

**Integration of the Stainless Steel Business of Nippon Steel Corporation and  
Sumitomo Metals Industries, Ltd.**

December 26, 2002

Fair Trade Commission

The Fair Trade Commission (hereinafter referred to as “FTC”) received a request from Nippon Steel Corporation (hereinafter referred to as “Nippon Steel”) and Sumitomo Metals Industries, Ltd.(hereinafter referred to as “Sumitomo Metals”) for prior consultation regarding the integration of their stainless steel businesses now under contemplation by the two parties.

The FTC has responded to the parties that, the integration would not pose problems with respect to provisions of the Antimonopoly Act, if judged from the explanations given by the parties concerning integration (see Annex for details).

Item 1. Outline of the integration

Nippon Steel and Sumitomo Metals are contemplating to integrate their stainless steel businesses in October, 2003, by jointly establishing a new company by corporate split.

Item 2. Views with respect to the Antimonopoly Act

1. Examining the Impact on Competition

Particular attention was given to the three fields of trade which warranted detailed examination, namely: hot-rolled stainless steel strips in coil (hereinafter referred to as “hot-rolled strips in coil”), stainless steel medium and heavy plates (hereinafter referred to as “plates”) and cold-rolled stainless steel strips in coil (hereinafter referred to as “cold-rolled strips in coil”).

2. Impact on Competition

As a result of the integration the combined share of the parties in terms of the sales volume and their market share ranking are expected to be approx 30%, ranking first, in the field of hot-rolled strips in coil; approx 40%, ranking first, in the field of plates; and approx 35%, ranking first, for cold-rolled strips in coil. However, taking into consideration the circumstances described below, it has been determined that the proposed integration does not substantially restrain competition in any of the fields of trade listed above.

(1) Hot-rolled strips in coil

a. Presence of major competitors

A number of major competitors are present (one of whom accounting for a market share of approx 20% based on the sales volume, two holding a market share of approx 15% each and one having a share of approx 10%).

b. Easiness with which users can change suppliers

Most of the hot-rolled strips in coil purchased by the users conform to JIS standards and there is practically no difference in the quality of products among the manufacturers. It is therefore believed easy for the users to change their supplier from one manufacturer to another.

c. The users' purchasing behaviors

Generally, the users are purchasing the products they need from several different manufacturers, selecting the supplier principally on the basis of the price offered. During the course of price negotiation, some users make it a point to purchase a larger volume of products from the manufacturer offering lower prices.

It is to be noted that the users themselves are facing relentless demands for

lower prices from their own customers. Such a competitive pressure from the downstream market is reinforcing the users' insistence on price reduction in their negotiation with the manufacturers.

d. Competitive pressure from abroad

The purchasers of imported products say that, since basically there is no difference in quality between the imports and home products, the level of difference in prices between them becomes the main factor for determining whether or not the imported products should be purchased.

It is to be noted here that the movements of domestic prices and international prices are interrelated to a certain degree, and also that the volume of imported products tends to increase when the differential between domestic prices and international prices widens to a certain level. These seem to prove that the competitive pressure from the imports is effective to a certain degree.

(2) Plates

a. Major competitors

A few major competitors are present (one of whom accounting for a market share of approx 20% based on the sales volume and two of whom holding a market share of approx 10% each)

b. Easiness with which the users can change suppliers

Most of the plates purchased by the users practicing "tied" transactions (Note 1) conform to JIS standards with practically no difference in quality among the manufacturers. It is therefore believed easy for the users to switch their supplier from one manufacturer to another.

Most of the plates traded by the distributors engaged in shop transactions (Note 2) conform to JIS standards with practically no difference in quality among the manufactures. It is therefore believed easy for them to change their supplier from one manufacture to another.

(Note 1) Tied transaction is a pattern of trade where the price negotiation takes place between the manufacturer and the final user.

(Note 2) Shop transaction is a pattern of trade where the distributors sell the product after procuring it from the manufacturer at their own responsibility. The price negotiation takes place at each stage of distribution, i.e. between the manufacturer and the distributor, among the distributors, and between the distributor and the user.

c. Purchasing behaviors of the users, etc.

