Competition Commission
SINGAPORE

Section 57 of the Competition Act (Cap. 50B)

Grounds of Decision issued by the Competition Commission of Singapore

In relation to the notification for decision of the proposed acquisition by Volkswagen AG of MAN SE pursuant to section 57 of the Competition Act

20th September 2011

Case number: CCS 400/007/11

Confidential information in the original version of this Decision has been 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

The notification

1. On 8 August 2011, Volkswagen Aktiengesellschaft ("VW") and MAN SE ("MAN") filed a joint notification pursuant to section 57 of the Competition Act (the "Act"), applying for a decision by the Competition Commission of Singapore ("CCS") as to whether the acquisition by VW of sole control of MAN (the "Transaction"), will infringe the section 54 prohibition of the Act, if carried into effect. VW and MAN are collectively referred to as "the Parties".

2. Subsequent to the submission of further information by the Parties on 22 August 2011, CCS consulted customers, competitors and suppliers to seek their views on the likely impact of the Transaction on the relevant markets.

3. Views were sought in each of the markets for the supply of: (i) heavy-duty trucks; (ii) city buses; (iii) intercity buses; (iv) coaches and (v) diesel engines.

4. In the supply of heavy-duty trucks, CCS contacted three suppliers, three competitors and five customers. Three responses were received, - one from a supplier, one from a competitor and two from customers. In the supply of city and intercity buses and coaches, CCS contacted five competitors, three suppliers and four customers. Responses were received from one competitor, two customers and one supplier. Finally, in respect of diesel engines, CCS contacted five competitors, six customers and three suppliers. Responses were received from three competitors and two customers.

5. The Transaction is a global acquisition and has been notified in Albania, Argentina, Brazil, the People's Republic of China, European Union, Israel, Japan, Columbia, Croatia, Macedonia, Mexico, Montenegro, Russia, Switzerland, Serbia, South Africa, Tunisia, Turkey, Ukraine, Uruguay and the United States of America.

6. At the end of the consultation process and after evaluating all the evidence, CCS has concluded that the Transaction, if carried into effect, will not infringe section 54 of the Competition Act.

II. The Parties

VW

7. VW is active globally in the development, manufacture, sale and distribution of motor vehicles, light commercial vehicles, trucks, buses, coaches, chassis for buses and diesel engines, each including spare parts and accessories. In addition, VW provides financial services relating to the distribution and financing of cars and light commercial vehicles.

8. The VW group holds 71.81% of the voting rights and 49.29 % of the shares in Scania. It is through this shareholding that the VW Group manufactures and distributes trucks, buses and chassis for buses. Scania, which has its own brand, carries out its research and development for trucks and buses mainly in Sweden and manufactures in several plants in Europe and Latin America.

9. The Parties submitted that for the financial year ending 31 December 2010, the global turnover for VW (including Scania), was S$214.89 billion and the Singapore turnover was [✂].[1]

MAN

10. MAN's headquarters are in Munich, Germany where it manufactures commercial vehicles, engines and mechanical engineering equipment, and supplies trucks, buses, diesel engines, turbo machinery as well as special gear units. MAN has its own brand and its products are operated under four separate legal entities: MAN Truck & Bus; MAN Latin America, MAN Diesel & Turbo and Renk.

11. The Parties submitted that for the financial year ending 31 December 2010, the global turnover, for MAN, was S$23.88 billion and the Singapore turnover was [✂].[2]

III. The Transaction

12. The notified Transaction is the acquisition of control of MAN by VW.[3] The largest single shareholder in MAN is VW, which used to have 29.9% of the voting rights and 28.7% of the shares in MAN.[4] However, on 9th May 2011,

[1] Paragraph 3.1.11 of Form M1.
[2] Paragraph 3.1.14 of Form M1.
[3] Paragraph 3.1.2 of Form M1.
[4] Remaining shareholders are foreign institutional shareholders, shareholders not subject to disclosure regulations and German institutional shareholders.

VW increased its interest to 30.47% of the voting rights and 29.2% of the shares. The increase in voting rights above 30% triggered obligations under German takeover law. In this proposed acquisition, VW is seeking to make a mandatory offer for the sole control of MAN, which would result in it having 55.9% of the voting rights and 53.71% of the share capital of MAN.

13. Following the Transaction, the Parties have submitted that the merged entity will create closer cooperation between MAN and Scania creating significant synergies, in particular in the fields of procurement, research and development, and production.[5]

14. [✄].[6]

15. VW's previous 28.7% shareholding in MAN did not provide it with any control of the company. Based on the Parties' submission that this Transaction is an acquisition of sole control, this Transaction constitutes a merger pursuant to section 54(2)(b) of the Act.[7]

IV. Competition Issues

16. The Parties submitted that there may be horizontal overlaps between VW and MAN in the Singapore markets for the supply of:

- Heavy-duty trucks
- City buses
- Intercity buses
- Coaches
- Diesel engines
- Repair and maintenance services.

