

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

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

**In relation to the notification for decision of the proposed acquisition by Gebr. Knauf KG of USG corporation pursuant to section 57 of the Competition Act**

**8 February 2019**

**Case number: CCCS 400/003/18**

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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 [X].

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## **I. Introduction**

### The notification

1. On 28 August 2018, Gebr. Knauf KG (“**Knauf**”) and USG Corporation (“**USG**”) (collectively the “**Parties**”) filed a joint notification pursuant to section 57 of the Competition Act (Cap. 50B) (the “**Act**”) for a decision by the Competition and Consumer Commission of Singapore (“**CCCS**”) on whether the acquisition of sole control by Knauf of USG (the “**Proposed Acquisition**”) will infringe section 54 of the Act.
2. In reviewing the Proposed Acquisition, CCCS contacted a total of thirty-seven (37) third parties, comprising eleven (11) suppliers/competitors, thirteen (13) distributors and thirteen (13) users/end-customers of construction materials, of which a total of twenty (20) replied and amongst whom fourteen (14) provided substantive responses.
3. At the end of the consultation process and after evaluating the relevant information, CCCS has concluded that the Proposed Acquisition, if carried into effect, will not infringe section 54 of the Act.

## **II. The Parties**

### Knauf

4. Knauf is the ultimate parent of the Knauf group of companies, which is a family-owned international manufacturer of plasterboards and drywall systems, plasters and accessories, modern insulation materials and thermal insulation composite systems, paints, floor screed, floor systems, construction equipment and tools. The company has subsidiaries and business activities worldwide, with its headquarters in Iphofen, Germany.<sup>1</sup>
5. In Singapore, Knauf operates through Knauf Singapore Pte. Ltd. and Knauf Insulation Pte. Ltd. to supply gypsum boards (also known as plasterboards); modular suspended ceilings; metal profiles; fixed suspended ceilings; and a minimal range of insulation products.<sup>2</sup>

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<sup>1</sup> Paragraph 7.2 of Form M1. Paragraph 10.6 of Form M1.

<sup>2</sup> Paragraphs 10.13 and 10.14 of Form M1.

6. Global group turnover for Knauf was approximately EUR [X] (S\$ [X]) in the financial year ended 31 December 2017.<sup>3</sup> Singapore group turnover for Knauf for the same period was approximately EUR [X] (S\$ [X]).<sup>4</sup>
7. Separately from the Proposed Acquisition, Knauf is in the process of acquiring the subsidiaries of Armstrong World Industries, Inc. (“AWI”) in various parts of the world, including Armstrong Singapore Pte. Ltd. (“Armstrong Singapore”) in Singapore.<sup>5</sup> AWI is an international manufacturer and designer of ceilings and walls.<sup>6</sup> In Singapore, Armstrong Singapore mainly supplies modular suspended ceilings, particularly mineral fibre ceiling tiles, metal ceiling tiles and grids.<sup>7</sup> AWI’s global and Singapore turnover for modular suspended ceilings in 2017 were approximately US\$ [X] (S\$ [X]) and US\$ [X] (S\$ [X]) respectively.<sup>8</sup>

## USG

8. USG is the ultimate parent of USG group of companies.<sup>9</sup> Headquartered in the United States, USG is a manufacturer and supplier of plasterboard, acoustical ceiling tiles and related products.<sup>10</sup>
9. In Singapore, USG operates through USG Boral Building Products (“UBBP”), which is a 50/50 joint venture with Boral Limited to supply gypsum boards; modular suspended ceilings; metal profiles; compounds; substrates; cement boards and insulation products.<sup>11</sup> USG is affiliated to a distributor in Singapore that exclusively distributes products from UBBP.<sup>12</sup>

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<sup>3</sup> Paragraph 13.1 of Form M1.

<sup>4</sup> Paragraph 13.3 of Form M1.

<sup>5</sup> Paragraph 6.1 of the Parties’ responses to CCCS’s Information Request dated 16 September 2018. Knauf’s acquisition of AWI in Singapore is part of its acquisition of 100% of the shares in the subsidiaries of AWI and designated subsidiaries of AWI’s 50/50 joint venture with Worthington Industries with operations in Europe, Middle East, Africa and Asia Pacific regions.

<sup>6</sup> Paragraph 2.3 of the Parties’ responses to CCCS’s Information Request dated 21 September 2018.

<sup>7</sup> Paragraph 6.5 of the Parties’ responses to CCCS’s Information Request dated 16 September 2018. Paragraphs 2.1 and 2.4 of the Parties’ responses to CCCS’s Information Request dated 21 September 2018. Paragraph 1.1 of Parties’ responses to CCCS’s Information Request dated 26 October 2018.

