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Case No IV/M.1326 - TOYOTA / DAIHATSU

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REGULATION (EEC) No 4064/89
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 06/11/1998

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 06-11-1998

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sirs,

<u>Subject</u>: Case No IV/M.1326 – TOYOTA/DAIHATSU
Notification of 8.10.1998 pursuant to Article 4 of Council Regulation N/ 4064/89

1. On 8.10.1998, the Commission received a notification of a proposed concentration by which Toyota Motor Corporation ("Toyota") acquires control of the whole of Daihatsu Motor Co. Ltd. ("Daihatsu") by way of a public bid.

2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Council Regulation No 4064/89 and does not raise serious doubts as to its compatibility with the common market and the functioning of the EEA Agreement.

I. THE PARTIES

3. The business activities of the undertakings concerned are:
   - Toyota: a Japanese company active in the manufacture of passenger cars, ships, aircraft, and other transportation equipment
   – Daihatsu: a Japanese company active in the manufacture of passenger cars.

II. CONCENTRATION

4. Toyota acquires control of the whole of Daihatsu, and therefore the transaction constitutes a concentration within Article 6(1)(b) of the Merger Regulation.

III. COMMUNITY DIMENSION

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5. Toyota and Daihatsu have a combined aggregate world-wide turnover in excess of ECU 5,000 million. Each of them has a Community-wide turnover in excess of ECU 250 million but they do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension, and does not constitute a co-operation case under the EEA Agreement, pursuant to Article 57 of that Agreement.

IV. ASSESSMENT

A. Relevant product market

6. The concentration affects the passenger car sector. Passenger cars serve the general purpose of individual transport of passengers on public roads and, unlike commercial vehicles, are not primarily designed for commercial use.

7. The parties define the relevant product market as the market for all passenger cars. They argue that there is no product characteristic or combination of characteristics on which consumer preferences or supplier technologies concentrate sufficiently to define an economically significant product market narrower than the overall passenger car market.

8. In previous decisions concerning the passenger car market, the Commission has held it possible to subdivide this market, on the basis of a number of objective criteria like engine size or length of cars, in several segments which could constitute distinct product markets. However, a final definition was not required, and the exact market definition was left open (Decisions of 14 March 1994, Case no IVM.416 – BM/Rover; Decision of 24 May 1996, Case no IV/M.741-Ford/Mazda; Decision of 22 December 1997, Case no IV/M.1036-Chrysler/Distributors, Decision of 22 July 1998, Case no M.1204-Daimler-Benz/Chrysler). The narrowest segmentation previously used by the Commission is the following:

- A: mini cars
- B: small cars
- C: medium cars
- D: large cars
- E: executive cars
- F: luxury cars
- S: sport coupés
- M: multi purpose cars
- J: sport utility cars (including off-road vehicles)

9. The parties have used a slightly different segmentation to the one used by the Commission in that they have combined segments "A" and "B" (i.e. "minis" have been subsumed under "small cars") and segments "D" and "E" (i.e. "executive cars" have been subsumed under "large cars"); on the other hand, the parties identify a segment not identified by the Commission, namely "economy cars".

10. The boundaries between segments are blurred by factors other than the size or length of cars. These factors include price, image and the amount of extra accessories. Also, the tendency to offer more options like ABS, airbags, central locking etc. in small cars further dilutes the traditional segmentation. Customers choose their cars

using a combination of parameters, such as brand, size, equipment and price. On the other hand, segmentation is generally used by the industry and it still seems to be regarded as an important indicator for the positioning of a car in the market place. In particular some differences still exist in price, technology and engineering requirements within the market. For the purposes of the competitive analysis of the present case, it is not necessary to further delineate the relevant product market, because in all the alternative market definitions considered, effective competition would not be significantly impeded, as explained below.

B. Relevant geographic market

11. The notifying parties are of the view that the relevant geographic market is a worldwide market. They refer to the fact that most passenger car manufacturers distribute their products in many parts of the word, and the tendency towards globalisation has grown even stronger in the last few years.

