



EUROPEAN COMMISSION  
DG Competition

***Case M.9771 - HITACHI / HONDA / HIAMS  
/ KEIHIN / SHOWA / NISSIN KOGYO***

Only the English text is available and authentic.

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

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Article 6(1)(b) NON-OPPOSITION  
Date: 07/08/2020

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## EUROPEAN COMMISSION

Brussels, 7.8.2020  
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### **PUBLIC VERSION**

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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

**Subject: Case M.9771 — Hitachi/Honda/HIAMS/Keihin/Showa/Nissin Kogyo Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004<sup>1</sup> and Article 57 of the Agreement on the European Economic Area<sup>2</sup>**

Dear Sir or Madam,

- (1) On 7 July 2020, the European Commission received notification of a proposed concentration pursuant to Article 4 of the Merger Regulation by which Hitachi, Ltd. (“HTL”, Japan) and Honda Motor Co., Ltd. (“Honda”, Japan) acquire within the meaning of Article 3(1)(b) and 3(4) of the Merger Regulation joint control of the whole of Hitachi Automotive Systems, Ltd (“HIAMS”, Japan), Keihin Corporation (“Keihin”, Japan), Showa Corporation (“Showa”, Japan) and Nissin Kogyo Co., Ltd (“Nissin Kogyo”, Japan)<sup>3</sup>. Honda and HTL are designated hereinafter as the “Notifying Parties” or “Parties to the proposed transaction”. HIAMS, Keihin, Showa and Nissin Kogyo are designated hereinafter as the “Targets”.

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<sup>1</sup> 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.

<sup>2</sup> OJ L 1, 3.1.1994, p. 3 (the “EEA Agreement”).

<sup>3</sup> Publication in the Official Journal of the European Union No C234, 16.07.2020, p. 8.

## 1. THE PARTIES

- (2) HTL is a multinational conglomerate company and is the ultimate parent company of the Hitachi group of companies. HTL is a highly diversified company, mainly active in the manufacture and sale of products and services in the IT, energy, industry, mobility and smart life sectors.
- (3) Honda is the parent company of the Honda group of companies, and is active in the production and distribution of automobiles, motorcycles and power products.
- (4) HIAMS is active in the production and supply of automotive products and technologies. HIAMS is wholly owned by HTL.
- (5) Keihin is active in the manufacture and supply of electrification systems for hybrid and electric vehicles, engine management systems for gasoline and natural gas vehicles, and products for fuel cells. As at 31 March 2019, Honda owned 41.35% of the voting rights in Keihin and was Keihin's major shareholder, albeit it did not exert control over Keihin.<sup>4</sup> The remainder of Keihin's shares are widely held. Keihin is currently not controlled by any company or person for the purpose of the Merger Regulation.<sup>5</sup>
- (6) Showa is active in the manufacture and supply of components for automobiles, motorcycles and outboard motors. As at 31 March 2019, Honda owned 33.5% of the voting rights in Showa and was Showa's major shareholder, albeit it did not exert control over Showa.<sup>6</sup> The remainder of Showa's shares are widely held. Showa is currently not controlled by any company or person for the purpose of the Merger Regulation.<sup>7</sup>
- (7) Nissin Kogyo is active in the manufacture and supply of integrated braking systems for vehicles. As at 31 March 2019, Honda owned 34.86% of the voting rights in Nissin Kogyo and was Nissin Kogyo's major shareholder, albeit it did not exert control over Nissin Kogyo.<sup>8</sup> The remainder of Nissin Kogyo's shares are widely held. Nissin Kogyo is currently not controlled by any company or person for the purpose of the Merger Regulation.<sup>9</sup>
- (8) Although prior to the concentration Honda did not exercise control over Keihin, Showa and Nissin Kogyo, it had a strong purchase relationship with them and was a major customer for most of the products giving rise to an affected market.

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<sup>4</sup> Attendance rates to shareholders' meetings of the past three years show that Honda's voting ratio over total voting rights exercised was below majority. Form CO, paragraph 1.35.

<sup>5</sup> Form CO, paragraph 1.35.

<sup>6</sup> Attendance rates to shareholders' meetings of the past three years show that Honda's voting ratio over total voting rights exercised was below majority. Form CO, paragraph 1.37.

<sup>7</sup> Form CO, paragraph 1.37.

<sup>8</sup> Attendance rates to shareholders' meetings of the past three years show that Honda's voting ratio over total voting rights exercised was below majority. Form CO, paragraph 1.39.

<sup>9</sup> Form CO, paragraph 1.39.

## 2. THE CONCENTRATION

### 2.1. Interrelated transactions

- (9) The concentration is accomplished by way of purchase of shares. Pursuant to a single agreement entered into between the Parties on 30 October 2019 (the Management Integration Agreement),<sup>10</sup> Honda will conduct tender offers for the shares it does not already own in Keihin, Showa and Nissin Kogyo (the “First Step”). Thereafter, each of Keihin, Nissin Kogyo and Showa will be amalgamated into HIAMS (“the Absorption Merger”) to form one company (the “Integrated Company”). In consideration, common shares representing 33.4% of the voting rights in the Integrated Company will be allotted to Honda (“the Second Step”).<sup>11</sup>
- (10) Both the First Step and the Second Step have been agreed upfront by the Parties simultaneously, in a single agreement and are economically mutually dependent, in that as a matter of commercial reality the First Step would not occur absent the Second Step.<sup>12</sup> Pursuant to Article 7.1.1 of the Management Integration Agreement, the Parties have agreed that the Second Step will occur promptly after the First Step. In this regard, pursuant to the Commission Consolidated Jurisdictional Notice under Council Regulation (EC) No 139/2004 on the control of concentrations between undertakings<sup>13</sup> (“Consolidated Jurisdictional Notice” or “CJN”), indications of interdependence of transactions may be statements of the parties (such as those referenced in the press release relating to the proposed transaction)<sup>14</sup> and simultaneous entry into the relevant agreements.<sup>15</sup>

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<sup>10</sup> Form CO, Annex 3.1.

<sup>11</sup> Pursuant to Article 7.1.1 of the Management Integration Agreement, the Parties have agreed that the Second Step will occur promptly after the First Step.

<sup>12</sup> Form CO, paragraph 1.42.

<sup>13</sup> OJ C 95, 16.4.2008, p. 1.

<sup>14</sup> According to the press release: “*Hitachi, Ltd. (TSE: 6501, “Hitachi”), Honda Motor Co., Ltd. (TSE: 7267, “Honda”), Hitachi Automotive Systems, Ltd. (“Hitachi Automotive Systems”), Keihin Corporation (TSE: 7251, “Keihin”), Showa Corporation (TSE: 7274, “Showa”), and Nissin Kogyo Co., Ltd. (TSE: 7230, “Nissin”) hereby announce that these six companies have each resolved in their board of directors meetings held today that, on the precondition that permits and licenses, etc. can be obtained from the respective countries’ relevant authorities, including notification or approvals for business combination to or by the respective countries’ competition authorities, (a) Honda will conduct tender offers targeting the common shares of Keihin, Showa, and Nissin (collectively, the “Tender Offer”), (b) Honda will make each of Keihin, Showa, and Nissin its wholly-owned subsidiary (collectively, “Making the Target Companies Wholly-Owned Subsidiaries”), and (c) Hitachi Automotive Systems, Keihin, Showa, and Nissin will conduct an absorption-type merger in which Hitachi Automotive Systems will be the ultimate surviving company and Keihin, Showa, and Nissin will each be an ultimate disappearing company (the “Absorption-type Merger”), and will conclusively conduct a management integration (the “Integration”) to strengthen development and distribution of global and competitive solutions in the CASE area. These six companies have also entered into a basic contract regarding management integration (the “Basic Contract”). [...] After the Tender Offer and Making the Target Companies Wholly-Owned Subsidiaries, the Absorption-type Merger of Hitachi Automotive Systems (a wholly-owned subsidiary of Hitachi) as the ultimate surviving company of the absorption-type merger and Keihin, Showa, and Nissin as the ultimate disappearing companies in the absorption-type merger will be implemented. Honda and Hitachi have agreed in the Basic Contract that in the Absorption-type Merger, common shares of the Integrated Company will be allotted to Honda as the consideration for the merger, in a merger ratio where the number of voting rights of the Integrated Company held by Hitachi and Honda will account for 66.6% and 33.4% of the number of voting rights held by all shareholders of the Integrated Company, respectively.” See Form CO, Annex 3.3.*

<sup>15</sup> CJN, paragraph 43.

- (11) The First Step will not therefore bring about a change of control on a lasting basis for the purpose of Article 3(1) of the Merger Regulation. Accordingly, the proposed transaction (comprising the First Step and the Second Step) constitute a single concentration for the purpose of the Merger Regulation.<sup>16</sup>

## 2.2. Full-function

- (12) The Integrated Company will operate as a full-function joint venture in that it will play an active role on the market and will be economically autonomous from HTL and Honda from an operational viewpoint:<sup>17</sup>
- (a) The Integrated Company will consist of four entities that already operate autonomously on the market, with access to sufficient resources including finance, staff, and assets (tangible and intangible) to conduct their business activities on a lasting basis. The Integrated Company will continue to have its own sales team, R&D resources, and production facilities to manufacture and supply its products to the market. In addition, the Integrated Company will have a management dedicated to its day-to-day operations. [...] the Integrated Company will establish [...] as the deliberative and decision-making body for important managerial issues of the Integrated Company, and the members [...] will include [...] appointed by [...].
  - (b) The Integrated Company will continue to operate as a market-facing business, providing automotive components to third party customers, and so it is not the case that the Integrated Company's activities will be limited to carrying out a specific function for HTL or Honda.
  - (c) The Integrated Company will consist of entities that already have a track record of operating autonomously on the market, with their own customer base. The Parties' intention is that the Integrated Company will continue to be reliant on third party sales. Reflective of this, it is not the intention that the Integrated Company will be heavily reliant on sales to Honda. For example, Honda currently accounts for [Percentage of HIAMS' sales of component parts accounted for by Honda]% of HIAMS' total sales of component parts and, on a weighted average basis, the Targets' combined total sales to the Parents account for approximately [Percentage of Parents' sales of component parts accounted for by the Targets]% of their total sales.<sup>18</sup> Furthermore, sales between the Targets and their Parents will be at arm's length, on normal commercial conditions:<sup>19</sup> as confirmed by the Notifying Parties, [Details of supply and purchase arrangements of the Parties], therefore, Honda will be supplied by the Targets on the same terms as other third parties.<sup>20</sup>
  - (d) The Integrated Company will be formed by the amalgamation of four pre-existing entities that already operate on the market and the Parties' intention

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<sup>16</sup> Consolidated Jurisdictional Notice, paragraph 43.

<sup>17</sup> Form CO, paragraphs 1.51 to 1.55.

<sup>18</sup> Reply to question 1 of RFI 21.

<sup>19</sup> Reply to RFI 19.

<sup>20</sup> Reply to question 1 of RFI 21.

is that the Integrated Company will continue to operate on the market on a lasting basis.

### 2.3. Joint control

- (13) Pursuant to an agreement entered into between HTL and Honda on 30 October 2019 (the “Subsidiary Integration Agreement”),<sup>21</sup> HTL will own 66.6% and Honda will own 33.4% of the voting rights of the Integrated Company.
- (14) The Subsidiary Integration Agreement provides that HTL will have the right to appoint the majority of directors to the board of directors of the Integrated Company (the “Integrated Company Board”): the Integrated Company Board shall have six directors in total, of which HTL may nominate four and Honda may nominate two. [Description of provisions in the agreement entered into between HTL and Honda].<sup>22</sup>
- (15) [Description of provisions in the agreement entered into between HTL and Honda].<sup>23</sup>
- (16) The Notifying Parties note that similar procedures for the approval of the annual business plan and budget were used in a previous joint venture between HIAMS and Honda in Case COMP/M.8485 – Hitachi Group / Honda / JV. In that case, the Commission concluded that the joint venture in question was jointly controlled by HIAMS and Honda [...]. On that basis, the joint venture fell within the jurisdiction of the Merger Regulation, and was notified to and approved by the Commission.<sup>24</sup> The Notifying Parties have confirmed that [Description of provisions in the agreement entered into between HTL and Honda].<sup>25</sup>
- (17) Pursuant to the CJN and the Commission’s decisional practice, joint control can be exercised on a *de facto* basis, where as a matter of practice the shareholders must reach a common understanding in determining the commercial policy of the joint venture.<sup>26</sup> According to the CJN, “[...] *collective action can occur on a de facto basis where strong common interests exist between the minority shareholders to the effect that they would not act against each other in exercising their rights in relation to the joint venture*”<sup>27</sup> and “[i]ndicative for such a commonality of interests is a high degree of mutual dependency as between the parent companies to reach the strategic objectives of the joint venture. This is in particular the case when each parent company provides a contribution to the joint venture which is vital for its operation (e.g. specific technologies, local know-how or supply agreements)”.<sup>28</sup> Pursuant to the CJN, *de facto* joint control may also arise as a result of decision making procedures – such as those envisaged under [Description of provisions in the agreement entered into between HTL and Honda] – which are “*tailored in such a way as to allow the*

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<sup>21</sup> Form CO, Annex 3.2.

<sup>22</sup> Form CO, paragraph 1.45.

<sup>23</sup> Form CO, paragraphs 1.46 and 1.47.

<sup>24</sup> Form CO, paragraph 1.49.

<sup>25</sup> Reply to RFI 18.

<sup>26</sup> CJN, paragraph 78.

<sup>27</sup> CJN, paragraph 76.

<sup>28</sup> CJN, paragraph 77.

*parent companies to exercise joint control even in the absence of explicit agreements granting veto rights”.*<sup>29</sup>

- (18) In the case of the Integrated Company there will be a strong commonality of interests between the shareholders, consistent with the arrangements in relation to the proposed transaction requiring that [Description of provisions in the agreement entered into between HTL and Honda].<sup>30</sup> This commonality of interests is reflected in the following elements:
- (a) Importance of Honda as a customer of the Integrated Company: while the specific products and volumes that the Integrated Company will supply to Honda has still to be determined, the Parties consider that the proportion of their total sales of component parts that Honda currently accounts for provides a reasonable proxy for the expected importance of Honda as a customer of the Integrated Company. Honda accounts for approximately [Percentage of HIAMS' sales of component parts accounted for by Honda]% of HIAMS' total sales of component parts. However, for each of Showa, Keihin and Nissin Kogyo the proportion of sales that Honda accounts for is significantly higher:
- Keihin: Honda accounts for approximately [Percentage of total sales of component parts accounted for by Honda]% of its total sales of component parts;
  - Showa: Honda accounts for approximately [Percentage of total sales of component parts accounted for by Honda]% of its total sales of component parts;
  - Nissin Kogyo: Honda accounts for approximately [Percentage of total sales of component parts accounted for by Honda]% of its total sales of component parts.
- (b) Importance of the IP licensed by Honda to the Integrated Company:[Licensing practices of Honda].<sup>31</sup> [Licensing practices of Honda]:
- Keihin: [Licensing practices of Honda].
  - Showa: [Licensing practices of Honda].
  - Nissin Kogyo: [Licensing practices of Honda].
- (c) Importance of the corporate functions provided by Honda to the Integrated Company: [Description of future corporate functions and supply arrangement between Honda and the Integrated Company].

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<sup>29</sup> CJN, paragraph 77.

<sup>30</sup> Form CO, paragraph 1.50.

<sup>31</sup> In addition to these existing licences, it is expected that Honda and the Integrated Company will enter into further licensing agreements. The precise details are still to be determined, but these are expected to relate to [Details of the licensing agreements between Honda and the Integrated Company]. The IP licences that will exist between Honda and the Integrated Company will therefore likely be directly related to [Description of provisions in the agreement entered into between HTL and Honda].

- (d) Importance of the Honda personnel transferred to the Integrated Company. [Details of employment arrangements with Honda]:
- Keihin: [Details of employment arrangements with Honda].
  - Showa: [Details of employment arrangements with Honda].
  - Nissin Kogyo: [Details of employment arrangements with Honda].
- (19) Because of the strong commonality of interests between Honda and the Integrated Company, Honda will exercise *de facto* joint control over the Integrated Company together with HTL [Description of commercial arrangement between HTL and Honda].
- (20) As a result of the proposed concentration, the Integrated Company will be jointly controlled by HTL and Honda.

### **3. EU DIMENSION**

- (21) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million (HTL: EUR [...] million; Honda: EUR [...] million; Keihin: EUR [...] million; Showa: EUR [...] million; Nissin Kogyo: EUR [...] million).<sup>32</sup> At least two of them has an EU-wide turnover in excess of EUR 250 million (Hitachi: EUR [...] million<sup>33</sup>; Honda: EUR [...] million; Keihin: EUR [...] million; Showa: EUR [...] million; Nissin Kogyo: EUR [...] million), but not each of the undertakings concerned achieves more than two-thirds of its aggregate EU-wide turnover within one and the same Member State. The notified operation therefore has an EU dimension within the meaning of Article 1(2) of the Merger Regulation.

### **4. COMPETITIVE ASSESSMENT**

- (22) The concentration gives rise to affected markets only in the original equipment manufacturers (OEM) segment. Therefore, the affected markets cited in this decision refer only to the OEM segment.<sup>34</sup>

#### **4.1. Number of horizontally affected markets**

- (23) Worldwide, the activities of the Notifying Parties and the Targets result in two horizontally affected markets in relation to the following components for use in motorcycles: floating calipers and brake pads (as an assembled product), and brake

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<sup>32</sup> Turnover calculated in accordance with Article 5 of the Merger Regulation.

<sup>33</sup> The turnover for HIAMS is consolidated within the turnover of the HTL Group.

<sup>34</sup> The Notifying Parties have confirmed that no affected markets would arise for any plausible market segmentation from their sales of motorcycle and automotive component parts in the independent aftermarket (“IAM”), under any plausible geographic market definition. They also confirmed that no affected markets would arise from sales of components for general purpose applications or automotive component parts for heavy commercial vehicles. Reply to question 5 of RFI 1 of 16 April 2020.



master cylinders.<sup>35</sup> EEA-wide, the transaction does not give rise to horizontally affected markets.<sup>36</sup>

#### 4.2. Number of vertically affected markets

(24) The table below summarises all vertically affected markets:

**Table 1: List of vertically affected markets (2019)**

Upstream market	Downstream market <sup>37</sup>	Combined market shares upstream		Combined market shares downstream	
		World-wide	EEA	World-wide	EEA
Airflow sensors	Passenger cars	[30-40]%	[10-20]%	[5-10]%	[0-5]%
ECUs	Small motorcycles	[30-40]%	<30%	[30-40]%	[10-20]%
Carburettors	Motorcycles	[40-50]%	[0-5]%	[30-40]%	[10-20]%
Fuel pump modules	Small motorcycles	[30-40]%	<30%	[30-40]%	[10-20]%
Injectors	Small motorcycles	[30-40]%	<30%	[30-40]%	[10-20]%
Brake master cylinders	Motorcycles	[50-60]%	<30%	[30-40]%	[10-20]%
Floating calipers and brake pads (assembled)	Motorcycles	[50-60]%	[30-40]%	[30-40]%	[10-20]%
Floating calipers (non-assembled)	Motorcycles	< 20%	<5%	[30-40]%	[10-20]%
Fixed calipers and brake pads (assembled)	Motorcycles	[20-30]%	[0-5]%	[30-40]%	[10-20]%
Fixed calipers (non-assembled)	Motorcycles	[20-30]%	[0-5]%	[30-40]%	[10-20]%
Brake pads (non-assembled)	Motorcycles	<5%	<5%	[30-40]%	[10-20]%
Shock absorbers	Motorcycles	[50-60]%	<30%	[30-40]%	[10-20]%
Electronic throttle bodies	Motorcycles	[0-5]%	[0-5]%	[30-40]%	[10-20]%
ABS	Motorcycles	[20-30]%	[20-30]%	[30-40]%	[10-20]%
Panel brakes	Motorcycles	<15-20%	<5%	[30-40]%	[10-20]%
Handle lever brackets	Motorcycles	<5%	[0-5]%	[30-40]%	[10-20]%
CBS	Motorcycles	[10-20]%	[0-5]%	[30-40]%	[10-20]%
Speed meter gears	Motorcycles	<30%	<30%	[30-40]%	[10-20]%
Drivetrain systems (shaft drive)	Motorcycles	[20-30]%	[0-5]%	[30-40]%	[10-20]%

*Source: Reply to question 1 of RFI 2, question 5 of RFI 7 and question 4 of RFI 16*

<sup>35</sup> The Notifying Parties have confirmed that no horizontally or vertically affected markets would arise for any plausible market segmentation from their sales of component parts for general purpose applications or automotive component parts for heavy commercial vehicles. Reply to question 5 of RFI 1 of 16 April 2020.

<sup>36</sup> Form CO, paragraphs 1.221 to 1.261.

<sup>37</sup> The Commission has left open whether or not motorcycle and passenger car ECUs, injectors, fuel pump modules, brake master cylinders, calipers and ABS are part of the same product market. For these components, the Integrated Company's market share is above 30% only when considering those products for use in motorcycles or small motorcycles. When considering those components for use in both passenger cars and motorcycles, or only in passenger cars, the combined market share is below 30%.

- (25) In the EEA, the activities of the Parties and the Targets result in vertically affected markets due to market shares exceeding 30% in an upstream component market in relation to floating calipers and brake pads (as an assembled product) for use in motorcycles.
- (26) Worldwide, the activities of the Parties and the Targets result in vertically affected markets due to market shares exceeding 30% in an upstream component market in relation to airflow sensors for use in passenger cars, and the following components for use in motorcycles: engine control units “ECUs”, carburettors, fuel pump modules, injectors, brake master cylinders, floating calipers and brake pads (as an assembled product), and shock absorbers.
- (27) Given Honda’s market share of [30-40]% in the downstream market for motorcycles at worldwide level, the following markets are also vertically affected.
- i. In the EEA and worldwide additional vertically affected markets are:
    - Electronic throttle bodies (upstream) – motorcycles (downstream)
    - Anti-lock braking systems (“ABS”) (upstream) – motorcycles (downstream)
    - Brake pads (as a non-assembled component) (upstream) – motorcycles (downstream)
    - Floating calipers (non-assembled) (upstream) – motorcycles (downstream)
    - Panel brakes (upstream) – motorcycles (downstream)
  - ii. Additional vertically affected markets at worldwide level only:
    - Combined brake systems “CBS” (upstream) – motorcycles (downstream)
    - Fixed calipers and brake pads (assembled) (upstream) – motorcycles (downstream)
    - Fixed calipers (as a non-assembled component) (upstream) – motorcycles (downstream)
    - Drivetrain systems (shaft drive) (upstream) – motorcycles (downstream)
    - Handle lever brackets (upstream) – motorcycles (downstream)
    - Speed meter gears (upstream) – motorcycles (downstream)

### **4.3. Market definition**

- (28) The Targets are active in the manufacture and sale of motorcycle and automotive components such as engine management and injection systems (airflow sensors, ECUs, carburettors, fuel pump modules, injectors and electronic throttle bodies), braking systems (brake master cylinders, calipers and brake pads, ABS, CBS, panel brakes) and anti-vibration systems (shock absorbers) and others (drivetrain systems, speed meter gears and handle lever brackets for motorcycles).
- (29) Some components are only used in motorcycles, some only in passenger cars, and some in both: airflow sensors are only used in cars, whereas carburettors, panel brakes, handle lever brackets, CBS, speed meter gears and drivetrain systems are only used in motorcycles. All other components are parts of passenger cars and motorcycles, although the Parties do not produce all these components for passenger cars and motorcycles (the second column of Table 1 shows which products the Parties produce for passenger cars, which for motorcycles and which for both).

- (30) In the market for automotive parts and components, the transaction gives rise to one vertically affected market, namely airflow sensors.
- (31) In the market for motorcycle parts and components, the transaction gives rise to two horizontally affected and 19 vertically affected markets for the sale of components (see paragraphs (24) and (27)). Below the Commission provides an analysis of the market definition for those products where market shares at upstream level exceed 30%.

#### 4.3.1. Automotive and motorcycle parts and components overall

##### 4.3.1.1. Product market

###### (A) The Commission's decisional practice

- (32) The Commission has consistently defined the relevant product market for the manufacture and supply of automotive components on a product-by-product basis,<sup>38</sup> and has left open whether there may be a wider market comprising automotive components, modules and systems, or separate markets for "components" and "modules".<sup>39</sup> Within the market for automotive parts and components, the Commission has also further made the following segmentations:<sup>40</sup> (a) depending on the type of vehicles for which the product is supplied (Light Vehicles and Heavy Commercial Vehicles);<sup>41</sup> and (b) depending on the distribution channel to which the product is supplied (OEMs and independent aftermarket (IAM)<sup>42</sup>).
- (33) The Commission has not specifically addressed the product market for the manufacture and sale of motorcycle components.

###### (B) The Notifying Parties' views

- (34) The Notifying Parties do not contest the product market definition for automotive components described in the Commission's precedents cited above.<sup>43</sup>
- (35) The Targets produce components both for small motorcycles (with an engine size below 250cc) and for large motorcycles (with an engine size above 250cc). However, the Notifying Parties submit that components for use in motorcycles of all sizes should be considered to belong to the same product market. This is because, from the demand side perspective, components for use in all sizes of motorcycles are

<sup>38</sup> Case COMP/M.7420 ZF/TRW, paragraph 9; Case COMP/M.6714 U-Shin/Valeo CAM, paragraph 6.

<sup>39</sup> The term "modules" refers to a number of pre-assembled individual components that fulfil a certain function in the vehicle and are delivered to the original equipment manufacturers (OEMs) as a single unit. Case COMP/M.7182 Visteon Corporation/Automotive Electronics Business of Johnson Controls, paragraphs 14-18; Case COMP/M.6714 U-Shin/Valeo CAM, paragraph 6; Case COMP/M.5799 Faurecia/Plastal, paragraphs 7- 12.

<sup>40</sup> Case COMP/M.7420 - ZF/TRW, paragraph 10.

<sup>41</sup> The Parties only sell *de minimis* volumes of automotive component parts for heavy commercial vehicles (i.e., vehicles above six tons) and confirm that no affected markets would arise for any plausible market segmentation from their sales of component parts for automotive component parts for heavy commercial vehicles. Therefore this Decision will not further discuss these.

<sup>42</sup> As mentioned in footnote 34, no affected market would arise for the IAM market under any plausible product and geographic market definition. Therefore this segmentation will not be further discussed in this Decision.

<sup>43</sup> Reply to RFI 7.

substitutable, due to the fact that the structure, size and shape of such components are the same, regardless of the size of motorcycle that they are used in. From the supply side, suppliers are easily able to switch production between manufacturing components for different sizes of motorcycles, within a short time frame and without requiring a large amount of capital investment, as the production processes for all components (regardless of size of motorbike for end use) is very similar.<sup>44</sup>

- (36) The Notifying Parties note that for components used in both passenger cars and motorcycles, supply-substitutability suggests that a broader market definition might be considered. The Notifying Parties submit that such substitutability applies for brake master cylinders, floating calipers, fixed calipers, brake pads, ECUs, fuel pump modules, injectors and electronic throttle bodies.<sup>45</sup> On the other hand, the Notifying Parties submit that there is no supply side substitutability for ABS for passenger cars and for motorcycles, and for shock absorbers for passenger cars and for motorcycles.<sup>46</sup> Finally, the Notifying Parties submit that airflow sensors are only supplied for passenger cars, while carburettors, panel brakes, CBS, speed meter gears and drive train systems are only supplied for motorcycles.<sup>47</sup>

(C) The Commission's assessment

- (37) The Commission considers that for the purpose of the present case, its decisional practice related to automotive components, as outlined in paragraph (32) can be maintained. In its market investigation, the Commission tested whether this practice can be applied to the motorcycle components it investigated in a similar way. The results of the market investigation showed that whereas from a demand-side perspective some markets can be further segmented into types of each components, the same companies usually produce all different types of these products.<sup>48</sup>
- (38) The Commission also investigated the argument of the Parties that no sub-segmentation between components for small motorcycles and components for large motorcycles should be made. A majority<sup>49</sup> of customers and competitors considers that components for small motorcycles are not the same as components for large motorcycles.<sup>50</sup> Several respondents and a majority of competitors noted that all components being investigated differ between small and large motorcycles in performance and size and are therefore not substitutable, for instance "*large motorcycles have different suspensions and brakes due to different performances and mass. In case of ECUs, smaller bikes have simpler engines and less electronic functionalities. [...] In terms of contribution margin, large motorcycles are more likely to use more expensive [components]*"<sup>51</sup> However, there appears to be supply-

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<sup>44</sup> Form CO, paragraph 1.464

<sup>45</sup> Reply to question 4 of RFI 7.

<sup>46</sup> In view of the time and expenses for manufacturers to switch manufacturing lines for products for use in motorcycles and for use in passenger cars, the Notifying Parties do not consider that there is supply side substitutability (Reply to question 4 of RFI 7).

<sup>47</sup> Reply to question 4 of RFI 7.

<sup>48</sup> Replies to question 6 of questionnaire to customers and question 6 of questionnaire to competitors.

<sup>49</sup> "Majority" in this Decision stands for more than 50% of the participants in the market investigation who replied to the question (excluding those that replied "other", or "I do not know").

<sup>50</sup> Replies to question 4 of questionnaire to customers and replies to question 4 of questionnaire to competitors.

<sup>51</sup> Non-confidential reply to question 4.1 of questionnaire to competitors.

side substitutability as the market investigation confirmed that the same companies manufacture components for both small and large motorcycles.<sup>52</sup> A customer summarised that “*in general all components for large 2wheelers are also used for small 2wheelers but size, function and characteristics can differ*”.<sup>53</sup>

- (39) The Commission also investigated the argument of the Parties that no sub-segmentation between components for motorcycles and components for passenger cars should be made. The market investigation was inconclusive as to whether the component markets should be divided by passenger car and motorcycle component. In particular, a majority of respondents in the market investigation confirmed that components for passenger cars differ from components for use in motorcycles.<sup>54</sup> As a customer explained, “*The principle and general functionality of the listed components are comparable for 2wheeler and 4wheeler but you cannot use the same ECU, Fuel pump... for both vehicle types*”.<sup>55</sup> Competitors confirmed this as well: “*Technical and functional characteristics, performances and liabilities of automotive components for passenger cars are generally different from components for motorcycles*.”<sup>56</sup>
- (40) However, there appears to be a high degree of supply-side substitutability between automotive and motorcycle components. A majority of respondents in the market investigation confirmed that the same companies that produce the motorcycle components in question also produce these components for passenger cars (ECUs, fuel pump modules, injectors, brake master cylinders, floating calipers and shock absorbers).<sup>57</sup> As a competitor confirmed, “*Normally, production technologies of car and motorcycle parts are the same*.”<sup>58</sup>
- (41) In conclusion, the Commission will leave open whether one product market exists for automotive and motorcycle components. As for automotive components (i.e. not used in motorcycles), the Commission will retain the product market definition provided in its past decisional practice as described in paragraph (32). For components that are also, or exclusively used in motorcycles, it can be left open whether a distinction should be made between components for large and for small motorcycles.<sup>59</sup>

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<sup>52</sup> Replies to question 6 of questionnaire to customers and question 6 of questionnaire to competitors.

<sup>53</sup> Non-confidential reply to question 4.1 of questionnaire to customers.

