

“GUIDELINES TO APPLICATION OF THE ANTIMONOPOLY ACT
CONCERNING REVIEW OF BUSINESS COMBINATION” (Tentative Translation)

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Fair Trade Commission

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Table of Contents

Introduction.....	1
Part I. Subject of the Review of Business Combination.....	2
1. Stockholding.....	2
(1) Stockholding by a Company.....	2
(2) Stockholdings by a Person Other than a Company.....	4
(3) Scope of Joint Relationship.....	4
(4) Stockholdings which do not fall within the Scope of the Review of Business Combination.....	4
2. Interlocking Directorates.....	6
(1) Scope of Officers.....	6
(2) Joint Relationships through Interlocking Directorates.....	7
(3) Scope of Joint Relationships.....	8
(4) Interlocking Directorates which are not within the Scope of the Review of Business Combination.....	8
3. Mergers.....	9
(1) Mergers.....	9
(2) Scope of Joint Relationships.....	9
(3) Mergers which are not within the Scope of the Review of Business Combination.....	9
4. Demerger.....	10
(1) Joint establishment type demerger / Absorption type demerger.....	10
(2) Scope of Joint Relationships.....	10
(3) Substantial part of Business.....	11
(4) Demergers which are not within the Scope of the Review of Business Combination....	11
5. Acquisitions of Business, etc.....	12
(1) Acquisitions of Business.....	12

(2) Scope of Joint Relationships	12
(3) Substantial part of Business	12
(4) Acquisitions of Business which are not within the Scope of the Review of Business Combination.....	12
(5) Leasing of Business.....	13
Part II. A Particular Field of Trade	13
1. Basic Point of View for the Scope of a Particular Field of Trade	14
2. Product Range.....	15
(1) Application.....	15
(2) Changes of the Price, Quantity and so on	16
(3) Recognition and Actions of the Users.....	16
3. Geographic Range.....	17
(1) Business Area of Suppliers, the Area for Users to Purchase etc.....	17
(2) Features of Goods.....	18
(3) Type or Cost of Transportation	18
4. Others.....	18
Part III. The Effect May be Substantially to Restrain Competition.....	18
1. Interpretation of "The Effect May Be Substantially to Restrain Competition"	18
(1) Interpretation of "Substantially to Restrain Competition"	18
(2) Interpretation of "The Effect May Be"	19
2. Type of Business Combination and Substantial Restraint of Competition	20
Part IV. The Effect of Horizontal Business combination May be Substantially to Restrain Competition.....	20
1. Basic Framework	20
(1) Substantial Restraint of Competition by Unilateral Conduct.....	21
(2) Substantial Restraint of Competition by Coordinated Conduct.....	22
(3) The Effect may not be Substantially to Restrain Competition.....	22
2. The Determining Factors to Decide the Substantial Restraint of Competition through the Unilateral Conduct	24
(1) The Position of the Company Group and the State of Competitors.....	24
(2) Import.....	27
(3) Entry.....	30
(4) Competitive Pressure from Related Markets	31
(5) Competitive Pressure from Users.....	32
(6) Overall Business Capabilities.....	33
(7) Efficiency	33

(8) Financial Conditions of the Company Group	34
3. The Determining Factors to Decide the Substantial Restraint of Competition through the Coordinated Conduct	35
(1) The Position of the Company Group and the State of Competitors.....	35
(2) Actual Situation of Trade, etc.	37
(3) Competitive Pressure from Import, Entry, Related Markets, etc.....	38
(4) Efficiency and the Financial Conditions of the Company Group	39
Part V. The Effect of Vertical and Conglomerate Business combination May be Substantially to Restrain Competition	39
1. Guiding Principles	39
(1) Substantial Restraint of Competition by Unilateral Conduct.....	39
(2) Substantial Restraint of Competition by Coordinated Conduct.....	40
(3) The Effect may not be Substantially to Restrain Competition.....	41
2. The Determining Factors to Decide the Substantial Restraint of Competition through the Vertical and Conglomerate Business Combinations.....	41
(1) The Determining Factors to Decide the Substantial Restraint of Competition through the Unilateral Conduct	41
(2) The Factors to Decide the Substantial Restraint of Competition through the Coordinated Conducts	42
Part VI. Measures to Remedy the Substantial Restraint of Competition.....	42
1. Basic Framework	42
2. Types of the Remedies.....	43
(1) Divestiture of Business etc.....	43
(2) Others	43
(Attachment 1) Prior Consultation.....	45
(Attachment 2) Shortening of the Waiting Period	45

Introduction

Chapter 4 of the Antimonopoly Act (Act Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54, 1947), hereinafter referred to as “the Act”) prohibits such that acquisition or possession (hereinafter referred to as “holding”) of the stocks of a company (including shares of partnership) (Section 10 of the Act), interlocking directorates (Section 13 of the Act), stockholding by a person other than a company (Section 14 of the Act) or a merger of companies (Section 15 of the Act), joint establishment type demerger or absorption type demerger (Section 15-2 of the Act) or acquisition of businesses (Section 16 of the Act) (hereinafter referred to as “business combination”) where the effect of such a business combination may be substantially to restrain competition in any particular field of trade, or where such a business combination is implemented through an unfair trade practice. Business combination to be prohibited is subject to elimination measures under the provision of Section 17-2 of the Act.

With regard to reviewing whether the effect of a business combination may be substantially to restrain competition in any particular field of trade (hereinafter referred to as the “review of business combination” or the “review”), the Japan Fair Trade Commission (hereinafter referred to as “JFTC”) has already clarified underlining principles through the Guidelines for Interpretation on the Stipulation that “The Effect May Be Substantially to Restrain Competition in a Particular Field of Trade” Concerning M & As on December 21, 1998. However, in order to enhance transparency and predictability regarding the review of business combination, the Fair Trade Commission issues “Guidelines to Application of the Antimonopoly Act concerning Review of Business Combination” (hereinafter referred to as “Guidelines”), taking into account its experience of the review so far.

In addition, among the cases in which notifications and such were accepted or where prior consultation were made, the JFTC has released the outlines of the review of some of them as a reference for companies having a business combination plan because its fact-findings and competitive impact analysis may be useful for them. The JFTC continues to be ready to provide more information with the objective of securing predictability and regulatory transparency of the review. In case of planning a business combination, not only the Guidelines but also the outline of the cases should be referred.

These Guidelines, first of all, indicate the categories of business combinations which are to be reviewed under the Act (Part I). Second, they will indicate the criteria for defining a particular field of trade (Part II). Third, they shall clarify the meaning of “the effect may be substantially to restrain competition” (Part III). And then, they will indicate the analytical framework and the criteria for assessing whether the effect of a business combination may be

substantially to restrain competition in accordance with the categories of the business combination (Parts IV and V). Finally, they will illustrate remedial measures for resolving the problems involved in the business combination whose effect may be substantially to restrain competition (Part VI).

The JFTC will review business combinations and determine whether or not the effect of a business combination may be substantially to restrain competition in any particular field of trade along with these guidelines, irrespective of whether it is subject to current reporting or notification requirement under the provisions of Chapter 4 of the Act.

Meanwhile, with the formulation of these guidelines, the Guidelines for Interpretation on the Stipulation that “The Effect May Be Substantially to Restrain Competition in a Particular Field of Trade” Concerning M&As (including Supplement thereof dated April 1, 2001) is hereby abolished.

Part I. Subject of the Review of Business Combination

Chapter 4 of the Act prohibits a business combination if the effect may be substantially to restrain competition in a particular field of trade. The Chapter regulates business combinations because they can have an impact on competition in the market through the forming, maintaining or strengthening of the relationship where more than one company conduct business activities in a united form, fully or partially by stockholding, mergers or other transactions (this relationship is hereinafter referred to as a “joint relationship”). Accordingly, if two or more companies continue to engage in business activities as independent competitive units though there are stockholdings or interlocking directorates between them, and if these companies which have already had a joint relationship just alter merely the form of an organization, there is little impact on competition. Thus, these types of arrangements should be rarely prohibited.

This part clarifies the categories of business combinations whose impact on competition should be reviewed.

