

Section 57 of the Competition Act 2004

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

In relation to the notification for decision on the proposed acquisition by Parker-Hannifin Corporation of Meggitt PLC

Date: 28 March 2022

Case number: 400-140-2021-009

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 [X].

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I. Introduction

1. On 24 December 2021, the Competition and Consumer Commission of Singapore (“CCCS”) accepted an application by Parker-Hannifin Corporation (“Parker”), pursuant to section 57 of the Competition Act 2004 (the “Act”) for a decision as to whether the proposed acquisition (the “Proposed Transaction”) by Parker of Meggitt Plc (“Meggitt”) (collectively, the “Parties”) will infringe section 54 of the Act, if carried into effect.¹
2. In reviewing the Proposed Transaction, CCCS conducted a public consultation and sought feedback from seventeen (17) competitors² and nineteen (19) customers³ who purchase aerospace sensors, aircraft wheels and brakes (“AWB”), aerospace pneumatic valves, utility actuators or aerospace seals (collectively, the “Overlapping Goods”) from either of the Parties (collectively referred to as “third parties”). Of the eight (8) third parties that responded, a few noted various possible outcomes following the Proposed Transaction⁴, such as a risk that the market share of the Parties could increase, but no third parties responded indicating that they had competition concerns with respect to the Proposed Transaction.
3. At the end of the consultation process and after evaluating all the information obtained by CCCS including Parker’s submissions and feedback from third parties, CCCS concludes that the Proposed Transaction, if carried into effect, will not infringe section 54 of the Act.

II. The Parties

Parker

4. Parker is a publicly listed company incorporated in Cleveland, Ohio, United States of America and is listed on the New York Stock Exchange.⁵ Parker manufactures motion and control technologies and systems⁶, and provides precision engineered solutions for a variety of mobile, industrial and aerospace markets.⁷

¹ Notification of the Proposed Transaction lodged solely by Parker was sent to CCCS on 17 December 2021.

² Competitors: [§<].

³ Customers: [§<].

⁴ Only a minority of third parties noted the following possibilities without providing substantive evidence:

- In relation to aerospace sensors and aerospace pneumatic valves, [§<] noted a risk that the Parties’ position in the market will increase;
- In relation to aerospace pneumatic valves, [§<] noted the possibility of an increase or decrease in the prices, depending on the market requirements and volume of sales;
- In relation to the overlapping goods generally, [§<] noted that it would be hard to predict what the Parties would do in the future regarding their capabilities in various product lines.

⁵ Paragraph 10.5 of Form M1.

⁶ In particular, Parker’s aerospace systems segment produces hydraulic, fuel, pneumatic and electro-mechanical systems and components for the aerospace manufacturing industry, which are typically used on commercial, military, general aviation aircraft, rotorcraft and other related aerospace equipment.

⁷ Paragraph 10.6.2 of Form M1.

5. Parker has one registered entity in Singapore, Parker Hannifin Singapore Pte. Ltd., which is a wholly owned entity of Parker.⁸ Parker's aerospace business activities in Singapore relate to the sale of a range of Parker's aerospace components to original equipment manufacturers ("OEM"), as well as aftermarket sales of its aerospace products and the supply of aftermarket maintenance, repair and overhaul ("MRO") services for Parker's aerospace products.⁹
6. Additionally, in Singapore, Parker owns a 49% ownership stake in Aerospace Component Engineering Services Pte. Ltd. ("ACE Services"), a joint venture company with SIA Engineering Company Ltd.¹⁰ ACE Services provides repair and overhaul services for aerospace hydraulic components in the Asia Pacific and Middle East regions, and is the authorised repair and warranty centre for Parker's aerospace products in Singapore.

