

***Case No COMP/M.3459 -
SEIKO EPSON / SANYO
/ SANYO EPSON
IMAGING DEVICES JV***

Only the English text is available and authentic.

**REGULATION (EEC) No 139/2004
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 22/09/2004

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 22.09.2004

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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 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 Where possible the information omitted has been replaced by ranges of figures or a general description.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.3459 - EPSON / SANYO / JV
Notification of 9 August 2004 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 18.08.2004, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which the undertakings Seiko Epson Corporation ("Seiko Epson", Japan) and SANYO ELECTRIC CO., LTD. ("SANYO", Japan) acquire within the meaning of Article 3(1)(b) of the Council Regulation joint control of the undertaking SANYO EPSON IMAGING DEVICES CORPORATION ("JV", Japan), a newly created company constituting a joint venture.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EC) No 139/2004 and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

¹ OJ L 24, 29.1.2004 p. 1.

I. THE PARTIES

3. Seiko Epson manufactures information-related equipment, electronic devices and precision products. SANYO manufactures multimedia and information systems, home appliances, commercial equipment, electric devices and batteries.
4. The JV will combine almost all of its parents Liquid Crystal Display (“LCD”) production capabilities and will manufacture and market LCD panels. The JV will not produce end-user products that contain such LCD screens.

II. CONCENTRATION

5. The parties will contribute their various LCD businesses to the JV. Although Seiko Epson will hold 55% of the equity in the JV (with SANYO holding the remainder), Seiko Epson and SANYO shall run the operations of the JV 'in the spirit of equality'. It can therefore be considered that both parents will have joint control over the JV. The joint venture will be full function, performing on a lasting basis all the functions of an autonomous economic entity. The JV will be economically independent from its parents, will have all the necessary resources, including finance, know-how and personnel to operate the business and is to be established for an unlimited duration. The transaction therefore constitutes a concentration under Article 3(4) of the Merger Regulation.

III. COMMUNITY DIMENSION

6. The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million² [...]. Each of the parties has a Community-wide turnover in excess of EUR 250 million [...]. SANYO and Seiko Epson do not generate 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. COMPATIBILITY WITH THE COMMON MARKET

Relevant product market

7. With regard to LCD panels for incorporation in end-user final products (which range from watches to mobile phones, car navigation screens, personal digital assistants and small portable computers), the parties submit that a single relevant market can be identified for the production of LCD panels up to (and including) 15 inches in diameter. The parties indicate that up to that size, there is a high level of demand-side substitutability for panel sizes at the design stage. The market investigation has broadly confirmed this. Customers (i.e., the manufacturer of end-user electronic products) buy customised LCD panel solutions and define themselves the screen diameter. Also, there is a degree of supply-side substitutability as LCD manufacturers can produce LCD panels with different screen diameters in the same production plant.

² 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).

8. Previously³, the Commission had considered a single LCD panel market irrespective of size. The market investigation has however pointed to the fact that 15 inch and below panels are generally produced on older generation production lines which are not suitable for larger panel sizes in terms of cost competitiveness. Also, above 15 inch displays and applications in which they are used have different requirements and face different market dynamics. In any case, the consideration of a wider market comprising all LCD screens would not lead to a significantly different analysis.
9. Various LCD technologies exist, ranging from monochrome STN to colour TFT / LTPS, HTPS and OLED technology⁴. According to the parties, it is not necessary to define LCD panel markets according to technology. The parties submit that the up to 15 inches LCD panel market, other than for PCs and laptops, is highly customised, with customers selecting the appropriate technology at the design phase on the basis of functionality and price. The market investigation has confirmed this. Customers decide on function, not technology, and once the customer has set the specification, there will be no change to the underlying technology that manufacturers use to fill the purchase order. Whilst all technologies have their unique features, as such limiting the scope of applications they can serve, there is a degree of demand substitutability. Specifically for TFT and LTPS (which already account for two-thirds of the up to 15 inches market, and are increasingly used for mobile phones) there is a high degree of demand substitutability at equal cost. STN can substitute TFT at the lower end, with poorer display picture quality at a reduced cost. OLED is situated at the high end, capable of substituting TFT when a requirement for better picture quality can justify the higher cost. Supply-side substitutability is less relevant. LCD panel production facilities are configured to produce panels using a particular LCD technology and there is generally no possibility to switch capacity between different technologies in a relatively rapid and inexpensive way.
10. Although LCD Panels are used in a wide variety of end-user applications, the parties consider that it is not necessary the define LCD panel markets according to the applications they serve because of the above described demand –side substitutability. The market investigation has however also stressed that certain application families present different requirements, on the basis of which separate LCD panel markets could be identified for (a) mobile phones, (b) personal digital devices, (c) digital cameras, (d) automotive applications and (e) personal computers.
11. In any event, regardless of the market definition being retained, the operation would not lead to competition concerns either on the basis of a single up to 15 inches LCD panel market or on the different applications markets according to the above segmentation.

