



## **DETERMINATION OF MERGER NOTIFICATION M/06/003 – Honeywell/First Technology**

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

**Proposed acquisition of First Technology plc by Honeywell International Inc.**

**Dated 15/02/06**

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### **Introduction**

1. On 19<sup>th</sup> January 2006, the Competition Authority, in accordance with Section 18(1) of the Competition Act, 2002 (“the Act”), was notified on a mandatory basis of the proposed acquisition by Honeywell International Inc. (“Honeywell”) of sole control of First Technology plc, (“First Technology”).

### **The Parties**

2. Honeywell, the acquirer, is a diversified US industrial group supplying customers, worldwide, with aerospace products and services, automotive products, electronic materials, performance polymers, transportation and power systems, home and building controls, industrial controls, specialty materials and gas detection products. For the year 2004, it generated worldwide turnover of €20,581 million. Honeywell’s worldwide operation is divided into four divisions:

- Automation and Controls Solutions (“ACS”) division offers products and services in the areas of heating; ventilation; humidification and air-conditioning equipment; security and fire alarm systems; gas detection systems; home automation systems; energy-efficient lighting controls; and building management systems and services. It also supplies sensors, switches, and control products for industrial applications.
- Aerospace Solutions division offers aircraft engines, equipment, systems and services for commercial transport, regional, general aviation and military aircraft. It also provides aftermarket services.
- Transportation and Power Systems division offers turbochargers and internal systems for passenger cars, light trucks and commercial vehicles. It also manufactures and markets friction

materials, consumer-branded automotive products for the aftermarket consumer, as well as for automotive equipment manufacturers and installers.

- Specialty Materials division offers specialty materials to diversified market segments including automotive, healthcare, agriculture, etc.

Honeywell has a number of active subsidiaries in Ireland. However, none of these is involved in the proposed transaction. For the year ended 2004, it generated turnover of [less than €100 million] from its activities in Ireland.

3. First Technology, the target, is a UK-listed company that operates in a number of markets in Europe. It is active in the manufacture and sale of automotive safety testing devices such as crash testing dummies, automotive sensors and circuit breakers, gas sensors and gas detection equipment. For the financial year ended 30<sup>th</sup> April 2005, it generated a worldwide turnover of Stg£163.4 million (approximately €283.7 million). First Technology's worldwide operations are broken into three divisions:

- First Technology Safety and Automotive division produces crash test dummies, crash walls and related products;
- First Technology Automotive division offers various automotive products such as sensors and circuit breakers;
- First Technology Gas Sensing division offers: (a) gas sensors mainly through First Technology's subsidiary, City Technology, and (b) gas detectors for mainly industrial, petrochemical and semiconductor applications, as well as some applications in automotive and medical sectors through its subsidiaries, BW Technologies and MST.

First Technology does not have any subsidiaries or production/distribution facilities located in Ireland. Sales to Irish customers are made through distributors located in the UK. For the financial year ended 30<sup>th</sup> April 2005, it generated turnover of [less than €1 million] in Ireland.

## **Analysis**

4. Both Honeywell and First Technology are active, worldwide, in (a) the production and supply of gas sensing products, (b) gas detection products, and (c) automotive sensing products. They are both vertically integrated producers and suppliers of gas detection products. In Ireland, there are limited horizontal and vertical overlaps between the parties' upstream supply of gas sensing products and their downstream production of gas detection products.

### ***Automotive Sensing Products***

5. On a global basis, the parties' activities overlap in connection with the manufacture and supply of automotive sensing products. However, there is no overlap in respect of these products in the State. First Technology does not supply automotive sensing products into the State and there is no indication that it would have done so. Therefore, the proposed transaction does not raise competition concerns in connection with the supply of automotive sensing products in the State.

### ***Gas Sensors and Gas Detectors***

6. Gas Sensors are the enabling input technology used in the manufacture of gas detectors. They are designed to detect one or more specific gases and their level of sophistication can vary depending on the sensitivity required, reliability, accuracy and resistance to other gases that may affect the result.<sup>1</sup> Gas detectors are used to monitor the concentration of toxic or flammable gases in order to warn about possible hazards of intoxication, suffocation or explosion in a variety of different situations.
7. The majority of gas sensors manufactured by the parties are captive for use in their own gas detectors production business and the remainder is sold to other gas detector manufacturers. While a gas detector manufacturer will demand a sensor that detects a certain type of gas, the end-user will not usually have the ability to substitute one gas sensor with another but could substitute between gas detectors.

### ***Gas Sensors***

8. Honeywell, through its ACS division, produces a broad range of gas sensors which are mainly used in its own gas detection business. It does, however, supply a third party with a high volume of low value Carbon monoxide sensors for residential gas detection and some types of smoke detectors.
9. First Technology through its subsidiary, City Technology Limited, produces a wide range of gas sensors for use in its own gas detection business and for supply to other gas detection manufacturers such as Crowcon, ISC and others. First Technology is not active in the production of Carbon monoxide sensors.
10. Market enquiries support the parties' view that there appear to be a worldwide or at least an EEA-wide gas sensors market. The parties submitted that First Technology accounts for [between (30-40)%]

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<sup>1</sup> For example, Hydrogen Sulphide sensors; Oxygen sensors; Sensors for the detection of flammable gases; Ammonia sensors; Hydrogen sensors; Carbon monoxide sensors and other speciality sensors.

of the worldwide sale of gas sensors to other producers of gas detectors, while Honeywell's sale account for [less than 5%]. Also, producers of gas detectors are able to switch between gas sensors suppliers or manufacturers at ease. Other competitors in this market include Alphasense, Nemoto, E2V, and Teledyne.

11. The EEA-wide or worldwide nature of the market for the supply of gas sensors, the limited overlap in the supply to other producers of gas detectors, and the availability of substitutable products indicate that the proposed transaction does not raise competition concerns in the State.

#### **4.3 Gas Detection Systems**

12. Market enquiries indicate that these products are mainly sourced from Europe or worldwide and are generally identical and can be easily shipped from one destination to another at reasonable costs.
13. The parties submitted that the combined Honeywell/First Technology entity's worldwide market share would be [less than 20%]. Its nearest competitors: MSA, Draeger, Riken, New Cosmos and UTC would each have market shares in the range of 7-12%. In addition, there are at least 11 other companies with each having market shares of greater than 1%.
14. In the EEA, the parties submitted that the combined Honeywell/First Technology entity would have [less than 25%] market share, with First Technology contributing less than [5%]. It will face the same competitors as in the worldwide market, but with Draeger having a higher market share of approximately 28%.
15. The minimal overlap in connection with the supply of gas detection systems, the apparent EEA-wide or a worldwide market for these products, and the fact that end-users could easily switch between suppliers or producers indicate that the proposed transaction does not raise competition concerns in connection with the supply of gas detection systems in the State.
16. Further, the Authority considered that the vertical overlap in the proposed transaction would not raise competition concerns in the State. The combined Honeywell/First Technology entity will continue to supply gas sensors to other producers of gas detectors. Also, the transaction would not lead to a vertical foreclosure as there are alternative suppliers and other vertically integrated competitors in the market.

## **Determination**

The Competition Authority, in accordance with Section 21(2) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed acquisition by Honeywell International Inc. of First Technology plc will not be to substantially lessen competition in markets for goods and services in the State and, accordingly, that the acquisition may be put into effect.

For the Competition Authority

**Dr Paul K. Gorecki**

Member of the Competition Authority