

COMPETITION COMMISSION OF INDIA

27th December 2011

Combination Registration No.: C-2011/10/07

Order under sub-section(1) of Section 31 of the Competition Act, 2002

1. On 14th October, 2011, the Competition Commission of India (hereinafter referred to as "**Commission**") received a notice under sub-section (2) of Section 6 of the Competition Act, 2002 (hereinafter referred to as "**Act**") of the proposed combination of Nippon Steel Corporation (hereinafter referred to as "**NSC**") and Sumitomo Metal Industries, Ltd. (hereinafter referred to as "**SMI**") (hereinafter NSC and SMI are collectively referred to as "**parties to the combination**"), jointly filed by the parties to the combination.
2. The notice was given pursuant to the approval by the board of directors of each of the parties to the combination on 22nd September 2011 to enter into a 'Master Integration Agreement' agreeing that business integration shall be implemented through a merger with NSC being the surviving company. The Master Integration Agreement was subsequently executed between the parties to the combination on 22nd September, 2011.
3. In terms of Regulation 14 of the Competition Commission of India (Procedure in regard to transaction of business relating to combinations) Regulations, 2011 (hereinafter referred to as "**Combination Regulations**"), on 19th October, 2011, the parties to the combination were required to remove certain defects in the notice and furnish the required information/document(s) by 31st October, 2011. The response of the parties to the combination was received on 25th October, 2011. In terms of Regulation 19 of the Combination Regulations, on 9th November, 2011, the parties to the combination were required to furnish additional information/document(s). The parties to the combination provided the said information on 22nd December, 2011, along with certain information which was required to be furnished by the parties to the combination in response to the Commission's communication dated 19th October 2011.
4. As per the details of assets/turnover provided by the parties to the combination, the proposed combination relating to merger of NSC and SMI, whereby SMI will merge into NSC with NSC being the surviving company, which after the proposed combination will be called, 'Nippon Steel and Sumitomo Metal Corporation', falls within the purview of clause (c) of Section 5 of the Act.
5. NSC is a company registered and listed on stock exchanges in Japan. NSC along with its subsidiaries is mainly engaged in the business of steel making and steel fabrication



comprising of manufacturing and sale of variety of iron and steel products. In addition to the core business of steel making and steel fabrication, other businesses include engineering and construction, urban development, chemicals, new materials and system solutions. As per the details provided by the parties to the combination, in India, NSC is engaged in sale of steel products and does not have production operations. NSC is present in India through its group companies which includes Nippon Steel India Pvt. Ltd., which functions as liaison office of NSC; Nippon Steel Pipe India Pvt. Ltd., which currently being in a start-up phase plans to engage in business of manufacture and sale of automotive machine structural steel pipe and Nippon Steel Engineering India Plant and Machinery Pvt. Ltd., which provides market research services for steel plant projects in India.

6. SMI is a company registered and listed on stock exchanges in Japan. SMI along with its subsidiaries is mainly engaged in the business of manufacturing and sale of variety of iron and steel products and other businesses such as engineering, manufacturing of electronic products etc. As per the details provided by the parties to the combination, in India, SMI is engaged in sale of steel products and does not have production or manufacturing capabilities. The business operations of SMI in India include joint ventures, namely, SMI AMTEK Crankshaft Pvt. Ltd., engaged in production and sale of forged crankshafts where SMI has a minority stake and Automotive Steel Pipe India Pvt. Ltd. engaged in business of manufacturing and sale of automotive steel pipes where SMI indirectly holds a minority stake; technical assistance arrangements with Steel Strips Wheels Limited, which is engaged in manufacture of automotive steel wheels and Bhushan Steel Ltd. where SMI provides technical assistance in relation to hot-rolled/cold-rolled steel sheets and coils; and a recently incorporated subsidiary, Sumitomo Metals India Pvt. Ltd.
7. Through the proposed combination, the parties to the combination, both integrated blast furnace steel manufacturers headquartered in Japan with operations in various parts of the world, have entered into an integration agreement in order to integrate all of their businesses including the core business of steel making and steel fabrication mainly comprising of manufacturing and sale of variety of iron and steel products. In India, the operations of the parties to the combination mainly relate to sale of various types of steel products.
8. The steel products may be distinguished on the basis of composition, application, physical characteristics like form, shape and surface etc. In terms of composition, steel, in its simplest form, is an alloy consisting of iron as the major component and varying amount of carbon. Based on carbon content, steel may be described as low carbon or mild steel, medium carbon and high carbon steel which are known as non-alloy steel. Addition of other metallic or non-metallic elements such as manganese, silicon, nickel, lead, copper, chromium etc. to steel results in production of alloy steel such as stainless steel, silicon-electrical steel and high speed steel. The change in composition of steel results in change of the properties of steel. The flexibility to adjust its composition and customize its properties makes steel a versatile material.



