

***Case No COMP/M.3011 -  
TIMKEN /  
TORRINGTON***

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: 23/01/2003

*Also available in the CELEX database  
Document No 303M3011*



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 23/01/2003

SG (2002) D/228208

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.3011 - Timken/Torrington  
Notification of 10 December 2002 pursuant to Article 4 of Council  
Regulation No 4064/89<sup>1</sup>**

1. On 10 December 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 based company The Timken Company ("Timken") notified its intention to acquire within the meaning of Art 3(1)b of the Merger Regulation the worldwide Torrington Engineered Solutions Business ("Torrington") from the Ingersoll-Rand Company Limited ("IR").
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 functioning of the EEA Agreement.

**I. THE PARTIES**

3. Timken is an international producer of anti-friction bearings (AFB's), particularly "tapered roller bearings", and alloy steels. Its global headquarters are located in Ohio, USA.

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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).

4. Torrington is also an international producer of AFB's, in addition to which it produces special automotive equipment. Torrington has a particular focus on the production of "needle roller bearings".
5. Torrington is wholly owned by IR which is headquartered in Hamilton, Bermuda. IR is active in several business sectors, such as climate control, industrial productivity, industrial products, infrastructure and safety and security.

## **II. CONCENTRATION**

6. The notified operation consists of the proposed acquisition of sole control by Timken of the entire Torrington business from IR. The acquisition is based on a Stock and Asset Purchase Agreement, signed 16.10.2002. A part of the total consideration for the transaction will be paid in cash and the remainder will be satisfied by the issuing of shares to IR representing approximately 11% of the entire share capital of Timken. IR's participation is essentially passive and will be insufficient to confer decisive influence. In particular, IR will not be granted any board representation or material veto rights. The operation thus constitutes a concentration within the meaning of Article 3(1)(b) of Council Regulation (EEC) No. 4064/89, as amended.

## **III. COMMUNITY DIMENSION**

7. The Timken and Torrington combined aggregate worldwide turnover exceeds EUR 2.5 billion but is less than EUR 5 billion. However, in each of France, Germany, Italy and the UK, their combined aggregate turnover is more than EUR 100 million and in each of these countries the aggregate turnover of each of Timken and Torrington is more than EUR 25 million. In addition, the aggregate Community-wide turnover of each of Timken and Torrington is more than EUR 100 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 under Article 1(3) of Council Regulation (EEC) No. 4064/89, as amended.

## **IV. COMPETITIVE ASSESSMENT**

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

8. According to Timken, the relevant market in which the parties operate, and in which the parties' activities overlap horizontally, is that of the manufacture and supply of AFBs. In addition, there is a vertical overlap as Timken is also active in the production of alloy steels, a portion of which is consumed in its own AFB activities as well as by some other AFB manufacturers.
9. AFBs use the principle of rolling motion to reduce friction and assure the smooth performance of rotating elements within the mechanical subsystems or machinery and equipment. AFBs are used as an input in a wide variety of manufactured products, such as industrial machinery and motor vehicles.
10. Timken submits that there are five main types of AFBs which need to be analyzed for the purposes of this transaction. These main types, which may be categorised for example according to the shape of the rolling element, are: ball bearings, tapered roller bearings (TRBs), cylindrical roller bearings (CRBs), spherical roller bearings (SRBs) and needle roller bearings (NRBs). According to Timken the load, speed,

bearing life, operating environment and lubrication vary between these types of bearings. The desired type of bearing would usually be selected at the product design stage, depending on the performance requirements of the end-use application in question.

