

The Proposed Acquisition of Shares of SHOWA ALUMINUM K.K. by Toyo Aluminium K.K.

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Japan Fair Trade Commission

The Japan Fair Trade Commission (hereinafter “JFTC”) has been undertaking the first review and the second review of the acquisition of shares of SHOWA ALUMINUM K.K. (hereinafter “SHOWA ALUMINUM” or the “parties”) proposed by Toyo Aluminium K.K. (hereinafter “Toyo Aluminium” or the “parties”) in response to receiving a request for prior consultation according to “Policies dealing with prior consultation regarding business combination plans” from the parties.

As a result of the reviews regarding the acquisition of shares in question while taking opinions submitted through the opinion hearing procedure from the third party into consideration, the JFTC responded to the parties that the acquisition of shares in question may not substantially violate the provisions of the Antimonopoly Act on the basis of the materials submitted by the parties in relation to the business combination plan, on which the prior consultation was made (See attachment for details).

I. Outline of the Proposed Acquisition of shares

Toyo Aluminium, engaged in manufacturing and sales of a variety of aluminum products plans to acquire all shares of SHOWA ALUMINUM (hereinafter “the proposed acquisition of shares”), engaged in manufacturing and sales of aluminum paste, through the proposed acquisition of shares.

II. Views Based on the Antimonopoly Act

1. Particular Field of Trade

Since the both parties are engaged in manufacturing and sales of aluminum paste, the proposed acquisition of shares has an aspect of the horizontal business combination.

On the other hand, since the parties are engaged in manufacturing and sales of aluminum powder that is a raw material of aluminum paste, the proposed acquisition of shares also has an aspect of the vertical business combination.

For these reasons, the JFTC reviewed the proposed acquisition of shares in terms of the respective aspects.

2. Assessment Based on the Antimonopoly Act

(1) Horizontal business combination

A. High-brightness Products

With regard to high-brightness products, the combined share of the parties after the proposed acquisition of shares will be approximately 55% (the first place in the industry). On the other hand, there are strong competent competitors in the industry in question, and both of the parties and the competitors have sufficient excess capabilities. Moreover, there is a certain degree of competitive pressure from users. In addition thereto, SHOWA ALUMINUM substantially has excess debt and is unable to get finance for working capital, so that it is highly possible that SHOWA ALUMINUM will withdraw from the market in the near future. While there is very little chance that finding a company, capable of rescuing SHOWA ALUMINUM by business combination and having less impact on competition than that by business combination by TOYO ALUMINIUM.

For the above reasons, the JFTC concluded that the parties will not be substantially to restrain competition in the particular field if the parties and their competitors are engaged in unilateral conduct or engaged in coordinated conduct with its competitor(s).

B General-purpose Products

With regard to general-purpose products, the combined share of the parties after the proposed acquisition of shares will reach approximately 75% (the first place in the industry). On the other hand, there is a strong competitor in the industry in question, and both of the parties and the competitors have sufficient excess capabilities.

Moreover, there is a certain degree of competitive pressure from users and there is competitive pressure from related market depending on the intended use of the general-purpose products.

In addition thereto, SHOWA ALUMINUM substantially has excess debt and is unable to get finance for working capital, so that it is highly possible that SHOWA ALUMINUM will exit from the market in the near future. While there is little chance that there exist companies, capable of rescuing SHOWA ALUMINUM by means of business combination and having less impact on competition than that by the business combination by TOYO ALUMINIUM.

While there is very little chance of finding a company, capable of rescuing SHOWA ALUMINUM by means of business combination and having less impact on the market than that by business combination by TOYO ALUMINIUM.

For the above reasons, the JFTC concluded that the parties' unilateral conduct or the parties' coordinated conduct with its competitor(s) will not be substantially to restrain competition in a particular field.

(2) Vertical Business Combination

TOYO ALUMINIUM does not sell aluminum powder to the other aluminum paste manufacturers. Therefore, there is less chance that procurement of aluminum paste by the other aluminum paste manufacturers becomes difficult.

