Case M.7904 - BEKAERT / OTPP / BRIDON BEKAERT ROPES JV

REGULATION (EC) No 139/2004 MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 22/04/2016

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 Where possible the information omitted has been replaced by ranges of figures or a general description.

To the notifying parties

Dear Sirs,

Subject: Case M.7904 — Bekaert/ OTPP/ Bridon Bekaert Ropes JV
Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004 and Article 57 of the Agreement on the European Economic Area

(1) On 16 March 2016, the European Commission received a notification of a proposed concentration pursuant to Article 4 of the Merger Regulation by which the undertakings NV Bekaert SA (‘Bekaert’, Belgium) and Ontario Teachers’ Pension Plan Board (‘OTPP’, Canada) acquire within the meaning of Article 3(1)(b) and 3(4) of the Merger Regulation joint control of Bridon Bekaert Ropes (‘the JV’), by way of purchase of shares in a newly created company constituting a

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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 OJ L 1, 3.1.1994, p. 3 (the 'EEA Agreement').
1. THE PARTIES

(2) **Bekaert** is a Belgian undertaking active worldwide in steel wire transformation and coatings. It employs around 27,000 people worldwide. Bekaert is listed on the Euronext Brussels Stock Exchange. In 2015, Bekaert had worldwide revenues of around EUR 4 billion.

(3) **OTPP** administers pension benefits and invests pension plan assets on behalf of active and retired teachers in the Canadian province of Ontario. OTPP has investments in a variety of companies worldwide, including Bridon International Ltd. (“Bridon”). In 2014, OTPP’s portfolio companies had worldwide revenues of around EUR [...].

(4) Bridon is a UK undertaking active worldwide in the production and sale of wire rope and synthetic rope products for various applications. It employs around 1,700 people worldwide. OTPP currently indirectly owns or controls [80-90]% of the ordinary shares and [90-100]% of the preference shares in Bridon, and has sole control over Bridon.

Figure 1 – Overview of Bekaert and Bridon's ropes activities

[...] 

Source: Internal document of OTPP

(5) The JV will have about 3,000 employees and account for approximately EUR 600 million in sales on an annual basis.

2. THE OPERATION AND THE CONCENTRATION

(6) On 7 December 2015, the Parties entered into an agreement to conclude the Transaction. Bekaert and OTPP will contribute certain wire rope activities to the JV. In particular:

a. Bekaert will contribute its worldwide wire rope business and parts of its worldwide advanced cords business to the JV.  
        Bekaert will only contribute its advanced cords business for automotive control, timing belt reinforcement, elevator hoisting and plastic strips with steel cords; the JV will be active in these advanced cords activities.

b. OTPP will contribute its entire indirect ownership interest in Bridon Topco (Jersey) Limited, which indirectly owns Bridon. Bridon’s activities encompass the manufacturing and marketing of (1) rope wire, (2) various wire rope products, (3) synthetic rope products, and (4) stand-alone wire ropes analysis and inspection services and other standalone services, including on-site and laboratory non-destructive examination and visual examination of ropes, laboratory forensic sample testing, tensile testing, re-socketing, and rope termination services, as well as the provision of rope examiners courses.
Bekaert is expected to directly own 66.7% of the voting shares and OTPP to indirectly own or control the remaining 33.3% of the voting shares. The Transaction is valued around EUR [...]..

2.1. Joint control

Bekaert will have the right to appoint three directors out of the six and OTPP will have the right to appoint two directors. Both Parties have a veto right in the appointment of the independent director who acts as the Chairman which should be nominated by mutual agreement between Bekaert and OTPP.5

Both Bekaert and OTPP will have certain veto rights over the JV, including veto rights over the JV's budget and business plan, the appointment and dismissal of the JV’s and its subsidiaries’ directors and senior management.6 7 These veto decisions would provide OTPP with joint control given that they relate to strategic decisions on the business of the JV.

Accordingly, OTPP and Bekaert will have joint control over the JV for purposes of the Merger Regulation.

2.2. Full-functionality

The JV will have a management dedicated to its day-to-day operations and access to sufficient resources including finance, staff, and assets to conduct on a lasting basis its business activities within the area of wire rope and advanced cords.8

Moreover, the JV will be active in the entire value chain, including production, marketing, customer relationships, R&D, itself and independently of Bekaert and OTPP. Specifically, the JV will market its own production directly to third parties, and will not sell its production to or through its parents Bekaert and OTPP.

