



Competition  
Commission  
SINGAPORE

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

### **Grounds of Decision issued by the Commission**

#### **Notification for Decision: Anticipated Merger of Labroy Marine Limited and Dubai Drydocks World LLC**

**6 December 2007**

**Case number: CCS 400/008/07**

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

## **I. INTRODUCTION**

1. On 30 October 2007, the Commission received a notification for decision pertaining to an anticipated merger, involving the acquisition of Labroy Marine Limited (“LML”) by Dubai Drydocks World LLC (“DDW”) (collectively referred to as “the parties”).
2. The Commission has concluded that the notified anticipated merger, if carried into effect, will not infringe the section 54 prohibition.

## **II. THE PARTIES**

3. DDW is ultimately owned by the Government of Dubai, and is the holding company of two entities, Drydocks World - Singapore Limited (“DWSL”), which was previously known as Pan-United Marine Limited<sup>1</sup> (“PUM”), and Dubai Drydocks (“DD”).
4. DD operates in Europe and the Far East, and provides a range of marine-related services including ship repairs, ship conversions and specialised ship construction. DD does not have any operations in Singapore. DWSL is headquartered in Singapore, and owns and operates two fully equipped shipyards

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<sup>1</sup> Pan-United Marine Limited had changed its name to Drydocks World - Singapore Limited with effect from 12 October 2007.

in Singapore and Batam, Indonesia. DWSL's principal business is the provision of shipbuilding, repair and conversion services, anchorage and voyage repair and other marine related services for a broad range of vessels.

5. LML is a marine construction and engineering group headquartered in Singapore, with core businesses in shipbuilding, ship repair and offshore rig construction. LML has two full-service shipyards in Batam, Indonesia, and also offers shipping services.

### **III. THE MERGER**

6. The transaction involves a voluntary conditional cash offer by DDW for all the issued and paid-up ordinary shares of LML. The offer is subject to two conditions: (i) that DDW receives valid acceptances of LML's shares carrying more than 65% of the voting rights, and (ii) that the Commission issues a favourable decision in terms satisfactory to DDW and does not refer the notified anticipated merger to a Phase 2 review.

### **IV. RELEVANT MARKETS**

#### **Product market**

##### Parties' submission

7. The parties submit that there are two relevant product markets:

- a. a single market comprising:
  - shipbuilding,
  - ship repair, and
  - ship conversionfor all commercial vessels; and
- b. the market for rig-building.

8. As regards the market for shipbuilding, ship repair and conversion, the parties submit that all three activities fall within the same relevant product market. The parties say that the activities all use the same factors of production, such that a shipyard can enter into any of the activities in a relatively short time. Each activity thus imposes a competitive constraint on the other. The parties acknowledge that there are some shipyards that specialize solely in ship repair and ship conversion and which do not have the capabilities to delve into shipbuilding, but say that such shipyards are small in scale and would not significantly affect the overall relevant market definition.

9. As regards the market for rig-building, the parties submit that while LML is active in the rig-building industry, DDW has to date only built rig hulls for two

semi submersible rigs. The parties note that this accounts for less than [x] of DD's 2006 turnover and thus does not represent a significant part of DDW's operations.

#### Commission's assessment

10. The Commission's investigations show that shipyards are generally equipped to handle shipbuilding, ship repair, and ship conversion activities, although respondents to the Commission's investigations also noted that there are shipyards that specialise in ship repair and conversion. Respondents to the Commission's investigations also indicated that most shipyards are capable of building, repairing and converting a range of commercial vessels, including those that the parties have built in the past.

11. The Commission also examined alternative narrower market definitions. Specifically, the Commission examined whether ship repair and conversion, on the one hand should form a separate relevant product market from shipbuilding on the other. The Commission also examined whether the market for shipbuilding could be further segmented, according to the size and type of the vessel. The Commission found that competition concerns will not arise even if the narrower market definitions are adopted. As such, the Commission considers that a precise market definition is not necessary in this case.

12. As regards the rig-building market, the question of whether rig-building constitutes a relevant product market in itself or constitutes the same product market as ship building can be left open (the Commission notes that a number of rig-building yards build ships as well), as no competition concerns arise under either product market definition.

#### Geographic market

##### Parties' submission

13. The parties submit that the relevant geographic market is global, as customers of shipbuilding, repair and conversion services can, and do as a matter of practice, switch between shipyards located anywhere in the world. As regards shipbuilding, the parties argue that ship owners are generally free to procure shipbuilding services from shipyards around the world. As for ship repair and conversion, the parties submit that the flag, origin or homeport of the vessel has little or no influence as to where it undertakes repairs.

14. Similarly, the parties submit that the rig-building market is a global one, as customers can, and do as a matter of practice, place their rig orders with providers anywhere in the world.

##### Commission's assessment

15. As regards shipbuilding, respondents to the Commission's investigations

indicate that the selection criteria for shipbuilding services include delivery time, past relationship, quality of products, and other factors. Location of the shipyards does not appear to be as critical a factor, and respondents commented that they would consider shipyards located anywhere in the world. Examination of the record of sales by the parties also lends support to the inference that the relevant market for shipbuilding is a global one. Hence, the Commission considers that the relevant geographic market for shipbuilding services is worldwide.