Trucks

17. In the supply of heavy-duty trucks, VW is active in Singapore through Scania, which manufactures its trucks overseas and distributes them in Singapore via its own distribution arm. The trucks are modified in Singapore depending on the end-user's requirements e.g. trucks mounted with cranes. In these cases, Scania will appoint truck body builders.

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[5] Para 3.2.1, Form M1.
[6] Para 3.2.2, Form M1.
[7] Section 54(2)(b) provides that a merger occurs if one or more persons or other undertakings acquire direct or indirect control of the whole or part of one or more other undertakings.

18. MAN also manufactures heavy-duty trucks overseas but distributes its products through a sole distributor in Singapore, namely, ST Kinetics. Like Scania, the trucks are modified in Singapore depending on the end-user's requirements. In this case, ST Kinetics will appoint truck body builders.

19. In Section V, CCS has assessed the different types of heavy-duty trucks, the importance of brands, the importance of considering the cost of repairs and maintenance when purchasing a truck and the extent of choice the end-user of trucks would have post-merger.

Buses

20. In the supply of buses, VW is active in Singapore through Scania, which manufactures its buses overseas and distributes them in Singapore. Most of Scania's bus operations centre around the production of chassis, to which bodies are then added by specialist bus body-building companies, producing a tailor made end-product, the built-up bus. Scania will either deal directly with the end-users of buses or will supply chassis to bus body builders. Either way the buses carry the brand name of the chassis manufacturer.

21. MAN also manufactures buses overseas but distributes its buses through a sole distributor in Singapore, ST Kinetics.[8]

22. In Section V, CCS has assessed the different types of buses, the importance of brands, the role of the bus body builder and choice for the end-user of buses.

Diesel engines

23. The Parties overlap in the supply of diesel engines for marine, industrial and power generation applications.

24. Scania manufactures its diesel engines overseas and distributes its products itself in Singapore. Scania used to sell all its engines in Singapore through one distributor [✂], although it has currently established its own diesel engines department in Singapore. MAN manufactures its diesel engines overseas and sells them in Singapore through MAN Turbo.

25. The Parties submit that there is limited horizontal overlap in the supply of diesel engines. In Section V, CCS assesses whether this is the case.

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[8] MAN has an exclusive arrangement with ST Kinetics since [✂].

V. Relevant Markets

(a) Trucks

Product market

26. The Transaction affects the supply of heavy-duty trucks. Previous merger decisions by the European Commission ("EC")[9] suggest that the market for trucks can be divided into three different products according to gross vehicle weight:

- Light duty trucks (below five tonnes)
- Medium duty trucks (between five and 16 tonnes)
- Heavy duty trucks (above 16 tonnes).

27. CCS' review reveals that the technical requirements (in terms of engine, chassis and number of axles) of trucks of tonnage lower than 16 tonnes and trucks of tonnage above 16 tonnes are different. Heavy-duty trucks are mainly used for distribution and construction haulage (such as mining or transport of heavy materials like earth, concrete, coal and timber) and in waste disposal systems.[10] End-users include companies like [✂].[11]

28. Heavy-duty trucks are not viewed by customers as being interchangeable with light duty or medium duty trucks.[12] Further, the Parties submit that based on the EC's findings, there is limited supply-side substitution across the three categories of trucks.[13] There are technical differences, such as the engine type, axle type and number of axles, which means that light, medium and heavy-duty trucks are not produced on the same production lines.

29. Based on the above, CCS is of the view that the three categories of trucks constitute separate product markets.

30. As Scania is active only in the manufacture of trucks having a gross vehicle weight above 16 tonnes, CCS' assessment will focus on the heavy-duty segment only.

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[9] Case COMP/M.4336-MAN/Scania, Commission decision of 20.12.2006
COMP/M.1672-Volvo/Scania, Commission decision of 15.03.2000
[10] Para 1.12(b), Annex 2(A), Form M1 and [✂]
[11] [✂]
[12] Para 1.17a, Annex 2(A) Form M1.
[13] Para 1.17b Annex 2 (A) Form M1.