Meggitt

7. Meggitt is a public limited company headquartered in Ansty Park, United Kingdom and listed on the London Stock Exchange. Meggitt's principal activities are the design and manufacture of high-performance components and sub-systems for the aerospace and defence sectors and selected energy applications.¹¹
8. Meggitt has two registered entities in Singapore, Meggitt Aerospace Asia Pacific Pte. Ltd. and Meggitt Asia Pacific Pte. Ltd.; both of which are owned entirely by Meggitt.¹² Meggitt's business activities in Singapore primarily relate to providing MRO services for a range of Meggitt's aerospace products in the region, as well as a small amount of aftermarket services for products produced by third parties.¹³

III. The Proposed Transaction

9. The Proposed Transaction relates to the acquisition by Parker of the entire issued and to be issued ordinary share capital of Meggitt.
10. CCCS considers that the Proposed Transaction constitutes a merger pursuant to section 54(2)(b) of the Act, as Parker will acquire the entire share capital and voting rights in Meggitt, and consequently direct control of it.

⁸ Paragraph 10.1 of Form M1; annex 3 of Form M1.

⁹ Paragraph 10.12 of Form M1.

¹⁰ Paragraph 24.27.1 of Form M1; paragraph 30.1 of Parker's 10 January 2022 response to CCCS's 27 December 2021 RFI.

¹¹ Paragraph 10.9 of Form M1. Meggitt indicated that its technologies serve several energy markets, such as onshore and offshore gas, liquified natural gas and power generation. Such technologies include electronics cooling systems and heat transfer equipment for oil and gas facilities. See annex 8 of Form M1.

¹² Paragraph 10.2 of Form M1; annex 4 of Form M1.

¹³ Paragraph 10.13 of Form M1.

IV. Competition Issues

11. The Proposed Transaction concerns products and services within the aerospace manufacturing industry for a range of aircraft, such as commercial aircraft, military aircraft, helicopters and general aviation aircraft.¹⁴ The Parties provide original equipment (“OE”) products and services (upstream) and aftermarket products and services (downstream) in the aerospace industry.
12. Parker submitted that the Parties’ overlap in their aerospace activities in Singapore from 2018 to 2020¹⁵ is minor, being in:
 - a. OE sales for aerospace sensors;
 - b. Aftermarket sales for aerospace sensors, AWB, utility actuators and aerospace pneumatic valves; and
 - c. Sales of aerospace seals, with Parker’s sales being OE sales and Meggitt’s sales being aftermarket sales

(collectively, the “Overlapping Goods”).

13. Parker further submitted that, when comparing the characteristics and functionality of the Parties’ various products, the Parties’ products within each product area are generally not functional substitutes.¹⁶
14. In view of Parker’s submissions and having considered third party feedback which indicated that the Parties are generally not the closest competitors in the Overlapping Goods¹⁷ and that the Overlapping Goods are highly specific to their application and to their supplier, CCCS is of the view that any horizontal overlap between the Parties at the OE level in Singapore, would be limited. In relation to the overlaps between the Parties in the aftermarkets, based on the feedback received, CCCS understands that the Parties do not compete with each other in the aftermarkets in Singapore. This is because once the OEM for the part is selected and the part is certified for use on the aircraft, customers will generally have to obtain the OE spare parts from the OEM if they need to replace the spare parts. Further, the Parties do not compete to provide MRO services in the aftermarket, as they largely provide such services for their own OE products. Aftermarket

¹⁴ Paragraph 18.2 of Form M1. General aviation aircraft includes leisure aircraft for private users, i.e. two to six seats. [REDACTED].

¹⁵ For CY2021, the Parties submitted that they do not expect the list of goods and services to be materially different, paragraph 4.1 of Parker’s 10 January 2022 response to CCCS’s 27 December 2021 RFI.

¹⁶ Paragraph 15.3 of Form M1.

¹⁷ [REDACTED].

products and services are often provided by the OEM pursuant to a product support agreement¹⁸ (“PSA”) entered into at the point of purchase of the relevant OE product.

15. Accordingly, competition for the Overlapping Goods occurs primarily at the OE level, when the aircraft or engine OEM selects the OE suppliers for the relevant parts. This largely occurs outside of Singapore.
16. In assessing the Proposed Transaction, CCCS considered whether the Proposed Transaction will lead to non-coordinated effects, coordinated effects and vertical effects that would result in a substantial lessening of competition (“SLC”) in Singapore.

