
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 merger between Nippon Steel Corporation and Sumitomo Metal Industries, Ltd. pursuant to section 57 of the Competition Act

10th February 2012

Case number: CCS 400/010/11

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 [X]

TABLE OF CONTENTS

I.	Introduction.....	3
II.	The Parties.....	4
III.	The Transaction	5
IV.	Competition Issues	6
V.	Relevant Markets	7
VI.	Market Structure	13
VII.	Competition Assessment	18
VIII.	Conclusion	20

I. Introduction

The notification

1. On 21 December 2011, Nippon Steel Corporation (“NSC”) and Sumitomo Metal Industries, Ltd. (“SMI”) (collectively the “Parties”) filed a joint notification pursuant to section 57 of the Competition Act (the “Act”), for a decision by the Competition Commission of Singapore (“CCS”) as to whether the merger between NSC and SMI (the “Transaction”), would infringe the section 54 prohibition of the Act, if carried into effect.
2. In the context of this Transaction, CCS consulted customers and competitors to seek their views on the likely impact of the Transaction on the relevant markets. Views were sought in each of the markets for the supply of: (i) seamless steel pipes; (ii) seamed steel pipes; (iii) H-beams; (iv) plates; (v) hot-rolled steel sheets; (vi) cold-rolled steel sheets; (vii) galvanised steel sheets; and (viii) retaining structures. These eight relevant products markets can be broadly classified as finished steel products.
3. CCS sought the views of 15 competitors and 30 customers in the markets for the supply of products set out in Paragraph 2 above. Due to the range of products supplied by manufacturers in these markets, some of these competitors/ customers may supply/ purchase products in more than one of these markets. None of the third parties that responded raised objections to the Transaction, and a number of parties who responded to CCS did not provide specific responses to the questions but instead indicated they either had no concerns regarding the Transaction or declined comment. CCS also contacted the Building and Construction Authority (“BCA”) in order to discuss the regulatory regime for the import of steel products to be used for the construction industry in Singapore.
4. The Transaction is a global acquisition and has been notified to competition authorities in ten other countries¹. As of 12 January 2012, the Transaction has received clearance from nine competition authorities in Japan, South Korea, India, Taiwan, Russia, Germany, Norway, the United States and Brazil.
5. 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.

¹ Japan, Russia, Germany, Norway, United States of America, Brazil, India, People’s Republic of China, South Korea, and Taiwan.

II. The Parties

NSC

6. NSC is headquartered in Tokyo, Japan, with overseas offices in China, Thailand, Singapore, Indonesia, India, US, Mexico, Brazil, Germany and Australia. NSC is involved in the business of steelmaking and steel fabrication, as well as other related businesses such as engineering and construction, urban development, chemicals, new materials, and system solutions. Its core business mainly comprises of the manufacturing and sale of a variety of iron and steel products, and generated approximately 85% of NSC group's turnover for the financial year ended 31 March 2011².
7. NSC has one subsidiary in Singapore, Nippon Steel Southeast Asia Pte Ltd ("NSSA") and two registered branch offices of subsidiaries Nippon Steel Chemical Co., Ltd and Nippon Steel Engineering Co., Ltd. In particular, NSSA manages investments to business firms in the region and also provides NSC with the following services in Southeast Asia³:
 - (i) Gathering and providing general information and information relating to steel or steel-related business;
 - (ii) Channel for technical liaison of customers;
 - (iii) Procurement services;
 - (iv) Handling of publicity and advertising; and
 - (v) Administrative services and assistance.
8. The Parties submitted that for the financial year ending 31 March 2011, the worldwide turnover of NSC was JPY4,109 billion (approximately S\$68.2 billion) and the Singapore turnover of NSC was JPY[~~3~~] (approximately S\$[~~3~~])⁴.

SMI

9. SMI is headquartered in Osaka, Japan, with overseas offices in China, US, Thailand, Singapore, Australia, UAE and England. SMI is involved in the business of steelmaking and fabrication, for the energy, automotive, railway, ship, aircraft and construction machinery, electric, civil engineering and construction industries. SMI is also engaged in other businesses such as manufacturing of electronic products and engineering of plants and pipelines. Approximately 96% of SMI group's turnover was generated by the business

² Paragraph 2.2.2 of Form M1.

³ Response from Parties to Q3.1 of CCS' letter dated 18 January 2012.

⁴ Paragraph 3.1.8 of Form M1.

of manufacturing and sales of steel products for the financial year ended 31 March 2011⁵.