<sup>8</sup> Paragraph 8.1 of the Parties’ responses to CCCS’s Information Request dated 21 September 2018.

<sup>9</sup> Paragraph 7.5 of Form M1.

<sup>10</sup> Paragraph 10.9 of Form M1.

<sup>11</sup> Paragraphs 10.15 and 10.16 of Form M1.

<sup>12</sup> Paragraph 10.2.4 of Form M1. Paragraph 20.1 of the Parties’ responses to CCCS’s Information Request dated 29 August 2018.

10. Global group turnover for USG was approximately US\$ [X] (S\$ [X]) in the financial year ended 31 December 2017.<sup>13</sup> Singapore group turnover for USG for the same period was approximately US\$ [X] (S\$ [X]).<sup>14</sup>

### **III. The Transaction**

#### Nature of the Proposed Transaction

11. The Proposed Acquisition will result in Knauf acquiring sole control of USG and all of USG's business, with USG continuing as an indirect and wholly-owned subsidiary of Knauf.<sup>15</sup>

#### Merger under section 54 of the Act

12. CCCS considers that the Proposed Acquisition constitutes a merger pursuant to section 54(2)(b) of the Act as it involves one undertaking acquiring control over another.

### **IV. Competition Issues**

13. The Parties submitted that they overlap in Singapore in the supply of gypsum boards, modular suspended ceilings and metal profiles.<sup>16</sup> For metal profiles, the incremental market share is very small.<sup>17</sup> Third-party feedback also indicates that the Parties do not have a strong position in the supply of metal profiles. The Parties also overlap in the supply of insulation products in Singapore, though the overlap as submitted by the Parties is materially insignificant.<sup>18</sup>

14. Accordingly, CCCS considers that the Proposed Acquisition is unlikely to raise competition concerns with respect to metal profiles and insulation products, and focused its assessment on gypsum boards and modular suspended ceilings. Gypsum boards are used for the internal cladding on buildings, including walls (such as gypsum wallboard and drywall) and ceilings (such as ceiling sheets).<sup>19</sup> Modular suspended ceilings are ceilings where tiles are laid into a grid system, and the tiles are held up by the grid system without

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<sup>13</sup> Paragraph 13.2 of Form M1.

<sup>14</sup> Paragraph 13.4 of Form M1.

<sup>15</sup> Paragraph 11.4 of Form M1.

<sup>16</sup> Paragraph 15.1 of Form M1.

<sup>17</sup> Paragraph 21.2 of Form M1.

<sup>18</sup> Paragraph 15.2 of Form M1. Paragraph 8.1 of the Parties' responses to CCCS's Information Request dated 29 August 2018.

<sup>19</sup> Paragraph 19.3 of Form M1.

needing any permanent mechanical fixtures.<sup>20</sup> Gypsum boards and modular suspended ceilings are supplied by manufacturers to distributors (e.g. builders' merchants and DIY stores) and end-customers (e.g. installers and craftsmen).<sup>21</sup>

15. In evaluating the potential impact of the Proposed Acquisition, CCCS considered whether the Proposed Acquisition will lead to coordinated and non-coordinated effects that would substantially lessen competition in Singapore.

## **V. Counterfactual**

16. The Parties submitted that, in the absence of the Proposed Acquisition, Knauf and USG will continue to operate and compete separately and independently.<sup>22</sup> As third-party feedback did not indicate otherwise, CCCS is of the view that the appropriate counterfactual is that in the absence of the Proposed Acquisition, Knauf and USG will continue to operate and compete separately and independently.
17. For the purpose of its assessment, CCCS considers that, with or without the Proposed Acquisition, Knauf would have acquired AWI. If Knauf's acquisition of USG does not raise concerns in the event that Knauf successfully acquires AWI, Knauf's acquisition of USG will also not raise concerns if Knauf does not acquire AWI.

## **VI. Relevant Markets**

18. Based on the Parties' submissions and third-party feedback, CCCS is of the view that the relevant markets for the purpose of this assessment is: (a) the supply of gypsum boards in Singapore; and (b) the global supply of modular suspended ceilings using mineral fibre tiles (with grids) to Singapore.

## **VII. CCCS's Assessment**

### **(a) Market shares and market concentration**

19. With respect to gypsum boards, CCCS estimated the combined market share of the Parties in Singapore to be above [50-60]% from 2015 to 2017, which crosses the indicative

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<sup>20</sup> Paragraph 19.4 of Form M1.

