

*Case No IV/M.876 -  
TELIA / ERICSSON*

Only the English text is available and authentic.

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

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Article 6(1)(b) NON-OPPOSITION  
Date: 20/02/1997

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# COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.02.1997

PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

**Subject :** Case No IV/M. 876 - TELIA/ERICSSON  
Notification of 17.01.1997 pursuant to Article 4 of Council Regulation (EEC) No 4064/89

1. On **17.01.1997**, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which Telefonaktiebolaget LM Ericsson ("Ericsson") and Telia AB ("Telia") acquire within the meaning of Article 3(1)(b) of the Council Regulation joint control of the AU-System group ("AU-System"). AU-System is presently a wholly owned subsidiary of Telia. The transaction consists of the transfer of an equity interest in AU-System to Ericsson and the managing director of AU-System. Following the operation AU-System's share ownership will be as follows: Telia 47.6%, Ericsson 41.18% and AU-System managing director 11.76%.
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EEC) No 4064/89 and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

## **I. THE PARTIES**

3. The business activities of the undertakings concerned are :

*Telia* is the national telecommunications operator in Sweden. Telia provides a wide range of services to private and business clients, principally in the following areas:

- Telecom Services, including fixed and mobile networks services;
- Network Services, including the development, construction and operation of fixed, mobile and cable TV networks;
- Info Media Services, including information and media services such as directory services, operator assisted services, cable TV services and information services over the Internet;
- Distribution of telecommunications and IT equipment;

- International consultancy services, with regard to telecommunications operations.
4. *Ericsson* is a major manufacturer of telecommunications equipment. *Ericsson's* activities are presently organised in three business areas:
- Telephone and Terminals, including, mobile phones, cordless home telephones and advanced network terminals;
  - Infocom Systems, which provides network solutions for operators of public telecommunications networks and business communications networks;
  - Mobile Systems, which provides network solutions for licensed operators of public mobile telecommunications networks.
5. *AU-Systems* is presently active in the following four fields:
- Project Services, ie consultancy services, predominantly in Sweden, to telecommunications network operators and telecommunications equipment suppliers regarding fixed and wireless systems, and also to IT companies. These services are based upon *AU-System's* expertise in computer - mainly PC - technologies and consist of the provision of specialised knowledge and technical expertise;
  - SIM Personalisation, ie development and supply of software based SIM card personalisation systems and applications;
  - IT Security Systems, ie development and supply of security and encryption systems;
  - Distribution of third party modems, ISDN routers and ATM switches as accessories [...] <sup>1</sup>.

## **II. CONCENTRATIVE JOINT VENTURE**

### **1. Joint Control**

6. After the transaction the joint venture will be jointly controlled by Telia and Ericsson.

Both Telia and Ericsson each have the right to appoint two directors and one deputy director of the board, one director and the chairman shall be appointed jointly by the parents. Decisions of the board will be made by simple majority with the main exceptions of the adoption of the budget, material changes in *AU-System's* activities and the appointment of the managing director. The latter decisions require unanimity by Telia and Ericsson at shareholders and board meetings.

### **2. Full Function on a Lasting Basis**

7. The joint venture will perform on a lasting basis all the functions of an autonomous economic entity: *AU-Systems* functions as an autonomous economic entity with more than 200 employees. The parent companies will not be the principal customers or suppliers of the joint venture although Telia will continue to be a significant customer for *AU-Systems* for SIM personalisation products.

The joint venture is established on a lasting basis. The shareholder's agreement has a minimum duration of [...] <sup>2</sup>. Telia and Ericsson may not dispose of all or part of their equity interests before

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<sup>1</sup> Deleted for publication

<sup>2</sup> Deleted for publication - in excess of 3 years

[...]³. AU-System's managing director may do so within that period only with the written consent of Telia and Ericsson under the conditions specified.

### **3. Concentrative Joint Venture**

8. The joint venture will not give rise to coordination of the competitive behaviour of the parents.

Telia and Ericsson are active on different markets, and do not compete with each other on any market on which the joint venture is active. Telia's main business is that of a national telecommunications operator in Sweden, whereas Ericsson is a major manufacturer of telecommunications equipment. The joint venture's main activities lie in very small specialised niche areas.

One activity of the joint venture is project consultancy services on the basis of AU-Systems specialised knowledge and technical expertise in PC-technology, which is provided inter alia to network operators such as Telia and manufacturers of equipment such as Ericsson.

The project consultancy services provided by Ericsson to its customers are provided as an integral part of its supply of telecommunications equipment or network construction services. Those services are markedly different from the specialised PC based project services provided by AU-Systems.

