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*Case No IV/M.304 -
VOLKSWAGEN AG /
V.A.G. LTD*

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

Article 6(1)(b) NON-OPPOSITION
Date: 24.02.1993

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Brussels, 24.02.1993

DIRECTORATE GENERAL
FOR COMPETITION

PUBLIC VERSION

MERGER PROCEDURE -
ARTICLE 6(1)B DECISION

Registered with advice of delivery

To the notifying parties

Dear Sirs

Subject: Case No. IV/M. 304 - Volkswagen AG / V.A.G. (UK) Limited
Notification of 23.12.1992 pursuant to Article 4 of Council Regulation No.
4064/89

1. Volkswagen AG ("VWAG") notified on 23 December 1992 its proposed acquisition of 100 % of the issued share capital of its UK importer and distributor, V.A.G. (UK) Limited ("VAG") from Lonrho plc.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation No. 4064/89 and does not raise serious doubts as to its compatibility with the Common Market.

I. THE PARTIES

3. VWAG develops, manufactures and markets passenger cars, light commercial vehicles (LCV's) and related spare parts and accessories under its own name and the Audi marque. VWAG also has a 99.99 % stake in SEAT and a 31 % stake in SKODA (due to be increased to 70 % in 1995 but already affording VWAG management control).

VAG is the exclusive importer and distributor of Volkswagen and Audi cars, light commercial vehicles, spare parts and accessories to the UK, but SEAT and SKODA both distribute to the UK market through their own wholly-owned subsidiaries.

II. CONCENTRATION

4. Although Lonrho plc currently owns all the share capital of VAG, under the terms of a 1987 agreement, VWAG shares joint control of VAG with Lonrho through a Coordination Committee which takes joint decisions on major issues of commercial policy. This transaction will result in VWAG acquiring sole control of VAG and thus both represents a change in the quality of decisive influence exercised by VWAG and brings about a lasting change in the structure of the parties. It therefore constitutes a concentration within the meaning of Article 3(1)b of Council Regulation No. 4064/89.

III. COMMUNITY DIMENSION

5. The operation has a Community dimension as the combined aggregate turnover of the undertakings is more than 5,000 million ECU (38,631 million ECU), the aggregate Community-wide turnover of each of the undertakings exceeds 250 million ECU, and whilst VAG achieves more than two thirds of its Community turnover in the UK, VWAG does not.

IV. COMPATIBILITY WITH THE COMMON MARKET

6. VAG distributes passenger cars, LCVs, related accessories and spare parts. Vehicle distribution is usually undertaken through a pyramidal structure whereby manufacturers supply importers/distributors who in turn supply dealers and sub-dealers.
7. Although importers/distributors are typically given exclusive rights with regard to a Member State (as is the case of VAG in the UK), the issue of whether the distribution of passenger cars, LCV's and related accessories and spare parts comprises a national or EC market can be left open since even on the basis of national markets the proposed operation does not raise serious doubts as to its compatibility with the common market. Likewise, the question of whether the market for passenger cars should be broken down into various segments (e.g. small, medium, executive or luxury) can be left open for the same reason.

VWAG's share of the UK markets in 1991 were:

passenger cars	6.6 %
LCV's	3.1 %
spares	c. 4.0 %

and its share of any individual UK passenger car market segment did not exceed 8 %. VWAG's overall Community market shares were 16.5 % for passenger cars and 10.3 % for LCV's in 1991.

8. The proposed concentration will result in no additional market foreclosure: VAG's distribution network was reserved exclusively for VWAG group cars and will remain so following its acquisition by VWAG.

V. ANCILLARY RESTRAINTS

9. Under the terms of the Agreement between Lonrho and VWAG, Lonrho undertakes not to solicit or poach dealerships which dealt previously with VAG, or certain VAG employees, for 1 year following completion and that it will not use for a competitive purpose itself or disclose to VAG's competitors confidential information about VAG. These two conditions ensure the transfer to VWAG of the full value of VAG's assets, including goodwill and must be considered as directly related and necessary to the implementation of the concentration and thus as ancillary.

VI. CONCLUSION

10. There is no horizontal overlap between the activities of the parties and the proposed concentration will not give rise to any increment in market shares. The main economic effect will be the increase in value added by the Volkswagen Group through vertical integration of its activities in the UK market and does not give rise to any competition concerns.
11. For the above reasons the Commission has decided not to oppose the notified concentration and to declare it compatible with the common market. This decision is adopted in application of Article 6(1)b of Council Regulation No. 4064/89.

For the Commission