

Case No
COMP/M.6361 - ZF /
HANSEN

Only the English text is available and authentic.

REGULATION (EC) No 139/2004
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 30/09/2011

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EUROPEAN COMMISSION

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 Where possible the information omitted has been replaced by ranges of figures or a general description.

Brussels, 30.09.2011
C(2011) 7115

PUBLIC VERSION

MERGER PROCEDURE

To the notifying party:

Dear Sir/Madam,

**Subject: Case No COMP/M.6361 - ZF / Hansen
Commission decision pursuant to Article 6(1)(b) of Council Regulation
No 139/2004¹**

1. On 26 August 2011, the European Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EC) No 139/2004 by which the undertaking ZF Friedrichshafen AG ("ZF", Germany) intends to acquire within the meaning of Article 3(1)(b) of the Merger Regulation control of the whole of Hansen Transmissions International NV ("Hansen", Belgium) by way of a public bid.² ZF is designated hereinafter as "the notifying party".

I. THE PARTIES

2. ZF is a worldwide Tier 1 automotive supplier for driveline and chassis technology headquartered in Germany. ZF products include transmissions, steering systems, and chassis components along with complete axle systems and modules. ZF is also active as a supplier for a number of components to the automotive, aviation and marine industry. It has recently decided to start supplying wind turbine gearboxes and will

¹ OJ L 24, 29.1.2004, p. 1 ("the Merger Regulation"). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ("TFEU") has introduced certain changes, such as the replacement of "Community" by "Union" and "common market" by "internal market". The terminology of the TFEU will be used throughout this decision.

² Publication in the Official Journal of the European Union No C 265, 09.09.2011, p. 19.

commence shipments to a wind turbine manufacturer, Vestas, as of 2012 in the United States of America.

3. Hansen is a manufacturer of gearboxes for wind turbines. Its manufacturing facilities are located in Belgium and in India. Hansen has also an assembly and testing plant for wind turbine gearboxes in China.

II. THE OPERATION

4. On 25 July 2011 ZF announced its intention to make a cash offer for the outstanding share capital of Hansen. Hansen's management supported the offer and on 19 August 2011 the offer documents were posted to Hansen's shareholders. If successful ZF will acquire sole control over Hansen, which will become a wholly owned subsidiary of ZF. Therefore, the proposed transaction constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

III. EU DIMENSION

5. ZF and Hansen have a combined aggregate world-wide turnover of more than EUR 5 000 million [ZF: EUR 12 317 million; Hansen: EUR 379 million]³. Each of them has an EU-wide turnover in excess of EUR 250 million [ZF: EUR [...]million; Hansen: EUR [...] million] and they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State. Therefore, the notified operation has an EU dimension pursuant to Article 1(2) of the Merger Regulation.

IV. COMPETITIVE ASSESSMENT

1. Introduction

6. ZF has recently decided to enter the wind energy segment as a supplier of gearboxes where it expects significant growth possibilities. According to ZF the acquisition of Hansen would complement its current US activities, where ZF is currently in the process of building a plant for wind turbine gearboxes and intends to supply them to Vestas in 2012. The acquisition of Hansen would also speed up ZF's entry into other geographic areas, in particular the EEA, India and China. In addition, both companies offer maintenance and repair services for wind turbine gearboxes.
7. Thus, the proposed transaction results in overlaps in the production and supply of gearboxes for wind turbines as well as the maintenance and repair of these gearboxes.

2. Relevant Markets

2.1 Wind turbine gearboxes

Relevant Product Market

8. A wind turbine gearbox constitutes a part of a wind turbine. A wind turbine is used to convert wind energy into electricity. The gearbox is a high-tech-product designed

³ Turnover calculated in accordance with Article 5 of the Merger Regulation.

specifically for this application and converts the low speed incoming rotation of the blades into high speed rotation suitable for generating electricity.

9. Wind turbines can be installed on or off shore. Wind turbines installed off shore are generally larger and they are equipped with longer blades and mounted on taller towers than the wind turbines installed on shore. Consequently, gearboxes used differ in size and weight.
10. According to the notifying party the production and supply of wind turbine gearboxes should be considered as a distinct product market with no need to distinguish between markets for on and off shore wind turbine gearboxes as suppliers can easily adopt their production processes and supply both types.
11. The market investigation basically confirmed the notifying party's view. Customers as well as competitors considered wind turbine gearboxes as a relevant product market and indicated that a further segmentation into on and off shore wind turbine gearboxes is not suitable because of supply side substitutability.
12. For the purpose of this decision the relevant product market is the market for the manufacture and supply of wind turbine gearboxes. The question whether the wind turbine gearboxes can further be sub-divided into on and off shore wind turbine gearboxes can be left open since the proposed transaction would not lead to competition concerns.

Relevant Geographic Market

13. The notifying party submits that the relevant geographic market for wind turbine gearboxes is EEA-wide in scope because gearboxes have different technical specifications across geographic areas, in particular in North America, Asia and the EEA. Moreover, transport costs are sizeable and result in a lack of trade between different geographic areas.
14. The notifying party explains that in the EEA the frequency of the electricity grid is 50 Hertz, while it is 60 Hertz in North America and parts of Asia. Because of this difference the rotation of wind turbine generators has to be adapted, which also influences the design of the gearboxes. Consequently, gearboxes used in the EEA can not be sold in other geographic areas and vice versa.
15. In addition, the notifying party argues that transportation costs are significant and therefore wind turbine gearbox manufacturers supply in the region for the region.
16. Customers and competitors indicated in the market investigation that indeed the design of wind turbine gearboxes differs depending on the geographic area and that gearboxes used in the EEA are not suitable for wind turbines outside the EEA. However, manufacturers of gearboxes argued that the production process of wind turbine gearboxes can be easily adjusted to take into account the design differences, thus wind turbine gearboxes for all geographic areas can be manufactured using the same production equipment. However, several respondents indicated that transportation cost and a timely delivery of wind turbine gearboxes are important factors for customers and therefore, the manufacturers usually try to supply gearboxes from within a particular geographic area.
17. In any event, the exact geographic market definition can ultimately be left open, since the transaction would not lead to competition concerns.

