into the markets concerned does not seem probable because of the high costs of investment, there are no major technical or contractual reasons that would prevent bearing customers from switching between different existing

suppliers. Both industrial and automotive customers apply systematic qualification procedures when selecting a bearing supplier but brand loyalty is limited and according to the market investigation there does not seem to be any difficulty to switch between different bearing suppliers. As regards timing there is a difference between the industrial and automotive sectors. In the industrial sector switching can be carried out rather quickly, according to some estimations even in one month's time. In the automotive sector switching would take a [considerably longer time] due to the higher level of customisation and longer term contracts.

*Additional supply side considerations*

32. It is obvious that economies of scale are necessary in order to be profitable in this industry. According to the Commission market investigation, customers do not seem to be particularly concerned about the operation. Most of them see the transaction as having a neutral or even a positive impact on their business.
33. The bearing industry is a mature industry in which prices are declining. INA sees the transaction as necessary in order to ensure the parties' global competitiveness in the new highly competitive environment. Major suppliers are aggressively expanding the geographic scope of their activities and importation into the EEA, also from China, is increasing. As regards importation from Japan, Europe has continuously lost market shares since the Japanese Government and industry launched in 1962 their strategic industrial policy campaign to dominate the world bearings market. The EU anti-dumping measures in the 1980s and first half of the 1990s against Japanese bearings slowed down the pace but could not stop it - Japan became the world leader in 1993. By 1997 the Japanese campaign had finished after having attained its objectives. Dumping is an important factor behind the Japanese domination but the single most important factor is the foreclosure of the Japanese bearings distribution network to foreigners.
34. Some competitors have argued that following the transaction INA would become the only full range supplier of bearings. It must be noted, however, that according to the Commission market investigation most customers buy their bearings separately from different suppliers. In addition, it is obvious that in this industry economies of scale may be gained especially through specialization. Furthermore, even following the proposed transaction, INA would not be the only full range supplier as for example NSK and Koyo already sell the entire range of bearings. Torrington and NTN also sell the entire range of bearings with the exception of water pump bearings. However, the potential range effects resulting from the combination of the two firms' product portfolios would have to be weighed against the economies of scale generated by product specialists that produce a limited number of products in high quantities. Such a strategy would be supported by the specific economics of the industry, that is, economies of scale primarily at the plant level and low transport costs enabling global supplies from a small number of production plants. Customers have, in addition, stated that INA/ FAG's market position is not strong enough in any of the various product segments for a tying strategy to be a viable option.
35. Based on the above, it may be concluded that the proposed concentration would not lead to the creation or strengthening of a dominant position in any of the markets considered.



#### **IV. CONCLUSION**

36. 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

Mario Monti  
Member of the Commission