1. Stockholding

(1) Stockholding by a Company

A. It is reviewed that a joint relationship is to be formed, maintained or strengthened between an acquiring company and an acquired one in the following cases.

(a) When the voting right holding ratio (the ratio of voting rights for stock held by an acquiring company to the overall shareholder’s voting rights in a stock issuing company) exceeds 50 %. However, if the acquiring company established the acquired company and the

former acquired all of the voting rights of the latter concurrently with the establishment, it usually falls outside the scope of the review of business combination (see (4) A infra).

(b) When the voting right holding ratio exceeds 25 % and the acquiring company is the sole leading holder of voting rights.

B. Other than the cases described above, when the ratio of voting right holding ratio exceeds 10 % and acquiring company is ranked among the top 3 voting right holders, the following items will be taken into consideration in order to determine whether a joint relationship is formed, maintained or strengthened.

(a) The extent of voting right holding ratio

(b) The rank as a voting right holder, difference in the voting right holding ratios and distribution among the holders, and other relationships between holders

(c) Cross-holding of voting rights (the acquired company concurrently holds voting rights of the acquiring company) and other mutual relationships between the companies involved (hereinafter referred to as “parties”)

(d) Whether officers or employees of one of the parties are holding the position of officers of the other parties

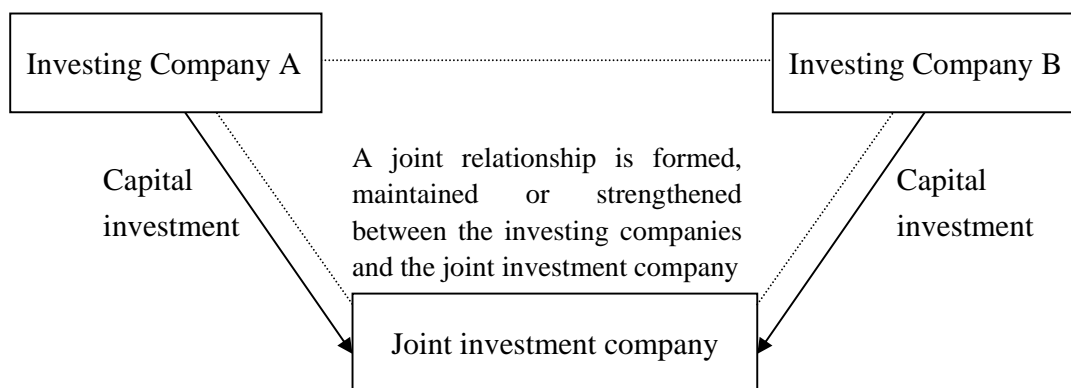
(e) Trading relationship between the parties (including financial relationship)

(f) Relationships between the parties based on business alliance, technical assistance and other contracts or agreements

(g) Items (a) through (f), when including companies that already have joint relationships with the parties

C. In the event of a joint investment company (a company which jointly established or acquired by two or more companies through a contract to pursue necessary operations in order to achieve mutual benefits; the same hereinafter), trading relationships between the parties and relationships based on business alliance, contracts, etc. will be considered in order to determine whether the business combination should be reviewed. (As far as a joint relationship between the investing companies is concerned, a joint relationship is indirectly formed, maintained or

strengthened through the joint investment company. Accordingly, if the business activities of the stockholding companies are integrated through the establishment of the joint investment company, this fact itself indicates that there will be an impact on competition. (See 2 (1) C and 3 (1) D in Part IV later on))



(2) Stockholdings by a Person Other than a Company

“A person other than a company” means a person other than a joint stock company, mutual company, ordinary partnership, limited partnership, limited liability company or foreign company as prescribed by the Corporate Law and other laws and ordinances; it does not matter whether the person is an entrepreneur or not. Specifically, incorporated foundations, corporate juridical persons, special corporations, regional public bodies, cooperatives, associations, natural persons and all other persons that can hold stocks are included.

The existence of stockholdings by a person other than a company will be examined in accordance with item (1) above.

(3) Scope of Joint Relationship

If a joint relationship is formed, maintained or strengthened between the parties concerned through the stockholdings, a joint relationship is also formed, maintained or strengthened among the parties and the companies which already have a joint relationship with the parties.

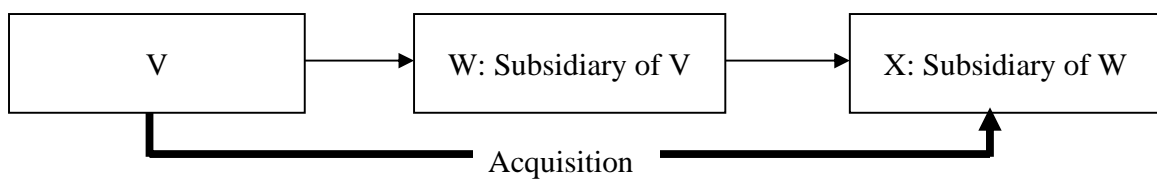
(4) Stockholdings which do not Fall within the Scope of the Review of Business Combination

In the case of A below, a joint relationship is not formed nor strengthened so that, in general, it does not fall within the scope of the review of business combination. In addition, even in the cases of item B to item F as below, a business combination is not formed nor strengthened so that, in general, most of them are not considered to fall within the scope of the review of business combination. However, in the case of that a joint relationship is formed or strengthened

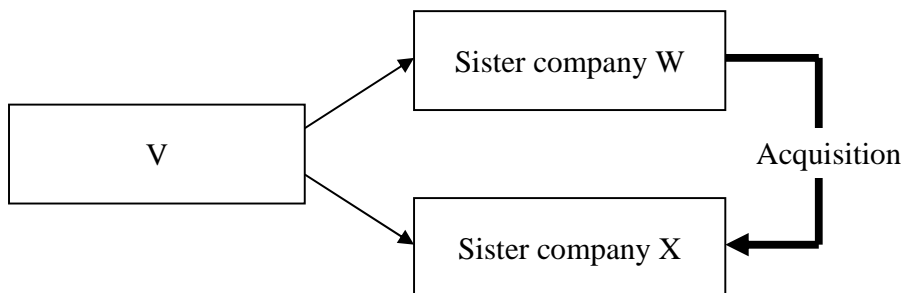
between the Company V to Z and other shareholders, such joint relationship falls within the scope of the review of business combination.

A. The acquiring company establishes the acquired company and the former acquired all of the voting rights of the latter concurrently with the establishment (See (1) A (a) above)

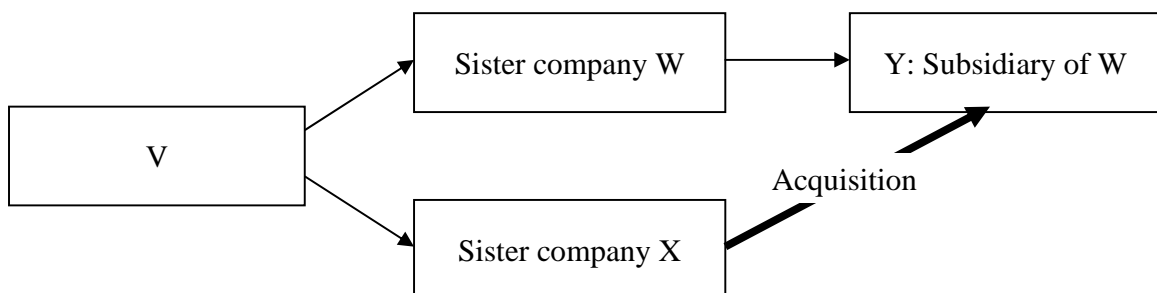
B. A company acquires the voting rights of the subsidiary of its subsidiary (In these Guidelines, a “subsidiary” means a company of which another company holds more than 50 % of its total stockholders’ voting rights.) (Also see note 1)



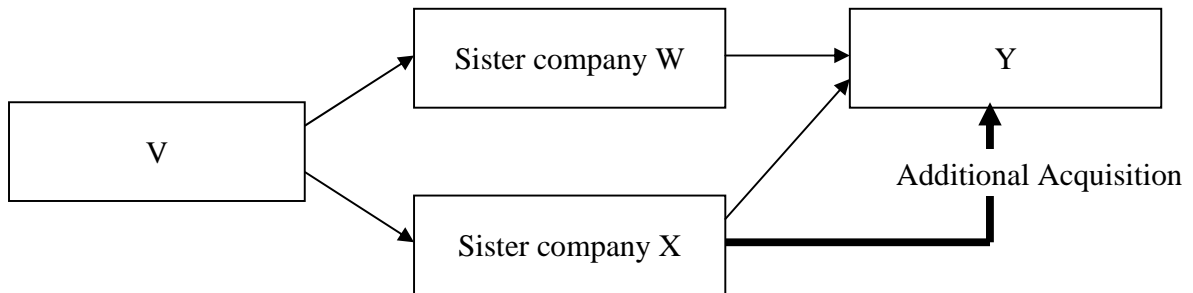
C. A company acquires the voting rights of its sister company (In these Guidelines, a “sister company” means companies of which the same company holds more than 50 % of their total stockholders’ voting rights.)



