

***Case No COMP/M.3374 -  
SR TECHNICS / FLS  
AEROSPACE***

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: 14/04/2004

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.04.2004

**SG-Greffe (2004) D/201569**

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Dear Sir/Madam,

**Subject: Case No COMP/M.3374 - SR Technics / FLS Aerospace  
Notification of 05 March 2004 pursuant to Article 4 of Council Regulation  
No 4064/89<sup>1</sup>**

Dear Sir/Madam,

1. On 27/02/2004 the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89, as last amended by Regulation (EC) No 1310/97, by which the Swiss undertaking SR Technics Holding AG ("SRT"), controlled by UK venture capital company 3i, acquires within the meaning of Article 3(1)(b) of the Council Regulation control of the whole of the Danish undertaking FLS Aerospace A/S and its subsidiaries ("FLSA"), belonging to the Danish conglomerate FLS Industries A/S group, 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 functioning of the EEA Agreement.

**I. THE PARTIES AND THE OPERATION**

3. SRT is the spun-off Maintenance, Repair and Overhaul ("MRO") business of the former Swissair airline. SRT provides MRO services for commercial aircraft (including MRO services for engines, landing gear, wheels and brakes) and offers airframe modification- and fleet management services.
4. FLSA provides MRO services for commercial aircraft (including MRO services for auxiliary power units, landing gear, wheels and brakes), and offers fleet management- and engineering services..

**II. CONCENTRATION**

5. Following a Share Sales Agreement dated 07 February 2004, SRT Newco - a wholly owned subsidiary of SRT - will, through the notified transaction, acquire full ownership

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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).

and control of FLS Aerospace UK, FLS Aerospace IRL, FLS Aerospace DK and Sheerwalk services Limited. The operation therefore constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

### **III. COMMUNITY DIMENSION**

6. The combined aggregate world wide turnover of the undertakings concerned exceeds € 5000 million<sup>2</sup> (3i: € 8,348 million, FLSA € 328 million in 2002). The aggregate Community-wide turnover of the parties exceeds € 250 million (3i € [...] million, FLSA € [...] million in 2003). The parties do not achieve more than two-thirds of their aggregate Community-wide turnover in one and the same Member State. The notified operation, therefore, has a Community dimension according to Article 1(2) of the Merger Regulation.

### **IV. COMPATIBILITY WITH THE COMMON MARKET**

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

7. The sector affected by the transaction is that for the maintenance, repair and overhaul (“MRO”) of commercial aircraft. According to the parties, a number of relevant markets can be defined according to what part of the aircraft is to be serviced and the level of service required. Also, the parties suggest that a further differentiation ought to be made according to the aircraft type. The MRO markets are submitted to be at least EU-wide in scope, with the exception of the locally provided aircraft ‘line checks’<sup>3</sup>.
8. In its recent Air France/KLM decision , the Commission has considered that the MRO markets for civil air transport could be subdivided according to the level of maintenance required into line maintenance, light maintenance and heavy maintenance, with a further differentiation on the basis of the aircraft manufacturer (Airbus or Boeing) and of the aircraft platform type (e.g., Airbus A340 or Boeing 737) for which the MRO services are provided. MRO services for aircraft parts (engines, landing gear, wheels and brakes and other components) can be considered as constituting separate markets.
9. This is in line with previous Commission decisions<sup>4</sup>, where the Commission found that the MRO sector can be categorised into (i) line maintenance; (ii) heavy maintenance; (iii) engine maintenance and (iv) component maintenance, which can all be further differentiated according to the type of aircraft and equipment. For the heavy maintenance segment, the market investigation has confirmed the industry practice to further differentiate in A, B, C and D-checks<sup>5</sup>. As the parties have no overlapping activities for engine maintenance and component maintenance, these markets will not be further considered.
10. In any case, for the purpose of this case, it is not necessary to further define the market as the concentration would not result in the creation or the strengthening of a dominant

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<sup>2</sup> 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).

<sup>3</sup> Line maintenance comprises pre-flight, daily and weekly checks. These light maintenance procedures consist largely of visual inspections and the use of onboard instruments to detect basic faults.

<sup>4</sup> Case No COMP/JV.19 - KLM/Alitalia and Case No COMP/M.3280 – Air France / KLM

<sup>5</sup> A and B-checks are generally performed at monthly intervals. A-checks last less than one day while B-checks could take 1 to 2 days approximately. C-checks constitute an intermediate and more detailed inspection of the aircraft’s interior and structure, generally performed every 18 months. C-checks take 1-2 weeks to perform. D-checks comprise a thorough inspection, testing and full overhaul of the aircraft’s structure, the systems and the cabins. Such checks are performed every 5-8 years and take 3 weeks to 2 months to be completed.

position in the EEA or any substantial part of it on any alternative market definition considered.

