Competition Commission
SINGAPORE

Section 57 of the Competition Act (Cap. 50B)

Grounds of Decision issued by the Competition Commission of Singapore

In relation to the notification for decision of the proposed acquisition by United Parcel Service, Inc. of TNT Express N.V. pursuant to section 57 of the Competition Act

21 August 2012

Case number: CCS 400/004/12

Confidential information in the original version of this Decision has been redacted from the published version on the public register. Redacted confidential information in the text of the published version of the Decision is denoted by [✂]

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I. Introduction

1. On 10 July 2012, United Parcel Service, Inc. ("UPS") and TNT Express N.V. ("TNT") (collectively, "the Parties") filed a joint notification pursuant to section 57 of the Competition Act (Cap. 50B) (the "Act"), applying for a decision by the Competition Commission of Singapore ("CCS") as to whether the acquisition by UPS of TNT through a public takeover under Dutch law (the "Proposed Transaction"), will infringe the section 54 prohibition of the Act, if carried into effect. UPS and TNT are collectively referred to as "the Parties".

2. CCS received submissions of further information by the Parties on 25 July 2012, 30 July 2012, 8 August 2012 and 13 August 2012. CCS also consulted customers and competitors to seek their views on the likely impact of the Proposed Transaction on competition.

3. CCS contacted 10 competitors and 21 customers of the Parties, and sent them questionnaires. These questionnaires focused on the Parties' dealings with respect to the supply of: (i) small package services; (ii) cargo transport; (iii) freight forwarding and (iv) contract logistics. Responses were received from six competitors and 14 customers. From the information received, some of these competitors/customers supply/purchase services in more than one of the abovementioned segments. One respondent did not provide specific responses but indicated that it had no concerns regarding the Proposed Transaction. Five respondents declined to comment.

4. The Proposed Transaction is a global acquisition and has been notified in the European Union, the Netherlands, Australia, Brazil, China, Israel, Japan, Russia, South Africa, South Korea, Turkey and Ukraine.

5. At the end of the consultation process and after evaluating all the evidence, CCS has concluded that the Proposed Transaction, if carried into effect, will not infringe section 54 of the Competition Act.

II. The Parties

<u>UPS</u>

6. UPS is one of the world's largest logistics providers and a global provider of specialised transportation and logistics services. The company was established on 28 August 1907 as the American Messenger Company in Seattle, Washington, United States of America ("US"). In 1919, the company was renamed United Parcel Service. Today, UPS serves more than 220 countries and territories, has approximately 398,300 employees

(of which about 324,000 are located in the US) and delivers approximately 15.8 million small packages to around 7.7 million customers every day. In 2011, UPS generated worldwide revenues of US$53.105 billion (S$67.709 billion) [1] of which US$43.966 billion (S$56.057 billion [2]) is derived from small package services and the remaining US$9.139 billion (S$11.652 billion) comes from supply chain and freight services.

7. The supply chain and freight divisions include UPS forwarding and logistics operations, UPS Freight and other aggregated business units.[3] The freight division of UPS operates road, air and ocean freight. The pick-up, delivery and air transportation can either be done using UPS' own trucks and aircrafts or using third party trucks and/or aircrafts. The contract logistics division of UPS provides logistics and distribution services to customers. It is active in more than 120 countries around the world and operates approximately 800 facilities, occupying 35 million square feet of warehousing space.[4]

8. UPS' Singapore turnover for the last financial year ended 31 December 2011 is US$[✂] (S$[✂]).[5]

<u>TNT</u>

9. In 1946, Ken Thomas started the Thomas Nationwide Transport company with a single truck in Australia. Over time, TNT expanded into a global enterprise, using vehicles and aircrafts for delivery. In 1992, TNT expanded its international presence through its participation in the GD Express Worldwide joint venture (in which TNT owned 50%). KPN, which was the owner of PTT Post[6] at the material time, also participated in GD Express Worldwide. In 1996, KPN launched a public bid for TNT and subsequently integrated TNT and PTT Post. After incorporating the activities, TNT Post Group was demerged from KPN as a standalone entity, headquartered in the Netherlands, and obtained a separate listing.[7]