Moreover, the volume of procurement of aluminum powder by the SHOWA ALUMINUM is less than the volume of transactions in the overall aluminum powder market.

Therefore, the JFTC concluded that the proposed acquisition of shares may not be substantially to restrain competition in a particular field because it is assumed that the problem of closure or exclusivity in markets may not be caused by the acquisition.

III. Conclusion

For the reasons disclosed above, the JFTC has concluded that the proposed acquisition of shares may not be substantially to restrain competition in a particular field of trade.

Acquisition of Shares of SHOWA ALUMINUM K.K. by Toyo Aluminium K.K. (Response)

I. The Parties Concerned

Toyo Aluminium K.K. (hereinafter “Toyo Aluminium”) is engaged in manufacturing and sales of aluminum products.

SHOWA ALUMINUM K.K. (hereinafter “SHOWA ALUMINUM”) is engaged in manufacturing and sales of aluminum paste.

II. Outline of Business Combination and the Applicable Provisions under the AMA

Toyo Aluminium plans to acquire all shares of SHOWA ALUMINUM PASTE (hereinafter “the proposed acquisition of shares”).

Article 10 under the Antimonopoly Act is the related article to the proposed acquisition of shares.

III. Objective of the Business Combination

The domestic demand for aluminum paste is decreasing and further decrease will be expected in the future. Toyo Aluminium plans the proposed acquisition of shares for the purpose of reduction in costs and of strengthening of business by maintaining the corporate value of SHOWA ALUMINUM, procuring a part of raw materials (aluminum powder), which SHOWA ALUMINUM has procured from outside sources, from Toyo Aluminium, and by jointly shipping from the geographically neighboring factories of the parties, etc..

IV. Particular Field of Trade

1. Outline of the Products

(1) Aluminum paste

Aluminum paste includes products, the main raw material of which is fine powder having fine granules (hereinafter “high-brightness product”) and products, the main raw material of which is coarse powder (hereinafter “general-purpose product”).

The high-brightness products are glossy by virtue of its fine granules. This allows the high-brightness products to be used mainly in coating materials for automobiles and home electric appliances for which excellence in design or the like is of significance.

On the other hand, the general-purpose products are matte due to its coarse granules. This allows the general-purpose products to be used mainly in coating materials for machinery parts, structures, and vessel’s body for which excellence in functionality, such as, corrosion

protection effect is of significance.

In addition, both the products, that is, the high-brightness products and the general-purpose products, are supplied to users, including coating material manufacturers and ink manufacturers, through their distributors.

Typically, the users purchase aluminum paste from multiple manufacturers to manufacture coating materials or ink and sell them to end users, including automobile manufactures, home electric appliance manufacturers, printing firms, boat builders or the like.

When it comes to the high-brightness products and the general-purpose products, the domestic market size of aluminum paste is on a declining trend due to the influence caused by switching to the products without use of aluminum paste, other than the influence due to the decrease in sales of end products and coating materials following the economic downturn.

(2) Aluminum Powder

Aluminum powder is high purity aluminum granules and used as a raw material for aluminum paste. There are two types of aluminum powder, that is, fine powder used as a raw material for the high-brightness products of aluminum paste, and coarse powder used as a raw material for the general-purpose products of aluminum paste.

The coarse powder is produced in the course of manufacturing the fine powder.

The domestic market size of aluminum powder is on a declining trend due to the decrease in domestic demand for aluminum paste.

II. Definition of Particular Field of Trade

Since the parties are engaged in manufacturing and sales of aluminum paste, the proposed acquisition of shares has an aspect of horizontal business combination.

On the other hand, since Toyo Aluminium in the parties is engaged in manufacturing and sales of aluminum powder which is a raw material for aluminum paste, the proposed acquisition of shares also has an aspect of vertical business combination. For this reason, the JFTC reviewed the proposed acquisition of shares from each aspect.