31. Heavy-duty trucks can be further categorised into "rigid" trucks and "tractor" trucks. Tractor heavy duty trucks (more commonly known as prime movers) are detachable units that allow for coupling with trailers. Rigid trucks, on the other hand, are integrated trucks with a longer single body. CCS found that truck manufacturers typically provide both types of trucks, although rigid trucks are more common.[14]

32. The Parties have submitted that certain customers may have a preference for either a rigid or tractor truck, depending on their application.[15] This is in alignment with feedback received from industry participants, which observes that from a customer's perspective rigid trucks and tractor trucks are not always fully substitutable as it depends on the end-user's requirements.[16] Such preferences stem from the way transport companies conduct their business and any perceived advantages of using trailers. In some cases, the end-user will not procure one specific type of truck but will generally procure across the range of tractor trucks and rigid trucks, to carry out different types of activities.

33. A distinction between rigid and tractor trucks is not made, as there is supply-side substitutability between these products. CCS' assessment is that the overall heavy-duty segment is the relevant product market.

34. The Parties have submitted that the repair and maintenance services are not separate markets and services are specific to the Parties' end-users.[17] Responses from suppliers and end-users indicate that when purchasing trucks, customers will take into consideration factors such as whole lifetime costs and the quality of after-sales services.[18] CCS is of the view that after-sales services, including the provision of repair and maintenance services and spare parts, forms part of the relevant product market for heavy-duty trucks.

35. On the supply-side, CCS found that the European brands compete aggressively with each other in the provision of after-sales service when encouraging customers to purchase their brand of trucks.[19] Once a customer has purchased a European truck, it is unlikely to switch to a third party provider for after-sales service. Customers generally receive a warranty[20] and

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[14] Para 1.29, Annex 2(A), Form M1.
http://www.volvotrucks.com/trucks/singapore-market/en-sg/trucks/Pages/productGuide.aspx and http://www.goldbell.com.sg/ProductDetail.aspx?BrandId=5&CompId=11
[15] Para 1.23, Annex 2(A), Form M1.
[16] [✂]
[17] Para 1.1 and para 1.2, Annex 2(D), Form M1.
[18] [✂]
[19] [✂]
[20] [✂]

some spare parts are only available from the manufacturer which reduces the scope to switch.[21] CCS also received some feedback that customers are of the view that manufacturers have better product knowledge and hence would prefer to have their servicing requirements met by their supplier.[22] To do so, customers would purchase a service contract from the manufacturer, in addition, to the truck purchase.[23] As the Parties[24] have stated, and as confirmed by CCS' review, truck manufacturers provide repair and maintenance services to their own customers and the services are brand-specific.

Geographic market

36. The engine, cab[25] and chassis for trucks are manufactured outside of Singapore. They are imported either through the manufacturers' own distribution channels, which is the case with Scania, or through a distributor based in Singapore, which is the case with MAN. The trucks are then assembled according to customer requirements by local truck body builders. Given that end-customers typically purchase fully assembled trucks from local dealers and the overlap in Singapore concerns distribution and supply, CCS considers the relevant geographic market to be national.

(b) Buses

Product market

37. The Parties have submitted that the merging parties overlap in the supply of city buses, intercity buses and coaches and the potential market for chassis for buses and coaches in Singapore.[26]

38. The Parties have submitted that for the purposes of the notification, given the differences in characteristics, uses and customer groups of city buses, inter-city buses and coaches, the relevant product markets are likely to be segmented along the lines of city buses, inter-city buses and coaches. The Parties have relied on the decision of the EC in *MAN/Scania* to support this view.[27]

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21 [✂]
22 [✂]
23 [✂]
24 Para 1.9, Form M1, Annex 2 (D).
25 The cab of a truck is an enclosed space in a truck where the driver is seated.
26 Paragraph 1.1, Annex 2(B) of Form M1.
27 Paragraph 1.14, Annex 2(B) of Form M1.

39. The Parties have defined separate markets for city buses, inter-city buses and coaches. City buses are used for public transport in urban areas and can carry a large number of passengers over relatively short distances. City buses tend to have a lower floor and several doors for rapid passenger entry and exit. Inter-city buses, on the other hand are designed for public overland transport in rural districts and inter-city travel. [28] Inter-city buses are normally not luxuriously equipped and do not have a low floor.[29] Coaches are intended for leisure purposes, mainly for long distance tourist travel, and are normally equipped with storage space for luggage, air conditioning, toilets and television screens.[30]

40. The Parties have submitted that bus manufacturers do not produce buses in their integral form but only supply the chassis for a bus. The Parties have also identified the three different types of bus suppliers, namely (i) fully integrated bus and chassis manufacturers[31], (ii) non-integrated bus manufacturers[32] and (iii) body builders[33]. The Parties have identified MAN as a fully integrated bus manufacturer and Scania as primarily a chassis manufacturer.[34]

41. From a demand perspective, the Parties stated that there is only demand for full buses and not for chassis in practice. Competition between bus manufacturers are thus for the delivery of an entire bus and not for a chassis. Accordingly, in the Parties' view, there should be no separate market for the sale of chassis to final bus customers.[35]