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[1] Paragraph 3.1.5 of Form M1.
[2] Footnote 1 of Form M1. The Parties used a conversion rate of US$1=S$1.275.
[3] Paragraph 2.2.3 of Form M1.
[4] Paragraph 2.2.4 of Form M1.
[5] Paragraph 3.1.6 of Form M1. UPS's 2011 turnover is the sum of the turnover figures presented in Form M1 for small package services, freight services (consisting of cargo transport and freight forwarding) and contract logistics. With respect to small package services, cargo transport and freight forwarding, UPS and TNT attribute turnover to the location where the shipper is based (i.e. the country where a shipment is sent from). The Parties attribute turnover for contract logistics to warehousing and related services.
[6] KPN was a Dutch telecoms and postal company. PTT Post was the postal division of KPN.
[7] TNT Post Group was listed on the stock exchanges of Amsterdam, New York, London and Frankfurt in 1998.

10. In 2011, the TNT Post Group was split up into two separate entities: TNT Express (consisting of the small package and freight activities) and PostNL (consisting of the Dutch mail and domestic small package activities). The Dutch domestic small package activities were grouped in the TNT Pakketpost entity. As this entity was a part of the mail activities before the demerger, it stayed with PostNL after the demerger. On May 26 2011, TNT Express was formally listed on the stock exchange as a separate entity. The Proposed Transaction concerns TNT Express only.[8]

11. Today, TNT is active in the small package business. In addition, it is also active in the air and ground freight business and offers industry specific logistics solutions. TNT serves more than 200 countries and employs 77,478 people worldwide. TNT owns approximately 50 aircrafts and has a delivery fleet consisting of around 30,000 vehicles. In 2011, TNT had revenues of €7.246 billion (S$11.594 billion)[9] of which €4.5 billion (S$7.2 billion) was generated in Europe.[10]

12. Outside Europe, TNT's network density is considerably lower and it is exploring partnerships for some of its non-European operations as announced on 21 February 2012. It had previously expanded in certain local networks by acquiring domestic operators in Brazil (in 2007 and 2009) and India (in 2006) and has established a road network in China through its integration with Hoau Group (which acquisition was completed in 2007). However, on 12 December 2011, TNT announced the sale of the domestic road operations in India to India Equity Partners. On 21 February 2012, TNT announced as part of its annual results presentation that it would explore partnerships with regard to its underperforming domestic operations in Brazil and China. At the same time it also announced a reduction in its air fleet, selling aircrafts and generally seeking to reduce its air capacity by approximately 50% as well as other cost-reduction plans. It has minimal operations in North America.[11]

13. TNT's Singapore turnover for the last financial year ended 31 December 2011 is S$[✂].[12]

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[8] Paragraph 2.2.6 of Form M1.
[9] Paragraph 3.1.8 of Form M1.
[10] Paragraph 2.2.7 of Form M1.
[11] Paragraph 2.2.8 of Form M1.
[12] Paragraph 3.1.8 of Form M1. TNT's 2011 turnover is the sum of the turnover figures presented in Form M1 for small package services, freight services (consisting of cargo transport and freight forwarding), contract logistics and TNT's same day services.

III. The Proposed Transaction

14. On 19 March 2012, UPS announced its intention to acquire 100% of the outstanding share capital in TNT through a public bid under Dutch law. The public offer was formally launched on 21 June 2012. The offer will be declared unconditional if, *inter alia*, the number of shares held by TNT shareholders that is tendered for acceptance of the offer represent at least 80% of the aggregate of TNT issued and outstanding ordinary share capital. After completion of the Proposed Transaction, UPS will exercise sole control over TNT.[13] The offer values 100% of the issued and outstanding share capital at €5.16 billion (S$8.26 billion), i.e. €9.50 (S$15.20) per share.[14]

15. The Parties have submitted that the rationale for the Proposed Transaction is the ability to realise significant synergies through economies of density and scope to offer customers an improved service level/product across different countries.[15]

16. While Singapore is important to UPS, the announced draft integration plans primarily focused around Europe given the synergy potential. UPS generally expects to integrate its and TNT's operations over a four-year time span – jointly working with TNT's management to determine the best integration approach in each country, including Singapore.[16]

17. Based on the Parties' submission that this Proposed Transaction is an acquisition of sole control, this Proposed Transaction constitutes a merger pursuant to section 54(2)(b) of the Act.[17]

IV. Competition Issues

18. The Parties submitted that there may be overlaps between UPS and TNT in Singapore for the supply of:

    (i) small package services (below 31.5 kg);
    (ii) cargo transport (above 31.5 kg);
    (iii) freight forwarding (above 31.5 kg); and
    (iv) contract logistics;
    (collectively, the "Reportable Markets").