There will be limited relationships between the JV and any of its shareholders. The JV will produce the vast majority of its wire rope products at its own production sites. There will be relatively limited upstream input supply relationships between JV and Bekaert in relation to rope wire (given that the JV will also have its own rope wire production capabilities) and a distribution agreement [...].

The JV will therefore perform on a lasting basis all the functions of an autonomous economic entity.

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5 See also clauses 11.3 and 11.4 of the Shareholders Agreement. A quorum shall exist at meeting if at least one Director nominated by each Shareholder is present or represented by an alternate Director. The Chairman does not have a casting vote.

6 See Schedule 6 of the Shareholders Agreement which provides a list of 22 matters subject to veto rights of OTPP and Bekaert.

7 In case of disagreements the deadlock mechanism foresees that the CEOs of both mother companies shall meet to discuss and use reasonable endeavours to resolve amicably such disagreement, and if no agreement is reached the proposal shall not proceed.

8 See clause 3 of the Shareholders agreement.
2.3. **Rationale of the Transaction**

(15) According to the Parties, the rationale of the Transaction is to combine the wire rope businesses of Bekaert and Bridon. According to Bekaert, the Transaction will "*leverage the scale and complementary strengths of Bekaert and Bridon*" including geographic positions of the companies, and "*create opportunities for further growth in Asia*".\(^9\) Internal documents indicate that, [...]. Synergies from the Transaction are also forecasted, at around USD […] per year by year 3.

(16) The Transaction constitutes a concentration within the meaning of Article 3(1)(b) and Article 3(4) of the Merger Regulation.

3. **EU DIMENSION**

(17) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million [Bekaert: EUR 3 674 million; OTPP: [...]].\(^{10}\) Each of them has an EU-wide turnover in excess of EUR 250 million [Bekaert: EUR [...]; OTPP: EUR [...]], but Bekaert does not achieve more than two-thirds of its aggregate EU-wide turnover within one and the same Member State.

(18) The notified operation therefore has an EU dimension.

4. **RELEVANT MARKETS**

(19) The JV will combine the activities of Bekaert and Bridon in the production and sale of wire ropes. Bekaert will retain several activities, including its rope wire manufacturing and sales activities, its wire rope business in Malaysia and China, and its advanced cord activities.

(20) Wire ropes are an assemblage of several strands of steel, synthetic or natural fibre wire, which are helically and symmetrically twisted and closed together around a central core.

*Figure 2 – Wire rope picture*

Source: Form CO

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\(^{10}\) Turnover calculated in accordance with Article 5 of the Merger Regulation.
Bekaert and Bridon are both active upstream in the production of rope wire, the primary input material for wire rope but Bridon had no rope wire sales in Europe since 2010.

Figure 3 – The wire ropes value chain

Source: Form CO

The relevant areas for the assessment of the Transaction are: 1) wire ropes, and 2) rope wire.

4.1. Wire ropes

4.1.1. Relevant product market

The Commission has not yet specifically reviewed the production and sale of wire rope products in its prior decisional practice. The Commission has however reviewed some transactions involving various steel-based wire products, including (i) various drawn wire products and (ii) certain advanced wire products.11

Wire ropes are used for a number of different applications in different industries, typically for hoisting, dragging, towing, rigging, mooring, anchoring and structuring purposes: (i) oil & gas, (ii) mining, (iii) cranes and industrial, (iv) infrastructure, construction, civil engineering, (v) fishing, (vi) marine, (vii) elevators, and (viii) other applications. Wire ropes for each of these applications are available based on different product specifications with different

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11 See Case M.4384 – Hombergh/De Pundert/PIB/Ovako, para. 24 and 29 (assessment by product segment); Case. M.4137 – Mittal/Arcelor, para. 42; Case M.7230 – Bekaert/Pirelli Steel Tyre Cords Business, para. 10-12 (steel tyre cord), para. 13 (bead wire), para. 14 (hose wire), and para. 15 (saw wire).
performance. In the particular case of mining applications, wire ropes include ropes (for instance drag ropes, hoist ropes) used to operate underground and surface (or open-pit) mining equipment.


*Parties' views*

(26) According to the Parties, and as regards a possible segmentation of the wire ropes market by application (see para. (24)), demand-side substitutability between different types of wire rope is limited, except as regards general purpose wire rope. Certain types of ropes can however be used for several applications, in the event that the rope meets the specific requirements for more than one application.