11. With regard to the geographical scope of the market, the market investigation has confirmed that the heavy maintenance markets are at least EEA-wide. Indeed, in function of the aircraft's downtime and the cost of maintenance services to be performed, the relative importance of the transport costs decreases, up to the point where D-checks can constitute a worldwide market. The geographic scope also depends on the type of aircraft, whereby the scope for short haul narrow-body aircrafts (e.g. Airbus A320 family and the Boeing 737 family) rarely extends beyond the EU. Long haul wide bodied aircraft can be economically serviced on a wider geographic scale, possibly world-wide.
12. In contrast, the line maintenance market can be considered as local in scope. For these maintenance activities, it is not necessary to take the aircraft out of service. In addition, the service is to be carried out at the aircraft's airports of origin and destination, or at an airline's operational base. Therefore, line maintenance can be considered to constitute local markets.
13. In any case, for the purpose of this case, it is not necessary to further define the market as the concentration would not result in the creation or the strengthening of a dominant position in the EEA or any substantial part of it on any alternative market definition considered.

## V. ASSESSMENT

14. If the competitive overlaps were to be assessed on the basis of the above market definitions, the transaction would lead to EEA - affected markets for Airbus A320 aircraft C Checks (combined market share<sup>6</sup> [20% - 40%], with both parties having [...]%), Airbus A320 family aircraft D Checks (combined market share [20% - 40%], with SRT having [...]% and FLSA adding [...]%), Airbus A330/A340 aircraft C Checks (combined market share [50% - 70%], with SRT having [...]% and FLSA adding [...]%) and Airbus A330/A340 aircraft D Checks (combined market share [40% - 60%], with both parties having [...]%)<sup>7</sup>. These market shares do however exclude the MRO service offering of airline-owned MRO suppliers (i.e. airlines with their own in-house MRO service such as inter alia Air France/KLM, Iberia, Alitalia and Lufthansa). The market investigation has confirmed that airline-owned MRO suppliers have comparable service capabilities and indeed use an important part of their service capacity for third party customers, which can also include airlines that have internal MRO service capabilities. The market investigation has also confirmed that, due to the air transport market decline, both airline-owned and independent MRO service providers have important spare capacity available, which adds pressure to the already highly competitive nature of the MRO markets. It can therefore be concluded that the assessment of the transaction should be made on a market including the airline-owned MRO suppliers.

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<sup>6</sup> All market shares as provided by the parties for the year 2002 – 2003.

<sup>7</sup> As confirmed by the market investigation, long haul wide-bodied aircraft such as the Airbus A330/A340 can be serviced world-wide. On this basis the combined market shares for Airbus A330/A340 aircraft C Checks would be [20% - 40%] (SRT [...]% and FLSA [...]%), whilst for Airbus A330/A340 aircraft D Checks, it would be [20% - 40%] (SRT [...]% and FLSA [...]%).

15. When airline-owned MRO suppliers are included, the EEA-wide market for Airbus A320 aircraft D Checks ([10% - 30%] % with SRT having [...] % and FLSA adding [...] %) constitutes an affected market. The Airbus A330/A340 markets are only affected when their geographic scale is restricted to the EEA. For C checks the combined entity would have a market share of [10% - 30%] (SRT having [...] % and FLSA adding [...] %). For D checks, the combined entity would have a market share of [20% - 40%] (both parties having [...])<sup>8</sup>.
16. Given their cost, C and D-checks are generally contracted out separately, usually through a request for proposals in which a number of potential suppliers participate. The maintenance providers capable of performing A320 D-checks include, apart from the parties, Air France Industries, Lufthansa Technik, TAT, Shannon Aerospace (a Lufthansa Technik subsidiary) and Monarch and independent MRO providers such as Sabena Technics and EADS Sogerma. For A330/A340 C and D checks, alternative suppliers are Air France Industries, Lufthansa Technik, EADS Sogerma, Austrian Airlines, GAMCO, Haeco and Air Canada. The market investigation has also indicated that airlines are increasingly inviting East European providers to participate in these requests for proposals. Finally, the parties' market shares also reflect the fact that SRT and Dublin-based FLSA have historically been the MRO service providers of respectively Swiss and Aer Lingus, both significant users of Airbus aircraft in Europe. Seen the number of capable and well established players, and their spare capacity, it is unlikely that the new entity would be able to act independently from customers and competitors on the market for A320 D-checks.
17. Apart from a [50% - 70%] market share at Geneva airport, the combined entity does not lead to competitive overlaps for line maintenance. Geneva airport is not part of the EEA, and therefore, this local market needs no further assessment<sup>9</sup>.
18. In view of the foregoing, it can be concluded that the proposed operation would not, in any of the markets considered, create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

## **VI. CONCLUSION**

19. For the above reasons, the Commission decides not to oppose the notified operation and to declare it compatible with the common market and with the functioning of 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, (signed)  
Member of the Commission

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<sup>8</sup> On a world-wide scale, the combined market shares for Airbus A330/A340 aircraft C Checks would be [10% - 30%] (SRT [...] % and FLSA [...] %), whilst for Airbus A330/A340 aircraft D Checks, it would be [10% - 30%] (SRT [...] % and FLSA [...] %).

<sup>9</sup> In any case, the overlap for line maintenance is de minimis ( FLSA serves only one flight per day for EasyJet), and as confirmed by the market investigation barriers to entry and expansion are low and alternatives are available (British Airways). SRT's high market share is comparable to that of other MRO service providers or airlines at their operational base.