

Management integration by Yuasa Corporation and Japan Storage Battery Co., Ltd.

November 7, 2003

Japan Fair Trade Commission

The Japan Fair Trade Commission (hereinafter referred to as "JFTC") received a request from Yuasa Corporation (hereinafter referred to as "Yuasa") and Japan Storage Battery Co., Ltd. (hereinafter referred to as "Japan Storage Battery") for prior consultation regarding the management integration contemplated by the two parties.

Upon review, the JFTC has responded to the parties that the integration does not appear to violate the provisions of the Antimonopoly Act, based on the explanation given by the parties concerning the integration and the proposed remedial measures to be implemented by the parties (see Appendix for details).

The case was reviewed in detailed examination and the results are hereby made public, pursuant to the "Policies dealing with prior consultation regarding enterprise combination plans" (December 11, 2002).

. Outline of the management integration

Yuasa and Japan Storage Battery are contemplating a management integration by establishing a holding company in April, 2004.

. Views with respect to the Antimonopoly Act

1. Particular fields of trade

Production and distribution of the following six types of lead-acid storage batteries were defined as particular fields of trade upon review from, among others, the users' standpoint, such as whether or not the functions and uses of these products were the same.

- Automobile storage batteries for new cars
- Automobile storage batteries for replacement
- Motorcycle storage batteries for new motorcycles
- Motorcycle storage batteries for replacement
- Industrial storage batteries
- Small-sized sealed storage batteries

2. Evaluation with respect to the Antimonopoly Act

- (1) In the fields of trade for automobile storage batteries for new cars, automobile storage batteries for replacement, industrial storage batteries, and small-sized sealed storage

batteries, the JFTC conducted a detailed examination on the impact of the integration on competition in respective markets. The JFTC believed that the integration would not be likely to substantially restrain competition in any of the above-mentioned fields of trade, especially, in view of the ease with which users can change suppliers and the bargaining power of the users in price negotiation.

- (2) In the fields of trade for motorcycle storage batteries for new motorcycles and motorcycle storage batteries for replacement, the JFTC believed that the integration may possibly substantially restrain competition in both fields of trade for the following reasons:
 - a. Both markets will be duopoly with their combined market share so large.
 - b. There does not seem to be sufficient competitive pressure from imports.
 - c. Probability of new market entry is very low.

3. Principal remedial measures proposed by the parties

(1) Granting trading rights at actual cost basis

Within two years after the establishment of the new holding company, the parties shall grant cost-based trading rights (long-term trading rights) at actual cost to enterprises intending to practice production or sales in the market for motorcycle storage batteries (including competitors and trading companies). The upper limit of the volume to be undertaken shall be equivalent to the lower of the actual sales volume of the two parties in the domestic market for motorcycle storage batteries for fiscal 2002.

The parties shall also provide information, such as market overviews, upon request of a party having trading rights.

(2) Provision of logistics services

The parties shall render their logistics services at actual cost upon request of a party having trading rights.

(3) Reports on the state of implementation

The parties shall report to the JFTC the specific terms and implementation of the above remedial measures in advance and step by step, so that the remedial measures will be properly implemented.

Additionally, the parties shall report the state of implementation of all remedial measures upon request of the JFTC.

4. Evaluation of the proposed remedial measures

If the above remedial measures are implemented, (1) there will be independent supply that is equivalent to the volume currently supplied by competitors which will be diminished as a result of the integration, and (2) it will be possible to readily access the market without investing in production equipment, etc. These factors will make it possible to produce a competitor, which could have significant influence on the pricing policy of the parties and work as a counterbalancing force on the parties after the integration. For these reasons, it appears that the integration will not substantially restrain competition in the market for storage batteries for motorcycles, provided that the parties properly implement the above remedial measures.

Conclusions

Based on the above, the JFTC has determined that the integration will not substantially restrain competition in any of the above fields of trade, provided that the parties properly implement the remedial measures proposed by the parties.

