

**Business Integration of Bus Manufacturing Operations of Hino Motors, Ltd.
and Isuzu Motors, Ltd.**

June 21, 2002
Fair Trade Commission

The Fair Trade Commission (hereinafter referred to as “FTC”), having been approached by Hino Motors, Ltd. (hereinafter referred to as “Hino”) and Isuzu Motors, Ltd. (hereinafter referred to as “Isuzu”) for prior consultation regarding the integration of their bus manufacturing operations, has been conducting a necessary examination as to the admissibility of the proposed integration.

On the strength of the explanation given by the parties to the proposed integration in regard to the subject matter of consultation and assuming the steady implementation of the measures they promised to adopt, the FTC finds that the proposed integration is unlikely to violate the provisions of the Antimonopoly Act (Article 15) and has replied to the parties accordingly.

1. Outline of the proposed integration

With the aim of streamlining production systems in the bus manufacturing area and strengthening the capabilities in that area to cope with environmental problems and to assist handicapped and elderly passengers, Hino and Isuzu now contemplate integrating their bus manufacturing operations by means of a merger between their bus-body assembly subsidiaries as from October, 2003.

2. The present situation of bus market

Mainly as a result of a decline in the number of bus passengers, the number of bus units sold in this country has been halved in the past 10 years and is now hovering at a depressed level of approximately 5,000 units per annum. Under such circumstances bus prices are being forced down due to intensifying competition among bus manufacturers for new orders and the users’ eagerness to procure buses at cheap prices reflecting the existing harsh business climate for bus operators. Furthermore, facing the likelihood of regulatory controls over the emission of exhaust gases getting more stringent step by step in the future, it is now becoming a major challenge for bus manufacturers to make provision for necessary research and development investments to meet such regulatory requirements.

3. Views under the Antimonopoly Act

(1) Particular fields of trade

Buses are classified into large, medium, small, sightseeing and route buses depending on their size and purposes of use, but their assembling technologies are more or less common. Also, on the user's side, they are mostly used by bus operators (such as JR buses, municipal buses and buses operated by private railways). For these reasons, the FTC finds that the bus areas constitute certain specified areas of trade.

(2) Impact on competition

- a. As a result of this integration the combined share of the parties in the bus manufacturing area (based on the number of registered units; hereinafter the same) will reach approximately 50%, ranking No. 1. The aggregate share of the top 3 bus manufacturers will be 100%.

The parties, however, propose to conduct their marketing operations independently from each other even after the integration of their manufacturing operations and to ensure such independence by setting up a fire wall to block the flow of information between the operations, as mentioned in paragraph b-(b) below. In terms of ranking and market share in the bus marketing area, Hino will rank No. 2 with a share of about 30% and Isuzu will rank No. 3 with a share of about 20% (the share of the top-ranking company being about 35%).

- b. Also, the following situations are found to exist:

(a) Existence of powerful competitors

There exist powerful competitors in the bus areas with market shares of about 35% and in excess of 10% respectively.

(b) Independent marketing operations

The marketing arms of the parties are fighting hard to meet fierce competition for new orders by quoting low prices or proposing wide

specifications to users at their own discretion. Reflecting such a situation the parties are now proposing that the bus marketing operations of the two companies should continue to be conducted independently of each other even after the integration of their manufacturing operations and that a necessary fire wall should be set up to block the flow of information between the parties and the newly-merged company with a view to ensuring the independence of bus marketing operations.

(c) Intensification of competition for new orders following shrinkage in market scale

Competition for new orders among bus manufacturers, including the parties to the proposed integration, is getting keener as the number of buses sold in the domestic market is dropping sharply due largely to a decline in the number of route bus passengers caused by an increase in privately-owned vehicles. In addition, as mentioned in paragraph (d) below, bus operators possess such a strong bargaining power over prices that the selling prices of buses tend to be pressed down below a level that enables manufacturers to recover the cost of improving specifications and performance of the buses they supply.

(d) Bus operators' bargaining power over prices

Bus operators, who account for most of bus users, normally procure their buses from more than one manufacturer with a view to holding a strong bargaining power over prices. Also, the difficult business climate of recent years is making bus operators more price-conscious than ever. Their strong bargaining power is manifested in the way they choose their suppliers, i.e. first obtaining a price quotation from more than one manufacturer and then negotiating with the lowest bidder to bring the quoted price further down.

(3) The judgment of the FTC

Although the proposed integration will push up the share and rank of the parties in the bus manufacturing area to around 50%, ranking No. 1, the FTC has

judged that the integration will not substantially restrain competition in the area of trade delineated by the above paragraph 3 (1) provided the blocking of marketing-related information with a fire wall is steadily implemented and the continued independence of the marketing operations of the two companies is ensured as proposed by the parties. This judgment is based on such considerations as users being mostly bus operators who possess a strong bargaining power over prices, the bus operators being eager to procure buses at lower prices than ever and the competition among marketing companies for new orders becoming keener in the face of a sharp decline in the demand for buses.