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***Case No IV/M.447 -
Schneider / AEG***

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 01/08/1994

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 1.08.1994

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

Subject : Case No IV/M.447 - SCHNEIDER/AEG
Notification of pursuant to Article 4 of Council Regulation No 4064/89

1. On 30 June 1994 Schneider Electric S.A. (Schneider) and AEG A.G. (AEG) notified a proposed operation by which the two companies will merge their businesses in the design, manufacture and sale of Programmable Logic Controllers (PLCs) into a new 50/50 owned joint venture.

After examination of the notification the Commission has concluded that the proposed operation falls within the scope of Council Regulation No 4064/89 and does not give rise to serious doubts as to its compatibility with the common market and the EEA Agreement.

I. The parties

2. Schneider, a French company controlled by Schneider S.A., is active essentially in the electrical and electronic equipment sectors. AEG, a German company controlled by Daimler-Benz A.G., is engaged in a wide range of activities, including rail transportation systems, microelectronics, automation and energy systems technology.

II. The operation

3. AEG and Schneider will combine, on a worldwide basis, their respective businesses in the design, manufacture and sale of PLCs into a joint venture. AEG and Schneider will each have 50% of the shares in the joint venture.
4. The joint venture will be established by means of contributions by AEG and Schneider. AEG will contribute Modicon Inc. (its PLC subsidiary in the United States) and its A 91 Seligenstadt Division (AEG's German PLC business). Schneider will contribute its April and Télémécanique PLC business units and the PLC business unit of Square D (its US subsidiary).
5. The legal structure of the joint venture will consist of a holding company and three principal operating subsidiaries to be established in France, Germany and the United States respectively.

III. Concentration

Joint control

6. By the operation the joint venture will be jointly controlled by AEG and Schneider. Each party hold a 50% share and corresponding voting rights. In addition, the joint venture agreement provides that major decisions must be approved by both parties. These include: annual business plan and budget; strategy plans; research and development plans; investments; capital increases and financing.

Autonomy

7. The joint venture will have all the assets and resources necessary to enable it to perform all the functions of an autonomous entity, including production, marketing and the necessary intellectual property rights.
8. AEG and Schneider both are present in downstream markets. They produce and sell control and automation systems, and have agreed to purchase the PLCs manufactured by the joint venture for their own needs (a PLC represents on average 5% to 15% of the total value of an automation or control system). AEG and Schneider may, however, buy from other suppliers if the joint venture's products are not technically or commercially competitive or if the customers prefer other products. However, since such sales are not expected to exceed 10% to 15% of the joint venture's total production of PLCs, this does not change the full function character of the joint venture.
9. In the Western European countries (except Germany and Austria), in North and South America and in certain Far East countries the joint venture will enter into distribution agreements with sales companies which already distribute Schneider's electrical products [more than 50 %]⁽¹⁾ of the joint venture's production of PLCs will be sold through these sales network). They are independent companies (except one owned by Schneider) which sell a range of electrical products besides PLCs. The distribution agreements will, according to the

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parties, help the joint venture in effectively marketing its products. These arrangements seem in line with the industry's commercial practice and will not disqualify the joint venture as "full function." Furthermore, the joint venture itself will be active on the market for sale of PLCs; it will sell its products directly to customers in Germany, Austria and to customers in the countries of Eastern Europe, the Middle East and parts of the Far East.

Absence of coordination

10. By the operation AEG and Schneider will transfer all their PLC business to the new joint venture. The Daimler-Benz group controls via a subsidiary a company (Schiele Industriewerke GmbH) with activities in the PLC business. However, this business has no significant economic importance.
11. As mentioned both parents produce and sell control and automation systems and are in this way active in a market which is downstream from the joint venture. However, since a PLC represents on average only 5 % to 15 % of the total value of an automation or control system there will be no risk of coordination of the competitive behaviour between the parents.
12. In conclusion, the operation is a concentration within the meaning of Article 3 of the Merger Regulation, because the joint venture between AEG and Schneider will perform on a lasting basis all functions of an autonomous economic entity and there is no scope for coordination of the competitive behaviour between the parents.

IV. Community dimension

13. The concentration has a community dimension. The combined aggregate worldwide turnover of Daimler-Benz A.G. and Schneider S.A. in 1993 exceeded 5.000 million ecus. The aggregate Community-wide turnover of each was more than 250 million ecus and the two companies did not achieve more than two-thirds of their Community-wide turnover in one and the same Member State.

V. Compatibility with the common market

A. Relevant product market

14. PLCs are electronic microprocessor-based products used in automation and control systems. The resulting systems replace control wiring, timers, relays, selectors and control switches in factories, power generation plants, pipelines etc.
15. PLCs are used in a wide range of industries and applications: (i) the manufacturing industry, with assembly, material handling and testing representing approximately 50% of sales; (ii) continuous material flow and processing applications in basic and processing industries representing approximately 25% of sales; (iii) the automation of small continuous/batch processes in process industries and environmental systems, as well as applications in gas, oil and water distribution, representing approximately 25% of sales.

