

**THE PROJECT TO MATCH SMALL BUSINESSES WITH AUTOMOTIVE GIANTS:
CATENA X**

**Enes Paylaşan
Assistant Competition Expert**

**Kamil Enes Pöge
Assistant Competition Expert
Supervision and Enforcement Department – VI**

With this data system, Catena X adopted as its vision the use of an open and reliable data ecosystem based on collaboration in the automotive industry

There is no question that the second millennium brought with it many technological developments to make life easier. We have managed to adapt to some of them; others are brand new. This process of adaptation is experienced not only by individuals, but by industries as well. Large companies in particular accelerated their digital transformation activities with the advent of the Industry 4.0 and Digital Economy concepts.

The developments in information and communications technologies are expected to ensure that production processes will be managed with maximum efficiency and flexibility, in a network-connected, automatic and self-organizing manner. While the developments in question are making the world even smaller and significant steps are being taken towards globalization constantly, when it comes to industry, large companies are still conventionally the representatives of their countries of residence. In short, these companies may be seen as a type of power owned by countries. Under those circumstances, in light of digitalization, notions such as data security and sovereignty become both a concern before the breakthroughs in question and a gateway to brand new concepts.

Due to the aforementioned concerns, many countries have set technology-based strategic targets and started to work on their nationally served cloud platforms, algorithms and applications. At the same time the acquisition, processing, interpretation, attribution, analysis, reporting of industrial data and the utilization of decision support systems have gained importance.

A new initiative in this framework took place in Europe in the recent years: the Catena X Automotive Network pioneered by a number of companies including Volkswagen, Mercedes-Benz, BMW, Bosch, Shaeffler, Siemens, T-Systems, ZF, Henkel, BASF and SAP, which was announced during the German government's 2020 Digital Summit and which is partially funded by the public. Fundamentally, Catena X is an association founded in 2021 under the German Civil Law, and it may be explained as part of the digital transformation in the automotive industry.

The purpose of Catena X is the creation and development of common principles and standards for the digital exchange and sharing of data related to the automotive value chain under equal terms, in harmony with the International Data Spaces Association and the GAIA-X Project. GAIA-X, on the other hand, is a European initiative pioneered by Germany and France in response to the concerns above, which aims to provide a federated cloud services and data centers ecosystem under EU data laws; the goal of the project is to reduce dependency on the

market leaders US and China to provide companies a highly competitive data infrastructure that is owned by them to help with their digital transformation.

Under the scope of these interconnected projects, with this data system Catena X adopted as its vision the use of an open and reliable data ecosystem based on collaboration in the automotive industry. The goal is to establish an ecosystem where all partners are on equal footing and have independent control over their data, with no lock-in effects and interconnected end-to-end value chains. At this juncture, great importance is attached to the integration of SMEs into the system. This is because avoiding lock-in effects requires real cooperation.

In short, Catena-X may be defined as a cooperation between companies of different scales, based on specific standards. All goals will be achieved in accordance with the standards to be introduced. It is noted that specific solutions will be introduced through much-larger scale measurement and tracing under certain standards in response to the data on CO₂ emissions, product traceability, transformation economy, etc., which the companies tend to own and maintain either exclusively for itself or for limited regions. During this process, duplicate data will be eliminated, the quality of data stores will be improved, missing data will be added, and deviations are automatically fixed to allow data exchange under a uniform system.

The benefits of the system include measurement and tracing at a larger scale under specific standards, new market opportunities, access to equipment and resources in an open marketplace that exceed the companies own capabilities, modular manufacturing plans to prevent production losses, and many cost savings to be achieved by the above. Moreover, there is ongoing work to expand the quality standards in the supply chain from the smallest undertaking in the market to the largest. In order to avoid lock-in effects, all of these benefits will be accessed through a platform where many undertakings come together. The main asset of the system will be different platforms directed towards different goals. Thanks to the platform economy to be established in this way, customers at different levels will be able to interact with suppliers at similarly different levels.

Market opportunities created are used to offer free capacity to the undertakings and any gaps are closed with available resources.

