

***Case No COMP/M.2993 -  
CARLYLE GROUP /  
QINETIQ***

Only the English text is available and authentic.

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

---

Article 6(1)(b) NON-OPPOSITION  
Date: 16/01/2003

*Also available in the CELEX database  
Document No 303M2993*



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 16/01/2003

SG (2003) D/228152

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.2993 - Carlyle Group / QinetiQ  
Notification of 04/12/2002 pursuant to Article 4 of Council Regulation  
No 4064/89<sup>1</sup>**

1. On 04/12/2002, the Commission received a notification of a proposed concentration by which The Carlyle Group (USA) ("Carlyle") acquires within the meaning of Article 3(1)(b) of the Merger Regulation control of the whole of QinetiQ Group Plc. (UK) ("QinetiQ") by way of purchase of shares.
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**

3. Carlyle is a global investment fund with interests in consumer, industrial, energy, defence and other sectors.
4. QinetiQ is currently wholly-owned by the UK Ministry of Defence ('MoD'), to which QinetiQ provides defence-related and technical advisory services. QinetiQ is active mainly in the following areas:

---

<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).

- Provision of defence-related advisory services to the MoD
  - Provision of defence-related advisory services to defence customers (non-MoD) in the UK (sub-contracting market);
  - Provision of defence-related advisory services to customers in the defence sector outside the UK (export market); and
  - Provision of research and technical advice in non-defence sectors, including transport, telecommunications, space, healthcare, energy and finance.
5. In the financial year 2002, QinetiQ achieved ca. [...] of its sales in the UK. QinetiQ provides its advisory services mainly through four operating divisions called Future Systems Technology (FST), Knowledge and Information Systems (KIS), Sensors and Electronics (S&E), and Complex Managed Services (CMS). Given the nature of QinetiQ's business (research and technical advice), QinetiQ's key "asset" is its employees, i.e. a highly skilled workforce. QinetiQ's fixed assets mainly include land, buildings and surplus properties but also other assets such as plant, machinery, IP, computers, vehicles, aircraft and ships.

## **II. THE OPERATION**

6. Carlyle will acquire 51% of the voting shares in QinetiQ. MoD will retain a financial stake in QinetiQ in order to share in any initial growth, but MoD's stated intention is to divest its entire interest in the longer term.

## **III. CONCENTRATION**

7. Post transaction Carlyle will control QinetiQ through ownership of a majority of the voting shares. This acquisition of control constitutes a concentration within the meaning of Article 3(1) of the Merger Regulation.

## **IV. COMMUNITY DIMENSION**

8. In view of the worldwide and Community turnover figures of Carlyle and Qinetiq, the concentration has a Community dimension pursuant to Article 1(2) of the Merger Regulation.

## **V. THE RELEVANT MARKETS**

9. According to the notifying party the relevant product market is the overall market for the supply of research, technical advice, testing and evaluation and related services to customers in the defence and other sectors (see the description of QinetiQ's activities in section I above). The notifying party argues that this market is worldwide in geographic scope since most customers invite both domestic and non-domestic suppliers to bid for contracts to supply the advisory services in question.

10. The precise delimitation of the relevant service and geographic market can be left open, since there is no horizontal overlap between QinetiQ's and Carlyle's activities. Carlyle's only interests in the defence sector are investments in manufacturing companies, not companies providing advisory services such as those offered by QinetiQ.

## **VI. ASSESSMENT**

11. QinetiQ's market share is negligible on the market as proposed by the parties, that is, a worldwide market for the supply of research, technical advice, testing and evaluation and related services to customers in the defence and other sectors. Currently, sales to MoD account for approximately [...] of QinetiQ's revenues. However, it is the purpose of the proposed transaction to enable QinetiQ to become a fully commercial business organisation and to grow its commercial, i.e. its non-MoD, businesses. Within the UK defence advisory services sector, QinetiQ competes with companies such as BAE, Thales, Logica, GKN, and so on.
12. Carlyle controls five companies based in the US with some activities in defence sector manufacturing, a market related to the advisory services offered by QinetiQ. These companies are active mainly in the US, and have only limited activities in the EEA. Vought Aircraft Industries is a manufacturer of commercial and military aircraft structures and components. The Aerostructures Corporation designs, manufactures and assembles large aero structures components mainly for commercial planes, but to a very limited extent for military planes. Sippican is active in oceanographic and meteorological data collection and in ship defence systems (e.g. missile launchers). Forged Metals is a manufacturer of forged metals products for the aerospace, power generation and other sectors. United Defense Industries is active in the design, development and production of combat vehicles, artillery, naval guns, missile launchers and precision munitions, and is a prime contractor for a number of U.S. military programmes.
13. The Commission has conducted an investigation of UK prime defence contractors and Carlyle's EU competitors to establish whether post-merger QinetiQ, acting in an advisory capacity, could favour the aforementioned Carlyle-controlled companies and foreclose other competing companies from supplying MoD or other customers. According to the information submitted by interested parties, although post-merger QinetiQ would in principle be in a position to recommend to customers the products supplied by the aforementioned Carlyle-controlled companies, these customers are sophisticated and knowledgeable purchasers who normally make their sourcing decisions on the basis of the evaluation of competitive bids. The merger could not therefore create serious foreclosure effects.
14. In view of the absence of horizontal overlap between the activities of QinetiQ and those of Carlyle, and the lack of serious concerns about foreclosure effects, the merger will not create or strengthen a dominant position.

## VII. CONCLUSION

15. 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