

Kubota Corporation's Acquisition of Shares in the Newly Established Manufacturing Subsidiary of NIPPON CHUTETSUKAN K.K.

Reference

Characteristics of the Review

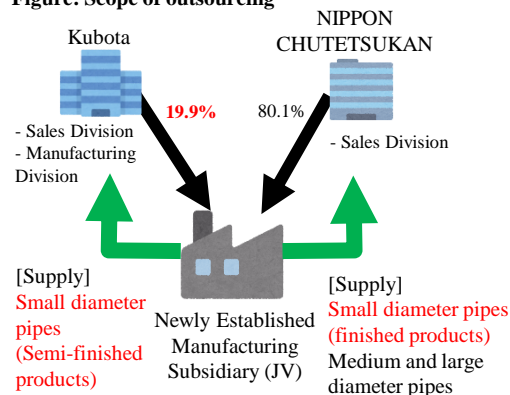
(1) CO2 emission reductions were recognized as an “efficiency” improvement

Since the Parties made specific claims regarding efficiency improvements through the reduction of carbon dioxide emissions caused by the Transaction, the JFTC assessed them in line with the “Guidelines Concerning the Activities of Enterprises, etc. Toward the Realization of a Green Society Under the Antimonopoly Act” (March 31, 2023) (the “Green Guidelines”). As a result, the JFTC found the efficiency improvement because all three requirements of “efficiencies” (see below for details) are satisfied.

(2) Remedies proposed by the Parties

The Parties shall build information firewalls to ensure that sensitive information will not be shared between the Parties and appoint a monitoring trustee to oversee the implementation of the remedies.

Figure: Scope of outsourcing



Definition of a Particular Field of Trade

The market for manufacturing and selling small diameter ductile iron pipes in Japan (horizontal business combination)

- Among pipes used as water pipes for water supply applications, ductile iron pipes and other pipes (e.g., polyethylene pipes) constitute different scope of products.
- The JFTC defined the ductile iron pipes, taking into account the differences in diameter of ductile iron pipes and the scope of manufacturing outsourcing by the Parties scope of products as small diameter.
- The JFTC defined the geographic scope as all regions of Japan because the products are sold throughout Japan and sales prices do not vary by region.

Assessment of Substantial Restraint of Competition

(1) Unilateral conduct: the JFTC did not find a substantial restraint of competition, on the premise of remedies below.

- **Status of the Parties Group and the competitor and the situation of competition, etc.**
 - The combined market share of the Parties Group would be high, at approx. 70%.
 - The ability of the competitor (with approx. 30% market share) to constrain the Parties Group's price rise was recognized to a certain degree.
- **On the premise of the remedies, a certain degree of competition would take place between the Parties Group.**
- **Competitive pressure from the adjacent market (polyethylene pipes)**
 - As a considerable amount of switching to polyethylene pipes has occurred, a certain degree of competitive pressure is exerted.
- **Efficiencies**
 - The Parties Group plans to replace the current cupola furnaces with electric furnaces at the Newly Established Manufacturing Subsidiary to manufacture ductile iron pipes with lower carbon dioxide emissions after the Transaction. The JFTC examined, in accordance with the Green Guidelines, the Parties' internal documents and the reduction in CO2 emissions specifically calculated by the Parties, finding the efficiency improvement because all three requirements of “efficiencies” are satisfied as follows: (i) the reduction in CO2 emissions is considered an efficiency improvement specific to the Transaction; (ii) the switch to the electric furnaces, which were already ordered, is expected to reduce CO2 emissions considerably, making the efficiency improvement feasible; and (iii) the substantial reduction in CO2 emissions is regarded as an improvement in quality, and the consumer welfare will be increased.



Electric furnace (Kubota Hanshin Plant)
(Note: This is not the same plant as the one in this case.)

(2) Coordinated conduct: the JFTC did not find a substantial restraint of competition, on the premise of remedies below.

- **Number of competitors, etc.**
 - The number of manufacturers will be decreased from three to two and the manufacturing costs in the certain processes outsourced by Kubota will be common between the Parties Group. On the premise of the remedies, however, a certain degree of competition would take place between the Parties Group.
- **Product homogeneity, demand trends, etc.**
 - Small diameter ductile iron pipes are homogeneous.
 - The demand for renewal of water supply pipes, which is the main application, is relatively easy to predict, and the room for technological innovation is small.
- **Competition environment in the past, etc.**
 - There has been no significant change in the market shares of the Parties Group and the competitor over the past several years.
- **Various competitive pressures, etc.**
 - As in (1) above, a certain degree of competitive pressure from the adjacent market and the efficiency improvement were recognized.

Remedies Proposed by the Parties

- A) The scope of manufacturing outsourcing shall be only specific processes for small diameter ductile iron pipes for Kubota and all processes for all diameter ductile iron pipes for NIPPON CHUTETSUKAN.
- B) The Parties shall take measures such as access restrictions and transfer restrictions to eliminate concerns on the sharing of sensitive information between the Parties Group.
- C) For the purpose of monitoring the implementation of the measures described in B) above, the Parties shall appoint a third party who is independent of the Parties Group and possesses expertise as a monitoring trustee.

Conclusion

Based on the above, the JFTC did not find that the Transaction would substantially restrain competition in any particular field of trade.