

***Case No COMP/M.4062 -
SKF / SNFA***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 02/06/2006

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 02/06/2006

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PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sir/Madam,

**Subject: Case No COMP/M.4062 - SKF / SNFA
Notification of 24.04.2006 pursuant to Article 4 of Council Regulation
No 139/2004¹**

1. On 24 April 2006, the Commission received a notification of a proposed transaction, by which the Swedish undertaking Aktiebolaget Svenska Kullagerfabriken ("SKF") proposes to acquire sole control of the French undertaking SNFA S.A.S. ("SNFA"). The case had been referred to the Commission in accordance with Article 4(5) of the EC Merger Regulation.

I. THE PARTIES

2. SKF is a public limited company incorporated under Swedish law and a leading producer of anti-friction bearings, seals and lubrication systems. It is active on a world-wide level in the production of a wide variety of different types of bearings, including bearings for machine tool and aerospace applications.
3. SNFA is a family-owned French bearings manufacturer specialised in the design, production, distribution and marketing of high precision anti-friction bearings for the machine tool industry and of bearings for the aerospace industry.

¹ OJ L 24, 29.1.2004 p. 1.

II. THE OPERATION

4. SKF intends to acquire the entire issued share capital in SNFA from the current owner, the Lamit family.

III. CONCENTRATION

5. Through the transaction SKF will acquire sole control over SNFA. The transaction therefore constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

IV. COMMUNITY DIMENSION

6. The notified concentration does not meet the turnover thresholds of Article 1(2) and 1(3) of the Merger Regulation.
7. On 3.2.2006, the Commission received a request from SKF to refer the case, which was capable of being reviewed in more than two Member States, pursuant to Article 4(5) 1st subparagraph of the Merger Regulation. The request was transmitted to all Member States on 6.2.2006. Since no Member State has expressed its disagreement as regards the request to refer the case to the Commission, the concentration is deemed to have a Community dimension pursuant to Article 4(5) 5th subparagraph of the Merger Regulation.

V. COMPETITIVE ASSESSMENT

A. Relevant product markets

8. Both parties are active in the production of anti-friction bearings (“bearings”). The basic function of a bearing is to reduce the friction between adjacent parts and to support and guide a rotating, sliding or oscillating shaft, pivot or wheel. Most bearings used are “rolling²” bearings, consisting of an inner and an outer ring between which the rolling elements (mainly balls or cylindrical/tapered rollers) run in raceways. There is a great variety of bearing types and applications, with different suppliers specialising on different types and applications. The parties’ activities in the present transaction overlap only in the field of so-called “precision” bearings. Unlike “standard” bearings (e.g. for automotive applications), “precision” bearings require a particularly high level of precision in terms of accuracy and reliability. Whereas most standard bearings used in cars, motors etc., are mass products and produced in high volumes³, precision bearings are manufactured in much smaller quantities. In some cases they are even customised to the individual need of the respective customer. While in the standard bearing industry, the main differentiating factor is the ability to produce a large number of standard bearings for a low price, the competition in the market for precision bearings is driven by quality, reliability and performance as well as by the ability to fulfil the individual needs of the customers. Furthermore, the production process for precision bearings as such is far more complex than the production of standard bearings, as it involves not only different machines⁴, but also the use of materials that may differ from those in the

² As opposed to “plain” bearings (bearings without rolling elements).

³ Batch sizes can reach more than 100.000 units.

standard bearing area (special steels, ceramics). Accordingly, precision bearings and standard bearings do not belong to the same product market.

9. Both parties are active in the field of bearings for aerospace applications (1.) and bearings for machine tool applications (2.).

1. Aerospace bearings

10. The notifying party proposes to distinguish a separate product market for bearings for aerospace applications (“aerospace bearings”) encompassing all rolling bearings used in *aerospace applications*, i.e. all bearings used particularly⁵ in aircraft and helicopters.
11. The Commission has already dealt with different product markets for bearings in previous cases⁶, in particular in the in-depth investigation carried out in the course of the assessment of the proposed merger between FAG/INA and SNFA⁷. The findings of the Commission’s previous investigations as well as the market investigation in the present case support the definition of a separate market for aerospace bearings.
12. As regards the *demand-side*, almost all customers and competitors confirmed that market conditions on the market for aerospace bearings differ significantly from other bearing markets⁸. This is mainly because aerospace applications require a special type of bearings. These bearings must be able to work under extreme conditions (e.g. in terms of temperature changes), they must be absolutely reliable, and product safety is absolutely crucial, not the least because aerospace products usually carry people. For these reasons, customers could not replace an aerospace bearing by an ordinary “standard” bearing or a precision bearing used e.g. for machine tool applications.
13. Similarly, aerospace customers form a distinct customer group within bearings customers. Customers for aerospace bearings are mainly major aerospace companies (such as General Electric, Pratt & Whitney, Rolls Royce), who buy their bearings via *tenders*, whereas other precision bearings (e.g. for machine tool applications) are mainly bought on an individual basis by small and medium-sized enterprises.
14. Also from the *supply-side*, market conditions in the aerospace bearings market clearly differ from other bearings markets. Bearings used in aerospace applications have to comply with a specific regulatory framework for aerospace products that aims at ensuring a high safety standard and the traceability of all products used in an aircraft or

