Section 57 of the Competition Act 2004

Grounds of Decision issued by the Competition and Consumer Commission of Singapore

In relation to the Proposed Acquisition of Shares of Daewoo Shipbuilding & Marine Engineering Co. Ltd by the Hanwha Group

Date: 22 March 2023

Case number: 400/140/2022/009

Confidential information in the original version of this Decision will be redacted from the published version on the public register. Redacted confidential information in the text of the published version of the Decision is denoted by [✂].

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I. INTRODUCTION

1. On 16 January 2023, the Competition and Consumer Commission of Singapore ("**CCCS**") accepted an application for a decision pursuant to section 57 of the Competition Act 2004 ("**the Act**") by the Hanwha Corporation on behalf of:

   a. Hanwha Aerospace Co. Ltd;
   b. Hanwha Systems Co. Ltd;
   c. Hanwha Convergence Co. Ltd;
   d. Hanwha Impact Partners Inc.; and
   e. Hanwha Energy Corporation Singapore Pte. Ltd.

   (hereinafter collectively referred to as the "**Applicants**")

   as to whether the proposed acquisition of Daewoo Shipbuilding & Marine Engineering Co. Ltd ("**DSME**") by the Hanwha Group ("**the Proposed Transaction**") will infringe section 54 of the Act, if carried into effect.

2. In reviewing the Proposed Transaction, CCCS conducted a public consultation and sought feedback from third parties, including the competitors and customers of the Hanwha Group and DSME. Most respondents were neutral or had no competition concerns in relation to the Proposed Transaction.

3. At the end of the consultation process and after evaluating the available information, CCCS concludes that the Proposed Transaction, if carried into effect, will not infringe section 54 of the Act.

II. THE PARTIES

(a) The Acquirer

<u>The Hanwha Group</u>

4. The Hanwha Group is a conglomerate based in South Korea involved in a large number of business areas. Its business areas entail chemical manufacturing, construction, leisure/service, solar photovoltaic generation, finance, gunpowder manufacturing, and wholesale and retail of security products.

5. The Hanwha Group's business operations in Singapore involve the supply of the following products and services: (i) petrochemical products such as naphtha and ethylene; (ii) chemicals and solar modules; (iii) trade brokerage for

petrochemical products, bituminous coal, coal, feedstock and oil; and (iv) investment services such as outsourcing, advisory services, fund management, and brokerage services.

(b) The Target

DSME

6. DSME is a South Korean company that specialises in shipbuilding and other maritime businesses. It builds various types of ships such as liquified natural gas ("**LNG**") carriers, oil tankers, container ships, and liquified petroleum gas carriers; offshore facilities such as floating production storage and offloading facilities, fixed platforms, floating production units, crude oil rigs and drill ships; and special vessels such as submarines, destroyers, salvage ships, and patrol ships. DSME's subsidiaries produce ship blocks and parts, provide computer systems integration service and comprehensive advice on computer systems, and support onshore plant construction.

7. DSME's business in Singapore in 2021 consisted of the building of ships ordered by Singapore shipowners, such as LNG carriers and very large crude carriers.

III. THE PROPOSED TRANSACTION

8. The Proposed Transaction concerns the acquisition by the Applicants of DSME shares, conferring upon the Hanwha Group decisive influence over DSME.

9. CCCS assesses that the Proposed Transaction constitutes a merger under section 54(2)(b) of the Act as the Hanwha Group will become the largest shareholder of DSME and also acquire the right to appoint 50% or more of DSME's board.

IV. COMPETITION ISSUES

10. The Applicants submitted that both the Hanwha Group and DSME only overlap horizontally in relation to the supply of information and communication technology ("**ICT**") services.[1] However, given that both the Hanwha Group and DSME do not supply ICT services to Singapore customers (other than some internal supply within the Hanwha Group)[2], CCCS considers that this horizontal

[1] Paras. 17.2 and 17.3 of Form M1.
[2] Para. 17.2 of Form M1.

overlap is unlikely to result in any substantial lessening of competition ("**SLC**") in any market in Singapore.

11. The Applicants also submitted that there are vertical relationships arising from the Proposed Transaction with regards to two aspects. The first relates to naval vessels built by DSME requiring munitions and weapon systems from the Hanwha Group ("**First Vertical**"); and the second relates to the global supply of LNG carriers and offshore plant production and storage facilities supplied by DSME requiring air and gas compressors produced by the Hanwha Group ("**Second Vertical**").

12. On the First Vertical, the Applicants submitted that the Hanwha Group and DSME have not sold munitions, weapon systems and naval vessels to Singapore.[3] There were also no competition concerns raised in relation to Singapore.

13. Given the above, CCCS has focused its assessment on whether the Proposed Transaction will lead to vertical effects that result in an SLC in Singapore in relation to the Second Vertical.

