

Business Integration
by Nippon Felt Co., Ltd., Ichikawa Co., Ltd. and Nippon Filcon Co., Ltd.

December 27, 2002
Fair Trade Commission

The Fair Trade Commission (hereinafter referred to as "FTC") received a request from Nippon Felt Co., Ltd. (hereinafter referred to as "Nippon Felt"), Ichikawa Co., Ltd. (hereinafter referred to as "Ichikawa"), and Nippon Filcon Co., Ltd. (hereinafter referred to as "Nippon Filcon") for prior consultation regarding their business integration.

Whereas the FTC examined the request and indicated potential infringement of the proposed integration on the Antimonopoly Act, the companies notified the FTC and publicly announced this month that they had decided not to proceed with the integration. Meanwhile, the FTC hereby discloses the views with respect to the Antimonopoly Act in connection with the integration.

1 Outline of the integration

The aforementioned three companies as manufacturer-distributors of paper machine clothing were planning to integrate their businesses through establishing a holding company.

The parties requested prior consultation with the FTC in April 2002. Then in June, the FTC indicated the points in need of further examination. Following the user hearing sessions and the detailed examination of the additionally provided information, the FTC notified the parties in October 2002, of potential infringement of the integration on the Antimonopoly Act.

2 Particular fields of trade

(1) Product summary

The paper machine clothing consist of four types of consumable items of wires(Forming Fabric), felts(Pressing Fabric), belts, and canvases(Drying Fabric) installed in paper-making machines during the paper-making process (a process of paper-manufacturing where materials such as pulp are pressed to a mesh, dewatered, heated, and dried by paper-making machines to make paper web).

The paper-making process comprises of three sections: forming, press, and dryer. Below is the list of paper machine clothings used during each section.

Section	Applicable paper machine clothings
Forming	Wires
Press	Felts and belts
Dryer	Canvases

A wire is a mesh to form paper web by pressing wet raw materials to itself.

Felts are used to press and dewater the paper web formed by wires.

Belts are installed between a paper-manufacturing machine and felt to efficiently squeeze water out of paper web by maximizing its contact area with the felt. The belt users are limited to certain large-to-medium sized papermakers who can afford belt-equipped paper-manufacturing machines.

Canvases serve as conveyors of paper web while it has been dewatered with the help of felts, for heating and drying.

These four types of products are applied to different processes. Though used during the same section, felts and belts serve for different purposes. It may be said, therefore, that each of the four products has a distinct function and use and that they have no substitutability each other.

The products traded by each party are listed below.

Product	Nippon Felt	Ichikawa	Nippon Filcon
Wires		×	
Felts			×
Belts			×
Canvases		×	×

As the parties do not vie for the market share of the canvases, the FTC limited its examination to the three products of wires, felts, and belts.

(2) Overview of trading

Each paper-making product is designed for a specific paper machine and available on request. Manufacturers of paper-making products sell the made-to-order products directly to the papermakers as their users.

The users indicate that they purchase different paper-making products they need from different manufacturers, rather than buying them all from a single manufacturer.

(3) Particular fields of trade

The parties were insisting that the entire range of paper-making products should constitute a particular field of trade, because the users are increasingly inclined to purchase all of the

paper-making products they need from a single manufacturer. However, as indicated in the item (1) and (2) above, each product of wires, felts, and belts has a distinct function and use. Moreover, the users are currently purchasing different products from different manufacturers. Therefore, the FTC has rejected the parties' argument, and a particular field of trade was constituted with respect to each type of the products.

Among the products examined, the felt market shows a significant difference between the transactions with large-to-medium sized papermakers and those with medium-to-small sized papermakers, in terms of trading practices and prices. Thus, a particular field of trade was constituted with respect to the transactions with large-to-medium sized papermakers and those with medium-to-small sized papermakers.

As for the geographic area, the FTC concluded that the entire Japanese market constitutes a particular field of trade.

3 Review

Among the particular fields of trade stipulated in the item 2 (3) above, it is determined that the integration may not be substantially to restrain competition in the particular fields of trade regarding wires and belts, due to the mounting pressure from the imports, and the insignificant increase in the market share after the integration. Meanwhile, the particular field of trade for felts was given a particular focus during the review, as the combined share of sales volume was going to be extremely large, in addition to the significant leap in the parties' share after the integration. See below the detailed results of the review of this particular field of trade.