⁴ Precision bearings need i.a. special machines for the honing of the raceway and for the lapping of the faces of the bearing.

⁵ Precision bearings can also be found in other aerospace applications, e.g. space flight applications (e.g. the turbine of a Space Shuttle).

⁶ See e.g. COMP/M.3011 - Timken/Torrington, COMP/M.2608 - INA/FAG and IV/M.694 - SKF/INA/WPB.

⁷ Case COMP M.3093 - INA/AIG/SNFA, notified on 22.09.2003, see: OJ C 230, 26.9.2003, p. 8. The Commission opened an in-depth investigation on 23.10.2003. The notification was withdrawn before a final decision had been issued.

⁸ See. e.g. Questionnaire to customers - aerospace bearings, Questions 4-9.

helicopter⁹. The requirement of a dedicated documentation of every single step in the production process and “airworthiness certificates¹⁰” for aerospace products distinguishes aerospace bearings from bearings used in other applications.

15. Furthermore, aerospace precision bearings require different production conditions and a far more laborious production process, involving up to four times more production steps than bearings used for machine tool or special applications. Unlike machine tool bearings, aerospace bearings are 100% tailor-made. They are individually designed for each customer application, whereas machine tool bearings are commonly based on an existing type and variant¹¹. Accordingly, for each project, a new prototype of the produced item has to be manufactured. Every production step involves extensive testing (e.g. with regard to temperature resistance) and every step in the production of each element in an aerospace bearing has to be documented and traced, which is not the case in the field of machine tool bearing production. Aerospace bearing producers have to undergo a qualification procedure with their customers which can take up to several years. Furthermore, unlike bearings used in machine tool applications, aerospace bearings do not have to comply with the “ISO” P2-P4 tolerance classes¹², since in the field of aerospace applications factors such as reliability and power resistance are more important than accuracy. Accordingly, producers have different production sites or at least different production lines for aerospace bearings and do not switch between aerospace bearings and other (precision) bearings on the same machines. Also the *know-how* necessary to manufacture and sell aerospace bearings differs significantly from the know-how required to build and market machine tool or special bearings.
16. Therefore, the market for aerospace bearings has to be considered separate from other bearing markets.
17. The Commission has also considered whether the market for aerospace bearings should be further subdivided according to different applications (e.g. *helicopter* vs. *aircraft* bearings or, even more narrowly, bearings for the main shaft of an aircraft engine, for the gearbox, for the so-called auxiliary power unit¹³, for starters, landing gear s etc.).
18. However, most customers and competitors confirmed that market conditions for the main types of aerospace bearings are similar (specific production process, regulatory framework etc.) and that all main suppliers are able to produce all main variants of

⁹ See e.g. the respective rules by the European Aviation Safety Agency (“EASA”), the Joint Aviation Authorities (“JAA”, e.g. the JAR 21 or 25 standard) and the Federal Aviation Administration (“FAA”).

¹⁰ See e.g. <http://www.jaa.nl/airworthiness/airworthiness.html>.

¹¹ This does, of course, not imply that machine tool bearings are “commodity” products. In fact, many bearings sold to OES/OEMs are customised products. Although they are not individually designed “from scratch”, they also require a certain customisation process (adaptation of a given variant to the individual needs in terms of size/noise etc.).

¹² See below, paragraph 21.