11. The Commission has previously considered AFBs in a recent decision in case INA/FAG<sup>2</sup>. The Commission considered first of all that two main categories of bearings could be distinguished; “plain” and “rolling” bearings. The Commission considered that rolling bearings contain two large categories, which are “ball bearings” and “roller bearings”. Further within these two large categories of “rolling” bearings the Commission identified the following product markets: “precision ball bearings” and “waterpump bearing” (which belong to the ball bearing category) as well as “tapered roller bearings”, “spherical roller bearings”, “cylindrical roller bearings” and “needle roller bearings” (which belong to the roller bearing category). Altogether seven separate product markets were identified in the Commission decision. These bearing types were not considered to be substitutable from either the supply side or the demand side. Any narrower segmentation was not supported by the market investigation. However, it was also found that these markets could be further divided into separate markets according to the customer types; automotive Original Equipment Manufacturers/Suppliers (“OEM/OES”) or industrial OEM/OES as well as automotive Independent Aftermarket (“IAM”) and industrial IAM.
12. Timken submits in its notification that the market definitions included in the Commission INA/FAG decision are generally recognized within the industry as setting forth meaningful product and customer segmentation. However, Timken considers that it might also be appropriate to analyse the industry with reference to an overall AFB market.
13. The results of the Commission market investigation largely support the product market definitions given in the INA/FAG decision. Demand-side substitutability between the mentioned bearing types is generally considered to be limited because of their different characteristics. Even though in some applications certain bearing types may be substitutable, switching from one type of bearing to another has in general been considered to take time and lead to additional costs. Whether switching is reasonable in these cases, therefore depends on a cost – benefit assessment. The investigation also confirms that customers usually buy different types of bearings separately and from different suppliers. From the supply-side perspective it seems that some bearing types require separate production lines, whereas for certain bearing types the same equipment can be used, but that switching of production also in this case requires programming and tool adjustments. However, any narrower segmentation according to the end use or application of the bearing has not been considered necessary for the purposes of analysing the effects of the notified concentration.
14. Division into separate markets according to the customer types, as defined in the INA/FAG decision, is also supported by the results of the market investigation. It has been submitted that the competitive conditions between customer groups differ

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<sup>2</sup> Case No COMP/M.2608 – INA/FAG, Commission decision of 18.10.01, based on Art. 6(1)b of the Merger Regulation.

considerably. Especially the automotive industry seems to have specific characteristics which impact their purchasing.

15. Overlaps leading to affected markets between the activities of Timken and Torrington exist in precision ball bearings, tapered roller bearings (TRBs) and needle roller bearings (NRBs). Following the INA/FAG decision and the results of market investigation carried out, these bearing types may be considered to constitute separate product markets for the assessment of the present transaction.
16. As mentioned above, Timken is also active in the production of alloy steels, which it consumes both in its own AFB activities and sells to some other AFB manufacturers as well as to customers in other industries. Even though these activities create a vertical relationship, they do not give rise to an affected market for the purposes of this transaction. It is therefore not necessary to further delineate the relevant product markets because in all alternative 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.

#### ***B. Relevant geographic markets***

17. The Commission found in the INA/FAG decision that the markets for the different types of bearings sold to automotive and industrial OEM/OES customers are world-wide in scope. Both bearing suppliers and customers in these markets were found to be active world-wide, customers applying central purchasing strategies and bearings being universally standardised products which are transported at low cost. It was also found that competition in bearings would take place on world-wide level. Timken also supports this conclusion in its notification of the current transaction.
18. The market investigation carried out for the present transaction supports the Commission findings in the INA/FAG decision. A number of important factors, such as the level of imports into the EEA, low transportation costs, existence of technical standards and the global activities of both suppliers and customers, seem to indicate that the scope of the geographic market in the above market segments is indeed global.
19. When it comes to the automotive and industrial IAM, the Commission left the definition open in the INA/FAG decision. Based on the market investigation there were indications towards a European market, especially due to the low transportation costs, uniform technical standards, centralised purchasing strategies, absence of barriers and the considerable trade within the EEA. On the other hand, the existence of a strong local distribution network also seemed to be an important criterion in choosing a bearings supplier. Timken believes that there are clear indications of an EEA-wide Aftermarket. However, Timken notes that manufacturers' relative market positions are not held uniformly across all countries within the EEA, but submits that this is largely a reflection of a historical association between local manufacturing facilities and national industries.
20. The results of the market investigation carried out for the present transaction also imply that for the reasons explained in the previous paragraph, the geographic scope of the Independent Aftermarkets might be considered to be EEA-wide. However, it is not necessary to decide on the geographic dimension of the IAM 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.