(27) As regards supply-side substitutability, the Parties argue that there is a significant degree of substitutability between wire ropes for different applications given that (i) one piece of manufacturing equipment can be used to produce wire ropes of varying diameters, which are suitable for a variety of applications, and (ii) any producer of wire ropes can, in principle, produce a full range of ropes for various applications at its plants.

(28) However, the Parties submit that the stages in the manufacturing process are different depending on the application, including the design, selection of materials, choice of lubrication, compacting of the strands, the closing of the rope, and coating.

(29) Moreover, the Parties submit that wire rope is sold both to original equipment manufacturers for inclusion in their equipment (the primary market sales) as well as to end users (for instance mining operators, construction companies, etc.). Sales to end users are typically sales of replacement rope (aftermarket sales). According to the Parties both these channels form part of the same relevant market, as conditions of competition are essentially the same.

(30) As regards a possible segmentation of the wire ropes market between synthetic wire ropes (i.e. ropes made exclusively of synthetic fibre) and steel wire ropes, the Parties submit that while synthetic wire ropes can have the same strength characteristics as steel wire ropes, they generally weigh significantly less and have greater flexibility. Synthetic and steel wire ropes compete with each other for certain applications, including offshore oil & gas, fishing and marine, as well as other applications which may require specific weight tolerance and flexibility. Accordingly, the Parties submit that synthetic wire ropes and steel wire ropes could, potentially, form part of the same market for some applications.

(31) As regards a possible segmentation of hybrid wire ropes (i.e. ropes that combine a synthetic core with steel wire outer strands to attempt to benefit from the properties of both materials) from the remaining wire ropes market, the Parties submit that hybrid wire rope and the remaining types of wire rope could be used

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interchangeably, in the event that the rope meets the specific requirements for that application.

(32) Finally, as regards potential substitutability between wire ropes and advanced steel cords (i.e. steel cords with diameters of less than 1 mm to around 8 mm used for a variety of applications requiring thin cords, such as bicycles, fitness equipment, automotive control cables, medical applications, timing belt applications, elevator hoisting, or hose reinforcement), the Parties submit that (i) customers generally cannot switch from an advanced steel cord to a wire rope for the same application and (ii) advanced steel cords require different manufacturing equipment.

Commission's assessment

(33) Regarding a possible segmentation of the wire ropes market between applications, a competitor noted that "the market can be segmented between standard and special ropes, as well as by applications. Applications are differentiated on the basis of technical performances. The price and margins also differ by applications. For instance, elevator ropes are less technology intensive."\(^{13}\) The number of suppliers also varies by application: "As regards the market for crane applications, there are about 200 players active. By contrast, there are very few players on the markets for special ropes. Generally, the more special the rope is, the less competitors there are."\(^{14}\) While the overall process is similar, there can be barriers to entry for a supplier of ropes in one application to start supplying another: "Typically, developing a product to enter a new segment takes 3 years."\(^{15}\)

(34) As regards mining applications specifically, the responses obtained from wire ropes customers in the course of the market investigation suggest that wire ropes for mining are different from wire ropes used in other applications because they have to meet the requirements of the mining business.\(^{16}\) As such, a customer notes that "wire ropes for mining are specifically designed to the needs of these applications, specifically for the mining environment. There are quite different for example from ropes used for elevators."\(^{17}\)

(35) Competitors also indicate that wire ropes for mining are different from some other wire ropes used in other applications because of different applicable regulations in different countries.\(^{18}\) Following these norms, there are special materials to be used for mining ropes, as well as specific tests to be conducted.

(36) Regarding a possible segmentation within the mining application between surface and underground mining, wire ropes used may have different features, including the rope diameter.\(^{19}\) For a customer, "wire ropes for surface mining equipment have special characteristics: they have to be flexible as they are..."
constantly moving and they must have the ability to undergo bending under extreme load." A majority of the customers which replied to the market investigation stated that the same manufacturers produce wire ropes for surface mining and for underground mining. This is consistent with the answers provided by competitors.

However, a competitor indicated that "there is a big distinction between the surface and underground mining. For deep mining, a very long rope is needed. For surface mining, the rope is shorter, and protected by plastic". The technical know-how needed to produce underground mining ropes also differs. The market investigation was not conclusive about the possibility for suppliers to produce wire ropes for surface mining on the same production equipment for wire ropes for underground mining without incurring significant switching costs.