V. Counterfactual

17. CCCS considers that absent the Proposed Transaction, the relevant counterfactual would be the status quo (i.e. Parker and Meggitt would continue operating independently in the relevant markets identified below). There was no evidence to suggest that the market structure or competitive dynamics in the counterfactual would differ from the status quo.

VI. Relevant Markets

18. Based on Parker’s submissions and third parties’ feedback, CCCS considers that it is not necessary to conclude on a precise definition of the relevant markets, as it does not affect the outcome of CCCS’s competition assessment of the Proposed Transaction. Nonetheless, as a frame of reference, CCCS considered that the relevant markets for the purpose of this merger assessment are the global supply of:
 - a. Aerospace sensors;
 - b. AWB;
 - c. Aerospace pneumatic valves;
 - d. Utility actuators; and
 - e. Aerospace seals

¹⁸ Product support agreements refer to agreements offered to OE customers in respect of aftermarket services and spare parts for the lifetime of the aircraft program. These agreements would typically include features such as price escalation formulas, reliability guarantees, direct maintenance costs guarantees, repair turn-around-time (time to repair product) guarantee, lead time requirement for spare parts and “Aircraft on Ground” support requirements to dispatch a spare part within a certain number of hours. Although the duration, scope and exact terms of the PSA varies from OEM to OEM, [3<] the scope of a PSA will depend on the degree of in-service support needed and will generally be fairly broad to cover all support services activities for the procurement, operation, maintenance, rework, repair, modification or overhaul performed, or replacement of any parts provided by the OEM. See paragraphs 5.4, 5.9 and 5.10 of Parker’s 3 February 2022 response to CCCS’s 20 January 2022 RFI.

(collectively, the “Relevant Markets”). Each relevant product market comprises the OE and aftermarket.

VII. CCCS’s Assessment

(a) Market Shares and Market Concentration

19. As set out in the *CCCS Guidelines on the Substantive Assessment of Mergers*, CCCS is generally of the view that competition concerns are unlikely to arise in a merger situation unless the merged entity will have a market share of 40% or more, or the merged entity will have a market share of between 20% and 40% and with a post-merger CR3¹⁹ at 70% or more.²⁰
20. Overall, the Parties’ market shares in relation to the Overlapping Goods do not cross CCCS’s indicative thresholds (see table below). Furthermore, the merged entity will generally not be the largest player and there are generally significant competitors with larger or similar market shares that remain in the Relevant Markets after the Proposed Transaction. As competition for the Overlapping Goods primarily occurs at the OE level, and the Parties do not compete in the aftermarkets (see paragraphs 14 to 15), it is not necessary to consider market shares in the aftermarkets alone, as this would not provide a holistic measure of the market structure in the Relevant Markets.

Global combined market shares of the Parties for the Overlapping Goods, by value ²¹					
Overlapping Goods	Year(s)	OE market only		OE and aftermarket	
		Market shares	CR3	Market shares	CR3
Aerospace sensors	2020 ²²	[10-20]%	[30-40]%	[10-20]%	[30-40]%
AWB	2018 - 2020	No data provided		[10-30]%	[60-80]% ²³
Aerospace pneumatic valves	2018 - 2020	[20-30]%	[60-70]%	[10-20]%	[50-60]%
Utility actuators	2019 ²⁴	[0-10]%	[20-30]%	[0-10]%	[20-30]%

¹⁹ “CR3” refers to the combined market share of the three largest firms.

²⁰ Paragraph 5.15 of the *CCCS Guidelines on the Substantive Assessment of Mergers*.

²¹ Paragraphs 21.1 to 21.8 of Form M1; paragraph 2.1 of Parker’s 4 March 2022 response to CCCS’s 15 February 2022 RFI; paragraph 2.2 of Parker’s 11 March 2022 response to CCCS’s 15 February 2022 RFI.

