

UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION

COMMISSIONERS: Edith Ramirez, Chairwoman
Julie Brill
Maureen K. Ohlhausen
Joshua D. Wright

In the Matter of

GENERAL ELECTRIC COMPANY,
a corporation.

Docket No. C-4411

COMPLAINT

Pursuant to the Clayton Act and the Federal Trade Commission Act (“FTC Act”), and its authority thereunder, the Federal Trade Commission (“Commission”), having reason to believe that Respondent General Electric Company (“GE”), a corporation subject to the jurisdiction of the Commission, has agreed to acquire the aviation business of Avio S.p.A. (“Avio”), a corporation subject to the jurisdiction of the Commission, in violation of Section 5 of the FTC Act, as amended, 15 U.S.C. § 45, and that such acquisition, if consummated, would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the FTC Act, as amended, 15 U.S.C. § 45, and it appearing to the Commission that a proceeding in respect thereof would be in the public interest, hereby issues its Complaint, stating its charges as follows:

I. RESPONDENT

1. Respondent GE is a corporation organized, existing, and doing business under and by virtue of the laws of the State of New York, with its executive office and principal place of business located at 3135 Easton Turnpike, Fairfield, Connecticut 06828.

2. Respondent is engaged in, among other things, the design and manufacture of jet engines and other equipment for commercial and military aircraft. Respondent has a 50% interest in CFM International (“CFM”), which is a joint venture with Snecma S.A. of France.

3. Respondent is, and at all times relevant herein has been, engaged in commerce, as “commerce” is defined in Section 1 of the Clayton Act, as amended, 15 U.S.C. § 12, and is a corporation whose business is in or affects commerce, as “commerce” is defined in Section 4 of the FTC Act, as amended, 15 U.S.C. § 44.

II. THE ACQUIRED COMPANY

4. Avio is a corporation organized, existing, and doing business under and by virtue of the laws of Italy, with its headquarters at Via I Maggio, 99, 10040, Rivalta Di Torino, Torino, Italy.

5. Avio’s AeroEngine division, among other things, designs and manufactures component parts and electrical systems for civil and military engines.

6. Avio is, and at all times relevant herein has been, engaged in commerce, as “commerce” is defined in Section 1 of the Clayton Act, as amended, 15 U.S.C. § 12, and is a corporation whose business is in or affects commerce, as “commerce” is defined in Section 4 of the FTC Act, as amended, 15 U.S.C. § 44.

III. THE PROPOSED ACQUISITION

7. Pursuant to an Agreement dated December 21, 2012 (the “Agreement”), GE proposes to acquire Avio’s aviation business for approximately \$4.3 billion (the “Acquisition”).

IV. RELEVANT MARKET

8. For the purposes of this Complaint, the relevant lines of commerce in which to analyze the effects of the Acquisition are (1) accessory gearboxes (“AGBs”) for Pratt & Whitney’s PW1100G engine that will power the Airbus S.A.S. (“Airbus”) A320neo aircraft, and (2) engines that compete for placement on the A320neo aircraft.

- a. AGBs use the mechanical power of the engine shaft to power various accessory systems on the engine and the aircraft, including oil and hydraulic pumps and electrical generators. AGBs are specifically designed for the requirements of individual engine platforms, which vary considerably between different engines and aircraft. Because each AGB for a given engine platform is unique, and cannot be substituted for another AGB from a different engine platform, Pratt & Whitney could not substitute AGBs made for other engines in response to a small but significant and non-transitory increase in price. Thus, the AGB designed for the PW1100G engine constitutes its own relevant product market.
- b. Aircraft engines are engineered specifically for the thrust requirements and mission profile of the aircraft on which they are installed. Purchasers of aircraft engines cannot substitute engines which do not meet the specific requirements of the relevant aircraft platform, or which have not been certified

by aviation authorities for use on that aircraft. A320neo purchasers could not substitute other engines in the face of a small but significant and non-transitory increase in price for current engines offered to power the A320neo. Thus, the aircraft engines chosen by Airbus for, and certified for use on, the A320neo constitute their own relevant product market.

9. For the purposes of this Complaint, the relevant geographic market in which to analyze the effects of the transaction is the entire world. Engine components such as AGBs are sold to engine manufacturers located across the globe, and those engine manufacturers then sell to aircraft manufacturers that are also located in various parts of the world. Aircraft manufacturers do not significantly alter aircraft features for specific national markets, and aircraft customers are located throughout the world.

V. STRUCTURE OF THE MARKETS

10. Avio currently has sole design responsibility for the AGB on the Pratt & Whitney PW1100G engine, which will be one of two engines available on the A320neo aircraft. Design efforts for the PW1100G AGB have been underway for some time, but further development and testing remains before the engine will be certified by aviation authorities for use on the aircraft. While other component suppliers may be capable of designing AGBs for large commercial aircraft generally, they do not serve as acceptable substitutes for Avio on the PW1100G, because switching component manufacturers at this stage in development would be cost prohibitive. Additionally, the time required for another component supplier to re-design the AGB would require a delay of up to several years in the certification of both the PW1100G engine and the Airbus A320neo aircraft.

11. In the market for engines powering the Airbus A320neo aircraft, only Pratt & Whitney's PW1100G engine and CFM's Leap 1-A engine, in which GE has a 50% interest, compete head-to-head for sales. Other aircraft engine manufacturers do not currently manufacture engines for the A320neo and could not do so or obtain certification within the timeframe necessary to become a viable substitute for the current engine options on the A320neo platform. The market for engines on the A320neo is highly concentrated, and likely to remain so for the foreseeable future. Pratt & Whitney and CFM each have won roughly half of the A320neo orders placed to date for which the customer has selected an engine.

VI. ENTRY CONDITIONS

12. Sufficient and timely entry into the market for AGBs for the PW1100G on the A320neo aircraft is unlikely to deter or counteract any anticompetitive effects created by the proposed transaction. AGB design and development for large commercial aircraft like the A320neo requires significant experience and resources, and it would take several years for a third-party supplier to develop AGBs for the PW1100G, which would be insufficient to prevent any potential anticompetitive effects of the proposed acquisition. Given the experience and knowledge of the Avio design team and the complexity of transferring the in-progress design work, Pratt & Whitney would unlikely be able to take over the AGB development without incurring significant delays in engine certification and delivery.

13. Sufficient and timely entry into the market for engines powering the A320neo is also unlikely to deter or counter any anticompetitive effects arising from the proposed transaction. The initial design and production of an aircraft engine requires many years and a large financial investment, and must be followed by a long certification process by aviation authorities throughout the world.

VII. EFFECTS OF THE ACQUISITION

14. The effects of the Acquisition, if consummated, may be to substantially lessen competition and tend to create a monopoly in the market for aircraft engines for the Airbus A320neo in violation of Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the FTC Act, as amended, 15 U.S.C. § 45, by providing GE with the ability and incentive to profitably disrupt the design and certification of the AGB for the Pratt & Whitney PW1100G engine, which would provide GE market power and the ability and incentive to raise prices, reduce quality, or delay delivery of engines to A320neo customers.

VIII. VIOLATIONS CHARGED

15. The Agreement described in Paragraph 7 constitutes a violation of Section 5 of the FTC Act, as amended, 15 U.S.C. § 45.

16. The Acquisition described in Paragraph 7, if consummated, would constitute a violation of Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the FTC Act, as amended, 15 U.S.C. § 45.

WHEREFORE, THE PREMISES CONSIDERED, the Federal Trade Commission on this twenty-seventh day of August, 2013, issues its Complaint against said Respondent.

By the Commission, Commissioner Wright not participating.

Donald S. Clark
Secretary