Regarding a possible segmentation by type of ropes, while a competitor noted differences between steel, synthetic and hybrid ropes (which are seen as a more innovative product), another pointed out that it "does not distinguish between steel and synthetic ropes, as both are used in many applications and the processes are similar". Advanced cords appear to be a separate segment with its own dynamics.

Regarding a possible segmentation between primary and aftermarket sales, the market investigation confirmed that, first, there is no technical differentiation in the ropes. The wire ropes are interchangeable and the specifications of the wire ropes are the same, whether sold to the primary market or to the aftermarket. Furthermore, a competitor noted that, while there is a primary and an after-sales market, "competitors can service each other's production and suppliers can sell on both markets". Similarly a customer explained that "different brands can be used for the same machines". Moreover, conditions of competition appear similar for sales to both OEMs and end-users as each wire rope manufacturer can compete for both primary and aftermarket sales, and OEMs also sell on the aftermarket. Therefore, for the purposes of assessing the Transaction, the Commission concludes that the primary and aftermarket sales constitute one overall market.

In relation to possible segmentations by applications and types of ropes, as the Transaction does not raise serious doubts as to its compatibility with the internal market under any plausible market delineation, the precise scope of the product market can be left open.

20 See agreed minutes of a call with a customer of 29 January 2016.
21 See replies to question 8 of Q2 – Questionnaire to customers.
22 See replies to question 9 of Q1 – Questionnaire to competitors.
23 See agreed minutes of a call with a competitor of 4 February 2016.
24 See agreed minutes of a call with a competitor of 3 February 2016.
25 See replies to question 8 of Q1 – Questionnaire to competitors.
26 See agreed minutes of a call with a competitor of 4 February 2016.
27 See agreed minutes of a call with a competitor of 3 February 2016.
28 See for instance internal document of Bekaert entitled "[...]", dated 17 June 2015: "[...]".
29 See agreed minutes of a call with a competitor of 3 February 2016. Internal documents of the Parties also do not distinguish between primary and aftermarket sales.
30 See agreed minutes of a call with a customer of 8 February 2016.
31 See agreed minutes of calls with customers of 29 January and 8 February 2016.
4.1.2. **Relevant geographic market**

(41) In previous decisions the Commission has assessed wire products based on a geographic market that is at least EEA-wide, but left the precise geographic scope of the market open.\(^{32}\)

**Parties’ views**

(42) The Parties argue that the wire rope geographic market is likely to be at least EEA-wide given that: (i) all major manufacturers of wire rope products active in the EEA supply their products to customers on at least an EEA-wide basis, (ii) while wire rope manufacturers would typically ship products globally, customers tend to procure their wire rope requirements separately for each mine or project, (iii) wire rope products can be transported over long distances across Europe, and transport costs would typically not exceed around 5-10% of the final price, (iv) pricing is generally uniform across the EEA, (v) there are no tariff or non-tariff barriers to trade within the EEA and (vi) local service or technical support requirements can be provided on a worldwide basis.

**Commission's assessment**

(43) The geographic scope of the market might differ by applications. For a competitor of the Parties, "the market for ropes is local with differences depending on the region. The exception is mining: it is global, as the mining industry is more global by nature."\(^{33}\) Similarly, a customer for surface mining ropes which negotiates its contract globally with a uniform global pricing "considers the market for wire ropes to be global. There is a significant demand for surface mining equipment globally, although relatively speaking demand in Europe is minimal."\(^{34}\) A few emerging markets such as Russia and China are sometimes mentioned as being separate due to the role of governments and local suppliers.\(^{35}\)

(44) Respondents to the market investigation indicated that the wire ropes for mining applications are sold at a scale which is at least EEA-wide and is probably global.\(^{36}\) Moreover, an internal document of Bekaert also distinguishes between "global businesses" (such as mining, advanced cords) and "regional businesses" (such as port cranes, oil & gas offshore, inland oil & gas, fishing & forestry),\(^{37}\) which is an indication that wire ropes for mining applications are sold at a broader scale, namely global, than other types of wire rope.

(45) The exact geographic market definition can be left open in this case as the Transaction does not give rise to serious doubts as to its compatibility with the internal market under any plausible market definition.