Generally, the users practicing tied transactions are purchasing the products they need from several different manufacturers with a view to holding an advantageous position in the price negotiation, sometimes using such factors as the cost of raw materials, etc. as a bargaining tool. Some of the users make it a point to give a larger share of the procurement to the manufacturer who offered lower prices. The bargaining power of the users in the price negotiation is, therefore, believed to be strong enough.

As for shop transactions, a market is formed by reason of the presence of many distributors intervening at the various stages of distribution, and these distributors generally decide on which manufacturer is to supply the products on the basis of the prices offered. Such a competition fought by those numerous distributors at various stages of distribution makes further pressure

on the manufacturers to reduce their prices.

d. Competitive pressure from abroad

The purchasers of imported products say that, since basically there is no difference in quality between the imports and home products, the decision to import or not depends solely on the difference in prices.

In the area of shop transaction, too, competition is mainly based on prices since there is practically no difference in quality between the imports and home products.

As to the relationship between domestic prices, international prices and the volume of imports, a situation similar to the case of hot-rolled strips in coil is observable (ref: (1) d. above)

(3) Cold-rolled strips in coil

a. Major competitors

A number of major competitors are present (one of whom accounting for a market share of approx 20% based on the sales volume and three of whom having a share of approx 10% each)

b. Easiness with which the users, etc. can change suppliers

Most of the cold-rolled strips in coil purchased by the users practicing tied transactions conform to JIS standards with practically no difference in quality among the manufacturers. It is therefore believed easy for the users to switch their supplier from one manufacturer to another.

Most of the cold-rolled strips in coil traded by the distributors engaged in shop transactions conform to JIS standards with practically no difference in quality among the manufacturers. It is therefore believed easy for them to

change their supplier from one manufacturer to another.

c. Purchasing behaviors of the users, etc.

Generally, the users practicing tied transactions are purchasing the products they need from several different manufacturers with a view to holding an advantageous position in the price negotiation, sometimes using such factors as the cost of raw materials, etc. as a bargaining tool. Some of the users make it a point to give a larger share of the procurement to the manufacturer who offered lower prices. Also considering the fact that the volume of products purchased by such users is substantial, it is believed that the users do hold a strong bargaining power when negotiating prices.

As to the products traded by way of shop transactions, a situation similar to the case of plates is observable (ref: (2) c. above)

d. Presence of competitive pressure from abroad

As regards the imported products a situation similar to the case of plates is observable (ref: (2) d. above)

As to the relationship between domestic prices, international prices and the volume of imports, a situation similar to the case of hot-rolled strips in coil is observable (ref: (1)d. above).

INTEGRATION OF STAINLESS STEEL BUSINESS OF NIPPON STEEL  
CORPORATION AND SUMITOMO METALS INDUSTRIES,  
LTD.(A REPLY)

Item 1: Parties

Nippon Steel Corporation (hereinafter referred to as “Nippon Steel”) is a company whose business is to manufacture and sell iron and steel products, etc.

Sumitomo Metals Industries Ltd.(hereinafter referred to as “Sumitomo Metals”) is a company whose business is to manufacture and sell iron and steel products, etc.

Item 2: Outline of integration and the relevant section of law

The parties propose to integrate their stainless steel businesses by establishing up in October, 2003, a jointly invested new company (80% by Nippon Steel, 20% by Sumitomo Metals) by company split.

The relevant section of law that will apply to the proposed integration is, therefore, Section 15-2 of Antimonopoly Act.

Item 3: Purpose of integration

The parties intend to introduce a more efficient production system into their chronically unprofitable stainless steel businesses by concentrating production facilities, etc. and to slim down the existing administration and operation departments.

Item4: Particular fields of trade

1. Particular fields of trade

Steel products, including stainless steel, are manufactured in many different shapes and with different properties according to the use to which they will be put by the users. Stainless steel is an alloy steel, with iron as the main ingredient to which

chrome or chrome cum nickel is added to prevent corrosion. It consists of chrome-added products group which contains chrome only and nickel-added products group which also contains nickel to further improve its resistance to corrosion.