16. As for ship repair and conversion, the Commission's investigations indicate that more weight is given to proximity of the shipyard, with respondents indicating a preference for shipyards closer to the region where the ship is deployed. Inputs from respondents to the Commission's investigations tended to indicate that the relevant geographic market for ship repair and conversion services is the Southeast Asian region, including countries such as Malaysia, Indonesia, Thailand and Vietnam and The Philippines. As information on the turnover figures for the ship repair and conversion market in Singapore was available but not for the Southeast Asian market, the Commission used these figures as proxy indicators and found that there were no competition concerns, if the market could be defined to be a Singapore market. As such, it was unlikely that there would be competition concerns in the broader Southeast Asian market. The Commission thus considers that the precise geographic market definition for the ship repair and conversion market, ie whether it is a global or a regional market, can be left open.

17. For the rig-building market, the Commission agrees that the relevant geographic market is worldwide. Results of the Commission's investigations supported the parties arguments that rig orders can be placed with providers anywhere in the world.

## **V. COMPETITIVE ASSESSMENT**

### **Market concentration**

#### **Shipbuilding**

18. For the shipbuilding market, the parties provided the Commission with market shares for existing orders from 2007 and beyond<sup>2</sup>. The Commission considered the parties' worldwide market shares for the group of vessel categories built by the parties. Specifically, the categories of vessels built by the parties are as follows:

- a. Handy products tankers;
- b. Other specialised tankers;
- c. Offshore vessels;
- d. Miscellaneous vessels;

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<sup>2</sup> Based on Clarkson Research Services' Shiptype Orderbook Monitor, August 2007.

- e. Handysize bulkers; and
- f. Other dry cargo vessels.

19. The market share of the parties, measured by dividing the number of the parties' existing orders against the total number of orders worldwide for these 6 categories of vessels, are as shown in **Table 1**:

**Table 1: Worldwide shipbuilding market shares for the market comprising the 6 categories of ships built by one or more of the parties**  
Scheduled Delivery: 2007 – 2013.

	Existing orders	Total existing orders	Market share (%)
DDW	[1-10]	[2500-2700]	[0.20-0.30]
DWSL	[20-30]		[0.90-1.00]
LML	[40-50]		[1.50-1.60]
<b>DDW+DWSL+LML</b>	<b>[70-80]</b>		<b>[2.80-2.90]</b>

Source: Clarkson Research Services' Shiptype Orderbook Monitor, August 2007

20. The Commission also examined the parties' worldwide market shares for *each* of the 6 categories of ships, calculated according to the number and tonnage of existing orders (the market share figures are appended in Annex A). The parties' combined market shares for each of the 6 shipbuilding markets also fall well below the indicative thresholds in the CCS Guidelines.

#### Ship repair and conversion

21. The Commission conducted its analysis for the ship repair & conversion market on the premise that the relevant geographic market definition is that of Singapore. Even under this narrow market definition, the Commission found that the parties' market shares, reflected in Table 2, fall well below the CCS' indicative thresholds.

**Table 2: Singapore market shares, ship repair and conversion, 2006**

	Turnover (\$ million)	Market share (%)
DWSL	160	3.25
LML	486	9.92
<b>DWSL+LML</b>	<b>646</b>	<b>13.18</b>
Total turnover in Singapore*	4,900	100

\*Source: Association of Singapore Marine Industry, [www.asmi.com](http://www.asmi.com)

22. It should be noted that the figure for the total turnover (i.e. \$4,900 million) is for ship repair and conversion activities in shipyards within Singapore only, *i.e.* it does not include activities in yards outside of Singapore. (The Commission was unable to obtain total turnover figures for ship repair and conversion in the broader Southeast Asian region.) The turnover figures for the parties in Table 2 are for their ship repair and conversion activities in their shipyards in Singapore and Batam.<sup>3</sup> This being the case, the parties' actual market shares based on Singapore turnover figures, being our market proxy indicator for the Southeast Asian region,

<sup>3</sup> In the case of LML, the turnover figure includes LML's total turnover for shipbuilding, repair and offshore engineering.

should be lower than the figures in the table.<sup>4</sup>

### Rig-building

23. For the rig-building market, the Commission found that the combined worldwide market share of LML will be 3.1%, in terms of newbuilds (see **Table 3**).

**Table 3: Worldwide Jackup and Floater backlog, as at June 2007**

	<b>Jackups</b>	<b>Floater</b>	<b>Total</b>	<b>Market share (%)</b>
Keppel FELS and Keppel AmFELS	[20-30]	[1-10]	[30-40]	[28.0-29.0]
Samsung Heavy Industries		[10-20]	[10-20]	[10.0-11.0]
Jurong	[1-10]	[1-10]	[10-20]	[10.0-11.0]
PPL Shipyard Pte Ltd	[10-20]		[10-20]	[8.0-9.0]
<b>LML</b>	<b>[1-10]</b>		<b>[1-10]</b>	<b>[3.0-4.0]</b>
Total worldwide	[70-80]	[50-60]	[120-130]	100

Source: June Monthly Oilfield Drilling Update, Credit Suisse, 14 June 2007

24. Given the small market shares of LML in this market, and given DD's limited activities in the supply of rig hulls, the Commission is of the view that it is very unlikely that the merger will raise any competition concerns in this market.

