

***Case No COMP/M.3316 -
CELESTICA / MSL***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 18/12/2003

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 18-12-2003

SG (2003) D/233796

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.3316 – Celestica / MSL
Notification of 17 November 2003 pursuant to Article 4 of Council
Regulation No 4064/89¹**

1. On 17/11/2003, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89², as last amended by Regulation (EC) No 1310/97³, by which the undertaking Celestica Acquisition Sub, Inc. controlled by Celestica Inc. (“Celestica”) acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the undertaking Manufacturers’ Services Limited (“MSL”) by way of purchase of shares.

I. THE PARTIES

2. Celestica is a public company listed on the New York Stock Exchange and the Toronto Stock Exchange that provides electronic manufacturing services (EMS) for Original

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).

² OJ L 395, 30.12.1989 p. 1; corrigendum: OJ L 257, 21.9.1990, p. 13.

³ OJ L 180, 9. 7. 1997, p. 1; corrigendum OJ L 40, 13.2.1998, p. 17.

Equipment Manufacturers (OEMs). Operations are primarily in the communications and computer sectors through 42 facilities in the US, Canada, Mexico, Brazil, Thailand, China, Singapore, Japan, Indonesia, Malaysia, the Czech Republic and Switzerland. Celestica's EU presence is currently limited to manufacturing facilities in France, Italy and the UK. Although Celestica focuses on the communications and the computer sectors, its products can be found in a wide array of end products.

3. MSL is a publicly-owned company, listed on the New York Stock Exchange, and also has world-wide activities in EMS. It provides EMS to OEMs for a variety of products, including medical devices, industrial controls and communications equipment and it provides complementary design, logistics and repair services. A large part of MSL's revenue is derived from electronic payment point of sale ("POS") terminals. Manufacturing facilities are located in France, Ireland, Mexico, Malaysia, Puerto Rico, Singapore, Spain and the U.S.

II. CONCENTRATION

4. The subject operation consists of the proposed acquisition of all issued and outstanding shares in the capital of MSL and thus of sole control over MSL by Celestica. The operation therefore constitutes a concentration within the meaning of Article 3(1)(b) of Council Regulation (EEC) No. 4064/89, as amended.

III. COMMUNITY DIMENSION

5. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 billion⁴ (Celestica: EUR 15,266 million; MSL: EUR 902.48 million). Each of Celestica and MSL have a Community-wide turnover in excess of EUR 250 million (Celestica: [...]; MSL: [...])⁵, 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 market

6. As indicated, the business activities of both undertakings concerned are electronic manufacturing services (EMS). EMS providers manage the production of a variety of products, from low-volume, high complexity custom products to high-volume commodity products; they also supply a wide variety of value-added services at any

⁴ 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.

⁵ Including the assets acquired in 2003.

stage of the manufacturing process, from managing component procurement to designing, assembling, including high speed automated manufacturing, testing, packaging and shipping final products to OEMs.

7. OEMs are the primary customers of EMS. Typically, they are leaders in their industries, primarily in the communications and computer sectors (but also in the consumer electronics, automotive, medical, industrial and avionics sectors). OEMs increasingly outsource their products in order to reduce costs and increase flexibility. Typically, EMS companies produce volume products or those products which have high demand fluctuations or require certain skills that an OEM may not itself possess, although OEMs will retain some manufacturing capability of their own.
8. According to the parties there is one overall market for EMS to OEMs. The parties do not consider it appropriate to subdivide the product market into specific product segments, because EMS providers are generally capable of manufacturing a variety of electronic products for OEMs on an outsourcing/procurement basis.
9. Previously the Commission has considered the possible existence of narrower markets for EMS based on different end user sectors, such as communications, IT, consumer electronics, automotive, medical, industrial and avionics, as well as on the basis of very narrow product segments⁶.
10. For the purpose of the present case it is not necessary to further delineate the relevant product market, as in all alternative market definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area.

B. Relevant geographic market

11. According to the parties the relevant geographic market for the provision of EMS is global. The parties argue that EMS companies compete with each other on a world-wide basis and indicate that global presence is a factor of importance when OEMs select an EMS provider. Furthermore, the parties submit that there are no regional barriers to entry, given the rapid expansion of electronic products around the world. Also, the parties point at the low transport costs of EMS, indicating that EMS products are distributed on a global scale.
12. In its previous decisions the Commission has confirmed that the relevant geographic market for EMS is at least EEA-wide, but has not deemed it necessary to further delineate the relevant geographic market, as in all alternative market definitions considered effective competition would not be significantly impeded in the EEA or any substantial part of that area.
13. For the purpose of the present case the exact geographic market definition may be left open, as in all alternative market definitions, this operation does not raise competition concerns.

⁶ See for instance *Flextronics/Alcatel*, M.2479, June 29, 2001 and *Celestica/IBM (EMS)*, M.1841, February 25, 2000.

C. Assessment

14. Assuming the existence of an overall EMS market, the transaction would not give rise to an affected market as both on a global level and in the EEA the parties' combined share will be around or below 10%.
15. On a *global* level, data provided by the parties indicates that, depending on the data source, the parties would have a combined position of 9.7% (ETP) or 10.3% (IDC). The estimates from ETP indicate that the incremental market share of MSL amounts to 0.9%, whereas this is 1% according to information from IDC.
16. On a *European* scale, the parties' combined market share is 7.6% (Celestica: 6.4%; MSL: 1.2%) according to information from MHM Information and Consultancy or 9.6% (Celestica 8%; MSL 1.6%) according to estimates from IDC.
17. If the relevant market were defined on the basis of different end user applications, there are two segments, the provision of EMS to the IT sector respectively to the communications sector, where the parties' *worldwide* market shares would exceed 15%. In computers/peripherals (i.e., printers, copiers, etc.) the parties' combined share would amount to 19.9%, i.e. 16.4% (Celestica) plus 3.5% (MSL). In telecommunications, the parties' 2002 combined worldwide share of sales is estimated at 18.6%, i.e. 17.8% (Celestica) plus 0.8% (MSL).
18. In both segments, however, significant competitors are active with similar or higher market shares. In computers/peripherals competitors include Sanmina-Sci (16.5%), Flextronics (13.5%), Foxconn (12.6%) and Solectron (12.4%). In the provision of EMS to the communications sector the same competitors have market shares of 11.2%, 19.1%, 6.6% and 18.6% respectively. Furthermore, barriers to entry appear to be low.
19. *In the EEA*, the parties' combined position in EMS for different end user applications does not give rise to an affected market. Celestica's share in the servers and storage segment is estimated at 43.8%, with the proviso that most of its sales were in servers. MSL only has negligible activities in this field. MSL's revenue in Europe is mainly derived from POS terminals. World-wide MSL's share in servers and storage is virtually 0%, whereas in 2002 it supplied approximately [...] million of entry level or storage products to one customer. [...].
20. Taking account of the individual products produced by the parties in the EEA, the only overlap occurs in the field of PBX (private branch exchange) products and Storage Network Host Bus Adapters and RAID controllers. On a European basis, the parties' combined market share in PBX products would approximately be [0-10]% (MSL [0-10]%, Celestica [0-10]%), while the parties' estimated market shares for Storage Network Host Bus Adapters are for MSL around [0-10]%, while Celestica would represent approximately [0-10].
21. 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

22. 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