



Geographic Market Definitions of Recent Japanese Merger Cases

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Geographic market definition in the JFTC guidelines and the recent trend

The guiding principle of geographical market definition in Japan is the SSNIP test, and the factors to be considered for market definition presumably consistent with the SSNIP test

- Consumer shopping area/Producer's business area
- Product characteristics/Import and export quantities and shares/Transportation costs/Prices

Recent Trend: More quantitative evidence

- More survey evidence
 - 4400 mail survey requests in regional merger review (Fukuoka-Juhachi 2018)
- More economic analyses
 - Price correlation analysis/Demand estimation/Critical loss analysis (NSSMC-Nisshin 2017)

Different geographic market definition to different consumer groups: Fukuoka-Juhachi Bank (2018)

Merging leading regional banks in a prefecture (Nagasaki) argue that the geographical market for business loan can be wider than the prefecture

- Business loan demand in non-urban area has been declining due to economic stagnation
- As a result, regional banks have started to enter adjacent region to expand their business, the market competition is now happening in a broader area than the prefecture

It is not very clear if the broader geographic market definition is consistent with features of business loan market reality

- Commercial banks, regional banks, credit unions, agricultural/fishery cooperatives, government banks provide business loan service in different geographic areas
- Different business loan user groups tend to use different group of business loan suppliers
- How significant is inter-prefectural business bank loan competition?

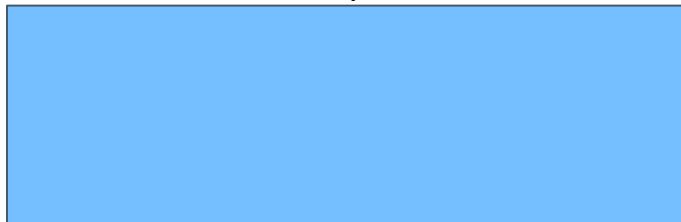
JFTC's direct mail survey to 4400 business loan users (responding rate 40%) to find the hints to decide the relevant markets to different business loan user groups

- Shopping area
- Availability of alternative business loan supplier (in/out of the prefecture)
- Degree of substitutability among business loan suppliers

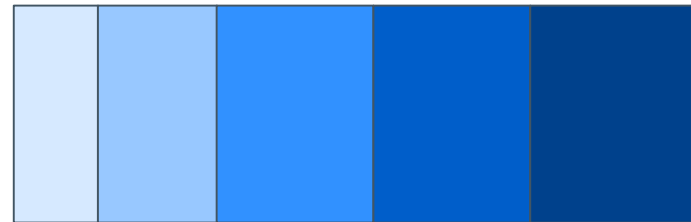
Different geographic market definition to different consumer groups: Fukuoka-Juhachi Bank (2018)

- Inter-prefectural bank competition for business loan is not significant enough to justify the broader geographic market than the prefecture, given the survey evidence
 - Large companies borrow from commercial banks and regional banks in the entire prefecture
 - Small and medium companies borrow from commercial banks, regional banks and credit unions in a respective sub-regional area of the prefecture

Geographic Market to large company:
the entire prefecture



Geographic Market to small and medium company:
sub-regions of the prefecture



International geographic market definition in the JFTC guidelines and the case examples

Guidelines allows international market definition, broader than Japan

- Products and services are traded under the same condition regardless of the nationality of producers. If the prices have been raised in Japan, the users in Japan will be able to substitute the purchase of products from overseas suppliers, which may obstruct the raising of prices in Japan
- The sales price is pegged on the international market price, and the users choose the supplier around the world

Japanese merger cases accepted broader geographic markets than Japan

- Worldwide
 - Electric parts and devices (Sony-NEC 2005, NEC-Renaissance 2010, ASML-Cymer 2012, Qualcomm-NXP 2017, etc.)
 - Iron Ore (BHP-Rio Tinto 2010, 2011)
 - Derivative (JSE-OSE 2013)
 - Very large crude carrier (VLCC) (Universal-IHI Marine 2013)
- Asia
 - Paraxylene (Nippon Oil Corp-Nippon Mining Corp 2010)


Potential global market definition: Nippon Steel & Sumitomo Metal Corp (NSSMC) and Nisshin Steel (2017)



Merging parties argued that the geographic stainless market is wider than Japan, East Asia

- Japanese users, including auto makers, moved their production factories from Japan to East Asia
- Their foreign factories use the domestic stainless makers as well as Japanese stainless makers
- Non-Japanese stainless makers use the most updated large factory to produce stainless steel at lower cost
- The domestic stainless steel price is highly correlated with the East Asian stainless steel price

JFTC's decision was the geographic market is still Japan

- Domestic Stainless users use mainly domestic stainless makers based on hearing evidence
 - No difference in quality between generic imports and generic domestic products (JFTC might accept generic product market may be somewhat international)
 - Critical loss analysis is consistent with this view (5% increase in stainless steel price would not attract more import to lower the increased price)
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Summary

JFTC's principle of geographic market definition is consistent with the SSNIP test, and JFTC now tends to use more quantitative methodologies for geographic market definition

JFTC guidelines allows international geographic market definition for merger cases, and there are some merger cases accepted worldwide or Asian geographic markets. These cases may be consistent with globalization and digitalization

On the other hand, the JFTC's geographic market definition can be limited to Japan if they judge competitive pressure from nearby competitors is not strong. The degree of globalization or digitalization, depending on the industry and the nation, may not always large enough to justify the broader geographic market

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