¹³ An Auxiliary Power Unit (APU) is a relatively small self-contained generator used in aircraft to start the main engines, usually with compressed air, and to provide electrical power and air conditioning while the aircraft is on the ground.

aerospace bearings¹⁴. This is particularly true for the most important aerospace bearing types (main shaft aircraft engine bearings, gearbox bearings and helicopter transmission bearings), but also for the other bearing types used in aircraft and helicopters¹⁵.

b) Bearings for machine tool applications

19. The notifying party proposes to define a product market for angular contact ball bearings (“ACBBs”) sold to machine tool manufacturers (OEM¹⁶/OES¹⁷). The market investigation has confirmed this market delineation.
20. Apart from aerospace applications, precision bearings are mainly used in the machine tool industry¹⁸. A machine tool is a power-driven machine that is used for processing metal, wood, plastic or other products. Modern machine tools are often controlled by Computerised Numeric Calculation (“CNC”) systems and require a very high degree of accuracy and often high operational speed. Accordingly, the quality of the end product very much relies on the operational accuracy of the bearing used in the machine tool at high speed and under load. Precision bearings are predominantly used to support the spindle of a machine tool¹⁹.
21. Bearings for machine tool applications therefore require a particularly high degree of accuracy (in order to run exactly in the foreseen dimensions) and resistance (e.g. to dust and/or high temperatures). Since machine tool bearings require even more precision than aerospace bearings, machine tool bearings are often referred to as “high precision bearings”. Machine tool bearings have to comply *imperatively* with specific standards²⁰, notably those set out by the International Standardisation Organisation (ISO). Modern machine tool bearings are required to fulfil at least the criteria of the ISO “P2/P4” standard. For all these reasons, machine tool customers indicated that they could not replace the “high precision” machine tool bearings with “standard” bearings of a lower accuracy (e.g. used in cars, motors, bicycles etc).

¹⁴ See e.g. Questionnaire to customers dated 2.5.2006 - aerospace bearings, Questions 5-8.

¹⁵ Even if some very specific bearing types (e.g. instrument bearings) may involve a different production process than e.g. main shaft bearings, it can ultimately be left open if these bearing types belong to the same market as the other aerospace bearing types, since the exclusion of this “niche” bearing type would not change the substantive analysis of the case.

¹⁶ OEM = Original Equipment Manufacturers

¹⁷ OES = Original Equipment Suppliers. The term OES is used, because spindle producers produce and supply only a part of a machine tool and not a machine tool itself.

¹⁸ Precision bearings are, to a minor extent, also used for a number of “special” applications outside the aerospace and machine tool industry (e.g. dental drills, Formula 1 cars, vacuum pumps etc). Since SNFA’s activities are negligible in this segment, the current decision can disregard these bearing types.

¹⁹ To a limited extent, machine tool precision bearings are also used for the steering device of a machine tool (e.g. for linear motors or rotary tables).

²⁰ According to the ISO standards, different tolerance classes (“P-classes”) have been defined, depending on the accuracy of both the dimensions (diameter) and the rotation of the bearing; a smaller number stands for higher accuracy.

22. Also the production process of high precision P2/P4-bearings for machine tool applications is manifestly different from the production process of less accurate “standard” bearings, aerospace bearings or precision bearings for other applications²¹: Competitors have confirmed that they run dedicated production lines for high precision machine tool bearings and do not produce standard bearings on the same production lines. Finally, the know-how involved in the production of machine tool bearings differs from the know-how necessary for the production of other bearing types, since thorough knowledge of the machine tool industry’s specific needs is required to successfully produce and sell machine tool bearings. Consequently, customers regularly buy their precision bearings from different suppliers than their standard bearings.

Machine tool ACBBs vs. machine tool CRBs

23. There is a number of different *types* of precision bearings²², which are usually characterised by the main design characteristics, in particular by the form of the rolling elements (e.g. cylindrical, tapered, spherical or needle roller bearings and deep-groove ball bearings or angular contact ball bearings)²³. In the machine tool industry, mainly two types of (precision) bearings are used: angular contact ball bearings (“ACBBs”) and cylindrical roller bearings (“CRBs”). Precision ACBBs are ball bearings with an angular contact to the outer and/or inner ring. CRBs use no balls, but cylindrical rollers as rolling elements between inner and the outer ring. Accordingly CRBs have flat raceways while ACBBs have round raceways. While CRBs can take heavier radial loads than ACBBs, the latter can rotate at higher speed than CRBs. The vast majority (up to 90%) of bearings used in machine tool spindles in Europe are ACBBs.

24. From a *customers’* point of view, ACBBs and CRBs are hardly interchangeable. A machine tool ACBBs will regularly be replaced by an ACBB and not by a CRB, since this would imply at least testing the new bearing type, probably also some adjustments to the design of the spindle. Furthermore, CRBs are used only at the rear of the spindle, while in the front position only ACBBs are used. The specific characteristics of ACBB are indispensable for most machine tool applications²⁴. CRBs have significantly different product characteristics. As choice of the type of bearing to use is imposed by the set of technical requirements and constraints relating to the spindle, a slight but significant non-transitory increase of the price for ACBBs would not lead customers to replace them by CRBs.