2.2 Maintenance and repair of wind turbine gearboxes

Relevant Product Market

18. Both ZF and Hansen are active in maintenance and repair of wind turbine gearboxes and cover all types of after-sales services including maintenance, repair and spare parts.
19. The notifying party submits that the market for maintenance and repair of wind turbine gearboxes constitutes a separate relevant product market and, based on previous Commission decisions dealing with after-sale services (although in different sectors),⁴ it should be considered to be distinct from the supply and installation of wind turbine gearboxes. In particular, maintenance and repair services are generally procured separately from gearboxes. In such a market, a number of independent service providers exist ranging from small undertakings competing only in one or two countries to large companies active on a worldwide basis.
20. The market investigation broadly confirmed this view. Respondents were of the opinion that a company does not have to produce wind turbine gearboxes in order to be active in maintenance and repair services like Deutsche Windtechnik, Brauer, Stork, DMP and Stork.
21. Thus, for the purpose of this decision maintenance and repair of wind turbine gearboxes is considered to constitute a separate relevant product market.

Relevant Geographic Market

22. The notifying party submits that in previous Commission decisions service markets have usually been defined as national in scope.⁵ According to the notifying party this applies also to the market for maintenance and repair of wind turbine gearboxes because service agreements are usually done at a national level and pricing strategies as well as price levels differ across Member States.
23. In any event, the exact geographic market definition can be left open since the transaction would not lead to any competition concerns under any alternative geographic market definition.

3. Competitive Assessment

24. The proposed transaction only results in limited horizontal overlaps⁶ in (i) the market for the production of wind turbine gearboxes and (ii) the market for the maintenance and repair of wind turbine gearboxes.

⁴ See e.g. case M.2703 - *Merloni/GE/GDA JV*, M.4727 - *Segulah/Capman JV* and M.6117 - *ASSA ABLOY/Cardo*.

⁵ See e.g. case M.2703 - *Merloni/GE/GDA JV*.

⁶ ZF had minor activities in the production and distribution of components for wind turbine gearboxes (sales of around EUR [...] in 2009 with [...]), which is upstream to the manufacture and supply of wind turbine gearboxes. No sales have occurred after 2009. In addition, Hansen supplies spare parts to companies active in the maintenance and repair of wind turbine gearboxes, which can be considered as a vertical relationship. However, Hansen's market share is well below 25% for any spare parts independent of the relevant geographic scope and therefore no affected markets occur.

3.1 Wind turbine gearboxes

25. Hansen is active in the market of wind turbine gearboxes. Its market share is [10-20] % world-wide and [20-30] % in the EEA.
26. ZF has not been active in the market of wind turbine gearboxes so far. It is currently constructing a production site in the USA in order to supply gearboxes to wind turbine producer, Vestas, for a US wind park starting in 2012.
27. Based on the expected supply of gearboxes to Vestas and using a market study for the size of the overall wind turbine gearbox market, the notifying party estimates its market share to be around [0-5]% in a world-wide market resulting in a combined market share of [10-20]%.⁷ Moreover, no overlap between ZF and Hansen would occur in a potential EEA-wide market.
28. In addition to this limited combined market share, there are a number of sizeable players active in the market for the production and supply of wind turbine gearboxes such as Winergy ([30-40]% world-wide; [30-40]% EEA); Bosch ([5-10]% world-wide; [10-20]% EEA) and Moventas ([5-10]% world-wide; [5-10]% EEA). Indeed, customers and competitors indicated during the market investigation that the proposed transaction will not result in any anti-competitive effects. Some even argued that the combination of ZF's knowledge in research and development in the automotive component industry could allow it to develop Hansen into a stronger competitor on the market. Moreover, several Chinese companies have recently entered the market for the manufacture and supply of wind turbine gearboxes and respondents expect them to catch up quickly further increasing competition in the market. Thus, given the limited overlap and market share as well as the existence of sufficient alternative suppliers, it is concluded that the transaction will not raise any competition concerns with respect to the production of wind turbine gearboxes.

3.2 Maintenance and repair of wind turbine gearboxes

29. ZF's and Hansen's activities overlap in some national markets for repair and maintenance of wind turbine gearboxes; in particular in Germany, Italy and Spain. In these Member States their combined market shares will be limited; i.e. [0-5]% in Germany ([0-5]% increment due to Hansen), around [0-5]% in Italy ([0-5]% increment due to ZF); and less than [0-5]% in Spain.
30. On a hypothetical EEA-wide market the combined market shares of the parties would be less than [5-10]% (with increment of less than [0-5]% due to ZF).
31. Therefore, in the absence of an affected market in after-sales services, it is concluded that the proposed transaction will not raise any competition concerns with respect to the maintenance and repair of wind turbine gearboxes.

⁷ See: Forecast fore the market for wind turbine gearboxes – analysis until 2014 attached to the Form CO as confidential Annex 7.1-7.3.

V. CONCLUSION

32. For the above reasons, the European Commission has decided not to oppose the notified operation and to declare it compatible with the internal market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of the Merger Regulation.

*For the Commission
(signed)
Joaquín ALMUNIA
Vice-President*