<sup>54</sup> Replies to question 2 of questionnaire to customers and replies to question 2 of questionnaire to competitors.

<sup>55</sup> Non-confidential reply to question 2.1 of questionnaire to customers.

<sup>56</sup> Non-confidential reply to question 2.1 of questionnaire to competitors.

<sup>57</sup> Replies to question 3 of questionnaire to customers and replies to question 3 of questionnaire to competitors.

<sup>58</sup> Non-confidential reply to question 3.1 of questionnaire to competitors.

<sup>59</sup> The Notifying Parties confirmed that their market shares for components for large and small motorcycles separately do not materially differ from the market shares of each particular component market as a whole. Therefore, the competitive analysis focuses on the Integrated Company’s market share for the specific component market as a whole. (Reply to question 1 of RFI 9.) Where an affected market arises only under a narrower product market definition (for small motorcycles), it will be discussed in the competitive analysis.

#### 4.3.1.2. Geographic market

##### (A) The Commission's decisional practice

- (42) In previous decisions, the Commission has found that the geographic markets for the manufacture and supply of OEM automotive components are at least EEA-wide, and possibly worldwide, but has left open the precise definition.<sup>60</sup> In a recent case, the existence of at least EEA-wide markets was justified as follows: i) the Parties operated worldwide; ii) OEMs increasingly source products at worldwide level; iii) within the EEA, transport costs are not significant; iv) product regulation and safety standards are set at EEA level; v) there are no obstacles to intra-EEA trade and vi) prices are similar throughout the EEA.<sup>61</sup>
- (43) The Commission has not specifically addressed the geographic market for the manufacture and sale of motorcycle components.

##### (B) The Notifying Parties' views

- (44) The Notifying Parties consider the markets for the manufacture and supply of all automotive and motorcycle components discussed in this Decision to be worldwide in scope. According to the Notifying Parties, this worldwide market definition follows from the fact that transport costs are low: in many cases, the Notifying Parties estimate that transport costs per unit amount to [Percentage of the price of the component comprised of transport costs]% of the price of the component. In addition, the Notifying Parties submit that there are no specific trade barriers and these products are traded globally.<sup>62</sup>

##### (C) The Commission's assessment

- (45) The market investigation confirmed that the market for the manufacture and sale of OEM automotive and motorcycle components is at least EEA-wide, if not worldwide. A vast majority of customers purchase original automotive and motorcycle components at a worldwide level.<sup>63</sup> Specifically for motorcycle components, a majority of customers confirmed that motorcycle components are usually shipped globally and that transport costs are low.<sup>64</sup> Even though some European motorcycle manufacturers purchase a large proportion of components in the EEA, they nevertheless make their purchase decisions based on comparisons with suppliers worldwide, as a competitor explained: “[company name] *in general purchases motorcycles components mostly (circa 75%) in Europe; however the driver for the choice is also the know-how and quality and competitiveness of the components thus various suppliers are located outside Europe*”.<sup>65</sup>

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<sup>60</sup> Case COMP/M.6714 - U-Shin/Valeo CAM, paragraphs 30-33; Case COMP/M.6207 - Gestamp/ TKMF, paragraphs 30-33; Case COMP/M.5799 - Faurecia/Plastal, paragraphs 13-15.

<sup>61</sup> Case COMP/M.6714 - U-Shin/Valeo CAM, paragraph 27.

<sup>62</sup> Form CO, paragraph 1.181 (for engine management/injection systems); paragraph 1.194 (for braking systems); paragraph 1.203 (for shock absorbers).

<sup>63</sup> Reply to question 7 of questionnaire to customers.

<sup>64</sup> Reply to question 8 of questionnaire to customers.

<sup>65</sup> Non-confidential reply to question 9 of questionnaire to competitors.

- (46) For the purposes of this decision, the Commission therefore considers that it can be left open whether the geographic market for manufacture and sale of the automotive and motorcycle components under investigation is defined as EEA-wide or worldwide, as the proposed transaction does not raise any competition concerns, irrespective of the exact market definition adopted.

#### 4.3.2. *Automotive airflow sensors*

- (47) Airflow sensors are one of the key components of an electronic fuel injection system and measure the amount of air entering the car engine. They are not currently used in motorcycles.<sup>66</sup>

##### 4.3.2.1. Product market

###### (A) The Commission's decisional practice

- (48) The Commission has not previously considered a separate product market for manufacture and sale of airflow sensors for automobiles. However, in previous cases involving other sensors for automobiles, it considered each type of automotive sensor to constitute a separate product market based on its area of employment. This concerned, for example, temperature sensors, pressure sensors, fluidity level sensors, speed sensors and acceleration sensors. The Commission found that as each of these sensors has a different function, namely to measure specific information for the vehicle, they are not substitutable from a demand-side perspective. Also, producers of sensors cannot easily switch their production from one type of sensor to the other, which is why separate product markets per sensor function are justified also from a supply-side perspective.<sup>67</sup>

###### (B) The Notifying Parties' view

- (49) The Notifying Parties submit that the product market for automotive airflow sensors is the narrowest relevant segmentation.<sup>68</sup> They note that given the high degree of supply-side substitutability, no further sub-segmentation by different variations of airflow sensors is necessary. For instance, the equipment required to manufacture airflow sensors for gasoline and diesel passenger cars is the same. Therefore, manufacturers are able to produce such components without any additional investment or time delay.<sup>69</sup>
- (50) In relation to single/standalone mass airflow sensors and airflow sensors with integrated additional features with pressure/humidity,<sup>70</sup> manufacturers are able to produce these components without significant investments. The Parties estimate that it would take [Parties' estimate of switching costs] to start production of airflow sensors with integrated additional features with pressure/humidity.<sup>71</sup>

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<sup>66</sup> Form CO, paragraph 1.320.

<sup>67</sup> Case COMP/M.4878 - Continental / Siemens VDO paragraphs 38-39 and cases cited therein.

<sup>68</sup> Form CO, table 16.

<sup>69</sup> Reply to RFI 7, para 1.1.

<sup>70</sup> These variants were mentioned by respondents to the market investigation.

<sup>71</sup> Reply to RFI 7, para 1.2.

(C) The Commission's assessment

- (51) In line with its previous practice, the Commission considers that each automotive sensor fulfilling a different function constitutes a separate product market, and the results of the market investigation did not contest this. As for the possibility of a further sub-segmentation of airflow sensors, in the market investigation, a competitor mentioned the following possible segments of airflow sensors for automobiles, confirming that it produces “*all different types of air flow sensors with customer specific programmable output*” and that the different types are “*relatively easy to produce*”:
- Gasoline and diesel airflow sensors.
  - Single/standalone mass airflow sensors and airflow sensors with integrated additional features with pressure/humidity.<sup>72</sup>
- (52) While there are different types of airflow sensors, the different types are easy to produce, so there is supply-wide substitutability. As automotive airflow sensors all fulfil the same function, namely measuring the amount of air flowing into the engine, demand-side substitutability was also confirmed in the market investigation.<sup>73</sup> As a respondent in the market investigation explained, “*In case of sensors, different technologies might be used in order to make the same kind of measurement.*”<sup>74</sup>
- (53) Therefore, the Commission concludes that the relevant product market is the market for manufacture and sale of automotive airflow sensors.<sup>75</sup>
- (54) In any event, for the purpose of the present decision, the exact product market definition can ultimately be left open<sup>76</sup> as the proposed transaction does not raise serious doubts as to its compatibility with the internal market under any plausible market definition.

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<sup>72</sup> Reply to question 6 of questionnaire to competitors.

<sup>73</sup> Replies to question 6 of questionnaire to competitors and to question 6 of questionnaire to customers.

<sup>74</sup> Non-confidential reply to question 2.1 to questionnaire to competitors.

<sup>75</sup> Given the low response rate in the market investigation, the Commission enquired whether a further segmentation of the market for airflow sensors would give rise to competition concerns. The Notifying Parties have confirmed that the Integrated Company's market share in any of these product sub-segmentations do not materially differ from the market shares of the Integrated Company in the airflow sensors market as a whole. Therefore, the competitive analysis focuses on the Integrated Company's market share for the market for airflow sensors for use in passenger cars as a whole. (Reply to question 1 of RFI 9).

<sup>76</sup> Between different types of airflow sensors mentioned or an overall market. For the different types of airflow sensors, the Notifying Parties have confirmed that the Integrated Company's market share in any of these product sub-segmentations do not materially differ from the market shares of the Integrated Company in the market for airflow sensors as a whole (Reply to question 1 of RFI 9).



#### 4.3.2.2. Geographic market

(A) The Commission's decisional practice

- (55) The Commission has not previously analysed the market for of airflow sensors for passenger cars. In previous cases where the Commission analysed the market for automotive sensors, it defined the market as at least EEA-wide.<sup>77</sup>

(B) The Notifying Parties' view

- (56) As outlined in paragraph (44), the Notifying Parties consider that all markets for engine management and injection systems, including the market for airflow sensors, should be analysed at a worldwide level for the purpose of this Decision.<sup>78</sup>

(C) The Commission's assessment

- (57) In line with its decisional practice and the findings of the market investigation outlined in paragraph (45), for the purposes of this Decision it can be left open whether the geographic market is defined as EEA-wide or worldwide, as the proposed transaction does not raise any serious doubts as to its compatibility with the internal market under any plausible market definition adopted.

#### 4.3.3. ECUs and electronic throttle bodies

- (58) Like airflow sensors, ECUs and electronic throttle bodies are key components of the engine management system.<sup>79</sup>

- (59) An electronic throttle body is a mechanism that supplies air to the engine, controlled by an ECU.<sup>80</sup>

- (60) Based on information from sensors, an ECU controls the amount and timing of fuel flowing through the fuel injectors into the combustion chamber, the amount of air passing through the throttle body and the timing of the ignition spark which ignites the fuel in engines. ECUs are used in a variety of engines (including diesel and gasoline-powered engines for automobiles, motorcycles and general purpose engines, such as small ships or power generators).

##### 4.3.3.1. Product market

(A) The Commission's decisional practice

- (61) The Commission has previously identified potential separate markets for the supply of ECUs and electronic throttle bodies. The Commission also previously concluded that each ECU used in a different area of employment constitutes a separate market. For instance, in *Continental / Siemens VDO*, the Commission found separate markets

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<sup>77</sup> See e.g. Case COMP/M.5244 - ZF / CHERRY, paragraph 15.

<sup>78</sup> Form CO, paragraph 1.181.

<sup>79</sup> Form CO, paragraph 1.84.

<sup>80</sup> Form CO, paragraph 1.86.

for (i) gasoline ECUs, (ii) diesel ECUs for passenger cars and light vehicles and (iii) diesel ECUs for heavy vehicles.<sup>81</sup>

(B) The Notifying Parties' view

- (62) The Notifying Parties agree that ECUs and electronic throttle bodies each constitute separate product markets and that, within ECUs, a distinction may be drawn between ECUs used in gasoline and diesel-powered engines.<sup>82</sup> However, the Notifying Parties submit that there is no need to conclude on such a distinction in this case as no competition concerns arise even on a the narrowest plausible market.<sup>83</sup>
- (63) The Notifying Parties consider that it would be appropriate to define a single market for the supply of ECUs for use in both motorcycles and passenger cars, in view of the supply side substitutability between these products. The same should apply to electronic throttle bodies.<sup>84</sup> Suppliers are easily able to switch production between these components for use in motorcycles and passenger cars, within a short time frame and without requiring a large amount of capital investment, as the production processes for these components is very similar.<sup>85</sup>
- (64) As outlined in paragraph (35), the Notifying Parties consider that a sub-segmentation between ECUs for small and large motorcycles, or electronic throttle bodies for use in small large motorcycles, is not justified.
- (65) The Notifying Parties submit that no segmentation is required with regard to different types of ECUs, as manufacturers would be able to produce such variations without significant additional investment or time delay.<sup>86</sup>

(C) The Commission's assessment

- (66) The Commission considers that the previous practice to distinguish between diesel and gasoline ECUs, and within diesel ECUs for light and heavy vehicles can be maintained for the purposes of the present decision.<sup>87</sup> It should be noted that these distinctions are relevant for ECUs for use in passenger cars, whereas the results of the market investigation suggest that different distinctions might be relevant for ECUs used in motorcycles. Distinctions mentioned by respondents are the following:
- ECUs capable of e-gas and not capable of e-gas,<sup>88</sup>

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<sup>81</sup> Case COMP/M.4878 - Continental / Siemens VDO, paragraph 18.

<sup>82</sup> HIAMS and Keihin's activities overlap in the supply of ECUs used in gasoline-powered passenger cars in the EEA, but no affected market arises. Keihin supplies ECUs for use in small motorcycles resulting in a vertically affected market at worldwide level.

<sup>83</sup> Form CO, paragraph 1.165.

<sup>84</sup> Reply to RFI 8, paragraph 1.6(v).

<sup>85</sup> Reply to RFI 7, Table 11.

<sup>86</sup> Reply to RFI 7, paragraph 1.4 and reply to RFI 9.

<sup>87</sup> The Notifying Parties confirm that their combined market shares at both an EEA and worldwide level, remain below 20% under any of these plausible market definitions for automotive ECUs. (Reply to question 10, RFI 1 of 16 April 2020.)

<sup>88</sup> Fuel cell vehicles use hydrogen as fuel. They produce electricity and water by mixing hydrogen gas and oxygen in the cell stack, and that electricity is used as energy to power the car. The balance between hydrogen gas and oxygen has to be properly maintained so that the fuel cell can produce electricity safely and efficiently. This ECU is used to regulate such a balance. (Reply to RFI14, Annex 1).

- Fuel powered and electric powered ECUs,<sup>89</sup>
  - Single cylinder and multi cylinder ECUs,<sup>90</sup>
- (67) A majority of respondents confirmed that there is no demand-side substitutability, neither between ECUs for passenger cars and for motorcycles,<sup>91</sup> nor between small and large motorcycles.<sup>92</sup> However, the market investigation confirmed supply-side substitutability between ECUs for passenger cars and for motorcycles, as manufacturers usually produce all types of ECUs,<sup>93</sup> and a majority of respondents replied that the same suppliers produce all types of ECUs, both for passenger cars and motorcycles.<sup>94</sup> A competitor explained that “*ECU in general are engine/customer specific components*”. This indicates that ECUs are bespoke products (i.e. suppliers manufacture a slightly different type of ECU not only for each OEM but for each vehicle model) and therefore a single market for manufacture and sale of all ECUs, including ECUs for small/large motorcycles, motorcycles/passenger cars and different types as mentioned in the market investigation, might be warranted.<sup>95</sup>
- (68) The market investigation did not find the need for a further segmentation of the market for supply of electronic throttle bodies.<sup>96</sup> Therefore, the Commission will retain its practice to define a separate market for the manufacture and sale of electronic throttle bodies.
- (69) In any event, for the purpose of the present decision, the exact product market definition can ultimately be left open<sup>97</sup> as the proposed transaction does not raise serious doubts as to its compatibility with the internal market under any plausible market definition.

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<sup>89</sup> A fuel powered ECU is a component used to control the engine so that the vehicle can be driven. An electric powered ECU controls the power-generation and drive motors in hybrid and electric vehicles during start off, acceleration, and deceleration. (Reply to RFI14, Annex 1).

<sup>90</sup> Replies to question 6 of questionnaire to competitors.

<sup>91</sup> Replies to question 2 of questionnaire to customers and replies to question 2 of questionnaire to competitors.

<sup>92</sup> Replies to question 5 of questionnaire to customers and replies to question 5 of questionnaire to competitors.

<sup>93</sup> Replies to question 6 of questionnaire to customers and replies to question 6 of questionnaire to competitors.

<sup>94</sup> Replies to question 3 and 6 of questionnaire to customers and replies to question 3 and 6 of questionnaire to competitors.

<sup>95</sup> Non-confidential reply to question 2.1 and to question 6 of questionnaire to competitors.

<sup>96</sup> Replies to question 6 of questionnaire to customers and replies to question 6 of questionnaire to competitors.

<sup>97</sup> Between ECUs (i) for small and large motorcycles separately or combined and (ii) for passenger cars and motorcycles separately or combined, (iii) the different types mentioned or an overall market. For the different types of ECUs, the Notifying Parties have confirmed that the Integrated Company’s market share in any of these product sub-segmentations do not materially differ from the market shares of the Integrated Company in the market for ECUs as a whole (Reply to question 1 of RFI 9). As for the distinction between (i) large and small motorcycles and (ii) motorcycles and passenger car component, the competitive analysis focuses on the market definitions under which affected markets would arise.

#### 4.3.3.2. Geographic market

(A) The Commission's decisional practice

(70) In previous cases, the Commission considered the geographic market for the manufacture and sale of ECUs to be at least EEA-wide, if not worldwide.<sup>98</sup>

(B) The Notifying Parties' view

(71) The Notifying Parties submit that the appropriate geographic market for the supply of component parts for all engine management and injection systems, the product category including ECUs and electronic throttle bodies, is worldwide. Transport costs are low: in many cases, the Notifying Parties estimate that transport costs per unit amount to [Percentage of the price of the component comprised of transport costs]% of the price of the component part. In addition, there are no specific trade barriers and these products are traded globally. In fact, Keihin does not manufacture component parts for engine management and injection systems in the EEA and all its sales are achieved through import.<sup>99</sup>

(72) In any event, the Notifying Parties submit that the geographic market definition can be left open as the proposed transaction will not raise any competition concerns, irrespective of the exact market definition.<sup>100</sup>

(C) The Commission's assessment

(73) The market investigation did not find that the geographic market for the manufacture and sale of ECUs and electronic throttle bodies diverges from the general finding that the geographic market for automotive and motorcycle components at least EEA-wide.<sup>101</sup>

(74) In line with its decisional practice and the findings of the market investigation outlined in paragraph (45), for the purposes of this Decision it can be left open whether the geographic market is defined as EEA-wide or worldwide, as the proposed transaction does not raise any serious doubts as to its compatibility with the internal market under any plausible market definition adopted.

#### 4.3.4. Carburettors

(75) A carburettor is a mechanical apparatus used to premix vaporised fuel and air in proper proportions and supplying the mixture to a motorcycle internal combustion engine.<sup>102</sup>

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<sup>98</sup> Case COMP/M.4878 – Continental / Siemens VDO, paragraphs 50-51.

<sup>99</sup> Form CO, paragraph 1.181.

<sup>100</sup> Form CO, paragraph 1.183.

<sup>101</sup> Replies to question 7.1 of questionnaire to customers and replies to questions 8.1. and 9.1 of questionnaire to competitors.

<sup>102</sup> Form CO, paragraph 1.318.

#### 4.3.4.1. Product market

(A) The Commission's decisional practice

- (76) The Commission has not previously considered a product market for the supply of carburettors. In cases concerning other components of internal combustion engines, the Commission has found that each component constitutes a different product market, with a further subdivision based on the size of the engine (as the cases concerned the automotive market, the distinction was drawn between components for light duty applications and components for heavy duty applications).<sup>103</sup>

(B) The Notifying Parties' view

- (77) The Notifying Parties submit that the overall market for the manufacture and sale of carburettors is the narrowest relevant segmentation.<sup>104</sup> The Parties submit that carburettors are only used for motorcycles, not any more for passenger cars, and that, for the purposes of this Decision, the relevant product market should be the market for the manufacture and sale of carburettors for motorcycles.<sup>105</sup>
- (78) As outlined in paragraph (35), the Notifying Parties consider that a sub-segmentation between carburettors for small and large motorcycles is not justified.

(C) The Commission's assessment

- (79) The Commission considers that, in line with its previous decisional practice, the relevant market is carburettors for motorcycles, and a further possible distinction between carburettors for small and for large motorcycles. This was confirmed by the market investigation which found that carburettors for small motorcycles are different from carburettors for large motorcycles.<sup>106</sup>
- (80) However, the market investigation also confirmed that there is a high degree of supply-wide substitutability between carburettors for small and for large motorcycles, as the same suppliers usually produce all types of carburettors.<sup>107</sup>
- (81) In any event, for the purpose of the present decision, the exact product market definition can ultimately be left open<sup>108</sup> as the proposed transaction does not raise serious doubts as to its compatibility with the internal market under any plausible market definition.

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<sup>103</sup> Case COMP/M.4456 - MAHLE / DANA EPG, paragraph 8.

<sup>104</sup> Form CO, table 16.

<sup>105</sup> Form CO, table 20.

<sup>106</sup> Replies to question 5 of questionnaire to customers and replies to question 5 of questionnaire to competitors.

<sup>107</sup> Replies to question 3 and 6 of questionnaire to customers and replies to question 3 and 6 of questionnaire to competitors.

<sup>108</sup> Between carburettors for small and large motorcycles separately or combined. The competitive analysis focuses on the market definitions under which affected markets would arise.

#### 4.3.4.2. Geographic market

(A) The Commission's decisional practice

- (82) The Commission has not previously analysed the market for the supply of carburettors, or other motorcycle components. For automotive components, the Commission found that the geographic markets for the manufacture and supply of OEM automotive components are at least EEA-wide, and possibly worldwide, but has left open the precise definition (see paragraph (42)).

(B) The Notifying Parties' view

- (83) The Notifying Parties submit that the appropriate geographic market for the supply of component parts for engine management and injection systems, the product category including carburettors, is worldwide, as explained in paragraph (71).

(C) The Commission's assessment

- (84) In line with its decisional practice and the findings of the market investigation outlined in paragraph (45), for the purposes of this Decision it can be left open whether the geographic market is defined as EEA-wide or worldwide, as the proposed transaction does not raise any serious doubts as to its compatibility with the internal market under any plausible market definition adopted.

#### 4.3.5. Fuel pump modules

- (85) A fuel pump module filters fuel from the fuel tank and uses a pump to retrieve fuel from the tank and pressurise it. The module features a built-in pressure regulator to maintain constant pressure for supply to the injectors.<sup>109</sup>

##### 4.3.5.1. Product market

(A) The Commission's decisional practice

- (86) The Commission has not previously considered a product market for the supply of fuel pump modules. In cases concerning other components of internal combustion engines, the Commission has found that each component constitutes a different product market, with a further subdivision based on the size of the engine (as the cases concerned the automotive market, the distinction was drawn between components for light duty applications and components for heavy duty applications).<sup>110</sup>

(B) The Notifying Parties' view

- (87) The Notifying Parties submit that the relevant product market is the market for the supply of fuel pump modules without any further segmentation per type.<sup>111</sup> With regard to fuel pump modules for motorcycles with different tank shapes and sizes, top-mount/bottom-mount, mounted inside/outside fuel tank, the Notifying Parties

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<sup>109</sup> Form CO, paragraph 1.90.

<sup>110</sup> Case COMP/M.4456 - MAHLE / DANA EPG, paragraph 8.

<sup>111</sup> Form CO, paragraphs 1.175 and 1.235.

submit that manufacturers would be able to produce such variations without significant additional investment or time delay.<sup>112</sup>

(88) The Notifying Parties consider that it would be appropriate to define a single market for the supply of fuel pump modules for use in both motorcycles and passenger cars, in view of the supply side substitutability between these products.<sup>113</sup> Suppliers are easily able to switch production between components for use in motorcycles and passenger cars, within a short time frame and without requiring a large amount of capital investment, as the production processes for these components are very similar.<sup>114</sup>

(89) As outlined in paragraph (35), the Notifying Parties consider that a sub-segmentation between fuel pump modules for small and large motorcycles is not justified.

(C) The Commission's assessment

(90) In the market investigation, some respondents mentioned the following possible segments of fuel pump modules:

- Fuel pump modules for different tank shapes and sizes, top-mount/bottom-mount, mounted inside/outside fuel tank
- Low and high flow rate<sup>115</sup>

(91) A majority of respondents in the market investigation confirmed that there is no demand-side substitutability, neither between fuel pump modules for passenger cars and for motorcycles, nor between these inputs for small and large motorcycles,<sup>116</sup> The reason is that fuel pump modules for motorcycles have "*different flow and pressure requirements, different geometry*"<sup>117</sup> than fuel pump modules used in passenger cars, so that they are not substitutable. However, as fuel pump modules are less complex than most other products discussed in the market investigation, such as brake components, they "*need less effort to interchange*".<sup>118</sup>

(92) The market investigation confirmed supply-side substitutability as a majority of respondent replied that the same suppliers produce all types of fuel pump modules, both for passenger cars and for motorcycles.<sup>119</sup>

(93) In any event, for the purpose of the present decision, the exact product market definition can ultimately be left open<sup>120</sup> as the proposed transaction does not raise

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<sup>112</sup> Reply to RFI 7, paragraph 1.6.

<sup>113</sup> Reply to RFI 8, paragraph 1.6(v).

<sup>114</sup> Reply to RFI 7, Table 11.

<sup>115</sup> The Notifying Parties have confirmed that the Integrated Company's market share in any of these product sub-segmentations do not materially differ from the market shares of the Integrated Company in the fuel pump module market as a whole. Therefore, the competitive analysis focuses on the Integrated Company's market share for the fuel pump module market as a whole. Reply to question 1 of RFI 9.

<sup>116</sup> Replies to questions 2 and 4 of questionnaire to customers and replies to questions 2 and 4 of questionnaire to competitors.

<sup>117</sup> Non-confidential reply to question 2.1 of questionnaire to competitors.

<sup>118</sup> Non-confidential replies to question 2.1. of questionnaire to competitors.

<sup>119</sup> Replies to question 3 and 6 of questionnaire to customers and replies to question 3 and 6 of questionnaire to competitors.

serious doubts as to its compatibility with the internal market under any plausible market definition.

#### 4.3.5.2. Geographic market

(A) The Commission's decisional practice

- (94) The Commission has not previously analysed the market for the supply of fuel pump modules. For automotive components, the Commission generally found that the geographic markets for the manufacture and supply of OEM automotive components are at least EEA-wide, and possibly worldwide, but has left open the precise definition (see paragraph (42)).

(B) The Notifying Parties' view

- (95) The Notifying Parties submit that the appropriate geographic market for the supply of component parts for engine management and injection systems, the product category including fuel pump modules, is worldwide, as explained in paragraph (71).

(C) The Commission's assessment

- (96) In line with its decisional practice and the findings of the market investigation outlined in paragraph (45), for the purposes of this Decision it can be left open whether the geographic market is defined as EEA-wide or worldwide, as the proposed transaction does not raise any serious doubts as to its compatibility with the internal market under any plausible market definition adopted.

#### 4.3.6. *Injectors*

- (97) Fuel injectors are a part of the fuel injection system (a system which mixes fuel with air) which, when signalled by an ECU, open up to spray pressurised fuel into the engine.<sup>121</sup>

##### 4.3.6.1. Product market

(A) The Commission's decisional practice

- (98) The Commission has previously identified a potential separate product market for diesel injectors, with a potential sub-segmentation for use in light vehicles as opposed to heavy vehicles.<sup>122</sup>

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<sup>120</sup> Between fuel pump modules (i) for small and large motorcycles separately or combined and (ii) for passenger cars and motorcycles separately or combined, (iii) the different types mentioned or an overall market. For the different types of fuel pump modules, the Notifying Parties have confirmed that the Integrated Company's market share in any of these product sub-segmentations do not materially differ from the market shares of the Integrated Company in the market for fuel pump modules as a whole (Reply to question 1 of RFI 9). As for the distinction between (i) large and small motorcycles and (ii) motorcycles and passenger car component, the competitive analysis focuses on the market definitions under which affected markets would arise.

<sup>121</sup> Form CO, paragraph 1.91.

<sup>122</sup> Case COMP/M.6640 – Delphi / FCI, paragraph 32.



(B) The Notifying Parties' view

- (99) The Notifying Parties consider that engines are distinguished by the location of the injector that injects fuel (direct-injection and port injection).<sup>123</sup>
- (100) Direct-injection engines use a method in which the injector directly injects the fuel into the combustion chamber of the engine. On the other hand, port-injection engines use a method in which fuel is injected into the inlet port that supplies air to the engine.<sup>124</sup>
- (101) Therefore, the Notifying Parties submit that the Commission should distinguish between injectors used in (i) direct injection engines or port injection engines (ii) hydrogen fuel cell vehicles or natural gas vehicles,<sup>125</sup> (iii) motorcycles and passenger cars<sup>126</sup> or other applications (such as outboard engines<sup>127</sup>).
- (102) With regard to injectors for motorcycles with different types of engines, variations in spray pattern requirements, the length of the injector body or fixation methods, the Notifying Parties submit that manufacturers would be able to produce such variations without significant additional investment or time delay.<sup>128</sup>
- (103) The Notifying Parties consider that it would be appropriate to define a single market for the supply of injectors for use in both motorcycles and passenger cars, in view of the supply side substitutability between these products.<sup>129</sup> Suppliers are easily able to switch production between components for use in motorcycles and passenger cars, within a short time frame and without requiring a large amount of capital investment, as the production processes for these components is very similar.<sup>130</sup>
- (104) As outlined in paragraph (35), the Notifying Parties consider that a sub-segmentation between injectors for small and large motorcycles is not justified.<sup>131</sup>

(C) The Commission's assessment

- (105) The Commission considers that its previous market definition for diesel injectors can be maintained for the purposes of the present case.<sup>132</sup> In the market investigation, some respondents mentioned the following variations of injectors:
- Injectors depending on the type of engine, variations in spray pattern requirements, length of injector body and fixation method.<sup>133</sup>

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<sup>123</sup> Form CO, paragraph 1.92.

<sup>124</sup> Form CO, paragraph 1.92.

<sup>125</sup> The Notifying Parties confirmed that no affected markets arise from their activities in the markets for injectors used in hydrogen fuel cell vehicles and natural gas vehicles, separately or on a combined basis. (Reply to RFI14, paragraph 9.1).

<sup>126</sup> Replies to RFI14, paragraph 8.1.

<sup>127</sup> An outboard engine units placed on boats for propulsion. The Notifying Parties confirmed that no affected market arises for injectors used in outboard engines or any other component used in outboard engines. (Reply to RFI14, paragraph 10.2)

<sup>128</sup> Reply to RFI 7, paragraph 1.8.

<sup>129</sup> Reply to RFI 8, paragraph 1.6(v).

<sup>130</sup> Reply to RFI 7, Table 11.

<sup>131</sup> Form CO, paragraph 1.179.

<sup>132</sup> The injectors supplied by the Parties are for use in gasoline engines, therefore the market for diesel engine injectors will not be further discussed.

- (106) A vast majority of both competitors and customers confirmed that the same companies produce injectors for passenger cars and motorcycles.<sup>134</sup> In this case, it appears that indeed injectors are the same for motorcycles and cars,<sup>135</sup> as well as for small and large motorcycles, as a majority of competitors confirmed,<sup>136</sup> as they “*need less effort to interchange due to less complexity*” and therefore “*to some extent, there is a carry-over from car to MC possible*”.<sup>137</sup>
- (107) In any event, for the purpose of the present decision, the exact product market definition can ultimately be left open<sup>138</sup> as the proposed transaction does not raise serious doubts as to its compatibility with the internal market under any plausible market definition.

#### 4.3.6.2. Geographic market

(A) The Commission’s decisional practice

- (108) The Commission found the market for diesel injectors to be at least EEA-wide, if not worldwide.<sup>139</sup>

(B) The Notifying Parties’ view

- (109) The Notifying Parties consider the market for the supply of all component parts for engine management and injection systems, the product category including injectors, as worldwide, as explained in paragraph (71).