²² Parker submitted that the market shares for aerospace sensors are not readily available for 2019 and 2020, but the Parties do not expect market shares to have changed materially from 2018 to 2020, paragraph 21.6 of Form M1.

²³ Combined market shares of the Parties crossed 20% only in 2020, but the CR3 was less than 70%. While the CR3 threshold is crossed in 2018 and 2019, the combined market shares of the Parties did not cross 20%.

²⁴ Parker submitted that the market shares for utility actuators are not readily available for 2018 and 2020, but that the Parties do not expect market shares to have changed materially from 2018 to 2020, paragraph 21.1 of Form M1.

Aerospace seals	2020 ²⁵	Not applicable	[10-20]%	[50-60]%
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(b) Barriers to Entry and Expansion

21. Feedback from competitors generally indicated that significant capital expenditure is required²⁶ and that new entrants must possess specific engineering and manufacturing capabilities and technical know-how to manufacture the Overlapping Goods that are certified for use.
22. In respect of regulatory barriers, feedback from competitors generally indicated that there are significant costs involved in meeting regulatory requirements in the industry (e.g. safety norms and certification processes) and obtaining government approvals.
23. Based on Parker’s submission and feedback from third parties, CCCS understands that barriers for the aftermarket are similar to that of the OE market, although one competitor suggested that barriers for the aftermarket for utility actuators and AWB might be slightly lower, as any company with repair capabilities may be capable of carrying out repairs and maintenance.²⁷
24. Overall, CCCS has assessed that the barriers to entry for new entrants into the Relevant Markets are likely to be moderately high, save for aerospace seals where barriers to entry may be lower given their commoditised nature. As for barriers to expansion, CCCS noted that there is no evidence of capacity constraints for existing competitors, indicating that they could scale production to meet the requirements of an aircraft programme.

(c) Countervailing Buyer Power

25. CCCS notes that the Parties’ five largest customers for the global supply of the Overlapping Goods account for a significant proportion of the Parties’ worldwide turnover.²⁸ As for customers’ ability to self-supply or sponsor new entrants in the Relevant Markets, third party feedback indicated that it is generally not feasible to do so, as it would take a long time and incur significant investment costs.
26. Based on Parker’s submissions and feedback from third parties, CCCS is of the view that the Parties’ large customers may possess a degree of countervailing buyer power, although this is unlikely to be the case for smaller customers.

²⁵ Parker submitted that the market shares for aerospace seals for 2018 and 2019 are not readily available, but the Parties do not expect market shares to be materially different in 2018 and 2019, paragraph 21.7 of Form M1.

²⁶ [REDACTED].

²⁷ [REDACTED].

²⁸ Paragraphs 31.2 and 31.3 of Form M1; annex 2 of Parker’s updated information for paragraphs 31.2 and 31.3 of Form M1, provided to CCCS by Parker’s legal representative on 23 February 2022.

(d) Non-coordinated effects

27. Third party feedback supported Parker’s submissions that competition in the Relevant Markets occurs during the selection of the OE part supplier by the aircraft OEM or engine OEM.²⁹ There is no competition between the Parties in the aftermarkets where the overlaps between the Parties occur in Singapore, for the reasons set out in paragraph 14 above.
28. In relation to customers’ ability to switch, third party feedback suggested that switching of suppliers for the Overlapping Goods is largely limited to the point prior to the selection of the OE supplier (by the aircraft OEM and engine OEM) and certification.³⁰ Once the part has been certified and installed, customers generally do not switch suppliers due to the high cost of recertification of the part. Third party feedback indicated that there is no change in a customer’s ability to switch between suppliers in the OE and in the aftermarket arising from the Proposed Transaction.³¹
29. Overall, third parties did not consider that the Parties will either have the ability and/or incentive to raise prices and/or decrease the quantity or quality of the Overlapping Goods as a result of the Proposed Transaction.³²
30. Based on the information received, CCCS has assessed that the Proposed Transaction will not give rise to non-coordinated effects in Singapore for the following reasons:
 - a. At the OE level, there is limited horizontal overlap between the Parties as the Overlapping Goods are highly specific to their application and to the supplier. In addition, at the OE level, the Parties are generally not each other’s closest competitors, with the only overlap in Singapore being the supply of aerospace sensors;
 - b. There are generally significant competitors with larger or similar market shares that remain in the Relevant Markets after the Proposed Transaction; and
 - c. The Parties’ large customers at the OE level are likely to possess a degree of countervailing buyer power.³³

(e) Coordinated effects

31. Based on the information received, CCCS assesses that the Proposed Transaction will not give rise to coordinated effects in Singapore for the following reasons:

²⁹ [§<].