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[13] Paragraph 3.1.1 of Form M1.
[14] Paragraph 3.1.2 of Form M1.
[15] Paragraph 3.2.1 of Form M1.
[16] Paragraph 3.2.4 of Form M1.
[17] Section 54(2)(b) provides that a merger occurs if one or more persons or other undertakings acquire direct or indirect control of the whole or part of one or more other undertakings.

19. Despite the above, the Parties submitted that the Proposed Transaction would not give rise any competition concerns, because of factors including low market shares, little market transparency as to price or service levels (including the presence of individually negotiated customer contracts), and the presence of a range of other competitors.[18] The Parties concluded that there are "multiple facets to the character of the market that ensure that the Proposed Transaction will not significantly impede effective competition"[19].

20. In evaluating the potential impact of the Proposed Transaction, CCS has considered whether the Proposed Transaction will lead to coordinated and non-coordinated effects that would substantially lessen competition within any market in Singapore.

V. Relevant Markets

(a) Small Package Services (below 31.5 kg)

(i) Product market

21. Small package services primarily focus on moving goods from location A to location B. These movements might take place within or across country borders and the speed of movement differs depending on the service chosen.[20] The Parties submitted that small packages are packages that weigh less than 31.5 kg (70 pounds), a limit commonly used, as the vast majority of international consignments weigh less than 30 kg. Although there is no clear definition for what constitutes a small package, the upper weight limit is in general terms determined by the weight a single person can handle without additional equipment.[21] CCS notes that in 2011, [✂]% of UPS' total international consignments and [✂]% of TNT's total international consignments weighed 31.5 kg or less. Responses from the Parties' customers indicate that they generally conform to this weight limit.[22] CCS therefore has no objections to the Parties' submission on the weight limit.

22. Small package services include international standard, domestic standard, international express and domestic express small package services. The Parties submitted that all small package services form part of a single

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[18] Paragraph 3.2.7.5 of Form M1.
[19] Paragraph 3.2.14 of Form M1.
[20] Paragraph 6.1.3 of Form M1.
[21] Paragraph 6.1.6 of Form M1. The Parties referred to a case where the European Commission states that majority of international consignments weigh less than 30 kilos. See case IV/M.102 – TNT/Canada Post, DBP Postdienst, La Poste, PTT Post & Sweden Post, 2.12.1991, paragraph 24.
[22] Customer responses[✂].

market for small package services.[23] However, CCS notes that international small package services and domestic small package services are not substitutes for each other. From the demand-side perspective, a shipper would obviously not switch its shipments between domestic and international destinations in response to a price change. From the supply-side perspective, the two services require different assets and networks and different suppliers are present. CCS is therefore of the view that domestic small package services and international small package services do not fall within the same relevant market. CCS, however, notes that the overlap in activities of the Parties is limited to the international segment.[24]

23. CCS also considered if small package services should be segmented based on speed of delivery, i.e., time-definite (express) versus day-definite (standard/deferred)[25]. The Parties submitted that there should be no distinction between express and deferred small package services since the Parties use mostly the same network to transport express and deferred packages. Express and deferred packages for international delivery are picked up, delivered and transported between centres, hubs and air gateways using the same type of ground network and are moreover collected and sorted in the same package cars, centres and hubs.[26]

24. The Parties also submitted that most operators offer a variety of delivery time options, which range from a time frame for delivery such as next day before 9.00 am, 10.00/10.30 am, 12.00 pm, next day before close of business (end of day) to day plus two, three or four, making it difficult to set a rigid boundary between services. Small packages sent using services with different time commitments are picked up and delivered through the same ground infrastructure. The package cars performing the pick-up and delivery transport both higher and lower priority packages (i.e. packages with earlier and later time commitments). As regards delivery, the package cars are loaded at the sorting centre in a manner which allows packages with a higher priority to be delivered first (i.e. the packages that need to be delivered before 9.00 am or 12.00 pm). In addition to loading the package car, the route of the driver also takes into account the different time commitments of the packages. Should it be efficient, the driver may however deliver packages with a higher and a lower degree of priority in parallel. For instance, this may be the case when a package sent using UPS' Express Plus service (delivery before 9.00 am) is delivered to the same address as a package sent using the Express Saver service (delivery before end of day). In such a situation both packages will be