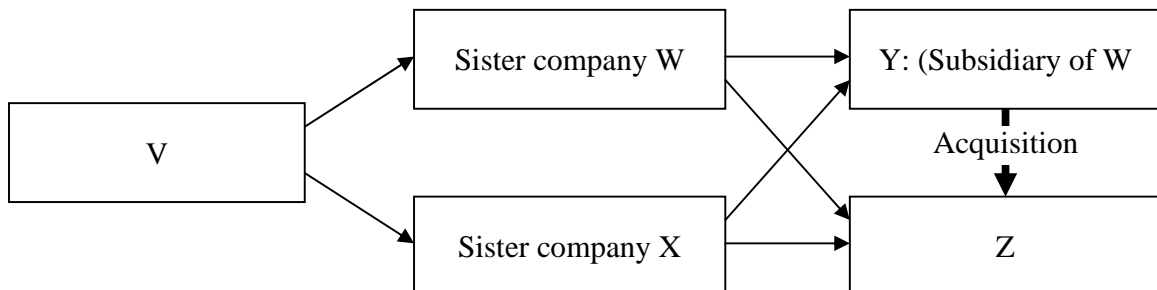
D. A company acquires the voting rights of a subsidiary of its sister company



E. A company acquires the additional voting rights of another company more than 50 % of whose total stockholders' voting rights are held by the acquiring company and its sister company jointly



F. A company acquires the voting rights of another company where two or more sister companies hold jointly more than 50 % of the total stockholders' voting rights of the acquiring and acquired company respectively



(Note 1) If

(a) a parent company and its subsidiary hold jointly more than 50 % of total stockholders' voting rights of a company or

(b) a subsidiary holds solely more than 50 % of total stockholders' voting rights of a company, the company is treated as a subsidiary of the parent company. This definition is adopted hereinafter except for the "subsidiary" mentioned in 2 (4) B (a), 3 (3) A, 4 (4) A and 5 (4) A.

2. Interlocking Directorates

(1) Scope of Officers

An "officer" is defined in Section 2 (3) of the Act as "a trustee, director, executive, employee with executive power, an auditor or any person with a similar position, a manager or other employee in charge of business of the main or branch office". Thus, officers are directors

and auditors of joint stock companies and mutual companies; employees who execute the business of ordinary partnership, limited partnership, or limited liability company; managers defined by the Corporate Law (Section 10 of Corporate Law) and other employees who are regarded to have similar executive power to the managers under the Corporate Law (such as the general manager of a head office, a branch manager, the head of a business division) and the like.

A “person with a similar position” means a person, while not directors or auditors, with the title of adviser, counselor, consultant or others who actually participates in the management of the company by attending board of directors’ meetings or other measures.

A person having only the title of division manager, department manager, section manager or supervisor is an employee, not an “officer”.

Further, the restriction on interlocking directors will not apply if an officer or an employee of a company completes retirement procedures and is then appointed as an officer of another company.

(Note 2) Section 13 (1) of the Act defines in the parenthesis an “employee” as “a person other than officers in the regular employment of a company.” While temporary employments are not included, temporary loan employees are included as employees.

(2) Joint Relationships through Interlocking Directorates

A. In the following cases, a joint relationship is formed, maintained or strengthened as an officer or an employee of a company serves concurrently as an officer of another company and that interlocking is within the scope of the review of business combination.

(a) The officers or employees of one company comprise a majority of the total number of officers of another company.

(b) Interlocking directorates hold the rights of representation of both companies.

B. Excluding item A above, the following items will be taken into consideration to determine whether a joint relationship is formed, maintained or strengthened.

(a) Whether there is interlocking directorate formed by the full-time or representative directors

(b) The ratio of officers or employees of one of the interlocking companies to the total number of officers of one of the other interlocking companies

(c) Mutual holding of voting rights conditions between the interlocking companies

(d) The trading relationships (including financial relationships), business alliance and other relationships between the interlocking companies

(3) Scope of Joint Relationships

When a joint relationship is formed, maintained or strengthened between interlocking companies through interlocking directorates, a joint relationship are formed, maintained and strengthened between companies including companies that already have joint relationship with the interlocking companies.

(4) Interlocking Directorates which are not within the Scope of the Review of Business Combination

A In such cases as the following, a joint relationship is not formed, maintained or strengthened so that in general it is not within the scope of the review of business combination.

(a) No one but persons who do not have the right of representation serve concurrently as officers, and in either of the interlocking companies the ratio of officers or employees of the other company to the total number of its officers is 10 % or less.

(b) No one but persons other than full-time officers serve concurrently in companies with 10 % voting rights holding ratios or less, and in either of the interlocking companies the ratio of officers or employees of the other company to the total number of its officers is 25 % or less.

B. In the cases of item (a) and (b) below, a joint relationship is not formed or strengthened so that in general it is not within the scope of the review of business combination. In addition, even in the cases of item (c) to (f) below, a joint relationship is not formed or strengthened so that in general most of them are not considered within the scope of the review of business combination. However, in the case of that a joint relationship is formed or strengthened with other shareholders, such joint relationship is subject to the review of business combination.

(a) Interlocking directorates between a company and its subsidiary

(b) Interlocking directorates between sister companies

(c) Interlocking directorates between a company and a subsidiary of the company's subsidiary

(d) Interlocking directorates between a company and a subsidiary of the company's sister company

(e) Interlocking directorates between a company and a subsidiary whose total stockholders' voting rights are held, by more than 50 %, by the company and its sister company

(f) Interlocking directorates between companies where two or more sister companies of an identical company hold jointly more than 50 % of the total stockholders' voting rights of the both interlocked company respectively

3. Mergers

(1) Mergers

In a merger, two or more companies combine to form a single company. Therefore, a merger is the strongest joint relationship that can be formed between companies. Consequently, even if a certain joint relationship formed through stockholdings or interlocking directorates may be deemed not to have a strong impact on competition nor to cause a problem, such a joint relationship could be strengthened through a merger under the same set of circumstances, and the merger could present a problem.

(2) Scope of Joint Relationships

When a merger is conducted, a joint relationship is formed, maintained or strengthened between the parties and the companies which have already formed a joint relationship with the parties.

(3) Mergers which are not within the Scope of the Review of Business Combination

In the cases of item A to C below, a joint relationship is not formed or strengthened so that in general it is not within the scope of the review of business combination. In addition, even in the cases of item D to G below, a business combination is not formed or strengthened so that in general most of them are not considered within the scope of the review of business combination. However, if a joint relationship is formed or strengthened among other shareholders; such a joint relationship is within the scope of the review of business combination.

A. Mergers between a company and its subsidiary

B. Mergers between sister companies

C. Mergers implemented solely for the purpose of conversion of a joint stock company to an ordinary partnership, limited partnership, limited liability company or mutual company, conversion of an ordinary partnership to a joint stock company, limited partnership or limited liability company, conversion of a limited partnership to a joint stock company, ordinary partnership or limited liability company, conversion of limited liability company to a joint stock company, ordinary partnership, or limited partnership or conversion of a mutual company to a joint stock company

D. Mergers between a company and a subsidiary of the company's subsidiary

E. Mergers between a company and a subsidiary of the company's sister company

F. Mergers between a company and a subsidiary whose total stockholders' voting rights are held, by more than 50 %, by the company and its sister company

G. Mergers between companies where two or more sister companies of an identical company hold jointly more than 50 % of the total stockholders' voting rights of the both merged company respectively

4. Demerger

(1) Joint Establishment Type Demerger / Absorption Type Demerger

A joint establishment-type demerger or an absorption-type demerger (hereinafter referred to as the "demergers") has an impact on competition similar to a merger in the sense that business (entire business or substantial part of it) which will be split off from the splitting company are integrated with the succeeding company.