10. In Singapore, Sumitomo Metals Singapore Pte Ltd. (“SMS”) provides SMI with the following services⁶:
 - (i) Gathering and providing general information and information relating to steel or steel-related business in Singapore;
 - (ii) Channel for technical liaison; and
 - (iii) Assistance of sales activities
11. The Parties submitted that for the financial year ending 31 March 2011, the worldwide turnover of SMI was JPY1,402 billion (approximately S\$23.3 billion and the Singapore turnover of SMI was JPY[~~8~~] (approximately S\$[~~8~~])⁷.

III. The Transaction

12. The notified Transaction is an integration of the businesses of NSC and SMI. Post-Transaction, SMI is absorbed by NSC, with NSC retaining its legal identity while SMI ceases to exist as a legal entity⁸. The merged entity will be a business holding company, which engages in the steelmaking and steel fabrication business and also conducts business through companies held by it. The merged entity will also consider reorganisation in respect of non-steel business segments (e.g. engineering, urban development, chemicals, new materials and system solutions)⁹. The proposed effective date of the Transaction is 1 October 2012¹⁰.
13. Following the Transaction, the Parties have submitted that they will seek synergies by combining the respective advanced resources that each has built up, and by consolidating the superior areas of their respective businesses. In addition, the Parties will accelerate the implementation of business structure reform to pursue greater efficiency in domestic production bases and expanding overseas businesses. The Parties further expect that through utilising world-leading technology and manufacturing know-how to maximise the potential of steel as a fundamental industrial material, they would be able to support the development of customers in, and outside,

⁵ Paragraph 2.2.3 and 3.1.9 of Form M1.

⁶ Response from Parties to Q3.1 of CCS’ letter dated 18 January 2012.

⁷ Paragraph 3.1.10 of Form M1.

⁸ Paragraph 3.1.2 of Form M1.

⁹ Paragraph 3.1.11 of Form M1.

¹⁰ Paragraph 3.1.18 of Form M1.

Japan, as well as contribute to further growth of the Japanese and global economies, and to the improvement of global society¹¹.

14. The Parties submitted that they expect to realise synergies of approximately JPY150 billion (approximately S\$2.5 billion) per year, within three years of the Transaction¹².
15. Based on the Parties' submission that this Transaction is a merger where SMI is absorbed by NSC, with NSC retaining its legal identity while SMI ceases to exist as a legal entity, this Transaction constitutes a merger pursuant to section 54(2)(a) of the Act¹³.

IV. Competition Issues

16. The Parties submitted that the areas of overlapping business between NSC and SMI in Singapore are in the supply of:
 - (i) Seamless steel pipes
 - (ii) Seamed steel pipes
 - (iii) H-beams
 - (iv) Plates
 - (v) Hot-rolled steel coils and sheets ("HRC")
 - (vi) Cold-rolled steel coils and sheets ("CRC")
 - (vii) Galvanised steel coils and sheets ("GSC")
 - (viii) Retaining structures¹⁴(collectively, the "Reportable Markets")
17. The Parties submitted that as far as they are aware, there is no production of finished steel products in Singapore except for steel bars and wire rods for which the Parties have no overlap in. CCS notes that the only steel manufacturer currently operating in Singapore¹⁵ produces only billets, rebars and wire rods; which is outside any of the Reportable Markets. For the other finished steel products which the Parties may overlap in, Singapore is an intermediate trading hub for such finished steel products in Asia¹⁶.

¹¹ Paragraph 3.2.1 of Form M1.

¹² Paragraph 3.2.2 of Form M1.

¹³ Section 54(2)(a) provides that a merger occurs if 2 or more undertakings, previously independent of one another, merge. Paragraph 3.5 of CCS Guidelines on Substantive Assessment of Mergers states that a merger within the meaning of section 54(2)(a) of the Act occurs when an undertaking is absorbed by another.

¹⁴ Paragraph 3.1.12 of Form M1.

¹⁵ NatSteel Holdings Pte Ltd.

¹⁶ Paragraph 1.5 in Annex 3 of Form M1.

V. Relevant Markets

(a) Product Market

(i) Seamless Steel Pipes

18. A seamless steel pipe is generally manufactured by drawing a heated circular billet (i.e. a steel bar which is created by the casting process whereby crude steel is solidified into a proper size and shape) over a piercing rod through the centre to create a hollow shell which is then further processed to form a long thin pipe with rolling equipment and drawing equipment¹⁷.
19. Seamless steel pipes do not have seams lengthwise. They are accordingly more reliable than seamed steel pipes which bear relatively higher risks of corrosion and breakage at the seams. For this reason, seamless steel pipes are often used in harsh high-temperature or high-pressure conditions where seamed steel pipes cannot be used¹⁸.
20. There are many types of seamless steel pipes with different specifications. In practice, manufacturers of seamless steel pipes can, and are able to, meet the various requirements of customers for seamless steel pipes. Accordingly, customers can select the specifications of seamless steel pipes from various interchangeable manufacturers¹⁹.
21. In view of the above, the Parties submit that there is no need to further segment the market for seamless steel pipes into sub-categories based on any differences in specifications²⁰. CCS has no objections to the Parties' product market definition.