42. Feedback received from third parties largely accord with the submissions made by the Parties in relation to commercial practices for the purchases of buses. CCS understands from industry participants that purchasers of buses would typically choose the chassis that they wish to purchase and have the bodies of the buses customised by body builders. When tendering or making a proposal for such projects, the supplier would typically provide the customer with quotations for the chassis as well as a range of quotations provided by body builders from whom the customers can choose to work

[28] Paragraph 1.15, Annex 2(B) of Form M1.
[29] Paragraph 1.16, Annex 2(B) of Form M1.
[30] Paragraph 1.17, Annex 2(B) of Form M1.
[31] These companies produce integral buses as well as chassis and have their own main components (in particular engines).
[32] Non-integrated manufacturers source some key components (for example the engines) from other companies. However, they do build and offer complete buses on the basis of their own chassis.
[33] Body-builders build complete buses by adding a body to a chassis manufactured by a chassis manufacturer.
[34] Paragraph 1.7(a), Annex 2(B) of Form M1.
[35] Paragraph 1.21, Annex 2(B) of Form M1.

with. Where the customers have preferred body builders, it is our understanding that the suppliers of the chassis will deliver a full bus to the customers by working with the nominated body builder.[36]

43. Responses from third parties also indicate that there is a difference between city buses, intercity buses and coaches in terms of the specifications of the chassis, the specifications of the bus bodies, price, usage as well as the customer base for the different types of buses.[37] In this regard, CCS agrees with the Parties' proposed product market definitions. CCS found no evidence to suggest that any narrower product segments should be considered. The degree of competitive constraint from competitors of the merger parties, within each of the relevant markets, are analysed in the competition assessment.

44. CCS also concludes that each of the product markets for buses and coaches would also include repair and maintenance services as they are part of the considerations made by customers when deciding which bus manufacture they choose to purchase with.[38] [✂].[39]

45. CCS also notes that in these markets, within Singapore, the primary competitors are the distributors of the various brands of bus and chassis manufacturers, as opposed to the bus manufacturers themselves.

Geographic market

46. The Parties have submitted that customers of city buses are normally public or private operators which offer scheduled public transport services within Singapore. Further, city buses tend to be customized in order to meet the requirements of the customer and technical standards, regulatory and other licensing requirements required by the Land Transport Authority.[40] Similarly, the Parties have submitted that the relevant geographic market for the supply of intercity buses and coaches is at least Singapore-wide as manufacturers are based in Asia.[41]

47. CCS notes that while the chassis for the different types of buses are manufactured outside of Singapore, the body builders are located in Singapore. Feedback received from industry players also indicate that due to

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[36] [✂]
[37] [✂]
[38] [✂]
[39] Para 2.2, Annex 2(D) of Form M1.
[40] Paragraph 1.24, Annex 2(B) of Form M1.
[41] Paragraphs 1.27 to 1.30, Annex 2(B) Form M1.

transportation costs, it is not usual that whole buses will be imported directly into Singapore.[42]

48. For the purposes of examining the effects of the Transaction in Singapore, CCS has considered the state of competition between distributors of buses in Singapore and the extent of choice for the end-user. From the demand perspective, customers purchase entire buses and will either source directly with the chassis manufacturer who will sub-contract with a bus body builder or will purchase from a bus body builder who will sub-contract with the chassis manufacturer. Consequently, CCS considers the relevant geographic market to be national.

(c) Diesel Engines

Product market

49. This Transaction affects the supply of diesel engines for industrial, marine and power generation applications. Industrial diesel engines are used in equipment for construction, agriculture, forestry and container handling. Marine diesel engines are used for commercial applications like ferries, fishing vessels, as well as for leisure boats. Diesel engines for power generation (also called GenSets) are used in generators for prime power and emergency applications.

50. The Parties submit that diesel engines are used in a broad range of applications.[43] The choice of engine for each application depends on a variety of factors like size, power, weight, speed, torque and cost. It is the combination of these factors that determines the engine's performance.

51. In previous decisions[44] the EC had considered there to be product markets according to the end use of different engines, namely:

- Industrial
- On-highway trucks
- Power generation
- Marine applications.

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[42] [✂]

[43] Para 1.1 Annex 2(C), Form M1.

[44] Case COMP/M.5157-Volkswagen/Scania, Commission decision of 13.06.2008
COMP/M.4336-MAN/Scania, Commission decision of 20.12.2006
COMP/: M.1094-Caterpillar/Perkins Engines, Commission decision of 23.02.1998.

52. CCS' assessment is that the same approach as the EC should be taken, as it is consistent with our enquiries. While it might be possible to segment the markets further, it is not necessary to do so as the competition assessment is not sensitive to the relevant product market.

