

***Case No COMP/M.4932 -
LEONI / VALEO CSB***

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

Article 6(1)(b) NON-OPPOSITION
Date: 17/12/2007

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 17/12/2007

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

Dear Sir/Madam,

**Subject: Case No COMP/M.4932 - LEONI / VALEO CSB
Notification of 12th November 2007 pursuant to Article 4 of Council
Regulation No 139/2004¹,
Publication in the Official Journal of the European Union No. C277,
20.11.2007, p. 19**

- (1) On 12 November 2007, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which the undertaking Leoni Bordnetz-Systeme ("Leoni", Germany) belonging to the Leoni group, acquires within the meaning of Article 3(1)(b) of the Council Regulation (EC) No 139/2004 control of the whole of the undertaking Valeo Electronique et Système de Liaison ("CSB", France) by way of purchase of shares. This notification was declared incomplete on 30 October 2007. The undertakings concerned provided the further information required. The notification became complete within the meaning of Article 10(1) of Council Regulation (EC) No 139/2004 on 12 November 2007.
- (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 EEA Agreement.

¹ OJL 24, 29.1.2004 p. 1.

I. THE PARTIES

- (3) In the EEA both parties are active in the sector of automotive electrical and electronic distribution systems. In particular, Leoni manufactures automotive cables, that is single core cables ("SCC"), sensor cables ("SENC") and multi-core and data cables ("MCD"); Leoni also manufactures automotive electrical distribution systems ("EDS") and automotive electronic electrical distribution systems ("EEDS").
- (4) CSB is a group company of the French supplier of automotive components Valeo S.A. ("Valeo", France). Following a carve out of some of CSB's activities, the only activity acquired by Leoni is the production of EDS for passenger cars and light commercial vehicles ("LCVs").

II. CONCENTRATION

- (5) The transaction consists of the acquisition of sole control over CSB by Leoni. Leoni will purchase 100% of the shares in CSB from Valeo pursuant to a share purchase agreement. The transaction therefore constitutes a concentration in the sense of Art. 3 (1) (b) of the Council Regulation (EC) No 139/2004.

III. COMMUNITY DIMENSION

- (6) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 2 500 million (Leoni EUR 2 178 million; CSB EUR 543 million). In each of at least three Member States, the combined aggregate turnover of Leoni and CSB is more than 100 million (France EUR [...] million, UK EUR [...] million, Spain EUR [...] million). In each of these three Member States the aggregate turnover of Leoni and CSB respectively is more than EUR 25 million (France Leoni EUR [...] million, CSB EUR [...] million, UK Leoni EUR [...] million, CSB EUR [...] million, Spain Leoni EUR [...] million, CSB EUR [...] million). The aggregate turnover of Leoni and CSB respectively is more than EUR 100 million (Leoni EUR 2 178 million, CSB EUR 543 million). In addition, none of the undertakings concerned achieves two-thirds of its Community-wide turnover in one Member State. The notified operation therefore has a Community dimension within the meaning of Article 1(3) of the EC Merger Regulation.

IV. COMPETITIVE ASSESSMENT

(a) Introduction

- (7) SCC consists of a copper core surrounded by insulation. The majority of MCD on the market are produced for use in audio and video devices, rather than in the automotive sector. SENC are more specific to the automotive sector and are designed for specific applications (e.g. ABS); they have particularly high demands as far as cable reliability, abrasion resistance and flex life are concerned.
- (8) EDS (sometimes referred to as wiring harnesses) are primarily concerned with the full vehicle wiring system and associated passive componentry (such as passive fuse and relay boxes), which serves mere connective purposes. In contrast electronic components, such as active junction boxes and active fuse boxes, bring "intelligence" to the system. EEDS are made up of the EDS combined with the associated electronic components and EEDS not only delivers power or energy to the vehicle's end units, but also contains a

number of end units that provide the technical platform for the data exchange and communication between all such end units in the vehicle.

- (9) Since the only overlap between the parties is in the passenger car and LCV sector, this transaction does not concern EEDS or related products in the heavy vehicles sector; and since virtually the totality of these products is supplied to automotive manufacturers ("OEMs"), this transaction does not concern the very occasional sales of these products made to the independent after market ("IAM").

(b) Relevant product markets

- (10) According to the parties, in the context of their products which are supplied to OEM for the manufacture of passenger cars/LCVs, it is appropriate to distinguish the following separate product markets, for the following reasons :

(11)(i) **EEDS** - the compilation of wiring harness and electronic components will vary according to the OEM's performance requirement, vehicle specification and final customer preferences. The system designer can play off the functionality content in the EDS versus electronic components and vice versa. Moreover, there is no uniform or standard rule as to which OEMs purchase EEDS and which purchase EDS; the approach taken largely depends on the sourcing strategy and preferred technical approach of that particular OEM. Some OEMs prefer to seek an optimum technical solution by buying both EDS and electronic components from the same supplier, whilst others prefer to use different suppliers for different inputs. The parties submit that it would not be appropriate to define a separate market for **EDS** but provide information on their activities in that field, too. In fact, only [...] of Leoni's turnover is generated by EEDS, the remaining [...] by EDS, and CSB does not manufacture EEDS, only EDS, so in the present case the assessment may be confined to EDS for the purposes of competitive analysis.