³⁰ [§<].

³¹ [§<].

³² [§<].

³³ Paragraph 34.5 of Form M1.

- a. In general, there are unlikely to be significant changes in the level of competition in the Relevant Markets as there remains other competitors with larger or similar market shares³⁴;
- b. Tenders for the selection of OE parts supplier(s) by an aircraft OEM or engine OEM tend to be infrequent and it is difficult for suppliers to estimate when these will be called. The inherent uncertainty in the tender process disrupts the sustainability of coordination;
- c. The Overlapping Goods are highly specific, with a low degree of homogeneity between suppliers. This increases the difficulty for coordination among competitors and makes such coordination unlikely; and
- d. The Parties' large customers at the OE level are likely to possess a degree of countervailing buyer power.³⁵ Such customers can threaten to enter the market themselves or sponsor market entry, thereby introducing new players into the market and disrupting any coordination.

(f) Vertical effects

32. Parker submitted that they are not major suppliers to each other or to downstream aerospace component competitors and customers have a range of alternative sources of supply available to them.³⁶ The Parties estimated that they have a combined share of less than 30% for the relevant upstream products and this applies to the downstream level too.³⁷
33. Based on the information received from Parker and third parties, CCCS has assessed that the Proposed Transaction is unlikely to give rise to vertical effects in Singapore. There was no evidence that the Parties would have the ability to foreclose competition in the upstream products relating to the Overlapping Goods or the downstream applications of these goods.

(g) Conglomerate effects

34. Parker submitted that no conglomerate concerns arise from the Proposed Transaction, as the merged entity does not have the ability to implement a foreclosure strategy through bundling or tying its offerings, since customers have significant buyer power and would structure tenders based on their preferences and mix components within a sub-system from different suppliers to meet the performance requirements of an aircraft or engine. Neither does it have the incentive to do so, because an offer with bundling or tying

³⁴ Paragraphs 21.1 to 21.7 of Form M1.

³⁵ Paragraph 34.5 of Form M1.

³⁶ Paragraph 36.1 of Form M1.

³⁷ Paragraph 36.11 of Form M1.

arrangements would likely not meet tender requirements and could potentially harm the merged entity's prospects in future airframe or engine programmes.³⁸

35. Based on the information received from Parker and third parties, CCCS has assessed that the Proposed Transaction is unlikely to give rise to conglomerate effects in Singapore. There was no evidence to suggest that the merged entity would engage in bundling or tying practices in respect of the Overlapping Goods after the Proposed Transaction.

(h) Conclusion on competition assessment

36. Based on the above considerations, CCCS has concluded that the Proposed Transaction, if carried into effect, will not result in a SLC in Singapore.

VIII. Efficiencies

37. Given that the Proposed Transaction is unlikely to lead to a SLC, it is not necessary for CCCS to make an assessment on the claimed efficiencies.

IX. Conclusion

38. For the reasons above and based on the information available, CCCS has assessed that the Proposed Transaction, if carried out into effect, will not lead to a SLC and consequently, will not infringe the section 54 prohibition.
39. In accordance with section 57(7) of the Act, this decision shall be valid for a period of one (1) year from the date of this decision.



Sia Aik Kor
Chief Executive
Competition and Consumer Commission of Singapore

³⁸ Paragraph 41.1 of Parker's 10 January 2022 response to CCCS's 27 December 2021 RFI; paragraphs 34.9 and 34.9.2 of Form M1.