[23] Paragraph 6.1.10 of Form M1.
[24] Paragraph 6.1.13 of Form M1.
[25] Time-definite refers to delivery by a certain time on the earliest possible business day. Day-definite refers to delivery by a certain day. Delivery by the end of the earliest possible business day could either be time-definite or day-definite, depending on the definition of the supplier.
[26] Parties' response dated 25 July 2012 to CCS' Request for Information, paragraph 22.1.

delivered at the same time (before 9.00 am). The same logic applies to the Express service of TNT Express.[27]

25. Although services with different time commitments could make use of the same infrastructure, CCS notes that expectations and values placed on the different services would differ. This is reflected, for example, in the price differences between deliveries for different time commitments, which suggest product differentiation between the different delivery speeds. However, in assessing the relevant product market, CCS needs to consider the demand-side and supply-side constraints.

26. Feedback from customers[28] suggests that they can generally make use of various speeds of deliveries and are not necessarily prevented from substituting one speed of delivery for another. Costs would play a role in the choice of delivery speed. However, customers may at times be required to purchase express services due to business needs. This suggests that they could be less flexible in switching away from express services for particular shipments. Generally though, customers purchase a range of services with varying delivery speeds from the same supplier.

27. On the supply-side, CCS notes that the same players supply express and standard/deferred services, and would generally need the same infrastructure to provide express and standard/deferred services.

28. Estimates [29] indicate that express services make up [90-100]% of international small package services. This high proportion, coupled with indications that customers could be less flexible in switching away from express services for particular shipments, suggests that the market dynamics of international small package services is primarily driven by express services. Further, given that there is some substitutability between express and standard services and that the supply infrastructure is similar, CCS is of the view that it is not necessary to evaluate express and standard services separately, as the conclusions would not be materially different.

(ii) Geographic market

29. The Parties submitted that the relevant geographic market is no narrower than the national market. For the small package services market, services are provided (and prices are determined) on a national level.[30] While feedback from customers suggests that procurement and contract negotiations could also occur at the global or regional level, CCS notes

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[27] Parties' response dated 25 July 2012 to CCS' Request for Information, paragraph 22.2.
[28] Customer responses[✂].
[29] Competitor responses[✂].
[30] Paragraph 6.1.19 of Form M1.

that the major suppliers all provide services through their entities and infrastructure in Singapore. Particularly for door-to-door services, a domestic network would be important. CCS has therefore considered the national market to be the relevant geographic market.

30. The Parties submitted that the estimated market shares by value of UPS and TNT and their competitors in the international small package services market in Singapore are as follow:

Table 1: Estimated Market Shares in International Small Package Services in Singapore

Firm	2011 Market Shares by Value (%)
UPS	[20-30]
TNT	[10-20]
Combined	***[30-40]***
DHL	[20-30]
FedEx	[20-30]
SingPost & Others	[10-20]
CR3[31] pre-Transaction	***[70-80]***
CR3 post-Transaction	***[80-90]***

(b) Cargo Transport

(i) Product market

31. The Parties submitted that similar to small package services, freight services primarily focus on moving goods from location A to location B, which could be within or across country borders, and the speed of delivery differs depending on the service chosen.[32] There are important differences between small package services and freight services that make them distinct markets. Other than the weight limit differences, the Parties have listed a few other key differences:[33]

- Limitations on size are much stricter for small packages, while freight does not generally have such size limitations.
- Different handling equipment used for freight; in general, different equipment is used to handle freight given the difference in the weight of goods transported by freight.
- The comparatively slower delivery for freight.
- Lower price levels (per kg) for freight.

[31] CR3 refers to the combined market shares of the three largest firms.
[32] Paragraph 6.1.3 of Form M1.
[33] Paragraph 6.1.7 of Form M1.

32. Although some of these differences are not as persistent today as they were a number of years ago (for example, delivery times and prices for freight services might be similar to small package services), on balance, important differences between freight and small package delivery still seem to exist. For example, small package operators generally offer more sophisticated technology to enable customers to organise their shipments.[34]

33. The Parties further submitted that the freight market is divided into (a) cargo transport services, whereby cargo companies sell space on their assets (such as trucks or aircrafts); and (b) freight forwarders, who construct a "virtual" network consisting of third party assets based on customer requirements.[35] CCS has no objections to the Parties' product market definition.

