

***Case No COMP/M.2968 -
JABIL / PHILIPS
(CONTRACT
MANUFACTURING
SERVICES INTL.)***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 21/10/2002

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21/10/2002

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 Where possible the information omitted has been replaced by ranges of figures or a general description.

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

PUBLIC VERSION

To the notifying party

Subject: Case No COMP/M.2968 – Jabil / Philips Contract Manufacturing Services Notification of 18 September 2002 pursuant to Article 4 of Council Regulation No 4064/89¹

1. On 18 September 2002, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation No 4064/89 (the “Merger Regulation”) by which the US-based undertaking Jabil Circuit, Inc. (“Jabil”) acquires, by way of purchase of shares, the newly created company Contract Manufacturing Services International B.V. (“CMS”), the Netherlands, which will regroup the printed circuit boards (PCB) business of the Dutch corporation Koninklijke Philips Electronics N.V. (“Philips”).
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Merger Regulation and does not raise serious doubts as to its compatibility with the common market and with the EEA Agreement.

I. THE PARTIES

3. Jabil is a manufacturer of printed circuit board assemblies and systems for global electronic product companies. Jabil offers manufacturing and assembly services, including circuit design, board design, prototype assembly, volume board assembly and system assembly services.

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).

4. Philips is a multinational company active in the manufacture and sale of electronic products for domestic appliances, consumer electronics and medical purposes.
5. CMS will be set up as a holding company solely for the purposes of this transaction as a wholly owned subsidiary of Philips. It will either directly or indirectly own and operate the business activities and operations of Philips' PCB business. The PCB business consists, in particular, in the manufacturing, assembling and selling of PCBs to the consumer electronics industry.

II. THE OPERATION

6. Jabil will acquire control of the assets and activities of Philips' PCB business, related to the manufacture, assembly and sale of PCBs to the consumer electronics industry. To that effect, Philips will transfer the relevant activities and corresponding assets to dedicated legal entities in the countries where it operates its PCB business², entities which in turn will be acquired by CMS. Jabil will then acquire 100% of the shares in CMS.

III. COMMUNITY DIMENSION

7. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion³ (**Jabil € [] and CMS € []**). Each of Jabil and CMS also have a Community-wide turnover in excess of EUR 250 million (**Jabil € [] and CMS € []**), 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.

IV. COMPETITIVE ASSESSMENT

A. Relevant product markets

8. The notifying Party submits that the relevant product market is the market for electronic manufacturing services (EMS) provided to original equipment manufacturers (OEM), indicating that it would not be appropriate to further subdivide the EMS sector into different product segments. The Parties draw attention, in particular, to the high supply-side substitutability, all EMS providers being normally capable of manufacturing various types of electronic products and having the capacity to switch their production as required, depending on orders received from OEMs.
9. EMS relates primarily to the assembly of printed circuit boards, mainly for the consumer electronics, telecommunications, computer, medical and automotive industries. The results of the Commission investigations in previous cases seem to confirm that EMS providers are normally capable of manufacturing on an outsourcing/ procurement basis various types

² Philips's PCB operations are conducted at facilities located in Austria, Belgium, Hungary, Poland, Brazil, Hong Kong, Singapore and India.

³ 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.

of electronic products for OEMs operating in different end user sectors⁴. However, the Commission has not yet adopted such a precise definition of this(ese) product market(s)⁵. For the purposes of the assessment of this case, the exact product market delineation may likewise be left open, since the transaction would not raise competition concerns on any alternative market definitions considered.

B. Relevant geographic markets

10. The Parties consider that the geographic scope of the relevant market is worldwide, because (a) customers source their supplies globally and (b) transport costs and customs duties are low.
11. The Commission has left open to date the precise geographic delineation of the market(s) at stake, considering them however to be at least EEA-wide⁶. Similarly, the market definition can be left open for the purposes of the assessment of the present operation, since the transaction would not raise competition concerns on any alternative market definitions considered.

C. Assessment

12. To date, Philip's PCB business has almost exclusively provided manufacturing and assembly of PCBs for Philips in-house production, for incorporation into its final products for the consumer electronics industry. Third party sales have accounted for less than [0-10]% of the turnover generated by Philips' PCB activities. Further to the transaction, and under the terms of a [] years supply manufacturing agreement, Jabil will continue to provide PCBs to Philips, while at the same time using its newly acquired manufacturing capacity to also supply third parties.
13. According to the Parties' best estimates, Jabil's and CMS combined market share in the merchant market for EMS to OEMs will be [0-10]% worldwide and [0-10]% in the EU (and below [0-10]% at both world and the EU levels if captive production is included). On the alternative possible product market definition, namely EMS to OEMs for consumer electronics, it is estimated that the Parties' combined market share, excluding captive production, would account to [10-20]% worldwide and [10-20]% in the EU⁷, the accretion being very small (only [0-10]% and [0-10]%, respectively), since Jabil is mainly active in the production of PCBs for other end user sectors.
14. There are indications that the EMS industry is highly competitive. OEMs tend to work with several EMS providers in parallel on the basis of short term project contracts, which indicates that suppliers may be switched relatively quickly and easily. After the merger the Parties would remain constrained by powerful competitors, such as Flextronics International with considerably higher estimated market shares of 10-20 %

⁴ Case No COMP/M.2479 – Flextronics / Alcatel

⁵ Cases No COMP/M.2629 – Flextronics / Xerox and COMP/M.2815 – Sanmina – SCI / Hewlett Packard

⁶ Cases No. COMP/M.2479 – Flextronics / Alcatel, and COMP/M.2629 – Flextronics / Xerox.

⁷ If captive production is taken into account, the Parties' combined market share would reach only [0-10]% worldwide and [0-10]% in the EU.

both Community-wide and worldwide in EMS to OEMs, and above 20 % Community-wide in EMS to OEMs for consumer electronics (excluding captive production). Other large EMS providers include for example Celestica Inc., Sanmina-SCI and Solectron Corporation.

15. In addition, customers in this sector have often the capacity or the potential to manufacture their requirements of EMS internally, instead of outsourcing production to pure EMS providers. Indeed Philips will continue to provide nearly all of its PCB requirements internally until the present transaction has been completed.

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