Among the stainless steel products to be integrated the parties are in competition with each other in five product areas. The Fair Trade Commission (hereinafter referred to as "FTC") examined these areas from the viewpoints of whether or not the functions and utility of these products are viewed by the users as analogous and whether or not they require different types of facilities to produce. As a result of such examination the five areas were determined to constitute particular fields of trade (the undermentioned three fields plus stainless steel bars and stainless wire rods), out of which particular attention was given to the following three fields which seemed to require detailed examination in view of the market condition to be expected after the integration (Note), namely: hot-rolled stainless steel strips in coil ( hereinafter referred to as "hot-rolled strips in coil"), stainless steel medium and heavy plates (hereinafter referred to as "plates") and cold-rolled stainless steel strips in coil (hereinafter referred to as "cold-rolled strips in coil").

In this connection, plates are manufactured and sold not only by the stainless steel makers (\*) but also by the shearing companies (\*) who use hot-rolled strips in coil procured from the stainless steel makers as materials for processing. The users, however, regard them both as products of the same category interchangeable with one another and purchase them as such. For this reason the FTC has treated them both as plates in determining the particular field of trade.

Likewise, cold-rolled strips in coil are manufactured and sold not only by the



stainless steel makers but also by the re-roll makers (\*) who use hot-rolled strips in coil purchased from the stainless steel makers as materials for manufacturing. The users, however, regard them both as products of the same category interchangeable with one another and purchase them as such. For this reason the FTC has treated them both as cold-rolled strips in coil in determining the particular field of trade. Although the chrome-added products and the nickel-added products are both found in all the three fields of trade to which particular attention was given, there is no clear difference in the principal purposes for which they are used. It is also technically easy to produce either the chrome-added products or the nickel-added products at will without altering manufacturing facilities. For these reasons the FTC has determined the particular field of trade for each product without differentiating between the two.

(Note) As for stainless steel bars, the combined share of the parties in terms of the sales volume is expected to be less than 10%. As to stainless steel wire rods, the expected increase in the parties' combined market share in terms of the sales volume will be minimal, i.e. less than 1%. For these reasons the FTC has judged that no antimonopoly problem is likely to arise.

- \* Stainless steel maker: A manufacturer equipped with steelmaking and hot-rolling facilities and capable of turning out final products for sale through integrated operations. Both parties are stainless steel makers.
- \* Shearing company: A company who procures hot-rolled strips in coil from the integrated stainless steel makers and processes them into plates for sale. It also purchases plates from the integrated stainless steel makers for resale.
- \* Re-roll maker: A company who procures hot-rolled strips in coil from the

integrated stainless steel makers, cold-rolls them and turns out cold-rolled strips in coil for sale.

2. Outline of the three products to which special attention was given as attached

Item 5: Examination of the three products to which special attention was given

1. Hot-rolled strips in coil

(1) Market condition

The demand for hot-rolled strips in coil within this country is on the decline.

The scale of the home market in 2001 is approximately 43 billion yen.

The proposed consolidation will result in a combined market share of approx 30% in terms of the sales volume, ranking No. 1.

Rank	Company	Share
1	Nippon Steel	Approx 25%
2	Company A	“ 20%
3	Company B	“ 15%
4	Company C	“ 15%
5	Company D	“ 10%
6	Sumitomo Metals	“ 10%
	Imports	“ 5%
(1)	Combined share of the parties	“ 30%
	Total	100%

(Source: Material provided by the parties)

(2) Factors considered

- a. Major competitors

A number of major competitors, such as Companies A, B, C and D, are

present.

b. Easiness with which the users can change suppliers

Most of the hot-rolled strips in coil purchased by the users conform to JIS standards with practically no difference in quality among the stainless steel makers. Also, when the main users such as re-roll makers and shearing companies manufacture and sell cold-rolled strips in coil or plates, they are seldom requested by their customers to use the hot-rolled strips in coil of any particular stainless steel maker. For these reasons, it is believed easy for the users to switch their supplier from one maker to another.

c. The users' purchasing behaviors

Because of the uniform level of quality among the manufacturers as mentioned in b. above, the users generally purchase the products they need from several different manufacturers and select the supplier principally on the basis of the price offered. When doing so, they sometimes conduct price negotiations using the cost of raw materials and the condition of the home market as bargaining tools, and some users even make it a point to give a larger share of the procurement to the stainless steel maker who offered lower prices.