(1) Particular field of trade regarding transactions with large-to-medium sized papermakers

i) Market position of the parties following the integration

Each of the two parties holds about 45% of market share. The combined share of sales volume following the integration was going to be around 90%, with the integrated company being the sole felt manufacturer in Japan.

Sales volume share by particular field of trade in FY2000

		Felts	Wires	Belts
Domestic manufacturers	Nippon Felt	Approx 45%	Approx 5%	Approx 5%
	Ichikawa	Approx 45%	-	Approx 65%
	Nippon Filcon	-	Approx 65%	-

	Total of above three	Approx 90%		Approx 70%	Approx 70%
		Large-to-medium	Approx 90%		
		Medium-to-small	Over 99%		
Overseas manufacturers (imports)	Company A	Approx 5%		Approx 10%	Approx 20%
	Company B	Approx 5%		Approx 15%	-
	Company C	0-5%		0-5%	Approx 5%
	Others	-		0-5%	-
	Total import	Approx 10%		Approx 30%	Approx 25%
		Large-to-medium	Approx 10%		
		Medium-to-small	Under 1%		
Grand total		100%		100%	100%

Source: compiled by the FTC using data supplied by the parties

ii) Users' buying behaviors

For the purposes of securing stable supplies and reasonable purchase prices, the users mainly make purchases from both of the two domestic manufacturers of Nippon Felt and Ichikawa. Prices are negotiated regularly, and the users generally hold an advantageous position in price negotiation, causing the product prices to decline.

iii) Imports

There is no big difference in the quality of products between the domestic and overseas makers. The domestic papermakers are inclined to increase the percentage of the imports.

However, the imports currently assume about 10% of the market share, with the percentage remaining relatively flat during the past five years. In addition, the large-to-medium sized papermakers purchase many kinds of products exclusively from the two party companies. Therefore, the FTC concluded that it is unlikely at present for the percentage of imports to rise under the present conditions.

iv) Evaluation under the Antimonopoly Act

The FTC observes that the users primarily purchase products from both of the domestic companies, and hold an advantageous position in price negotiation. Following the integration, however, it may not be the case where the imports would emerge as significant competitors against the sole domestic manufacturer.

Therefore, it was determined that the integration as proposed might be substantially to

restrain competition in the particular field of trade regarding the felt transactions with large-to-medium sized papermakers.

(2) Particular field of trade regarding transactions with medium-to-small sized papermakers

i) Market position of the parties following the integration

The combined share of sales volume was going to exceed 99%, with the integrated company being the sole felt manufacturer in Japan.

ii) Users' buying behaviors

Many users purchase products exclusively from a single manufacturer. While some users make purchases from more than one manufacturer, their suppliers are mostly limited to the two domestic manufacturers of Nippon Felt and Ichikawa, with a negligible percentage of imports. Moreover, the users' purchase prices fluctuate very little. Thus, the users generally do not hold an advantageous position in price negotiation.

iii) Imports

The imports assume a very small proportion of less than 1% of the market share. The overseas manufacturers primarily trade with the large-to-medium sized papermakers who tend to use products of large size and make large volume purchases. In addition, many felt products needed by the medium-to-small sized papermakers are not available from the overseas manufacturers in the first place. Therefore, it was entirely unlikely for the pressure from the imports to increase. Following the integration, the medium-to-small sized manufacturers were going to be virtually forced to make purchases from the integrated company.

iv) Concern shown by the medium-to-small papermakers about the integration

Certain medium-to-small sized papermakers expressed strong concern about the integration, which would result in only one domestic manufacturer. With the difficulty of shifting to the imports, these papermakers would have no alternative supplier, potentially subjected to further rigidity in prices.

v) Evaluation under the Antimonopoly Act

There is no competitor against the parties in Japan. Pressure from the imports is not at work, either. Therefore, the integration may be substantially to restrain competition in the particular field of trade regarding the felt transactions with medium-to-small sized papermakers.

4 Potential issue with respect to the Antimonopoly Act

Considering the review results in the item 3 above, the FTC indicated to the parties in October 2002 that the integration may be substantially to restrain competition in the particular field of trade regarding felts, particularly regarding the transactions with the medium-to-small papermakers.