53. On-highway trucks are not considered further, as there is no overlap. Only MAN offers on-highway engines for trucks and buses to third parties.

54. CCS has concluded that diesel engines for each of these applications include repair and maintenance services for those engines. This is because on the demand side, customers of engines will take into account the cost of repairs and maintenance[45]and on the supply-side suppliers will compete to provide high quality after-sales service and will only provide services to their own customers.[46]

Geographic market

55. Diesel engines are manufactured outside of Singapore. The engines are imported either through the manufacturer's own distribution, which is the case with MAN, or through a distributor based in Singapore. These distributors supply different brands of engines throughout Singapore. Therefore CCS considers the relevant geographic market to be at least national.

VI. Competition Assessment

Heavy-duty trucks

56. In the supply of heavy-duty trucks, market share estimates were provided by the Parties by volume, namely by vehicle registration (units).[47] These are shown in the table below.

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[45] Para 8.16, Response to CCS letter dated 15 August 2011 and [✂]

[46] Para 1.3, Annex 2(D), Form M1.

[47] The Parties were unable to find sources of market shares based on sales value, and submitted monthly vehicle registration for trucks (published by the Motors Traders Association) as a proxy.

Table 1: Market shares for the supply of heavy-duty trucks between 2008 - 2010

Company/Product	2008		2009		2010	
	Sales Volume	Market Share %	Sales Volume	Market share %	Sales Volume	Market share %
Scania	[✂]	[0-10]	[✂]	[5-15]	[✂]	[5-15]
MAN	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
Combined	[✂]	**[5-15]**	[✂]	**[10-20]**	[✂]	**[15-25]**
Mitsubishi	[✂]	[35-45]	[✂]	[40-50]	[✂]	[30-40]
Isuzu	[✂]	[15-25]	[✂]	[10-20]	[✂]	[15-25]
Hino	[✂]	[10-20]	[✂]	[5-15]	[✂]	[10-20]
Nissan	[✂]	[10-20]	[✂]	[5-15]	[✂]	[0-10]
Daimler-Mercedes	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
Volvo	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
Others	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
Total	[✂]	100	[✂]	100	[✂]	100

Source: Motor Traders Association (MTA) Report: Monthly Vehicle Registration

57. Post-merger, the estimated market share for the merged entity, (both Scania and MAN,) has been estimated to be 15-25% in 2010, which is significantly below the CCS threshold of 40%. The post-merger three-firm concentration ratio (CR3) is estimated to be 65-75%.

58. In the supply of heavy-duty trucks, post-merger, the competitors would continue to include other European manufacturers like Daimler (Mercedes), Volvo and Japanese manufacturers like Mitsubishi, Isuzu, Nissan and Hino. These competitors would provide some constraint for heavy-duty trucks with a weight of 16-50 tonnes. The maximum weight for MAN's heavy-duty trucks is 50 tonnes and this is also the maximum weight for Japanese trucks.[48] However, Scania and Volvo have a maximum weight range from 16 tonnes to 250 tonnes and 100 tonnes respectively.[49] Therefore, the Transaction will not result in an overlap in the market for heavy-duty trucks above 50 tonnes.

59. CCS found that a customer's demand for a heavy-duty truck will not just be based on weight but will vary according to its size and purpose, namely whether the truck forms a core part of its business and is suitable for its use and business needs. Feedback from the industry is that there are some

[48] Response to CCS Letter dated 15 August 2011.
[49] Ibid.

customers that have a tendency to purchase European brands due to the preference for a perceived premium brand with high quality after-sales services and the desire to invest in a reliable truck that will last a long period of time.[50] On the other hand, there are some customers who would prefer a brand that is more affordable to their needs.[51]

60. Apart from quality, fuel consumption is a further distinguishing factor for heavy-duty trucks, as those manufactured by European and Japanese products have better fuel consumption specifications relative to heavy-duty trucks manufactured by Chinese producers.[52]

61. CCS found that the Parties and industry participants made a distinction between European and Japanese manufacturers.[53] However, it appears that the presence of Japanese brands in the market nevertheless provides a competitive constraint on the European brands.[54] CCS found that not only do Japanese brands provide an acceptable level of service and economical spare parts, the strength of these brands lies in their price competitiveness.[55] Prices for Japanese heavy-duty trucks were estimated to be [✂] lower compared to European brands.[56] However, this gap has been eroded with the recent appreciation of the Japanese Yen and the depreciation of the Euro and the need for Japanese manufacturers to incur the cost of meeting Euro IV emission standards. The price difference is now estimated to be [✂][57], making European trucks more affordable for some marginal customers.