The project consultancy services provided by Telia are equally related to its network operation activities. Telia provides consultancy services to customers outside of Sweden regarding the operation of their telecommunications networks and equipment.

The other area of activity of AU-Systems is security cards and security systems. Ericsson does not have any activities or expertise in this area. Telia's assets and activities in this field are concentrated in AU-Systems. Telia will entirely withdraw from this activity after the creation of the joint venture.

9. The only activity of the joint venture which might be regarded as closely related to the activities of Telia and Ericsson is the distribution of telecommunications equipment. [...]⁴
10. The activities of the parent companies downstream of the market in which the joint venture operates do not create any risk of cooperation.

While both parent companies will continue to purchase project services from AU-Systems, AU-Systems will be one of a number of suppliers. Ericsson and Telia will make different use of the project services acquired from AU-Systems in their different capacities as telecommunications network operator (Telia) or supplier of telecommunications equipment (Ericsson).

### **III. COMMUNITY DIMENSION**

11. Telia and Ericsson have a combined aggregate worldwide turnover in excess of ECU 5,000 million. Each of them has a Community-wide turnover in excess of ECU 250 million, but they do not both achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension.

### **IV. COMPETITIVE ASSESSMENT**

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³ Deleted for publication - in excess of 3 years

⁴ The reasons why these activities do not lead to an appreciable risk of coordination have been deleted for publication.

### **A. Relevant product markets**

12. The notifying parties state that there are relevant product markets for the four activities of AU-Systems outlined above, ie project services, SIM cards, IT security systems and distribution of modems and similar hardware. However it is not necessary to further delineate the relevant product markets because, in all alternative market definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area.

### **B. Relevant geographic markets**

13. The notifying parties state that the relevant geographic markets are Sweden for project services, worldwide for SIM cards and IT security systems and the Nordic countries for the distribution of modems and similar hardware. It is not necessary to further delineate the relevant geographic markets because, in all alternative geographic market definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area.

### **C. Impact of the concentration**

14. AU-System has a market share of [...]<sup>5</sup> in Sweden for project services, of [...]<sup>6</sup> in Sweden and [...]<sup>7</sup> worldwide in SIM cards, [...]<sup>8</sup> in Sweden and less than [...]<sup>9</sup> worldwide in IT security systems and less than [...]<sup>10</sup> per market segment in Sweden for modems and similar hardware.

The market shares of AU-System in the narrowest relevant market will not give rise to any concern. Even in SIM cards, where AU-System has a larger national market share of [...]<sup>6</sup>, a danger to effective competition can be excluded because there is no combination of market shares and there are other big competitors on the market such as Orga, Singapore Telecom, Telstra, Gemplus, Schlumberger and Giesecke & Devrient.

15. The proposed transaction is not likely to have any effects on the procurement by Telia of telecommunications equipment and will not foreclose opportunities for third party suppliers.

Historically, Ericsson has been the principal supplier of telecommunications equipment to Telia. However, with the liberalization of the Swedish telecommunications market, which is among the most competitive in the EU, and the introduction of European standards, Telia's purchasing policy has become increasingly global.

Telia sources its telecommunications equipment from the most competitive supplier, irrespective of nationality, traditional relationships or structural arrangements in other fields. To this end, Telia has adopted strict internal guidelines requiring that all procurement decisions be based on competitive bidding.

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<sup>5</sup> Deleted for publication, the figure is less than 10%

<sup>6</sup> Deleted for publication, the figure is less than 35%

<sup>7</sup> Deleted for publication, the figure is less than 25%

<sup>8</sup> Deleted for publication, the figure is less than 15%

<sup>9</sup> Deleted for publication, the figure is less than 5%

<sup>10</sup> Deleted for publication, the figure is less than 30%

## V. ANCILLARY RESTRICTIONS

16. The parties have notified the following obligations as ancillary restraints:

- Telia and Ericsson undertake not to sell part or all of their shares before [...] <sup>11</sup>
- The managing director of AU-Systems agrees not to dispose of his shares before [...] <sup>12</sup>, unless he has the written consent of Telia and Ericsson. [...] <sup>13</sup>.

17. The notified clauses would appear to form an integral part of the concentration, designed to guarantee its long lasting character under the participation of the Telia, Ericsson and the managing director of AU-System, who as the founder of that company has the relevant expertise and is considered a key asset for the joint venture. However this does not have to be decided because the clauses would in any event be directly related and necessary to the concentration and thus constitute ancillary restraints.

## VI. CONCLUSION

18. 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 functioning of the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EEC) No 4064/89.

For the Commission,

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<sup>11</sup> Deleted for publication - in excess of 3 years

<sup>12</sup> Deleted for publication - in excess of 3 years

<sup>13</sup> Deleted for publication