It is determined in the light of the criteria of Section 1 ("Stockholding") whether or not a joint relationship is formed, maintained or strengthened between the succeeding company and the company which is to be allotted the shares of the said succeeding company.

(2) Scope of Joint Relationships

If a joint relationship is formed, maintained or strengthened through demergers between the succeeding company and the company which is to be allotted the shares of the said succeeding company, a joint relationship is formed, maintained and strengthened between the

succeeding and the allotted company and the companies which have already had a joint relationship with them.

(3) Substantial Part of Business

The “substantial part” mentioned above does not mean substantial part for the succeeding company but for the splitting company. Moreover, it is limited to the case in which the split portion of the business must function as a single business unit, and the portion is objectively deemed to have a value to the business of the splitting company.

Consequently, whether a split business constitutes “substantial part” or not is examined on a case-by-case basis according to the actual state of the split business in the market. However, if the annual sales (or turnovers correspond to it. The same hereinafter.) of the split business does not exceed 5 % of the total sales of the splitting company nor one hundred million yen, this split business is not considered to be “substantial part” in general.

(4) Demergers which are not within the Scope of the Review of Business Combination

In the cases of item A and B below, a joint relationship is not formed or strengthened so that in general it is not within the scope of the review of business combination. In addition, even in the cases of item C to F below, a joint relationship is not formed or strengthened so that in general most of them are not considered within the scope of the review of business combination. However, in the case of that a joint relationship is formed or strengthened with other shareholders, such joint relationship is subject to the review of business combination.

A. Joint establishment type demergers / Absorption type demergers between a company and its subsidiary

B. Joint establishment type demergers or absorption type demergers between sister companies

C. Joint establishment type demergers or absorption type demergers between a company and a subsidiary of the said company’s subsidiary

D. Joint establishment type demergers or absorption type demergers between a company and a subsidiary of the said company’s sister company

E. Joint establishment type demergers or absorption type demergers between a company and a subsidiary whose total stockholders' voting rights are held, by more than 50 %, by the company and its sister company

F. Joint establishment type demergers or absorption type demergers between companies where two or more sister companies of an identical company hold jointly more than 50 % of the total stockholders' voting rights of the both demerged company respectively

5. Acquisitions of Business, etc.

(1) Acquisitions of Business

An acquisition of an entire business has an impact on competition similar to a merger in the sense that business activities of the transferring company are integrated with the acquiring company. Since the transferring company and the acquiring company are not related after the transfer, it is sufficient to examine conditions when the acquired business is newly added to the acquiring company. Acquisitions of substantial part of business or fixed assets of business are examined in a similar manner.

(2) Scope of Joint Relationships

A joint relationship is formed, maintained or strengthened between companies including companies that already have a joint relationship with the acquiring company.

(3) Substantial part of Business

Concerning an acquisition of substantial part of a business or a fixed asset of a business, the idea of the "substantial part" is the same as mentioned in item 4(3) above.

(4) Acquisitions of Business which are not within the Scope of the Review of Business Combination

In the cases of item A to C below, a joint relationship is not formed or strengthened so that in general it is not within the scope of the review of business combination. In addition, even in the cases of item D to G below, a joint relationship is not formed or strengthened so that in general most of them are not considered within the scope of the review of business combination. However, in the case of that a joint relationship is formed or strengthened with other shareholders, such a joint relationship is within the scope of the review of business combination.

A. Transfer of a business or fixed asset of business (hereinafter referred to as "acquisitions of business") between a company and its subsidiary

B. Acquisitions of business between sister companies

C. Acquisitions of business which is a split-off of a corporate division effected through 100 % capital investment

D. Acquisitions of business between a company and a subsidiary of the company's subsidiary

E. Acquisitions of business between a company and a subsidiary of the company's sister company

F. Acquisitions of business between a company and a subsidiary whose total stockholders' voting rights are held, by more than 50 %, by the acquiring company and its sister company

G. Acquisitions of business between companies where two or more sister companies of an identical company hold jointly more than 50 % of the total stockholders' voting rights of the acquiring and acquired company respectively

(5) Leasing of Business

Leasing of business (conduct of a lessee to manage a leased business under its name and calculations, and pay leasing fees to the lesser in fulfillment of a leasing contract), delegation of management of a business (conduct of a company to delegate management of a business to another company in fulfillment of a contract), and contracts to share the total profits and losses of a business (contracts between two or more companies agreeing to share the total profits and losses of a business for a specific period) will be treated as acquisitions of business similarly.

Unlike what is described in item (1) above, a joint relationship can be formed, maintained or strengthened between companies and those which already have a joint relationship with them, depending on the content of the contracts.

Part II. A Particular Field of Trade

Concerning a business combination that would be the subject of the review in relation to Part 1, the business activities of all companies that would form, maintain, and strengthen the joint relationships by the business combination (hereinafter, "the company group") are reviewed,

so that the impact of the business combination on competition in a particular field of trade will be determined in accordance with the perspectives set forth in Parts 3–5

The following clarifies the criteria of judgment concerning the definition of a particular field of trade in such a case:

1. Basic Point of View for the Scope of a Particular Field of Trade

A particular field of trade is to show the scope to determine whether the effect of the business combination may be to restrain competition, and is determined, in principle, by the viewpoint of the substitutability for the users regarding the product range (including service; hereinafter “product” will include service) which are the subject of a particular trade, the range of trading areas (hereinafter called “geographic range”), and etc.

Further, when necessary, the viewpoint of the substitutability for suppliers is also considered.

When examining the substitutability for users, the JFTC will suppose that a specific product is supplied by a monopolist in a specific region. Then, under this assumption, it considers the degree of users’ substitution of an alternative product or region for the purchase of the product when a small but significant and non-transitory increase in price (Note 1) is implemented by the monopolist with the prospect of maximizing profit. If the degree of substitution of an alternative product or region for the purchase of the product is small, and the monopolist succeeds in expanding its profits from the price increase, it can be defined that the scope is such that the effect of the business combination may have some impact on competition.

Regarding substitutability for suppliers, the JFTC will consider the degree of possibility that other suppliers can switch, within a relatively short period of time (mostly within a year), without substantial amount of additional costs and risks, from the manufacturing and marketing of another product or region to those of the product, when a small but significant and non-transitory increase in price is implemented for the product and region. If the degree of such substitution possibility is small, and thus, the monopolist is able to expand their profit through the price increase, the scope would be such that the effect of the business combination may have some impact on competition.

In addition, it can happen that a particular field of trade is constituted by a product range (or geographic range, etc.) while at the same time another one is constituted by a wider (or narrower) product range (or geographic range, etc) overlappingly according to the form of trade. Moreover, in a case where the company group is operating wide-ranging businesses, the product range and the geographic range will be defined respectively for each of the whole businesses.

(Note 3) A “small but significant and non-transitory” increase in price is generally a price increase with the rate of between 5% and 10% that persists for about a year. However, these figures should only be used as a guide, and should be respectively considered for each case.

2. Product Range

The product range is defined by the perspective of product substitutability for users, as previously described in Section 1. The degree of product substitutability is very often matches the degree of similarity of the utility of users and such, so that the latter measure can often be applied to determine the degree of product substitutability.

For example, if there is Product X and Product Y, and the more similar the utility and such of the two products for users is, the more likely it is that users would purchase Product Y in place of Product X when the price of Product X has been raised. Thus, it is predicted that the price increase of Product X would not lead to the expansion of its producers' profits, and it could consequently be considered that Product Y will prevent the price increase of Product X. In such cases, Products X and Y are considered to be in the same product range.

In these cases, the users mean those to whom business activities of a company group are directed. If a company group manufactures producers' goods, the users mean companies that process the goods into products at the next level. If a company group manufactures consumers' goods, the users mean general consumers. If a company group is a distributor, the users mean companies in the succeeding distribution level.