Steel has widest range of applications amongst metals. The application of steel ranges from industrial application to usage in day-to-day life.

9. In India, the steel producers are engaged in production of all varieties of iron and steel products. Amongst them the main/major producers include Steel Authority of India Ltd., Tata Steel Ltd., Rashtriya Ispat Nigam Ltd., Essar Steel Ltd., JSW Steel Ltd., Jindal Steel & Power Ltd. and Ispat Industries Ltd. The other producers engaged in producing crude steel/semi-finished steel /finished steel etc. are spread across different parts of the country¹. As per publicly available information, India has the fourth largest steel industry in the world, both in terms of production and capacity. The steel industry in India is characterized by the presence of steel producers with large and modernized steel plants having capacity in millions of tonnes, with backward and forward integration and captive availability of raw material for the production of wide and varied steel products, as well as by the presence of steel producers with small to medium scale units which operate without forward or backward integration. Thus, steel producers in India, based on the level of integration ranging from availability of raw material to production of range of finished steel products, may be categorized as integrated steel producers and other producers/non-integrated steel producers. As the Indian steel industry now operates in an open economy with no major trade barriers, global steel producers are also engaged in sale of variety of iron and steel products in India. As per publicly available information, in recent years, imports have accounted for around 10 to 14 per cent of the total steel consumption in India.
10. As stated in the notice, the products/services of NSC in India include steel bars, wire rods, heavy medium plates, hot-rolled (HR) steel sheets and coils, cold-rolled (CR) steel sheets and coils, surface-treated steel sheets, non-grain oriented electrical steel sheets (NOs), seamless pipes, H-beams, tinplate and tin free steel, grain oriented electrical steel sheets, seamed pipes, cast rolls, titanium products, engineering, chemicals, semiconductor and electronic components and materials. The other products/services of NSC, apart from products/services of NSC in India, include rails, steel sheet piles, secondary steel products, slabs, billets and blooms, foundry pig iron, steel slag products and cement, marine and land transportation, power supply, urban development and computer system solutions. The products/services of SMI in India include steel bars, wire rods, heavy medium plates, HR steel sheets and coils, CR steel sheets and coils, surface treated steel sheets, NOs, seamless pipes, railcar wheels, forged steel products. The other products/services of SMI, apart from products/services of SMI in India, include steel sheet piles, H-beams, seamed pipes, slabs, billets and blooms, titanium products, steel slag products and cement, railcar axles, power supply, marine and land transportation, engineering and electronic products.
11. It has been stated in the notice that the parties to the combination produce/provide similar/ identical / substitutable products/services which include steel bars, wire rods,

¹ Annual Report 2010-11, Ministry of Steel, Government of India.



heavy medium plates, HR steel sheets and coils, CR steel sheets and coils, surface treated steel sheets, NOs, seamless pipes, seamed pipes, steel sheet piles, H-beams, slabs, billets and blooms, steel slag products and cement, marine and land transportation, titanium products, power supply, engineering and construction. However, it has been further stated in the notice that, in India, the parties to the combination have eight similar/ identical / substitutable products which include steel bars, wire rods, heavy medium plates, HR steel sheets and coils, CR steel sheets and coils, surface treated steel sheets, NOs and seamless pipes. The parties to the combination have stated that each of the eight similar/identical/substitutable products, in which both the parties to the combination are engaged in sale in India, constitutes a separate relevant market in India.

