

*Case No COMP/M.2928 -  
ALCOA / FAIRCHILD*

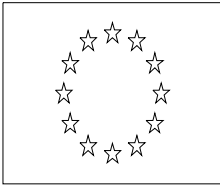
**Only the English text is available and authentic.**

REGULATION (EEC) No 4064/89  
MERGER PROCEDURE

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**Article 6(1)(b) NON-OPPOSITION**  
**Date: 14/10/2002**

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14/10/2002

SG (2002) D/232136

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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. 2928 –Alcoa / Fairchild Fastener Business**  
Notification of 11 September 2002 pursuant to Article 4 of Council Regulation No 4064/89<sup>1</sup>.

1. On 11 September 2002, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which the US company Alcoa Inc. acquires within the meaning of Article 3(1)(b) of the Council Regulation sole control of part of the US undertaking Fairchild Corporation, namely Fairchild's Fastener Business ("FFB") 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 and with the EEA Agreement.

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<sup>1</sup> 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 TO THE OPERATION**

3. Alcoa is active in all major aspects of the aluminium industry. Through its subsidiary Huck International Inc. (“Huck”), Alcoa manufactures industrial and aerospace fasteners and fastener installation tools.
4. Fairchild is active in aerospace distribution and real estate operations and has taken the strategic decision to sell off its fastener systems activities which are grouped in the Fairchild Fastener Business (“FFB”).

## **II. THE OPERATION**

5. Alcoa will acquire sole control of FFB by way of the acquisition of assets. Therefore the proposed operation constitutes a concentration within the meaning of Article 3 (1) (b) of the Merger Regulation.
6. The worldwide turnover of Alcoa in the financial year 2001 was €25,5 billion and the worldwide turnover of FFB for the year 2001 was € [...] million. As such, the combined worldwide turnover of the parties is well in excess of € 5,000 million. The two undertakings have an aggregate turnover of more than € 100 million in six member states and in three member states the turnover of each of Alcoa and FFB is more than € 25 million ([...]). Furthermore, the Community-wide turnover of each of Alcoa and FFB is more than € 100 million (Alcoa € [...] million, FFB € [...] million). Moreover, neither Alcoa nor FFB have more than two-thirds of their EU turnover in one and the same member state. The concentration therefore has a Community dimension pursuant to the Article 1(2) of the Merger Regulation.

## **III. COMPETITIVE ASSESSMENT**

### *Relevant Markets Definition*

7. Both Huck and FFB design, manufacture and sell industrial and aerospace fasteners and fastener installation tools. Fasteners are mechanical devices that join or clamp separate components together. Nuts, bolts and screws are the most common forms of fasteners.
8. Aerospace fasteners are to be distinguished from the low-cost, commodity products used for mainstream industrial applications on the basis of the more demanding materials and finish requirements for aerospace applications. Fasteners for aerospace applications are manufactured to higher tolerances in terms of dimensions, fatigue and tensile strengths. As all aerospace components, aerospace fasteners are submitted to rigorous quality and certification requirements.
9. Aerospace fasteners are either produced specific to customer requirements or according to a particular standard for which the manufacturer holds quality approvals. The fastener specifications are decided at the design phase and remain for the lifetime of the aircraft or engine. This significantly reduces the potential for demand side substitution between fastener product families and fastener technologies. Fastener installation tools are proprietary. Therefore, the assessment for fastener installation tools follows that of the fastener products.
10. The parties have identified fastener product families (i.e., screws, reusable bolts, nuts, permanent bolts and pins, collars, blind rivets, blind bolts and panel fasteners) on the basis of broad product requirements. The market investigation has confirmed that each

of these fastener families can be considered as a distinct product market. Applying more narrowly defined fastener product markets would reduce the competitive overlaps between the parties as they focus to a certain extent on different fastening technologies.

11. The market investigation has indicated that the above markets cannot be further delineated according to the aerospace application they serve (such as large commercial aircraft, regional commercial aviation, helicopters, general aviation, etc.). Although demand substitutability can be limited for particular applications, standard fasteners can be used across the different applications. In addition, there is a certain degree of supply substitutability on the basis of the functionality of the products and the suppliers' capabilities across the applications. However, due to different engineering and material requirements, it appears relevant to distinguish between fasteners for airframe applications on the one hand and aerospace engine applications on the other hand. In any event, with regard to aerospace fasteners, the precise market definition can be left open as such would not materially affect the assessment of the notified concentration.
12. As regards the relevant geographic market, in line with previous aerospace decisions<sup>2</sup> and as confirmed by the market investigation in this case, the above markets for aerospace fasteners appear to be world-wide in scope. Restricting the relevant market to the EEA reduces the likelihood of competitive overlaps as Huck has [above 80%] of its sales in the US. Therefore, the precise scope of the geographical market for these products can in any event be left open as such would not materially affect the assessment of the notified concentration.