(ii) Seamed Steel Pipes

22. Seamed steel pipes are manufactured from steel sheets, or steel plates, by shaping them with the use of shaping rollers or pressing device. The seams are welded or forge-welded to complete the manufacturing process. The Parties only overlap in the supply of UO (seamed) steel pipes in Singapore²¹.
23. The outer diameter of a UO steel pipe ranges from approximately 500 mm to 1,500 mm, which is larger than a seamless steel pipe. In addition, as a UO

¹⁷ Paragraph 1.5 in Annex 2(A) of Form M1.

¹⁸ Paragraph 1.6 in Annex 2(A) of Form M1.

¹⁹ Paragraph 1.9 in Annex 2(A) of Form M1.

²⁰ Paragraph 1.10 in Annex 2(A) of Form M1.

²¹ Paragraph 1.11 in Annex 2(A) of Form M1.

steel pipe is made from steel plates, it is possible to manufacture a UO steel pipe with a thick layer of steel²². UO steel pipes are used primarily for oil or gas pipelines. They are also used for public works (e.g. for gas conduit pipes, water conduit pipes, etc.) and for construction purposes²³.

24. Based on the above, CCS is of the view that UO steel pipes form the relevant product market.

(iii) H-beams

25. H-beams are long structural steel materials with H-shaped cross-section. They are used for building construction, civil engineering, and bridges. H-beams are manufactured by rolling steel pieces (slabs or blooms), using rolling mills with caliber rolls (rolls with grooves corresponding to the finished shape) or universal rolling mills (rolling mills with a matching pair of rigid rolls in addition to horizontal rolls) so that the steel pieces have a cross-section with a certain form²⁴.
24. From a demand perspective, the Parties have submitted that H-beams of various sizes should not be further segmented into separate markets as customers of H-beams consider these products to be substitutable. H-beams with various sizes can be used interchangeably. Although owners of buildings under construction are the end customers for the products, they typically do not designate the construction materials to be used. General construction contractors, fabricators, or design offices are entrusted with selecting the type of construction materials which will be used by comparing construction materials with the same uses. The general contractor or fabricator decides on the size of the H-beams to be used based on market availability and price changes²⁵.
26. On the supply-side, the Parties submit that H-beams of various sizes should not be further segmented into the separate markets as H-beam manufacturers are able to use the same production facilities to manufacture products of different sizes. The specific work necessary for this production line mostly involves changing the roll types of rolling mills²⁶.
27. While CCS has received feedback that differences in steel grade may be a differentiating factor, CCS understands that structural steel material based on

²² Paragraph 1.12 in Annex 2(A) of Form M1.

²³ Paragraph 1.13 in Annex 2(A) of Form M1.

²⁴ Paragraph 1.1 in Annex 2(B) of Form M1.

²⁵ Paragraph 1.6 in Annex 2(B) of Form M1.

²⁶ Paragraph 1.7 in Annex 2(B) of Form M1.

5 major standards (Japan, Chinese, American, Australian/ NZ, British) can be used in Singapore, and multiple suppliers are available for structural steel²⁷. CCS is therefore of the view that H-beams need not be segregated further by steel grade and has no objections to the Parties' product market definition.

(iv) Plates

28. Plates are steel-plate products with a thickness of more than 3 mm. To manufacture plates, slabs (which are semi-finished products manufactured by the iron-making and steelmaking process) are first heated in a reheating furnace and milled with a plate mill. Thereafter, the products will undergo a heat-treated process before they are cut into the size required by customers. Manufacturers may also use the leveler-shear method to manufacture some of the relatively thin plates. Under this method, manufacturers produce HRCs by rolling up slabs into a coil with a hot rolling mill and then shearing the rewound coils into plates according to customers' requests. Plates are mainly used for shipbuilding, constructing machines, industrial machines, the construction of steel buildings and steel bridges, etc²⁸.
29. Further, the Parties submit that although plates differ by end applications depending on thickness, tensile strength, and breadth, they are of the view that the relevant product market for plates should not be further delineated on such bases²⁹. CCS has no objections to the Parties' product market definition.