(C) The Commission’s assessment

- (110) In line with its decisional practice and the findings of the market investigation outlined in paragraph (45), for the purposes of this Decision it can be left open whether the geographic market is defined as EEA-wide or worldwide, as the proposed transaction does not raise any serious doubts as to its compatibility with the internal market under any plausible market definition adopted.

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<sup>133</sup> The Notifying Parties have confirmed that the Integrated Company’s market share in any of these product sub-segmentations do not materially differ from the market shares of the Integrated Company in the injector market as a whole. Therefore, the competitive analysis focuses on the Integrated Company’s market share for the injector market as a whole. Reply to question 1 of RFI 9.

<sup>134</sup> Replies to question 3 of questionnaire to customers and replies to question 3 of questionnaire to competitors.

<sup>135</sup> Replies to question 2 of questionnaire to customers and replies to question 2 of questionnaire to competitors.

<sup>136</sup> Replies to question 5 of questionnaire to customers and replies to question 5 of questionnaire to competitors.

<sup>137</sup> Non-confidential replies to question 2.1 of questionnaire to competitors.

<sup>138</sup> Between injectors (i) for small and large motorcycles separately or combined and (ii) for passenger cars and motorcycles separately or combined, (iii) the different types mentioned or an overall market. For the different types of injectors, the Notifying Parties have confirmed that the Integrated Company’s market share in any of these product sub-segmentations do not materially differ from the market shares of the Integrated Company in the market for injectors as a whole (Reply to question 1 of RFI 9). As for the distinction between (i) large and small motorcycles and (ii) motorcycles and passenger car component, the competitive analysis focuses on the market definitions under which affected markets would arise.

<sup>139</sup> Case COMP/M.6640 – Delphi / FCI, paragraph 44 and cases cited therein.

#### 4.3.7. Brake master cylinders

- (111) A brake master cylinder is a component of a hydraulic braking system that converts the force exerted on the brake pedal into hydraulic pressure to apply the brakes by establishing a liquid linkage between the master cylinder's pistons and the calipers and wheel cylinders.<sup>140</sup>

##### 4.3.7.1. Product market

###### (A) The Commission's decisional practice

- (112) With regard to braking systems for automobiles,<sup>141</sup> in a previous decision the Commission distinguished between pneumatic and hydraulic brakes. Moreover, due to the essential technical and commercial differences, the Commission considered that hydraulic braking systems for lighter vehicles and commercial vehicle brakes for heavy vehicles are two separate markets. The Commission has not previously considered a separate product market for brake master cylinders for motorcycles, but analysed them as parts of hydraulic braking systems without further defining the market.<sup>142</sup> For pneumatic braking systems, the Commission distinguished between: (a) air supply/actuation systems, and therein further between (i) air compressors, (ii) air dryers and (iii) other parts of actuation systems; (b) foundation brakes, and therein further (i) drum brakes and (ii) disc brakes; and (c) brake and chassis control and therein further between (i) anti-lock braking systems (ABS), (ii) traction control system (TCS, also known as ASR) and (iii) electronic braking systems (EBS).<sup>143</sup>

###### (B) The Notifying Parties' view

- (113) The Notifying Parties consider that it would be appropriate to define a single market for the supply of brake master cylinders for use in both motorcycles and passenger cars, in view of the supply side substitutability between these products.<sup>144</sup> Suppliers can switch between manufacturing brake master cylinders for use in passenger cars and motorcycles without particular difficulty. The Parties estimate that any switch would require [Parties' estimate of switching costs].<sup>145</sup>
- (114) As outlined in paragraph (35), the Notifying Parties consider that a sub-segmentation between brake master cylinders for small and large motorcycles is not justified.

###### (C) The Commission's assessment

- (115) While precedents have not dealt with brake master cylinders for motorcycles but as part of hydraulic brake systems, based on its decisional practice to define a separate product market for each component of pneumatic braking systems (see paragraph (112)), the Commission considers that the relevant product market is brake master cylinders. The market investigation indicated that a further sub-

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<sup>140</sup> Form CO, paragraph 1.108.

<sup>141</sup> Case IV/M.1342 – Knorr-Bremse/Bosch; Case IV/M.768 – Lucas / Varsity, paragraph 10.

<sup>142</sup> Case IV/M.726 – Bosch/Allied Signal.

<sup>143</sup> Case COMP/M.7174 – Federal-Mogul Corporation / Honeywell Friction Materials, paragraphs 10 and 13; Case IV/M.726 – Bosch/Allied Signal, paragraph 12; Case IV/M.337 – Knorr-Bremse / Allied Signal, paragraphs 25-27.

<sup>144</sup> Reply to RFI 9, paragraph 1.3(vi).

<sup>145</sup> Reply to RFI 7, paragraph 3.1.

segmentation between brake master cylinders for (i) passenger cars and (ii) brake master cylinders for motorcycles and between small and large motorcycles cannot be excluded.

- (116) A majority of respondents in the market investigation confirmed that there is no demand-side substitutability, neither between brake master cylinders for passenger cars and for motorcycles, nor between small and large motorcycles. “*Brake and suspension parts for motorcycles are very special. They do not fit into cars.*”<sup>146</sup> The reason, as respondents explained is that motorcycles require fewer connections than automobiles, the differences in weight and sizing restrictions for motorcycles require different dimensions. Finally, motorcycles are more exposed to water and dirt.<sup>147</sup>
- (117) However, the market investigation confirmed supply-side substitutability as a majority of respondents replied that the same suppliers produce all types of brake master cylinders, both for passenger cars and for motorcycles.<sup>148</sup>
- (118) In the market investigation, some respondents mentioned the following possible segments: radial and tangential brake master cylinders.<sup>149</sup>
- (119) In any event, for the purpose of the present decision, the exact product market definition can ultimately be left open<sup>150</sup> as the proposed transaction does not raise serious doubts as to its compatibility with the internal market under any plausible market definition.

#### 4.3.7.2. Geographic market

##### (A) The Commission’s decisional practice

- (120) The Commission has not previously analysed a geographic market for brake master cylinders. In relation to the supply of components parts for braking systems, the Commission has considered (but ultimately left open) that (a) the geographic market

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<sup>146</sup> Non-confidential reply to question 2.1 of questionnaire to competitors.

<sup>147</sup> Replies to question 2.1 of questionnaire to competitors.

<sup>148</sup> Replies to question 3 and 6 of questionnaire to customers and replies to question 3 and 6 of questionnaire to competitors.

<sup>149</sup> Non-confidential reply to question 6 of questionnaire to competitors. In a radial brake master cylinder, the direction of piston ejection is radial to the direction of brake lever installation, and in a tangential brake master cylinder the direction of piston ejection is tangential to the direction of brake lever installation. Brake master cylinders as a whole are used in both motorcycles and passenger cars. However, the distinction between radial and tangential brake master cylinder is motorcycle specific. The Notifying Parties have confirmed that the Integrated Company’s market share in any of these product sub-segmentations do not materially differ from the market shares of the Integrated Company in the brake master cylinder market as a whole. Therefore, the competitive analysis focuses on the Integrated Company’s market share for the brake master cylinder market as a whole. (Reply to question 1 of RFI 9).

<sup>150</sup> Between brake master cylinders (i) for small and large motorcycles separately or combined and (ii) for passenger cars and motorcycles separately or combined, (iii) the different types mentioned or an overall market. For the different types of brake master cylinder, the Notifying Parties have confirmed that the Integrated Company’s market share in any of these product sub-segmentations do not materially differ from the market shares of the Integrated Company in the market for brake master cylinders as a whole (Reply to question 1 of RFI 9). As for the distinction between (i) large and small motorcycles and (ii) motorcycles and passenger car component, the competitive analysis focuses on the market definitions under which affected markets would arise.

for supply of these products to the OEM channel customers may be EEA-wide in scope, if not worldwide.<sup>151</sup>

(B) The Notifying Parties' view

- (121) The Notifying Parties submit that the appropriate geographic market for the supply of components of braking systems, the product category including brake master cylinders, is worldwide. Transport costs are low: in many cases, the Notifying Parties estimate that transport costs per unit amount to [Percentage of the price of the component comprised of transport costs]% of the price of the component. In addition, there are no specific trade barriers and these products are traded globally.<sup>152</sup>

(C) The Commission's assessment

- (122) In line with its decisional practice and the findings of the market investigation outlined in paragraph (45), for the purposes of this Decision it can be left open whether the geographic market is defined as EEA-wide or worldwide, as the proposed transaction does not raise any serious doubts as to its compatibility with the internal market under any plausible market definition adopted.

4.3.8. *Calipers and brake pads*

- (123) Calipers and brake pads are two of the three component parts of disc brakes (the other being the brake disc/rotor). A disc brake is a brake system that controls the rotation of a wheel by pressing a friction material (brake pad) from both sides of a brake rotor that rotates along with the wheel.<sup>153</sup>
- (124) There are two principal types of calipers: floating calipers and fixed calipers. Floating calipers are those that move relative to the brake disc and have one or two pistons. Fixed calipers do not move relative to the brake disc and have more than two pistons. Each is typically also combined with a different type of brake discs.<sup>154</sup>
- (125) Brake pads are pieces of friction-generating material which are fitted to either side of the caliper. As the operator applies the brakes, the pressure stored by the brake fluid pushes a piston against the caliper. This causes the caliper to squeeze the brake pads against the brake disc, which in turn slows down the spinning wheel by restricting its ability to move freely. When this process happens simultaneously on all wheels of a vehicle, it will slow vehicle down in a controlled manner and will eventually bring the vehicle to a stop.<sup>155</sup>

4.3.8.1. Product market

(A) The Commission's decisional practice

- (126) Within disc brakes, the Commission distinguished between (a) calipers and, therein, further between (i) floating calipers and (ii) fixed calipers; and (b) the friction

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<sup>151</sup> Case COMP/M.7174 – Federal-Mogul Corporation / Honeywell Friction Materials, paragraphs 18 to 23; Case COMP/M.4878 - Continental / Siemens VDO paragraphs 50-51.

<sup>152</sup> Form CO, paragraph 1.194.

<sup>153</sup> Form CO, paragraph 1.102.

<sup>154</sup> Form CO, paragraph 1.104.

<sup>155</sup> Reply to RFI17, paragraph 3.3.

materials that form inputs to disc brakes, namely brake pads.<sup>156</sup> This resulted from the fact that calipers differ in size, performance, quality and price. Fixed calipers have more than two pistons and are made from aluminium, whereas floating calipers have one or two pistons and are made from cast iron or cast iron/aluminium. Accordingly, the (foundry and machining) equipment used for the production of fixed calipers is different from the equipment of floating calipers. From a demand side, floating calipers and fixed calipers are used with different types of brake discs, for different types of vehicles.<sup>157</sup> The Commission has also previously identified different markets for each different component of a braking system, e.g. brake pads.<sup>158</sup>

(B) The Notifying Parties' view

- (127) The Notifying Parties note that calipers and brake pads are often supplied to OEM customers together as an assembled product. OEM customers usually then attach the brake discs themselves, to create the fully assembled disc brake. Alternatively, calipers and brake pads can each be supplied separately as standalone components. Further, components for calipers can also be supplied separately.<sup>159</sup>
- (128) The Notifying Parties consider that it would be appropriate to define a single market for the supply of floating calipers and brake pads (assembled) for use in both motorcycles and passenger cars, in view of the supply side substitutability between these products.<sup>160</sup> Suppliers can switch between manufacturing floating calipers and brake pads (assembled) for use in passenger cars and motorcycles [Parties' estimate of switching costs].<sup>161</sup>
- (129) As outlined in paragraph (35), the Notifying Parties consider that a sub-segmentation between calipers and brake pads for small and large motorcycles is not justified.

(C) The Commission's assessment

- (130) The Commission considers that for the purposes of the present case, its previous decisional practice can be maintained. The market investigation did not raise further sub segmentations in addition to those the Commission previously identified.
- (131) Competitors for this product also confirmed the argument of the Parties that floating calipers and brake pads are usually supplied to OEMs as an assembled product, as a competing producer of this product confirmed: (“[name of competitor] *manufacture calipers internally and procure pads from suppliers, pads are then assembled into the calipers. So for us it is common practice to obtain pads separately and assemble them in calipers. [...] To our knowledge this is the common practice among motorcycle brake manufacturers.*”)<sup>162</sup>

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<sup>156</sup> Case COMP/M.5484 – SGL Carbon / Brembo / BCBS / JV, paragraphs 24 to 28.

<sup>157</sup> Case COMP/M.5484 – SGL Carbon / Brembo / BCBS / JV, paragraphs 24 to 28.

<sup>158</sup> See Case IV/M. 726- Bosch/Allied Signal, para. 9 seq.

<sup>159</sup> Form CO, paragraph 1.105.

<sup>160</sup> Reply to RFI 8, paragraph 1.6(v).

<sup>161</sup> Reply to RFI 7, paragraph 3.2.

<sup>162</sup> Reply to RFI to a competitor.

- (132) In the market investigation, a majority of respondents confirmed that there is no demand-side substitutability, neither between calipers for passenger cars and for motorcycles, nor between small and large motorcycles. However, the market investigation confirmed supply-side substitutability as a majority of respondents replied that the same suppliers produce all types of calipers, both for passenger cars and for motorcycles.<sup>163</sup>
- (133) For the purposes of this Decision, the Commission will consider all plausible markets, including market for assembled and non-assembled products:
- floating calipers and brake pads (as an assembled product)
  - floating calipers (as a non-assembled product)
  - brake pads (as a non-assembled product)
  - fixed calipers and brake pads (as an assembled product)
  - fixed calipers (as a non-assembled product).
- (134) In any event, for the purpose of the present decision, the exact product market definition can ultimately be left open<sup>164</sup> as the proposed transaction does not raise serious doubts as to its compatibility with the internal market under any plausible market definition.

#### 4.3.8.2. Geographic market

(A) The Commission's decisional practice

- (135) In relation to the supply of components parts for braking systems, the Commission has considered (but ultimately left open) that the geographic market for supply of calipers to the OEM channel customers may be EEA-wide in scope, if not worldwide.<sup>165</sup>

(B) The Notifying Parties' view

- (136) The Notifying Parties submit that the appropriate geographic market for the supply of components of braking systems, the product category including calipers and brake pads, can be left open between EEA-wide and worldwide, as outlined in paragraph (121).

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<sup>163</sup> Replies to question 3 and 6 of questionnaire to customers and replies to question 3 and 6 of questionnaire to competitors.

<sup>164</sup> Between calipers and brake pads (i) for small and large motorcycles separately or combined and (ii) for passenger cars and motorcycles separately or combined, (iii) floating/fixed calipers/brake pads as components or the different types as assembled products. The competitive analysis focuses on the market definitions under which affected markets would arise.

<sup>165</sup> Case COMP/M.7174 – Federal-Mogul Corporation / Honeywell Friction Materials, paragraphs 18 to 23; Case COMP/M.4878 - Continental / Siemens VDO paragraphs 50-51; Case IV/M.726 – Bosch/Allied Signal, paragraph 20; Case IV/M.337 – Knorr-Bremse / Allied Signal, paragraphs 30 and 31.

(C) The Commission's assessment

- (137) In line with its decisional practice and the findings of the market investigation outlined in paragraph (45), for the purposes of this Decision it can be left open whether the geographic market is defined as EEA-wide or worldwide, as the proposed transaction does not raise any serious doubts as to its compatibility with the internal market under any plausible market definition adopted.

4.3.9. *Anti-lock braking systems (ABS)*

- (138) ABS are parts of electronic braking systems which optimise braking pressure across wheels and assist in steering stability while braking.<sup>166</sup>

4.3.9.1. Product market

(A) The Commission's decisional practice

- (139) In previous decisions, the Commission has defined a market for electronic brake systems but left open whether a segmentation between ABS and Electronic Stability Control (ESC) is necessary.<sup>167</sup> This potential segmentation was based on the finding that, as a result of the different technical designs of air pressure brakes and hydraulic brakes, the ABS and the components of the system are also different. The ABS and the components of the system are adapted to the respective mode of braking power generation and transmission and are closely related to the braking system. It is not possible to replace the ABS for hydraulic brakes with that for air pressure brakes.<sup>168</sup>

(B) The Notifying Parties' view

- (140) The Notifying Parties submit that the market for electronic braking systems is the relevant product market, and that it is not necessary to further segment between ABS and ESC.<sup>169</sup> They submit that there is no supply-side substitutability between ABS for motorcycles and ABS for passenger cars.
- (141) As outlined in paragraph (35), the Notifying Parties consider that a sub-segmentation between ABS for small and large motorcycles is not justified.

(C) The Commission's assessment

- (142) The Commission considers that the distinction between ABS and ESC can be maintained for the purposes of the present case, as no affected markets arise for ESC as a component used in heavy duty applications, as outlined in paragraph (112).<sup>170</sup> As the Parties are only selling ABS for motorcycles, the Commission will analyse this narrower market, while leaving open whether a distinction should be made between ABS for passenger cars and ABS for motorcycles.

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<sup>166</sup> RFI 14, Annex 1.

<sup>167</sup> Case COMP/M.2421 – Continental / Temic; Case COMP/M.5294 - Schaeffler / Continental

<sup>168</sup> Case IV/M.726 – Bosch/Allied Signal, paragraph 14.

<sup>169</sup> Reply to RFI14, Annex 1.

<sup>170</sup> As confirmed by the Notifying Parties in their reply to RFI 16.



(143) In any event, for the purpose of the present decision, the exact product market definition can ultimately be left open<sup>171</sup> as the proposed transaction does not raise serious doubts as to its compatibility with the internal market under any plausible market definition.

#### 4.3.9.2. Geographic market

(A) The Commission's decisional practice

(144) In *Bosch/Allied Signal*, the Commission defined the market for ABS as EEA-wide, as it found that most OEMs in the EEA were purchasing ABS from suppliers established in the EEA. For reasons of security of supply and their close cooperation in the development and production of ABS, vehicle manufacturers expect their suppliers to produce in proximity to their factories. In competition for supply contracts, the supplier has a decisive advantage which can make the parts available at the vehicle manufacturers' manufacturing sites in a timely and demand-driven manner. For this reason, almost all suppliers of vehicle manufacturers in the EEA had set up production facilities in Europe.<sup>172</sup>

(B) The Notifying Parties' view

(145) The Notifying Parties submit that the appropriate geographic market for the supply of components of braking systems, the product category including ABS, is worldwide. The Notifying Parties submit that transport costs are low: in many cases, the Notifying Parties estimate that transport costs per unit amount to [Percentage of the price of the component comprised of transport costs]% of the price of the component. In addition, there are no specific trade barriers and these products are traded globally.<sup>173</sup>

(C) The Commission's assessment

(146) The Commission notes that since its assessment of the ABS market in *Bosch/Allied Signal* (in 1996), it is likely that supply chains have become more global, as the results of the market investigation, outlined in paragraph (37), as well as the more recent automotive component cases cited in this Decision show. In any case, for the purposes of this Decision, it can be left open whether the geographic market is defined as EEA-wide or worldwide, as the proposed transaction does not raise any serious doubts as to its compatibility with the internal market under any plausible market definition adopted.

#### 4.3.10. Shock absorbers

(147) Shock absorbers (also known as dampers) form part of a vehicle's suspension system, and are used to control the impact and rebound movement of a vehicle's

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<sup>171</sup> Between ABS (i) for small and large motorcycles separately or combined and (ii) for passenger cars and motorcycles separately or combined, (iii) ABS and ECS separately or an overall market. For ECS, the Notifying Parties have confirmed that no affected market arises under any plausible market definition (Reply to question 4 of RFI 17). As for the distinction between (i) large and small motorcycles and (ii) motorcycles and passenger car component, the competitive analysis focuses on the market definitions under which affected markets would arise.

<sup>172</sup> Case IV/M.726 – *Bosch/Allied Signal*, paragraph 22.

<sup>173</sup> Form CO, paragraph 1.194.

spring and suspension. Typically, dampers are oil, hydraulic liquid or gas-filled piston cylinders which act to curb unnecessary vibrations in the suspension by absorbing force through the resistance that occurs when the oil or hydraulic liquid passes through fine holes that penetrate the piston inside the damper (the force that occurs due to this resistance is called ‘damping force’). As such, dampers absorb the vibrations and impacts transmitted from the road to the wheels, in order to ensure the wheels maintain contact with the road surface, and that the vehicle does not move excessively.<sup>174</sup>

#### 4.3.10.1. Product market

##### (A) The Commission’s decisional practice

(148) The Commission has previously looked at the market for all shock absorbers, considering that it constitutes a separate product market. The Commission left open (a) whether a distinction could be drawn between different types of shock absorber, namely: assembled suspension struts, shock absorbers (i.e., dampers) and suspension springs (i.e., coil springs) and (b) whether shock absorbers may form part of larger modules such as corner modules or complete axles.<sup>175</sup>

##### (B) The Notifying Parties’ view

(149) The Notifying Parties agree that there is likely a distinction between conventional and electronically-controlled dampers as the latter is typically much more sophisticated and costly.<sup>176</sup> However, there is supply side substitutability as it is possible for manufacturers to switch their production without incurring significant costs.<sup>177</sup>

(150) The Notifying Parties further consider that front forks with conventional damping shock absorbers, front forks with active damping shock absorbers, shock absorbers with conventional damping, rear shock with active damping shock absorbers and steering dampers form part of an overall product market for shock absorbers.<sup>178</sup> In addition, with regard to front forks and rear cushions, although common technologies are used, switching production would require a certain amount of time and investment. Nevertheless, in most cases, motorcycle manufacturers purchase front forks and rear cushions as a set from a single supplier, and the competition status is similar in terms of market share and competitors.<sup>179</sup>

(151) In view of the time and expenses for manufacturers to switch manufacturing lines for shock absorbers for use in passenger cars to those for use in motorcycles (or vice

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<sup>174</sup> Form CO, paragraph 1.114.

<sup>175</sup> Case COMP/M.7420 – ZF / TRW, paragraphs 22 to 24. See also Case COMP/M.1959 – Meritor / Arvin, paragraphs 9-10. As explain in footnote 15 of the case, “shock absorbers are typically oil, hydraulic fluid or gas-filled piston cylinders which act to dampen the vibrations of the heavy-duty suspension springs which absorb the vibrations and impacts transmitted from the road to the wheels, in order to ensure the wheels maintain contact with the road surface, and that the vehicle does not move excessively.”

<sup>176</sup> Form CO, paragraph 1.115. In any case, no affected market arises from the Parties’ activities in these two types of dampers. Reply to question 10 of RFI 1.

<sup>177</sup> Reply to RFI 14, Annex 1.

<sup>178</sup> Reply to RFI 14, Annex 1.

<sup>179</sup> Reply to RFI 9.

versa), the Parties do not consider that there is supply side substitutability between the supply of shock absorbers to motorcycles and passenger cars.<sup>180</sup>

(152) As outlined in paragraph (35), the Notifying Parties consider that a sub-segmentation between shock absorbers for small and large motorcycles is not justified.

(C) The Commission's assessment

(153) The Commission notes that the precedent which analysed shock absorbers related to these components for heavy duty vehicles and that for motorcycles, additional categories appear to be relevant.

(154) In the market investigation, one respondent mentioned the following variations of shock absorbers, as "*these products are not substitutable by the customer due to different design and functionality*":<sup>181</sup>

- Front fork with conventional damping<sup>182</sup>
- Front fork with active damping<sup>183</sup>
- Shock absorber with conventional damping<sup>184</sup>
- Rear shock with active damping<sup>185</sup>
- Steering damper<sup>186</sup>

(155) Moreover, a majority of respondents in the market investigation confirmed that there is no demand-side substitutability, neither between shock absorbers for passenger cars and for motorcycles, nor between small and large motorcycles.<sup>187</sup>

(156) However, the market investigation, contrary to the statement of the Parties, pointed to supply-side substitutability as a majority of respondents replied that the same suppliers produce all types of shock absorbers, both for passenger cars and for motorcycles.<sup>188</sup> Competitors explained that "*With respect to some types of shock*

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<sup>180</sup> Reply to RFI 7, Table 11.

<sup>181</sup> Non-confidential reply to question 6 of questionnaire to competitors.

<sup>182</sup> A front fork with conventional damping shock absorbers is a damper equipped at the front wheel of a motorcycle that mechanically generates damping force through the piston inside the damper moving when the suspension goes up and down. (Reply to RFI 14, Annex 1).

<sup>183</sup> A front fork with active damping shock absorbers is a damper equipped at the front wheel of a motorcycle that controls the damping force of front fork electronically. (Reply to RFI 14, Annex 1).

<sup>184</sup> Conventional dampers mechanically generate damping force through the piston inside the damper moving when the suspension goes up and down.

<sup>185</sup> A rear shock with active damping is a damper equipped at the rear wheel of a motorcycle that controls the damping force of the rear cushion electronically. (Reply to RFI 14, Annex 1).

<sup>186</sup> Steering dampers are used to dampen vibrations and unstable motions in the steering of motorcycles, and are installed mostly on racing motorcycles and off-road motorcycles. Steering dampers are not mass-produced parts, but are manufactured in response to customer requests, with [Number of steering dampers sold by Showa] units sold by Showa in 2019. Switching production lines with shock absorbers for motorcycles (front forks and rear cushion) requires a certain amount of time and investment. (Reply to RFI 9, Annex 1).

<sup>187</sup> Replies to question 2 of questionnaire to customers and to question 2 of questionnaire to competitors.

<sup>188</sup> Replies to question 3 and 6 of questionnaire to customers and replies to question 3 and 6 of questionnaire to competitors.

*absorbers, the technology used in passenger car and motorcycle applications may be similar, but the products will not be the same in terms of price, performance characteristics or intended use” and “Technical and functional characteristics of Shock Absorbers are the same, but the structure is different and not interchangeable.”<sup>189</sup>*

- (157) In any event, for the purpose of the present decision, the exact product market definition can ultimately be left open<sup>190</sup> as the proposed transaction does not raise serious doubts as to its compatibility with the internal market under any plausible market definition.

#### 4.3.10.2. Geographic market

(A) The Commission’s decisional practice

- (158) In relation to the supply of shock absorbers, the Commission has considered (but ultimately left open) that the geographic market for supply of these products may be EEA-wide in scope, if not worldwide.<sup>191</sup>

(B) The Notifying Parties’ view

- (159) The Notifying Parties submit that the appropriate geographic market for shock absorbers is worldwide: transport costs are low, there are no specific trade barriers and these products are traded globally. For example, Showa does not manufacture component parts for anti-vibration systems in the EEA and all its sales are achieved through imports. HIAMS manufactures shock absorbers within the EEA for sale in the EEA.<sup>192</sup>

(C) The Commission’s assessment

- (160) In line with its decisional practice and the findings of the market investigation outlined in paragraph (45), for the purposes of this Decision it can be left open whether the geographic market is defined as EEA-wide or worldwide, as the proposed transaction does not raise any serious doubts as to its compatibility with the internal market under any plausible market definition adopted.

#### 4.3.11. Other motorcycle components

- (161) The Transaction also gives rise to vertically affected markets in relation to the following motorcycle components (not used in passenger cars). Nevertheless, in those motorcycle component markets, the Parties’ combined market share remains

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<sup>189</sup> Non-confidential replies to question 2.1 of questionnaire to competitors.

<sup>190</sup> Between shock absorbers (i) for small and large motorcycles separately or combined and (ii) for passenger cars and motorcycles separately or combined, (iii) the different types mentioned or an overall market. For the different types of shock absorbers, the Notifying Parties have confirmed that the Integrated Company’s market share in any of these product sub-segmentations do not materially differ from the market shares of the Integrated Company in the market for shock absorbers as a whole (Reply to question 1 of RFI 9). As for the distinction between (i) large and small motorcycles and (ii) motorcycles and passenger car component, the competitive analysis focuses on the market definitions under which affected markets would arise.

<sup>191</sup> COMP/M.7420 – ZF / TRW, paragraphs 44 to 50 (all shock absorbers); Case COMP/M.1959 – Meritor / Arvin, paragraph 11. In Case COMP/M.6339 – Freudenberg & Co / Trelleborg / JV, (paragraphs 23-25).

<sup>192</sup> Form CO, paragraph 1.203.

below 20%<sup>193</sup> and no competition concerns arise in any of these product markets, as also confirmed by the market investigation.

- (162) A **handle lever bracket** is an aluminium clamp for securing the handlebars of a motorcycle to the body.<sup>194</sup>
- (163) A **panel brake** is a drum brake for motorcycles (i.e. a brake system in which a friction material is pressed from inside the drum to generate braking force).<sup>195</sup> A **CBS** is a system combining the front and rear brakes of a motorcycle whereby the rider's braking action of depressing one of the levers is applied to both the front and rear brakes.<sup>196</sup>
- (164) A **speed meter gear** is attached to the wheel accelerator of a motorcycle to measure speed by detecting the rotation speed of the wheel.<sup>197</sup>
- (165) **Drivetrain systems** are power transmission devices. They play a role in transferring to the rear wheel the rotational force generated by the engine and the acceleration and deceleration adjustments in revolutions per minute (RPM). Motorcycles use either a chain, a belt or a shaft drive to transmit power from the engine to the wheels. The driving force generated by an engine is transmitted through the side gear (bevel gear), the drive shaft and the final gear (bevel gear). These gears play an important role with regard to changes in the rotational force generated by the engine and the acceleration and deceleration adjustments in RPM. The side gear assembly turns the force of the output shaft of the engine by 90°, and transmits the power to the final gear assembly through a drive shaft. The final gear assembly transfers the power of the engine into the rotation of the rear wheel.<sup>198</sup>

#### 4.3.11.1. Product market

(A) The Commission's decisional practice

- (166) The Commission has not previously analysed any of the motorcycle components identified above. However, the Commission has in past cases identified different markets for each different automotive component.<sup>199</sup>

(B) The Notifying Parties' view

- (167) The Parties submit that none of the markets mentioned above (handle lever brackets, panel brakes, CBS, speed meter gears and drivetrain systems (shaft drive)) should be further sub-segmented.<sup>200</sup>

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<sup>193</sup> Below [20-30]% in case of drivetrain systems (shaft drive). As only Showa is active in this market, no horizontally affected market arises. (Form CO, table 20.)

<sup>194</sup> Form CO, paragraph 1.131.

<sup>195</sup> Form CO, paragraph 1.107.

<sup>196</sup> Form CO, paragraph 1.349.

<sup>197</sup> Form CO, paragraph 1.415.

<sup>198</sup> Form CO, paragraph 1.404 et seq. The Parties submit that they (Showa) are only active in shaft drives.

<sup>199</sup> See Case IV/M. 726- Bosch/Allied Signal, para. 9 seq.

<sup>200</sup> Form CO, table 16.

(C) The Commission's assessment

- (168) The Commission considers that based on its practice to distinguish between each distinct automotive component, the relevant product markets for the purpose of the present decision are the markets for the supply of handle lever brackets, panel brakes, speed meter gears, CBS, and shaft drive drivetrain systems. The market investigation did not raise concerns or potential sub-segmentations for these markets.
- (169) In any event, the precise product market definition for these components can be left open<sup>201</sup>, as the proposed transaction does not raise serious doubts as to its compatibility with the internal market for any of these products.