To ensure that the remedial measures are properly implemented, the JFTC will monitor the state of implementation of the remedial measures through various means as necessary, including reports from the parties. The JFTC will also extensively monitor the state of competition in each field of trade.

Management integration by Yuasa Corporation and Japan Storage Battery Co., Ltd. (Response)

. Parties to the management integration

Yuasa Corporation (hereinafter referred to as "Yuasa") is involved in the manufacture and sales of storage batteries and other products.

Japan Storage Battery Co., Ltd. (hereinafter referred to as "Japan Storage Battery") is involved in the manufacture and sales of storage batteries and other products.

. Overview of management integration; relevant provision

The parties are planning a management integration through the establishment of a holding company (GS Yuasa Corporation) in April, 2004.

The provision relevant to this proposed management integration is Section 10 of the Antimonopoly Act.

. Purpose of integration

The parties face a harsh business environment due to stagnant demand and the drop in prices of lead-acid storage batteries, the principal products of the parties. The parties therefore plan to integrate their management in order to reduce manufacturing and R&D costs and enhance their technological development capabilities in the field of next-generation batteries.

. Particular fields of trade

Of the products manufactured and sold by the parties, the field of lead-acid storage batteries was reviewed, in which the parties were in competition with each other (Note 1).

1. Overview of the products

There are two types of batteries: disposable batteries and rechargeable batteries. Lead-acid storage batteries are rechargeable batteries. Lead-acid storage batteries have such characteristics as that lead, which is the raw material for electrodes, is cheap, and that storage capacity can be easily controlled. Lead-acid storage batteries are classified by application into automobile storage batteries, industrial storage batteries, and small-sized sealed storage

batteries (an overview of each product field is given in the Appendix).

2 Particular fields of trade

Manufacture and sales in Japan of the following six types of lead-acid storage batteries were defined as particular fields of trade upon review, among others, from users' standpoint such as whether or not the functions and uses of those products were identical. Specifically, lead-acid storage batteries were classified by application into industrial storage batteries, small-sized sealed storage batteries, and automobile storage batteries. Automobile storage batteries, the principal application, were further classified into batteries for cars and for motorcycles, because standards, user groups, price ranges, etc. differed and no substitutability was found between them. Batteries for both cars and motorcycles were further classified into batteries either for new cars or motorcycles, or batteries for replacement, to define the particular fields of trade. National market as a whole was defined as the geographic market.

Particular fields of trade in this case

1	Automobile storage batteries for new cars
2	Automobile storage batteries for replacement
3	Motorcycle storage batteries for new motorcycles
4	Motorcycle storage batteries for replacement
5	Industrial storage batteries
6	Small-sized sealed storage batteries

(Note 1) Similarly, it was determined that detailed examination was not necessary for power supply equipment, which is manufactured and sold by the parties, because the combined market share of the parties would be small.

. Review of each field of trade

1. Automobile storage batteries for new cars and for replacement

(1) Market situation

Domestic demand for automobile storage batteries has remained basically static, and the domestic market in 2002 was worth approximately 89 billion yen. As a result of the proposed integration, the combined share of the parties in terms of sales volume would be approximately 30% for batteries for new cars and approximately 40% for batteries for replacement, ranking top in each market.

(Automobile batteries for new cars)

Rank	Manufacturer	Share
1	Company A	Approx. 30%

2	Japan Storage Battery	Approx. 20%
3	Company B	Approx. 20%
4	Company C	Approx. 20%
5	Yuasa	Approx. 10%
6	Imports	Approx. 0-5%
(1)	Combined share of the parties	Approx. 30%
	Total	100%

(Automobile batteries for replacement)

Rank	Manufacturer	Share
1	Japan Storage Battery	Approx. 25%
2	Imports	Approx. 20%
3	Yuasa	Approx. 20%
4	Company D	Approx. 15%
5	Company E	Approx. 10%
6	Company F	Approx. 10%
(1)	Combined share of the parties	Approx. 40%
	Total	100%

* Totals may not add up to the exact amount shown due to rounding.