(v) HRCs

30. HRCs are steel sheets that are manufactured by rolling slabs (i.e. semi-finished products manufactured through the processes of making pig iron and steel) continuously with more than one aligned rolling mill to reduce the thickness of the slabs to a maximum of 1.2 mm. HRCs are used to manufacture automobiles (e.g. wheels, and brakes), electric appliances (e.g. covers for compressors), construction materials (e.g. columns), pipes, and containers. They are also used as a base component for secondary processing (e.g. cold-rolling, surface treatment)³⁰.
31. From a demand perspective, the Parties submit that end-users such as automobile manufacturers and electronics manufacturers purchase a range of HRCs of varying specifications. The performance of a product is unlikely to be compromised due to the different specifications of steel used. Instead,

²⁷ Feedback from [X].

²⁸ Paragraph 1.1, 1.2, 1.3 and 1.4 in Annex 2(C) of Form M1.

²⁹ Paragraph 1.6 in Annex 2(C) of Form M1.

³⁰ Paragraph 1.1 and 1.2 in Annex 2(D) of Form M1.

customers procure HRCs in various specifications based on the designs of the end products³¹.

32. From a supply-side perspective, the Parties submit that manufacturers can, and are able to, manufacture products of various specifications in respect of thickness and tensile strength in response to the customer's demand. Products of varying specifications can be manufactured by using the same equipment³². CCS has no objections to the Parties' product market definition.

(vi) CRCs

33. CRCs are steel sheets with a thickness of approximately 0.15 to 3.2 mm. They are manufactured by re-rolling hot-rolled steel sheets with cold-rolling mills at normal temperature, and conducting annealing (i.e. heat treatment) to remove the hardening caused by the cold rolling, which increases the workability of the steel sheets. In comparison to hot-rolled steel sheets, CRCs are thinner and more precise in terms of thickness, have a more appealing and smoother surface, and are of superior workability. CRCs are used to manufacture automobiles (e.g. inner and outer panels and body frame components), electric appliances, steel furniture, containers (e.g. steel drums), and used as materials for construction. They are also used as a base component to manufacture surface-treated steel sheets³³.
34. On the demand side, the Parties submit that end-users such as automobile manufacturers and electronics manufacturers purchase a range of CRCs of varying specifications. The performance of a product is unlikely to be compromised due to the different specifications of steel used. Instead, customers procure CRCs in various specifications based on the designs of the end products³⁴.
35. On the supply side, the Parties submit that manufacturers can, and are able to, manufacture products of various specifications, in respect of thickness and tensile strength, in response to the customer's demand. Products of varying specifications can be manufactured by using the same equipment³⁵. CCS has no objections to the Parties' product market definition.

³¹ Paragraph 1.5 in Annex 2(D) of Form M1.

³² Paragraph 1.3 in Annex 2(D) of Form M1.

³³ Paragraph 1.1 and 1.2 in Annex 2(E) of Form M1.

³⁴ Paragraph 1.7 in Annex 2(E) of Form M1.

³⁵ Paragraph 1.5 in Annex 2(E) of Form M1.

(vii) GSCs

36. GSCs are steel sheets (mainly cold-rolled steel sheets) coated with zinc to prevent rusting. There are two methods whereby steel sheets may be coated with zinc, namely: (1) “electro-GSCs” which are coated with an alloy of zinc conducted electrochemically in an electroplating bath; and (2) “hot-dip GSCs” which are placed into a hot-dip coating bath. GSCs are used for a wide variety of applications, such as in the manufacturing of automobiles and electric appliances (e.g. covers for compressors), construction materials (e.g. window frames), and the manufacturing of steel furniture³⁶.
37. From a demand perspective, the Parties submit that end-users such as automobile manufacturers and electronics manufacturers purchase a variety of GSCs with varying specifications. The performance of a product is unlikely to be compromised due to the different specifications of steel used. Instead, customers procure GSCs in various specifications based on the designs of the end products³⁷.
38. On the supply side, the Parties submit that manufacturers can, and are able to, manufacture products of various specifications, in respect of thickness and tensile strength, in response to the customer’s demand. Products of varying specifications can be manufactured on the same equipment³⁸.
39. Further, the Parties submit that the market for GSCs should not be further delineated into separate product markets for electro-GSCs and hot-dip GSCs³⁹. CCS has no objections to the Parties’ product market definition.