²¹ Notably aerospace bearings. It should be noted that the production process and know how for machine tool bearings departs also from the production process of other bearing types (e.g. small “special” bearings for dental drills, vacuum pumps etc.).

²² See for the distinction between different bearing types already COMP/M.2608-INA/FAG; COMP/M.3011-Timken/Torrington.

²³ Within each bearing type, one can further distinguish different variants. By way of example, each type can be produced in many different sizes (e.g. different outer diameter, bore etc.), from various raw materials (e.g. steel, special steel, ceramics) and with different supplementary equipment (e.g. direct lubrication, sealed bearings).

²⁴ ACBBs can accommodate both axial and radial loads as well as very high speeds. Customers thus try to use ACBBs in order to enable the spindle to rotate at as high a speed as possible

25. This market delineation is also confirmed by an analysis of the market characteristics on the *supply-side*: As ACBBs are ball bearings whereas CRBs are roller bearings, the production process involves different machines. This is in particular true for the grinding wheel that is necessary to grind a rectangular raceway for CRBs and for the honing machine that polishes the raceway. Accordingly, engineering and manufacturing know-how related to precision CRBs significantly differs from that related to ACBBs. This implies that a manufacturer who would like to increase its production of ACBBs could not rely only on the equipment used for CRBs but would have to invest further in equipment and develop a specific know-how, which, according to competitors, can take several years. While alternating the production may be technically feasible, it rarely happens in practice for economic reasons: As switching requires a retooling and adjustment procedure which takes significant time, alternating production involves additional costs that can be avoided by producing on separate production line. Therefore, manufacturers have dedicated production lines for ACBBs and CRB or even separate plants for both products. In this context, it is noteworthy that SNFA manufactures ACBBs but no CRBs for machine tool applications. INA/FAG's plant in Plymouth produces ACBBs but no CRBs²⁵.
26. However, in the context of this decision, it can be left open whether two different markets for ACBBs and CRBs sold to machine tool customers have to be defined, since no competition problems would occur under either delineation.

Machine tool ACBBs sold to OEM/OES vs. machine tool ACBBs sold to independent dealers ("IAM")

27. Manufacturers sell their machine tool precision bearings not only to spindle manufacturers ("OES") or machine tool producers ("OEM") who use the bearings for new spindles/machine tools. They also sell their bearings to the independent aftermarket ("IAM"), i.e. to independent distributors/dealers of machine tool ACBBs, who mainly serve the replacement market.
28. The notifying party propose to define a separate product market for machine tool ACBBs sold to the IAM. This is in line with the previous decision practice of the Commission²⁶. The market investigation has also confirmed that market conditions are significantly different from sales to OEM/OES when it comes to selling machine tool ACBBs to independent dealers²⁷.
29. Even if the products sold to both customer groups as such are identical, the main characteristics of both groups differ significantly. The role of a dealer in the machine tool bearing sector is mainly to serve the aftermarket and to make as many types and variants of replacement bearings as possible available to their customers. To fulfil these "classic" tasks of a wholesale merchant, dealers typically purchase a much *wider range* of different types and variants than OES/OEM customers do. Whereas dealers only buy small quantities of a given variant, spindle and machine tool manufacturers usually buy

²⁵ As SNFA has only *de minimis* activities in the production of CRBs for machine tool applications, the sales of CRBs have not to be further analysed for the purpose of the present decision.

²⁶ See Comp/M.2608 - INA/FAG, par. 13; Comp/M.3011 - Timken/Torrington, par. 11.

²⁷ See e.g. Questionnaire to customers dated 3.5.2006 - machine tool bearings, Questions 24-30.

larger quantities of a more limited number of variants. As a result, prices for independent dealers are usually higher than prices OES/OEM customers have to pay for the same product.

30. Apart from these different purchasing patterns, sales to OES/OEM customers can be distinguished from sales to dealers as sales to spindle/machine tool producers involve by far more pre-sales service and technical co-operation than sales to dealers, who usually order via catalogue.
31. As a result, it appears that machine tool ACBBs sold to OES/OEM do rather not belong to the same market as ACBBs sold to independent dealers. For the purpose of the present decision, however, it can be left open whether two different markets have to be defined, since no competition problems would occur under either delineation.