16. PLCs include relatively simple products that are easy to install, and highly sophisticated products that are used to achieve complex industrial applications. In this respect, PLCs can, according to the parties, be segmented into Micro PLCs and Multi-functional PLCs.
17. Micro PLC's are small sized PLC's that can handle between 20 and 150 input and output points. Micro PLC's are relatively simple and inexpensive products that are easily installed using standard programming languages. They are mainly used as "stand alone" automation stations although they can be integrated into larger distributed automation structures. Micro PLC's are essentially used by electricians for whom they replace traditional devices, and by mechanical engineers for whom they replace controller cards developed for specific applications.
18. Multi-functional PLCs are modifiable PLCs that can handle between 100 and 1000 input and output points. They are based on sophisticated software and are key component of large distributed automation systems. Multi-functional PLCs are essentially used by the following two categories of customers: (i) mechanical and control engineers, who use these controllers for the applications they develop; (ii) users implementing and exploiting automation systems for their own specific needs (usually large companies having in-house systems engineering capabilities).
19. Since the basic technology in the different product groups are similar, and since all major PLC manufacturers produce a full range of product groups, it is not necessary to make a distinction between Micro PLCs and Multi-functional PLCs.
20. Other automation products than PLCs, for example Computerized Numerical Control (CNC) systems and Distributed Control Systems (DCS), may be used in automation systems. However, according to information provided by the industry, other automation products are not considered substitutes because of different characteristics, pricing and applications.
21. In conclusion, the relevant product market will be considered PLCs.

B. Relevant geographic market

22. A PLC product is a combination of hardware, software and interface capabilities (input/output). The hardware used around the world by different manufacturers has become increasingly standardized, but the products are differentiated because the manufacturers use different programming language and input/output norms. The custom duties on importing PLCs into EU are between 4% and 5%.
23. Historically, the use of different standards by manufacturers has caused barriers to entry and produced a pattern in which large manufacturers tend to have strong positions in their respective "home territories." This applies to Siemens in Germany, Schneider in France, Allen Bradley in the US and Mitsubishi in Japan. Such a pattern might be evidence of the existence of separate geographic markets. However, based on the process of technological improvements and internationalization of PLC users the PLC business has become at least Western Europe in scope.

24. It appears, that all the main manufacturers of PLCs can offer their customers PLC products in all software languages and that they produce and market PLCs on an international basis. According to the parties, the PLC business has grown worldwide as PLC users have expanded operations globally. PLC users now require worldwide availability and support for equipment they have chosen, as well as compatibility between equipment installed in various parts of the world.
25. As with other automation products the PLCs are undergoing a process of standardization. A new world standard for PLC programming (the IEC-1131 specification) is being developed. Furthermore, new semiconductors and various industrial network systems that allow communication between different software languages have been developed. Consequently, PLCs from different manufacturers and coming from different geographic areas will be increasingly interchangeable and may be integrated into one automation system through industrial communication networks.
26. In conclusion, based on the above, the relevant geographic market of PLCs is considered at least Western Europe in scope.

C. Assessment of the operation

27. The joint venture's shares of the market for PLCs within Western Europe will be 16,5% (AEG 6,0% and Schneider 10,5%). The joint venture will be an important player in the world with a share of 12%.
28. As a French manufacturer of PLCs Schneider has a strong position in France with a share in 1993 of [approximately 50%]⁽¹⁾. The market share of AEG in France is small (3 %). However, because the scope of the market for PLCs has grown at least Western Europe, where several large and financially strong competitors are present, it is not likely that Schneider's high local market share will translate into market power. Large manufacturers other than Schneider are distributing and selling PLCs on the French market. The two leading players on the world market for PLCs - Siemens and Allen Bradley - are also important players on the French market with shares in 1992 of [more than 15 %]⁽¹⁾ and [more than 5 %]⁽¹⁾ respectively. In this connection it can be noted that Schneider's position on the French market has gradually been weakened. From 1985 to 1989 Schneider's share of the French market declined [approximately 10 %-points and from 1991 to 1993 approximately 5 %-points]⁽¹⁾.
29. Several PLC manufacturers present on the Western Europe market are important worldwide players. Siemens is the leader in Western Europe as well as in the world with shares of 38% and 22% respectively. Other worldwide players are: the North American company Allen Bradley (W.E. 7% and world 13%); the two Japanese companies' Mitsubishi and Omron (W.E. 3% each and world 9% and 7% respectively); and the North American company GE-Fanuc (W.E. 2% and world 4%).

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30. According to the parties, there are high costs of entry into the PLC business: At present, Schneider and AEG are each spending between [more than 10 %]⁽¹⁾ of sales on research and development. A PLC manufacturer has to have the capacity to offer a wide range of coherent and complete automation solutions that are adapted to the clients' application needs. Furthermore, an overall sales network is necessary to provide the products to customers such as electricians, who essentially require high quality consultancy and after-sales services for simple products.
31. However, according to the parties, established PLC manufacturers are likely to enter Europe as the PLC businesses globalize, especially producers that have strong positions in Asia, but are relatively small or have no presence in Europe, would be likely to enter or expand in this area.

VI. Conclusion

32. The market for PLCs is at least Western Europe in scope and on that market the joint venture's market share will be 16,5%. Furthermore the joint venture will face competition from several European and worldwide players.
33. Based on the above, the concentration does not raise doubts as to its compatibility with the common market and the EEA Agreement.

For the above reasons, the Commission has decided not to oppose the notified concentration and to declare it compatible with the common market and the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation No 4064/89 and Article 57 of the EEA Agreement.

For the Commission,

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