(Source: Compiled by the JFTC based on data submitted by the parties)

(2) Factors taken into consideration

A. Users' ease of changing suppliers

Several strong competitors with shares of over 10%, companies A, B, and C, exist in the market for automobile storage batteries for new cars; companies D, E, and F in the market for automobile storage batteries for replacement. These products are also difficult to differentiate and there is no difference in quality between foreign and domestic manufacturers. Due to these factors, it appears that it would be easy for users to change suppliers.

B. Users' purchasing policy

Because it is easy for users to change suppliers, as stated in section A. above, it appears that many users are employing a purchasing policy, among others, of having manufacturers compete by requesting competitive quotations and purchasing from multiple sources, and then purchasing from the manufacturer who offered the lowest price.

C. Competitive pressure from downstream market

(a) In the market for automobile storage batteries for new cars, it appears that there is competitive pressure from the downstream market through purchase of parts, because intense competition in the automobile market is causing a decline in automobile sales prices and auto manufacturers are under pressure to reduce costs.

(b) In the market for automobile storage batteries for replacement, consumers (the end-users) tend to purchase lead-acid storage batteries at large-scale auto-supply stores. Therefore, it appears that large-scale auto-supply stores tend to consider the sales prices of other shops, and that sales prices of gas stations and automobile dealers also tend to be influenced by the price trends of large-scale auto-supply stores. Thus, there appears to be competitive pressure from the retail stage, which is the downstream market.

D. Presence of import pressure

In the field of automobile storage batteries for replacement, imports are on the increase due to advantages in terms of price, and foreign manufactures appear to have reserve supply capacity. Also, users who have been buying imports have commented that there is no constraint in terms of quality or delivery. It therefore appears that imports are acting as competitive pressure on the domestic market.

(3) Evaluation with respect to the Antimonopoly Act

Users can easily change suppliers because several strong competitors exist and there is no difference in quality. Additionally, pressure from the downstream market appears to exist due to the strong bargaining power of automobile manufacturers, large-scale auto-supply stores, etc. Moreover, imports are acting as competitive pressure on the domestic market for automobile storage batteries for replacement. Considering these factors, it appears that the proposed integration would not be likely to substantially restrain competition in these markets

2. Motorcycle storage batteries for new motorcycles and for replacement

(1) Market situation

Domestic demand for motorcycle storage batteries has remained basically static, and the domestic market in 2002 was worth approximately 8.5 billion yen.

As a result of the proposed integration, the combined share of the parties in terms of sales volume would be approximately 85% for batteries for new motorcycles and approximately 70% for batteries for replacement, ranking top in each market.

(Motorcycle batteries for new motorcycles)

Rank	Manufacturer	Share
1	Yuasa	Approx. 65%
2	Japan Storage Battery	Approx. 20%
3	Company A	Approx. 15%
4	Imports	Approx. 0-5%

(1)	Combined share of the parties	Approx. 85%
	Total	100%

(Motorcycle batteries for replacement)

Rank	Manufacturer	Share
1	Yuasa	Approx. 50%
2	Japan Storage Battery	Approx. 20%
3	Company B	Approx. 20%
4	Imports	Approx. 10%
5	Company C	Approx. 0-5%
(1)	Combined share of the parties	Approx. 70%
	Total	100%

(Source: Compiled by the JFTC based on data submitted by the parties)

(2) Factors taken into consideration

A. All users of motorcycle storage batteries for new motorcycles are major motorcycle manufacturers. To decide on purchasing shares, the users have manufacturers compete by requesting competitive quotations and purchasing from multiple sources. Therefore, the bargaining power of the users appears to be strong.

B. Of the users of motorcycle storage batteries for replacement, large-scale auto-supply stores purchase batteries by requesting competitive quotations, as with automobile storage batteries. Therefore, it appears that competitive pressure from the retail market, which is the downstream market, is acting on the market to some degree. It also appears that a certain volume of imports are being purchased, mainly by large-scale auto-supply stores.