34. UPS attributes turnover generated by the delivery of all packages with a weight of 31.5 kg or more which are handled by their own assets as revenue generated by cargo transport services, which is similar to TNT's approach.[36]

(ii) Geographic market

35. The Parties submitted that the relevant geographic market is no narrower than the national market. With similar considerations as the small package services market, CCS is of the view that the national market is the relevant geographic market. Estimated market shares for both UPS and TNT in the market for cargo transport services are as follow:

Table 2: Estimated Market Shares in Cargo Transport in Singapore

Firm	**2011 Market Shares By Value (%)**
UPS	[0-10]
TNT	[0-10]
Combined	***[0-10]***

(c) Freight Forwarding

(i) Product market

36. The Parties submitted that the market for freight forwarding services is defined as transported goods that weight more than 31.5 kg, but are transported on third parties' assets.[37]

[34] Paragraph 6.1.8 of Form M1.
[35] Paragraph 6.1.14 of Form M1.
[36] Parties' response dated 25 July 2012 to CCS' Request for Information, paragraphs 15.1 and 15.2.
[37] Parties' response dated 25 July 2012 to CCS' Request for Information, paragraphs 15.1 and 15.2.

37. Freight forwarders combine third party assets to form a "virtual network", making use of road and air cargo transport companies. They generally do not need to own any part of the network they use for transportation of shipments and usually provide different services from cargo companies, usually in providing additional services such as customs clearance, warehousing and ground services, not provided for by the cargo companies.[38] CCS has no objections to the Parties' product market definition.

(ii) Geographic market

38. The Parties submitted that the relevant geographic market is no narrower than the national market. With similar considerations as the small package services market, CCS is of the view that the national market is the relevant geographic market. The estimated market shares of the Parties are as follow:

Table 3: Estimated Market Shares in Freight Forwarding in Singapore

Firm	**2011 Market Shares By Value (%)**
UPS	[0-10]
TNT	[0-10]
Combined	*[0-10]*

(d) Contract Logistics

(i) Product market

39. Contract logistics can best be described as an array of logistics services offered in isolation or in combination based on a contractual agreement between service provider and customer, generally for a longer period of time due to the upfront investments required. The core of these agreements generally consists of a warehousing service. This service might be combined with additional services such as inventory management, pick-pack-ship activities, transportation management, return logistics, repair and replacement activities or even complete order-to-cash solutions.[39]

40. Contract logistics services is defined as "the part of the supply chain process that plans, implements and controls the efficient, effective flow and storage of goods, services and related information from the point of origin to the point of consumption in order to meet customers' requirements". The main elements of contract logistics are the provision

[38] Footnote 13 of Form M1.
[39] Paragraph 6.1.17 of Form M1.

of warehousing and transportation services.[40] CCS has no objections to the Parties' product market definition.

(ii) Geographic market

41. The Parties submitted that the relevant geographic market is no narrower than the national market. As with the other product markets, procurement and contractual negotiations could take place on a global or regional basis. However, as with other product markets, major suppliers all provide services through their entities and infrastructure, such as warehouses, in Singapore. CCS is therefore of the view that the national market is the relevant geographic market. The estimated market shares for the Parties in this market are as follow:

Table 4: Estimated Market Shares in Contract Logistics in Singapore

Firm	2011 Market Shares By Value (%)
UPS	[0-10]
TNT	[0-10]
Combined	***[0-10]***

VI. Competition Assessment

42. As set out in the *CCS Guidelines on the Substantive Assessment of Mergers*, CCS is generally of the view that competition concerns are unlikely to arise in a merger situation unless the merged entity will have a market share of 40% or more or the merged entity will have a market share of more than 20% with the post-merger CR3 at 70% or more.[41]

(a) International Small Package Services

43. Post-merger, the combined market share of the Parties by value has been estimated to be [30-40]% in 2011. The post-merger CR3 is estimated to increase from [70-80]% to [80-90]%. Such levels cross CCS' indicative threshold and may indicate potential competitive concerns in the market for the supply of international small package services. However, market shares alone do not give rise to a presumption that the Proposed Transaction will substantially lessen competition.[42] CCS needs to consider other relevant factors to determine whether the proposed merger will substantially lessen competition.