³ See case No COMP/M.1883 : NEC / Mitsubishi

⁴ Standard STN LCD technology provides a lower quality image than active matrix technologies such as Thin Film Transistors (“TFT”) or Low Temperature Poly Silicon (“LTPS”) LCD technology. High Temperature Poly Silicon (“HTPS”) is a high quality image niche technology. Organic electroluminescent displays (“OLED”) do not require back lightning. Whilst being a promising technology, the parties consider it to be immature. The JV will not produce HTPS and OLED technology based LCD panels.

Relevant geographic market

12. The LCD panel markets can be considered, in line with previous cases, as worldwide. There is virtually no production of LCD panels within the EEA. Also, the vast majority of LCD panels incorporated in end-user products are imported from Korea, Japan and Taiwan in the EEA. In any case, the JV does not intend to operate LCD production facilities outside Japan, China and the Philippines.

V. COMPETITIVE ASSESSMENT

Horizontal overlaps

13. On the basis of a worldwide market for LCD panels up to and including 15 inches in diameter, the JV would account for [10-20] % of the market by volume (Seiko Epson [5-15] % and SANYO [less than 5%]) and [5-15] % by value (Seiko Epson [0-10] % and SANYO [0-10] %). Important competitors are Sharp ([5-15] % by volume, [5-15] % by value), Samsung ([5-15] % by volume, [5-15] % by value), TMD ([5-15] % by volume, [5-15] % by value), LG Philips which focuses on LCD television/PC screens ([less than 5%] by volume, [5-15] % by value), Samsung SDI ([5-15] % by volume, [less than 5%] by value), Philips MDS ([5-15] % by volume, [less than 5%] by value) and a number of smaller players. A market comprising all LCD screens would attribute lower market share figures to the JV. These market share figures suggest that single dominance, unilateral effects or collective dominance are not likely to result from the transaction.
14. The JV will focus on the smaller diameter display segment as is used in mobile devices (phones and personal digital devices). For mobile phones, the JV would meet [20-30] % of demand, with SANYO adding less than [5%]. Sharp has [10-20] % of this market and Toshiba Matsushita Display Technology ('TMD'), Philips MDS, Hitachi and Samsung SDI each have a market share of around [5-15] %. A number of smaller players with increasing capacity account for the remainder. Since Seiko Epson was already the market leader, the transaction does not change the competitive conditions in the market. The only other market where the JV would have above 15% market shares⁵ is that for Digital still Camera LCD displays. The JV would have [15-25] % of the market (Seiko Epson [5-15] % and SANYO [5-15] %), facing competition from Casio ([30-40] %), ST LCD (10-20) %, AUO ([10-20] %) and Sharp [5-15] %). On personal digital devices the new entity would have a combined market share of [less than 10%] whilst on the other application markets, the parties have no overlapping activities. It is to be noted that, in this dynamic market, market shares fluctuate. On the basis of sales value in the second quarter of 2004, the parties' combined market share dropped to [10-20] % for mobile phones and [10-20] % for Digital still Camera LCD displays, as such reflecting market players gaining and losing market share over time and additional capacity entering the market.
15. LCD panels are supplied in relatively large volumes to sophisticated purchasers [...]. Competition is characterised by a bidding process whereby a number of suppliers will be invited to propose a bid for a given volume of panels according to the technical design specifications of the customer (manufacturer of end-user electronic products).

⁵ Market shares based on value for 2003 as submitted by the parties on the basis of DisplaySearch's Small/Medium Shipment Report 2003 - 2004

Less sophisticated consumers may call upon the expertise of an LCD panel manufacturer to propose the most appropriate LCD panel solution for the electronic device. The market investigation has confirmed that both parties are experienced in such LCD customisation, but that most of the alternative LCD panel suppliers have comparable expertise. With regard to technology and IPRs, third parties consider that the JV will be complementary (Seiko Epson has strong manufacturing technology capabilities, SANYO has LTPS and OLED technology) rather than overlapping.

Vertical issues

16. The parties are active in a number of markets that are situated upstream or downstream of LCD panels. Both parties produce semiconductors (upstream of LCD panels) and SANYO is also a manufacturer of mobile handsets which incorporate LCD panels (downstream). As confirmed by the market investigation, the parties do not hold positions that would make any of these markets vertically affected. In addition, the JV will compete on equal terms with all other LCD producers in supplying the notifying parties with LCD panels. Equally so, there are no preferential or obligatory supply agreements between the parties and the JV for semiconductors.
17. In view of the foregoing, it can be concluded that the proposed operation would not, in any of the markets considered, impede effective competition in particular as a result of creating or strengthening a dominant position in the EEA or any substantial part of it.

VI. CONCLUSION

18. 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 (EC) No 139/2004.

For the Commission

(Signed)

Mario MONTI
Member of the Commission