Main users such as re-roll makers and shearing companies are faced with strong demands for price reduction from their customers, and such a competitive pressure from the downstream market is reinforcing the users' pressure for lower prices towards the stainless steel makers. Also, the fact that the stainless steel makers and re-roll makers are in competition with each other in the market of cold-rolled strips in coil is another factor behind

the re-roll makers' pressure on the stainless steel makers for lower prices.

d. Competitive pressure from abroad

(a) Imports

The volume of hot-rolled strips in coil imported in 2001 accounts for approx 5% of the total volume of domestic sales.

Most of the imported products conform to JIS standards. The re-roll makers purchasing the imported products say that since there is practically no difference in quality between the imports and home products and also considering that the imports are generally delivered on schedule, the decision to buy the imports or not is mainly made by weighing their price differential with the home products.

(b) The relationship between domestic prices, international prices and the volume of imports

Although some difference is found to exist between domestic prices and international prices they are interrelated to a certain extent. It is also found that when the gap between the two prices widens to a certain extent the volume of the imports tends to increase. These appear to demonstrate that a competitive pressure from the imports does exist to a certain extent.

(3) Assessment from the standpoint of Antimonopoly Act

The FTC believes that the proposed integration would not be likely to substantially restrain competition in the field of trade in respect of hot-rolled strips in coil in view of the circumstances described in (2) above, namely:

- i) A number of major competitors are present.
- ii) It is easy for the users to change their suppliers.
- iii) There are factors that strengthen the users' price-cutting pressure toward the stainless steel makers.
- iv) Competitive pressure from the imports is at work to a certain extent.

## 2. Plates

### (1) Market condition

The domestic demand for plates is on the decline. The scale of the home market in 2001 is approximately 46 billion yen.

The proposed integration will result in the parties' combined share of approximately 40% in terms of the sales volume, ranking first.

Rank	Company	Share
1	Nippon Steel	Approx 25%
2	Company E	“ 20%
3	Sumitomo Metals	“ 15%
4	Company F	“ 10%
5	Company G	“ 10%
	Shearing cos.	“ 15%
	Imports	“ 5%
(1)	Combined share of the parties	“ 40%
	Total	100%

(Source: Material provided by the parties)

### (2) Factors considered

#### a. Major competitors

A few major competitors such as Companies E, F and G are present.

b. Easiness with which the users, etc. can change suppliers

Most of the plates purchased by the users practicing tied transactions (\*) conform to JIS standards with practically no difference in quality between the stainless steel makers and the shearing companies (hereinafter in this Item 5, Para. 2., referred to as “makers”). It is believed, therefore, that the users can easily change the supplier from one maker to another. Likewise, most of the plates traded by the distributors practicing shop transactions (\*) conform to JIS standards with practically no difference in quality among the makers. Also, the users do not normally require that the distributors select the products of any particular maker. For these reasons it is believed easy for the distributors to change their supplier from one maker to another.

- \* Tied transaction: A pattern of trade where prices are negotiated between the maker and the final user.
- \* Shop transaction: A pattern of trade where the distributors sell the product after purchasing it from the makers at their own responsibility. Price negotiations take place at each stage of distribution, i.e. between the maker and the distributor, among the distributors, and between the distributor and the user.

c. Purchasing behaviors of the users and distributors

Because of the uniform level of quality among the makers, the users practicing tied transactions usually purchase the products they need from several different makers in order to maintain their bargaining power in

price negotiations and to secure continued supply of products. With some of these makers the users negotiate prices using the cost of raw materials and the market condition at home as bargaining tools, and then decide on which maker is to supply the products from the viewpoints of prices and delivery dates. When doing so some users even make it a point to give a larger share of the procurement to the maker who offered lower prices. In view of the foregoing the users are believed to hold a strong position in negotiating prices with the makers. Also, there are some users who opt to place unscheduled orders for a large quantity of products from time to time, and such a method of purchase does ignite a fierce competition among the makers to win the contract.