V. COUNTERFACTUAL

14. CCCS considers the prevailing conditions of competition prior to the Proposed Transaction to be the appropriate counterfactual for this assessment. The available evidence does not indicate that the market structure or competition dynamics in the counterfactual would differ from the status quo.

VI. RELEVANT MARKET

15. Based on the Applicants' submissions and third parties' feedback, for the purpose of this assessment, CCCS considers the relevant markets to be:

    a. Upstream markets:

        i. The global supply of dynamic/turbo air compressors;
        ii. The global supply of dynamic/turbo gas compressors.

    (Collectively, the "**Relevant Upstream Markets**")

    b. Downstream markets:

[3] Para. 18.3 of Form M1.

i. The global supply of LNG carriers;
ii. The global supply of offshore plant production facilities; and
iii. The global supply of offshore plant storage facilities.

(Collectively, the "**Relevant Downstream Markets**")

(Collectively, the Relevant Upstream Markets and Relevant Downstream Markets will be referred to as the "**Relevant Markets**")

VII. CCCS'S ASSESSMENT

(a) Market Shares

<u>Relevant Upstream Markets</u>

16. The Hanwha Group's market shares in the Relevant Upstream Markets are [✂0-10]% for dynamic/turbo air compressors, and [✂0-10]% for dynamic/turbo gas compressors, which are low.

<u>Relevant Downstream Markets</u>

17. In the market for LNG Carriers, DSME has a five-year aggregate market share from 2017 to 2021 of [✂20-30]%, compared to the largest market player with a [✂40-50]% share. The next largest competitor also has a higher aggregate market share than DSME at [✂20-30]%.

18. In the market for offshore plant production facilities, DSME's five-year aggregate market share from 2017 to 2021 was low, at [✂0-10]%, compared to the market leader which had a [✂10-20]% market share for the same period.

19. In the market for offshore plant storage facilities, DSME's five-year aggregate market share from 2017 to 2021 was [✂10-20]%, which, while higher than most other suppliers, was still not a high market share. Supply was also very lumpy and DSME was not the largest supplier in four out of the five years.

(b) Barriers to Entry and Expansion

20. Based on the Applicants' submissions and third parties' feedback, CCCS is of the view that, on balance, the barriers to new entry to the Relevant Upstream Markets are likely to be medium to medium-high. However, barriers to expansion in these markets appear to be low.

21. As for the Relevant Downstream Markets, barriers to entry in these markets appear to be high. However, these barriers to entry do not appear to be insurmountable, at least for LNG carriers, given the existence of new entrants in the past three years in this particular market. The barriers to expansion in these markets also appear to be low to moderate.

(c) Vertical Effects

22. Based on the information received, CCCS assesses that the Proposed Transaction is unlikely to give rise to vertical effects for the following reasons:

    a. Input foreclosure is unlikely to arise as a result of the Proposed Transaction given that the Hanwha Group is not a significant supplier in the Relevant Upstream Markets, and customers that supply in the Relevant Downstream Markets will still be able to obtain the relevant upstream products from other suppliers.

    b. Customer foreclosure is unlikely to arise as a result of the Proposed Transaction. In relation to the offshore plant production facilities and plant storage facilities, DSME's market shares are low, at less than 10% and 20% respectively. While DSME's market shares for LNG carriers is about [✂20-30]% over the last five years, it is only the third largest player. For completeness, if all the Relevant Downstream Markets are considered together, DSME's average annual procurement as a percentage of estimated total market size in 2022 was low for both dynamic/turbo air compressors and dynamic/turbo gas compressors. DSME is therefore unlikely to be a major combined customer of either of the Relevant Upstream Markets.

(d) Coordinated Effects

23. CCCS assesses that the Proposed Transaction is unlikely to give rise to coordinated effects for the following reasons:

    a. The Proposed Transaction is unlikely to lead to the foreclosure of either upstream or downstream competitors in the Relevant Markets identified. As a result, the number of existing players in each of the Relevant Markets is unlikely to be reduced such that it becomes easier for remaining players to coordinate.

b. There is no evidence that barriers to entry or expansion will increase due to the Proposed Transaction.

(e) Conclusion on Competition Assessment

24. Based on the above considerations, CCCS concludes that the Proposed Transaction, if carried into effect, will not lead to an SLC in Singapore.

VIII. EFFICIENCIES

25. Given that the competition assessment did not raise SLC concerns, it is not necessary for CCCS to assess the efficiencies claimed by the Applicants.

IX. CONCLUSION

26. For the reasons above and based on the information available, CCCS assesses that the Proposed Transaction, if carried into effect, will not lead to an SLC in Singapore and consequently, will not infringe the section 54 of the Act.

27. In accordance with section 57(7) of the Act, the decision will be valid for a period of one year from the date of CCCS's decision.

Sia Aik Kor
Chief Executive
Competition and Consumer Commission of Singapore