4.3.11.2. Geographic market

(A) The Commission's decisional practice

- (170) The Commission has not previously analysed the market for the supply of any motorcycle components. In recent cases in which the Commission analysed the markets for supply of automotive components parts, the Commission considered (but left open) that the geographic market may be EEA-wide in scope, if not worldwide.<sup>202</sup>

(B) The Notifying Parties' view

- (171) The Notifying Parties submit that the appropriate geographic market for the supply of automotive and motorcycle components is worldwide. Transport costs are low: in many cases, the Notifying Parties estimate that transport costs per unit amount to [Percentage of the price of the component comprised of transport costs]% of the price of the component. In addition, there are no specific trade barriers and these products are traded globally.<sup>203</sup>

(C) The Commission's assessment

- (172) In line with its decisional practice and the findings of the market investigation outlined in paragraph (37), for the purposes of this Decision the Commission considers that the geographic market for these products can be left open between EEA-wide and worldwide.

4.3.12. Passenger cars

4.3.12.1. Product market

(A) The Commission's decisional practice

- (173) In previous cases where the Commission assessed automotive markets, it left open whether the product market includes all passenger cars or should be segmented by type of passenger car (into (i) mini cars, (ii) small cars, (iii) medium cars (iv) large

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<sup>201</sup> Between components for small and large motorcycles separately or combined. The competitive analysis focuses on the market definitions under which affected markets would arise.

<sup>202</sup> See e.g. Case COMP M.7174 – Federal-Mogul Corporation / Honeywell Friction Materials, paragraphs 18 to 23; Case COMP/M.4878 - Continental / Siemens VDO paragraphs 50-51.

<sup>203</sup> Form CO, paragraph 1.194.

cars, (v) executive cars, (vi) luxury cars (vii) sport cars, (viii) sport utility vehicles ("SUVs") and (ix) multipurpose vehicles).<sup>204</sup> The Commission has previously considered the further sub-segmentation of the SUV segment into (i) small, (ii) medium and (iii) large SUVs but left this question open.<sup>205</sup>

- (174) In Peugeot/Opel, the Commission investigated whether electric cars constitute a separate product market and whether this possible market should be further segmented according to (i) technology (electric battery cars and hybrid cars) or (ii) the categories defined for vehicles with combustion engines.<sup>206</sup>

(B) The Notifying Parties' view

- (175) The Notifying Parties agree that the relevant downstream market should be the market for passenger cars, but submit that it is not necessary to conclude on market definition, as market shares in any potential upstream and downstream markets are not indicative of foreclosure concerns.<sup>207</sup>

(C) The Commission's assessment

- (176) Therefore, the Commission will retain the product market definition provided in its past decisional practice as described in paragraph (173).

#### 4.3.12.2. Geographic market

(A) The Commission's decisional practice

- (177) In previous decisions the Commission has ultimately left open whether the geographic scope of the markets for manufacturing and supply of passenger cars and LCVs is EEA-wide or national in scope.<sup>208</sup>

(B) The Notifying Parties' view

- (178) The Notifying Parties submit that the downstream market for passenger cars is at least EEA-wide, as manufacturers of passenger cars source automotive components on a global basis (indeed, Honda sources from each of HIAMS, Keihin and Nissin Kogyo from outside the EEA).<sup>209</sup>

(C) The Commission's assessment

- (179) The Commission will retain the geographic market definition provided in its past decisional practice as described in paragraph (173)

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<sup>204</sup> Case COMP/M.8449 – Peugeot/Opel, paragraph 11.

<sup>205</sup> Case COMP/M.8449 – Peugeot/Opel, paragraph 12.

<sup>206</sup> Case COMP/M.8449 – Peugeot/Opel, paragraph 14.

<sup>207</sup> Form CO, paragraph 1.217.

<sup>208</sup> Case COMP/M.8449 – Peugeot/Opel, paragraph 26.

<sup>209</sup> Form CO, paragraph 1.216.

### 4.3.13. Motorcycles

#### 4.3.13.1. Product market

(A) The Commission's decisional practice

(180) The Commission in a previous case considered that the market for the production and supply of motorcycles should be segmented on the basis of engine size.<sup>210</sup> Thereby, the Commission did not make a distinction between small and large motorcycles, but only between scooters and motorcycles, ultimately leaving the market definition open.<sup>211</sup>

(B) The Notifying Parties' view

(181) The Notifying Parties submit that the appropriate frame of reference in this case is for the production of all motorcycles, in line with the Commission's previous practice. The Notifying Parties submit that a segmentation between downstream markets for components for small (engine size below 250cc) and for large (engine size above 250cc) motorcycles, is not justified, given supply-side substitutability.

(C) The Commission's assessment

(182) The Commission agrees that the appropriate frame of reference in this case is for the production of all motorcycles, which is in line with Piaggio/Aprilia. The Commission will retain the product market definition provided in its past decisional practice as described in paragraph (173) as the proposed transaction does not raise serious doubts as to its compatibility with the internal market for any of these products.

#### 4.3.13.2. Geographic market

(A) The Commission's decisional practice

(183) In *Piaggio/Aprilia*, the Commission found that the market for motorcycles was national in scope.<sup>212</sup>

(B) The Notifying Parties' view

(184) For motorcycles, the Notifying Parties submit that the appropriate geographic market is at least EEA-wide, as manufacturers of motorcycles typically source automotive components on a global basis (in particular, Honda sources and the Targets supply their products at a worldwide level).<sup>213</sup>

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<sup>210</sup> Case COMP/M.3570 – Piaggio / Aprilia.

<sup>211</sup> Case COMP/M.3570 – Piaggio / Aprilia, paragraph 21. The Commission considered a potential segmentation between the sale of scooters (engine size below 50cc) and motorcycles (engine size above 50cc).

<sup>212</sup> Case COMP/M.3570 – Piaggio / Aprilia, paragraph 23.

<sup>213</sup> Form CO, paragraph 1.219.



(C) The Commission's assessment

- (185) The production of motorcycles for sale in the EEA Member States takes place in an area which is at least EEA-wide, as the Parties confirmed: based on 2019 sales data, [Share of motorcycles sold by Honda in the EEA that were produced in the EEA]% of the motorcycles Honda sold in the EEA were produced in the EEA (in production plants in Spain and Italy, for sale in the entire EEA market), suggesting markets are at least EEA-wide. Following this reasoning, the market for production of motorcycles should be at least EEA-wide.
- (186) In any event, for the purpose of this decision, the exact geographic market definition can ultimately be left open between national, EEA-wide and worldwide.<sup>214</sup>

#### **4.4. Horizontal effects**

##### *4.4.1. Analytical framework*

- (187) Article 2 of the Merger Regulation requires the Commission to examine whether notified concentrations are compatible with the internal market, by assessing whether they would significantly impede effective competition in the internal market or in a substantial part of it, in particular through the creation or strengthening of a dominant position.
- (188) The Commission Guidelines on the assessment of horizontal mergers under the Merger Regulation (the "Horizontal Merger Guidelines") distinguish between two main ways in which mergers between actual or potential competitors on the same relevant market may significantly impede effective competition, namely non-coordinated effects and coordinated effects.
- (189) Non-coordinated effects may significantly impede effective competition by eliminating the competitive constraint imposed by each merging party on the other, as a result of which the Integrated Company would have increased market power without resorting to coordinated behaviour. The Horizontal Merger Guidelines list a number of factors<sup>215</sup> which may influence whether or not significant non-coordinated effects are likely to result from a merger, such as the large market shares of the merging firms, the fact that the merging firms are close competitors, the limited possibilities for customers to switch suppliers, or the fact that the merger would eliminate an important competitive force. Not all of these factors need to be present for significant non-coordinated effects to be likely. The list of factors, any one of which is not necessarily decisive, is also not an exhaustive list.

##### *4.4.2. Integrated Company Summary of horizontally affected markets*

- (190) In the EEA alone, the transaction does not give rise to horizontally affected markets.<sup>216</sup>

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<sup>214</sup> Honda confirmed that its market share at national level (for an overall market for all motorcycles and small and large motorcycles separately) would not substantially differ from its market shares at the EEA level. Therefore national markets will not be discussed in this Decision. (Reply to RFI 20).

<sup>215</sup> Horizontal Merger Guidelines, paras 24 et seqq.

<sup>216</sup> Form CO, section 6.5.

- (191) Worldwide, the activities of the Notifying Parties and the Targets result in horizontally affected markets in relation to the following components for use in motorcycles:<sup>217</sup>
- (a) Brake master cylinders for use in motorcycles;
  - (b) Floating calipers and brake pads (as an assembled product) for use in motorcycles.

#### 4.4.3. Brake master cylinders for use in motorcycles

- (192) In the market for the supply of brake master cylinders for use in motorcycles, HIAMS' worldwide market share is [5-10]%, while Nissin Kogyo's worldwide market share is [40-50]%, giving rise to a combined worldwide market share of [50-60]%. HIAMS does not supply these products within the EEA, only Nissin Kogyo does.<sup>218</sup>

**Table 2: Supply of brake master cylinders for use in motorcycles worldwide (2019)<sup>219</sup>**

Entity	Revenues (EUR, m)	Share (%)
HIAMS	[...]	[5-10]
Nissin Kogyo	[...]	[40-50]
<i>The Integrated Company</i>	<i>[...]</i>	<i>[50-60]</i>
Brembo	-	[10-20]
Akebono	-	[5-10]
Hubei	-	[5-10]
Hengtong	-	[5-10]
Endurance	-	[5-10]
<b>Total Market (volume)</b>	[...] units	

*Source: Form CO and reply to question 4 of RFI 14*

#### (A) The Notifying Parties' view

- (193) The Notifying Parties submit that HIAMS' supply of brake master cylinders for use in motorcycles at a worldwide level is limited, and there will remain a large number of other competing suppliers, which have market shares that are larger than HIAMS'.<sup>220</sup> Furthermore, the Notifying Parties submit that the market shares provided overstate the competitive impact of the transaction on this market because

<sup>217</sup> The Notifying Parties have confirmed that, for those components where there is supply-side substitutability between the component for use in motorcycles and passenger cars, the transaction does not give rise to horizontally or vertically affected markets at EEA or worldwide level (see reply to question 4 of RFI 7). Therefore, only when considering components for use separately in motorcycles and passenger cars the transaction gives rise to affected markets, which this decision will address. Furthermore, the Notifying Parties have confirmed that no horizontally or vertically affected markets would arise for any plausible market segmentation from their sales of component parts for automotive component parts for heavy commercial vehicles (reply to question 5 of RFI 1).

<sup>218</sup> Form CO, paragraph 1.145, table 4.

<sup>219</sup> The Notifying Parties confirm that there were no significant changes to these figures in 2018 and 2017 (Form CO, paragraph 1.449).

<sup>220</sup> Form CO, paragraph 1.451.

of (i) the strong supply relationships of HIAMS and Nissin Kogyo with Honda, and (ii) the supply-side substitutability of brake master cylinders for use in motorcycles and for use in passenger cars.<sup>221</sup>

- (194) According to the Notifying Parties, competitors have the ability to increase capacity to respond to any increase in customer demand. Brake master cylinders for motorcycles are undifferentiated products. HIAMS and Nissin Kogyo cannot be considered particularly close competitors, nor can HIAMS be characterised as an important competitive force that has more influence on the competitive process than its market share suggests (to the contrary, as most of its sales of this component are accounted for by Honda). Customers of brake master cylinders for motorcycles are large OEMs that exercise considerable countervailing buyer power in commercial negotiations due to their size and commercial significance to the Parties (many of whom also purchase other component parts from the Parties).<sup>222</sup>
- (195) Finally, the Notifying Parties submit that the transaction will have no impact on existing conditions of competition within the EEA, in view of the fact that HIAMS has no sales of brake master cylinders within the EEA.<sup>223</sup>

(B) The Commission's assessment

- (196) Although some of the customers of motorcycle components responding to the Commission's market investigation expressed concerns about the possibility to source brake master cylinders from other companies than the Targets, others considered that they would have alternative suppliers.<sup>224</sup> The Commission considers that the transaction seems unlikely to result in a significant impediment to effective competition in the market for the supply of brake master cylinders for use in motorcycles for the reasons outlined below.
- (197) First, the results of the market investigation show that competitors have spare capacity to increase production of brake master cylinders for use in motorcycles should the Integrated Company increase prices post-transaction, allowing customers to switch to competing suppliers.<sup>225</sup> Competitors in this market are large international suppliers (including Brembo, Akebono, Hubei, Hengtong and Endurance) [Parties' views of other suppliers],<sup>226</sup> while customers of brake master cylinders for motorcycles are large OEMs that exercise considerable countervailing buyer power in commercial negotiations due to their size and commercial significance to the Parties (many of whom also purchase other component parts from the Parties).<sup>227</sup> Furthermore, brake master cylinders are just one component among the many parts comprising a motorcycle and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>228</sup> of the total cost of the motorcycle; therefore, an increase in the price of brake master cylinders would have no material impact on the prices of motorcycles, rendering any

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<sup>221</sup> Reply to question 1 of RFI 8.

<sup>222</sup> Reply to question 1 of RFI 8.

<sup>223</sup> Form CO, paragraph 1.450.

<sup>224</sup> Reply to question 12 of questionnaire to customers.

<sup>225</sup> Replies to question 13 of questionnaire to competitors.

<sup>226</sup> Reply to question 2 of RFI 14.

<sup>227</sup> Reply to question 1 of RFI 8.

<sup>228</sup> Reply to question 1 of RFI 11.

kind of foreclosure strategy attempted ineffective. Also, because the market for automotive components is characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.

- (198) Second, suppliers can switch between manufacturing brake master cylinders for use in passenger cars and motorcycles without particular difficulty. The Notifying Parties estimate that any switch would require [Parties' estimate of switching costs]. As such, the Notifying Parties consider that there is supply-side substitutability between brake master cylinders for use in motorcycles and passenger cars,<sup>229</sup> which was confirmed by the majority of respondents to the Commission's market investigation, which points at low barriers to entry in this market.<sup>230</sup> The combined market share of the Integrated Company in the market encompassing the supply of brake master cylinders for use in both passenger cars and motorcycles is below 20% at EEA and worldwide level.<sup>231</sup> Therefore, and especially in view of the supply side substitutability of brake master cylinders for use in passenger cars and motorcycles, the Commission considers that the market shares of the Integrated Company in the market for the supply of brake master cylinders for use in motorcycles overstate the competitive impact of the transaction.
- (199) Third, prior to the transaction, Honda accounts for [Percentage of Nissin's sales of brake master cylinders for which Honda accounts]% of Nissin's sales of brake master cylinders for use in motorcycles worldwide.<sup>232</sup> Furthermore, [Details of HIAMS' sales of brake master cylinders] HIAMS' sales of brake master cylinders for use in motorcycles are to Honda (accounting for [Percentage of HIAMS' sales of brake master cylinders for which Honda accounts]% of its total sales), with [Details of HIAMS' customer base] being HIAMS' only other main customer (accounting for [Percentage of HIAMS' sales of brake master cylinders]% of its total sales).<sup>233</sup> As such, HIAMS' and Nissin's market share overstates the competitive impact of the transaction on this market and, overall, the part of the market for which the Integrated Company will compete is smaller than its market share reflects, because already prior to the transaction most of its sales are accounted for by its future parents, while a number of large international players such as (Brembo and Akebono) remain to continue supplying other OEMs.<sup>234</sup>
- (200) In view of the above, the Commission concludes that the transaction does not raise serious doubts as to its compatibility with the internal market and the functioning of the EEA Agreement with respect to the market for brake master cylinders for use in motorcycles from the point of view of non-coordinated effects.

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<sup>229</sup> Reply to question 3(a) of RFI 7. The Notifying Parties confirm that they do not consider [Parties' estimate of switching costs and duration] to be substantial considering the Parties' corporate size and total revenue (approximately JPY [...] billion for HIAMS). Further, switching is made easier by the fact that both brake master cylinders and floating calipers and brake pads (assembled) can thereafter be used on a continuous basis (Reply to question 3 of RFI 14).

<sup>230</sup> Replies to question 3 of questionnaire to competitors and replies to question 3 of questionnaire to customers.

<sup>231</sup> Reply to question 1 of RFI 8.

<sup>232</sup> Reply to question 1 of RFI 2.

<sup>233</sup> Reply to question 1 of RFI 8.

<sup>234</sup> Possible input and customer foreclosure effects will be addressed in Section 4.5.

4.4.4. *Floating calipers and brake pads (assembled) for use in motorcycles*

(201) In the market for the supply of floating calipers and brake pads (assembled) for use in motorcycles, HIAMS's worldwide market share is less than [5-10]%, while Nissin's worldwide market share is [40-50]%, giving rise to a combined worldwide market share of less than [50-60]%.<sup>235</sup>

**Table 3: Supply of floating calipers and brake pads (assembled) for use in motorcycles worldwide (2019)<sup>236</sup>**

Entity	Revenues (EUR, m)	Share (%)
HIAMS	< [...]	< [5-10]
Nissin Kogyo	[...]	[40-50]
<i>The Integrated Company</i>	< [...]	< [50-60]
Brembo	-	[10-20]
Akebono	-	[10-20]
Hubei	-	[5-10]
Hengtong	-	[5-10]
Endurance	-	[5-10]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

(A) The Notifying Parties' view

(202) Concerning non-coordinated effects, the Notifying Parties submit that HIAMS' supply of floating calipers and brake pads (assembled) for use in motorcycles at a worldwide level is limited, and there will remain a large number of other competing suppliers, which have market shares that are larger than HIAMS'.<sup>237</sup> Furthermore, the market shares provided overstate the competitive impact of the transaction on this market because of (i) the strong supply relationships between Honda and Nissin Kogyo, and (ii) the supply-side substitutability of floating calipers and brake pads (assembled) for use in motorcycles and for use in passenger cars.<sup>238</sup>

(203) According to the Notifying Parties, competitors have the ability to increase capacity to respond to any increase in customer demand. Floating calipers and brake pads (assembled) for use in motorcycles can be characterised as undifferentiated products. HIAMS and Nissin Kogyo cannot be considered particularly close competitors, nor can HIAMS be characterised as an important competitive force that has more influence on the competitive process than its market share suggests. Customers of

<sup>235</sup> The Notifying Parties have confirmed that the Integrated Company's market shares in any other product segmentation (i.e. floating calipers (as a non-assembled product), brake pads (as a non-assembled product), fixed calipers and brake pads (as an assembled product), fixed calipers (as a non-assembled product), whether for automotive and motorcycle overall, or only for motorcycles, do not give rise to an affected market (Form CO, paragraphs 1.221, 1.237 to 1.243, 1.244 to 1.248, 1.427 to 1.429, and 1.434 to 1.437).

<sup>236</sup> The Notifying Parties confirm that there were no significant changes to these figures in 2018 and 2017 (Form CO, paragraph 1.453).

<sup>237</sup> Form CO, paragraph 1.455.

<sup>238</sup> Reply to question 1 of RFI 8.

floating calipers and brake pads (assembled) for use in motorcycles are large OEMs that exercise considerable countervailing buyer power in commercial negotiations due to their size and commercial significance to the Parties (many of whom also purchase other component parts from the Parties).<sup>239</sup>

- (204) Finally, the Notifying Parties submit that the transaction will have no impact on existing conditions of competition within the EEA, in view of the fact that HIAMS has no sales of floating calipers and brake pads (assembled) for use in motorcycles within the EEA.<sup>240</sup>

(B) The Commission's assessment

- (205) Although some of the customers of motorcycle components responding to the Commission's market investigation expressed concerns about the possibility to source floating calipers and brake pads (assembled) from other companies than the Targets, others considered that they would have alternative suppliers.<sup>241</sup> The Commission considers that the transaction seems unlikely to result in a significant impediment to effective competition in the market for the supply of floating calipers and brake pads (assembled) for use in motorcycles for the reasons stated below.
- (206) First, the results of the market investigation show that competitors have spare capacity to increase production of floating calipers and brake pads (assembled) for use in motorcycles should the Integrated Company increase prices allowing customers to switch to competing suppliers.<sup>242</sup> Competitors in this market are large international suppliers (including Brembo, Akebono, Hubei, Hengtong and Endurance),<sup>243</sup> while customers of floating calipers and brake pads (assembled) for use in motorcycles are large OEMs that exercise considerable countervailing buyer power in commercial negotiations due to their size and commercial significance to the Parties (many of whom also purchase other component parts from the Parties).<sup>244</sup> Furthermore, floating calipers and brake pads (assembled) are just one component among the many parts comprising a motorcycle and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component])<sup>245</sup> of the total cost of the motorcycle; therefore, an increase in the price of floating calipers and brake pads (assembled) would have no material impact on the prices of motorcycles, rendering any kind of foreclosure strategy attempted ineffective. Also, because the market for automotive components is characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.
- (207) Second, suppliers can switch between manufacturing floating calipers and brake pads (assembled) for use in passenger cars and in motorcycles without particular difficulty. The Notifying Parties estimate that any switch would require [Parties' estimate of switching costs and duration]. As such, the Notifying Parties consider that there is supply-side substitutability between floating calipers and brake pads

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<sup>239</sup> Reply to question 1 of RFI 8.

<sup>240</sup> Reply to question 1 of RFI 8 and Form CO, paragraph 1.252.

<sup>241</sup> Reply to question 12 of questionnaire to customers.

<sup>242</sup> Replies to question 13 of questionnaire to competitors.

<sup>243</sup> Reply to question 2 of RFI 14.

<sup>244</sup> Reply to question 1 of RFI 8.

<sup>245</sup> Reply to question 1 of RFI 11.

(assembled) for use in motorcycles and passenger cars,<sup>246</sup> which was confirmed by the majority of respondents to the Commission's market investigation, which points at low barriers to entry in this market.<sup>247</sup> The combined market share of the Integrated Company in the market encompassing the supply of floating calipers and brake pads (assembled) for use both in passenger cars and motorcycles is below 20% at EEA and worldwide level.<sup>248</sup> Therefore, and especially in view of the supply side substitutability of floating calipers and brake pads (assembled) for use in passenger cars and motorcycles, the Commission considers that the market shares of the Integrated Company in the market for the supply of brake master cylinders for use in motorcycles overstate the competitive impact of the transaction.

- (208) Third, prior to the transaction, Honda already accounts for [Percentage of Nissin Kogyo's sales of the relevant component for which Honda accounts]% of Nissin Kogyo's sales of floating calipers and brake pads (assembled) for use in motorcycles. Furthermore, [Percentage of HIAMS' sales of the relevant component for which Honda accounts]% of HIAMS' sales of floating calipers and brake pads (as an assembled product) for use in motorcycles on a worldwide basis is represented by purchases by Honda<sup>249</sup>. Therefore, the part of the market for which the Integrated Company will compete is smaller than its market share reflects as, already prior to the transaction, a large part of its sales are accounted for by two of its future parents.<sup>250</sup>
- (209) In view of the above, the Commission concludes that, the transaction does not raise serious doubts as to its compatibility with the internal market and the functioning of the EEA Agreement in relation to the market for floating calipers and brake pads (assembled) for use in motorcycles due to non-coordinated effects.

## **4.5. Vertical effects**

### *4.5.1. Analytical framework*

- (210) As regards non-horizontal effects, the Commission Guidelines on the assessment of non-horizontal mergers,<sup>251</sup> ("Non-Horizontal Merger Guidelines") distinguish between two broad types of concentrations that concern undertakings which are active on different relevant markets ("non-horizontal mergers"), namely vertical mergers and conglomerate mergers.

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<sup>246</sup> Reply to question 3(a) of RFI 7 and Reply to question 3 of RFI 14. The Notifying Parties confirm that they do not consider an additional investment of [Parties' estimate of switching costs and duration] to be substantial considering the Parties' corporate size and total revenue (approximately JPY [...] billion for HIAMS). Further, switching is made easier by the fact that both brake master cylinders and floating calipers and brake pads (assembled) can thereafter be used on a continuous basis.

<sup>247</sup> Replies to question 3 of questionnaire to competitors and replies to question 3 of questionnaire to customers.

<sup>248</sup> Reply to question 1 of RFI 8.

<sup>249</sup> Reply to question 2 of RFI 14.

<sup>250</sup> Possible input and customer foreclosure effects will be addressed in Section 4.5.

<sup>251</sup> Guidelines on the assessment of non-horizontal mergers under the Council Regulation on the control of concentrations between undertakings (OJ C 265, 18.10.2008, p. 6) ("Non-horizontal Merger Guidelines").

- (211) A vertical merger may result in anti-competitive effects due to foreclosure. Foreclosure concerns a situation where actual or potential rivals' access to supplies or markets is hampered or eliminated as a result of the vertical merger, thereby reducing these companies' ability and/or incentive to compete.<sup>252</sup>
- (212) Two forms of foreclosure can be distinguished in a vertical relationship: input and customer foreclosure.
- (213) Input foreclosure arises where, post-transaction, the new entity would be likely to restrict access to the products or services that it would have otherwise supplied absent the vertical merger, thereby raising its downstream rivals' costs by making it harder for them to obtain supplies of the input under similar prices and conditions as absent the vertical merger.<sup>253</sup>
- (214) Customer foreclosure may occur when a supplier integrates with an important customer in the downstream market. Because of this downstream presence, the Integrated Company may foreclose access to a sufficient customer base to its actual or potential rivals in the upstream market (the input market) and reduce their ability or incentive to compete. In turn, this may raise downstream rivals' costs by making it harder for them to obtain supplies of the input under similar prices and conditions as absent the vertical merger.<sup>254</sup>
- (215) For an input or customer foreclosure scenario to raise competition concerns, three cumulative factors need to be taken into account: (i) the ability of the Integrated Company to engage in foreclosure; (ii) the incentives of the Integrated Company to do so; and (iii) whether a foreclosure strategy would have a significant detrimental effect on competition in the downstream market.<sup>255</sup>

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<sup>252</sup> Non-Horizontal Merger Guidelines, paragraph 29.

<sup>253</sup> Non-Horizontal Merger Guidelines, paragraph 31.

<sup>254</sup> Non-Horizontal Merger Guidelines, paragraph 58.

<sup>255</sup> Non-Horizontal Merger Guidelines, paragraphs 32 and 59.



4.5.2. Summary of vertically affected markets

(216) As a result of the transaction, the following markets are vertically affected:

**Table 4: List of vertically affected markets (2019)**

Upstream market	Downstream market <sup>256</sup>	Combined market shares upstream		Combined market shares downstream	
		World-wide	EEA	World-wide	EEA
Airflow sensors	Passenger cars	[30-40]%	[10-20]%	[5-10]%	[0-5]%
ECUs	Small motorcycles <sup>257</sup>	[30-40]%	<30%	[30-40]%	[10-20]%
Carburettors	Motorcycles	[40-50]%	[0-5]%	[30-40]%	[10-20]%
Fuel pump modules	Small motorcycles	[30-40]%	<30%	[30-40]%	[10-20]%
Injectors	Small motorcycles	[30-40]%	<30%	[30-40]%	[10-20]%
Brake master cylinders	Motorcycles	[50-60]%	<30%	[30-40]%	[10-20]%
Floating calipers and brake pads (assembled)	Motorcycles	[50-60]%	[30-40]%	[30-40]%	[10-20]%
Floating calipers (non-assembled)	Motorcycles	< 20%	< 5%	[30-40]%	[10-20]%
Fixed calipers and brake pads (assembled)	Motorcycles	[20-30]%	[0-5]%	[30-40]%	[10-20]%
Fixed calipers (non-assembled)	Motorcycles	[20-30]%	[0-5]%	[30-40]%	[10-20]%
Brake pads (non-assembled)	Motorcycles	<5%	<5%	[30-40]%	[10-20]%
Shock absorbers	Motorcycles; passenger cars	[50-60]%	<30%	[30-40]%	[10-20]%
Electronic throttle bodies	Motorcycles	[0-5]%	[0-5]%	[30-40]%	[10-20]%
ABS	Motorcycles	[20-30]%	[20-30]%	[30-40]%	[10-20]%

<sup>256</sup> For the purposes of this decision, the overall markets for (i) passenger cars and (ii) motorcycles are most likely the most appropriate downstream market to be considered with regard to the upstream components market, as (i) components for passenger cars can be fitted on different types of passenger cars and (ii) components for motorcycles can be fitted on different types motorcycles, and the further segmentation in different types of vehicles is only relevant from the end customers' perspective. Also, as production of vehicles is carried out at a EEA- or worldwide level, an analysis of the vertical relationship at a national level seems inappropriate.

Furthermore, the Commission has left open whether or not the markets for ECUs, injectors, fuel pump modules, brake master cylinders, calipers and ABS for use in motorcycles and passenger cars are part of the same product market. For these components, the Integrated Company's market share is above 30% only when considering those products for use in motorcycles. When considering those components for use in both passenger cars and motorcycles, or only in passenger cars, the combined market share is below 30%.

<sup>257</sup> Given that the market definition for the relevant component has been left open, where a component part is only supplied for use in small motorcycles, affected markets have been identified on that basis, i.e. in the case of ECUs, fuel pump modules and injectors.

Upstream market	Downstream market <sup>256</sup>	Combined market shares upstream		Combined market shares downstream	
		World-wide	EEA	World-wide	EEA
Panel brakes	Motorcycles	<15-20%	<5%	[30-40]%	[10-20]%
Handle lever brackets	Motorcycles	<5%	[0-5]%	[30-40]%	[10-20]%
CBS	Motorcycles	[10-20]%	[0-5]%	[30-40]%	[10-20]%
Speed meter gears	Motorcycles	<30%	<30%	[30-40]%	[10-20]%
Drivetrain systems (shaft drive)	Motorcycles	[20-30]%	[0-5]%	[30-40]%	[10-20]%

Source: Reply to question 1 of RFI 2 and question 5 of RFI 7

(217) The tables below illustrate the competitive landscape in the downstream market for the sale of passenger cars.

**Table 5: Supply of passenger cars in the EEA (2019)**

Entity	Revenues (EUR, m)	Share (%)
<b>Honda</b>	[...]	[0-5]
Volkswagen	-	[20-30]
PSA	-	[10-20]
Renault-Nissan	-	[10-20]
Others	-	[40-50]
<b>Total Market (volume)</b>	[...] cars	

Source: Form CO

**Table 6: Supply of passenger cars worldwide (2019)**

Entity	Revenues (EUR, m)	Share (%)
<b>Honda</b>	[...]	[5-10]
Volkswagen	-	[10-20]
Toyota	-	[10-20]
Renault-Nissan-Mitsubishi	-	[10-20]
Hyundai-Kia	-	[5-10]
General Motors	-	[5-10]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

(218) The tables below illustrate the competitive landscape in the downstream market for the sale of motorcycles.

**Table 7: Supply of motorcycles in the EEA (2019)<sup>258</sup>**

Entity	Revenues (EUR, m)	Share (%)
Honda	[...]	[10-20]
Piaggio	-	[5-10]
Yamaha	-	[10-20]
Kawasaki	-	[5-10]
Kymco	-	[5-10]
BMW	-	[0-5]
<b>Total Market (volume)</b>	[...] motorcycles	

Source: Form CO and reply to question 1 of RFI 13

**Table 8: Supply of motorcycles worldwide (2019)<sup>259</sup>**

Entity	Revenues (EUR, m)	Share (%)
Honda	[...]	[30-40]
Hero	-	[10-20]
Yamaha	-	[5-10]
Bajaj	-	[5-10]
Suzuki	-	[0-5]
Kawasaki	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

(219) For all vertically affected markets, the following table illustrates the sale and purchase relationships between Honda and the Targets.

