



## **DETERMINATION OF MERGER NOTIFICATION M/13/016 – GE / LUFKIN**

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### **Section 21 of the Competition Act 2002**

**Proposed acquisition by General Electric Company of Lufkin Industries, Inc**

**Dated 22/05/2013**

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### **Introduction**

1. On 3 May 2013, in accordance with Section 18(1)(a) of the Competition Act, 2002 (“the Act”), the Competition Authority (“the Authority”) received a notification of a proposed transaction whereby General Electric Company (“GE”) would acquire sole control of Lufkin Industries Inc (“Lufkin”).
2. As stated by the parties, the proposed transaction would be put into effect pursuant to an agreement between GE, its wholly-owned subsidiary Red Acquisition Inc. (“Red Acquisition”) and Lufkin. In essence, Red Acquisition would be merged with and into Lufkin and Lufkin would become a wholly owned subsidiary of GE.<sup>1</sup>

### **The Undertakings Involved<sup>7</sup>**

#### ***Acquirer***

3. GE is a global, diversified technology and services public company incorporated in the United States. GE is divided into a number of business units, each of which has its own divisions. Its primary business units include: GE Energy Management, GE Power & Water, GE Oil & Gas, GE Healthcare, GE Aviation, GE Transportation, GE Capital and GE Home & Business Solutions.
4. GE is active globally in the following sectors: aircraft engines, consumer products, specialty materials, power systems, industrial systems, medical systems, plastics, broadcasting, financial services and transportation systems.
5. Most of GE’s main business segments operate within the State. In particular GE manufactures wind turbines and healthcare products, carries out much of GE’s airplane leasing operations and has its GE Capital European headquarters within the State.
6. For the financial year ending 31 December 2012, GE had a worldwide turnover of €114.7 billion and a turnover in the State of €[...].<sup>2</sup>

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<sup>1</sup> The agreement is dated 5 April 2013. Once the acquisition has been put into effect, Red Acquisition would cease to exist as a separate entity.

<sup>2</sup> Based on USD \$147.4 billion and USD \$[...] respectively, calculated using the ECB average annual exchange rate, for the period 1 January to 31 December 2012, of €1=\$1.2848.

## **The Target**

7. Lufkin Industries Inc. is a public company incorporated in the US. Lufkin operates two main business divisions, namely power transmission products and services ("Power Transmission") and oilfield products and services ("Oilfield").
8. The Power Transmission division designs, manufactures and services precision speed increasing gearboxes and specialized bearings for the energy industry along with speed reducing gearboxes and couplings.
9. Lufkin's Oilfield division provides, among other things, supervisory control and data acquisition ("SCADA") systems, which are industrial control systems ("ICS"). ICS are command and control networks and systems designed to support industrial processes including industrial, infrastructure and facility-based processes. The largest subgroup of ICS is SCADA systems, which typically *"monitor and control industrial processes that exist in the physical world."*<sup>3</sup>
10. Within the State, Lufkin's Oilfield division operates through two subsidiary companies namely Datac Control International Limited ("Datac") and RealFlex Technologies Limited ("RealFlex") both of which provide SCADA solutions.
11. RealFlex designs SCADA software that allows data from many sources to be consolidated into one common platform together with its related HMI-software (Human-Machine-Interface); users can view data and issue commands (manually or automatically) using the HMI-software. Datac designs and manufactures a range of Remote Terminal Units ("RTUs").<sup>4</sup> Datac also designs alarm management systems<sup>5</sup> and offers system integration for SCADA/HMI products.<sup>6</sup>
12. For the financial year ending 31 December 2012, Lufkin had a worldwide turnover of €997 million and a turnover in the State of €[...],<sup>7</sup>

## **The Rationale**

13. GE submits that at a global level the acquisition will expand its existing product offering to certain types of artificial lifts that Lufkin, but not GE, currently offers.

## **Third Party Submissions**

14. No third party submission was received.

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<sup>3</sup> Definition provided by wikipedia and available at: <http://en.wikipedia.org/wiki/SCADA>

<sup>4</sup> An RTU is an electronic device that interfaces objects (e.g. individual pieces of equipment in infrastructure installations) to a distributed control system e.g. a SCADA system. The RTU uses messages received from the system (over radio or a General Packet Radio Services) to change and control the connected object.

<sup>5</sup> Alarm management systems are used to manage different alarms that may be activated if the parameters controlled by the SCADA system fall outside pre-set ranges.

<sup>6</sup> Datac also has some capabilities in the area of machine-to-machine communication. Lufkin submits that these activities generated revenues of approximately €[...] in the State in 2012.

<sup>7</sup> The worldwide figure is based on USD \$1.3 billion, calculated using the ECB average annual exchange rate, for the period 1 January to 31 December 2012, of €1=\$1.2848.

## Analysis

15. Within the State, the activity of the parties overlap in the industrial control and automation systems and in particular SCADA systems. SCADA systems are used in a variety of industries to monitor and control processes at production sites and infrastructure installations in the water, wastewater, oil and gas, power and marine sectors.
16. Datic and RealFlex provide their products and services to customers in several industries including: power, oil and gas, water and wastewater, marine, transport, chemical, manufacturing and telecommunications. Within the State, the majority of revenues earned derived from customers in the electricity sector. Lufkin estimates that, through Datic and RealFlex, it has a global share in the provision of SCADA systems of [0 - 10]% and a share within the State of [5 - 15]%.
17. Globally, GE is active in the area of SCADA systems mainly through its GE Intelligent Platforms division ("GEIP"), part of GE's Energy Management unit. GEIP is also active in a variety of other areas related to automation, controls and embedded systems. GEIP sells its products into a variety of different industries, including to customers in the energy, water, oil and medical sectors. GEIP estimates that its global share in the provision of SCADA systems may exceed [10 - 20]% and estimates that its share within the State is about [0 - 10]%.
18. Within the State, GEIP sells its services directly through a UK based distributor and has no production facilities or physical assets. GEIP generated revenues of approximately €[...] in 2012 from its SCADA activities within the State.<sup>8</sup>
19. The Parties submit that competition for SCADA systems takes place at an EEA-wide level and that post acquisition the merged entity would continue to face strong competition from a number of global players. The parties estimate that the principal competitors within the EEA have shares in the following ranges: Siemens - 20-30%; Schneider Electric - 10-20%; ABB - 10-20%; Invensys/Wonderware - 10-20%; Rockwell Automation - 5-15% and Iconics - 0-10%.
20. The horizontal overlap identified above does not raise competition concerns in the State for the following reasons:
  - the existence of a number of global competitors providing SCADA systems such as Siemens, Invensys, Schneider Electric and ABB;
  - post-transaction the notifying parties will have an estimated combined share in the provision of SCADA systems of [10 - 20] % within the State and just [10 - 20]% globally; and
  - the relatively small sales achieved by each of the undertakings involved within the State.
21. In light of the above, the Authority is of the view that the proposed transaction would not substantially lessen competition in any market for goods or services in the State.

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<sup>8</sup> Based on USD \$[...] calculated using the ECB average annual exchange rate, for the period 1 January to 31 December 2012, of €1=\$1.2848.

## **DETERMINATION**

The Competition Authority, in accordance with Section 21(2)(a) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed transaction whereby General Electric Company would acquire sole control of Lufkin Industries Inc will not be to substantially lessen competition in any market for goods or services in the State and, accordingly, that the acquisition may be put into effect.

**For the Competition Authority**

**Stephen Calkins**

**Member of the Competition Authority**

**Director, Mergers Division**