(viii) Retaining Structure (Steel Sheet Piles)

40. “Steel sheet piles” is a general term for steel sheet-type piles having interlocking pile joints on both sides of a sectional area to form a continuous wall. The steel sheet piles manufactured and supplied by the Parties are used as a type of retaining structure. Retaining structures include various products and methods, such as concrete walls, dust bags, various continuous walls, etc. Steel sheet piles, as well as other retaining structures, are mainly used to control flooding in public works, retain earth for rivers, ports, roads, etc., stop water, and retain earth for underground construction in civil construction projects⁴⁰.

³⁶ Paragraph 1.3 and 1.4 in Annex 2(F) of Form M1.

³⁷ Paragraph 1.9 in Annex 2(F) of Form M1.

³⁸ Paragraph 1.7 in Annex 2(F) of Form M1.

³⁹ Paragraph 1.6 in Annex 2(F) of Form M1.

⁴⁰ Paragraph 1.1, 1.2 in Annex 2(G) of Form M1.

41. The Parties are of the view that the relevant product market is the market for the various types of retaining structures.⁴¹ The Parties submit that there exists demand-side substitutability between the steel sheet piles (which are used to retain earth and/or stop water) and other retaining structures such as piling dust bags, concrete walls (e.g. concrete sheet piles), soil cement walls and cement solidification to improve the ground of the site as a whole⁴².
42. On the supply side, the Parties submit that the market for steel sheet piles should not be further delineated into the different product types, given that steel manufacturers are able to use the same production facilities to manufacture all types of steel sheet piles by switching rolling mill rolls⁴³.
43. Feedback received from a third party⁴⁴ suggests that while steel sheet piles are one of many possible types of retaining structures, cost differences may be a barrier to substitution. However, CCS has considered steel sheet piles as the narrowest relevant product market in the first instance.

(b) Geographic Market

(i) Parties' Submission

44. The Parties submit that the relevant markets are the markets in Asia, at the narrowest⁴⁵. Further, the Parties submit from a supply-side perspective, the relevant finished steel products in which the Parties overlap are manufactured outside of Singapore, in particular, in neighbouring countries, and imported into Singapore⁴⁶.
45. The Parties also submit that they are not aware of any reliable estimates of market shares on an Asia-wide basis, or estimated sales volume and market shares of the competitors. The Parties have instead submitted the estimated market shares of the merged entity in respect of each of the markets on an import amount basis approach for Singapore⁴⁷.

⁴¹ Paragraph 1.5 in Annex 2(G) of Form M1.

⁴² Paragraph 1.6 in Annex 2(G) of Form M1.

⁴³ Paragraph 1.11 in Annex 2(G) of Form M1.

⁴⁴ [S<]Response to CCS' Questionnaire to customers.

⁴⁵ Paragraph 3.1.14 of Form M1.

⁴⁶ Paragraph 1.8 in Annex 3 of Form M1.

⁴⁷ Paragraph 1.9 in Annex 3 of Form M1.

(ii) CCS' assessment

46. CCS notes that almost all the Parties' customers⁴⁸ that are located in Singapore and which responded to CCS have indicated that they procure steel products in each of the relevant product markets on a regional, if not global basis. Several of these Singapore-based customers have stated that they procure from multiple suppliers in countries such as Japan, Korea, China, Taiwan, Thailand and in some instances India and Europe. Feedback from customers has also suggested that competition in these finished steel product markets are regional in nature, and that in addition to Japanese steel manufacturers such as JFE Steel Corporation, Tokyo Steel Co., Ltd, Kobe Steel, Ltd and Nisshin Steel Co., Ltd, several global players such as POSCO in Korea, Hebei Iron and Steel Group Co. Ltd and Baosteel Group Corporation in China act as competitive constraints on the Parties.
47. Based on the submissions and research carried out, the competitive constraints on the Parties in relation to their Singapore customers are from competitors based in regional countries. Therefore, CCS is of the view that the narrowest relevant geographic market for each of the eight reportable markets above is regional⁴⁹.

VI. Market Structure

(a) Market Share and Market Concentration

48. CCS has requested that the Parties submit their sales volumes and market shares according to the 8-digit Harmonised Commodity Description and Coding System ("HS code"), which is an internationally accepted standard for classifying traded products, and is in line with the Singapore Trade Classification, Customs & Excise Duties 2012.
49. The Parties have submitted their sales volumes and estimated market shares of the relevant steel products according to the 8-digit HS codes as understood by the Parties⁵⁰. The Parties have also submitted that they do not have market share estimates of their competitors in each of the reportable markets.
50. Market share estimates provided by the Parties in this instance were calculated on the basis of the amount of each of the steel products imported

⁴⁸ [8<].

⁴⁹ For the purposes of this assessment, regional markets include South East Asia, China, India, Japan, Korea and Taiwan.