**Table 9: Sale and purchase relationship between Honda and the Target companies for vertically affected markets**

	World-wide combined market share upstream	What proportion of Honda's purchases are sourced from the Targets worldwide	What proportion of the Targets' sales are accounted for by Honda worldwide
<b>Airflow sensors for passenger cars</b>	[30-40]%	[50-60]%	[10-20]%
<b>ECUs for small motorcycles<sup>260</sup></b>	[30-40]%	[40-50]%	[90-100]%

<sup>258</sup> The Notifying Parties confirm that, if a narrower segmentation based on engine size were considered, Honda's market share in the EEA for the supply of motorcycles with engine size below 250cc would be approximately [20-30]%, and its market share in the EEA for the supply of large motorcycles (with engine size above 250cc) would be approximately [10-20]% (reply to question 1 of RFI 13).

<sup>259</sup> The Notifying Parties confirm that Honda's worldwide market share on a narrower basis for the supply of small motorcycles (with an engine size below 250 cc) would also be approximately [30-40]%. For motorcycles with engines above 250cc, Honda estimates that its market share would be less than 30% (reply to question 1 of RFI 13).

	<b>World-wide combined market share upstream</b>	<b>What proportion of Honda's purchases are sourced from the Targets worldwide</b>	<b>What proportion of the Targets' sales are accounted for by Honda worldwide</b>
<b>Carburettors for motorcycles</b>	[40-50]%	[90-100]%	[90-100]%
<b>Fuel pump modules for small motorcycles</b>	[30-40]%	[20-30]%	[30-40]%
<b>Injectors for small motorcycles</b>	[30-40]%	[90-100]%	[80-90]%
<b>Brake master cylinders for motorcycles</b>	[50-60]%	[90-100]%	[80-90]%
<b>Floating calipers and brake pads (assembled) for motorcycles</b>	<[50-60]%	[90-100]%	[70-80]%
<b>Floating calipers (non-assembled) for motorcycles</b>	< 20%	[90-100]%	[70-80]%
<b>Fixed calipers and brake pads (assembled) for motorcycles</b>	[20-30]%	[90-100]%	[70-80]%
<b>Fixed calipers (non-assembled) for motorcycles</b>	[20-30]%	[90-100]%	[70-80]%
<b>Brake pads (non-assembled) for motorcycles</b>	<5%	[90-100]%	[60-70]%
<b>Shock absorbers for motorcycles</b>	[50-60]%	[60-70]%	[70-80]%
<b>Electronic throttle bodies for motorcycles</b>	[0-5]%	[90-100]%	[30-40]%
<b>ABS for motorcycles</b>	[20-30]%	[70-80]%	[90-100]%
<b>Panel brakes for motorcycles</b>	<15-20%	[70-80]%	[70-80]%
<b>Handle lever brackets for motorcycles</b>	<5%	[90-100]%	[90-100]%
<b>CBS for motorcycles</b>	[10-20]%	[90-100]%	[80-90]%
<b>Drivetrain systems (shaft drive) for motorcycles</b>	[20-30]%	[90-100]%	[90-100]%
<b>Speed meter gears for motorcycles</b>	< 30%	[90-100]%	< 1%

*Source: Reply to question 1 of RFI 2, Reply to question 5 of RFI 7 and Reply to question 4 of RFI 16*

(220) As can be seen in the above tables:

- (a) The transaction gives rise to 19 vertically affected markets worldwide, out of which only one (floating calipers and brake pads (assembled) for use in motorcycles) is also vertically affected in the EEA.
- (b) Honda is not a strong player in the sale of passenger cars (with market shares [Details of Honda's market share] below 30% in the EEA and worldwide).

<sup>260</sup> Given that the market definition has been left open, where a component part is only supplied for use in small motorcycles, affected markets have been identified on that basis, i.e. in the case of ECUs, fuel pump modules, injectors and clutch master cylinders.

Although Honda is a stronger player in the sale of motorcycles at worldwide level (with a market share of [30-40]%) its market share is only [10-20]% in the EEA. Therefore, customer foreclosure strategies seem unlikely to succeed.

- (c) In 11 out of the 19 vertically affected markets, the Targets' market share upstream is below 30%. These are the following components for use in motorcycles: electronic throttle bodies, ABS, brake pads (as a non-assembled component), panel brakes, handle lever brackets, CBS, fixed calipers and brake pads (assembled), fixed calipers (as a non-assembled component), floating calipers (non-assembled) for motorcycles, drivetrain systems (shaft drive), and speed meter gears for motorcycles. For these component upstream markets, input foreclosure strategies seem unlikely to succeed given that an affected market results only as a consequence of Honda holding a market share above 30% in the downstream market for the worldwide market for the supply of motorcycles.
  - (d) Only in 7 vertically affected markets for motorcycle components<sup>261</sup> the market share of the Targets and Honda is above 30% both upstream and downstream. However, in 5 out of these 7 vertically affected markets (namely ECUs, fuel pump modules, injectors, brake master cylinders, floating calipers and brake pads (as an assembled product)), the Integrated Company's market share would be below 20% EEA and worldwide under considerations of supply-side substitutability between the manufacture of those components for use in motorcycles and in passenger cars.<sup>262</sup>
  - (e) For airflow sensors for automobiles, where HIAMS' worldwide market share upstream exceeds 30%, neither Keihin, Showa or Nissin Kogyo supply such products not only at EEA level but also at worldwide level.<sup>263</sup>
- (221) As regards the overall impact that the transaction may have on competition, pre-existing commercial relationships between the Targets and Honda also leave limited room for input and foreclosure strategies as a result of the merger:
- (a) Input foreclosure concerns arising from the Transaction are likely relatively limited because, first, with respect to motorcycle components overall, for each of Keihin, Showa, Nissin Kogyo, and HIAMS, Honda, as a customer, accounts for [Percentage of sales accounted for by Honda]%, [Percentage of sales accounted for by Honda]%, [Percentage of sales accounted for by Honda]% and [Percentage of sales accounted for by Honda]% of their total sales, respectively, at worldwide level.<sup>264</sup> Second, with respect to the specific motorcycle components giving rise to affected markets, as can be seen from the table in paragraph (219) above, Honda's purchases of most of those components represent the vast majority of the Targets' sales of those components. Moreover, as a result, the Commission considers that, overall,

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<sup>261</sup> Namely the following components for use in motorcycles: ECUs, carburettors, fuel pump modules, injectors, brake master cylinders, floating calipers and brake pads (as an assembled product), and shock absorbers.

<sup>262</sup> Reply to question 4 of RFI 7.

<sup>263</sup> Reply to question 6 of RFI 1.

<sup>264</sup> Reply to question 1 of RFI 12.

the input foreclosure concerns arising from the Transaction are likely to be relatively limited as they only relate to the sales by the Targets to customers other than Honda pre-transaction.

- (b) Customer foreclosure concerns arising from the Transaction are likely relatively limited because, first, with respect to motorcycle components overall, Honda has over [Approximate number of suppliers of motorcycle component parts to Honda] suppliers of motorcycle component parts, including a large number of motorcycle components which Keihin, Showa, Nissin Kogyo and HIAMS do not supply.<sup>265</sup> Although the Targets represent [Percentage of Honda's total purchases of motorcycle components]% of Honda's total purchases of motorcycles components,<sup>266</sup> Keihin, Showa, Nissin Kogyo and HIAMS are among the most important suppliers of Honda (Keihin is [Rank of supplier by volume] among Honda's suppliers, Showa is [Rank of supplier by volume], Nissin Kogyo is [Rank of supplier by volume] and HIAMS is [Rank of supplier by volume] in terms of volumes of components purchased from an individual supplier).<sup>267</sup> According to the Parties, Honda has little incentive to source new component parts from the Targets, in addition to those parts that are currently sourced from them, because of the long development period (typically [Details of development period for component parts]) that is necessary to satisfy the high standards required by Honda. Thus, it would be quite difficult for Honda to source components which are not currently supplied by Keihin, Showa, Nissin Kogyo and HIAMS, and the possibility of doing so is very low.<sup>268</sup> In view of this, the Commission considers that, overall, customer foreclosure concerns for motorcycle components are likely to be relatively limited as a consequence of the transaction

(c) Second, with respect to the specific motorcycle components giving rise to affected markets, as can be seen from the table in paragraph (219) above, Honda purchases the vast majority of its needs for most of those components from the Targets and the transaction will have a limited impact on the sale of component parts by other suppliers, which can continue to sell component parts to a range of other OEMs. Therefore, the Commission considers that the customer foreclosure concerns arising from the Transaction are relatively limited as they only relate to purchases by Honda from suppliers other than the Targets, pre-transaction.

- (222) In the following paragraphs, the Decision will examine the impact of the transaction in each of the vertically affected markets.

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<sup>265</sup> Reply to question 2 of RFI 13.

<sup>266</sup> Reply to question 1 of RFI 12.

<sup>267</sup> Reply to question 3 RFI 21.

<sup>268</sup> Reply to question 2 of RFI 13.



4.5.3. *Airflow sensors (upstream) for passenger cars (downstream)*

- (223) HIAMS supplies airflow sensors for passenger cars to Honda at a worldwide level. HIAMS' market share for the supply of airflow sensors for passenger cars at an EEA level is [10-20]%; however, its worldwide market share for the supply of airflow sensors for passenger cars is approximately [30-40]%.<sup>269</sup>

**Table 10: Supply of airflow sensors for use in passenger cars at a worldwide level (2019)**<sup>270</sup>

Entity	Revenues (EUR, m)	Share (%)
HIAMS	[...]	[30-40]
Bosch	-	[20-30]
Denso	-	[10-20]
Continental	-	[10-20]
Melco	-	[0-5]
Delphi	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

*Source: Form CO*

- (224) Downstream, Honda's market share for passenger cars worldwide is low ([5-10]%), and lower than the market share of competitors Volkswagen ([10-20]%), Toyota ([10-20]%), Renault-Nissan-Mitsubishi ([10-20]%), and Hyundai-Kia ([5-10]%).<sup>271</sup> In the EEA, Honda's market presence is negligible, with a market share [0-5]%

**Table 11: Supply of passenger cars in the EEA (2019)**

Entity	Revenues (EUR, m)	Share (%)
Honda	[...]	[0-5]
Volkswagen	-	[20-30]
PSA	-	[10-20]
Renault-Nissan	-	[10-20]
Others	-	[40-50]
<b>Total Market (volume)</b>	[...] cars	

*Source: Form CO*

<sup>269</sup> Form CO, paragraph 1.435 (i).

<sup>270</sup> The Notifying Parties confirm that there were no significant changes to these figures in 2018 and 2017 (Form CO, paragraph 1.503).

<sup>271</sup> Form CO, Table 34.

**Table 12: Supply of passenger cars worldwide (2019)**

<b>Entity</b>	<b>Revenues (EUR, m)</b>	<b>Share (%)</b>
<b>Honda</b>	[...]	[5-10]
Volkswagen	-	[10-20]
Toyota	-	[10-20]
Renault-Nissan-Mitsubishi	-	[10-20]
Hyundai-Kia	-	[5-10]
General Motors	-	[5-10]
<b>Total Market (volume)</b>	[...] units	

*Source: Form CO*

(A) The Notifying Parties' view

- (225) The Notifying Parties submit that the transaction does not result in any increment in the supply of these products at the upstream level (as the Notifying Parties' and the Targets' activities do not overlap horizontally in the supply of this component part).<sup>272</sup> In addition, given Honda's limited supply of passenger cars worldwide, and the fact that Honda accounts for only approximately [Percentage of HIAMS' sales of the relevant component for which Honda accounts]% of total sales of HIAMS' airflow sensors for use in passenger cars, the Notifying Parties submit that the Integrated Company would not have the ability or incentive to direct its supply of airflow sensors exclusively to Honda. As such, the transaction would have no impact on the supply of airflow sensors to other customers, which can continue to source component parts from HIAMS and a range of other suppliers. Accordingly, the Parties submit that no competition concerns can arise as a result of this worldwide vertically affected market.<sup>273</sup>

(B) The Commission's assessment

- (226) Because Honda's market share in the downstream market for the manufacture and sale of passenger cars is low ([5-10]% worldwide and [0-5]% in the EEA), the transaction does not raise customer foreclosure issues regarding the supply of components for passenger cars. Therefore, concerning airflow sensors for use in passenger cars, the Commission's assessment will focus on input foreclosure issues.

(B.i) *Input foreclosure*

(B.i.a) No ability to foreclose access to inputs

- (227) First, HIAMS' market share in the worldwide market for airflow sensors is [30-40]%, followed by a number of strong competitors: Bosch (with a market share of [20-30]%), Denso (with a market share of [10-20]%), Continental (with [10-20]%), Melco ([0-5]%) and Delphi ([0-5]%).<sup>274</sup> Furthermore, the transaction will not result in any increment of the Notifying Parties' and the Targets' market share at the upstream level.

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<sup>272</sup> Form CO, paragraph 1.504.

<sup>273</sup> Form CO, paragraph 1.505.

<sup>274</sup> Form CO, Table 35.



- (228) Second, all manufacturers of airflow sensors responding to the Commission's market investigation stated that they would be able to increase production of this component if they received more customer orders.<sup>275</sup>
- (229) Third, input foreclosure may raise competition problems only if it concerns an important input for the downstream product (for example, when the input concerned represents a significant cost factor relative to the price of the downstream product).<sup>276</sup> This is not the case for airflow sensors, which represent [Percentage of the price of a passenger car comprised of the relevant component]% of the total cost of manufacturing a passenger cars.<sup>277</sup>
- (230) In view of (i) HIAMS' market share in the supply of airflow sensors for passenger cars, (ii) the presence of a number of strong competitors with spare capacity and (iii) the fact that airflow sensors are just one component among the many parts comprising a passenger car, and account for a very small portion ([Percentage of the price of a passenger car comprised of the relevant component]%) of the total cost of the passenger car, the Commission considers that the Integrated Company will likely not have the ability to foreclose access to this input.

(B.i.b) No incentives to foreclose access to inputs

- (231) First, Honda's market share for passenger cars worldwide is low ([5-10]%), and lower than the market share of competitors Volkswagen ([10-20]%), Toyota ([10-20]%), Renault-Nissan-Mitsubishi ([10-20]%), and Hyundai-Kia ([5-10]%).<sup>278</sup> In the EEA, Honda's market presence is negligible, with a market share [0-5]%. Furthermore, the transaction will not result in any increment of the Notifying Parties' and the Targets' market share at the downstream level.
- (232) Second, airflow sensors are just one component among the many parts comprising a vehicle, and account for a very small portion ([Percentage of the price of a vehicle comprised of the relevant component]%)<sup>279</sup> of the total cost of the vehicle. Therefore, an increase in the price of airflow sensors upstream would have no material impact on the downstream prices of vehicles, rendering any kind of foreclosure strategy attempted ineffective. Furthermore, because the market for automotive components is characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.
- (233) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to airflow sensors.

(B.i.c) Overall likely impact on effective competition

- (234) In the market investigation, all customers replied that if HIAMS / Keihin / Showa / Nissin Kogyo stopped supplying, they could source from other suppliers.<sup>280</sup> As a

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<sup>275</sup> Reply to question 13 of the questionnaire to competitors.

<sup>276</sup> Paragraph 34.

<sup>277</sup> Reply to question 1 of RFI 11.

<sup>278</sup> Form CO, Table 34.

<sup>279</sup> Reply to question 1 of RFI 11.

<sup>280</sup> Reply to question 12 of questionnaire to customers.

customer explained, “There are plenty of alternate suppliers for airflow sensors in passenger cars”.<sup>281</sup> Indeed, no customer expects the transaction to have a negative impact on the passenger car market.<sup>282</sup>

*(B.ii) Conclusion*

- (235) In view of (i) the Notifying Parties’ and the Targets’ market shares and the presence of strong competitors upstream (such as Bosch, Denso and Continental) and downstream (such as Volkswagen, Toyota, Renault-Nissan-Mitsubishi and Hyundai-Kia), (ii) the low importance of airflow sensors in the overall cost of manufacturing a passenger car, and (iii) the fact that no concerns were raised during the market investigation, the Commission considers that the combined entity will not have the ability or the incentives to engage in input foreclosure as a result of the transaction.
- (236) Based on the considerations above, the Commission considers that the transaction does not raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the market for the manufacture and sale of airflow sensors for use in passenger cars and the market for the manufacture and sale of passenger cars.

*4.5.4. ECUs (upstream) for small motorcycles (downstream)*

- (237) Keihin supplies ECUs for small motorcycles to Honda at both an EEA and worldwide level. Keihin's market share for the supply of ECUs for small motorcycles at an EEA level is below 30% (approx. [20-30]%)<sup>283</sup>; however, its market share at the worldwide level is [30-40]%.<sup>283</sup>

**Table 13: Supply of ECUs for use in small motorcycles worldwide (2019)<sup>284</sup>**

Entity	Revenues (EUR, m)	Share (%)
Keihin	[...]	[30-40]
Bosch	-	[20-30]
Denso	-	[10-20]
Yamaha Electronic	-	[10-20]
Mitsubishi	-	[10-20]
Continental	-	[10-20]
Others	-	[5-10]
<b>Total Market (volume)</b>	[...] units	

*Source: Form CO*

- (238) Honda’s market share for the manufacture and sale of motorcycles in the EEA is of [10-20]%, followed by Yamaha ([10-20]%), Kawasaki ([5-10]%), Piaggio ([5-10]%), Kymco ([5-10]%) and BMW ([0-5]%). Worldwide, Honda’s market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and

<sup>281</sup> Reply to question 14 of questionnaire to customers.

<sup>282</sup> Reply to question 14 of questionnaire to customers

<sup>283</sup> Form CO, paragraph 1.435(b).

<sup>284</sup> The Notifying Parties confirm that there were no significant changes to these figures in 2018 and 2017 (Form CO, paragraph 1.463).

Kawasaki ([0-5]%). Concerning small motorcycles, Honda's market share would be [20-30]% in the EEA and [30-40]% worldwide.<sup>285</sup>

**Table 14: Supply of motorcycles in the EEA (2019)**<sup>286</sup>

Entity	Revenues (EUR, m)	Share (%)
Honda	[...]	[10-20]
Piaggio	-	[5-10]
Yamaha	-	[10-20]
Kawasaki	-	[5-10]
Kymco	-	[5-10]
BMW	-	[0-5]
<b>Total Market (volume)</b>	[...] motorcycles	

Source: Form CO and reply to question 1 of RFI 13

**Table 15: Supply of motorcycles worldwide (2019)**<sup>287</sup>

Entity	Revenues (EUR, m)	Share (%)
Honda	[...]	[30-40]
Hero	-	[10-20]
Yamaha	-	[5-10]
Bajaj	-	[5-10]
Suzuki	-	[0-5]
Kawasaki	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

(A) The Notifying Parties' view

- (239) The Notifying Parties submit that the Integrated Company will have no ability to engage in input foreclosure in view of the fact that (i) ECUs do not represent a significant cost factor relative to the price of small motorcycles (ii) [Details of Targets' sales of ECUs to Honda] of the Targets' sales of this component are to Honda (iii) manufacturers of small motorcycles will continue to be able to source this component from a range of large international suppliers post-transaction [Parties' views of other suppliers] (iv) the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of

<sup>285</sup> Reply to question 1 of RFI 13.

<sup>286</sup> The Notifying Parties confirm that, if a narrower segmentation based on engine size were considered, Honda's market share in the EEA for the supply of motorcycles with engine size below 250cc would be approximately [20-30]%, and its market share in the EEA for the supply of large motorcycles (with engine size above 250cc) would be approximately [10-20]% (reply to question 1 of RFI 13).

<sup>287</sup> The Notifying Parties confirm that Honda's worldwide market share on a narrower basis for the supply of small motorcycles (with an engine size below 250 cc) would also be approximately [30-40]%. For motorcycles with engines above 250cc, Honda estimates that its market share would be less than 30% (reply to question 1 of RFI 13).

motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed price.<sup>288</sup>

- (240) The Notifying Parties submit that the Integrated Company will have no incentives to engage in input foreclosure in view of the fact that (i) any attempted input foreclosure strategy would not be profitable, as it would simply result in the customer switching to one of the many alternative suppliers and lost revenues for the Integrated Company at the upstream level, with no increase in Honda's downstream revenues in the supply of small motorcycles, (ii) the proposed transaction will not materially change the existing incentives of the Parties to engage in any input foreclosure strategy, in view of Honda's existing economic interest in Keihin (as at 31 March 2019, Honda owned 41.35% of the voting rights in Keihin) and the fact that [Details of Keihin's supply to third party customers].<sup>289</sup>
- (241) The Notifying Parties submit that the Integrated Company will have no ability or incentives to engage in customer foreclosure strategies in view of the fact that (i) Honda's market share at the downstream level in the supply of motorcycles (approximately [30-40]%) is limited, (ii) Honda currently purchases [Share of Honda's demand for ECUs met by the Parties]% of its total worldwide demand for this component from the Parties, (iii) any customer foreclosure strategy would risk Honda's security of supply of the relevant component parts, with no prospects of this resulting in increased prices at the upstream or downstream level.<sup>290</sup>

(B) The Commission's assessment

*(B.i) Input foreclosure*

- (242) Although some of the customers of motorcycle components responding to the Commission's market investigation expressed concerns about the possibility to source ECUs from other companies than the Targets, others considered they would have alternative suppliers.<sup>291</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in input foreclosure strategies, for the reasons stated below.

*(B.i.a) No ability to foreclose access to inputs*

- (243) First, Keihin's market share in the worldwide market for ECUs for use in small motorcycles worldwide is [30-40]% (i.e. only [0-5] percentage points above the 30% threshold), followed by a number of strong competitors: Bosch with [20-30]% market share, as well as Denso ([10-20]%), Yamaha Electronic ([10-20]%), Mitsubishi ([10-20]%) and Continental ([10-20]%).<sup>292</sup> The transaction will not result in any increment of the Notifying Parties' and the Targets' market share of this component.

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<sup>288</sup> Reply to question 2 of RFI 14 and reply to question 4 of RFI 15.

<sup>289</sup> Reply to question 2 of RFI 14 and reply to question 4 of RFI 15.

<sup>290</sup> Reply to question 4 RFI 15.

<sup>291</sup> Reply to question 12 of questionnaire to customers.

<sup>292</sup> Form CO, Table 27.

- (244) Second, the majority of the respondents to the Commission's market investigation confirmed that the same companies usually produce ECUs for both motorcycles and for passenger cars.<sup>293</sup> In view of considerations of supply-side substitutability, should the market comprise the manufacture of ECUs for use in motorcycles and in passenger cars, the Integrated Company's market share post transaction would be [5-10]% at worldwide and EEA level.<sup>294</sup>
- (245) Third, input foreclosure may raise competition problems only if it concerns an important input for the downstream product (for example, when the input concerned represents a significant cost factor relative to the price of the downstream product).<sup>295</sup> This is not the case for ECUs, which represent [Percentage of the cost of a small motorcycle comprised of the relevant component]% of the total cost of manufacturing a small motorcycle.<sup>296</sup>
- (246) Fourth, Honda accounted for [Percentage of Keihin's sales of ECUs for which Honda accounted]% of total sales of Keihin's ECUs for use in small motorcycles worldwide. Therefore, prior to the transaction, Keihin Details of Keihin's supply to OEM customers]. Thus, pre-Transaction, the other OEM customers were able to source ECUs for small motorcycles from a range of other suppliers, and will be able to continue to do so after the transaction. Furthermore, the Commission's market investigation confirmed that all manufacturers of motorcycle components responding to the market investigation have spare capacity to increase production,<sup>297</sup> making input foreclosure unlikely as a consequence of the transaction.
- (247) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to ECUs for use in small motorcycles.

(B.i.b) No incentives to foreclose access to inputs

- (248) ECUs are just one component among the many parts comprising a small motorcycle, and account for a very small portion ([Percentage of the cost of a small motorcycle comprised of the relevant component]%)<sup>298</sup> of the total cost of the motorcycle. Therefore, an increase in the price of ECUs upstream would have no material impact on the downstream prices of small motorcycles, rendering pointless any kind of foreclosure strategy attempted. Furthermore, because the market for motorcycle components is characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.
- (249) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to ECUs for use in small motorcycles.

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<sup>293</sup> Reply to question 3 of questionnaire to competitors and reply to question 3 of questionnaire to customers.

<sup>294</sup> Reply to question 4 of RFI 7.

<sup>295</sup> Paragraph 34.

<sup>296</sup> Reply to question 1 of RFI 11.

<sup>297</sup> Reply to question 13 of questionnaire to competitors.

<sup>298</sup> Reply to question 1 of RFI 11.

(B.i.c) Overall likely impact on effective competition

- (250) Given that (i) there is a significant number of competitors in the upstream market which can supply ECUs for use in small motorcycles, (ii) Honda accounts for [Percentage of Keihin's sales of ECUs for small motorcycles accounted for by Honda]% of total sales of Keihin's ECUs for use in small motorcycles worldwide, (iii) the results of the market investigation show that there is spare capacity in the market for the manufacture of ECUs for use in motorcycles, (iv) ECUs are just one component among the many parts comprising a small motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to foreclose access to ECUs for use in small motorcycles.

(B.ii) *Customer foreclosure*

- (251) The majority of manufacturers of motorcycle components responding to the Commission's market investigation expressed that they would have sufficient alternative customers to supply if Honda were to source all ECUs for motorcycles from the Integrated Company.<sup>299</sup> Indeed, the Commission considers that the Integrated Company will not have the ability or the incentives to engage in customer foreclosure strategies related to ECUs for use in small motorcycles, for the reasons stated below.

(B.ii.a) No ability to foreclose access to customers

- (252) First, Honda's market share for the manufacture of motorcycles in the EEA is of [10-20]%, followed by Piaggio ([10-20]%), Yamaha ([10-20]%) and BMW ([5-10]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%). Concerning small motorcycles Honda's market share would be [20-30]% in the EEA and [30-40]% worldwide.<sup>300</sup> In view of Honda's relatively limited market share in the manufacture and sale of motorcycles and the presence of a number of important competitors (Hero, Yamaha, Bajaj, Piaggio, BMW), the Integrated Company is unlikely to have the ability to engage in customer foreclosure post-Transaction.
- (253) Second, Honda purchased [Share of Honda demand for ECUs for motorcycles met by the Targets]% of its needs for ECUs for motorcycles from the Targets. Therefore, prior to the transaction, the competitors in the upstream market supplied to the remaining OEM manufacturers and will be able to continue to do so after the transaction. Indeed, the results of the Commission market investigation showed that the majority of manufacturers of motorcycle components responding to the questionnaire expects to have sufficient alternative customers to supply if Honda were to source all ECUs for motorcycles from the Integrated Company,<sup>301</sup> making customer foreclosure unlikely as a consequence of the transaction.

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<sup>299</sup> Reply to question 16 of questionnaire to competitors.

<sup>300</sup> Reply to question 1 of RFI 13.

<sup>301</sup> Reply to question 16 of questionnaire to competitors.

(254) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to customers for the sale of ECUs for use in small motorcycles.

(B.ii.b) No incentives to foreclose access to customers

(255) ECUs are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>302</sup> of the total cost of the motorcycle, while the Integrated Company's market share for this component is [Details of Integrated Company's market share] above 30%. Therefore, any customer foreclosure strategy would risk Honda's security of supply of the relevant component part, with no prospects of this resulting in increased prices at the upstream or downstream level.

(256) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to customers for the sale of ECUs for use in small motorcycles.

(B.ii.c) Overall likely impact on effective competition

(257) Given that (i) there is a significant number of players in the downstream market which supply ECUs for use in small motorcycles, (ii) Honda purchased [Share of Honda demand for ECUs for motorcycles met by the Targets]% of its needs for ECUs for motorcycles from the Targets, (iii) the majority of manufacturers of motorcycle components responding to the market investigation stated that they would have sufficient alternative customers to supply if Honda were to source all ECUs for motorcycles from the Integrated Company, (iv) ECUs are just one component among the many parts comprising a motorcycle and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>303</sup> of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to foreclose customer access for the sale of ECUs for use in small motorcycles.

(B.iii) *Conclusion on input and customer foreclosure*

(258) Based on the considerations above, the Commission considers that the transaction does not raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the market for the manufacture and sale of ECUs for use in small motorcycles and the market for the manufacture and sale of small motorcycles.

4.5.5. *Carburettors (upstream) for motorcycles (downstream)*

(259) Keihin supplies carburettors for use in motorcycles to Honda at a worldwide level. Its worldwide market share for the supply of carburettors for use in motorcycles is [40-50]%. However, Keihin does not supply these products in the EEA.<sup>304</sup>

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<sup>302</sup> Reply to question 1 of RFI 11.

<sup>303</sup> Reply to question 1 of RFI 11.

<sup>304</sup> Form CO, paragraph 1.435(c).

**Table 16: Supply of carburettors for use in motorcycles worldwide (2019)<sup>305</sup>**

Entity	Revenues (EUR, m)	Share (%)
<b>Keihin</b>	[...]	[40-50]
Mikuni	-	[10-20]
Ucal	-	[10-20]
Dellorto	-	[0-5]
Bing Agency International	-	[0-5]
AMAL	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

- (260) Downstream, Honda's market share for the manufacture and sale of motorcycles in the EEA is of [10-20]%, followed by Yamaha ([10-20]%), Kawasaki ([5-10]%), Piaggio ([5-10]%), Kymco ([5-10]%) and BMW ([0-5]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%).

**Table 17: Supply of motorcycles in the EEA (2019)**

Entity	Revenues (EUR, m)	Share (%)
<b>Honda</b>	[...]	[10-20]
Piaggio	-	[5-10]
Yamaha	-	[10-20]
Kawasaki	-	[5-10]
Kymco	-	[5-10]
BMW	-	[0-5]
<b>Total Market (volume)</b>	[...] motorcycles	

Source: Form CO and reply to question 1 of RFI 13

**Table 18: Supply of motorcycles worldwide (2019)**

Entity	Revenues (EUR, m)	Share (%)
<b>Honda</b>	[...]	[30-40]
Hero	-	[10-20]
Yamaha	-	[5-10]
Bajaj	-	[5-10]
Suzuki	-	[0-5]
Kawasaki	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

<sup>305</sup> The Notifying Parties confirm that there were no significant changes to these figures in 2018 and 2017 (Form CO, paragraph 1.469).



(A) The Notifying Parties' view

- (261) The Notifying Parties confirm that the transaction will not result in any increment in the supply of these products at the upstream level (as the transaction does not give rise to a horizontal overlap in the supply of this component part).<sup>306</sup>
- (262) The Notifying Parties submit that the Integrated Company will have no ability to engage in input foreclosure in view of the fact that (i) this component does not represent a significant cost factor relative to the price of motorcycles (ii) [Details of the Targets' sales to Honda] of the Targets' sales of this component are to Honda (iii) manufacturers of motorcycles will continue to be able to source this component from a range of large international suppliers post-transaction [Parties' views of other suppliers] (iv) the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed price.<sup>307</sup>
- (263) The Notifying Parties submit that the Integrated Company will have no incentives to engage in input foreclosure in view of the fact that (i) any attempted input foreclosure strategy would not be profitable, as it would simply result in the customer switching to one of the many alternative suppliers and lost revenues for the Integrated Company at the upstream level, with no increase in Honda's downstream revenues in the supply of motorcycles, (ii) the proposed transaction will not materially change the existing incentives of the Parties to engage in any input foreclosure strategy, in view of Honda's existing economic interest in Keihin (as at 31 March 2019, Honda owned 41.35% of the voting rights in Keihin) and the fact that Keihin [Details of Keihin's supply to third party customers].<sup>308</sup>
- (264) The Notifying Parties consider that the Integrated Company will have no ability or incentives to engage in customer foreclosure strategies in view of the fact that (i) Honda's market share at the downstream level in the supply of motorcycles (approximately [30-40]%) is limited, (ii) Honda currently purchases [Share of Honda's demand for the component met by the Parties]% of its total worldwide demand for this component from the Parties, (iii) any customer foreclosure strategy would risk Honda's security of supply of the relevant component parts, with no prospects of this resulting in increased prices at the upstream or downstream level.<sup>309</sup>

(B) The Commission's assessment

*(B.i) Input foreclosure*

- (265) The majority of customers of motorcycle components responding to the market investigation stated that they would be able to source carburettors from other companies than the Targets.<sup>310</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in input foreclosure strategies, for the reasons stated below.