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[40] Paragraph 6.1.18 of Form M1.
[41] Paragraph 5.15 of *CCS Guidelines on the Substantive Assessment of Mergers.*
[42] Paragraph 5.16 of *CCS Guidelines on the Substantive Assessment of Mergers.*

(i) Countervailing Buyer Power

44. The Parties submitted that they have a number of large and sophisticated customers in Singapore that have significant bargaining power. No customer contract commits a customer to ship a minimum quantity and the customer is able to quickly switch between suppliers should a profitable opportunity present itself. CCS notes that the top customers of the Parties include multinational corporations[43], some of whom procure services at a global level. Feedback from customers suggests that they typically possess bargaining power[44] and can switch suppliers relatively quickly, but that the number of viable suppliers in terms of service and price is limited. The customer's choices are somewhat greater in cases where they can use substitute, but slower, services such as air freight.[45]

45. While the Parties' proportional contribution to customers' spending varies, responses from customers indicate that they purchase from at least one supplier that is not one of the Parties. Overlap between the Parties is also limited as some of the customers purchase from only one of the Parties but not both[46] and would therefore continue to purchase from the same number of actual suppliers post-merger. This suggests that current suppliers provide some constraint on the Parties' post-merger market power.

46. Overall, CCS is of the view that customers possess some degree of bargaining power and ability to switch suppliers, and buyer power provides competitive constraint on the Parties post-merger.

(ii) Barriers to Entry and Expansion

47. The Parties submitted that most companies entering a market will opt to enter the market making use of existing assets instead of constructing new assets. They further submitted that most parts of the supply chain can be easily outsourced to significantly reduce the risk associated with investment, and that small package companies can contract with third parties to provide services in a certain area of their network or in a certain part of the value chain.[47]

48. CCS notes that investment in capital assets such as aircraft or trucks to provide an integrated service can be substantial.[48] CCS understands that barriers to entry are even more substantial if an entrant wishes to invest in

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[43] [✂].
[44] Customer responses[✂].
[45] Customer responses[✂].
[46] Customer responses[✂].
[47] Parties' response dated 25 July 2012 to CCS' Request for Information, paragraphs 26.2 and 28.1(b).
[48] Feedback[✂].

a hub to increase efficiency.[49] Given the small domestic market in Singapore, such a hub is likely to require at least regional, if not global, business to be efficient and viable. Some barriers may be mitigated by non-integrated competitors outsourcing parts of the supply chain. However, the investment in capital assets, economies of scale and the necessity of a regional network to ensure an efficient and viable business are likely to create significant barriers to entry.

49. Notwithstanding the significant barriers to entry, CCS understands that existing players have the capacity to meet increased demand.[50] FedEx Express, for example, expects to complete the building of a new FedEx Singapore Regional Hub, FedEx's second largest operational facility in the Asia-Pacific, in the second half of 2012.[51] On balance, CCS considers that the Parties face competitive constraint from existing competitors' continuing expansion plans and ability for further expansion.

(iii) Non-coordinated effects

50. As noted above, the combined market share of the Parties post-merger has been estimated to be [30-40]% in 2011. The increment of [10-20]% is not insignificant. However, CCS notes that the market shares of remaining major suppliers are also significant, ranging from [20-30]% (FedEx) to [20-30]% (DHL).[52] While barriers to entry are high, current competitors have the ability to expand capacity. Furthermore, responses from customers suggest that the overlap between the Parties is limited[53] and that customers hold some bargaining power.[54] As such, there are likely to be sufficient constraints on the market power of the Parties post-merger.

(iv) Coordinated effects

51. Coordinated effects may arise when a merger reduces competitive constraints in a market or increases the possibility that, post-merger, firms in the same market may coordinate their behaviour to raise prices, reduce quality or output.[55]

52. Responses from customers indicate that procurement of small package services is mainly undertaken through contractual negotiations or through a tender process[56]. Contract durations can vary from one to three years

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[49] Parties' response dated 25 July 2012 to CCS' Request for Information, paragraph 26.2.
[50] Feedback[✂].
[51] http://www.edb.gov.sg/edb/sg/en_uk/index/news/articles/fedex_ace_hub.html.
[52] Form M1, Table 8.1(c).
[53] Customer responses[✂].
[54] Customer responses[✂].
[55] Paragraph 6.7 of *CCS Guidelines on the Substantive Assessment of Mergers*.
[56] Customer responses[✂].

with annual review of prices. This makes the market less transparent and increases difficulty for competitors to coordinate behaviour.