62. Among the European brands, Scania is the established market leader, followed closely by MAN.[58] [✂][59] [✂].[60] [✂].[61] [✂][62] [✂][63][✂].[64]

63. CCS found that overseas manufacturers could easily expand into the distribution and supply of heavy-duty trucks in Singapore. Expansion requires local knowledge, sales team and the ability to provide after-sales

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[50] [✂]
[51] [✂]
[52] Para 8.3, Response to CCS letter dated 15 August 2011
[53] Para 2.10, Annex 2(A), Form M1, Para 8.3 Response to CCS letter dated 15 August 2011 and [✂]
[54] Para 3.1, [✂] and [✂]
[55] [✂]
[56] [✂]
[57] Para 2.10, Annex 2(A), Form M1.
[58] [✂]
[59] [✂]
[60] Para 2.12, Annex 2(A), Form M1.
[61] Ibid and [✂]
[62] Para 8.8. Response to CCS letter dated 15 August 2011.
[63] [✂]
[64] [✂]

services and spare parts.[65] This could be achieved by appointing a local dealer. For instance, CCS found that DAF has entered Singapore, with Scantruck as its distributor.

64. CCS also found some evidence of countervailing buyer power. Customers, such as [✂], DHL[66], [✂] and Exxon Mobil Corporation[67] are large end-users of heavy-duty trucks in Singapore.[68] Approximately [✂] of Scania's customers are categorized as large fleet customers that have more than [✂] units of heavy-duty trucks and thus have the buying power to engage aggressively in price negotiations.[69] CCS' review found that all the main overseas manufacturers are present in Singapore and there is scope for buyers to play them off against each other.[70] Contractual relationships between buyers and dealers are uncommon in the market, and large volume contracts are typically tendered.

65. The Parties submit that co-ordinated effects will not arise in the supply of heavy-duty trucks due to the presence of countervailing power, excess capacity, fringe competitors, low barriers to entry and the heterogeneity of the product.[71] CCS' review finds that the constraint provided by existing competitors and large sophisticated customers and the fact that end-customers have different requirements makes the scope for co-ordinated market power, post-merger, unlikely.

66. CCS is of the view that the Transaction would not result in a substantial lessening of competition in the supply of heavy-duty trucks in Singapore, due to competition from existing competitors and buyer power from large fleet customers.

City Buses

67. In the market for city buses, there are essentially two large customers, both of which hold competitive tenders for all their requirements. The Parties have submitted information on the tenders called and awarded by SBS Transit Ltd and SMRT Corporation Ltd. These are shown in the table below.

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[65] Para 6.1.2, [✂] and [✂]
[66] Outside of Singapore DHL has a contract with Scania. http://www.scania.com/media/pressreleases/N09027EN.aspx
[67] Scania has an agreement with Exxon Mobil http://www.scania.com/media/pressreleases/2003060412en.aspx
[68] Para 2.20, Annex 2(A), form M1
[69] Para 2.20, Annex 2(A), Form M1
[70] [✂]
[71] Para 2.34, Annex 2(A), Form M1.

Table 2: Tender Results for SBS in Singapore from 2004-2010

Year	Tender Awards					
	Scania	**MAN**	**Volvo**	**Daimler**	**Others**	**Total**
2004	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2005	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2006	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2007	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2008	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2009	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2010	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Table 1, Annex 2(B) Form M

Table 3: Tender Results for SMRT in Singapore from 2004-2010

Year	Tender Awards					
	Scania	**MAN**	**Volvo**	**Daimler**	**Others**	**Total**
2004	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2005	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2006	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2007	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2008	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2009	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2010	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Table 2, Annex 2(B) Form M1

68. The table above shows that SBS generally buys around [✂] buses a year. [✂].[72] CCS found that generally [✂].[73]

69. With regards to SMRT, the table above shows that they [✂].[74]

70. While the Transaction is likely to reduce competition by one less bidder in the tender process for SBS and SMRT, CCS considers that the merged entity is likely to be sufficiently constrained from other credible European bidders which include [✂].[75]

71. Further, the Parties submit that other Chinese based competitors such as Yutong, Shanghai Sunlong Bus Co. Ltd, Zhong Tong and King Long are actively supplying trial buses to SBS and SMRT, with the view of

72 [✂]
73 [✂]
74 Para 2.5, Annex 2(B), Form M1.
75 [✂]

participating in future tenders.[76] [✂] media releases from SMRT and SBS confirm that both are trialing environmentally friendly hybrid buses from China.[77]

72. The two key customers of city buses, SMRT and SBS, who are large listed companies are likely to possess countervailing power. Such customers are large fleet customers and are very price sensitive with an extensive knowledge of the product and the market.[78] [✂].[79]

73. The merger is unlikely to increase the likelihood of co-ordinated market power. As mentioned above, the supply of city buses is undertaken through a tender process. Post merger, the two largest customers would be able to continue to design a tender that would reduce the scope for collusion. Further, it should be noted that customers have different requirements for city buses, which would make it difficult for competitors to co-ordinate their prices. Also, competitors each have their own well-established brands and are likely to continue to behave in a way that protects the brand.