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<sup>306</sup> Form CO, paragraph 1.470.

<sup>307</sup> Reply to question 2 of RFI 14.

<sup>308</sup> Reply to question 2 of RFI 14.

<sup>309</sup> Reply to question 4 RFI 15.

<sup>310</sup> Reply to question 12 of questionnaire to customers.

(B.i.a) No ability to foreclose access to inputs

- (266) First, input foreclosure may raise competition problems only if it concerns an important input for the downstream product (for example, when the input concerned represents a significant cost factor relative to the price of the downstream product). This is not the case for carburettors, which represent [Percentage of the cost of a motorcycle comprised of the relevant component]% of the total cost of manufacturing a motorcycle.<sup>311</sup>
- (267) Second, although Keihin has a substantial market share in the supply of carburettors for small motorcycles ([40-50]%), prior to the transaction Honda accounted for [Share of Keihin's sales of the relevant component accounted for by Honda]% of its sales of this component. Therefore, prior to the transaction, Keihin was [Details of Keihin's supply to OEM customers]. Thus, pre-Transaction, the other OEM customers were able to source carburettors for small motorcycles from a range of other suppliers, and will be able to continue to do so after the transaction. Furthermore, the Commission's market investigation confirmed that the manufacturers of motorcycle components responding to the market investigation have spare capacity to increase production of this component,<sup>312</sup> and the majority of customers of motorcycle components responding stated that they would be able to source carburettors from other companies than the Targets,<sup>313</sup> making input foreclosure unlikely as a consequence of the transaction. The Parties consider that suppliers in this market (including Mikuni, Ucal, Dellorto, Bing Agency International and AMAL) [Parties' view of suppliers in the relevant market].<sup>314</sup>
- (268) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to carburettors for use in motorcycles.

(B.i.b) No incentives to foreclose access to inputs

- (269) Carburettors are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>315</sup> of the total cost of the motorcycle. Therefore, an increase in the price of carburettors upstream would have no material impact on the downstream prices of motorcycles, rendering pointless any kind of foreclosure strategy attempted. Furthermore, because the market for motorcycle components is characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.
- (270) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to carburettors for use in motorcycles.

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<sup>311</sup> Reply to question 1 of RFI 11.

<sup>312</sup> Reply to question 13 of the questionnaire to competitors.

<sup>313</sup> Reply to question 12 of questionnaire to customers.

<sup>314</sup> Reply to question 2 of RFI 14.

<sup>315</sup> Reply to question 1 of RFI 11.

(B.i.c) Overall likely impact on effective competition

- (271) Given that (i) Honda accounted for [Share of Targets' sales of the relevant component accounted for by Honda]% of the sales of the Targets' carburettors for use in motorcycles, (ii) the results of the market investigation show that there is spare capacity in the market for the manufacture of carburettors for use in motorcycles, (iii) carburettors are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to foreclose access to carburettors for use in small motorcycles.

(B.ii) *Customer foreclosure*

- (272) The Commission considers that the Integrated Company will not have the ability or the incentives to engage in customer foreclosure strategies related to carburettors for use in motorcycles, for the reasons stated below.

(B.ii.a) No ability to foreclose access to customers

- (273) First, Honda's market share for the manufacture of motorcycles in the EEA is of [10-20]%, followed by Piaggio ([10-20]%), Yamaha ([10-20]%) and BMW ([5-10]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%). The transaction will not result in any increment of the Notifying Parties' and the Targets' market share for the sale of motorcycles, where only Honda is active.
- (274) Second, Honda purchased [Share of Honda's demand for carburettors for use in motorcycles met by the Targets]% of its needs for carburettors for use in motorcycles from the Targets. Therefore, prior to the transaction, the competitors in the upstream market supplied to the remaining OEM manufacturers and will be able to continue to do so after the transaction, making customer foreclosure unlikely as a consequence of the transaction.
- (275) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to customers for the sale of carburettors for use in motorcycles.

(B.ii.b) No incentives to foreclose access to customers

- (276) First, carburettors are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>316</sup> of the total cost of the motorcycle. Therefore, the incentives to engage in customer foreclosure are low.
- (277) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to customers for the sale of carburettors for use in small motorcycles.

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<sup>316</sup> Reply to question 1 of RFI 11.

(B.ii.c) Overall likely impact on effective competition

- (278) Given that (i) there is a significant number of players in the downstream OEM market which supply carburettors for use in motorcycles, (ii) Honda purchased [Share of Honda's demand for carburettors for use in motorcycles met by the Targets]% of its needs for carburettors for motorcycles from the Targets, (iii) carburettors are just one component among the many parts comprising a motorcycle and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to foreclose customer access for the sale of carburettors for use in motorcycles.

(B.iii) Conclusion on input and customer foreclosure

- (279) Based on the considerations above, the Commission considers that the transaction does not raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the market for the manufacture and sale of carburettors for use in motorcycles and the market for the manufacture and sale of motorcycles.

4.5.6. Fuel pump modules (upstream) for small motorcycles (downstream)

- (280) Keihin supplies fuel pump modules for small motorcycles to Honda at both an EEA and worldwide level. Its market share at an EEA level is below 30% (approx. [20-30]%), although its market share at a worldwide level is [30-40]%.<sup>317</sup>

**Table 19: Supply of fuel pump modules for use in small motorcycles worldwide (2019)**<sup>318</sup>

Entity	Revenues (EUR, m)	Share (%)
Keihin	[...]	[30-40]
Mitsuba	-	[20-30]
Aisan	-	[5-10]
Continental	-	[5-10]
Bosch	-	[5-10]
Magneti Marelli	-	[0-5]
Mitsubishi	-	[0-5]
Delphi	-	[0-5]
Bosch	-	[0-5]
Denso	-	[0-5]
Bitron	-	[0-5]
<b>Total Market (volume)</b>		[...] units

Source: Form CO and reply to question 6 of RFI 14

<sup>317</sup> Form CO, paragraph 1.435(d). The Notifying Parties do not supply fuel storage and delivery systems as a whole. However, the Notifying Parties confirmed that their market shares in the supply of the individual components would be below 20% if considered on such a wider market definition considering all components for fuel storage and delivery systems together.

<sup>318</sup> The Notifying Parties confirm that there were no significant changes to these figures in 2018 and 2017 (Form CO, paragraph 1.474).

(281) Downstream, Honda's market share for the manufacture of motorcycles in the EEA is of [10-20]%, followed by Yamaha ([10-20]%), Kawasaki ([5-10]%), Piaggio ([5-10]%), Kymco ([5-10]%) and BMW ([0-5]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%). Concerning small motorcycles, Honda's market share would be [20-30]% in the EEA and [30-40]% worldwide.<sup>319</sup>

**Table 20: Supply of motorcycles in the EEA (2019)<sup>320</sup>**

Entity	Revenues (EUR, m)	Share (%)
Honda	[...]	[10-20]
Piaggio	-	[5-10]
Yamaha	-	[10-20]
Kawasaki	-	[5-10]
Kymco	-	[5-10]
BMW	-	[0-5]
<b>Total Market (volume)</b>	[...] motorcycles	

Source: Form CO and reply to question 1 of RFI 13

**Table 21: Supply of motorcycles worldwide (2019)<sup>321</sup>**

Entity	Revenues (EUR, m)	Share (%)
Honda	[...]	[30-40]
Hero	-	[10-20]
Yamaha	-	[5-10]
Bajaj	-	[5-10]
Suzuki	-	[0-5]
Kawasaki	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

(A) The Notifying Parties' view

(282) The Notifying Parties submit that the Integrated Company will have no ability to engage in input foreclosure in view of the fact that (i) this component does not represent a significant cost factor relative to the price of motorcycles (ii) [Share of Targets' sales of the relevant component accounted for by Honda]% of the Targets' sales of this component are to Honda (iii) manufacturers of motorcycles will

<sup>319</sup> Reply to question 1 of RFI 13.

<sup>320</sup> The Notifying Parties confirm that, if a narrower segmentation based on engine size were considered, Honda's market share in the EEA for the supply of motorcycles with engine size below 250cc would be approximately [20-30]%, and its market share in the EEA for the supply of large motorcycles (with engine size above 250cc) would be approximately [10-20]% (reply to question 1 of RFI 13).

<sup>321</sup> The Notifying Parties confirm that Honda's worldwide market share on a narrower basis for the supply of small motorcycles (with an engine size below 250 cc) would also be approximately [30-40]. For motorcycles with engines above 250cc, Honda estimates that its market share would be less than 30% (reply to question 1 of RFI 13).

continue to be able to source this component from a range of large international suppliers post-transaction [Parties' views of other suppliers] (iv) the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed price.<sup>322</sup>

- (283) The Notifying Parties consider that the Integrated Company will have no incentives to engage in input foreclosure in view of the fact that (i) any attempted input foreclosure strategy would not be profitable, as it would simply result in the customer switching to one of the many alternative suppliers and lost revenues for the Integrated Company at the upstream level, with no increase in Honda's downstream revenues in the supply of motorcycles, (ii) the proposed transaction will not materially change the existing incentives of the Parties to engage in any input foreclosure strategy, in view of Honda's existing economic interest in Keihin (as at 31 March 2019, Honda owned 41.35% of the voting rights in Keihin) and the fact that Keihin already supplies fuel pump modules to Honda.<sup>323</sup>
- (284) The Notifying Parties submit that the Integrated Company will have no ability or incentives to engage in customer foreclosure strategies in view of the fact that (i) Honda's market share at the downstream level in the supply of motorcycles (approximately [30-40]%) is limited, (ii) Honda currently purchases [Share of Honda's demand for the relevant component met by the Parties]% of its total worldwide demand for this component from the Parties, (iii) any customer foreclosure strategy would risk Honda's security of supply of the relevant component parts, with no prospects of this resulting in increased prices at the upstream or downstream level.<sup>324</sup>

(B) The Commission's assessment

*(B.i) Input foreclosure*

- (285) The majority of customers of motorcycle components responding to the Commission's market investigation stated that they would be able to source fuel pump modules from other companies than the Targets.<sup>325</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in input foreclosure strategies, for the reasons stated below.

(B.i.a) No ability to foreclose access to inputs

- (286) First, Keihin's market share in the worldwide market for fuel pump modules for use in small motorcycles is [30-40]%, followed by Mitsuba ([20-30]%), while there are also a number of small competitors active, such as Magneti Marelli, Mitsubishi, Delphi and Bosch (each [0-5]%).<sup>326</sup> The transaction will not result in any increment of the Notifying Parties' and the Targets' market share of this component.

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<sup>322</sup> Reply to question 2 of RFI 14 and reply to question 4 of RFI 15.

<sup>323</sup> Reply to question 2 of RFI 14 and reply to question 4 of RFI 15.

<sup>324</sup> Reply to question 4 RFI 15.

<sup>325</sup> Reply to question 12 of questionnaire to customers.

<sup>326</sup> Form CO, Table 29.

- (287) Second, the majority of the respondents to the Commission's market investigation confirmed that the same companies usually produce fuel pump modules for both motorcycles and for passenger cars.<sup>327</sup> In view of considerations of supply-side substitutability, should the market comprise the manufacture of fuel pump modules for use in motorcycles and in passenger cars, the Integrated Company's market share post transaction would be below 20% at worldwide and [5-10]% EEA level.<sup>328</sup>
- (288) Third, input foreclosure may raise competition problems only if it concerns an important input for the downstream product (for example, when the input concerned represents a significant cost factor relative to the price of the downstream product). This is not the case for fuel pump modules, which represent [Percentage of cost of a motorcycle comprised of the cost of fuel pump modules]% of the total cost of manufacturing a motorcycle.<sup>329</sup>
- (289) Fourth, Honda accounted for [Share of Targets' sales of the relevant component accounted for by Honda]% of the sales of the Targets' fuel pump modules for small motorcycles. The Commission's market investigation confirmed that the majority of manufacturers of motorcycle components responding have spare capacity to increase production of fuel pump modules for small motorcycles,<sup>330</sup> and that the majority of customers of motorcycle components responding would be able to source fuel pump modules from other companies than the Targets,<sup>331</sup> making input foreclosure unlikely as a consequence of the transaction.
- (290) Fifth, the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle),<sup>332</sup> during which period suppliers are committed to supply minimum volumes of components at an agreed price. As such, third party customers of the Targets are also contractually protected from input foreclosure for the lifespan of the model of motorcycle that the fuel pump modules are being supplied for.<sup>333</sup>
- (291) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to fuel pump modules for use in small motorcycles.

(B.i.b) No incentives to foreclose access to inputs

- (292) Customers are contractually protected from input foreclosure for the lifespan of the motorcycle model that the part relates to. Furthermore, fuel pump modules are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>334</sup> of the total cost of the motorcycle. Therefore, an increase in the price of fuel pump modules upstream would have no material impact on the

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<sup>327</sup> Reply to question 3 of questionnaire to competitors and reply to question 3 of questionnaire to customers.

<sup>328</sup> Reply to question 4 of RFI 7.

<sup>329</sup> Reply to question 1 of RFI 11.

<sup>330</sup> Reply to question 13 of questionnaire to competitors

<sup>331</sup> Reply to question 12 of questionnaire to customers.

<sup>332</sup> Typically, motorcycles undergo a model change every three years and suppliers, therefore, tend to supply for a minimum of three years per model.

<sup>333</sup> Reply to question 2 of RFI 14 and reply to question 4 of RFI 15.

<sup>334</sup> Reply to question 1 of RFI 11.

downstream prices of motorcycles, rendering pointless any kind of foreclosure strategy attempted. Furthermore, because the market for motorcycle components is characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.

- (293) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to fuel pump modules for use in small motorcycles.

(B.i.c) Overall likely impact on effective competition

- (294) Given that (i) there is a significant number of competitors in the upstream market which can supply fuel pump modules for use in small motorcycles, in particular in view of considerations of supply-side substitutability between the fuel pump modules for use in motorcycles and for use in passenger cars, (ii) the results of the market investigation show that there is spare capacity in the market for the manufacture of fuel pump modules for use in motorcycles, (iii) fuel pump modules are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability nor the incentives to foreclose access to fuel pump modules for use in small motorcycles.

(B.ii) Customer foreclosure

- (295) All manufacturers of motorcycle components responding to the Commission's market investigation stated that they would have sufficient alternative customers to supply if Honda were to source all fuel pump modules for motorcycles from the Integrated Company.<sup>335</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in customer foreclosure strategies for the reasons stated below.

(B.ii.a) No ability to foreclose access to customers

- (296) First, Honda's market share for the manufacture of motorcycles in the EEA is of [10-20]%, followed by Piaggio ([10-20]%), Yamaha ([10-20]%) and BMW ([5-10]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%). Concerning small motorcycles Honda's market share would be [20-30]% in the EEA and [30-40]% worldwide.<sup>336</sup> The transaction will not result in any increment of the Notifying Parties' and the Targets' market share for the sale of motorcycles, where only Honda is active.
- (297) Second, Honda purchased [Share of Honda's demand for the relevant component met by the Targets]% of its needs for fuel pump modules for small motorcycles from the Targets. The majority of manufacturers of motorcycle components responding to the Commission's market investigation stated that they would have sufficient alternative customers to supply if Honda were to source all fuel pump modules for

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<sup>335</sup> Reply to question 16 of questionnaire to competitors.

<sup>336</sup> Reply to question 1 of RFI 13.



small motorcycles from the Integrated Company,<sup>337</sup> making customer foreclosure unlikely as a consequence of the transaction.

- (298) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to customers for the sale of fuel pump modules for use in small motorcycles.

(B.ii.b) No incentives to foreclose access to customers

- (299) Fuel pump modules are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>338</sup> of the total cost of the motorcycle, while the Integrated Company's market share for this component is [Details of Integrated Company's market share] above 30%. Therefore, any customer foreclosure strategy would risk Honda's security of supply of the relevant component part, with no prospects of this resulting in increased prices at the upstream or downstream level.

- (300) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to customers for the sale of fuel pump modules for use in motorcycles.

(B.ii.c) Overall likely impact on effective competition

- (301) Given that (i) there is a significant number of players in the downstream market to which to supply fuel pump modules, (ii) the results of the market investigation show that the majority of competitors would have sufficient alternative customers to supply if Honda were to source all fuel pump modules for motorcycles from the Integrated Company, (iii) fuel pump modules are just one component among the many parts comprising a motorcycle and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to foreclose customer access for the sale of fuel pump for use in small motorcycles.

*(B.iii) Conclusion on input and customer foreclosure*

- (302) Based on the considerations above, the Commission considers that the transaction does not raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the market for the manufacture and sale of fuel pump modules for use in small motorcycles and the market for the manufacture and sale of motorcycles.

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<sup>337</sup> Reply to question 16 of questionnaire to competitors.

<sup>338</sup> Reply to question 1 of RFI 11.

4.5.7. *Injectors (upstream) for small motorcycles (downstream)*

- (303) Keihin supplies injectors for small motorcycles to Honda at both an EEA and worldwide level. Its market share at an EEA level is below 30% (approx. [20-30]%), although its market share at a worldwide level is [30-40]%.<sup>339</sup>

**Table 22: Supply of injectors for use in small motorcycles worldwide (2019)<sup>340</sup>**

Entity	Revenues (EUR, m)	Share (%)
<b>Keihin</b>	[...]	[30-40]
Denso	-	[5-10]
Aishin	-	[0-5]
Magneti Marelli	-	[0-5]
Mitsubishi	-	[0-5]
Delphi	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

- (304) Downstream, Honda's market share for the manufacture of motorcycles in the EEA is of [10-20]%, followed by Yamaha ([10-20]%), Kawasaki ([5-10]%), Piaggio ([5-10]%), Kymco ([5-10]%) and BMW ([0-5]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%). Concerning small motorcycles, Honda's market share would be [20-30]% in the EEA and [30-40]% worldwide.<sup>341</sup>

**Table 23: Supply of motorcycles in the EEA (2019)<sup>342</sup>**

Entity	Revenues (EUR, m)	Share (%)
<b>Honda</b>	[...]	[10-20]
Piaggio	-	[5-10]
Yamaha	-	[10-20]
Kawasaki	-	[5-10]
Kymco	-	[5-10]
BMW	-	[0-5]
<b>Total Market (volume)</b>	[...] motorcycles	

Source: Form CO and reply to question 1 of RFI 13

<sup>339</sup> Form CO, paragraph 1.435(e).

<sup>340</sup> The Notifying Parties confirm that there were no significant changes to these figures in 2018 and 2017 (Form CO, paragraph 1.479).

<sup>341</sup> Reply to question 1 of RFI 13.

<sup>342</sup> The Notifying Parties confirm that, if a narrower segmentation based on engine size were considered, Honda's market share in the EEA for the supply of motorcycles with engine size below 250cc would be approximately [20-30]%, and its market share in the EEA for the supply of large motorcycles (with engine size above 250cc) would be approximately [10-20]% (reply to question 1 of RFI 13).

**Table 24: Supply of motorcycles worldwide (2019)<sup>343</sup>**

Entity	Revenues (EUR, m)	Share (%)
Honda	[...]	[30-40]
Hero	-	[10-20]
Yamaha	-	[5-10]
Bajaj	-	[5-10]
Suzuki	-	[0-5]
Kawasaki	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

(A) The Notifying Parties' view

- (305) The Notifying Parties submit that the Integrated Company will have no ability to engage in input foreclosure in view of the fact that (i) this component does not represent a significant cost factor relative to the price of motorcycles (ii) the vast majority of the Targets' sales of this component are to Honda (iii) manufacturers of motorcycles will continue to be able to source this component from a range of large international suppliers post-transaction [Notifying Parties' view of large international suppliers] (iv) the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed price.<sup>344</sup>
- (306) The Notifying Parties submit that the Integrated Company will have no incentives to engage in input foreclosure in view of the fact that (i) any attempted input foreclosure strategy would not be profitable, as it would simply result in the customer switching to one of the many alternative suppliers and lost revenues for the Integrated Company at the upstream level, with no increase in Honda's downstream revenues in the supply of motorcycles, (ii) the proposed transaction will not materially change the existing incentives of the Parties to engage in any input foreclosure strategy, in view of Honda's existing economic interest in Keihin (as at 31 March 2019, Honda owned 41.35% of the voting rights in Keihin) and the fact that most of Keihin's sales of this components are to Honda.<sup>345</sup>
- (307) The Notifying Parties submit that the Integrated Company will have no ability or incentives to engage in customer foreclosure strategies in view of the fact that (i) Honda's market share at the downstream level in the supply of motorcycles (approximately [30-40]%) is limited, (ii) Honda currently purchases [Share of Honda's demand for the relevant component met by Keihin]% of its total worldwide demand for this component from Keihin, (iii) any customer foreclosure strategy

<sup>343</sup> The Notifying Parties confirm that Honda's worldwide market share on a narrower basis for the supply of small motorcycles (with an engine size below 250 cc) would also be approximately [30-40]%. For motorcycles with engines above 250cc, Honda estimates that its market share would be less than 30% (reply to question 1 of RFI 13).

<sup>344</sup> Reply to question 2 of RFI 14 and reply to question 4 of RFI 15.

<sup>345</sup> Reply to question 2 of RFI 14 and reply to question 4 of RFI 15.

would risk Honda's security of supply of the relevant component parts, with no prospects of this resulting in increased prices at the upstream or downstream level.<sup>346</sup>

(B) The Commission's assessment

(B.i) *Input foreclosure*

(308) The majority of customers of motorcycle components responding to the Commission's market investigation stated that they would be able to source injectors from other companies than the Targets.<sup>347</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in input foreclosure strategies, for the reasons stated below.

(B.i.a) No ability to foreclose access to inputs

(309) First, although Keihin is the strongest player with a market share in the worldwide market for injectors for use in small motorcycles of [30-40]%, strong international companies are also present in this market, such as Denso ([5-10]%), Aishin ([0-5]%), Magneti Marelli and Delphi ([0-5]% each).<sup>348</sup> The transaction will not result in any increment of the Notifying Parties' and the Targets' market share of this component.

(310) Second, the majority of the respondents to the Commission's market investigation confirmed that the same companies usually produce injectors for both motorcycles and for passenger cars.<sup>349</sup> In view of considerations of supply-side substitutability, should the market comprise the manufacture of injectors for use in motorcycles and in passenger cars, the Integrated Company's market share post transaction would be below 20% worldwide and [5-10]% on an EEA level.<sup>350</sup>

(311) Third, input foreclosure may raise competition problems only if it concerns an important input for the downstream product (for example, when the input concerned represents a significant cost factor relative to the price of the downstream product).<sup>351</sup> This is not the case for injectors, which represent [Percentage of the cost of a motorcycle comprised of the relevant component]% of the total cost of manufacturing a motorcycle.<sup>352</sup>

(312) Fourth, Honda accounted for [Share of the Targets' sales of the relevant component accounted for by Honda]% of the sales of the Targets' injectors for use in small motorcycles. Therefore, prior to the transaction other OEM customers were able to source injectors for use in small motorcycles from a range of other suppliers, and will be able to continue to do so after the transaction. Furthermore, the Commission's market investigation confirmed that a majority of manufacturers of motorcycle components responding have spare capacity to increase production of

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<sup>346</sup> Reply to question 4 RFI 15.

<sup>347</sup> Reply to question 12 of questionnaire to customers.

<sup>348</sup> Form CO, Table 30.

<sup>349</sup> Reply to question 3 of questionnaire for competitors and reply to question 3 of questionnaire for customers.

<sup>350</sup> Reply to question 4 of RFI 7.

<sup>351</sup> Paragraph 34.

<sup>352</sup> Reply to question 1 of RFI 11.

injectors for use in small motorcycles,<sup>353</sup> and that a majority of customers of motorcycle components responding would be able to source injectors from other companies than the Targets,<sup>354</sup> making input foreclosure unlikely as a consequence of the transaction.

- (313) Fifth, the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed price. As such, third party customers of the Targets are also contractually protected from input foreclosure for the lifespan of the model of motorcycle that the injectors are being supplied for.<sup>355</sup>
- (314) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to injectors for use in small motorcycles.

(B.i.b) No incentives to foreclose access to inputs

- (315) Customers are contractually protected from input foreclosure for the lifespan of the motorcycle model that the part relates to. Furthermore, injectors are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>356</sup> of the total cost of the motorcycle. Therefore, an increase in the price of injectors upstream would have no material impact on the downstream prices of motorcycles, rendering pointless any kind of foreclosure strategy attempted. Furthermore, because the market for motorcycle components is characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.
- (316) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to injectors for use in small motorcycles.

(B.i.c) Overall likely impact on effective competition

- (317) Given that (i) there is a significant number of competitors in the upstream market which can supply injectors for use in motorcycles, in particular in view of considerations of supply-side substitutability between injectors for use in motorcycles and for use in passenger cars, (ii) Honda accounts for [Share of Keihin's sales of the relevant component accounted for by Honda]% of total sales of Keihin's injectors for use in motorcycles worldwide, (iii) the results of the market investigation show that there is spare capacity in the market for the manufacture of injectors for use in motorcycles, (iv) injectors are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>357</sup> of the total cost of the motorcycle, the Commission considers that, overall, the

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<sup>353</sup> Reply to question 13 of questionnaire for Competitors.

<sup>354</sup> Reply to question 12 of questionnaire to customers.

<sup>355</sup> Reply to question 2 of RFI 14 and reply to question 4 of RFI 15.

<sup>356</sup> Reply to question 1 of RFI 11.

<sup>357</sup> Reply to question 1 of RFI 11.

Integrated Company would not have the ability nor the incentives to foreclose access to injectors for use in motorcycles.

*(B.ii) Customer foreclosure*

- (318) Manufacturers of motorcycle components responding to the Commission's market investigation stated that they would have sufficient alternative customers to supply if Honda were to source all injectors for motorcycles from the Integrated Company.<sup>358</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in customer foreclosure strategies related to injectors for use in small motorcycles, for the reasons stated below.

*(B.ii.a) No ability to foreclose access to customers*

- (319) First, Honda's market share for the manufacture of motorcycles in the EEA is of [10-20]%, followed by Piaggio ([10-20]%), Yamaha ([10-20]%) and BMW ([5-10]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%). Concerning small motorcycles, Honda's market share would be [20-30]% in the EEA and [30-40]% worldwide.<sup>359</sup> The transaction will not result in any increment of the Notifying Parties' and the Targets' market share for the sale of motorcycles, where only Honda is active.
- (320) Second, Honda purchased [Share of Honda's demand for the relevant component met by the Targets]% of its needs for injectors for use in small motorcycles from the Targets. Therefore, prior to the transaction, the competitors in the upstream market supplied to the remaining OEM manufacturers and will be able to continue to do so after the transaction. Indeed, the results of the Commission market investigation showed that the majority of manufacturers of motorcycle components would have sufficient alternative customers to supply if Honda were to source all injectors for use in small motorcycles from the Integrated Company,<sup>360</sup> making customer foreclosure unlikely as a consequence of the transaction.
- (321) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to customers for the sale of injectors for use in small motorcycles.

*(B.ii.b) No incentives to foreclose access to customers*

- (322) Injectors are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component])<sup>361</sup> of the total cost of the motorcycle. Furthermore, Honda already purchases [Share of Honda's demand for the relevant component met by the Targets]% of its needs for injectors for use in small motorcycles from the Targets, therefore any customer foreclosure strategy would only affect the remaining [Share of Honda's demand for the relevant component met

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<sup>358</sup> Reply to question 16 of questionnaire to competitors.

<sup>359</sup> Reply to question 1 of RFI 13.

<sup>360</sup> Reply to question 16 of questionnaire for competitors.

<sup>361</sup> Reply to question 1 of RFI 11.



by suppliers other than the Targets] % with no prospects of resulting in increased prices at the upstream or downstream level.

- (323) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to customers for the sale of injectors for use in small motorcycles.

(B.ii.c) Overall likely impact on effective competition

- (324) Given that (i) there is a significant number of players in the downstream market to which to supply injectors for use in motorcycles, (ii) Honda purchased [Share of Honda's demand for the relevant component met by the Targets] % of its needs for injectors for motorcycles from the Targets, (iii) the results of the market investigation show that the majority of competitors would have sufficient alternative customers to supply if Honda were to source all injectors for motorcycles from the Integrated Company, (iv) injectors are just one component among the many parts comprising a motorcycle and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component] %) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to foreclose customer access for the sale of injectors for use in small motorcycles.

(B.iii) Conclusion on input and customer foreclosure

- (325) Based on the considerations above, the Commission considers that the transaction does not raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the market for the manufacture and sale of injectors for use in small motorcycles and the market for the manufacture and sale of small motorcycles.

4.5.8. Brake master cylinders (upstream) for motorcycles

- (326) Nissin Kogyo supplies brake master cylinders for use in motorcycles to Honda at both an EEA and worldwide level. Nissin Kogyo confirms that its market share for the supply of brake master cylinders for use in motorcycles at an EEA level is below 30% ([20-30] %); however, its market share at a worldwide level is [40-50] %.<sup>362</sup> HIAMS market share at a worldwide level is [5-10] %, giving rise to a combined market share of [50-60] %.

**Table 25: Supply of brake master cylinders for use in motorcycles at a worldwide level (2019)<sup>363</sup>**

Entity	Revenues (EUR, m)	Share (%)
HIAMS	[...]	[5-10]
Nissin Kogyo	[...]	[40-50]
<i>The Integrated Company</i>	[...]	<i>[50-60]</i>

<sup>362</sup> Form CO, paragraph 1.435(g).

<sup>363</sup> The Notifying Parties confirm that there were no significant changes to these figures in 2018 and 2017 (Form CO, paragraph 1.485).

Entity	Revenues (EUR, m)	Share (%)
Brembo	-	[10-20]
Akebono	-	[5-10]
Hubei	-	[5-10]
Hengtong	-	[5-10]
Endurance	-	[5-10]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO and reply to question 4 of RFI 14

- (327) Downstream, Honda's market share for the manufacture and sale of motorcycles in the EEA is of [10-20]%, followed by Yamaha ([10-20]%), Kawasaki ([5-10]%), Piaggio ([5-10]%), Kymco ([5-10]%) and BMW ([0-5]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%).