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\(^{32}\) See Case M.4384 – Hombergh/De Pundert/PIB/Ovako, para. 27; Case M.4137 – Mittal/Arcelor, para. 66-67; Case M.7230 – Bekaert/Pirelli Steel Tyre Cords Business, para. 20-23.

\(^{33}\) See agreed minutes of a call with a competitor of 3 February 2016.

\(^{34}\) See agreed minutes of a call with a customer of 29 January 2016.

\(^{35}\) See agreed minutes of a call with a customer of 29 January 2016.

\(^{36}\) See replies to question 10 of Q1 – Questionnaire to competitors.

4.2. **Upstream: Rope wire**

Rope wire is the main input for the manufacture of wire rope products. Rope wire is produced from wire rod, which is “drawn” by using drawing equipment into wire. Wire rod (the input material for drawing the wire) is mostly a commodity product supplied by all major steel manufacturers worldwide on the basis of standardised specifications. Occasionally, wire is coated immediately after it is drawn. Several manufacturers of wire rope are vertically integrated into rope wire.

4.2.1. **Relevant product market**

The Parties submit that rope wire is a homogeneous product. They submit that rope wire produced by Bekaert does not differ materially from rope wire produced by other manufacturers, using freely available drawing technology, and that all wire competitors in Europe are capable of producing rope wire to the same specifications.

Rope wire is produced according to industry standards. Rope wire producers who want to supply rope wire in Europe must comply with these standards and in effect are able to meet these standards. In fact, in general, competitors in rope wire are capable of supplying a broad range of specifications.

Therefore, for the purposes of assessing the Transaction, the Commission concludes that rope wire is one overall market.

4.2.2. **Relevant geographic market**

The Parties argue that the geographic market for rope wire is likely to be worldwide given that (i) rope wire is a commodity product and can be transported over long distances (transport costs would account for at most 5-10% of the total cost), (ii) its pricing is generally uniform on a worldwide basis, (iii) there are no tariff or non-tariff barriers to trade in the EU or, based on the Parties’ experience, elsewhere.

On the other hand, a competitor of the Parties noted that "The markets for wires are localized. [Competitor] competes with Bekaert in wire supply in Europe, but not in Mexico."

The exact geographic market definition can be left open in this case as the Transaction does not give rise to serious doubts as to its compatibility with the internal market under any plausible market definition.

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38 Such as CEN standard EN 10264 for steel wires forropes, or standards BSEN12385 and API9A.
39 See the supplementary submission to the Commission by the Parties on 8 April 2016. During the market investigation, several competitors identified a number of rope wire suppliers offering a range of specifications. See agreed minutes of a call with a competitor of 3 February 2016. See replies to questions 22-25 of Q1 – Questionnaire to competitors.
40 See agreed minutes of a call with a competitor of 3 February 2016.
5. COMPETITIVE ASSESSMENT

5.1. Horizontal overlaps

(53) The following table presents the market shares in the overall market for wire rope, as well as in the possible segment for mining applications and sub-segment for surface mining applications.

<table>
<thead>
<tr>
<th></th>
<th>Worldwide</th>
<th>EEA</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Bekaert</td>
<td>Bridon</td>
</tr>
<tr>
<td>Wire rope overall</td>
<td>[0-5]%</td>
<td>[5-10]%</td>
</tr>
<tr>
<td>Wire rope for mining</td>
<td>[10-20]%</td>
<td>[5-10]%</td>
</tr>
<tr>
<td>Surface mining applications</td>
<td>[30-40]%</td>
<td>[10-20]%</td>
</tr>
</tbody>
</table>

Source: Form CO

5.1.1. Parties' views

(54) The Parties argue the Transaction does not give rise to any affected wire rope market, regardless of any plausible segmentation of the market where the Parties overlap, in the EEA. Moreover, wire rope suppliers can easily expand output to meet customer demand as there are no known capacity constraints.

\(^{41}\) Even assuming a total market of EUR [3-4] billion, the Parties' combined market share would remain below [10-20]%. 

\(^{42}\) A consultancy report prepared for OTPP indicates a slightly higher combined share of [20-30]% for 2015 in value (Bridon [10-20]%, Bekaert [10-20]%).
As regards the worldwide markets, the Parties submit that there is a significant number of competitors active worldwide and/or at regional level. There are five other suppliers of wire rope with a global presence (namely WireCo, Kiswire, Usha Martin, Haggie Rand and Redaelli), and numerous other suppliers who focus on particular geographic regions but could, in principle, supply wire rope also on a global basis and in particular in the EEA.