B. Relevant geographic markets

1. Aerospace bearings

32. According to the notifying party, the geographic market for aerospace bearings should be defined world-wide in scope. They argue that aerospace bearings are mainly sold through international tenders, that aerospace bearings are to a large extent imported into Europe and that local presence is not a decisive factor for aerospace customers.
33. The Commission's market investigation has largely confirmed that market conditions for aerospace bearings are to a large extent homogenous throughout the world and thus no separate geographic markets need to be defined.
34. In fact, all responding customers have confirmed that they are usually negotiating on a world-wide level when it comes to choosing a supplier for a new bearing type. It should be noted that every aerospace bearing is customised according to the customers' individual design specifications and that customers choose their supplier using world-wide tenders. All customers and competitors have indicated that aerospace bearing suppliers from all regions in the world usually take part in these tenders.
35. Unlike in the machine tool industry, aerospace customers are regularly large companies such as General Electric, Rolls-Royce, Daimler-Chrysler, SNECMA, Eurocopter, UTC or Honeywell. These companies belong to world-wide groups which maintain large purchasing departments and are used to sourcing equipment from all around the world. The number of customers is - unlike in the machine tool industry - relatively limited, which makes it easier for bearing producers to respond to the individual needs of the (few) customers even over longer distances.
36. Although European customers may still source an important part of their aerospace bearing requirements from European companies, major non-European suppliers (such as Timken, NHBB, NTN) are present in Europe and exert a significant amount of competitive constraint on the European producers. Customers and competitors asked in the market investigation confirmed that bearing manufacturers from outside the EEA²⁸ were credible suppliers/competitors.

²⁸ EEA = European Economic Area (EU Member States plus Norway, Liechtenstein and Iceland).

37. There are no substantial barriers to enter the EEA market for non-European suppliers: The market investigation confirmed that regulatory standards between the different regions have been largely harmonised in the past decade²⁹. Bilateral agreements between the US and the EU ensure that “type certificates” for aerospace products are mutually recognised.
38. When sourcing from non-EEA suppliers, transport cost and time are, according to the customers, no significant barriers to import. This is mainly because aerospace bearings are complex and expensive products, so that transportation costs are considered relatively low. There are no fiscal or regulatory barriers into the EEA. In particular, aerospace bearings are not subject to anti-dumping measures in the EU.
39. Unlike in machine tool (e.g. for replacement parts), customers in the market for aerospace bearings do not commonly request emergency deliveries: the aerospace bearings are designed to work properly through the entire lifetime of the engine. Besides, given that these bearings are fully specific to the engine and very expensive, they tend more and more to be repaired or fixed (so-called "refurbishment") when they do not perform properly and more and more rarely replaced by a new bearing. As a result, no independent aftermarket similar to that of precision machine tool bearings has emerged in the field of aerospace bearings.
40. In light of the above elements, the Commission comes to the conclusion that the market for aerospace bearings should be considered as world-wide in scope for the purpose of the present decision.

2. Bearings for machine tool applications: European market

41. SKF submits that the market for ACBBs for machine tool applications comprises Western-Europe (EEA and Switzerland). This is in line with the Commission’s findings in the market investigation. Some competitors and customers indicated that the market might be even world-wide in scope³⁰.
42. Indeed, the investigation showed that machine tool bearings are regularly not purchased off-the-shelf or via internet like standard bearings, but that machine tool customers purchasing precision ACBBs often cooperate closely with their suppliers when it comes to selecting the appropriate bearing and adapting it to their specific needs. The availability to provide technical support and advice and knowledge about the suppliers’ the environment in which the respective precision bearing will be used is indispensable for suppliers wanting to compete in Europe. Closeness to the customers is also important because customers require their suppliers to be able to provide for quick replacement of a bearing in case of damage.
43. Most customers have also indicated that they prefer suppliers with production facilities in Europe. Therefore most customers answered that they do not consider sourcing a significant part of their ACBBs from a supplier who manufactures them outside Western

²⁹ See e.g. answer to the Commission’s questionnaire of the competitor *Timken* to question 22: “*The certification rules between EASA and FAA have been “harmonized”. There are very few differences and they do not affect the bearing manufacturer directly. (...)*”

³⁰ See e.g. Questionnaire to customers - machine tool bearings dated 3.5.2006, Questions 15-20.

Europe and has no local support³¹. Accordingly, all the manufacturers supplying European machine tool customers with significant sales in Europe (Schäffler-Group³², SKF, NSK, IBC, SLF, GMN, SNR, Timken) have production facilities in Western Europe. They also have R&D and technical engineering and customer support centres, usually located at or in the proximity of their European production facilities.

