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The Turkish Competition Authority  
conditionally approves a merger in  
the high-end inertial sensors sector  
subject to behavioural commitments  
(*Honeywell / Civitanavi*)

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# The Turkish Competition Board conditionally approved the acquisition of Civitanavi by Honeywell subject to behavioural commitments addressing input foreclosure risk

This article summarizes the Turkish Competition Board's ("**Board**") Honeywell/Civitanavi decision ("**Decision**") where the Board established jurisdiction over the transaction concerning the acquisition of sole control over Civitanavi Systems SPA ("**Civitanavi**"), which is solely controlled by Civitanavi Systems Limited, by Honeywell International Inc. ("**Honeywell**") through its solely controlled subsidiary Honeywell SRL. The transaction was notified to the Turkish Competition Authority (the "**Authority**") on April 19, 2024, and the Board conditionally approved the transaction within the scope of its Phase I review on August 15, 2024, subject to behavioural commitments submitted.

## Background and Relevant Product and Geographic Markets

Honeywell is a US-based company that operates as a global supplier, producer and vendor of (i) aerospace technologies, (ii) building automation, (iii) energy and sustainability solutions and (iv) industrial automation. Among others, Honeywell sells "high-end inertial sensors and relevant equipment" in Türkiye, which are subject to the U.S. export restrictions, specifically the ITAR (International

Traffic in Arms Regulations) license.

Civitanavi is an Italy-based company that operates globally in the design, development, production, and commercialization of inertial sensors, as well as inertial measurement units, across the aviation and defense sectors and industrial sectors. It also provides consulting services to companies in the same sectors.

The Board stated that the parties' activities horizontally overlap in the broad inertial sensors/system market. This market can be sub-divided into two segments as "high-end" and "low-end" inertial sensors/systems. Civitanavi is only active in high-end inertial sensors/systems, therefore there is no overlap in the market for low-end inertial sensors/systems.

The Board also noted that inertial systems can also be examined in five subsegments based on their application degrees and areas of use since there is no substitutability between these segments: namely (i) consumer-grade inertial sensor, (ii) industrial-grade inertial sensors, (iii) tactical-grade inertial sensors, (iv) navigation-grade inertial sensor, and (v) strategic-grade inertial sensor. The Board stated that the relevant product markets can also be sub-segmented and defined as "inertial sensors used in the military/defense/aerospace sectors", "inertial sensors used in the commercial aircraft and technology development sector", and "inertial sensors used in the consumer electronics and industrial sectors."

Accordingly, the Board decided that the relevant product market may be assessed within five distinct market segments based on their application degrees and areas of use. The relevant geographic market was defined as wide as Türkiye.

## The Board's Substantive Assessment in terms of Horizontal Overlaps in Türkiye:

The Board evaluated the horizontal overlaps between the parties' activities, deepening its assessment on "high-end military inertial sensors market" and "tactical and navigational grade inertial sensors" sub-segments. The Board assessed the parties' market shares in Türkiye, as well as their global market shares for the broader market (e.g., high-end inertial sensors) along with the sub-segments (e.g., by

accuracy levels of inertial sensors used in the defense & space sector), as high-end inertial sensors market was mostly reliant on importation.

The Board stated that, based on their Türkiye market shares, (i) both parties are well-established in the market, and their market shares correspond to one third of the relevant product market, therefore the transaction may lead to increase of concentration in the “high-end military inertial sensors market” and give rise to the possibility of significantly impeding effective competition. Based on the parties’ and competitors’ global market shares, while Honeywell has the highest shares in the relevant product market, there are many undertakings that could create competitive pressure on Honeywell.

The Board also obtained opinions from the competitors and customers during its assessment. Responses generally stated that (i) switching suppliers in the inertial sensors market was costly and difficult, (ii) Honeywell is one of the key suppliers, (iii) Honeywell’s strengthened position may create entry barriers to the market. However, the Board found that the transaction would not lead to significant entry barriers, noting that advanced inertial sensor products do not require the use of a specific technology, and there are various advanced inertial sensor technologies which can be used by manufacturers. The Board also noted that according to the input provided by the stakeholders, so long as there are no obligations to purchase goods exclusively from Turkish companies, the goods will be supplied globally to the national markets. Accordingly, the Board stated that, the fact that the Turkish market is open to global suppliers promotes a competitive environment and supports innovation and access to a wider range of products and technologies for better and competitive prices.

### **The Board’s Assessment in terms of the Behavioural Remedies:**

The Board noted that following the closing of the transaction, Honeywell will have high market shares in the military/defense markets -particularly in tactical- and navigation-grade inertial sensors- which may lead to input foreclosure and increase input prices for customers in the Turkish defense industry. The Board indicated that Honeywell could terminate supply or production agreements or refuse to enter into contracts for the relevant products due to U.S. export restrictions. The Board also noted that it is

costly for customers to switch suppliers in the market, and the duration of their contracts are usually 4-5 years long.

To address these concerns, Honeywell submitted a set of behavioural remedies designed to ensure the continuation of supply of materials, intermediate goods, subsystems, license rights, and products under existing contracts, the conclusion of new contracts with similar conditions if demanded, the maintenance of Civitanavi’s production capability in Italy and capacity increases where necessary, taking into account international export restrictions.

In the behavioural commitments, Honeywell undertook the following commitments for a period of three years: (i) in order to ensure that the production and sales to customers currently in Türkiye will be carried out by Civitanavi, it will continue to supply goods, licence rights and all its products in accordance with Civitanavi’s already existing contracts; and it will organise and increase Civitanavi’s production capacity and capabilities in Italy, (ii) it will comply with international export restrictions and Turkish competition laws in terms of its pricing policies (avoid excessive pricing and predatory pricing) regarding the contracts in the affected markets, (iii) it will not restrict the use of intellectual property rights and licences in Civitanavi’s already existing and potential contracts, (iv) Civitanavi’s headquarters will remain in Italy to avoid export restrictions for Türkiye, and (v) it will annually report to the Authority the quantity and prices of the inertial measurement unit products sold in Türkiye.

Honeywell also submitted commitments to Italian Council of Ministers, which required that Civitanavi’s headquarters and industrial facilities remain in Italy, preserve the continuity of its R&D activities for national defense needs in similar conditions. It was assessed that these conditions are also supporting the commitments submitted to the Board.

The Board evaluated that the foregoing commitments were sufficient to eliminate the input foreclosure concerns and conditionally approved the transaction subject to the commitments as a result of its Phase I review.

### **Conclusion**

The decision demonstrates the perspective of the

Board in assessing potential impact of export restrictions and supply dependencies in the markets and constitutes a precedent where behavioural

remedies are sufficient to eliminate competition concerns.

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