As for shop transactions, a market is formed by reason of the presence of many distributors who are involved in the various stages of distribution. Because of this and also due to the fact that the users seldom require the products of any particular maker to be purchased, the distributors are choosing the supplier mainly on the basis of prices. Such a competition is taking place at each stage of distribution through numerous distributors, thus reinforcing the price-cutting pressure against the makers.

d. Competitive pressure form abroad

(a) Imports

The volume of the plates imported during 2001 accounts for approximately 5% of the total volume of domestic sales.

Most of the imports conform to JIS standards. The principal users practicing tied transactions who are purchasers of the imported products

say that because of the uniform level of quality between the imports and home products and considering the fact that the imports are generally delivered on schedule, the decision to buy the imports or not is made mainly by weighing their price differential with the home products’.

In the area of shop transactions where almost 80% of the imports are traded, competition is mainly based on prices since there is practically no difference in quality between the imports and the home products.

- (b) The relationship between domestic prices , international prices and the volume of the imports

A situation similar to the case of hot-rolled strips in coil is observable (ref: Item 5, Para, 1 (2), Sub-para. d (b))

- (3) Assessment from the standpoint of Antimonopoly Act

TheFTC believes that the proposed consolidation would not be likely to substantially restrain competition in the field of trade in respect of plates in view of the circumstances described in (2) above, namely:

- i ) A few major competitors are present.
- ii) It is easy for the users to change their suppliers.
- iii) The users hold a strong price-negotiating power towards the makers. Also there are other factors reinforcing the pressure that forces prices down.
- iv) Competitive pressure from the imports is at work to a certain extent.

## 2. Cold-rolled strips in coil

- (1) Market condition



The domestic demand for cold-rolled strips in coil, which had been on the decline after reaching a peak in 1997, has started to increase again since 2000. The scale of the home market in 2001 was approximately 193 billion yen. The proposed consolidation will result in a combined share of the parties of approx 35% in terms of the sales volume, ranking first.

Rank	Company	Share
1	Company H	Approx 20%
2	Nippon Steel	“ 20%
3	Sumitomo Metals	“ 15%
4	Company I	“ 10%
5	Company J	“ 10%
6	Company K	“ 10%
7	Company L	“ 5%
8	Company M	0 - 5%
9	Company N	0 - 5%
10	Company O	0 - 5%
	Other re-roll makers	0 - 5%
	Imports	Approx 5%
(1)	Combined share of the parties	“ 35%
	Total	100%

(Source: Material provided by the parties)

(2) Factors considered

a. Major competitors

A number of major competitors such as Companies H, I, J and K are present.

b. Easiness with which the users can change suppliers

Most of the cold-rolled strips in coil purchased by the users practicing tied transactions conform to JIS standards with practically no difference in quality between the stainless steel makers and the re-roll makers (hereinafter in this Item 5, Para. 3, referred to as “makers”). It is therefore believed easy for the users to change their supplier from one maker to another.

Likewise, most of the cold-rolled strips in coil traded by the distributors practicing shop transactions conform to JIS standards with practically no difference in quality among the makers. Also, the users do not normally require that the distributors select the products of any particular maker. For these reasons it is believed easy for the distributors to change their supplier from one maker to another.

c. Purchasing behaviors of the users and distributors

Because of the uniform level of quality among the makers, the users practicing tied transactions usually purchase the products they need from several different makers in order to maintain their bargaining power in price negotiations and to secure continued supply of products. With some of these makers the users regularly negotiate prices using the cost of raw materials and the market condition at home as bargaining tools, and then decide on which maker is to supply the products on the basis of prices and delivery dates. When doing so some users even make it a point to give a larger share of the procurement to the maker who offered lower prices. As these users buy large amounts of products they are believed to hold a strong position in negotiating prices with the makers.

As for shop transactions, a situation similar to the case of plates is observable (ref: Item 5, Para. 2 (2), Sub-para. c)

d. Competitive pressure from abroad

(a) Imports

The volume of cold-rolled strips in coil imported during 2001 accounts for approximately 5% of the total volume of domestic sales.

Most of the imports conform to JIS standards. The principal users practicing tied transactions who are purchasers of imported products say that because of the uniform level of quality between the imports and the home products and considering the fact that the imports are generally delivered on schedule, the decision to buy the imports or not is made mainly by weighing their price differential with the home products'.