44. The abovementioned factors result in low imports into the European market of below 5% (mainly from Koyo and NTN). The competitive pressure from outside Europe has therefore to be considered negligible.
45. Most of these considerations apply also to sales of machine tool bearings to the *aftermarket*. The Commission's market investigation showed that also in this segment, markets are Western-European and not world-wide in scope. Dealers usually buy a broader range of products from their suppliers, but only some larger dealers, who are established in several countries, would consider purchasing from suppliers outside Western Europe. Most dealers indicated that they usually negotiate on a national and European, but not on a world-wide level.
46. The Commission has also investigated whether the markets for machine tool bearings (sold to OES/OEM and the IAM) might have to be defined *national* in scope, but this hypothesis was contradicted by the market investigation.
47. Although market shares of the leading suppliers may vary according to different countries and some players such as SNFA and the Schäffler Group are particularly strong in their home countries, all main European players are active throughout Europe and are not hindered in their activity by significant barriers.
48. Transport costs for machine tool bearings are low and do not play a decisive role in the customers' purchase decision, and technical standards for machine tool bearings are harmonised. While it is true that many of the smaller customers require their suppliers to have a local representation (which can be a sales and technical support office but also a production facility located close to the customer's premises) in their domestic market, most European suppliers have distribution and support centres in those countries in which the machine tool industry is located (i.e. Germany, Italy, France). The majority of customers has indicated to negotiate even on a European-wide (and not a national) level. The markets for ACBBs sold to machine tool customers (both OEM/OES and IAM) are therefore European-wide in scope.
49. If a joint market for both, CRBs and ACBBs for machine tool applications were defined, the same considerations would apply. Therefore, also a market encompassing all machine tool precision bearings would be European-wide in scope.

³¹ See e.g. Questionnaire to customers - machine tool bearings dated 3.5.2006, Questions 17 & 20.

³² INA/FAG is referred to as "Schäffler-Group" in this decision.

C. Assessment of the impact of the transaction on competition

1. Aerospace bearings

50. According to the notification, the combined market share amounts approximately up to [30-40%] (SKF [20-30%], SNFA [5-10%]) on the world-wide³³ market for aerospace bearings. The market investigation has largely confirmed the parties' market share estimates:

Market share data for aerospace bearings (World-wide, 2005):

Supplier	Turnover (in € m)	Market share (in %)
SKF	[100-150]	[20-30%]
SNFA	[25-50]	[5-10]
SKF/SNFA	[100-150]	[30-40]
Schäffler Group	[100-150]	[20-30]
Timken	[50-100]	[10-20]
NHBB*	[25-50]	[5-10]
SNR	[25-50]	[5-10]
NTN*	[10-25]	[0-5]
Others*	[50-100]	[10-20]
<i>Total</i>	<i>474</i>	<i>100</i>

* Figures for these suppliers according to the estimates provided by the parties

51. The table above shows that after the transaction the merging parties will become the largest supplier of aerospace bearings world-wide. However, the combined market share, remaining below one third of the market, is not indicative for single dominance.
52. The market investigation has also revealed that aerospace customers do not perceive SKF and SNFA as each others' *closest competitors*. In fact, only a minority of customers currently purchase their bearings from both, SKF and SNFA. The most common "second" supplier of SKF's and SNFA's customers is the Schäffler Group³⁴.
53. Although the current increase in demand for aircraft has led to a high *capacity* utilisation of the main aerospace bearings manufacturers, it is not to be expected that the competitors' ability to constrain the merging parties' behaviour could be reduced by lacking capacities of the main competitors. Even those producers who currently produce

³³ On a European level: [40-50%] (SKF [20-30%], SNFA [20-30%]).

³⁴ See e.g. Questionnaire to customers - machine tool bearings dated 3.5.2006, Questions 22, 50, 51.

at full capacity have indicated that as of 2007 there will be sufficient capacities available.