⁵⁰ The Parties submit that they do not track their sales volume on the basis of the 8-digit HS codes as they do not prepare the import and export declarations of the reportable markets to Singapore.

by the Parties into Singapore. Parties faced difficulties ascertaining the proportion of their sales in Singapore which were consumed locally and the quantity re-exported out of the country. While CCS notes that isolation of the quantity of steel products consumed in Singapore through the deduction of re-export may be more reflective of the competitive effects of the Transaction on Singapore's domestic economy, CCS has found no evidence that the trading of the Parties' products differ significantly from its competitors and therefore proposes to accept the use of total import amount as a reasonable basis to calculate market shares.

51. Market share estimates provided by the Parties are shown in Table 1 below⁵¹.

Table 1: Sales Volume and Estimated Market Shares of NSC and SMI in 2010

	Nippon Steel		Sumitomo Metal		Merged entity est. market share (%)	Post-merger % increase in market share
	Sales Volume (‘000 tonnes)	Est. Market Shares (%)	Sales Volume (‘000 tonnes)	Est. Market Shares (%)		
Seamless pipes	[X]	[0-10]	[X]	[0-10]	[0-10]	[0-10]
Seamed (UO) pipes ⁵²	[X]	[10-20]	[X]	[0-10]	[10-20]	[0-10]
H-Beams	[X]	[20-30]	[X]	[0-10]	[20-30]	[0-10]
Plates	[X]	[0-10]	[X]	[0-10]	[0-10]	[0-10]
HRC	[X]	[0-10]	[X]	[0-10]	[10-20]	[0-10]
CRC	[X]	[20-30]	[X]	[0-10]	[20-30]	[0-10]
GSC	[X]	[30-40]	[X]	[0-10]	[40-50]	[0-10]
Steel sheet piles	[X]	[10-20]	[X]	[0-10]	[20-30]	[0-10]

Source: Parties' estimates

52. As set out in the CCS Guidelines on the Substantive Assessment of Mergers, CCS 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 more than 20% with the post-merger CR3 at 70% or more⁵³.

⁵¹ Annex 1 of Response from Parties to CCS' letter dated 28 December 2011.

⁵² Figures from paragraph 3.2 of Response from Parties to CCS' letter dated 28 December 2011.

⁵³ Paragraph 5.15 of *CCS Guidelines on the Substantive Assessment of Mergers*. CR3 refers to the combined market shares of the three largest firms.

53. As the Parties were unable to provide estimated market shares of its competitors in each of the reportable markets, and response from competitors to CCS' market testing was low, CCS was unable to compute the pre and post-merger CR3 for each of the Relevant Markets. However, based on third party reports submitted by the Parties and feedback from customers, CCS is of the view that there remain a significant number of competitors in the region which might provide competition to the Parties in each of the reportable markets, post-merger.
54. On a post-merger basis, CCS notes that the combined post-merger market share of the Parties for four of the reportable markets, namely (i) Seamless steel pipes, (ii) Seamed (UO) steel pipes, (iii) Plates and (iv) HRCs falls below 20%. This is below CCS' indicative thresholds of a merger situation that may raise concerns⁵⁴. In addition, CCS notes that the increase in concentration arising from the Transaction is also marginal ([0-10]%). CCS is therefore of the view that the Transaction would not result in a substantial lessening of competition in the supply of these four products in Singapore.
55. Post-merger, the combined market share of the Parties for H-Beams, CRC and Steel Sheet Piles will fall between 20% and 40%. However, CCS notes that the incremental increase in market shares for H-Beams, CRC and Steel Sheet Piles, post-merger, are [0-10]%, [0-10]% and [0-10]% respectively. Given the low incremental increase in market shares, the Transaction is unlikely to create any substantial lessening of competition in these three product markets.
56. The combined market share of the Parties post-merger for GSC is [40-50]% and is above the indicative threshold of 40%. The incremental increase in market share of [0-10]% post-merger is also not insignificant. Such levels may indicate potential competitive concerns in the market for the supply of GSC. However, market shares alone do not give rise to a presumption that the Transaction will substantially lessen competition⁵⁵. CCS needs to consider other relevant factors to make an assessment, which will be covered in the sections below.

⁵⁴ Paragraph 5.15 of the *CCS Guidelines on the Substantive Assessment of Mergers*.

⁵⁵ Paragraph 5.16 of the *CCS Guidelines on the Substantive Assessment of Mergers*.