The imports are traded mainly by way of shop transactions.

Competition is mainly based on prices since there is practically no difference in quality between the imports and the home products.

(b) The relationship between domestic prices, international prices and the volume of imports

A situation similar to the case of hot-rolled strips in coil is observable (ref: Item 5, Para. 1 (2), Sub-para. d. (b))

(3) Assessment from the standpoint of Antimonopoly Section

The FTC believes that the proposed integration would not be likely to substantially restrict competition in the field of trade in respect of cold-rolled strips in coil in view of the circumstances described in (2) above, namely:

- i) A number of major competitors are present.
- ii) It is easy for the users to change their suppliers.
- iii) The users hold a strong price-negotiating power towards the makers.

Also there are other factors reinforcing the pressure that forces prices down.

- v) Competitive pressure from the imports is at work to a certain extent.

**Outline of the three products to which special attention was given**

Product	Outline
Hot-rolled stainless steel strips in coil	<p>(Features)</p> <p>These are stainless steel strips manufactured by hot-rolling mills but not cold-rolled. Mainly used as intermediate materials for manufacturing stainless steel plates and cold-rolled stainless steel strips in coil but are seldom used as final products.</p> <p>(Main uses)</p> <p>In most cases they are used as materials for secondary products (plates, cold-rolled strips in coil, steel pipes, sections, etc.) but some of them are used to make home electronic products, etc. (as functional materials that require heat- resisting and corrosion- resisting properties only, without requiring workability or luster)</p> <p>(Main users)</p> <p>Re-roll makers who manufacture cold-rolled strips in coil, processors of steel pipes, etc. and shearing companies who process the strips into plates.</p> <p>(Pattern of trade)</p> <p>Mostly tied transactions (*)</p> <p>* Tied transactions: A pattern of trade where the price</p>

	<p>negotiation takes place between the makers and the final users.</p>
<p>Stainless steel plates</p>	<p>(Features)</p> <p>These are stainless steel plates manufactured by hot-rolling mills with thickness of more than 3 mm. As thickness is increased greater strength is obtained, making them suitable as structural materials.</p> <p>(Main uses)</p> <p>Used for industrial plants, ship's tanks for transporting chemicals such as LPG, and industrial machinery parts, etc.</p> <p>(Main ultimate users)</p> <p>Plant makers, shipbuilders, makers of machinery parts, etc.</p> <p>(Pattern of trade)</p> <p>Approx 50% is traded by way of tied transactions and another 50% or so by way of shop transactions (*)</p> <p>(Other points)</p> <p>In addition to the products manufactured and sold by the stainless steel makers there are products sold by the shearing companies who purchase hot-rolled strips in coil from the stainless steel makers and process them into plates.</p> <p>* Shop transactions: A pattern of trade where the distributors sell the product after procuring it from the makers at their own responsibility. Price negotiations take place at each stage of distribution, i.e. between the maker and the distributor, among the distributors, and</p>

	between the distributor and the user.
Cold-rolled stainless steel strips in coil	<p>(Features)</p> <p>These are stainless steel strips with thickness of less than 3 mm. manufactured by applying the process of cold-rolling to hot-rolled strips in coil (which include cold-finished strips and cold-rolled sheets). Through the process of cold-rolling the strips become more lustrous, lending themselves to a better use of designing and artistry as well as improved workability. (The Metals texture becomes finer, reducing the chance of cracks developing due to bending)</p> <p>(Main uses)</p> <p>Used for a variety of purposes such as mufflers for automobiles, pipes for engines, electronic appliances, kitchen utensils, construction materials, etc.</p> <p>(Pattern of trade)</p> <p>Tied transactions account for approx 70%, shop transactions approx 30%.</p> <p>(Main ultimate users)</p> <p>Carmakers, home electronics manufacturers, kitchen facilities manufacturers, construction material makers, etc.</p> <p>(Other points)</p> <p>In addition to the products made and sold by the stainless steel makers, there are products sold by the re-roll makers who procure hot-rolled strips in coil as materials for manufacturing cold-rolled strips.</p>