54. Furthermore, the market investigation has confirmed that the competitive behaviour of the merged entity will be constrained by a sufficient number of strong competitors on the one hand and by strong customers, disposing of significant buyer power, on the other hand.
55. The Commission has carefully assessed whether the fact that aerospace bearing customers cannot switch easily their suppliers might reduce their choice and favour the merging parties' position. Indeed, customers require any new manufacturer of aerospace bearings to undergo a *qualification procedure* with his respective production site before is can start supplying a new customer. Switching to a non-qualified supplier of an aerospace bearing can therefore take up to 36 months. Customers have also explained to the Commission that switching the supplier for an existing project (e.g. an aircraft engine) may be particularly difficult, given that any change of a supplier during the production phase requires lengthy and costly testing/qualification investments.
56. It should, however, be noted that competition in the aerospace bearings market primarily takes place for new projects. Since virtually every single bearing is 100% tailor-made, all suppliers qualified with a customer are in principle eligible for new projects. The Commission has therefore verified the main customers' number of qualified suppliers. Most customers confirmed that even after the merger they would have the choice between a reduced but sufficient number of qualified suppliers for new bearing projects (such as the Schäffler Group, SNR, Timken, NHBB or NTN). Customers have indicated that they do not regard the requirement of a new qualification procedure as a decisive obstacle to a change of their supplier, and some indicated that they would even change within a given production cycle of an existing product should prices for aerospace bearings increase significantly.
57. The Commission has also looked at whether competitive problems might arise from the fact that post-merger there will be two groups (the Schäffler Group and SNFA/SKF) with a particularly *large product range* of aerospace bearings, covering the full range of aerospace bearings, including special or "niche" applications. None of the remaining competitors will be able to offer a similar portfolio of products. However, customers have confirmed that all leading aerospace suppliers are able to produce the main types of aerospace bearings (e.g. main shaft bearings, gearbox bearings, helicopter transmission bearings) which account for vast majority of the customers' turnover with aerospace bearings. Customers are not afraid that the parties could use their ability to offer the full range of products to expand their position in the main aerospace segments. On the contrary, some customers welcomed the creation of a second competitor with a full range of products that would be able to compete over the entire product portfolio³⁵.
58. Furthermore, several elements suggest that aerospace customers dispose of significant *buyer power* vis-à-vis their suppliers and can therefore effectively constrain the competitive behaviour of the merged parties. Indeed the number of aerospace customers is relatively limited, and most of the aircraft/helicopter customers are large international companies. Given that aerospace projects usually run up to 10 years, only a limited number of contracts for aerospace bearings is available for the main bearings producers

³⁵ See e.g. Questionnaire to customers - machine tool bearings dated 3.5.2006, Questions 55 & 56.

each year. As a result, some aerospace bearing producers depend to a large extent on one customer.

59. Aerospace customers purchase almost all their bearings through *international tenders* in order to keep prices for new projects low. Also, most aerospace customers do not only source from one producer but apply a dual- or multi-sourcing strategy.
60. The Commission has also assessed the risk of coordinated anticompetitive effects on the aerospace bearing market, since the two leading manufacturers of aerospace bearings will jointly hold almost [50-60%] of the market after the merger. However such effects are not likely to occur in the present case, since aerospace bearings are tailor-made for a specific application and by far no homogeneous products. Also, no price lists for aerospace bearings are available for aerospace bearings and bearings are sold via tenders, in which the competitors do not get access to the terms and conditions offered by the other bidders³⁶.
61. It can therefore be concluded that the proposed transaction will not significantly impede competition in the market for aerospace bearings.

2. Machine tool ACBBs

Machine tool ACBBs sold to OEM/OES

62. According to the merging parties, their combined market share on a Western European market for machine tool ACBBs *sold to OEM/OES* would reach approximately [30-40%]. The market investigation roughly confirmed the parties' estimation, leading to a slightly higher market share as can be seen from the following table:

³⁶ It should be noted that the possibility of coordinated effects is not in itself precluded by the mere fact that contracts are awarded on the basis of tenders, see e.g. COMP M.2201 - MAN/Auwärter, (paragraph 35); IV./M.508 – ABB/Daimler-Benz, paragraph 89).

Market data for machine tool bearings sold to OEM/OES (Western Europe, 2005):

Supplier	Turnover (in € m)	Market share (in %)
SKF	[0-10]	[0-10%]
SNFA	[20-25]	[25-30]
SKF/SNFA	[25-30]	[30-35]
Schäffler Group	[20-25]	[25-30]
IBC	[0-10]	[10-15]
SLF	[0-10]	[0-10]
NSK	[0-10]	[0-10]
GMN	[0-10]	[0-10]
NTN*	[0-10]	[0-10]
SNR	[0-10]	[0-10]
Timken	[0-10]	[0-10]
Others*	[0-10]	[0-10]
<i>Total</i>	<i>78.0</i>	<i>100</i>