(b) Barriers to Entry and Expansion

57. The Parties submitted that there are no regulatory barriers to entry to supply the steel products in the Reportable Markets. Furthermore, it was submitted by the Parties that there are no barriers to entry in the form of intellectual property rights relating to manufacturing processes as the requisite knowledge and techniques for manufacturing are publicly available and can be easily acquired by new or existing competitors⁵⁶.
58. CCS notes that it would take a new competitor one to three years to commence production of the steel products. Some of the steel products would require substantial capital investment⁵⁷. An existing manufacturer would also need one to two years to switch its existing production lines⁵⁸. Third party feedback from customers corroborates the view that time would be required to test and accept new sources of supply⁵⁹. Given the above, CCS is of the view that, although there are no barriers in the form of regulation or intellectual property rights, the high capital investment costs indicate that the competitive constraint from new entrants or existing steel manufacturers switching production facilities may be relatively low in the short term.

(c) Overcapacity in the industry

59. CCS notes that there appears to be excess production capacity in the regional supply of finished steel products. In particular, the capacity utilization of steel mills in the region producing GSC, ranges from [50-60]% (in Taiwan) to [80-90]% (in South Korea)⁶⁰. Given that Taiwan is one of the key countries exporting GSC to Singapore, its capacity utilization of [50-60]% suggests that competitors in Taiwan are able to increase their production in a short time in response to market changes. Similarly, capacity utilization of [60-70]% in China steel mills producing GSC suggests that any attempts by the Parties to either raise prices, reduce output or decrease quality will be constrained by existing competitors.

⁵⁶ Paragraph 2.22, 2.23 in Annex 2(A), Paragraph 2.15, 2.16 in Annex 2(B), Paragraph 2.17, 2.18 of Annex 2(C), Paragraph 2.15, 2.16 of Annex 2(D), Paragraph 2.17, 2.18 of Annex 2(E), Paragraph 2.17, 2.18 of Annex 2(F), Paragraph 2.18, 2.19 of Annex 2(G) of Form M1.

⁵⁷ For example, it is estimated that a company would require a capital investment of about S\$[X] to set up production facilities for HRC. Paragraph 13.1 of Response from Parties to CCS letter dated 28 December 2011.

⁵⁸ Paragraph 13.1 of Response from Parties to CCS letter dated 28 December 2011.

⁵⁹ [X] Response to CCS' Questionnaire to customers.

⁶⁰ Paragraph 14.2 of Response from Parties to CCS letter dated 28 December 2011.

60. Third-party feedback supports the view that the market is currently experiencing overcapacity⁶¹. Industry reports⁶² indicate that steel manufacturers in China have been rapidly increasing production capacity in each of the relevant product markets in recent years. For instance, China's total combined exports of GSC, CRC and HRC have increased by as much as 100% in 2010 on a year on year basis⁶³. Third party reports have also shown that Chinese Steel manufacturers now account for more than half of the global steel production in 2010⁶⁴.
61. While entry of new competitors in response to market changes is unlikely in the short term, feedback suggests that there has been a general trend of increasing supply of all finished steel products globally, and there is currently overcapacity⁶⁵. Given this, CCS is of the view that the Parties are unlikely to be able to exercise any market power in these market conditions. On balance, CCS is of the view that while barriers to entry and expansion are significant due to high capital investment costs, the presence of many alternative steel manufacturers in regional countries who currently have excess production capacity will be a competitive constraint on the Parties.

(d) Countervailing Buyer Power

62. The Parties have submitted that customers possess strong bargaining power⁶⁶, and CCS notes that the top customers of the Parties include multinational corporations⁶⁷, who negotiate directly with the Parties for the supply of finished steel products for their global operations.
63. Customers can be broadly categorized into: (1) trading companies / agencies that procure steel products for distribution or re-export, possibly with some product modifications, and (2) downstream manufacturers that procure the steel products for their own manufacturing needs. Downstream manufacturers can procure through third-party suppliers such as agencies and

⁶¹ [X] Response to CCS' Questionnaire to customers; [X] Responses to CCS' Questionnaire to competitors.

⁶² "China Metallurgical Information & Standardization Institute", the "Metallurgical Council of China Council for the Promotion of International Trade" and Statistics published by the South East Asia Iron and Steel Institution ("SEAISI") on the production capacity of member countries.

⁶³ Page 18-20 of "China Metallurgical Newsletter- Statistics Data of Crude Steel, Finished Steel products and Raw Materials", 28 Feb 2011.

⁶⁴ "Metal Bulletin", 20 June 2011, page 12-15.

⁶⁵ [X] Responses to CCS' Questionnaire to customers, [X] Responses to CCS' Questionnaire to competitors.