21. Regarding Timken's activities in the production of alloy steels, it has already been mentioned above that no affected market for the purposes of this transaction may be identified. It is therefore not necessary to further delineate the relevant geographic markets either because in all alternative 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. As already mentioned above, the businesses of Timken and Torrington do horizontally overlap in the manufacture and supply of anti-friction bearings, in addition to which there is a vertical overlap resulting from Timken's position as a supplier of alloyed steel for bearing production.
23. In anti-friction bearings, following the acquisition, the combined Timken/Torrington would, together with the Japanese NSK, become the third largest producer worldwide. The German INA/FAG and the Swedish SKF would still be the market leaders. Overall the parties combined market share in AFBs would be approximately [5-15]% globally and [5-15] % in the EEA, whereas the German INA/FAG has approximately 14% world-wide and 26% EEA-wide, and the Swedish SKF 13% world-wide and 30% EEA-wide.
24. Timken submits that its product range is largely complementary to Torrington as the companies' competitive strength lie in different bearing products. According to Timken the transaction will, thus, mainly broaden its product offerings and expand its international presence,.
25. More specifically, the parties submit that [...] % of Timken's AFB sales focus on tapered roller bearings (TRBs), whereas [...] % of Torrington's AFB sales are in needle roller bearings (NRBs). However, overlaps between the parties activities exist in the production of precision and other ball-bearings, TRBs, cylindrical roller bearings and spherical roller bearings. The market investigation confirmed that Timken and Torrington specialise in different bearing categories.
26. The following affected markets may be identified. The market shares are based on the notification but they were broadly confirmed by the market investigation.
  - i) Supply of precision ball bearings to the world-wide market of industrial OEM/OES, in which the parties combined market share is approximately [10-20] %, the increment being less than [0-5] %.
  - ii) Supply of TRBs to the world-wide market of industrial OEM/OES, the combined market share of the parties being approximately [20-30] % and the increment [0-5] %. It may be noted that if the scope of the geographic market had been considered to be EEA-wide, the combined market share of the parties would have remained below [10-20] %.
  - iii) TRBs to the EEA-wide market of industrial IAM, where the combined market share of the parties would be approximately [20-30] % and the increment [0-5] %.

iv) TRBs to the national markets within the EEA of industrial IAM: combined market share of the parties approximately [20-30]% in Belgium, [20-30]% in Finland, [20-30]% in France, [30-40]% in the UK, [20-30]% in Italy, [10-20]% in the Netherlands, [0-10]% in Norway, [10-20]% in Portugal, [20-30]% in Spain and [20-30]% in Sweden. The increment remains below [0-5]%, except for Belgium and Italy where the increment would be slightly higher.

27. The parties' combined market shares do not rise considerably above 25% in any market considered, but they have relatively strong market positions in those bearing categories in which they specialize, especially in the TRB's. However, the parties will post-merger continue to face competition from a number of multinational full-range producers (SKF, INA/FAG and the three Japanese manufacturers Koyo Seiko, NTN and NSK), which also supply TRBs. When comparing market share information on worldwide and EEA-levels, it seems obvious that even in the parties strongest product markets, they would not become market leaders in the EEA. In fact, the market investigation confirms that the impact of the proposed transaction in the EEA is limited. This is partly due to the fact that Timken and Torrington have a less significant presence in the EEA and that their main focus of activities is in the USA.
28. Furthermore, the market investigation supports Timken's arguments and the Commission findings in the INA/FAG decision that the bearing industry is mature and that there is consolidation among the key customer groups. Even though one of the existing or potential alternative suppliers will as a consequence of the merger disappear from the market, bearing customers have indicated that the proposed transaction would not reduce their existing buyer power and that the operation would overall not have a negative impact on their ability to source competitively prices bearing products.
29. Concerning the production of alloy steels, the market investigation has confirmed that the notified operation would not lead to any vertical foreclosure effects resulting from Timken's position as a supplier of alloyed steels for bearing production.
30. Based on the above, it can be concluded that the proposed concentration does not create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the common market or a substantial part thereof under any of the alternative market definitions considered.

## **V. CONCLUSION**

31. 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