Furthermore, for example, when the utility and such of a product X and a product group Y appears similar for users in a certain application and the utility and such of a product Z which belongs to the product group Y shows especially strong similarity with those of the product X for a specific application, then there is a case that the product range is comprised of the product X and the product group Y and simultaneously of the product X and the product Z.

In addition, when defining the product range, besides the substitutability for users, if necessary, it would also be considered whether suppliers are able to switch the manufacturing and marketing of one product to another without substantial amount of additional costs and risks within a short period of time. For example, as a result of assessing the difference of the facilities for supply or the level of switching costs of supply between Product X and Product Y, if it is expected that a wide range of producers of Product Y is able to switch their production facilities, marketing networks, etc. to those of Product X in a short period of time without much additional costs and risks, had a price raise of Product X occurred, there would be a case in which the product range is defined by Product X and Product Y.

When assessing the degree of similarity of product's utility for users and such, the following criterion will be considered.

(1) Application

It is considered whether a product is, or is possible to be, employed for the same application to the product traded.

To determine whether both products are employed for the same application, the following factors are considered: external features such as size and form, specific material character such as strength, plasticity, heat-resistance and insulation, quality such as purity, technical features such as standards and systems. (However, there is a case in which both products are considered to be for the same application even though the above factors are different to a certain extent. (See (3) later))

When the product traded is employed for several applications, it is considered for each application whether any other products are actually or possibly employed for the same application. For instance, the products X and Y are regarded to provide similar utility for users and such in a certain application and products X and Z are regarded to provide similar utility and such for another application.

(2) Changes of the Price, Quantity and so on

There is a case in which the difference of price levels, the changes of the price, quantity, etc. are considered.

For example, the products X and Y can be used for the same application, but since the price levels of the products are different, the product Y is rarely used as a substitute for the product X. In such a case, it can not be considered that the products X and Y provide similar utility and such.

In the meantime, there is a case when the products X and Y can be used for the same application and their price levels are not different, but the product Y is rarely used as a substitute for the product X in practice because, to substitute product Y for X, some costs are required to change the facilities or educate the employees. In such a case, it can not be considered that the product X and Y provide similar utility and such.

On the other hand, when products X and Y provide similar utility and such, if the price of product X is increased, users tend to purchase the product Y and the price of product Y is likely to increase. Therefore, if the sales or the price of product Y increases in response to an increase in the price of product X, it can be considered that products X and Y provide similar utility and such.

(3) Recognition and Actions of the Users

There is a case in which the recognition etc. of the users are considered.

For instance, even though the specific material characters of the product X and Y are different, there could be a case in which users can use either of them as raw materials to produce

the product Z of the same quality. In such a case, it is considered that the product X and Y provide similar utility and such.

It is also considered that whether a user substituted product Y for X when the price of product X was increased in the past.

3. Geographic range

The geographic range, as well as product range, is also determined from the viewpoint of substitutability for users between the products supplied in each area. The degree of substitutability between the products supplied in each area can very often be determined by the behavior of users and suppliers, and the existence of problems regarding the transportation of the product.

For instance, when suppliers of a certain product in Region X raised the price of the product, if such price increase in Region X is to be prevented because it is expected that the users in Region X will purchase the product from the suppliers in Region Y without having troubles with transportation of the product, it is determined that Region X and Region Y belong to the same geographic range.

Accordingly, similar to the case of the determination of the product range, there is a case in which the geographic range is determined both as the region X and as the region Z, which is a part of the former, if the users in the region Z especially tend to purchase a certain product from the suppliers in the region Z.

Moreover, besides the substitutability for users, the substitutability for producers is determined based on the point of view for product range as described in the previous Section 2.

In the meantime, in such cases as users inside and outside of a territory usually trade a certain product regardless of whether the geographic location of suppliers is inside or outside of the territory, even if the price of the product is raised in Japan, it is possible that the price increase is prevented because users in Japan can substitute the purchase from overseas producers for the purchase of the product in Japan, alternatively. In such a situation, the geographic range is defined across the national border.

To assess the behavior of users and suppliers and the existence of problems regarding the transportation of the product, the following factors are considered.

(1) Business Area of Suppliers, the Area for Users to Purchase etc.

In assessing the range of the region where users can usually purchase the product, the area around which users purchase the product (purchase behavior of consumers, etc.), the business area such as distribution network of suppliers and their supplying capacity, etc. are considered.

It is also considered from which region's suppliers the users purchased the product when the price of the products in a certain region was increased in the past.

(2) Features of Goods

The features of goods such as perishability, heaviness and fragility affect the range of transportation or the degree of difficulty to transport. Concerning this effect, it is considered in which regions the users can purchase the goods in general.

(3) Type or Cost of Transportation

The range of regions the users can normally purchase the goods is also considered based on the types of transportation, the proportion of the transportation cost to the price of goods, and whether the transportation cost is larger than the price difference between the regions of the origin and the destination.

In addition, in assessing the factors that increase the transportation-related costs, the regional differences in costs other than transportation-related costs will also be considered including regional differences in raw material costs.

4. Others

Depending on the reality of trade between the company group and its trading partners, distribution levels, the character of the transaction with specific trading partner and so on are considered to delineate a particular field of trade on the same criteria as the section 2 and 3 above.

For example, there could be a case in which the users who trade the product X with the company group are divided into large-scale customers and the small-scale ones, and peculiar trade conditions apply for respective customer groups. In such a case, if the price of the product X for the small-scale customers is increased, they can not purchase the product X for the large-scale customers because of constraints on transportation, etc. and the product X for the latter can not prevent the price increase of the product X for the former. Then, a particular field of trade for large-scale customers and small-scale ones are determined respectively.

Part III. The Effect May be Substantially to Restrain Competition

1. Interpretation of "The Effect May Be Substantially to Restrain Competition"

(1) Interpretation of "Substantially to Restrain Competition"

In a precedent (decision of the Tokyo High Court on December 7, 1953 concerning Toho Company, Limited, et al), the following interpretation concerning "substantially to restrain competition" was held.

A. Shin-Toho Company Limited (hereinafter referred to as "Shin-Toho") was capable of distributing the films it produced through its own network. However, an arrangement with Toho Company, Limited (hereinafter referred to as "Toho") consigned all film distribution to Toho and limited Shin-Toho solely to production of films. Shin-Toho continued to adhere to the terms of the arrangement even after the agreement had expired. However, in November 1949 Shin-Toho stated that it would independently distribute the films it produced because of the expiration of the arrangement, which caused a dispute with Toho. As a result of this dispute, a hearing procedure was initiated by the JFTC on the ground that the arrangement violated the Act. In conclusion, the JFTC ruled in its decision of June 5, 1951 that the arrangement between Toho and Shin-Toho violated Section 3 (unreasonable restraint of trade) and Section 4-1-3 (See Note 4) of the Act.

Note 4: Section 4-1 of the Act (this provision does not exist in the current Act)

“Entrepreneurs shall not jointly engage in the following particular concerted practice”

Section 4-1-3 “concerned actions to restrain technologies, products, distribution channels, or customers”

B In response to the plaintiff's (Toho's) motion to quash the decision of the JFTC, the Tokyo High Court ruled concerning substantial restraint of competition that "substantially to restrain competition means to bring about a state in which competition itself has significantly decreased and a situation has been created in which a specific firm or a group of firms can control the market by determining price, quality, volume, and various other terms with some latitude at its or their own volition."

(2) Interpretation of “The Effect May Be”

The provisions of Chapter 4 of the Act differ from the provisions of Section 3 and 8 of the Act, and prohibit business combinations where “the effect may be” substantially to restrain competition in any particular field of trade. This "the effect may be" does not mean that substantial restraint of competition will inevitably result from the business combinations. Rather, it means that it is probable that conditions which could easily lead to substantial restraint of competition are furthered by the business combination. Consequently, if the market structure is altered to a non-competitive manner by the business combination, and conditions that would allow the company a certain latitude to manipulate price, quality, volume, and other conditions by acting unilaterally or coordinately with other companies are easily led to presence, then the effect of the business combination may be substantially to restrain competition in a particular field of trade, and it is prohibited by Chapter 4 of the Act.