12. The different types of steel products vary from crude steel to semi-finished and finished steel products. Semi-finished steel, procured in the form of slabs, billets and blooms, is further rolled into finished steel products; while slabs are rolled into flat steel products, billets and blooms are rolled into long steel products. Finished steel products are therefore generally distinguished as flat steel products or long steel products, both of which, considering their different forms and characteristics, find distinct usage/applications. Flat steel products are commonly distinguished as HR steel products, CR steel products and coated steel products, each of which has different characteristics. As compared to HR steel products, CR steel products are thinner, have better finish, dimensional tolerance and specific mechanical/metallurgical properties, which may not be generally found in HR steel products. Coated steel products, generally produced from CR steel products with coating of zinc, tin, chromium, organic coating etc., are different from CR steel products, not only in terms of surface finish but also in terms of characteristics, such as anti-corrosive properties etc. Based on their distinct composition and characteristics and other features, different types of flat steel products may have different usage and applications and each of them may further constitute a distinct category of finished steel product. Long steel products may be further distinguished into various types of steel products, such as bars, wire rods, angle, shapes and sections, rails etc., each of which may have different characteristics and applications.

13. In India, the consumption of the finished steel products has been largely equivalent across both the flat steel products and long steel products. It is seen that the integrated steel producers in India are present across almost the entire range of finished steel products. As it is generally observed, due to the highly capital intensive nature of production of flat steel products as compared to the production of long steel products, the production of flat steel products is primarily characterised by the presence of large integrated steel producers, whereas the production of long steel products is characterised by the presence of large number of small and regional steel producers. The large integrated steel producers also account for around fifty per cent of the finished steel production in India. While, the large integrated steel producers in India account for more than sixty per cent of the production in flat steel production, due to



large scale fragmentation in the long steel products, their share in production of long steel products is only around thirty per cent.²

14. The eight similar/identical/substitutible steel products sold in India by the parties to the combination are finished steel products, either flat or long, as follows:

(a) Steel bars: These are type of steel in shape of bars which are produced by rolling of blooms or billets into various shapes; (b) Wire rods: These are produced by rolling of billets into wire shape by using a wire rod rolling mill and are sold in the form of a coil; (c) Heavy medium plates: These are generally thick steel plate manufactured by rolling of slabs at high temperature in a plate mill and then cut into sizes as per customer requirement, (d) HR steel sheets and coils: These are manufactured by continuously rolling slabs at high temperature in hot strip mills, reduced to thin sheets/coils, (e) CR steel sheets and coils: These are manufactured by rolling of HR sheets/coils in cold-rolling mills at normal temperature; (f) Surface treated steel sheets: These are coated sheets with corrosion resistance produced by electro-galvanizing i.e. coating electrochemically in electroplating bath or hot-dip galvanizing of CR sheets in liquid zinc bath; (g) NOs: These are type of CR steel sheets which contains silicon and exhibit certain magnetic properties. and (h) Seamless pipes: These are steel pipes without welded seam, manufactured from hot working of billets and subsequent cold finishing to produce pipes of desired shape, dimension and properties.

15. It is noted that within each of the above eight finished steel products, there could be further variations based on their dimensions and grades, which may change their physical characteristics and end-use. Although, there is no common global steel standard or classification system for identification of each of the possible variation of the steel products, however, there exists a number of well-known standards and classification systems accepted in different countries and used worldwide, such as prevalent standards of American Society for Testing and Materials (ASTM); Japanese Industrial Standards (JIS); International Organization for Standardization (ISO); Comité Européen de Normalisation (EN); Bureau of Indian Standards (IS); Deutsches Institut für Normung (DIN); British Standards (BS); American Iron and Steel Institute (AISI); Society of Automotive Engineers (SAE) etc. Also, the steel manufacturers have their own lists of available steel dimensions and grades. The customer has a choice to select from the available range of dimensions and grades of a particular variation of steel product, having the desired parameters as per requirement or where such steel product with particular parameters are not available, the customer can meet their requirement with similar but not identical combination of dimension or grades within a product category or based on the customer's requirement, the manufacturer could produce the desired variation of steel product with distinct dimension or grades in the same industrial unit by way of suitable modification to the equipment even in a short duration, in most of the cases.

