MEDIA RELEASE

25 August 2020

CCCS Clears Proposed Merger of Korean Shipbuilders

The Competition and Consumer Commission of Singapore ("**CCCS**") has cleared the proposed merger between Korea Shipbuilding & Marine Engineering Co., Ltd ("**KSOE**") and Daewoo Shipbuilding & Marine Engineering Co., Ltd. ("**DSME**") (collectively, the "**Parties**") (the "**Proposed Transaction**").

2. Following its assessment, CCCS has concluded that the Proposed Transaction, if carried into effect, will not infringe the section 54 prohibition of the Competition Act (Cap. 50B) (the "**Act**").

Background

3. CCCS received an application from KSOE on 12 September 2019 for a decision on whether the Proposed Transaction would infringe section 54 of the Act, which prohibits mergers that have resulted, or may be expected to result, in a substantial lessening of competition within any market in Singapore. As CCCS was unable to conclude that the Proposed Transaction will not result in a substantial lessening of competition after completing its preliminary review[1], CCCS proceeded with an in-depth review[2] on 23 January 2020.

4. In its in-depth review, CCCS assessed whether the Proposed Transaction would substantially lessen competition, to the detriment of customers in Singapore. As part of its review, CCCS assessed whether the Parties are close competitors and also whether alternative suppliers will be sufficiently strong competitors to the merged entity.

[1] Please refer to CCCS's media release dated 29 January 2020 which can found here: https://www.cccs.gov.sg/media-and-consultation/newsroom/media-releases/ksoe-dsme-phase-2-public-consult-29jan2020

[2] Please refer to Annex 1 for more details on the Phase 1 (preliminary) and Phase 2 (in-depth) reviews.

KSOE

5. KSOE is a Korean company primarily active in shipbuilding, and which also supplies industrial products for the electricity and construction sectors and robotic technologies. KSOE, together with its affiliates[3], produces a range of commercial vessels including oil tankers, containerships, liquefied natural gas ("**LNG**") carriers and liquefied petroleum gas ("**LPG**") carriers.

6. KSOE operates in Singapore as a foreign company registered in Singapore, via an overseas branch office. The Singapore branch of KSOE operates as a sales office.

DSME

7. DSME is a Korean company primarily active in shipbuilding. It produces a range of commercial vessels and also builds offshore facilities for use in the oil and gas sector.

8. DSME operates in Singapore as a foreign company registered in Singapore, via an overseas branch office. Its Singapore office mainly focuses on marketing activities supporting DSME's businesses.

CCCS's Assessment

9. The Parties overlap in the global supply of commercial vessels[4], including oil tankers, containerships, LNG carriers and LPG carriers. CCCS's assessment focused on the largest vessel classes within each of the four vessel types, namely large oil tankers (i.e. Ultra Large (UL)/Very Large Crude Carriers (VLCC) 200,000+ deadweight tonnage (DWT)), large containerships (i.e. Post-Panamax 15,000+ twenty-foot equivalent unit (TEU)), large LNG carriers (i.e. LNG carriers 40,000+ cubic metres (cu.m.)) and large LPG carriers (i.e. LPG carriers 60,000+ cu.m.).

10. As part of its assessment, CCCS conducted two public consultations[5] and contacted 157 stakeholders including competitors and customers. CCCS also engaged various government agencies to gather relevant information necessary for CCCS's assessment of the Proposed Transaction.

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[3] Hyundai Mipo Dockyard and Hyundai Samho Heavy Industries.
[4] Commercial vessels are classified into "vessel types" based on the characteristics of the transported item. Within the relevant vessel types, vessels are sub-classified into "vessel classes" based on the size of the cargo load.
[5] For the Phase 1 (preliminary) review, the public consultation was conducted from 16 September 2019 to 30 September 2019. For the Phase 2 (in-depth) review, the public consultation was conducted from 29 January 2020 to 19 February 2020.

Relevant markets affected by the Proposed Transaction

11. CCCS considered that the relevant markets for its assessment of the Proposed Transaction are the global supply of the following commercial vessels to customers worldwide:

a) UL/VLCC 200,000+ DWT oil tankers;
b) Post-Panamax 15,000+ TEU;
c) LNG carriers 40,000+ cu.m.; and
d) LPG carriers 60,000+ cu.m..