2. Type of Business Combination and Substantial Restraint of competition

There are various types of business combinations. Those are divided into the following categories.

(1) Horizontal business combinations (The business combinations between the companies in the same particular field of trade. The same hereinafter.)

(2) Vertical business combinations (The business combinations between the companies which are in the different level of trade such as producers and its distributors. The same hereinafter.)

(3) Conglomerate business combinations (The business combinations which are neither horizontal nor vertical ones. For instance, mergers between the companies which belong to the different categories of business, or stock holdings between the companies whose product range are in the same particular field of trade but whose geographic range are different. The same hereinafter.)

Horizontal business combinations reduce the number of competing units in a particular field of trade. Thus they have the most direct effect on the competition and higher possibility to have the effect that may be substantially to restrain competition than vertical and conglomerate business combinations. On the other hand, vertical and conglomerate business combinations do not reduce the number of the units. Then they have less impact on the competition than horizontal ones and, except for some particular cases, the effect of them may not be substantially to restrain competition in general.

Depending on the types of business combinations, the JFTC uses different frameworks or determining factors to consider whether the effect of business combinations may be substantially to restrain competition.

In the following Parts, the frameworks or the determining factors are explained for each type of business combinations, that is, horizontal, vertical and conglomerate one.

In addition, if a business combination is composed of, for example, the horizontal and vertical aspects, the effects of each aspect are examined based on the frameworks or the determining factors for the horizontal and vertical combinations respectively.

Part IV. The Effect of Horizontal Business Combination May be Substantially to Restrain Competition

1. Basic Framework

As mentioned above, horizontal business combinations reduce the number of competing units in a particular field of trade. Therefore, they have the most direct effect on the competition

and it is more likely that the effect of the combinations may be substantially to restrain competition.

There are two possibilities that the effect of horizontal business combinations may be substantially to restrain competition: Through a unilateral conduct by the company group and through a coordinated conduct between the company group and its one or more competitors (hereinafter referred as “competitors”). Individual cases should be reviewed in respect of these two conducts. Therefore, there will be a case, for example, in which the effect of a business combination may be substantially to restrain competition from a viewpoint of a coordinated conduct even though it will not have such an effect from a viewpoint of a unilateral conduct.

(1) Substantial Restraint of Competition by Unilateral Conduct

The typical cases in which the effect of horizontal business combinations may be substantially to restrain competition in a particular field of trade by means of unilateral conducts is as follows, depending on whether goods are homogenous or differentiated in the field.

A. When Goods are Characterized to be Homogenous

When goods are characterized to be homogenous, if the company group raises the price of the goods and the other companies do not, the users of the goods will switch the suppliers to the other companies and, in general, the sales of the company group will decrease and the sales of the others will increase. Therefore, in many cases, it is difficult for the company group to control the price etc. freely to a certain extent.

However, due to reasons that, for example, the production or sales capacity of the company group is large whereas that of the other companies are small, if the company group raises the price of the goods, there are cases in which the other companies can not increase their sales without raising their prices or the users can not switch their suppliers to these other companies.

In such cases, a situation easily emerges where the company group can control the price etc. freely to a certain extent. As a result, the effect of the horizontal business combinations may be substantially to restrain competition.

B. When Goods are Characterized to be Differentiated

When goods are characterized to be differentiated by brands etc. and the price of one brand of the goods is increased, the users of the brand do not necessarily intend to buy other brands of the goods indiscriminately instead of the brand. On the other hand, the users may buy another brand of the goods which is next preferable to the first brand, in other words, which has the higher substitutability to the first one.

In such a case, even though the company group increases the price of the first brand goods, if the group sells the second brand goods which have the high substitutability to the former, the increase of the sale of the latter compensate the loss of the sale of the former. Then, it is possible for the company group to increase the price without decreasing of the total sales of it.

Therefore, when goods are differentiated by brands etc, if the business combinations will be made between the companies which sell the substitutable goods between each other, and other companies do not sell such goods, a situation easily emerges where the company group can control the price etc. freely to a certain extent. As a result, the effect of the horizontal business combinations may be substantially to restrain competition.

(2) Substantial Restraint of Competition by Coordinated Conduct

The typical case where the effect of the horizontal business combinations may be substantially to restrain competition through the coordinated conduct is as follows.

For instance, when company X raises its price, other companies Y and Z will try to increase their sales without raising their prices. In response to it, company X, in general, will cut its price to the previous level or the lower, and try to retrieve the sales from companies Y and Z.

However, in addition to the reduction of the number of competitors, because of the market structure such as the concentration of the particular field of trade, the character of goods or the trade practices etc, there could be cases where the companies will be able to expect each other's behavior with high probability and their coordinated conduct bring the profits to them. In such cases, when the price rise by company X is followed by the price rise of other companies, even though company Y keeps the price at the original level in order to gain additional sales, the other companies will be able to detect the deviation behavior from the coordinated conduct of company Y easily and likely to reduce their price to the original level or to the lower in order to retrieve the sales which was once gained by company Y. As a result, the expected profit which would otherwise be gained by the company Y temporally when it keeps its price is much less than the expected profits which would be gained if company Y raises its price following the price rise by company X.

If such circumstances are created by the business combination, coordinated price increase is much more profitable for each company than trying to gain additional sales by keeping the price at the original level. Thus, a situation easily emerges where the company group can control the price etc. freely to a certain extent by means of the coordinated conduct with its competitors and the effect of the horizontal business combinations may be substantially to restrain competition in a particular field of trade.

(3) The Effect may not be Substantially to Restrain Competition

It is decided in light of the factors described in the Section 2 and 3 below whether the effect of each horizontal business combination may be substantially to restrain competition in a particular field of trade. However, when the company group after the business combination falls under either of the following standard (a) to (c) below, it is normally considered that the effect of a horizontal business combination may not be substantially to restrain competition in a particular field of trade and consequently, analyses concerning each determining factor shown in Section 2 and 3 of Part 4 is generally not considered necessary.

- (a) The Herfindahl-Herschmann Index (hereinafter, “HHI”) after the business combination is not more than 1,500. (Note 5)
- (b) HHI after the business combination is over 1,500 but not more than 2,500 while the increment of HHI does not exceed 250. (Note 6)
- (c) HHI after the business combination is over 2,500 while the increment of HHI does not exceed 150.

Meanwhile, even when a horizontal business combination does not meet the above-mentioned standards, it does not immediately indicate that the effect of it may be substantially to restrain competition and it is indeed decided whether or not depending on each case. In light of past cases, if the HHI is not more than 2,500 and the market share of the company group after the business combination is not more than 35%, the possibility that the effect of a business combination may be substantially to restrain competition is usually thought to be small.

(Note 5) HHI is the sum of the squared market share of each company in a particular field of trade. The market share of each company is the percentage of its sales quantity (in case of the manufacturers) to the total sales quantity in a particular field of trade. However, when it is not suitable to calculate the share based on the quantity because there are considerable price differences among goods and sales achievements are usually calculated on monetary bases, the market share is calculated by the amount of sales.

When there are imports for domestic users, their market shares are calculated as domestic supplies.

Concerning production capacity, percentage of exports or in-house consumption, there are cases in which these excess capacity, exports or in-house consumption will be directed to the sales for domestic market and in turn expanding the market share in response to the domestic demand. Then these excess capacities etc. are taken into consideration if necessary.

For such reasons as market shares of major companies are only partially available, if it becomes difficult to decide whether the figure of HHI went over the threshold shown above, an

approximate figure calculated from the formula below which was obtained from the Production Concentration Survey may be applied.

$(HHI = \text{squared market share of top company (\%)} \times 0.75 + \text{cumulative market shares of top three companies (\%)} \times 24.5 - 466.3)$

(Note 6) The increment of HHI derived from a business combination can be calculated by doubling the multiplied value of each market share of the company group, if it only concerns two parties.

2. The Determining Factors to Decide the Substantial Restraint of Competition through the Unilateral Conduct

To decide whether the effect of a horizontal business combination may be substantially to restrain competition in a particular field of trade through the unilateral conduct, the following determining factors are considered comprehensively.