53. While the features of a small package services offering are similar across suppliers (for example, both Parties offer next business day delivery), customers do find differences in the service, quality and pricing between suppliers in Singapore.[57] This differentiation between suppliers also increases difficulty for competitors to coordinate behaviour.

54. As mentioned above, customers possess some bargaining power. Sometimes, the procurement process occurs at the global or regional level and may be part of a package purchase involving other logistics services with far less concentrated markets and where customers have greater bargaining power. Even where decisions are made in Singapore, the customers include multinational corporations that have bargaining power on a global level. This provides competitive constraints on the market. The packaging of logistics services with different propositions also increases the differentiation between suppliers, thereby increasing the difficulty for coordinated behaviour.

55. On balance, while the post-merger market concentration is significant and the barriers to entry are high; countervailing buyer power, existing players' significant market shares and ability to expand, and the use of private contracts would likely constrain the Parties' market power and limit coordinated effects post-merger.

(b) Cargo Transport

56. In cargo transport, the combined market share by value of the Parties has been estimated to be [0-10]% in 2011. The incremental rise of [0-10]% in post-merger market share is also minimal. Such levels are significantly below CCS' indicative thresholds of potential competitive concerns in the market. Feedback from customers and competitors also indicate that overlap between the Parties is limited, there have been numerous entries in the last five years and that there is current overcapacity.[58] CCS is therefore of the view that the Proposed Transaction would not result in a substantial lessening of competition in the supply of cargo transport services.

(c) Freight Forwarding

57. The combined market share by value of the Parties in freight forwarding has been estimated to be [0-10]% in 2011 with a low incremental rise of [0-10]% post-merger. Such levels are significantly below CCS' indicative

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[57] Customer responses[✂].
[58] Customer responses[✂] and competitor responses[✂].

thresholds of potential competitive concerns in the market. Feedback also indicates that the market is fairly fragmented and that most major international players are already operating in Singapore.[59] CCS is therefore of the view that the Proposed Transaction would not result in a substantial lessening of competition in the supply of freight forwarding services.

(d) Contract Logistics

58. The combined market share by value of the Parties in contract logistics has been estimated to be [0-10]% in 2011. The incremental rise of [0-10]% post-merger is also minimal. These levels are significantly below CCS' indicative thresholds of potential competitive concerns in the market. Feedback from some customers indicates that the cost and time to switch suppliers can be high as warehousing needs are customized. However, procurement is typically carried out at a global or regional level and customers have bargaining power.[60] CCS also understands that the market is fairly fragmented[61] and existing players have been expanding their capacity. CCS is therefore of the view that the Proposed Transaction would not result in a substantial lessening of competition in the supply of contract logistics services.

VII. Efficiencies

59. The Parties submitted that the rationale for the Proposed Transaction is the ability to realise significant synergies through economies of density and scope to offer customers an improved service level across different countries. The complementary strengths of both organisations will create a more efficient customer-focused global platform. Increased network density means that UPS would be able to improve its offering by performing later pick-ups and offering earlier delivery options to more customers. Moreover, the expanded network scope created by additional direct flights and road feeder routes will allow the merged entity to offer better time in transit options to customers.[62]

60. CCS is unable to comment on these claims as the Parties did not submit evidence of these efficiencies. In any event, the issue of efficiencies does not arise, as CCS has not found a substantial lessening of competition in the first instance.

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[59] Competitor responses[✂].
[60] Customer responses[✂].
[61] Competitor responses[✂].
[62] Paragraphs 3.2.3 and 3.2.5 of Form M1.

VIII. Conclusion

61. For the reasons above and based on the information available, CCS assesses that the Proposed Transaction, if carried into effect, would not give rise to a substantial lessening of competition in any market in Singapore, and accordingly would not infringe the section 54 prohibition. In accordance with section 57(7) of the Act, this decision shall be valid for a period of one year from the date of this decision.

Yena Lim
Chief Executive
Competition Commission of Singapore