**Table 26: Supply of motorcycles in the EEA (2019)**

Entity	Revenues (EUR, m)	Share (%)
<b>Honda</b>	[...]	[10-20]
Piaggio	-	[5-10]
Yamaha	-	[10-20]
Kawasaki	-	[5-10]
Kymco	-	[5-10]
BMW	-	[0-5]
<b>Total Market (volume)</b>	[...] motorcycles	

Source: Form CO and reply to question 1 of RFI 13

**Table 27: Supply of motorcycles worldwide (2019)**

Entity	Revenues (EUR, m)	Share (%)
<b>Honda</b>	[...]	[30-40]
Hero	-	[10-20]
Yamaha	-	[5-10]
Bajaj	-	[5-10]
Suzuki	-	[0-5]
Kawasaki	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

(A) The Notifying Parties' view

- (328) The Notifying Parties submit that no competition concerns arise, although the proposed transaction will result in a small increment ([5-10]%) in the supply of these



products at the upstream level of this vertically affected market at a worldwide level.<sup>364</sup>

- (329) The Notifying Parties submit that the Integrated Company will have no ability to engage in input foreclosure in view of the fact that (i) this component it does not represent a significant cost factor relative to the price of motorcycles (ii) the vast majority of HIAMS and Nissin Kogyo's sales of this component are to Honda (iii) Manufacturers of motorcycles will continue to be able to source brake master cylinders from a range of large international suppliers post-transaction which [Notifying Parties' views of large international suppliers] (iv) the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed price.<sup>365</sup>
- (330) The Notifying Parties submit that the Integrated Company will have no incentives to engage in input foreclosure in view of the fact that (i) any attempted input foreclosure strategy would not be profitable, as it would simply result in the customer switching to one of the many alternative suppliers and lost revenues for the Integrated Company at the upstream level, with no increase in Honda's downstream revenues in the supply of motorcycles, (ii) the proposed transaction will not materially change the existing incentives of the Parties to engage in any input foreclosure strategy, in view of Honda's existing economic interest in Nissin Kogyo (as at 31 March 2019, Honda owned 34.86% of the voting rights in Nissin Kogyo) and HIAMS' minimal activities in the supply of brake master cylinders to third party customers other than Honda.<sup>366</sup>
- (331) The Notifying Parties consider that the Integrated Company will have no ability or incentives to engage in customer foreclosure strategies in view of the fact that (i) Honda's market share at the downstream level in the supply of motorcycles (approximately [30-40]%) is limited, (ii) Honda currently purchases [Percentage of Honda's demand for the relevant component met by the Parties]% of its total worldwide demand for this component from the Parties, (iii) any customer foreclosure strategy would risk Honda's security of supply of the relevant component parts, with no prospects of this resulting in increased prices at the upstream or downstream level.<sup>367</sup>

(B) The Commission's assessment

*(B.i) Input foreclosure*

- (332) Although some of the customers of motorcycle components responding to the Commission's market investigation expressed concerns about the possibility to source brake master cylinders from other companies than the Targets, others considered that they would have alternative suppliers.<sup>368</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in input foreclosure strategies, for the reasons stated below.

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<sup>364</sup> Form CO, paragraph 1.486.

<sup>365</sup> Reply to question 2 of RFI 14.

<sup>366</sup> Reply to question 2 of RFI 14.

<sup>367</sup> Reply to question 4 RFI 15.

<sup>368</sup> Reply to question 12 of questionnaire to customers.

(B.i.a) No ability to foreclose access to inputs

- (333) First, although the Targets' market share in the worldwide market for brake master cylinders is [50-60]%, a number of large international suppliers compete in this market, namely Brembo (with a market share of [10-20]%), Akebono (with a market share of [5-10]%), Hubei (with [5-10]%), Hengtong ([5-10]%) and Endurance ([5-10]%). The transaction results in a limited increment ([5-10]%) of the Targets' combined market share at the upstream level.
- (334) Second, the majority of the respondents to the Commission's market investigation confirmed that the same companies usually produce brake master cylinders for both motorcycles and for passenger cars.<sup>369</sup> In view of considerations of supply-side substitutability, should the market comprise the manufacture of brake master cylinders for use in motorcycles and in passenger cars, the Integrated Company's market share post transaction would be below 20% at worldwide and EEA level (estimated [10-20]% on a worldwide basis, and [0-5]% on an EEA wide basis).<sup>370</sup>
- (335) Third, input foreclosure may raise competition problems only if it concerns an important input for the downstream product (for example, when the input concerned represents a significant cost factor relative to the price of the downstream product). This is not the case for brake master cylinders, which represent [Percentage of the cost of a motorcycle comprised of the relevant component]% of the total cost of manufacturing a motorcycle.<sup>371</sup>
- (336) Fourth, Honda accounted for [Percentage of HIAMS' sales of the relevant component accounted for by Honda]% of HIAMS' total sales<sup>372</sup> and [Percentage of Nissin Kogyo's sales of the relevant component accounted for by Honda]% of the sales of Nissin Kogyo's brake master cylinders for motorcycles. Therefore, prior to the transaction other OEM customers were able to source brake master cylinders from a range of other suppliers, and will be able to continue to do so after the transaction. Although some of the customers of motorcycle components responding to the Commission's market investigation expressed concerns about the possibility to source brake master cylinders from other companies than the Targets,<sup>373</sup> the manufacturers of motorcycle components responding to the market investigation confirmed that they have spare capacity to increase production, should the combined entity engage in input foreclosure.<sup>374</sup> Indeed, competitors in this market are large international suppliers (including Brembo, Akebono, Hubei, Hengtong and Endurance) and the Parties consider that [Parties' views of large international suppliers].<sup>375</sup>
- (337) Fifth, the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed

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<sup>369</sup> Reply to question 3 of questionnaire to competitors and reply to question 3 of questionnaire to customers.

<sup>370</sup> Reply to question 3 of RFI 7.

<sup>371</sup> Reply to question 1 of RFI 11.

<sup>372</sup> Reply to question 1 of RFI 8.

<sup>373</sup> Reply to question 12 of questionnaire to customers.

<sup>374</sup> Reply to question 13 of questionnaire to Competitors. The response rate to this question was low, but those who did confirmed that they could increase capacity.

<sup>375</sup> Reply to question 2 of RFI 14.

price. As such, third party customers of HIAMS and Nissin Kogyo are also contractually protected from input foreclosure for the lifespan of the model of motorcycle that the brake master cylinders are being supplied for.<sup>376</sup>

- (338) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to brake master cylinders for use in motorcycles.

(B.i.b) No incentives to foreclose access to inputs

- (339) Customers are contractually protected from input foreclosure for the lifespan of the motorcycle model that the part relates to. Furthermore, brake master cylinders are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>377</sup> of the total cost of the motorcycle. Therefore, an increase in the price of brake master cylinders upstream would have no material impact on the downstream prices of motorcycles, rendering pointless any kind of foreclosure strategy attempted. Furthermore, because the market for motorcycle components is characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.

- (340) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to brake master cylinders for use in motorcycles.

(B.i.c) Overall likely impact on effective competition

- (341) Given that (i) there is a number of competitors in the upstream market which can supply brake master cylinders for use in motorcycles, in particular in view of considerations of supply-side substitutability between the supply of brake master cylinders for use in motorcycles and in passenger cars, (ii) Honda accounts for [Percentage of Nissin's sales of the relevant component accounted for by Honda]% of Nissin's total sales of brake master cylinders for use in motorcycles worldwide and [Percentage of HIAMS' sales of the relevant component accounted for by Honda]% of HIAMS', (iii) the results of the market investigation show that there is spare capacity in the market for the manufacture of brake master cylinders for use in motorcycles, (iv) brake master cylinders are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability nor the incentives to foreclose access to brake master cylinders for use in small motorcycles.

(B.ii) *Customer foreclosure*

- (342) The manufacturers of motorcycle components responding to the Commission's market investigation expressed that they would have sufficient alternative customers to supply if Honda were to source all brake master cylinders for motorcycles from

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<sup>376</sup> Reply to question 2 of RFI 14.

<sup>377</sup> Reply to question 1 of RFI 11.

the Integrated Company.<sup>378</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in customer foreclosure strategies, for the reasons stated below.

(B.ii.a) No ability to foreclose access to customers

- (343) First, Honda's market share for the manufacture of motorcycles in the EEA is of [10-20]%, followed by Piaggio ([10-20]%), Yamaha ([10-20]%) and BMW ([5-10]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%). The transaction will not result in any increment of the Notifying Parties' and the Targets' market share for the sale of motorcycles, where only Honda is active.
- (344) Second, Honda purchased [Share of Honda's demand for the relevant component met by the Targets]% of its needs for brake master cylinders for motorcycles from the Targets. Therefore, prior to the transaction, the competitors in the upstream market supplied to the remaining OEM manufacturers and will be able to continue to do so after the transaction, making customer foreclosure unlikely as a consequence of the transaction. The results of the Commission market investigation showed that manufacturers of motorcycle components would have sufficient alternative customers to supply if Honda were to source all brake master cylinders for motorcycles from the Integrated Company.<sup>379</sup>
- (345) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to customers for the sale of brake master cylinders for use in motorcycles.

(B.ii.b) No incentives to foreclose access to customers

- (346) Brake master cylinders are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>380</sup> of the total cost of the motorcycle. Furthermore, Honda already purchases [Share of Honda's demand for the relevant component met by the Targets]% of its needs for brake master cylinders from the Targets.
- (347) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to customers for the sale of brake master cylinders for use in motorcycles.

(B.ii.c) Overall likely impact on effective competition

- (348) Given that (i) there is a number of players in the downstream market to which to supply brake master cylinders for motorcycles, (ii) Honda purchases [Share of Honda's demand for the relevant component met by the Targets]% of its needs for

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<sup>378</sup> Reply to question 16 of questionnaire to competitors. The response rate to this question was low, but those who did confirmed that they would have alternative customers.

<sup>379</sup> Reply to question 16 of questionnaire for competitors. The response rate to this question was low, but those who did confirmed that they could increase capacity.

<sup>380</sup> Reply to question 1 of RFI 11.

brake master cylinders for motorcycles from the Targets, (iii) the results of the market investigation show that the majority of competitors would have sufficient alternative customers to supply if Honda were to source all brake master cylinders for motorcycles from the Integrated Company, (iv) brake master cylinders are just one component among the many parts comprising a motorcycle and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to foreclose customer access for the sale of brake master cylinders for use in motorcycles.

*(B.iii) Conclusion on input and customer foreclosure*

(349) Based on the considerations above, the Commission considers that the transaction does not raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the market for the manufacture and sale of brake master cylinders for use in motorcycles and the market for the manufacture and sale of motorcycles.

*4.5.9. Floating calipers and brake pads (assembled) (upstream) for motorcycles (downstream)*

(350) Nissin Kogyo supplies floating calipers and brake pads (as an assembled product) for use in motorcycles to Honda at both an EEA and worldwide level. Nissin Kogyo's market share for the supply of floating calipers and brake pads (as an assembled product) for use in motorcycles at an EEA level is [30-40]% and at a worldwide level is [40-50]%. [Details of HIAMS' volume of supply of the relevant component], HIAMS' market share at a worldwide level is [5-10]%, giving rise to a combined market share of <[50-60]% worldwide. The market is therefore vertically affected at both the EEA (market share of [30-40]%) and worldwide level (combined market share of <[50-60]%).<sup>381</sup>

**Table 28: Supply of floating calipers and brake pads (as an assembled product) for use in motorcycles, EEA (2019)**

Entity	Revenues (EUR, m)	Share (%)
<b>Nissin Kogyo</b>	[...]	[30-40]
Brembo	-	[20-30]
Hengtong	-	[10-20]
ADVICS	-	[5-10]
Akebono	-	[0-5]
Others	-	[10-20]
<b>Total Market (volume)</b>	[...] units	

*Source: Form CO*

<sup>381</sup> Form CO, paragraph 1.435(f).

**Table 29: Supply of floating calipers and brake pads (as an assembled product) for use in motorcycles, worldwide (2019)<sup>382</sup>**

Entity	Revenues (EUR, m)	Share (%)
<b>HIAMS</b>	< [...]	<[5-10]
<b>Nissin Kogyo</b>	[...]	[40-50]
<b>The Integrated Company</b>	< [...]	<[50-60]
Brembo	-	[10-20]
Akebono	-	[10-20]
Hubei	-	[5-10]
Hengtong	-	[5-10]
Endurance	-	[5-10]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

- (351) Downstream, Honda's market share for the manufacture and sale of motorcycles in the EEA is of [10-20]%, followed by Yamaha ([10-20]%), Kawasaki ([5-10]%), Piaggio ([5-10]%), Kymco ([5-10]%) and BMW ([0-5]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%).

**Table 30: Supply of motorcycles in the EEA (2019)**

Entity	Revenues (EUR, m)	Share (%)
<b>Honda</b>	[...]	[10-20]
Piaggio	-	[5-10]
Yamaha	-	[10-20]
Kawasaki	-	[5-10]
Kymco	-	[5-10]
BMW	-	[0-5]
<b>Total Market (volume)</b>	[...] motorcycles	

Source: Form CO and reply to question 1 of RFI 13

**Table 31: Supply of motorcycles worldwide (2019)**

Entity	Revenues (EUR, m)	Share (%)
<b>Honda</b>	[...]	[30-40]
Hero	-	[10-20]
Yamaha	-	[5-10]
Bajaj	-	[5-10]
Suzuki	-	[0-5]
Kawasaki	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

<sup>382</sup> The Notifying Parties confirm that there were no significant changes to these figures in 2018 and 2017 (Form CO, paragraph 1.490).

(A) The Notifying Parties' view

- (352) The Notifying Parties submit that the Integrated Company will have no ability to engage in input foreclosure in view of the fact that (i) this component does not represent a significant cost factor relative to the price of motorcycles (ii) the majority of the Targets' sales of this component are to Honda (iii) manufacturers of motorcycles will continue to be able to source this component from a range of large international suppliers post-transaction (iv) the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed price.<sup>383</sup>
- (353) The Notifying Parties consider that the Integrated Company will have no incentives to engage in input foreclosure in view of the fact that (i) any attempted input foreclosure strategy would not be profitable, as it would simply result in the customer switching to one of the many alternative suppliers and lost revenues for the Integrated Company at the upstream level, with no increase in Honda's downstream revenues in the supply of motorcycles, (ii) the proposed transaction will not materially change the existing incentives of the Parties to engage in any input foreclosure strategy, in view of Honda's existing economic interest in Nissin Kogyo (as at 31 March 2019, Honda owned 34.86% of the voting rights in Nissin Kogyo) and HIAMS' limited activities in the supply of floating calipers and brake pads (assembled) to third party customers other than Honda.<sup>384</sup>
- (354) The Notifying Parties consider that the Integrated Company will have no ability or incentives to engage in customer foreclosure strategies in view of the fact that (i) Honda's market share at the downstream level in the supply of motorcycles (approximately [30-40]%) is limited, (ii) Honda currently purchases [Share of Honda's demand for the relevant component met by the Parties]% of its total worldwide demand for this component from the Parties, (iii) any customer foreclosure strategy would risk Honda's security of supply of the relevant component parts, with no prospects of this resulting in increased prices at the upstream or downstream level.<sup>385</sup>

(B) The Commission's assessment

*(B.i) Input foreclosure*

- (355) Although some of the customers of motorcycle components responding to the Commission's market investigation expressed concerns about the possibility to source floating calipers and brake pads (assembled) from other companies than the Targets, others considered that they would have alternative suppliers.<sup>386</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in input foreclosure strategies, for the reasons stated below.

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<sup>383</sup> Reply to question 2 of RFI 14.

<sup>384</sup> Reply to question 2 of RFI 14.

<sup>385</sup> Reply to question 4 RFI 15.

<sup>386</sup> Reply to question 12 of questionnaire to customers.

(B.i.a) No ability to foreclose access to inputs

- (356) First, Nissin Kogyo's market share in the EEA market for floating calipers and brake pads (assembled) for use in motorcycles is [30-40]%, followed by a number of strong competitors: Brembo with [20-30]% market share, Hengtong ([10-20]%), ADVICS ([5-10]%), and Akebono ([0-5]%). The transaction will not result in any increment of the Notifying Parties' and the Targets' market share of this component in the EEA. Worldwide, the Integrated Company's combined market share in the market for floating calipers and brake pads (assembled) for use in motorcycles is higher ([50-60]%), but it is followed by a number of large international competitors: Brembo with [10-20]% market share, Akebono ([10-20]%), Hubei ([5-10]%), Hengtong ([5-10]%) and Endurance ([5-10]%).
- (357) Second, input foreclosure may raise competition problems only if it concerns an important input for the downstream product (for example, when the input concerned represents a significant cost factor relative to the price of the downstream product). This is not the case for floating caliper and brake pads (assembled), which represent [Percentage of the cost of a motorcycle comprised of the relevant component]% of the total cost of manufacturing a motorcycle.<sup>387</sup>
- (358) Third, although post transaction the Integrated Company's market share is of [50-60]% in the manufacture and sale of floating caliper and brake pads (assembled) for use in motorcycles worldwide, the majority of the respondents to the Commission's market investigation confirmed that the same companies usually produce floating calipers and brake pads (assembled) for both motorcycles and for passenger cars.<sup>388</sup> In view of considerations of supply-side substitutability, should the market comprise the manufacture of floating calipers and brake pads (assembled) for use in motorcycles and in passenger cars, the Integrated Company's market share post transaction would be below 20% at worldwide and EEA level.<sup>389</sup>
- (359) Fourth, Honda accounted for [Percentage of Nissin Kogyo's sales of the relevant component accounted for by Honda]% of the sales of Nissin Kogyo's floating calipers and brake pads (assembled) for use in motorcycles and [Percentage of HIAMS' sales of the relevant component accounted for by Honda]% of HIAMS' total sales for this product, worldwide.<sup>390</sup> Therefore, prior to the transaction other OEM customers were able to source floating calipers and brake pads (assembled) for use in motorcycles from a range of other suppliers, and will be able to continue to do so after the transaction. Although some of the customers of motorcycle components responding to the Commission's market investigation expressed concerns about the possibility to source from other companies than the Targets, others said that they could find alternative suppliers.<sup>391</sup> Furthermore, all manufacturers of motorcycle components responding to the Commission's market investigation confirmed that

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<sup>387</sup> Reply to question 1 of RFI 11.

<sup>388</sup> Reply to question 3 of questionnaire for competitors and reply to question 3 of questionnaire for customers.

<sup>389</sup> Reply to question 4 of RFI 7.

<sup>390</sup> Reply to question 2 of RFI 14.

<sup>391</sup> Reply to question 12 of questionnaire for customers.



they have spare capacity to increase production,<sup>392</sup> making input foreclosure unlikely as a consequence of the transaction.

- (360) Fifth, the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed price. As such, third party customers of HIAMS and Nissin Kogyo are also contractually protected from input foreclosure for the lifespan of the model of motorcycle that the floating calipers and brake pads (assembled) are being supplied for.<sup>393</sup>
- (361) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to floating calipers and brake pads (assembled) for use in motorcycles.

(B.i.b) No incentives to foreclose access to inputs

- (362) Customers are contractually protected from input foreclosure for the lifespan of the motorcycle model that the part relates to. Furthermore, floating calipers and brake pads (assembled) are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of relevant component]%)<sup>394</sup> of the total cost of the motorcycle. Therefore, an increase in the price of floating calipers and brake pads (assembled) upstream would have no material impact on the downstream prices of motorcycles, rendering pointless any kind of foreclosure strategy attempted. Furthermore, because the market for motorcycle components is characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.
- (363) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to floating calipers and brake pads (assembled) for use in motorcycles.

(B.i.c) Overall likely impact on effective competition

- (364) Given that (i) there is a number of competitors in the upstream market, in particular in view of considerations of supply-side substitutability between floating calipers and brake pads (assembled) for use in motorcycles and in passenger cars, (ii) Honda accounts for [Percentage of Nissin's sales of the relevant component accounted for by Honda]% of total sales of Nissin's floating calipers and brake pads (assembled) for use in motorcycles worldwide and [Percentage of HIAMS' sales of the relevant component accounted for by Honda]% of HIAMS', (iii) the results of the market investigation show that there is spare capacity in the market for the manufacture of floating calipers and brake pads (assembled) for use in motorcycles, (iv) floating calipers and brake pads (assembled) are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would

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<sup>392</sup> Reply to question 13 of questionnaire for competitors.

<sup>393</sup> Reply to question 2 of RFI 14.

<sup>394</sup> Reply to question 1 of RFI 11.

not have the ability or the incentives to foreclose access to floating calipers and brake pads (assembled) for use in motorcycles.

*(B.ii) Customer foreclosure*

(365) The manufacturers of motorcycle components responding to the Commission's market investigation stated that they would have sufficient alternative customers to supply if Honda were to source all floating calipers and brake pads (assembled) for use in motorcycles from the Integrated Company.<sup>395</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in customer foreclosure strategies related to floating calipers and brake pads (assembled) for use in motorcycles, for the reasons stated below.

*(B.ii.a) No ability to foreclose access to customers*

(366) First, Honda's market share for the manufacture of motorcycles in the EEA is of [10-20]%, followed by Piaggio ([10-20]%), Yamaha ([10-20]%) and BMW ([5-10]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%). The transaction will not result in any increment of the Notifying Parties' and the Targets' market share for the sale of motorcycles, where only Honda is active.

(367) Second, Honda purchased [Share of Honda's demand for the relevant component met by the Targets]% of its needs for floating calipers and brake pads (assembled) for use in motorcycles from the Targets. Therefore, prior to the transaction, the competitors in the upstream market supplied to the remaining OEM manufacturers and will be able to continue to do so after the transaction. Indeed, the results of the Commission market investigation showed that the majority of manufacturers of motorcycle components responding would have sufficient alternative customers to supply if Honda were to source all floating calipers and brake pads (assembled) for use in motorcycles from the Integrated Company,<sup>396</sup> making customer foreclosure unlikely as a consequence of the transaction.

(368) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to customers for the sale of floating calipers and brake pads (assembled) for use in motorcycles.

*(B.ii.b) No incentives to foreclose access to customers*

(369) Floating calipers and brake pads (assembled) are just one component among the many parts comprising a motorcycle, and account for a very small portion (Percentage of the cost of a motorcycle comprised of the relevant component)%<sup>397</sup> of the total cost of the motorcycle. Furthermore, prior to the transaction Honda purchased [Share of Honda's demand for the relevant component met by the Targets]% of its needs for floating calipers and brake pads (assembled) for use in

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<sup>395</sup> Reply to question 16 of questionnaire to competitors. The response rate to this question was low, but those who replied confirmed that they would have alternative customers.

<sup>396</sup> Reply to question 16 of the questionnaire for competitors.

<sup>397</sup> Reply to question 1 of RFI 11.

motorcycles from the Targets. Therefore, the incentives to engage in customer foreclosure as a consequence of the proposed transaction are low.

(B.ii.c) Overall likely impact on effective competition

(370) Given that (i) there is a significant number of players in the downstream market to which to supply floating calipers and brake pads (assembled), (ii) Honda purchased [Share of Honda's demand for the relevant component met by the Targets]% of its needs for floating calipers and brake pads (assembled) for use in motorcycles from the Targets, (iii) the results of the market investigation show that the majority of competitors would have sufficient alternative customers to supply if Honda were to source all floating calipers and brake pads (assembled) for use in motorcycles from the Integrated Company, (iv) floating calipers and brake pads (assembled) for use in motorcycles are just one component among the many parts comprising a motorcycle and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to foreclose customer access for the sale of floating calipers and brake pads (assembled) for use in motorcycles.

(B.iii) Conclusion on input and customer foreclosure

(371) Based on the considerations above, the Commission considers that the transaction does not raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the market for the manufacture and sale of floating calipers and brake pads (assembled) for use in motorcycles and the market for the manufacture and sale of motorcycles.

4.5.10. Shock absorbers (upstream) for motorcycles (downstream)

(372) Showa supplies shock absorbers for use in motorcycles to Honda at both an EEA and worldwide level. Its market share at an EEA level falls below 30% ([20-30]%). However, Showa's worldwide market share for the supply of shock absorbers for use in motorcycles is [50-60]%.<sup>398</sup>

**Table 32: Supply of shock absorbers for use in motorcycles worldwide (2018)<sup>399</sup>**

Entity	Revenues (EUR, m)	Share (%)
Showa	[...]	[50-60]
Endurance Technologies Limited	-	[10-20]
KYB	-	[10-20]
Gabriel India Limited	-	[10-20]
WP Suspension	-	[0-5]
OHLINS	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

Source: Form CO

<sup>398</sup> Form CO, paragraph 1.435(a).

<sup>399</sup> The Notifying Parties confirm that the above 2018 market shares for the worldwide supply of shock absorbers for use in motorcycles are the most recent iteration available to them. Nevertheless, the Notifying Parties confirm that figures for 2019 would not significantly differ from those of 2018 (reply to question 5 of RFI 14).

- (373) Downstream, Honda’s market share for the manufacture and sale of motorcycles in the EEA is of [10-20]%, followed by Yamaha ([10-20]%), Kawasaki ([5-10]%), Piaggio ([5-10]%), Kymco ([5-10]%) and BMW ([0-5]%). Worldwide, Honda’s market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5] %).

**Table 33: Supply of motorcycles in the EEA (2019)**

Entity	Revenues (EUR, m)	Share (%)
Honda	[...]	[10-20]
Piaggio	-	[5-10]
Yamaha	-	[10-20]
Kawasaki	-	[5-10]
Kymco	-	[5-10]
BMW	-	[0-5]
<b>Total Market (volume)</b>	[...] motorcycles	

*Source: Form CO and reply to question 1 of RFI 13*

**Table 34: Supply of motorcycles worldwide (2019)**

Entity	Revenues (EUR, m)	Share (%)
Honda	[...]	[30-40]
Hero	-	[10-20]
Yamaha	-	[5-10]
Bajaj	-	[5-10]
Suzuki	-	[0-5]
Kawasaki	-	[0-5]
<b>Total Market (volume)</b>	[...] units	

*Source: Form CO*

(A) The Notifying Parties’ view

- (374) The Notifying Parties confirm that the transaction will not result in any increment in the supply of these products at the upstream level (as the Notifying Parties’ and the Targets’ activities do not overlap horizontally in the supply of this component part).<sup>400</sup>
- (375) The Notifying Parties submit that the Integrated Company will have no ability to engage in input foreclosure in view of the fact that (i) this component does not represent a significant cost factor relative to the price of motorcycles (ii) the majority of the Targets’ sales of this component are to Honda (iii) manufacturers of motorcycles will continue to be able to source this component from a range of large international suppliers post-transaction [Parties’ views of large international suppliers] (iv) the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during

<sup>400</sup> Form CO, paragraph 1.459.

which period suppliers are committed to supply minimum volumes of components at an agreed price.<sup>401</sup>

- (376) The Notifying Parties submit that the Integrated Company will have no incentives to engage in input foreclosure in view of the fact that (i) any attempted input foreclosure strategy would not be profitable, as it would simply result in the customer switching to one of the many alternative suppliers and lost revenues for the Integrated Company at the upstream level, with no increase in Honda's downstream revenues in the supply of motorcycles, (ii) the proposed transaction will not materially change the existing incentives of the Parties to engage in any input foreclosure strategy, in view of Honda's existing economic interest in Showa (as at 31 March 2019, Honda owned 33.5% of the voting rights in Showa) and Showa's minimal activities in the supply of shock absorber to third party customers other than Honda.<sup>402</sup>
- (377) The Notifying Parties consider that the Integrated Company will have no ability or incentives to engage in customer foreclosure strategies in view of the fact that (i) Honda's market share at the downstream level in the supply of motorcycles (approximately [30-40]%) is limited, (ii) Honda currently purchases [Share of Honda's demand for the relevant component met by the Targets]% of its total worldwide demand for this component from the Targets, (iii) any customer foreclosure strategy would risk Honda's security of supply of the relevant component parts, with no prospects of this resulting in increased prices at the upstream or downstream level.<sup>403</sup>

(B) The Commission's assessment

*(B.i) Input foreclosure*

- (378) The majority of customers of motorcycle components responding to the Commission's market investigation stated that they would be able to source shock absorbers from other companies than the Targets.<sup>404</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in input foreclosure strategies, for the reasons stated below.

(B.i.a) No ability to foreclose access to inputs

- (379) First, input foreclosure may raise competition problems only if it concerns an important input for the downstream product (for example, when the input concerned represents a significant cost factor relative to the price of the downstream product). This is not the case for shock absorbers, which represent only [Percentage of the cost of a motorcycle comprised of the relevant component]% of the total cost of manufacturing a motorcycle.<sup>405</sup>
- (380) Second, in spite of Showa's relatively high market share ([50-60]%), a number of competitors remain in the market for shock absorbers for use in motorcycles,

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<sup>401</sup> Reply to question 2 of RFI 14.

<sup>402</sup> Reply to question 2 of RFI 14.

<sup>403</sup> Reply to question 4 RFI 15.

<sup>404</sup> Reply to question 12 of questionnaire to customers.

<sup>405</sup> Reply to question 1 of RFI 11.

including Endurance Technologies Limited ([10-20]%), KYB ([10-20]%), Gabriel India Limited ([10-20]%), WP Suspension and Ohlins (both [0-5]%). Furthermore, even if against the Notifying Parties' views, the majority of the respondents to the Commission's market investigation confirmed that the same companies usually produce shock absorbers for both motorcycles and for passenger cars.<sup>406</sup> In view of considerations of supply-side substitutability, should the market comprise the manufacture of shock absorbers for use in motorcycles and in passenger cars, the Integrated Company's market share post transaction would be [30-40]% (Showa's market share being of [20-30]% and HIAMS' [5-10]%).<sup>407</sup>

(381) Third, Honda accounted for [Share of the Targets' sales of the relevant component made to Honda]% of the sales of the Targets' shock absorbers for use in motorcycles. Therefore, prior to the transaction other OEM customers were able to source shock absorbers for use in motorcycles from a range of other suppliers. Furthermore, the Commission's market investigation confirmed that all manufacturers of motorcycle components responding have spare capacity to increase production of shock absorbers for use in motorcycles,<sup>408</sup> and that a majority of customers of motorcycle components responding would be able to source shock absorbers for use in motorcycles from other companies than the Targets,<sup>409</sup> making input foreclosure unlikely as a consequence of the transaction. The Notifying Parties consider that suppliers in this market (including Endurance Technologies Limited, KYB, Gabriel India Limited and WP Suspension OHLINS) are [Notifying Parties' view of suppliers of shock absorbers].<sup>410</sup>

(382) Fifth, the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed price. As such, third party customers of Showa are also contractually protected from input foreclosure for the lifespan of the model of motorcycle that the shock absorbers are being supplied for.<sup>411</sup>

(383) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to shock absorbers for use in motorcycles.

(B.i.b) No incentives to foreclose access to inputs

(384) Customers are contractually protected from input foreclosure for the lifespan of the motorcycle model that the part relates to. Furthermore, shock absorbers are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>412</sup> of the total cost of the motorcycle. Therefore, an increase in the price of shock absorbers upstream would have no material impact on the downstream prices of motorcycles, rendering pointless any kind of foreclosure strategy attempted. Furthermore, because the market for motorcycle components is

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<sup>406</sup> Reply to question 3 of questionnaire to competitors and reply to question 3 of questionnaire to customers.

<sup>407</sup> Reply to question 4 of RFI 7, reply to question 1 of RFI 15.

<sup>408</sup> Reply to question 13 of questionnaire to competitors.

<sup>409</sup> Reply to question 12 of questionnaire to customers.

<sup>410</sup> Reply to question 2 of RFI 14.