In addition, the Parties submit that Bekaert and Bridon are not close competitors given that they generally follow different routes to market and do not frequently face each other when approaching actual or potential mining rope customers. In fact, according to the Parties, (i) Bekaert sells directly to end customers in the EEA (i.e., mines or mining companies) and does not sell to distributors that sell to customers in the EEA; (ii) Bridon sells through third-party distributors or partners (and not directly to end-customers), [...]. According to the Parties, Bekaert was only present in [...] of the [...] contract opportunities in the EEA where Bridon has participated between July 2014 and January 2016.

The Parties further argue that distributors (like Caterpillar and Joy Global) play a particularly significant role in the mining segment given that they are sophisticated customers and account for a significant proportion of a wire rope manufacturer’s demand. Distributors thus have significant bargaining power.

The Parties also add that there are no barriers to trade that would restrict the import and export of wire rope in the EU/EEA. Although certain wire rope originating from China and the Ukraine are subject to anti-dumping duties, these duties do not prevent them from selling in the EEA. From a customer perspective, Chinese wire rope is priced at roughly the same overall price as wire rope produced in Europe.

Finally, the Parties argue that end customers often have relationships with more than one supplier to be in a position to always have access, if needed at short
notice, to replacement wire ropes and to be able to obtain the best commercial terms from their suppliers. Furthermore, the costs of the trials for a customer that wants to test a new wire rope supplier are small, and thus switching costs should not be significant.

In the particular case of the surface mining segment, the Parties argue that out of [10-20] shovels and draglines currently in operation in the EEA, Redaelli is the key supplier of two mines with a total of seven draglines and one shovel. Bekaert supplies surface mining ropes to […] in the EEA. Bridon had no surface mining wire rope sales in 2014 in the EEA, and only […] in the EEA in 2015.

In the underground mining segment, the Parties state that Bekaert supplies underground mining ropes to just one customer in the EEA, while Bridon supplies a limited amount of underground mining ropes to a number of other customers in the EEA.

5.1.2. Commission's assessment

In the market for wire rope, segments affected by the Transaction are limited to (i) the worldwide market for wire rope for mining applications, where the Parties' combined market share would reach around [20-30]% to [20-30]%, and (ii) the worldwide market for wire rope for surface mining applications, where the Parties' combined market share is estimated at [40-50]%. There are no affected markets if considered at the EEA level.

The market investigation highlighted a degree of brand loyalty. As explained by a competitor, "customers are reluctant to switch when a supplier has a good track-record" given that "there is strong loyalty and brand recognition in this area". A customer emphasised that "there is strong brand preference on the customer side" and that "converting customers to different brands has proven in the past to be difficult".

The market investigation has confirmed to some extent certain arguments raised by the Parties.

First, there are several global and regional competitors constituting effective alternatives to the Parties in the supply of wire rope for mining applications, including surface mining applications. These include WireCo, which is currently the largest supplier of wire rope worldwide, Kiswire, Usha Martin, Haggie Rand, Redaelli, ArcelorMittal, Brugg, Teufelberger, etc.

Second, the Parties do not seem to be the closest competitors, in particular in terms of their sales channels to the market, with Bekaert mainly selling directly to

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43 See agreed minutes of a call with a competitor of 3 February 2016. Also see replies to question 23 of Q2 – Questionnaire to customers and replies to questions 12 and 18 of Q1 – Questionnaire to competitors.

44 See agreed minutes of a call with a customer of 8 February 2016.

45 See replies to questions 11 and 12 of Q2 – Questionnaire to customers and replies to questions 1, 3 and 13 of Q1 – Questionnaire to competitors.

46 See replies to questions 14 and 15 of Q2 – Questionnaire to customers and replies to questions 15 and 16 of Q1 – Questionnaire to competitors.
end customers and Bridon mainly selling to third-party distributors or partners. Indeed, WireCo was often cited in the market investigation as the closest competitor for both Parties.

Third, customers have significant buyer power, since they typically are sophisticated industrial players which can purchase from several manufacturers.

Fourth, there is spare capacity on the market, largely due to the currently difficult economic situation of the mining industry. Moreover, market participants consider that expansion and new entry in the coming years, albeit not necessarily easy, are possible, and a competitor indicated that it "is planning to enter the surface mining business".