### *Competition effects*

#### 2.1. Market Positions

13. Neither of the parties has a significant presence for industrial application fastener products due to the dispersed market structure. Concerning the aerospace industry, the market investigation has indicated that there are no competitive overlaps for engine application fasteners. FFB and Huck have not competed against each other in these fastener markets. For airframe applications, the parties' activities overlap to a certain extent leading to affected markets for screws, nuts, permanent bolts and pins and panel fasteners. The transaction does not lead to competitive overlaps on the remaining markets.
14. FFB holds a commanding worldwide market share of [50% - 60%] for nuts ([50% - 60%] in the EEA), but Huck adds less than [0% - 10%] to this on a worldwide level with no sales on an EEA level. Equally for screws, Huck has no EEA sales and adds less than [0% - 10%] on a worldwide level (total combined worldwide market share of [20% - 30%], and [20% - 30%] in the EEA). For permanent bolts, the transaction would lead to a combined market share of [30% - 40%] (worldwide) and [30% - 40%] (EEA). Competitors have, however, assessed the merged entity's market share to be less significant. In addition, the parties' product offering appears to compete only to a certain extent as they use significantly different technologies to serve Airframe manufacturers

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<sup>2</sup> See inter alia Case No IV/M. 697 – Lockheed Martin/Loral Corporation, COMP/M.2220, GE/Honeywell, Case No COMP/M.2738, GEES/Unison.

requirements<sup>3</sup>. Alternative suppliers such as LISI ([20% - 30%] worldwide, [40% - 50%] in the EEA), SPS ([10% - 20%] worldwide, [20% - 30%] in the EEA), Air industries ([10% - 20%] worldwide, [0% - 10%] in the EEA) and West Coast ([0% - 10%] worldwide, [0% - 10%] in the EEA) are considered by the market as viable competitors with potential to expand their business.

15. FFB holds a strong position for panel fasteners ([40% - 50%] worldwide, [70% - 80%] in the EEA) whilst Huck is present on this market only to a limited extent ([0% - 10%] worldwide, [0% - 10%] in the EEA). FFB's market share stems from [...]. Customers have not voiced concerns about the merged entity's strong position. SPS ([20% - 30%] worldwide, [0% - 10%] in the EEA), Monadnock ([0% - 10%] worldwide, [0% - 10%] in the EEA), FIT ([0% - 10%] worldwide, [0% - 10%] in the EEA) and LISI ([0% - 10%] worldwide, [0% - 10%] in the EEA) are considered as viable competitors.
16. Customers do not consider Huck as FFB's closest competitor as they view most of the parties' respective products as complementary rather than competitive. Product and supplier qualifications and approvals are considered by the customers as a major barrier to entry. However, as fastener products are generally double or treble sourced, customers can switch suppliers relatively easily (1 to 3 months). Such can be considered as an effective constraint on the parties' ability to behave independently by raising prices or reducing quality and innovation. Despite the time (12 to 24 months) and investment needed to qualify alternative suppliers, customers appear to change fastener suppliers frequently. In addition, supply contracts are subject to a bidding process and contain provisions on price adjustments and guaranteed supplies.
17. The existence of patents/licences and high volume manufacturing know-how can be considered as additional barriers to entry and expansion. With regard to the latter, all competitors mentioned appear to be capable to expand their activities into new fastener markets. Where patents exist, airframe manufacturers generally demand that the technology is licensed to competing producers in order to safeguard multi-sourcing. In addition, a number of Huck's patents have expired recently.

## 2.2. Vertical integration

18. It has been verified whether the transaction could give rise to vertical relationships. Although Alcoa holds significant positions in the various aluminium segments, it does not sell aluminium to either Huck or FFB for the production of fasteners<sup>4</sup>.
19. A third party has indicated that the merger will enable Fairchild and Huck to market their products only through the Fairchild distribution channel at the expense of other traditional distributor outlets. This has not been confirmed by the market investigation. There are several independent distributors in the fastener industry which are more important than Fairchild (i.e. Honeywell, Satair, Wesco, M&M), whilst Huck is not active in the distribution segment. The independent distributors market fastener products from all major manufacturers, including FFB and Huck, in a direct service relationship

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<sup>3</sup> The vast majority of Huck's permanent bolts sales are of grooved pins whilst FFB focuses almost exclusively on threaded pins.

<sup>4</sup> Most of the aerospace fasteners use titanium or steel as the basic material.

to the airframe and engine manufacturers<sup>5</sup>. Therefore, it is unlikely that the merged entity would have the ability and incentive to exclude independent channels to distribute its products or to foreclose its competitors from access to its distribution activities.

#### IV. CONCLUSION

20. In light of the above, the Commission has concluded that the proposed transaction is not likely to 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.
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

Franz FISCHLER  
Member of the Commission  
(signed)

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<sup>5</sup> The majority of fasteners output is sold directly by the fastener manufacturer to the customer.