(collectively, the "**Relevant Markets**")

Competition assessment of the Relevant Markets

12. CCCS found that:

a) Barriers to entry and expansion are generally high, particularly for new suppliers, given the significant capital outlay and resources required. Feedback from third parties indicated that more sophisticated vessels such as LNG carriers and LPG carriers require higher level of technical expertise and capital investment. Within vessel types, barriers to entry and expansion are also higher for the construction of larger vessel classes due to physical constraints in dock size and equipment required;

b) Although customers are large shipping companies that purchase commercial vessels from multiple suppliers, there is insufficient evidence to conclude that customers have buyer power to constrain the merged entity from exercising its market power;

c) The Parties are close competitors to each other in the Relevant Markets, and market share figures indicate that the Parties are two of the main suppliers globally for UL/VLCC 200,000+ DWT and LNG carriers 40,000+ cu.m.;

d) However, there are viable alternative suppliers to the Parties in the Relevant Markets following the Proposed Transaction. This finding is supported by market feedback and CCCS's quantitative assessment on the closeness of rivalry between shipbuilders[6];

[6] CCCS performed three (3) quantitative exercises to assess the closeness of rivalry between shipbuilders. This includes: (i) propensity matching analysis; (ii) switching analysis and (iii) winner-runner up analysis.

e) These alternative suppliers have sufficient excess capacities to satisfy a significant portion of any demand that switches away from the merged entity in the event of a price increase by the merged entity;

f) An assessment of the Parties' historical bidding data does not indicate that the Parties' bid prices are systematically higher for contracts where they do not compete with each other.[7] This suggests that there are other close competitors that constrain the Parties' bid prices; and

g) While market concentrations in the Relevant Markets will be high post-merger, the evidence does not indicate that the Proposed Transaction will result in coordination or collusion on prices as shipbuilders tend to have private negotiations with customers, which limit price transparency. Shipbuilders may also find it difficult to coordinate on prices as customers perceive differences in quality and experience of shipbuilders.

13. After evaluating all the evidence available, CCCS assessed that the Proposed Transaction, if carried into effect, will not lead to a substantial lessening of competition in Singapore.

14. Further information on the application and CCCS's Grounds of Decision will be made available in due course on CCCS's Public Register at www.cccs.gov.sg.

– End –

[7] The results of CCCS's assessment of the Parties' historical bidding data support the findings from the other quantitative exercises performed by CCCS that the Parties are close competitors to each other in the Relevant Markets, but that the Parties are constrained by other shipbuilders.

About the Competition and Consumer Commission of Singapore

The Competition and Consumer Commission of Singapore ("**CCCS**") is a statutory board of the Ministry of Trade and Industry. CCCS administers and enforces the Competition Act (Cap. 50B) which empowers CCCS to investigate and adjudicate anti-competitive activities, issue directions to stop and/or prevent anti-competitive activities and impose financial penalties. CCCS is also the administering agency of the Consumer Protection (Fair Trading) Act (Cap. 52A) or CPFTA which protects consumers against unfair trade practices in Singapore. Our mission is to make markets work well to create opportunities and choices for business and consumers in Singapore.

For more information, please visit www.cccs.gov.sg

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ANNEX 1

A Phase 1 preliminary review entails a quick review and allows merger situations that do not raise competition concerns under the section 54 prohibition to proceed. CCCS expects to complete a Phase 1 review within 30 business days. By the end of this period, CCCS will determine whether to issue a favourable decision and allow the merger situation to proceed. If CCCS is unable, at the end of the 30-day period, to conclude that the merger situation will not result in a substantial lessening of competition, CCCS will inform the merger parties and the merger parties may file further information and supporting documents as listed in Form M2. Upon receipt of Form M2, CCCS will proceed to a Phase 2 review.

A Phase 2 in-depth review entails a more detailed and extensive examination of the merger situation. While the principles of substantive assessment are the same, CCCS will require access to more extensive and detailed information regarding the merger parties and the markets in question.

As the Phase 2 review is more complex, CCCS will endeavour to complete a Phase 2 review within 120 business days.