Fifth, according to the replies of customers to the market investigation, the Transaction would not have a negative impact on competition. No substantiated concerns were raised in relation to the mining or surface mining segments. A competitor explained that "consolidation is needed in the industry and the transaction does not lead to concerns". Several respondents suggested that the Transaction would create a stronger, more flexible supplier and potentially lower prices.

In view of the above, it can be concluded that the Transaction does not raise serious doubts as to its compatibility with the internal market with respect to horizontal relationships on any of the plausible markets relating to wire ropes.

5.2. Vertical links

5.2.1. Parties’ views

As regards the vertical link between the Parties’ activities in rope wire and in wire rope, the Parties argue that no affected market arises in the EEA. Bridon is not active in the sale of rope wire to customers in the EEA. At worldwide level, Bridon’s sales of rope wire to third parties are de minimis.

The Parties argue that the Transaction would not give rise to concerns related to input foreclosure given that: (i) Bekaert and Bridon account only for a small share of the worldwide merchant market of rope wire, (ii) rope wire is a homogenous product and (iii) most manufacturers of wire rope are vertically integrated and do not depend on the merchant market.

47 See replies to questions 13 and 16 of Q2 – Questionnaire to customers.
48 See replies to questions 15 and 16 of Q1 – Questionnaire to competitors and replies to questions 14 and 15 of Q2 – Questionnaire to customers.
49 See replies to question 21 of Q1 – Questionnaire to competitors and replies to question 22 of Q2 – Questionnaire to customers.
50 See replies to question 17 of Q2 – Questionnaire to customers and replies to question 17 of Q1 – Questionnaire to competitors.
51 See replies to questions 18 of Q2 – Questionnaire to customers and in particular replies to question 14 of Q1 – Questionnaire to competitors.
52 See agreed minutes of a call with a competitor of 4 February 2016.
53 See replies to questions 24 and 25 of Q2 – Questionnaire to customers.
54 See agreed minutes of a call with a competitor of 4 February 2016.
According to the Parties, customer foreclosure is also not likely given that Bridon does not generally source rope wire from third parties, as it produces the vast majority of its wire needs internally. Bekaert is also vertically integrated. Moreover, the merchant market rope wire sales represented approximately [10-20]% of total production by volume (at worldwide level), with the remaining [80-90]% being captive sales.

5.2.2. **Commission's assessment**

A significant number of competitors in the wire rope markets source their needs of rope wire internally. However, some depend on third parties. These competitors can source wire rope from several producers, including Bekaert.\(^{55}\)

Some of the competitors sourcing rope wire from third parties stated that if Bekaert stopped supplying them with rope wires in an input foreclosure strategy, they would have difficulties in covering their rope wire needs from other sources.\(^{56}\) This would therefore have a negative impact on their business.\(^{57}\)

According to the Guidelines on the assessment of non-horizontal mergers under the Council Regulation on the control of concentrations between undertakings (Non-horizontal merger guidelines”),\(^{58}\) in assessing the likelihood of an anticompetitive input foreclosure scenario, the Commission "examines, first, whether the merged entity would have, post-merger, the ability to substantially foreclose access to inputs, second, whether it would have the incentive to do so, and third, whether a foreclosure strategy would have a significant detrimental effect on competition downstream".\(^{58}\)

According to the market investigation, it does not seem likely that the merged entity would adopt an input foreclosure strategy. In fact, for input foreclosure to be a concern, the vertically integrated firm resulting from the merger must have a significant degree of market power in the upstream market. It is only in these circumstances that the merged firm can be expected to have a significant influence on the conditions of competition in the upstream market and thus, possibly, on prices and supply conditions in the downstream market.

First, Bridon is not active in the sale of rope wire to customers in the EEA and at worldwide level its sales of rope wire to third parties are very limited (accounting for a share of total sales of less than [0-5]%).

Moreover, although Bekaert is the largest producer of rope wire in the EEA, with a market share of around [20-30]%, there are several players active in rope wire at an EEA level. Most of them are also active at a worldwide level. In addition, there are numerous suppliers of rope wire based in China, which sell rope wire to customers worldwide. The combined market shares of the Parties at a worldwide level are below [10-20]%.

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\(^{55}\) See replies to question 22 of Q1 – Questionnaire to competitors.

\(^{56}\) See replies to question 25 of Q1 – Questionnaire to competitors.