(1) Horizontal Business Combination

A. Product Range

Sales prices of the high-brightness aluminum paste products are approximately three (3) to five (5) times higher than those of the general-purpose aluminum paste products. Therefore, typically, users do not use one of the products as an alternative for the other.

For this reason, each of the high-brightness products and the general-purpose products of

aluminum paste that are competitive between the parties are defined as a particular field of trade.

B. Geographic Range

When it comes to the aluminum paste, the geographical range is defined as nationwide because of the following reasons: Both the high-brightness products and the general-purpose products have no constraints on transportation; there is no difference in products purchasable by users depending on domestic areas; and suppliers of aluminum paste operate the business nationwide or the like.

(2) Vertical Business Combination

A. Product Range

With regard to the relationship between aluminum powder (upstream-product) and aluminum paste (downstream-product), the high-brightness products are manufactured from fine powder as its raw material, and it is unable to manufacture the high-brightness products from coarse powder in place of fine powder.

Moreover, typically, the general-purpose products are manufactured from coarse powder as its raw material. Therefore, it is possible to manufacture products equivalent in quality to the general-purpose products by using fine powder. However, since the sales prices of fine powder are approximately three (3) to five (5) times higher than those of coarse powder, fine powder is not used as a raw material for the general-purpose products.

For the above reasons, the product range is determined in the following manner: Fine powder is defined as the upstream-market and the high-brightness products are defined as the downstream-market, while on the other hand, coarse powder is defined as the upstream-market and the general-purpose products are defined as the downstream-market.

B Geographical range

Since both the fine powder and coarse powder as the upstream-market have no constraints on transportation and there is no difference in products purchasable by aluminum paste manufacturers, as their users, depending on the domestic areas, the geographical range is determined as “the entire country of Japan.”

V. Effect of the Proposed Acquisition of Shares on Competition

1. Horizontal Business Combination

(1) Market Share

The market size of the high-brightness products is approximately 2,000t. On the other hand,

the market size of the general-purpose products is approximately 3,000t.

The tables below shows the market shares based on respective manufacturers' sales volume with regard to the high-brightness products and the general-purpose products.

The total market share based on their sales volume and the rank order of the parties, resulted from the proposed acquisition of shares, is approximately 55% and is ranked at the first place in the high high-brightness product market (HHI after the proposed acquisition of shares is approximately 3,700 and the increment of HHI is approximately 600.). On the other hand, the total market share based on their sales volume and the rank order of the parties, resulted from the proposed acquisition of shares, is approximately 75% and is ranked at the first place in the general-purpose product market (HHI after the proposed acquisition of shares is approximately 6,200 and the increment of HHI is approximately 1,700.). Thus, these figures do not fall under the safe harbor rules applied to horizontal business combination.

[High-brightness products]

Manufacturers	Shares (Rank order)
Toyo Aluminium	Approximately 50% (the first place)
SHOWA ALUMINUM	Approximately 5% (the fourth place)

[General-purpose products]

Manufacturers	Shares (Rank order)
Toyo Aluminium	Approximately 60% (the first place)
SHOWA ALUMINUM	Approximately 15% (the third place)

(Data sources: Prepared by the JFTC based on the materials and so on submitted by the parties)

(2) Status of Competitors

When it comes to the high-brightness products, there is not only one strong competitor having approximately 30% market share but also a competitor having approximately 10% market share.

In addition, when it comes to the general-purpose products, there is one strong competitor having approximately 25% market share.

Both the parties and the competitors have sufficient excess capabilities with regard to the high-brightness products and the general-purpose products.

(3) Competitive Pressure from Users

The prices of aluminum paste for both the high-brightness products and the general-purpose

products are typically determined based on negotiations between aluminum paste manufacturers and users. The price of aluminum paste tends to decrease in line with the downward trend in aluminum ingot price. Therefore, it is assumed that a certain degree of competitive pressure from users works.