(3) Evaluation with respect to the Antimonopoly Act

A. In the market for motorcycle storage batteries for new motorcycles, company A would become the only competitor after the proposed integration, resulting in a duopoly in which the parties hold a large combined share. On the other hand, it appears that the probability of new market entry by any lead-acid storage battery manufacturer is very low, judging from the profitability of the market. Imports also do not appear to have an adequate preventive effect, due to the low volume being imported.

Thus, it would be difficult for users to find alternative supply sources, although users appear to have bargaining power. It therefore appears that the proposed integration would be likely to substantially restrain competition (Note 2).

B. In the market for motorcycle storage batteries for replacement, company B would become

the only substantial competitor after the proposed integration, resulting in a duopoly in which the parties hold a large combined share. On the other hand, it appears that the probability of new market entry by any lead-acid storage battery manufacturer is very low, as with the market for new motorcycles. Moreover, competitive pressure from the retail stage is not necessarily sufficient because motorcycle shops, mostly small-sized, comprise approximately 70% of the sales to consumers in this market. Considering these distribution structures, pressure from imports is also limited and does not appear to have an adequate preventive effect.

Thus, the proposed integration would result in a duopoly in which the parties hold a large combined share, while new entry or pressure from the downstream market would be unlikely. Therefore, it appears that the proposed integration would be likely to substantially restrain competition (Note 2).

(Note 2) The parties have proposed remedial measures related to motorcycle storage batteries (see Section . herein).

3. Industrial storage batteries

(1) Market situation

Domestic demand for industrial storage batteries has remained static, and the domestic market in 2002 was worth approximately 41 billion yen.

As a result of the proposed integration, the combined share of the parties in sales volume would be approximately 55%, ranking top in the market.

Rank	Manufacturer	Share
1	Japan Storage Battery	Approx. 35%
2	Yuasa	Approx. 20%
3	Company A	Approx. 20%
4	Company B	Approx. 10%
5	Company C	Approx. 10%
6	Imports	Approx. 5%
(1)	Combined share of the parties	Approx. 55%
	Total	100%

(Source: Compiled by the JFTC based on data submitted by the parties)

(2) Factors taken into consideration

A. Ease of changing suppliers

There is a strong competitor in this market, company A, and two other competitors, companies B and C. These competitors appear to have reserve supply capacity, as they are capable of increasing production levels with their existing facilities. In the replacement market for industrial storage batteries, it appears that it would be easy for users to change suppliers, because there

is no difference in quality and users make purchases regardless of past purchasing records.

B. Bargaining power of users

Principal users are heavy electric machinery manufacturers who make power supply equipment and major construction companies who construct buildings. Many of these users have strong bargaining power because they handle installation of the entire electric facility of end-users (electric, transportation and communications companies). Furthermore, users decide on supply sources by requesting competitive quotations, which also gives the users bargaining power.

C. Competitive pressure from downstream market

There is fierce competition among heavy electric machinery manufacturers and major construction companies, following the trends of capital investment and construction demand by end-users. Therefore, it appears that there is competitive pressure from the downstream market through purchase of parts with the intention of reducing costs.

(3) Evaluation with respect to the Antimonopoly Act

It appears that users would be able to replace suppliers in a relatively short period of time, because competitors are capable of supplying the majority of the supply volume of the parties with existing facilities. Furthermore, users are having storage battery manufacturers compete with the intention of reducing costs, as industrial storage batteries are purchased as part of the contract for the entire electric facility. Based on these factors, it appears that the proposed integration would not be likely to substantially restrain competition.

4. Small-sized sealed storage batteries

(1) Market situation

Domestic demand for small-sized sealed storage batteries is on the decline, and the domestic market in 2002 was worth approximately 12 billion yen.

As a result of the proposed integration, the combined share of the parties in terms of sales volume will be approximately 30%, ranking second in the market.