74. CCS is of the view that the Transaction would not result in a substantial lessening of competition in the supply of city buses in Singapore, due to the presence of existing competitors, possible entry and the strength of the buyer power of the customers.

Inter-city buses and Coaches

75. In the supply of intercity buses and coaches, the Parties have submitted market share estimates by volume, based on vehicle registration (unit) by the MTA. However, the statistics available do not differentiate between inter-city buses and coaches.

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[76] Para 2.5 Annex 2(B) Form M1.
[77] http://www.sbstransit.com.sg/press/2010-07-20-01-S.aspx and http://www.smrt.com.sg/Upload/20111181453536161161.pdf and [✂]
[78] Paragraph 2.28, Annex 2(B) of Form M1.
[79] [✂]

Table 4: Market shares for intercity buses and coaches between 2008-2010

Company/Product	2008		2009		2010	
	Sales Volume	Market Share %	Sales Volume	Market share %	Sales Volume %	Market share %
Scania	[✂]	[5-15]	[✂]	[5-15]	[✂]	[5-15]
MAN	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
Combined	[✂]	**[10-20]**	[✂]	**[5-15]**	[✂]	**[10-20]**
Isuzu	[✂]	[35-45]	[✂]	[25-35]	[✂]	[20-30
Mitsubishi	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
Daimler-Mercedes	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
Others*	[✂]	[40-50]	[✂]	[55-65]	[✂]	[50-60]
Total	[✂]	100	[✂]	100	[✂]	100

Source: MTA Report: Monthly Vehicle Registration
*includes [✂]

76. In the markets for inter-city buses and coaches in Singapore, the market share of the merged entity in the combined markets would be approximately 10-20% and the post-merger, CR2 would be 35-45%. This falls below CCS' indicative threshold. CCS is of the view that the overlap is limited. [✂].

77. In Singapore, intercity buses and coaches are used by express bus operators using the bus to carry passengers, between Singapore and Malaysia, and within Singapore.[80] Coaches will also be used by tour operators in Singapore. The markets for intercity buses and coaches in Singapore are characterized by distributors for brands of manufacturers from Europe and countries in Asia such as China and Japan.[81] The Parties have submitted that due to the fragmentation of the market, no manufacturer accounts for a stable majority of the market shares. Market share estimates currently show that a large segment of market shares is attributed to competitors who are primarily composed of [✂].[82]

78. CCS found that end-users will have different requirements which will determine the extent to which European, Japanese and Chinese brands are substitutable.[83] For instance, CCS understands that Chinese buses are a popular choice for school and factory buses, as well as tour operators.[84] CCS

[80] [✂]
[81] [✂]
[82] Paragraph 2.38, Annex 2(B) of Form M1
[83] [✂]
[84] [✂]

was informed that Chinese buses offer basic specifications as opposed to European buses that offer additional safety and comfort options. CCS also found that Chinese coaches had a greater presence in this market than European brands.[85]

79. The Parties have submitted that there are no prohibitive barriers to entry for new competitors to enter the market. The Parties have also cited examples of China-based manufacturers, such as King Long and Golden Dragon increasing their presence in Singapore for intercity buses and coaches.[86]

80. CCS notes that industry players have similarly indicated that barriers to entry are fairly low where new entrants can enter the market once they obtain a distributorship.[87] There are no significant technical or regulatory requirements which new entrants have to meet. Before buses and coaches can be registered for use in Singapore, they must comply with Euro IV exhaust emission standards.[88] Feedback received from both competitors and customers also confirms the entry of bus manufacturers from China in recent years.[89] Feedback from customers also indicates that as long as their specifications are met, the main factor taken into consideration is price.[90]

81. The observations of the Parties are in alignment with the feedback received from CCS which indicates that while European brands are deemed to be premium brands, there is some degree of substitutability with brands from Asia-based manufacturers such as China and Japan.[91] [✂].[92]

82. For intercity buses, customers will either obtain a few quotations or purchase via tender. In these instances, customers are likely to exercise some buyer power.[93]

83. As mentioned before, end-user requirements for intercity-buses and coaches are varied. This makes the market less transparent and difficult to co-ordinate behavior. In particular, it is difficult to conduct price comparisons with the different types of intercity buses and coaches due to varied customer requirements like the size of the coach and engine type. CCS considers that this will continue to be the case post-merger.