(4) Import

A. High-brightness Products

Up to now, import of the high-brightness products remains at a part of the market share. It is assumed this is because of the following reasons: Namely, when selecting high-brightness products, users and end users are more likely to regard excellence in design. According to our interview, the quality of products manufactured by Chinese manufactures is lower than that of the domestic manufacturers. Moreover, when it comes to the products by manufacturers in Europe and in the U.S., domestic delivery systems remain insufficient.

On the other hand, our interviews also reveal that some users think technological progress boosts the quality of Chinese manufacturers' products to the quality comparable to those of domestic manufacturers. Such users consider switching to the Chinese manufacturers' products in the future.

Actually, some Japanese coating material manufacturers running their business in China use the Chinese manufacturers' products in their local factories. Therefore, there is a certain possibility that domestic users using the Chinese manufacturers' products in their domestic factories increase.

However, in light not only of the users who do not give the imported products high marks but also of overseas manufacturers who are not necessarily willing to break into the Japanese market, it is difficult to assess that competitive pressure from import works.

B. General-Purpose Products

Up to now, the general-purpose products have not been imported.

According to our hearings, it is assumed this is because of the following reasons: Namely, although the Chinese manufacturers' products are cheaper in prices than the domestic manufacturers' products, the difference in both prices is not so great to justify the active use of the Chinese manufacturers' products when taking concerns about unstable quality into consideration. When it comes to the products by the manufacturers in Europe and in the U.S., transportation costs are high relative to the product prices.

On the other hand, our hearings also reveal that some users consider switching to the Chinese manufacturers' products given that the concerns about unstable quality are

resolved. Therefore, there is a certain possibility that import of the Chinese manufacturers' products is initiated depending on the future market environment.

However, in light not only of the users who do not give the imported products high marks but also of overseas manufacturers who are not necessarily willing to break into the Japanese market, it is difficult to assess that competitive pressure from import works.

(5) Entry

Since the domestic demands for both the high-brightness products and the general-purpose products are on a declining trend, it is assumed that possibility of new entry into the domestic market is low due to the difficulty in obtaining profit.

(6) Competitive pressure from Related Market

There exists no related market with regard to the high-brightness products.

When it comes to the general-purpose products, our interviews reveal that switching to epoxy-based coating materials that are more excellent in durability than the coating materials using aluminum paste and switching to the coating materials having colors blending in with scenery and without use of aluminum paste are recently ongoing in the field where anticorrosion effect is indispensable with the coating materials using aluminum paste. Therefore, it is assumed that a certain degree of competitive pressure from related market works depending on its use.

(7) Financial Conditions of the Parties

SHOWA ALUMINUM that is one of the parties manages to run its business with constant financial supports from its parent company after around 2007 due to the deterioration in its financial conditions caused by the decrease in domestic demand or the like. SHOWA ALUMINUM has been suffering from a capital deficiency since the year-end settlements of account in the fiscal year 2008, and now, SHOWA ALUMINUM has excess debt and considerable improvement is not seen in terms of its profitability.

Moreover, our interviews reveal that possibility of finding any manufacturers capable of rescuing SHOWA ALUMINIUM with business combination is low except Toyo Aluminium, among the domestic and overseas manufacturers.

2. Horizontal Business Combination

Toyo Aluminium manufactures fine powder and coarse powder in its factories. However, Toyo Aluminium does not sell them to the other aluminum paste manufacturers. In addition, Toyo Aluminium procures the fine powder from the domestic and overseas manufacturers

because Toyo Aluminium is unable to procure all the necessary amount of fine powder for its business with self-manufacture.

Since SHOWA ALUMINUM does not manufacture aluminum powder for its business but procures the necessary aluminum powder from the domestic and overseas manufacturers. After the proposed acquisition of shares, it is presumed that SHOWA ALUMINUM procures a part of its aluminum powder demand, from Toyo Aluminium.