12. The parties suggest that even if a smaller geographic market is taken into consideration, it would at least comprise the territory of the EEA. They argue that the market structure in Europe is uniform, each European consumer is able to purchase the same passenger car anywhere in Europe, and the tendency towards cross-border purchases increases if the consumer is able top purchase cars for lower prices in other countries.

13. From a supply-side perspective, production in the car industry is international or even global in its outlook (Decision of 24 May 1996, Case no IV/M.741-Ford/Mazda). From a customer perspective, the last years have brought a progressive harmonization of the competitive environment within the Community with respect to technical barriers, restrictions concerning distribution systems, and the transparency of car pricing. However, differences remain with regard to prices, vehicle taxation, distribution systems and penetration rates of major competitors within Member States. In the present case, the exact definition of the relevant geographic market can be left open since, in all the alternative geographic market definitions considered, effective competition would not be significantly impeded in the EEA or any substantial part of that area, as explained below.

C. Competitive Assessment

14. In 1997 approximately 14.5 million passenger cars were sold in the EEA. Toyota and Daihatsu sold approximately 407 000 and 39 000 passenger cars respectively and hold respective market shares of 2.8 % and 0.3 %, thus a combined share of all passengers cars in the EEA of 3.1 %. The new entity would rank tenth amongst its competitors, after the Volkswagen Group (16.6 %), Fiat (12.1 %), the PSA Group (12.1 %), the Ford Group (11.7 %), General Motors (11.4 %), Renault (10.2 %), BMW/Rover (5.7 %), Daimler Benz (4.0 % excluding Chrysler), and Nissan (3.1 %). If national passenger car markets are considered, Toyota's and Daihatsu's highest combined shares in the EEA are Norway with 12.1 % (11.9 % Toyota, 0.2 % Daihatsu) and Iceland with 18.2 % (16.7 % Toyota, 1.5 % Daihatsu).

15. As far as a passenger car segmentation is concerned, the concentration will not affect medium, large, executive, luxury, or sports cars (i.e. C,D,E, F, or S - see above) since Daihatsu is not active in these segments (nor Toyota in the "large car" segment) in EEA countries. Conversely, Toyota is not active in the "economy"

segment, which is identified by the parties, in EEA countries. The only segments in which there is a combination of market shares are the "small car" segment ("A" plus "B"), the "sports utility vehicle" ("SUV") segment ("J"), and the multiple purpose car ("MPV") segment ("M").

16. Regarding the small car segment, at the EEA level, the combined market share would be 2.3 % (2.2 % Toyota plus 0.1 % Daihatsu). The highest combined market share in any EEA country in which both companies are active would be Iceland with 17.6 % (Toyota 16.3 % plus Daihatsu 1.3).

17. Regarding the "MPV" segment at the EEA level the combined market share would be 4.1 % (Toyota 3.8 % plus Daihatsu 0.3 %). The highest combined market share in any EEA country in which both companies are active would be Iceland, with 17.5 % (Toyota 17.3 % and Daihatsu 0.2 %). The multi-purpose car sector is characterised by strong competition, new market entries and shifts in market shares. Since 1992, five major car producers have entered this market. Regarding the "SUV" segment, at the EEA level the combined market share would be 14.5 % (Toyota 11.6 % plus Daihatsu 2.9 %). The combined entity would rank second at the EEA level after BMW (17.6 %) and be closely followed by Suzuki (13.8 %). The highest combined market share in any EEA country would be Luxembourg with 29.7 % (Toyota 21.8 % plus Daihatsu 7.9 %). However, in Luxemburg the next three competitors each have over 11%. In other Member States there is only a minor addition in market share due to Daihatsu's relatively modest sales. Again, the market for SUV's is dynamic and enjoys strong growth.

V. CONCLUSION

18. The overlap between the product ranges of Toyota and Daihatsu is limited. The merger will only have a limited effect on the industry's level of concentration. In particular, there are no indications that the merger will raise entry barriers in the passenger car market or any distinct part of it. Therefore, the proposed concentration will not create or strengthen a dominant position.

19. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EEC) No 4064/89.

For the Commission,