<sup>411</sup> Reply to question 2 of RFI 4.

<sup>412</sup> Reply to question 1 of RFI 11.

characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.

- (385) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to foreclose access to shock absorbers for use in motorcycles.

(B.i.c) Overall likely impact on effective competition

- (386) Given that (i) there is a number of competitors in the upstream market which can supply shock absorbers, also under considerations of supply-side substitutability between shock absorbers for use in motorcycles and in passenger cars, (ii) Honda accounts for [Share of Showa's sales of the relevant component accounted for by Honda]% of total sales of Showa's shock absorbers for use in motorcycles worldwide, (iii) the results of the market investigation show that there is spare capacity in the market for the manufacture of shock absorbers for use in motorcycles, (iv) shock absorbers are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability nor the incentives to foreclose access to shock absorbers for use in motorcycles.

(B.ii) Customer foreclosure

- (387) Manufacturers of motorcycle components responding to the Commission's market investigation expressed that they would have sufficient alternative customers to supply if Honda were to source all shock absorbers for motorcycles from the Integrated Company.<sup>413</sup> The Commission considers that the Integrated Company will not have the ability or the incentives to engage in customer foreclosure strategies for the reasons stated below.

(B.ii.a) No ability to foreclose access to customers

- (388) First, Honda's market share for the manufacture of motorcycles in the EEA is of [10-20]%, followed by Piaggio ([10-20]%), Yamaha ([10-20]%) and BMW ([5-10]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%). The transaction will not result in any increment of the Notifying Parties' and the Targets' market share for the sale of motorcycles, where only Honda is active.
- (389) Second, Honda purchased [Share of Honda's demand for the relevant component met by the Targets]% of its needs for shock absorbers for use in motorcycles from the Targets. Therefore, prior to the transaction, the competitors in the upstream market supplied to the remaining OEM manufacturers. Indeed, the majority of the manufacturers of motorcycle components that responded to the market investigation indicated that post-transaction, sufficient alternative customers would remain to supply if Honda were to source all shock absorbers for use in motorcycles from the

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<sup>413</sup> Reply to question 16 of questionnaire to competitors.

Integrated Company,<sup>414</sup> making customer foreclosure unlikely as a consequence of the transaction.

- (390) In view of the above, the Commission considers that the Integrated Company will likely have no ability to foreclose access to customers for the sale of shock absorbers for use in motorcycles.

(B.ii.b) No incentives to foreclose access to customers

- (391) Shock absorbers are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%)<sup>415</sup> of the total cost of the motorcycle. Furthermore, Honda already purchases [Share of Honda's demand for the relevant component met by the Targets]% of its needs for shock absorbers for use in small motorcycles from the Targets and any customer foreclosure strategy would only affect the remaining [Share of Honda's demand for the relevant component met by the Targets]% with no prospects of resulting in increased prices at the upstream or downstream level. Therefore, the incentives to engage in customer foreclosure are low.

(B.ii.c) Overall likely impact on effective competition

- (392) Given that (i) there is a significant number of players in the downstream market to which to supply shock absorbers for use in motorcycles, (ii) Honda purchased [Percentage of Honda's demand for the relevant component met by the Targets]% of its needs for shock absorbers for motorcycles from the Targets, (iii) the results of the market investigation show that the majority of competitors would have sufficient alternative customers to supply if Honda were to source all shock absorbers for motorcycles from the Integrated Company, (iv) shock absorbers are just one component among the many parts comprising a motorcycle and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to foreclose customer access for the sale of shock absorbers for use in motorcycles.

(B.iii) *Conclusion on input and customer foreclosure*

- (393) Based on the considerations above, the Commission considers that the transaction does not raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the market for the manufacture and sale of shock absorbers for use in motorcycles and the market for the manufacture and sale of motorcycles.

#### *4.5.11. Vertically affected markets resulting from Honda's presence in the downstream market for motorcycles*

- (394) Vertically affected markets also arise for 11 further components for use in motorcycles: electronic throttle bodies, ABS, brake pads (as a non-assembled component), panel brakes, handle lever brackets, CBS, fixed calipers and brake pads

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<sup>414</sup> Reply to question 16 of questionnaire for competitors.

<sup>415</sup> Reply to question 1 of RFI 11.



(assembled), fixed calipers (as a non-assembled component), floating calipers (non-assembled), speed meter gears, and drivetrain systems (shaft drive) (see Table 4). For these components, an affected market results only as a consequence of Honda holding a market share above 30% in the worldwide market for the supply of motorcycles. On this downstream market, Honda's market share in the EEA is low ([10-20]% for motorcycles). The transaction only leads to vertically affected markets at a worldwide level, where Honda's market share in the downstream market for motorcycles is [Details of Honda's market share] above 30% with [30-40]%.

**Table 35: Sale and purchase relationship between Honda and the Target companies for vertically affected markets where the Integrated Company's market share upstream is below 30%**

	World-wide combined market share upstream	What proportion of Honda's purchases are sourced from the Targets worldwide	What proportion of the Targets' sales are accounted for by Honda worldwide
Electronic throttle bodies for motorcycles	[0-5]%	[...]%	[...]%
ABS for motorcycles	[20-30]%	[...]%	[...]%
Brake pads (as a non-assembled component) for motorcycles	<5%	[...]%	[...]%
Panel brakes for motorcycles	<15-20%	[...]%	[...]%
Handle lever brackets for motorcycles	<5%	[...]%	[...]%
CBS for motorcycles	[10-20]%	[...]%	[...]%
Fixed calipers and brake pads (assembled) for motorcycles	[20-30]%	[...]%	[...]%
Fixed calipers (as a non-assembled component) for motorcycles	[20-30]%	[...]%	[...]%
Floating calipers (non-assembled) for motorcycles	<20%	[...]%	[...]%
Drivetrain systems (shaft drive) for motorcycles	[20-30]%	[...]%	[...]%
Speed meter gears for motorcycles	<30%	[...]%	<[...]%

*Source: Reply to question 1 of RFI 2 and Reply to question 5 of RFI 7*

(A) The Notifying Parties' view

- (395) The Notifying Parties submit that no input foreclosure issues arise with regard to any of these vertically affected markets because the Parties' upstream share in relation to each of these products is below 30%. As such, the Integrated Company would

clearly have no ability to engage in input foreclosure because of the range of alternative supply options available to customers.<sup>416</sup>

(396) Notifying Parties submit that Honda's market share at the downstream level in the supply of motorcycles and small motorcycles is only approximately [30-40]%, and the Integrated Company would therefore have no ability to engage in a customer foreclosure strategy, as rivals will continue to be able to sell to a large number of motorcycle manufacturers, including Yamaha, Kawasaki, Hero, Bajaj, Suzuki, BMW, Piaggio, and Kymco. Moreover, the Notifying Parties submit that Honda's downstream market share significantly overstates its importance as a customer to third party suppliers of these products, in view of the proportion of Honda's total purchases that are from the Targets (see the table provided in paragraph (394) above). According to the Notifying Parties, any input foreclosure strategy would risk Honda's security of supply of the relevant component parts, with no prospects of this resulting in increased prices at the upstream or downstream level and, as such, the Integrated Company would have no incentive to engage in such a strategy.<sup>417</sup>

(B) The Commission's assessment

(B.i) *Input foreclosure*

(B.i.a) No ability to foreclose

(397) First, on all upstream markets, the Parties' worldwide market shares are below 30% and in most cases far below. Therefore, any input foreclosure strategy is unlikely to succeed as the Parties only account for a very small proportion of the overall supply of the products in question.

(398) Second, input foreclosure may raise competition problems only if it concerns an important input for the downstream product (for example, when the input concerned represents a significant cost factor relative to the price of the downstream product). This is not the case for any of the motorcycle components where the Integrated Company's market share is below 30%. Each of them accounts for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]%) in all cases except drivetrain systems, which account for [Percentage of the cost of a motorcycle comprised of the cost of drivetrain systems]%) of the total cost of manufacturing a motorcycle.<sup>418</sup>

(399) Third, in the case of ABS for motorcycles, handle lever brackets for motorcycles, CBS for motorcycles, and drivetrain systems (shaft drive) for motorcycles, sales to Honda represent [Threshold share above which sales are made to Honda]% of total sales of the Targets for each component. In the case of brake pads (as a non-assembled component) for motorcycles, panel brakes for motorcycles, fixed calipers and brake pads (assembled) for motorcycles, fixed calipers (as a non-assembled component) for motorcycles, and floating calipers (non-assembled) for motorcycles sales to Honda represent [Range between which the Targets' share of total sales of each component is made to Honda]% of total sales of the Targets for each component. Therefore, prior to the transaction other OEM customers were able to

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<sup>416</sup> Reply to question 4 of RFI 15.

<sup>417</sup> Reply to question 4 of RFI 15.

<sup>418</sup> Reply to question 1 of RFI 11.

source these components from a range of other suppliers, and will be able to continue to do so after the transaction. Only in the case of electronic throttle bodies for motorcycles and speed meter gears for motorcycles sales to Honda represent less [Details of Targets' share of sales of each component made to Honda] of the total sales of the Targets. However, because of the low market share of the Integrated Company in this component market speed meter gears for motorcycles (in both cases below 30% worldwide), any input foreclosure strategy is unlikely to succeed.

- (400) Fourth, the average duration of contracts for the supply of motorcycle components is 3-4 years (linked to the lifespan of the model of motorcycle), during which period suppliers are committed to supply minimum volumes of components at an agreed price. As such, third party customers of the Targets are also contractually protected from input foreclosure for the lifespan of the model of motorcycle that the components are being supplied for.<sup>419</sup>
- (401) In view of the above, the Commission considers that the Integrated Company will likely have no ability to engage in input foreclosure strategies.

(B.i.b) No incentives to foreclose

- (402) Customers are contractually protected from input foreclosure for the lifespan of the motorcycle model that the part relates to. Furthermore, electronic throttle bodies, ABS, brake pads (as a non-assembled component), panel brakes, handle lever brackets, CBS, fixed calipers and brake pads (assembled), fixed calipers (as a non-assembled component), floating calipers (non-assembled), speed meter gears and drivetrain systems (shaft drive), are just a few components among the many parts comprising a motorcycle, and each of them accounts for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]% in all cases except drivetrain systems, which account for [Percentage of the cost of a motorcycle comprised of the cost of drivetrain systems]%) of the total cost of the motorcycle. Therefore, an increase in the price of any of these components would have no material impact on the prices of motorcycles, rendering pointless any kind of foreclosure strategy attempted. Furthermore, because the market for motorcycle components is characterised by multi-market contacts, in case of foreclosure for one product, OEMs could retaliate by switching away from the Integrated Company for other products.

(B.i.c) Overall likely impact on effective competition

- (403) In view of the above, the Commission considers that the Integrated Company will likely have no incentives to engage in input foreclosure strategies.
- (404) Given (i) the limited market shares of the Integrated Company in the sale of electronic throttle bodies, ABS, brake pads (as a non-assembled component), panel brakes, handle lever brackets, CBS, fixed calipers and brake pads (assembled), fixed calipers (as a non- assembled component), floating calipers (non-assembled), speed meter gears and drivetrain systems (shaft drive), floating calipers (non-assembled) for motorcycles and speed meter gears for motorcycles (ii) that Honda accounts for a majority of total sales of the Targets' sales of each of those components (except for electronic throttle bodies and speed meter gears where the Targets' market share is

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<sup>419</sup> Reply to question 2 of RFI 4.

below 30%) (iii) that each of these components are just one component among the many parts comprising a motorcycle, and account for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]% except for drivetrain systems, which account for [Percentage of the cost of a motorcycle comprised of the cost of drivetrain systems]%) of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability nor the incentives to foreclose access to any of these components.

*(B.ii) Customer foreclosure*

*(B.ii.a) No ability to foreclose*

- (405) First, Honda's market share for the manufacture of motorcycles in the EEA is of [10-20]%, followed by Piaggio ([10-20]%), Yamaha ([10-20]%) and BMW ([5-10]%). Worldwide, Honda's market share for the manufacture of motorcycles is [30-40]%, followed by Hero ([10-20]%), Yamaha ([5-10]%), Bajaj ([5-10]%), Suzuki ([0-5]%) and Kawasaki ([0-5]%). In view of Honda's limited market share in the manufacture and sale of motorcycles and the presence of a number of important competitors, a customer foreclosure strategy is unlikely to succeed.
- (406) Second, Honda already accounts for most of the sales/purchase relationships with the Targets (see Table 9). Honda purchased [Share of Honda's demand for the relevant components met by the Targets]% of its needs for electronic throttle bodies, brake pads (as a non-assembled component), handle lever brackets, CBS, fixed calipers and brake pads (assembled), fixed calipers (as a non-assembled component) and drivetrain systems (shaft drive) for motorcycles, floating calipers (non-assembled) for motorcycles and speed meter gears for motorcycles from the Targets. In the case of ABS and panel brakes the percentage was of [Share of Honda's demand for the relevant components met by the Targets]%. Therefore, prior to the transaction, the competitors in the upstream market supplied to the remaining OEM manufacturers and will be able to continue to do so after the transaction. In view of the above, the Commission considers that the Integrated Company will likely have no ability to engage in customer foreclosure strategies.

*(B.ii.b) No incentives to foreclose access to customers*

- (407) Electronic throttle bodies, ABS, brake pads (as a non-assembled component), panel brakes, handle lever brackets, CBS, fixed calipers and brake pads (assembled), fixed calipers (as a non-assembled component), floating calipers (non-assembled), speed meter gears and drivetrain systems (shaft drive) are just one component among the many parts comprising a motorcycle. Each of them accounts for a very small portion ([Percentage of the cost of a motorcycle comprised of the relevant component]% in all cases except drivetrain systems, which account for [Percentage of the cost of a motorcycle comprised of the cost of drivetrain systems]%) of the total cost of the motorcycle. Therefore, the incentives to engage in customer foreclosure are low.

(B.ii.c) Overall likely impact on effective competition

- (408) Given that (i) there is a significant number of players in the downstream OEM market, (ii) Honda purchased most of its needs for these components from the Targets, (iii) these components are just one component among the many parts comprising a motorcycle and account for a very small portion of the total cost of the motorcycle, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to engage in customer foreclosure strategies.

(B.iii) *Conclusion on input and customer foreclosure*

- (409) Based on the considerations above, the Commission considers that the transaction does not raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the market for the manufacture and sale of electronic throttle bodies, ABS, brake pads (as a non-assembled component), panel brakes, handle lever brackets, CBS, fixed calipers and brake pads (assembled), fixed calipers (as a non-assembled component), floating calipers (non-assembled), speed meter gears and drivetrain systems (shaft drive) for use in motorcycles and the market for the manufacture and sale of motorcycles.

## **4.6. Conglomerate non-coordinated effects**

### *4.6.1. Analytical framework*

- (410) Pursuant to the Non-Horizontal Merger Guidelines, in most circumstances, conglomerate mergers do not lead to any competition problems.<sup>420</sup> However, foreclosure effects may arise in conglomerate mergers when the combination of products in related markets may confer on the Integrated Company the ability and incentive to leverage a strong market position from one market to another closely related market by means of tying or bundling or other exclusionary practices.<sup>421</sup>
- (411) The Non-Horizontal Merger Guidelines distinguish between bundling, which usually refers to the way products are offered and priced by the Integrated Company and tying, usually referring to situations where customers that purchase one good (the tying good) are required to also purchase another good from the producer (the tied good).<sup>422</sup>
- (412) Within bundling practices, a distinction is also made between pure bundling and mixed bundling.<sup>423</sup> In the case of pure bundling, the products are only sold jointly in fixed proportions. With mixed bundling, the products are also available separately, but the sum of the stand-alone prices is higher than the bundled price.<sup>424</sup> Tying can take place on a technical or contractual basis. For instance, technical tying occurs when the tying product is designed in such a way that it only works with the tied product (and not with the alternatives offered by competitors).<sup>425</sup>

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<sup>420</sup> Non-Horizontal Merger Guidelines, paragraph 92.

<sup>421</sup> Non-horizontal Merger Guidelines, paragraph 93.

<sup>422</sup> Non-horizontal Merger Guidelines, paragraph 95 et seq.

<sup>423</sup> Non-horizontal Merger Guidelines, paragraph 95.

<sup>424</sup> Non-horizontal Merger Guidelines, paragraph 96.

<sup>425</sup> Non-horizontal Merger Guidelines, paragraph 97.

(413) While tying and bundling have often no anticompetitive consequences, in certain circumstances such practices may lead to a reduction in actual or potential competitors' ability or incentive to compete. This may reduce the competitive pressure on the Integrated Company allowing it to increase prices or deteriorate supply conditions in other ways.<sup>426</sup>

(414) In assessing the likelihood of such a scenario of conglomerate effects, the Commission examines, first, whether the merged firm would have the ability to foreclose its rivals, second, whether it would have the economic incentive to do so and, third, whether a foreclosure strategy would have a significant detrimental effect on competition, thus causing harm to consumers. In practice, these factors are often examined together as they are closely intertwined.<sup>427</sup>

#### 4.6.2. *Leveraging the Parties' position in vehicle control technologies into in the areas of automated driving, brake-by-wire and electrical/electronic vehicle architecture*

(415) As part of the proposed transaction, the Parties intend to combine the vehicle control technologies of each of the Parties to expand the scope of (i) automated driving<sup>428</sup> (ii) brake-by-wire<sup>429</sup> and (iii) electrical/electronic vehicle architecture.<sup>430</sup> To date, this technology is in development and none of the Parties currently supplies brake-by-wire components, automated driving components or electrical/electronic vehicle architecture components.<sup>431</sup> *HIAMS* has not [...] any brake-by-wire components, automated driving components or electrical/electronic vehicle architecture components, and [Business plans of *HIAMS*].<sup>432</sup>

(416) *Nissin Kogyo* is [Business plans of *Nissin Kogyo*]. *Nissin Kogyo*'s existing products (e.g., hydraulic calipers) can be used for both automated and non-automated driving systems. *Nissin Kogyo*'s products can also be used for electric vehicles [Business plans of *Nissin Kogyo*].<sup>433</sup>

(417) *Showa* manufactures certain components which can be used for electrical vehicles; however it is not a major supplier of these components. *Showa* is [Business plans of *Showa*].<sup>434</sup>

(418) *Keihin* has not been able to take a leading position in the supply and development of either brake by wire components, automated driving components and systems or electrical/electronic vehicle architecture components. [Business plans of *Keihin*].<sup>435</sup>

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<sup>426</sup> Non-horizontal Merger Guidelines, paragraph 92-93.

<sup>427</sup> Non-horizontal Merger Guidelines, paragraph 94.

<sup>428</sup> The term "automated driving" will be used to describe products in the category of Advanced Driver Assistance Systems (ADAS). ADAS encompasses a broad range of features that enable a vehicle to "see," "sense" and "react" to the objects that surround it and will eventually evolve into fully autonomous driving systems.

<sup>429</sup> Braking systems with purely electrical/electronic generation, transmission and control of the braking force, without pneumatic or hydraulic back-up function.

<sup>430</sup> Vehicle architecture based on electronic/electric components used for automated driving and electric vehicles. Reply to question 3 of RFI 6.

<sup>431</sup> Reply to question 4 of RFI 20.

<sup>432</sup> Reply to question 3 of RFI 6. Reply to question 4 of RFI 20.

<sup>433</sup> Reply to question 4 of RFI 20.

<sup>434</sup> Reply to question 6 of RFI 7.

- (419) In addition, Hitachi intends to support the Integrated Company in contributing to the improvement of safety and mobility services, particularly in the field of connected cars, by using digital technologies such as ‘Lumada’ (a collective term for Hitachi’s solutions, services, and technology that utilise digital technology for creating value through customer data).<sup>436</sup>
- (420) Following concerns raised in the market investigation, the Commission has assessed in particular the ability and the incentive of the Integrated Company engaging in the tying/bundling practices mentioned in Section 4.6.1, for the following products:
- (a) Brake parts, including ABS
  - (b) Anti-vibration systems and components, including shock absorbers
  - (c) ECU
- (421) The concerns are that these components, in which the Parties are currently active could be combined and sold in a bundle or tied with technologies for automated driving, brake-by-wire and electrical/electronic vehicle architecture and thereby foreclosing access to customers for upstream competitors of the Targets. For instance, the Integrated Company could bundle/tie ECUs and brake components into complex integrated systems for automated driving technologies such as Adaptive Cruise Control or cloud-based preventive accident systems, or offer specific, bundled/tied components for use in electrical/electronic vehicle architecture, such as brake-by-wire braking systems. [Information concerning potential future business plans of the Parties]:<sup>437</sup>
- (422) Whereas the Parties do not yet sell any product technologies for automated driving, brake-by-wire and electrical/electronic vehicle architecture<sup>438</sup> (see paragraphs (415)-(419)), the Commission analysed whether the Integrated Company would have the ability and incentive to foreclose competing suppliers by bundling these products once they are put on the market.

#### 4.6.3. *The Notifying Parties’ view*

- (423) According to the Notifying Parties, the combination of these newly developing technologies of the Parties cannot give rise to any transaction specific conglomerate effects concerns. While the Notifying Parties have identified as one of the benefits of the proposed transaction the combination of the Notifying Parties’ and the Targets’ advanced technologies, these products (automated driving technology, brake-by-wire

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<sup>435</sup> Reply to question 4 of RFI 20.

<sup>436</sup> Reply to question 6 of RFI 7.

<sup>437</sup> Reply to RFI of 16 July to a competitor. The Notifying Parties confirmed that no affected markets arise under any plausible market definition for any of these products, as these are not currently supplied by the Targets on a merchant market. Honda only recently launched its first electric car and has no market share in the market segment for electric vehicles (Reply to question 3 of RFI20). The market definition of these products and technologies is therefore not discussed.

<sup>438</sup> The Commission has previously analysed markets automotive components used for automated driving, brake-by-wire and electric/electronic vehicle architecture and for instance defined separate markets for truck ECUs for automated driving (Case COMP/M.9383 – ZF/Wabco) and Adaptive Cruise Control (Case No IV/M.1332 - THOMSON / LUCAS). The Notifying Parties have confirmed that they are at not active in these markets under any plausible market definition. (Reply to question 3 of RFI 6.)

and electrical/electronic vehicle architecture ) are currently at an early stage of research and development, meaning that the Parties do not yet have a market presence for automated driving technologies, brake-by-wire and electrical/electronic vehicle architecture:

- (424) *First*, the Notifying Parties submit that they would have no ability or incentive to foreclose competing component manufacturers by bundling/tying their components, as the tender process for automotive components depends on whether OEMs intend to purchase components on a bundle/integrated basis or to purchase specific components on an individual basis (sourcing different components from different suppliers). The OEMs themselves have significant buyer power and would be able to decide by themselves whether to purchase multiple component parts together or separately.<sup>439</sup>
- (425) *Second*, the Notifying Parties submit that OEMs do not typically source all components from a single component manufacturer. There remain numerous other competing suppliers of each of the component parts supplied by the Targets, from which OEMs could continue to source the relevant components independently. The component parts supplied by the Targets are largely homogenous across the industry, such that the Targets' specific products are not viewed by customers as differentiated from other alternative sources of supply.<sup>440</sup>
- (426) As for automated driving technologies, brake-by-wire and electrical/electronic vehicle architecture, it is difficult to state with any precision how the market will evolve or who the main players are likely to be, although the Parties understand that all of the main automotive parts suppliers are generally developing component parts for electric/electronic and automated vehicles, [Parties' views of other sources of supply].<sup>441</sup>
- (427) Therefore, the Notifying Parties submit that the Integrated Company would have neither the ability nor an incentive to foreclose competitors by bundling/tying, as it would not be profitable for the Integrated Company, as OEM customers may instead purchase the individual component parts from other competing suppliers and so the Integrated Company's sales of components may reduce.<sup>442</sup>
- (428) Equally, the Notifying Parties submit that, as OEM customers typically multi-source and purchase different component parts from different suppliers, if the Integrated Company were to switch to supplying a bundle or tied product, customers might choose to source all their component parts individually from competing component suppliers.<sup>443</sup>
- (429) The Notifying Parties submit that the evolution of the market for the supply of electric vehicles will not have any impact on the Integrated Company's current lack of ability or incentive to engage in an anticompetitive bundling strategy. Given that its development and the Parties activities in this market are at an early stage, it is

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<sup>439</sup> Reply to question 3 of RFI 6.

<sup>440</sup> Reply to question 3 of RFI 6.

<sup>441</sup> Reply to RFI 7, paragraph 6.1.

<sup>442</sup> Reply to question 3 of RFI 6.

<sup>443</sup> Reply to question 3 of RFI 6.



difficult to predict how the market will evolve or who the main players are likely to be.<sup>444</sup>

#### 4.6.4. *The Commission's assessment*

- (430) The Commission has investigated whether the proposed transaction could give rise to conglomerate effects in relation to the combination of the Targets' current activities with its future automated driving technologies, brake-by-wire and electrical/electronic vehicle architecture and has reached the conclusion that it will not raise serious doubts in this regard for the following reasons.
- (431) Out of the product groups mentioned in paragraph (420), the Commission focused its analysis on the products where the Parties' combined market share exceeds 30%. The Commission notes that a 30% market share is exceeded only when considering the component for use only in motorcycles.<sup>445</sup>
- (a) Brake parts: upstream market share above 30% for brake master cylinders ([50-60]% in a worldwide market) and floating calipers and brake pads (as an assembled product) ([30-40]%% in the EEA and [50-60]% in worldwide market),
  - (b) Anti-vibration systems and components: upstream market share above 30% for shock absorbers ([50-60]% in a worldwide market)
  - (c) ECU: upstream market share above 30% ([30-40]% in a worldwide market)
- (432) For ABS, the upstream market share remains below 30% both at EEA and worldwide level; therefore no conglomerate concerns arise for this product market. With respect to passenger cars, the Commission considers that the transaction does not give rise to horizontally affected markets and gives rise to only one vertically affected market. In view of this, it is unlikely that the transaction may lead conglomerate issues in relation to passenger cars.
- (433) For the products where the upstream market share exceeds 30%, the Commission has found that no competition concerns as a result of conglomerate effects arise for the following reasons:

##### 4.6.4.1. No ability to foreclose access to customers

- (434) The Commission considers that the Integrated Company would not have the ability to bundle or tie and thereby foreclose access to customers to competing component manufacturers, for the following reasons.
- (435) *First*, the Commission agrees with the argument of the Parties that the supply relationship between component manufacturers and OEMs make bundling and tying unlikely, as the OEMs specify the product in their tenders, to which suppliers react by developing the product according to the OEM's specifications. This was confirmed by a competitor for components in the market investigation who explained that "*the supplier which produces components to its OEM customers has*

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<sup>444</sup> Reply to question 5 of RFI 15.

<sup>445</sup> Reply to question 4 of RFI 7.

*for this purpose already incurred costs and acquired the expertise to develop and manufacture the said components based on the OEM's specifications and supply contract*".<sup>446</sup> Indeed, bundling/tying is currently not common practice in the motorcycle industry.<sup>447</sup>

- (436) *Second*, as outlined in Section 4.5, even for the specific product where the Integrated Company's market shares are high (notably brake master cylinders and floating calipers and brake pads (as an assembled product), competitors are present which are as or more advanced in their development of automated driving technologies, brake-by-wire and electrical/electronic vehicle architecture. As a competitor confirmed, "[t]his technical advancement is currently moving forward for nearly all OEM's on different timelines."<sup>448</sup> These companies could respond to bundle offers and/or tied products, or offer unbundled products, depending on the respective customer demand.

#### 4.6.4.2. No incentive to foreclose access to customers

- (437) The Commission considers that the Integrated Company would also not have the incentive to bundle/tie and thereby foreclose access to customers to competing component manufacturers, for the following reasons.
- (438) *First*, in case the Integrated Company offered a bundle/tied product, OEMs could easily switch to competing component suppliers which could either offer the same product at a lower price, or separate components. The OEMs themselves have a large amount of buyer power and would be able to decide by themselves whether to purchase multiple component parts together or separately.<sup>449</sup> As the Notifying Parties confirmed, switching is common in the industry.<sup>450</sup> Switching suppliers most often occurs at the new model development stage, rather than during mass production of an existing model,<sup>451</sup> which gives competitors time to adjust for production of different variants of a component. A majority of customers in the market investigation confirmed that supply contracts usually have the duration of the lifespan of a vehicle model.<sup>452</sup> The Parties also gave examples of switching: for instance, in [Parties' knowledge of customers switching supplier].<sup>453</sup>
- (439) *Second*, the market investigation also confirmed the argument of the Notifying Parties that OEMs usually multi-source motorcycle and automotive components, as customers confirmed.<sup>454</sup> Also a competitor noted that it is possible that Honda "*will keep a portion for competition in order to improve their internal cost competitiveness*".<sup>455</sup>

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<sup>446</sup> Non-confidential reply to question 7.1 of questionnaire to competitors.

<sup>447</sup> Reply to RFI of 16 July to a competitor.

<sup>448</sup> Reply to RFI of 16 July 2020 to a competitor.

<sup>449</sup> Reply to question 3 of RFI 6.

<sup>450</sup> Reply to question 1 of RFI 8.

<sup>451</sup> Reply to question 1 of RFI 8.

<sup>452</sup> Reply to question 11 to customers and question.

<sup>453</sup> Reply to question 1 of RFI 8.

<sup>454</sup> Replies to question 6 of questionnaire to customers.

<sup>455</sup> Non-confidential reply to question 5.1 of questionnaire to competitors.

#### 4.6.4.3. Overall likely impact on effective competition

- (440) The Commission considers that any foreclosure strategy by the Integrated Company would not have an impact on effective competition.
- (441) *First*, there is a significant number of players in the downstream markets for passenger cars and motorcycles to which competing manufacturers can supply automotive and motorcycle components (see Table 11 and Table 12 for passenger cars and Table 14 and Table 15 for motorcycles and EEA and worldwide level respectively).
- (442) *Second*, Honda already purchases a large percentage of its needs from the Targets (see Table 9 and Table 35). In addition, most of the components which the Targets supply each account for a very small portion of the total cost of a finished vehicle.<sup>456</sup> Therefore only a small fraction of the upstream output would be affected by any revenue decreases resulting from a conglomerate customer foreclosure strategy.
- (443) *Finally*, the Notifying Parties' section 5.4. internal documents related to the Integrated Company do not reveal any suggestion of any tying or bundling strategy, nor did anyone in the market investigation suggest that such behaviour or attempts at such behaviour has taken place in the past. At this stage it remains difficult to predict the development of the areas of automated driving, brake-by-wire and electrical/electronic vehicle architecture in terms of future market shares and impact of the proposed transaction on competition. As mentioned above, none of these relevant technologies are currently supplied by the Targets on a merchant market. In any event, given the described characteristics of the market for automotive and motorcycle components, the Commission considers that, overall, the Integrated Company would not have the ability or the incentives to foreclose customer access for the sale of components for use in motorcycles and/or passenger cars.

#### 4.6.5. Conclusion on conglomerate effects

- (444) Taking into account the Notifying Parties' arguments and the results of the market investigation, the Commission takes the view that, with respect of any of the Parties' product categories and considered sub-segments thereof, the proposed transaction is unlikely to raise serious doubts as to its compatibility with the internal market as a result of conglomerate effects.

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<sup>456</sup> Reply to question 1 of RFI 11.

**5. CONCLUSION**

- (445) 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*  
*Executive Vice-President*