(1) Refusal of Raw Material Supply by Toyo Aluminium to Business Operators Other Than SHOWA ALUMINUM

Since Toyo Aluminium does not sell both the fine powder and the coarse powder to the other aluminum paste manufacturers at present, the proposed acquisition of shares does not cause difficulty for the other aluminum paste manufacturers in procuring the fine powder and the coarse powder.

(2) Refusal of Raw Material Procurement by SHOWA ALUMINUM from Business Operators Other Than Toyo Aluminium

Toyo Aluminium procures the fine powder from the domestic and overseas manufacturers because Toyo Aluminium is unable to procure all the necessary amount of fine powder for its business with self-manufacture. Therefore, it is unlikely that Toyo Aluminium supplies a large amount of fine powder to SHOWA ALUMINUM after the proposed acquisition of shares.

In addition, fine powder is in use other than the manufacturing of aluminum paste for high-brightness products, and the amount of fine powder procured by SHOWA ALUMINUM is less than the volume of transaction in the entire fine powder market.

Coarse powder is also in use other than the manufacturing of aluminum paste for general-purpose products, and the amount of fine powder procurement by SHOWA ALUMINUM is less than the volume of transaction in the entire coarse powder market.

For the above-described reasons, it is unlikely to assume that the proposed acquisition of shares causes difficulty for the other aluminum paste manufacturers except for Toyo Aluminium in securing suppliers for the fine powder and the coarse powder.

VI. Assessment under the Antimonopoly Act

1. Horizontal business combination

(1) High-brightness Products

With regard to high-brightness products, the total market share of the parties after the proposed acquisition of shares will be approximately 55% (the first place in the industry). On the other hand, there is a strong competent competitor in the industry in question, and both

of the parties and the competitor have sufficient excess capabilities. Moreover, there is a certain degree of competitive pressure from users. In addition thereto, SHOWA ALUMINUM substantially has excess debt and is unable to get finance for working capital, so that it is highly possible that SHOWA ALUMINUM will withdraw from the market in the near future. While there is very little chance that finding a company, capable of rescuing SHOWA ALUMINUM by business combination and having less impact on competition than that by business combination by TOYO ALUMINIUM. For the above reasons, the JFTC concluded that the parties will not be substantially to restrain competition in a particular field if the parties and their competitors are engaged in unilateral conduct or engaged in coordinated conduct with its competitor(s).

(2) General-purpose Products

With regard to general-purpose products, the total market share of the parties after the proposed acquisition of shares will reach approximately 75% (the first place in the industry). On the other hand, there is a strong competitor in the industry in question, and both of the parties and the competitors have sufficient excess capabilities. Moreover, there is a certain degree of competitive pressure from users and there is competitive pressure from related market depending on the intended use of the general-purpose products. In addition thereto, SHOWA ALUMINUM substantially has excess debt and is unable to get finance for working capital, so that it is highly possible that SHOWA ALUMINUM will exit from the market in the near future. While there is little chance that there exist companies, capable of rescuing SHOWA ALUMINUM by means of business combination and having less effect on competition than that by the business combination by TOYO ALUMINIUM. While there is very little chance of finding a company, capable of rescuing SHOWA ALUMINUM by means of business combination and having less impact on the market than that by business combination by TOYO ALUMINIUM. For the above reasons, the JFTC concluded that the parties will not be substantially to restrain competition in a particular field even if the parties are engaged in unilateral conduct or are engaged in coordinated conduct with its competitor(s).

2. Vertical Business Combination

As discussed in the above V-2 the JFTC concluded that the parties may not be substantially to restrain competition in a particular field because it is assumed that the problem of closure or exclusivity in markets may not be caused by the proposed acquisition of shares.

VII. Conclusion

For the reasons disclosed above, the JFTC has concluded that the proposed acquisition of shares may not be substantially to restrain competition in a particular field of trade.