* Figures for these suppliers according to the estimates provided by the parties

63. The merging parties' market shares of about [...] do not suggest that the parties might be able to act independently from their competitors after the merger. However, the transaction will create a second large supplier in the market (in addition to the Schäffler Group), with a certain distance to the remaining competitors.
64. It has also to be taken into account that machine tool producers are often small and medium-sized companies, the quality of their machine tool to a large extent depending on the ACBBs used in the respective machine tool. Due to the sensitivity of the product, machine tool customers are generally reluctant to change their bearing supplier, and some machine tool producers raised concerns about the merger. The Commission has therefore particularly carefully verified whether the transaction might, despite the relatively low market shares, lead to competition problems in the field of machine tool ACBBs. The market investigation has, however, shown that this is not the case.
65. First, there will still be a number of established producers of precision machine tool ACBBs in the market who are able to efficiently constrain the merging parties post-merger. Next to the Schäffler Group, in particular IBC, NSK and SLF and GMN are perceived as credible alternatives for machine tool OEM/OES customers. None of them is hindered by capacity constraints to respond to supply request from customers.
66. Furthermore, the market investigation indicates that SKF is currently not perceived by machine tool customers as a leading competitor in the market for machine tool ACBBs,

e.g. as regards product quality, machine tool know-how and product portfolio. Not SKF, but the Schaffler Group is, according to the market investigation, SNFA's closest competitor in the machine tool ACBB market, and the Schaffler Group and SNFA are by far considered as the two leading manufacturers in terms of quality, reliability, know-how and product portfolio by customers. Accordingly, almost all customers that were asked whom they would regard as SNFA's closest competitor chose the Schaffler Group and not SKF.

67. The market structure is therefore neither likely to create a dominant player on the machine tool bearings market, nor does it give rise to non-coordinated effects through the elimination of an important competitive force.
68. It should also be noted that the merger between SKF and SNFA was expressly welcomed by a number of customers. These customers expect that the combination of SKF and SNFA might allow the new entity to combine e.g. their research & development activities and to enlarge their product portfolio. This could allow the new entity to compete more effectively with the current market leader, the Schaffler Group, which could be beneficial for the customers.
69. This holds particularly true since *coordinated effects* are unlikely to occur as a result of the merger. Although the two leading suppliers will hold [$>50\%$] of the market and are undoubtedly the two strongest players in terms of quality and product range, machine tool bearings - unlike standard bearings - are highly specialised products and to a large extent custom made. Prices are in most cases negotiated with individual customers and can vary depending of the degree of service in the selection process is offered or if the bearings are customised. Most importantly, even after the merger, the merging parties and the Schaffler Group will face competition from a number of strong players in the market, who could react to any coordinated attempt to raise prices. In the light of the particular circumstances of the market for machine tool ACBBs, it is therefore unlikely that the transaction will allow the leading players to coordinate their pricing policy.

Machine tool ACBBs sold to dealers

70. If a separate market for machine tool ACBBs *sold to the IAM* were to be considered, the parties would hold the following market shares:

Market data for machine tool bearings sold to IAM (Western Europe, 2005):

Supplier	Turnover (in € m)	Market share (in %)
SKF (2004)	[0-10]	[10-20%]
SNFA (2004)	[0-10]	[10-20]
SKF/SNFA	[10-20]	[20-30]
Schäffler Group	[10-20]	[20-30]
NSK	[10-20]	[10-20]
SLF	[0-10]	[0-10]
GMN*	[0-10]	[0-10]
Timken	[0-10]	[0-10]
SNR	[0-10]	[0-10]
NTN*	[0-10]	[0-10]
IBC	[0-10]	[0-10]
Others*	[0-10]	[10-20]
<i>Total</i>	<i>70.1</i>	<i>100</i>

* Figures for these suppliers according to the estimates provided by the parties

71. The table shows that the merging parties' market shares in a hypothetical market for machine tool ACBBs sold to independent dealers would be even lower than the shares for sales to OEM/OES. Since access to dealer customers for companies from outside Europe is perceived as easier than access to the OEM/OES of machine tool, the current three main players in the market (Schäffler Group, SKF, SNFA) have to face competition also from another significant player, the Japanese company NSK, which holds a significant share of the sales to European dealers³⁷.

72. It follows that no significant impediment of competition could be expected as a result of the present transaction on a market for machine tool ACBBs sold to independent dealers.

73. Accordingly, no significant impediment of competition would be likely on a *combined machine tool ACBB market* (sold to OEM/OES and IAM customers) or on a combined market for machine tool bearings, *including ACCBs and CRBs*³⁸.

³⁷ NSK supplies the bulk of its customers from its plant in Newark, which it acquired from the UK manufacturer RHP in 1990.

³⁸ The parties' market shares on an overall market would even be lower than on a separate market for ACBBs, see footnote 25.

VI. CONCLUSION

74. 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)
Neelie KROES
Member of the Commission