Rank	Manufacturer	Share
1	Company A	Approx. 35%
2	Imports	Approx. 25%
3	Japan Storage Battery	Approx. 20%
4	Yuasa	Approx. 10%
5	Company B	Approx. 5%
6	Company C	Approx. 5%
(2)	Combined share of the parties	Approx. 30%

	Total	100%
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(Source: Compiled by the JFTC based on data submitted by the parties)

(2) Factors taken into consideration

A. Presence of import pressure and competitive pressure from downstream market

Imports appear to be acting as competitive pressure on the domestic market, as the share of imports is increasing and foreign manufacturers appear to have reserve supply capacity.

Additionally, compact AC uninterruptible power supply equipment (hereinafter referred to as "UPS"), which uses small-sized sealed storage batteries, is being imported as finished products. These imports are replacing the demand for small-sized sealed storage batteries as well as facilitating competition among UPS manufacturers, which is the downstream market.

B. Ease of changing suppliers

In this market, there is a strong competitor, company A, and two other competitors, companies B and C. It also appears that it would be easy for users to change suppliers because small-sized sealed storage batteries are general-purpose products and there is no difference in quality between domestic and foreign manufacturers.

C. Bargaining power of users

Users such as UPS manufacturers employ a purchasing policy of having manufacturers compete by requesting competitive quotations and purchasing from multiple sources, and then purchasing from the manufacturer who offered the lowest price. Therefore, users appear to have strong bargaining power.

(3) Evaluation with respect to the Antimonopoly Act

It would be easy to change suppliers because there is the strong competitor and imports are increasing. Additionally, compact UPS equipment, which represents the downstream market, is being imported as finished products in large volume. Considering these factors, it appears that the proposed integration would not be likely to substantially restrain competition.

5. Coordinated interaction among competitors

Based on the interviews, it appears that, in each field of trade, there has been lively competition among lead-acid storage battery manufacturers in the past and that competitive pricing would continue to be practiced after the proposed integration. Therefore, the risk of manufacturers engaging in a coordinated interaction after the proposed integration appears to be low.

Remedial measures proposed by the parties concerning motorcycle storage batteries for new motorcycles and for replacement, and JFTC's evaluation

1. Remedial measures proposed by the parties

During the review process of this case, the parties proposed the following remedial measures concerning motorcycle storage batteries for new motorcycles and for replacement.

A. Within two years after the establishment of the new company, the parties shall grant cost-based trading rights (long-term trading rights) to enterprises intending to engage in manufacture or sales in the market for motorcycle storage batteries (including competitors and trading companies). The upper limit of the volume to be traded shall be equivalent to the actual sales volume of either party, whichever is lower, in the domestic market for motorcycle storage batteries for fiscal 2002.

B. If requested by a party having trading rights, the parties shall provide information such as principal customers and market overviews.

C. If requested by a party having trading rights, the parties shall render their logistics services at actual cost.

D. To ensure that the remedial measures are properly implemented, the parties shall report to the JFTC in advance the specific terms and implementation of the remedial measures. The parties shall also report the state of all remedial measures if so requested by the JFTC.

2. Judgement of the JFTC based on the remedial measures

A conceivable remedial measure to solve the problems of the proposed integration would be the separation from the integration scheme or partial sale of motorcycle storage battery operation. However, an enterprise willing to buy the business is not likely to emerge readily, because of the low profitability of the motorcycle storage battery operation, which might not be viable as an individual operation. For these reasons, the scheme of establishing cost-based trading rights to independent third parties appears to be a valid remedial measure to be taken by the parties in terms of feasibility.

If the above remedial measures are implemented, (1) there will be independent supply that is equivalent to the volume supplied by the competitor who is to be diminished as a result of the proposed integration, and (2) it would be possible to readily access the market without investing in production equipment, etc. These factors would make it possible to produce a competitor,

which may have significant influence on the pricing policy of the parties and a countervailing effect on the parties after the proposed integration. For these reasons, it appears that the proposed integration would not be likely to substantially restrain competition in the market for motorcycle storage batteries, provided that the parties properly implement the above remedial measures.

To ensure that the remedial measures are properly implemented, the JFTC will monitor the state of implementation of the remedial measures through various means as necessary, including reports from the parties. The JFTC will also extensively monitor the state of competition in the fields of trade in which problems were identified.