⁶⁶ Paragraph 2.11 in Annex 2(A), Paragraph 2.10 in Annex 2(B), Paragraph 2.12 of Annex 2(C), Paragraph 2.10 of Annex 2(D), Paragraph 2.11 of Annex 2(E), Paragraph 2.11, 2.12 of Annex 2(F), Paragraph 2.11 of Annex 2(G) of Form M1.

⁶⁷ [X].

may not deal directly with the Parties⁶⁸. These downstream manufacturers hold some bargaining power over the third-party suppliers as they have the ability to switch among the third-party suppliers⁶⁹. Some of the Japanese manufacturers consolidate their procurement from regional suppliers at their headquarters in Japan⁷⁰, giving them a measure of buyer power.

64. Third-party feedback further indicates that procurement for steel products are project-based or on an ad-hoc basis without long-term tenders⁷¹. Customers are therefore not tied down to long-term contracts and are able to switch suppliers if necessary. Several customers also have the practice of procuring from multiple steel manufacturers concurrently, in order to secure a consistent volume of supply⁷². As such, these customers are able to vary their order volumes from each existing steel manufacturer at short notice.

VII. Competition Assessment

(a) Non-coordinated Effects

65. As mentioned in CCS' assessment of market shares and market concentration, the post-merger market shares of Seamless steel pipes, Seamed (UO) steel pipes, Plates and HRCs falls significantly below the CCS thresholds that may raise potential competition concerns. Furthermore, given that there is general overcapacity and customers procure regionally, CCS is of the view that the Transaction would not result in the Parties holding significant market power in the supply of these products.
66. While the post-merger market share of the Parties in the supply of H-Beams, CRCs and Steel sheet piles exceed 20%, the incremental change in market shares post-merger are low. Any market power that the Parties hold is therefore unlikely to arise from the Transaction. Furthermore, CCS notes that the Parties' customers procure from multiple suppliers from multiple source countries concurrently. Customers are therefore able to procure regionally and can exercise countervailing buyer power with the ability to switch to competitors. In addition, CCS notes that the industry is characterised by steel manufacturers having excess production capacity. As such, these factors will likely act as competitive constraints on the Parties in attempting to raise prices, reduce quality or reduce output post-merger.

⁶⁸ [X] Responses to CCS' Questionnaire to customers.

⁶⁹ [X] Responses to CCS' Questionnaire to customers; [X] Response to CCS' Questionnaire to competitors.

⁷⁰ [X] Response to CCS' Questionnaire to customers.

⁷¹ [X] Response to CCS' Questionnaire to customers.

⁷² Ibid.

67. As noted earlier, the combined market share of the Parties for the supply of GSC in Singapore is [40-50]%, with an incremental increase in market share of [0-10]% post-merger. Based on the CCS indicative thresholds, this might indicate potential competition concerns. However, CCS notes that market shares for this product market fluctuates significantly from year to year; the Parties combined market shares [~~3~~]⁷³. Since feedback indicates that customers procure their steel products on a short-term basis, the Parties' fluctuating market shares suggest they face competitive constraints and do not possess significant market power. In addition, CCS notes that there is significant excess capacity in the regional steel mills producing GSC, customers may have some degree of countervailing buyer power and that the market is regional in nature. On balance, CCS is of the view that the merger would not lead to a substantial lessening of competition in the market for the supply of GSC.

(b) Coordinated Effects

68. CCS notes that the Parties, and all the competitors for the Reportable products, have their manufacturing facilities outside of Singapore. Given the regional, if not global, nature of the market, steel manufacturers exporting to Singapore are located in Japan, China, Thailand, Taiwan, Malaysia, Korea and even Europe. CCS notes that there are a large number of steel manufacturers regionally and post-merger coordination is unlikely. The Parties' total combined output of finished steel products in 2010 contributed less than 10% to the top 20 steel manufacturers globally⁷⁴. Given the global spread of steel manufacturers and the Parties' small share of global output, the Transaction is unlikely to increase the potential for coordinated effects.
69. Third-party feedback also indicates that pricing is not the only factor in customers' procurement decisions. Factors such as long-term business relationship, quality, and delivery time are also important in customers' decision-making⁷⁵. The Transaction is therefore unlikely to increase the potential for coordinated effects.

⁷³ Table 1 in Annex 2(F) of Form M1.

⁷⁴ "Metal Bulletin", 20 June 2011, page 12-15.

⁷⁵ [~~3~~] Response to CCS' Questionnaire to customers.

VIII. Conclusion

70. For the reasons stated above and based on the information available to CCS, CCS has assessed that the Transaction, if carried into effect, will not infringe the section 54 prohibition. 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.



Yena Lim
Chief Executive
Competition Commission of Singapore