(1) The Position of the Company Group and the State of Competitors

A. The Market Share and the Ranking

When the market share of the company group after the combination is relatively large, it is more difficult than when the market share of it is smaller, for other companies in place of the company group, to supply sufficiently while keeping the same price level, in response to the company group's attempt to raise the price. Thus it could be said that the constraining power of the other companies for the price rise by the company group would be weaker.

As a result, the larger market share of the company group or the increment of it after the business combination is, the greater the impact of the business combination on the competition is.

Similarly, when the business combination puts the rank of the company group's market share at a high position or raises the rank to a great degree, the combination will have much more impact on the competition.

For example, the business combination, when both companies concerned are at the high positions on the market shares, has much more impact on the competition than when the ones are at the low positions.

In calculating the change of the market share by a business combination, the calculation should in principle be based on the most recently available market shares of the company group. However, if market shares after the business combination is expected to change drastically taking into account of longer-term change in sales quantity and figures, changes in user preferences, speed and degree of technological innovation, state of product obsolescence, fluctuation of market shares, etc. or if competitors are no more regarded as a competitive pressure with the

background of decreasing investments, the impact on competition of a business combination is determined by including these factors as well.

B. Competition among the Parties etc. in the Past

There are cases where vigorous competition among the parties, or parties' actions which enhance market competition lead to the reduction of market prices or the improvement of the quality or variety of goods. In such cases, even though the combined market share of the parties or its rank is not high, the business combination bring the large impact on the competition when this combination eliminates the possibility of the price reduction or the quality improvement as above mentioned.

For example, there could be a vigorous competition between the parties of the company group such that the expansion of the market share of one party causes the reduction of the market share of the other party before the combination. In such a case, after the combination, as the loss of the sales of one party of the company group would be compensated by the increase of the sale of the other, the parties will be able to raise the price of goods without losing the sales of the group as a whole, then this business combination has a large impact on the competition.

When goods are differentiated by brands and there is high substitutability between the goods sold by the parties, the sales loss of one of goods would be compensated by the sales increase of the other goods after the combination. As a result, the company group will be able to raise the price of goods without losing the sales of the group as a whole, then this business combination has a large impact on the competition.

C. Treatment of Joint Investment Company

If certain business department of the investing companies completely spun off by consolidation into the joint investment company, the connection between the business of the investing companies and that of the joint investment company would be considered to be weak.

Therefore, when all of the business such as the production, sale, research and development etc. for certain goods are spun off by the consolidation into the joint investment company, the market share, rank etc. of the joint investment company itself would be considered in the review.

On the other hand, if a part of certain business departments of the each investing company is transferred to the joint investment company, there is a possibility that the coordinated relationship between the investing companies would arise through the operation of the joint investment company. To determine whether the coordinated relationship between the investing companies would emerge or not, the specific contents of the investing contract, the

actual conditions of the combination and the transactions between the companies if any are considered.

Suppose that, the production sections of goods are transferred to the joint investment company while each of the investing companies continues to sell goods. When the coordinated relationship between these investing companies would occur through the operation of the joint investment company, the impact on the competition is considered by taking such means as summing up market shares of the investing companies. On the other hand, even though the investing companies continue to sell goods after founding the joint investment company, when some measures are taken to prevent coordinated relationship between these investing companies from arising through the operation of the joint investment company, there will be much less impact on the competition. (See 3 (1) D later)

D. Market Share Differences from the Competitors

When the combined market share of the company group has relatively larger difference from those of competitors, it is more difficult for the competitors in place of the company group, without the price increase, to supply goods sufficiently in response to the company group's attempt to raise the price. Thus the competitors' constraining powers for the price rise of the company group would be weakened.

Therefore, the larger the market share differences between the company group and the competitors are, the bigger the impact of the business combination on the competition is.

On the other hand, after the business combination, when there are the competitors with the market shares equal to or higher than those of the company group, these competitors could be the factors which prevent the company group from controlling the price etc. freely to a certain extent.

Concurrently, in considering the market share differences from the competitors, the excess capacity of the competitors and the degree of substitutability between goods sold by the company group and the competitors are considered. (See E below)

E. Excess capacity and the Degree of Differentiation

When the company group raise the price of goods, if the excess capacity of the competitors is not sufficient, it is not easy for the competitors, without increasing the price, to expand the sales of goods. Thus the competitors' constraining powers for the price rise by the company group could be weakened. In this manner, even though the market share differences between the company group and the competitors are not large, it could be considered that the business combination's impact on the competition would not be small when the excess capacity of the competitors are not sufficient.

In the mean time, when goods are differentiated by brands and there is high substitutability between goods sold by the parties, the degree of substitutability between goods sold by the competitors and the company group is considered. When the substitutability is small, even though the market share differences between the company group and the competitors are not large, it could be considered that the business combination's impact on the competition would not be small.

F. How Products are Treated in Case Their Geographic Range is Defined across the National Border

As a result of the examination of the criteria of a particular field of trade described in Part 2, products whose geographic range may be defined across national border, would include, for instance, those with small differences in institutional and transporting conditions between domestic and international trade and such that domestic and overseas products are very much substitutable regarding their quality, etc. as well as an established international price indicator exists through commodity exchange equivalent to that for mineral resources like nonferrous metal. For such products, market shares and position of the company group, competition among the parties in the past, market share differences from the competitors, and excess capacity and the degree of differentiation in the defined geographic range are altogether considered to determine the impact on competition.

(2) Import

When there is sufficient competitive pressure from imports, the possibility that the effect of business combinations may be substantially to restrain competition in a particular field of trade is usually considered to be small (Note 7).

If the users are in a condition that they can easily switch from a product of the company group to an imported product and the increase of the switchover is highly probable in the case that the company group raises the price of the product, the company group would be unlikely to raise the price in consideration that their sales will go to the import goods.

Whether import pressure is substantial enough can be determined by considering all of the conditions (i)-(iv) concerning imports as described below. Whether the group can freely, to a certain extent, manipulate the price when an increase in imports occurs over a certain period (Note 8), is considered.

(i) Degree of institutional barriers

When assessing import pressures, what needs to be considered is whether or not institutional and legislative regulations such as existing tariffs and other import-related tax

system would operate as a barrier to import the product in the future. If there is no institutional barrier, import pressure tends to play a role as much. However, even if there is an institutional barrier and therefore the current level of import is low, in a case that the barrier is scheduled to be terminated in the near future, import is bound to be easier and import pressure is likely to intensify.

On the other hand, if the case was that there is an institutional barrier that will be maintained, import is less likely to increase and thus import pressure will stay low, when the company group raised the product price.

If the current import quantity is significantly large, it may usually be expected that the institutional barrier is low enough to import products. However, it must be noted that in a case where an import quota system limits the increase of import, the effect of the import pressure will remain limited.

(ii) Degree of Import-Related Transportation Costs and the Existence of Problems in Distribution

If import-related transportation costs are low and there is no distribution problem for importing, it is considered as a favorable environment for import goods when there is a price raise in domestic products.

Meanwhile, for products with high transportation costs such as heavy weight products with little added value, it is possible that incentive to purchase import goods is small for users. When stable supply of import goods cannot be expected because distribution network and other import-related necessities such as storage facilities inside Japan is yet underdeveloped for the import of specific products, users may also keep from purchasing import goods. In such cases, import quantity does not increase when the company group raises the price of the products, and hence import pressure is difficult to work.

It is considered that a currently large import quantity indicates that only a few problems exist regarding transportation and/or distribution.

(iii) The Degree of Substitutability between the Imported Product and the Company Group's Product

If the substitutability of the company group's product with imported product is high, it can give a stronger incentive for users to purchase and to use the imported product.

On the other hand, when there is a quality difference between the company group's product and the imported product, when there is a problem with the assortment of import goods, or when users' familiarity with the use of imported products works as a problem, import goods

may not be chosen by the users. In such cases, it is considered that import will not increase and import pressure will remain low when the company group tries to raise a price.

To assess the degree of substitutability of the company group's product with an imported product, price difference between the company group's product and imported product as well as past history of price and quantity changes may be taken into account.

For instance, in a case where there is a previous record of sales growth of import goods when the company group increased the price of their product, the import product can be considered to have a substantial substitutability.