<sup>21</sup> Paragraphs 18.4 and 18.6 of Form M1.

<sup>22</sup> Paragraphs 23.1 and 23.2 of Form M1.

thresholds set out in the CCCS Guidelines on the Substantive Assessment of Mergers 2016.<sup>23</sup> However, the incremental market share is small, as the market share of Knauf has been consistently at [0-10]% from 2015 to 2017, and there is another player with a substantial market share.

20. With respect to modular suspended ceilings, CCCS estimated the combined market share of the Parties (including AWI's market share) to be around [30-40]% from 2015 to 2017. Specifically, for mineral fibre tiles (with grids), the estimated combined market share of the Parties (including AWI's market share) was around [60-70]% from 2015 to 2017, which is above CCCS's indicative thresholds, although there are significant fluctuations in market shares of each supplier due to lumpy project-based demand. The Parties also overlap in the supply of modular suspended ceilings using tiles of other materials (i.e. gypsum and metal) but the overlap is very small.

**(b) Barriers to entry and expansion**

21. With respect to gypsum boards, based on the Parties' submissions and third-party feedback, CCCS assesses that barriers to entry and expansion for new entrants are high, but barriers to expansion for existing competitors are low to moderate. This suggests that existing competitors can expand supply to meet increased demand if the merged entity exercises market power post-merger.
22. With respect to modular suspended ceilings using mineral fibre tiles, based on the Parties' submissions and third-party feedback, CCCS assesses that the barriers to entry and expansion are moderate to high for new green field suppliers, moderate for established overseas suppliers and low to moderate for existing suppliers. Hence, both existing suppliers that currently supply to Singapore and established overseas suppliers that currently do not supply to Singapore can enter and/or expand supply to meet increased demand if the merged entity exercises market power post-merger.

**(c) Countervailing buyer power**

23. The presence of countervailing buyer power in both relevant markets appear to be mixed, and the information provided by the Parties and third-parties is inconclusive in this regard.

**(d) Non-coordinated effects**

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<sup>23</sup> Paragraph 5.15 of the *CCCS Guidelines on the Substantive Assessment of Mergers 2016*.

24. With respect to gypsum boards, based on the information received, CCCS assesses that, despite the combined market share of the Parties crossing CCCS's indicative thresholds:
- (a) the degree of competition between the Parties is not high, as Knauf has a low market share (which has not grown) from 2015 to 2017, and is not the closest competitor to USG; and
  - (b) the merged entity will continue to face significant competition from its closest competitor, which supplies viable substitutes to the Parties' product offerings that customers of the Parties are able to switch to, and which has a nearby manufacturing plant as well as spare capacity to increase supply in a short time.
25. With respect to modular suspended ceilings using mineral fibre tiles, CCCS assesses that even though the combined market share of the Parties crosses CCCS's indicative thresholds, the merged entity will continue to face competitive constraint from other suppliers in Singapore and overseas. In particular, the information received indicates that:
- (a) existing suppliers to Singapore are viable competitors to the Parties and have spare capacity to increase supply in a short time;
  - (b) end-customers of the Parties are able and willing to switch to competing suppliers;
  - (c) the merged entity faces potential competition from established suppliers overseas currently not supplying to Singapore; and
  - (d) there are projects for which modular suspended ceilings using tiles of other materials (e.g. metal and gypsum) are substitutes to those using mineral fibre tiles, and the merged entity will face competition from other suppliers of these substitutes who are strong players.
26. CCCS therefore assesses that the Proposed Acquisition will not result in adverse non-coordinated effects on competition in the relevant markets in Singapore.
- (e) Coordinated effects**
27. Based on information submitted by the Parties and third-parties, market conditions are not conducive for coordination (e.g. prices and terms of supply are not transparent between



suppliers) and there remains a number of viable existing or potential competitors post-merger.

28. CCCS therefore assesses that the Proposed Acquisition will not result in adverse coordinated effects on competition in the relevant markets in Singapore.

### **VIII. Efficiencies**

29. Given that the above competition assessment did not point to a substantial lessening of competition, CCCS is of the view that it is not necessary to make an assessment on the efficiencies claimed by the Parties.

### **IX. Conclusion**

30. For the reasons above and based on the information available, CCCS assesses that the Proposed Acquisition, if carried into effect, will not lead to a substantial lessening of competition and accordingly will not infringe the section 54 prohibition.
31. In accordance with section 57(7) of the Act, this decision shall be valid for a period of one year from the date of this decision.



Toh Han Li  
Chief Executive  
Competition and Consumer Commission of Singapore