The input and output information in the system is actually intended to allow those undertakings whose entire commitments are connected to the other players at the previous levels to control their risks and minimize potential supply problems. Market opportunities thus created are used to offer free capacity to the undertakings, and any gaps are closed with available resources. In that framework, the goal of the manufacturing as a service title is to develop a system matching those who under- or overproduce with buyers/sellers. This will ensure a quicker decision-making process based on easy comparison of factors such as price and quality, as well as investment security and a strong competitive environment in the long term.

SMEs are especially important for the development of a competitive model in this system, which is based on a decentralized operation model where traceability forms the backbone. This is because the automotive sector is under the hegemony of world giants with the same brand of vehicles being seen on all roads regardless of the country, and there is little variance in terms of business partners as well. Thus, Catena X is intended to bring all SMEs in the system in contact with these giants. This way, small businesses at the regional or maybe national scale will have the opportunity to become solution partners for sector giants operating at the global level.

For instance, a prominent tire manufacturer will be able to supply the relevant raw materials, such as rubber, from many smaller businesses in a different region instead of the large company it always works with which is currently having input troubles. The importance placed on SMEs and the benefits such companies will obtain under Catena X are particularly emphasized. Additionally, SMEs that failed to acquire sufficient data due to a lack of the required infrastructure will be able to eliminate this handicap by taking part in the system, and

their more efficient participation in the circular economy will result in various cost saving due to the better use of materials and capacity.

Other benefits may involve establishing new business relationships, provision of deployment planning, adapting to automation, using the production capacity to its limit, and minimizing over-/underproduction. Many SMEs dependent on customer satisfaction will achieve stability in that area. Interruptions and delays in manufacturing, which may be costlier for SMEs, can be prevented. In summary, Catena X will integrate to the sector many local businesses which failed to interact with the sector giants and therefore remained small, which will allow identifying bottlenecks or potential overproduction throughout the sector and steering them toward the right channel or provider.

Germany opted to add value to its international competitive power by bringing its global companies together with its local small and mid-scale businesses

Joint venture applications as part of the Catena X platform

There are applications filed with the competition authorities of various countries with relation to the competitive concerns that may arise about Catena X. For instance, the German Competition Authority Bundeskartellamt announced that it had no objections to the initiative at the first stage, that many companies mainly from the German automotive and IT sectors wished to collaborate on the project, that a data network with the relevant applications throughout the automotive value chain would be created for the first time, that antitrust law would not stand in the way of such projects so long as certain competition principles were observed, and that these projects were promising. However, it also noted that the exchange of competitively sensitive information should be limited to what was necessary for cooperation, that the standards had to be developed with an open, transparent and non-discriminatory process, that the cooperation should not lead to market foreclosure or other competitive concerns, including competition on innovation.

Joint venture applications were submitted to the competition authorities of Chile, Brazil, Poland, Ukraine and South Korea. The joint venture in question aims to develop an international network which will bring automobile manufacturers and suppliers together to exchange information and standardize methods for ordering and inventory checking.

Part of the Catena-X platform, the proposal's goal is to facilitate data processing and enable quicker decision-making by providing an advanced interface to its users, allowing governance between manufacturers, suppliers and users. The digital data ecosystem to be established is a tool developed in order to exclusively direct standardized data from one user to the other and prevent access to data individually exchanged among third parties.

While Chile, Poland, Ukraine and South Korea approved the joint venture application, ignoring the information exchange on the platform on the grounds that it would not lead to competition concerns, the Brazilian Competition Authority (CADE) adopted a more skeptical approach and took the application under close examination since it was not clear who could access the market information disclosed on the platform and whether there would be any information exchange that could lead to competitive concerns. At the same time, some behavioral and technological commitments were requested to prevent exchange of competitively sensitive information between rivals. Moreover, the joint venture's relationship with the German government and the role of German government representatives in strategic decisions are other main issues that raised some doubts.

While Germany opted to approve a transaction which it believes can add value to its international competitive power by bringing its global companies together with its local small and mid-scale businesses, Brazil, motivated to protect its own local companies, approached the same transaction with suspicion, focusing on competitive concerns that may arise from the information exchange. The difference in approach between the practices of these two countries

present a remarkable example of how competition statutes with similar rules can be applied differently, in line with the needs of the national competition policies.