

Prior consultation regarding consolidation of power transmission and distribution businesses for power companies by Toshiba Corporation and Mitsubishi Electric Corporation.

March 1, 2002
Fair Trade Commission

The Fair Trade Commission (hereinafter referred to as “FTC”) received a request for prior consultation from Toshiba Corporation (hereinafter referred to as “Toshiba”) and Mitsubishi Electric Corporation (hereinafter referred to as “Mitsubishi Electric”) regarding business consolidation of power transmission and distribution businesses for power companies.

Whereas the FTC indicated potential infringement of the consolidation on the Antimonopoly Act pertaining to power protection system in the areas of power transmission and distribution businesses for power companies, the two companies proposed that they would take countermeasures to be hereinafter described.

The FTC replied to the companies that the proposed consolidation would not be likely to violate the provisions of the Antimonopoly Act if judged from the explanation concerning the consultation given by the companies and the countermeasures proposed by them.

1. Outline of the consolidation

Toshiba and Mitsubishi Electric are planning to consolidate their power transmission and distribution businesses for power companies through establishing a joint venture and reorganizing their capacity by integration and reallocation. This is aimed to rationalize manufacturing system, reinforce deployment of overseas business, and improve operating efficiency of domestic business.

2. Views with respect to the Antimonopoly Act

(1) Particular fields of trade

Power transmission and distribution facilities comprise equipment of substations for transmitting electricity and an overall control system of operation. In precise, 5 products are breakers, power transformers, switchgears, power control system and power protection system. These 5 products differ in their function and use, and scope of the proposed consolidation is targeted on products mainly used by power companies.

Thus, it is judged that each products for power companies as main users constitutes a particular field of trade.

(2) Impact on competition

A. By the consolidation of each field of trade, the combined market share would be following; approximately 25%, the 2nd largest market share for breakers, approximately 35%, the largest market share for power transformers, approximately 35%, the largest market share for switchgears, approximately 40%, the largest market share for power control system, and approximately 50%, the largest market share for power protection system.

B. However, following circumstances are acknowledged in each field of trade.

(a) Fierce competition in receiving orders due to decline in demand

Due to reduced capital investment by power companies in light of the showdown in power demand and etc, demand for the subject products for consolidation is on a downward trend, and competition in receiving orders is fierce among manufactures of electric appliances including the two companies.

(b) Pricing power of users

Users are limited to power companies with strong pricing power. Power companies are focusing on procuring equipment at low price to reduce electricity charges as deregulation of power industry is under way. Therefore their pricing power is intensified more, and prices of the subject products for consolidation are declining.

C. Following circumstances are also acknowledged in the subject products for consolidation.

(a) Breakers

There are major competitors with approximately 30% and 20% market shares. There are import records of the products by power companies, and some power companies are focusing to promote importation. It is highly probable import rate will increase in the future. This is a competitive pressure for domestic manufactures.

(b) Power Transformer

There are major manufacturers with market share of approximately 20%. State of importation is the same as breakers

(c) Switchgear

There are manufactures with more than 10% market share. There is no record power companies have implemented imported switchgears, but some power companies have already invited foreign companies to participate in a competitive bid for budget, and some are discussing technical aspects in introducing imported products. It is highly probable imported products will be applied in the future.

(d) Power Control System

There are manufactures with over 20% and over 10% market shares. Versatile software for power control system has been developed and adopted. Power companies can freely select suppliers and manufactures from other industries are newly entering into the market.

(e) Power Protection System

There is only one major competitor with market share of over 25%, but this is far behind the share of the two companies. Power companies has neither adopted nor discussed implementation of imported products.

(3) Problems indicated by the FTC and responses by the companies

Based on an overall consideration of the above-mentioned circumstances, the FTC indicated to the companies that the proposed business consolidation would substantially restrain competition in power protection system out of particular fields of trade defined in above 2(1). The two companies responded that while the consolidation involves R&D and manufacturing of power protection system, they would continue to operate their marketing business respectively.

Thus, based on the revised proposal with remedial measures responding to FTC's indicated problems, and circumstances such as sales is only limited to power companies with strong pricing power, and power companies are focusing on procurement of equipment at low price, the FTC concluded that the proposed business consolidation will not substantially restrain competition in the field of power protection system.