Conclusions

Considering factors mentioned above, in the fields of trade for automobile storage batteries for new cars, automobile storage batteries for replacement, industrial storage batteries, and small-sized sealed storage batteries, it appears that the proposed integration would not substantially restrain competition and would not present a problem with respect to the Antimonopoly Act.

In the fields of trade for motorcycle storage batteries for new motorcycles and motorcycle storage batteries for replacement, it appears that the proposed integration would not substantially restrain competition, provided that the parties properly implement the proposed remedial measures.

Appendix: Overview of lead-acid storage batteries

Field of trade	Description	
Automobile storage batteries		<p>(Features) The commonly used type is the 12V type, in which six 2V batteries are combined. Products with capacitance of up to 176Ah are available. Large currents can be discharged instantaneously.</p> <p>(Principal applications) Storage batteries are installed in cars as power supply for electric and electronic equipment such as engine starters, power windows, and air conditioners.</p>
	for new cars	<p>(Principal users) Automobile manufacturers</p> <p>(Type of transaction) Direct transaction with automobile manufacturers, in both flow of trade and physical distribution.</p>
	for replacement	<p>(Principal users) Large-scale auto-supply stores, automobile shops, maintenance shops, do-it-yourself stores, gas stations, etc. End-users are consumers.</p> <p>(Type of transaction) Typically, direct transaction with large-lot users and through distributors for small-lot users, in both flow of trade and physical distribution.</p>
Motorcycle storage batteries		<p>(Features) The commonly used types are 6V and 12V types, in which 2V batteries are combined. Large currents can be discharged instantaneously. Batteries are shock-proof, light-weight, and compact.</p> <p>(Principal applications) Storage batteries are installed in motorcycles as power supply for electric and electronic equipment such as engine starters.</p>
	for new motorcycles	<p>(Principal users) Motorcycle manufacturers</p> <p>(Type of transaction) Direct transaction with motorcycle manufacturers, in both flow of trade and physical distribution.</p>
	for replacement	<p>(Principal users) Motorcycle shops, large-scale auto-supply stores, maintenance shops, do-it-yourself stores, etc. End-users are consumers.</p> <p>(Type of transaction) Typically, direct transaction with large-lot users and through distributors for small-lot users, in both flow of trade and physical distribution. Small-lot users represent 70% of the distributed volume.</p>

Field of trade	Description
Industrial storage batteries	<p>(Features) Products with capacitance of up to 3,000Ah are available, combining 2V batteries. Batteries are large because many 2V batteries are combined.</p> <p>(Principal applications) Batteries are integrated in power supply equipment as emergency power supply for use in communications equipment and facilities in case of power failure, etc.</p> <p>(Principal users) Heavy electric machinery manufacturers, power supply equipment manufacturers, etc. End-users are private companies in electric, transportation, and communications fields, and public agencies.</p> <p>(Type of transaction) There are two sales channels: first, a direct sales and delivery channel to private companies for power supply equipment in which industrial storage batteries are integrated, and second, a sales channel in which industrial storage batteries are sold to heavy electric machinery manufacturers and installation at the site of private companies who are the end-users is handled by the parties.</p>
Small-sized sealed storage batteries	<p>(Features) The commonly used products are small-sized 6V and 12V types. Electrolyte is soaked into flocculent glass fiber and sealed, so there is no need for replenishment.</p> <p>(Principal applications) Batteries are general-purpose products and are used as backup power supply for compact UPS for computers and medical instruments.</p> <p>(Principal users) UPS manufacturers, security and safety equipment manufacturers, etc. End-users are private companies, public agencies, and consumers.</p> <p>(Type of transaction) There are two sales channels: first, a direct sales and delivery channel to private companies for power supply equipment in which small-sized sealed storage batteries are integrated, and second, a sales channel in which lead-acid storage batteries are sold and delivered to UPS manufacturers, etc., who integrate the batteries into power supply equipment and sell them to end-users.</p>

(Source: Compiled by the JFTC based on data submitted by the parties)