\(^{57}\) See replies to question 26 of Q1 – Questionnaire to competitors.

Table 2: Market shares in the market for rope wire in 2014 (in value)

<table>
<thead>
<tr>
<th></th>
<th>Worldwide</th>
<th>EEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bekaert</td>
<td>[10-20]%</td>
<td>[20-30]%</td>
</tr>
<tr>
<td>Bridon</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
</tr>
<tr>
<td>Combined</td>
<td>[10-20]%</td>
<td>[20-30]%</td>
</tr>
<tr>
<td>ZDB</td>
<td>[5-10]%</td>
<td>[10-20]%</td>
</tr>
<tr>
<td>WDI</td>
<td>[5-10]%</td>
<td>[10-20]%</td>
</tr>
<tr>
<td>ITA</td>
<td>[5-10]%</td>
<td>[10-20]%</td>
</tr>
<tr>
<td>Künne</td>
<td>[0-5]%</td>
<td>[5-10]%</td>
</tr>
<tr>
<td>Vom Hofe</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
</tr>
<tr>
<td>DWK</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
</tr>
<tr>
<td>Swedwire</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
</tr>
<tr>
<td>ArcelorMittal</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
</tr>
<tr>
<td>WireCo (Drumet)</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
</tr>
<tr>
<td>Caesa</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
</tr>
<tr>
<td>Valgrentino Sabadini</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
</tr>
<tr>
<td>Silur</td>
<td>[0-5]%</td>
<td>[0-5]%</td>
</tr>
<tr>
<td>Xianyang Baoshi</td>
<td>[0-5]%</td>
<td>-</td>
</tr>
<tr>
<td>Guizhou Wire Rope</td>
<td>[0-5]%</td>
<td>-</td>
</tr>
<tr>
<td>Jiangsu Langshan</td>
<td>[0-5]%</td>
<td>-</td>
</tr>
<tr>
<td>Juli Sling</td>
<td>[0-5]%</td>
<td>-</td>
</tr>
<tr>
<td>Morlan</td>
<td>[0-5]%</td>
<td>-</td>
</tr>
<tr>
<td>Gerdau</td>
<td>[0-5]%</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>[50-60]%</td>
<td>[10-20]%</td>
</tr>
</tbody>
</table>

Source: Supplementary submission to Commission by the Parties on 8 April 2016

(80) Second, Bekaert’s rope wire does not differ materially from rope wire produced by other manufacturers, as rope wire is a homogenous product that is produced using freely available drawing technology. Rope wire is produced according to industry standards. Every rope wire producer who wants to supply rope wire in Europe must comply with these standards.

(81) Third, Bekaert has no incentive to forego revenues by reducing the supply of wire to the merchant market. Bekaert would forego wire revenues on the merchant market while being unlikely to supply increased volumes of wire to the merged entity to compensate these lost revenues.

(82) Fourth, according to the estimations of the Parties, spare capacity in production of rope wire at worldwide level is estimated at 30-40%. From those competitors on wire rope that produce rope wire, some of them explained during the market investigation that they would be able to expand capacity if required by the market.59

(83) Therefore, it appears unlikely that the merged entity would engage in an input foreclosure strategy raising competition issues. Post-Transaction, customers of rope wire would in any event be able to find alternatives in the market to source. Moreover, given that the majority of the largest suppliers are also vertically integrated, these players would always be able to source wire internally.

59 See replies to question 23 of Q1 – Questionnaire to competitors.
As regards customer foreclosure, it appears unlikely that the merged entity would adopt such a strategy.

According to the Non-Horizontal merger guidelines, "for customer foreclosure to be a concern, it must be the case that the vertical merger involves a company which is an important customer with a significant degree of market power in the downstream market". In the present case, both Bekaert and Bridon cannot be considered important buyers in the merchant market of rope wires given that both Bekaert and Bridon already today produce the vast majority of their wire needs internally and Bekaert is even active in selling on the merchant market.

In view of the above, it can be concluded that the Transaction does not raise serious doubts as to its compatibility with the internal market with respect to the vertical relationship between the market for rope wire and the market for wire ropes, including its possible segments.

6. CONCLUSION

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 and Article 57 of the EEA Agreement.

For the Commission
(Signed)
Margrethe VESTAGER
Member of the Commission

60 See the supplementary submission to the Commission by the Parties on 8 April 2016.