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85 [✂]
86 Para 2.17, Annex 2(B) Form M1.
87 [✂]
88 Para 12.3, Response to CCS letter dated 15 August 2011.
89 [✂]
90 [✂]
91 [✂]
92 [✂]
93 [✂]

84. CCS finds that in the supply of intercity buses and coaches in Singapore, the Transaction would not result in a substantial lessening of competition due to existing and potential competition in each of the markets.

Diesel Engines

85. The table below shows market share estimates for the supply of diesel engines for each of the markets defined, namely industrial, marine and power generation diesel engines in Singapore. Market shares are by volume, measured by number of units sold.

Table 5: Market share for the supply of diesel engines for industrial, marine and power generation applications in Singapore between 2008-2010

Company/Product	**2008**		**2009**		**2010**	
	Sales Volume	Market Share %	Sales Volume	Market share %	Sales Volume	Market share %
Industrial						
Scania	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
MAN	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
Combined entity-Industrial	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
Total-Industrial	[✂]	100	[✂]	100	[✂]	100
Marine						
Scania	[✂]	[0-10]	[✂]	[0-10]	[✂]	[0-10]
MAN	[✂]	[0-10]	[✂]	[10-20]	[✂]	[10-20]
Combined-Marine	[✂]	[0-10]	[✂]	[10-20]	[✂]	[10-20]
Total-Marine	[✂]	[100]	[✂]	[100]	[✂]	[100]
Power Generation						
Scania	[✂]	[0-10]	[✂]	[0-10]	[✂]	[5-15]
MAN	[✂]	[0-10]	[✂]	[0-10]	[✂]	[5-15]
Combined-Power Generation	[✂]	[3.4-10]	[✂]	[5-15]	[✂]	[15-25]
Total –Power Generation	[✂]	[100]	[✂]	[100]	[✂]	[100]

Source: Annex 2 (C)-1, Form M1

Notes: The maximum market share estimate has been adopted. The total size of the market is based on the minimum range from International Engine Statistics group data. The Parties were unable to find data sources for market shares for competitors.

86. The table above shows that Scania and MAN had [✂] of industrial engines in Singapore from 2008 to 2010. Further, there would be limited potential overlap in the types of diesel engines supplied for industrial applications. VW produces lower powered industrial engines (18 and 75 kW) while Scania and MAN produced higher powered diesel engines. Scania's product is within the 202-515kW range and MAN's engines are powered up to 882 kW.

87. The table above shows the market shares for the merged entity in the supply of diesel engines for marine applications. As can be seen, over the past three years, the Parties sales in Singapore [✂]. Now all sales in Singapore are made by Scania itself.

88. Even if Scania's or MAN's sales of marine diesel engines were to increase, there would be limited overlap as both parties serve different marine customers at different power ranges. Scania produces engines for marine applications with an output between 199- 661 kW. MAN's engines range from 177-1,324kW. Further, MAN mainly sells engines for luxury yachts or leisure boats, whereas Scania sells engines for commercial marine applications. VW is active in the supply of engines for leisure boats but only for low power ranges.

89. In the supply of diesel engines for power generation, post merger the merged entity would have a market share of 15-25% in 2010. Both Scania and MAN produce diesel engines for GenSets with power output between 226-1,17kW. VW again is only active in the lower price range from 20kW to 36kW. Post merger, the merged entity would continue to be constrained from existing competitors, which include [✂]. CCS confirmed that these competitors are credible alternatives to end-customers.[94] They are able to provide diesel engines in a wide power range, which would meet customer requirements. At the high power-end, there would be [✂].

90. In each of the markets for diesel engines in Singapore, CCS finds that there would be no substantial lessening of competition, as there would continue to be a sufficient number of suppliers for end-users to choose from.

[94] [✂]

VII. Efficiencies

91. CCS found that the Transaction may potentially lead to costs savings. The Parties predict that short-term synergies will be realised from close co-operation in the field of procurement, resulting from joint purchase of larger numbers and quantities.[95] VW estimates these short-term synergies amount to at least S$341.1 million. In the long-term, the Parties are of the view that there may be other potential synergies like in the field of development and production.[96] However due to insufficient evidence, CCS is unable to take these claimed efficiencies into account in the assessment of the Transaction.

VIII. Conclusion

92. For the reasons above and based on the information available, CCS assesses that the Transaction, if carried into effect, would not give rise to a substantial lessening of competition in any market in Singapore, and accordingly would not infringe the section 54 prohibition.

Yena Lim
Chief Executive
Competition Commission of Singapore

[95] Para 2.17, Annex 2(C)
[96] Para 2.1.8 Annex 2(C)