(12)(ii) **SCC** - this is a relatively low-priced commodity product

(13)(iii) **SENC** - this serves specific purposes, e.g. ABS, is many times more expensive than SCC, and the two types of cable cannot be made on the same machinery

(14)(iv) **MCD** - this serves specific purposes, e.g. audio-visual applications, is many times more expensive than SCC, and the two types of cable cannot be made on the same machinery

(15) The parties submit that there may be wider overall markets for SCC, SENC and MCD irrespective of their application (e.g. in audiovisual equipment), but provide information for a narrower market sector including only automotive cable applications, which is the object of the current transaction. As even under the narrowest possible product market definition the transaction does not raise concerns as to its compatibility with the common market the question of the exact market definition can be left open.

(16) In view of the absence of competition problems, precise product market definitions may however be left open for the purpose of the present decision.

(c) Relevant geographic markets

- (17) The parties submit that the relevant geographic markets for the four above-mentioned product groups are at least EEA-wide, in view of EEA-wide competitive tendering and shipping, and the trend for larger OEMs towards the use of global automotive platforms. This is in line with previous Commission decisions in the automotive components sector.
- (18) The Commission's investigation supported the parties' contentions that relevant product markets are at least EEA wide in geographic scope. In view of the absence of competition problems (see below), precise geographic market definitions can be left open for the purpose of the present decision.

(d) Assessment

(i) Horizontal Aspects

- (19) Of the parties, only Leoni is active on the upstream market for automotive cables, and there is no horizontal overlap between the parties. Leoni competes with Coficab, Draka, Gebauer & Griller and others.
- (20) Both Parties are active on the EDS market. The Parties' combined shares of the EEA EDS market in 2006 were according to their best estimates [10-30]% (Leoni [5-15]%, CSB [5-15]%). These are the only markets in which there is a horizontal overlap between the Parties, who face competition from Delphi, Kromberg & Schubert, Lear, Sumitomo, Yazaki, and others. In the market investigation it could be confirmed that the Parties' customers, the OEMs, will still have a wide range of alternative suppliers after the merger. Virtually all OEMs have a multisourcing strategy and they can still choose between several suppliers of EDS.
- (21) Furthermore, according to the parties, their major customers, global vehicle manufacturers, wield great buying power. Most of the major procurement decisions in this sector are characterised by competitive bidding, often between preferred suppliers. Customers are then able to buy at the lowest achievable price from a supplier they believe will also deliver the required level of delivery performance, product quality and engineering support. The Commission's investigation confirmed that major customers are confident that they will still enjoy a strong negotiating position after the implementation of the proposed merger.

(ii) Vertical aspects

- (22) The overall EEA market for automotive SCC (including captive business) in 2006 was according to the Parties' estimates EUR [500-900] million, of which LEONI's sales amounted to EUR [...] million, a market share of about [10-30]%. Of the SCC 'merchant market', i.e. excluding in-house consumption, its market share was also about [10-30]%, which represented about [...] of Leoni's SCC production. Leoni is market leader, ahead of Draka ([10-20]%), Coficab ([10-20]%), Gebauer & Griller ([5-15]%), and others.
- (23) Leoni's share of total EEA 2006 SENC production was around [10-25]% in volume, followed by Kromberg & Schubert ([10-25]%), Coroplast ([10-20]%), Gebauer & Griller ([5-15]%), and others. Leoni's sales to third parties represented about [...]% of its total SENC production.
- (24) Leoni's share of total EEA 2006 MCD production was around [10-30]% in volume, followed by Gebauer & Griller ([10-25]%), Belden ([5-15]%), Lapp ([5-15]%), and others. Leoni's

sales to third parties represented about [...] % of its total MCD production. As already indicated post-merger Leoni would have a share of around [10-30] % of downstream EDS markets, and, upstream, around [10-30] % of the SCC merchant market, and [10-25] % and [10-30] % of SENC and MCD production respectively.

Input foreclosure

- (25) According to the parties, automotive cable customers could and would easily change suppliers if the merged entity were to attempt to impose unjustified price increases or otherwise make conditions of supply less favourable than they were before the merger. EDS producers would not face any significant switching costs for such a move. Other suppliers have the excess capacity to supply any EDS customers who no longer wish to purchase their automotive cables from LEONI. This capacity is even increasing, since competitors are currently expanding their capacities, particularly in North Africa and Eastern Europe. LEONI's main competitors on the downstream market such as Delphi, Yazaki and Sumitomo also have their own captive production of SCC in particular.
- (26) During the market investigation one competitor stated that the proposed merger would entail the risk of a shortage in the availability of SCC as after the merger Leoni will direct increasing quantities of SCC to CSB and develop a pricing strategy which could distort competition on the downstream EDS market. However, the Commission's investigation indicated that after the merger (i) there are a substantial number of alternative suppliers of SCC and (ii) in-house production of SCC is possible.

Output foreclosure

- (27) According to the parties, if post-merger Leoni made a decision to focus its cable supplies solely on the merged entity, this would still leave a number of significant downstream EDS competitors, to whom Leoni's competitors on the cable markets could still sell their products.
- (28) During the course of its investigation, the Commission received suggestions that post merger CSB would indeed increase its sourcing of cables from Leoni, but no complaint was received that this result in a loss of demand for the products of Leoni's cable competitors such that competition would be significantly weakened.

VI. CONCLUSION

- (29) 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