### Non-Coordinated effects

25. Due to the parties' low market shares and the presence of other strong competitors, the Commission is of the view that the merger will not result in non-coordinated effects either in the shipbuilding or rig-building markets.

26. In the course of its investigations, the Commission received some feedback that the merger may have adverse impact on competition in the ship repair industry. Specifically, fears were raised that the merger could reduce the number of alternatives for repairing medium-sized vessels, such as offshore support vessels, which are commonly repaired by the parties. However, the Commission's investigations revealed that while the repair of such vessels is not considered a high priority by larger shipyards in Singapore, these larger shipyards can and in fact have undertaken ship repair activities for medium-sized vessels such as offshore support vessels. As such, the Commission is of the view that larger competitor shipyards in the Southeast Asian region can serve as a competitive constraint on the parties. The Commission received feedback that repairs can also be carried out in countries, such as Malaysia, Indonesia, The Philippines, Thailand and Vietnam, albeit that the shipowner would have to weigh the increased cost of travel to these destinations against any discount in price, which these yards might charge for ship repair/conversion service.

<sup>4</sup> The Commission is not in a position to reveal the market shares of the other individual players in the market for ship repair and conversion in Singapore.

## **Coordinated Effects**

27. The Commission's investigations also did not reveal that the relevant markets for shipbuilding, ship repair & conversion and rig-building were conducive to coordinated effects.

## **VI. CONCLUSION**

28. For the reasons stated above and based on the information available to the Commission, the Commission has assessed that the proposed merger, if carried into effect, will not infringe the section 54 prohibition.

29. In accordance with section 57(7) of the Competition Act, this decision shall be valid for a period of 1 year from the date of this decision.



Foo Tuat Yien (Ms)  
Acting Chief Executive  
Competition Commission of Singapore

**Table 1(a): Market shares in the handy products tankers market**  
**Scheduled Delivery: 2007 – 2011.**

	Existing orders	Total existing orders	Market share	DWT ('000 000)	Total existing orders	Market share
DDW	[1-10]	[530-540]	[0.70-0.80%]	[0.1-0.5]	[23.00-24.00]	[0.80-0.90%]

Note: No overlaps between DDW and LML in this market.

**Table 1(b): Market shares in the market for other specialized tankers**  
**Scheduled Delivery: 2007 – 2010.**

	Existing orders	Total existing orders	Market share	DWT ('000 000)	Total existing orders	Market share
DDW	[1-10]	[400-410]	[0.70-0.80%]	[0.010-0.020]	[2.40-2.50]	[0.70-0.80%]

Note: No overlaps between DDW and LML in this market.

**Table 1(c): Market shares in the market for handy size bulkers**  
**Scheduled Delivery: 2007 – 2013.**

	Existing orders	Total existing orders	Market share	DWT ('000 000)	Total existing orders	Market share
Labroy	[1-10]	[430-440]	[0.40-0.50%]	[0.01-0.10]	[12.80-12.90]	[0.30-0.40%]

Note: No overlaps between DDW and LML in this market.

**Table 1(d): Market shares in the market for vessels for other dry cargo (>5,000 dwt)**  
**Scheduled Delivery: 2007 – 2011.**

	Existing orders	Total existing orders	Market share	DWT ('000 000)	Total existing orders	Market share
Labroy	[1-10]	[130-140]	[1.40-1.50%]	[0.010-0.020]	[1.10-1.20]	[1.30-1.40%]

Note: No overlaps between DDW and LML in this market.

**Table 1(e): Market shares in the market for offshore vessels**  
**Scheduled Delivery: 2007 – 2012.**

	Existing orders	Total existing orders	Market share	GT ('000 000)	Total existing orders	Market share
DWSL	[20-30]	[790-800]	[3.10-3.20%]	[0.01-0.10]	[2.30-2.40]	[3.50-3.60%]
Labroy	[30-40]		[4.20-4.30%]	[0.01-0.10]		[2.70-2.80%]
DWSL+Labroy	[50-60]		[7.40-7.50%]	[0.10-0.20]		[6.20-6.30%]
Jaya	[20-30]		[3.40-3.50%]	[0.01-0.10]		[2.10-2.20%]
Keppel	[20-30]		[3.20-3.30%]	[0.01-0.10]		[2.90-3.00%]
ASL Batam/Shipyard	[10-20]		[1.50-1.60%]	[0.01-0.10]		[0.70-0.80%]



**Table 1(f): Market shares in the market for miscellaneous vessels**  
**Scheduled Delivery: 2007 – 2010.**

	Existing orders	Total existing orders	Market share	DWT ('000 000)	Total existing orders	Market share
Labroy	[1-10]	[290-300]	[1.01-1.10%]	-	[1.40-1.50]	-

Note: No overlaps between DDW and LML in this market.

Note: “DWT” stands for dead weight tons, while “GT” stands for gross tons.