² Annual Report 2009-10, Joint Plant Committee, Ministry of Steel, Government of India



16. As observed earlier, the Indian steel industry is characterized by the presence of large integrated as well as non-integrated steel producers. Most of these producers not only have the capacity but also the required technology for production of wide and varied range of steel products and their variations to meet the distinct requirements of the customer in India. As there are no major trade barriers for global steel producers for entry and export to India, the customers in India have access to not only domestic steel producers but also to the global steel producers for sourcing and procurement of the desired product and their variations as per their specific requirement.
17. As per the details provided by the parties to the combination regarding their sales volume in India in respect of each of the eight finished steel products, it is noted that the percentage of the combined sales volume of the parties to the combination in India in respect of each of the above eight products to the apparent consumption of that product in India, is negligible i.e., even less than one per cent in some products and less than five per cent in all the remaining products. As the turnover of the parties to the combination in India, is mainly from export of steel products to India, it is observed that the percentage of combined sales volume of the parties to the combination in India in respect of each of the above eight products to the total import of that product into India, in some products is less than even five per cent and ranges from seven to fifteen per cent in respect of the remaining products. It is also noted that for each of the said eight products, there exist a number of domestic as well as global steel producers, who are competitors in respect of each of these products, thus indicating ample choice and availability of alternate sources for procurement for each of these eight finished steel products to the customer in India. In the course of interactions with some of the customers/users it was brought out that they had various alternate sources of supply, domestic as well as global, available to them in respect of each of the respective eight products.
18. In view of the foregoing, the Commission is of the opinion that it may not be necessary to define the relevant market for the purposes of the assessment of the proposed combination, notwithstanding that the parties to the combination have stated that they are engaged in the sale of eight similar/identical/substitutable steel products in India, as it is considered that the competitive assessment of the proposed combination may not change substantially, even if the relevant market in respect of the steel products which the parties to the combination sell in India, is not conclusively delineated.
19. As already observed, the parties to the combination are engaged in the business of manufacture of various types of steel products in Japan with operations across different parts of the world. In India, the parties to the combination have turnover mainly through exports to India of various types of finished steel products. It is also observed that the combined sales volume of both the parties to the combination in India is very low when compared to not only the apparent consumption of finished steel products in India but also to the volume of imports of finished steel products in India. It has already been noted that the combined sales volume of the parties to the combination in India in respect of each of the said eight finished steel products, in



comparison to the apparent consumption of that product in India as well as the volume of import of that product in India, ranges from negligible to very low. It is also observed that as either one or the other party to the combination has a more prominent presence in India than the other in respect of each of the said eight finished steel products, therefore, the pre-merger competitive condition is unlikely to be significantly altered by the proposed combination. Further, considering that as, in India, there are a large number of domestic and global steel producers engaged in the manufacture/sale of various types of steel products providing alternate sources of supply of wide and varied range of steel products along with their variations to the customer, absence of any major trade barriers for import of steel products, plans of further capacity expansion by most of the domestic steel producers as well plans of some global steel producers to set up greenfield steel manufacturing projects in India, the proposed combination does not raise any competitive concern in India.

20. Considering the facts on record and the details provided in the notice given under sub-section (2) of Section 6 of the Act, and assessment of the proposed combination after giving due regard to the relevant factors provided under sub-section (4) of section 20 of the Act, the Commission is of the opinion that the proposed combination is not likely to have an appreciable adverse effect on competition in India and therefore, the Commission hereby approves the proposed combination under sub-section (1) of the Section 31 of the Act.
21. This approval is without prejudice to any other legal/statutory obligations as applicable.
22. This order shall stand revoked if, at any time, the information provided by the parties to the combination is found to be incorrect.
23. The Secretary is directed to communicate to the parties to the combination accordingly.



Certified True Copy

[Handwritten Signature]
29/12/11
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