There are also cases in which degree of substitutability can be determined from the experiences of main users to purchase and to use imported product, their evaluation of the imported product, and their intention to adopt import goods.

(iv) Possibility of Supply from Overseas

It is necessary to assess the likelihood of import increase in case of price rise of the product by the company group.

If the foreign supplier has sufficient excess supply capacity with low production costs, it is considered that import increase is probable in response to the increase in domestic prices. If there is already a specific plan to import foreign products and/or to export products to Japanese users by the foreign supplier, import increase is more likely compared to when there isn't. In addition, when a competitive foreign supplier already has a significant share in the market or has a specific plan to establish a distribution and marketing point to supply products in the near future with high feasibility, the effect of import pressure is considered to be strong.

In other cases such as when there is either a foreign supplier who is ready to switch its export destination of products currently supplied to other foreign markets to Japan or a potential foreign supplier who is likely to enter the market by improving their facility capacity, depending on the domestic price, there is high possibility that import will increase according to the domestic price increase and such can become a factor of import pressure. Furthermore, when there is an increase in supply abroad as a result of expansion of production capacity by competitive foreign suppliers, there will be a fall in overseas market price that creates an international price difference between domestic and overseas prices. This can also be further import pressure.

(Note 7) The assessment of import pressure is applied to the assessment of competitive pressures concerning product supply from outside the geographic range defined by Section 3 of Part 2. If an area across the national border is determined as the geographic range, product supply from another area to the relevant geographic range can be regarded as "import" in this section.

(Note 8) The period is generally considered to be two years, but it can be shorter or longer than two years depending on the characteristics of the industry. This note is applied similarly in the following section (3) .

(3) Entry

When entries are easy and it is likely that new entrants will appear to gain profit by selling the relevant products at a lower price if the company group raises the price, the company group will refrain from increasing the price because of the consideration that their sales will be taken by the entrants. Therefore, if the entry pressure is sufficient enough, it will become a factor to prevent the company group from controlling price, etc. freely to a certain extent.

To determine whether there is sufficient entry pressure, like the analysis related to import in the previous section (2), entry-related conditions (i)–(iv) must all be taken into account to assess whether entry would occur in a certain period of time and become a factor to prevent the company group from controlling price, etc. freely to a certain extent.

(i) Degree of Institutional Entry Barriers

It is necessary to consider whether there are existing legal entry regulations for the product that work as an entry barrier and whether these regulations will persist. If there are none, then entry pressure is likely to work. Moreover, even in cases in which the entry regulations are creating an entry barrier, if the relevant regulations are expected to be removed in the near future, entry will be easy and thus the entry pressure will be more effective.

Meanwhile, if the entry regulations are in fact preventing entry and such condition is sustained, a price increase by the company group would not encourage entry and the entry pressure will remain low.

If there was a recent entry of some extent, it is generally considered that there was no entry regulation or the regulations did not work as an entry barrier in spite of their existence.

(ii) Degree of Entry Barriers in Practice

If the scale of capital necessary for the entry is small and there is no problem regarding technical conditions, conditions for the purchase of raw materials, sales conditions, etc., it is considered to be an environment desirable for entry. Also, if companies that can supply goods without significant change in the production facilities exist, it would be easy to enter the market for the relevant supplier.

On the other hand, in a situation where a considerable amount of capital is required for entry, it would be evaluated on the companies' behavior whether entry would happen when the company group raises the product price.

Furthermore, if potential entrants are placed in a relatively disadvantageous situation for entry in terms of conditions of location, technical conditions, purchasing conditions for raw materials and sales conditions, etc., they will be factors that discourage entry.

Meanwhile, if certain entries were successful recently, it generally indicates that entry barriers would be low in practice.

(iii) Degree of Substitutability between Entrants' Products and Company Group Products

If the product that the entrant is planning to supply and the company group product are mutually highly substitutable, users can purchase and use the entrants' product without hesitation as much.

On the other hand, if it is difficult for the entrant to produce and sell products with quality and assortment equivalent to those of the group's products, or if the entrant's products are not favored due to familiarity issues, entry is less likely to happen, and even if it did occur, it is unlikely for sufficient competitive pressure to exist against the group's products.

(iv) Degree of Entry Possibility

It is necessary to assess the degree of entry probability when the company group increases the price of their product.

If there have already been other suppliers planning entry with sufficient scale or if there are potential entrants who would newly build facilities or renovate them and have a high probability of supplying to the particular field of trade depending on the price in the relevant field of trade, the entry pressure is considered higher than otherwise

Generally, products with dynamic market structure—such as those supplied to a growing market with a high likelihood of enormous demand expansion in the future, those for which technological innovation takes place frequently, those with short life cycles, those with active investment for development of new technology to replace the conventional technology—are subject to a stronger entry pressure than products without.

(4) Competitive Pressure from Related Markets

Competitive conditions in markets related to the particular field of trade determined in Section 2 are also considered. Such markets are, for example, those geographically neighboring to the defined particular field of trade and markets of the products which provide comparable utility to users and such as the goods defined (such goods hereinafter referred to as “competing goods”).

For instance, when there is vigorous competition in the neighboring markets, it will be evaluated as a factor which stimulates competition in the particular field of trade.

A. Competing Goods

When competing goods provide comparable utility to users and such as the product but consist a separated market from it, these competing goods can be a factor which partly prevents the company group from controlling the price etc. freely to a certain extent depending on the comparability of utility and such with the product from the view points of users, prices, distribution networks etc.

B. Geographically Neighboring Market

When a particular field of trade is limited geographically and there is another geographically neighboring market where the same goods are supplied, the competition in the neighboring markets can be a factor which partly prevents the company group from controlling the price etc. freely to a certain extent depending on the closeness of location, distribution style, transportation, scale of the competitors.

(5) Competitive Pressure from Users

Competitive pressure in a particular field of trade may emerge from users who are positioned in the next stage. If users have a countervailing bargaining power against the company group, through business relations, it can be a factor that partly prevents the company group from controlling the price, etc. freely to a certain extent. To determine whether there is competitive pressure from the users, the conditions listed below concerning business relations between the company group and users need to be considered.

A. State of Competition among the Users

If competition of users' product market is active, users would be likely to demand as low prices as possible to purchase the product.

As for the business combinations between raw materials producers, for instance, when the competition in the finished goods' markets is vigorous, the finished goods' producers who are the users of the raw materials try to purchase them as cheaply as possible in order to reduce the price of the finished goods. As the company group is likely to lose their sales significantly if it raises the price in such a situation, the competition in the next stage can be a factor which partly prevents the company group from controlling the price etc. freely to a certain extent.

B. Ease of Changing Suppliers

If users can easily switch from one supplier to another and gain the bargaining power in price negotiations by showing the possibility of switching suppliers, it may be said that there is

competitive pressure from the users. For instance, in cases where bargaining power of the users are strong from the ways of procuring the product, the dispersion of suppliers or degree of switching difficulty, such as when users are competitively selecting suppliers by e-commerce or bidding, when they can easily switch to a self-manufacturing alternative, when buyer power is created by the ease of changing suppliers broadly including other products, or when the user purchases a large volume and deal with multiple suppliers like large-scale mass merchandise stores, it can be a factor which partly prevents the company group from controlling the price etc. freely to a certain extent.

(6) Overall Business Capabilities

After the business combination, if the overall business capabilities of the company group such as raw material procurement ability, technological capability, marketing capability, credit worthiness, brand popularity, and advertising capability increases, and the competitiveness of the company increases greatly due to the combination and the competitors are expected to experience difficulty in taking competitive action as a result, this should also be taken into consideration when determining the company's impact on competition.

(7) Efficiency

When improvements of efficiency, through economy of scale, integration of production facilities, specialization of factories, reduction in transportation costs, efficiency in research and development, etc, is deemed likely to make the company group to take competitive conduct after the business combination, this factor will also be considered to determine the impact of the business combination on competition.

Efficiency to be considered in this case is determined from three aspects: (i) efficiency should be improved as an effect specific to the business combination, (ii) improvement of the efficiency should be materialized, and (iii) improvement of the efficiency contributes to enhance users' welfare.

Business combinations that create a state of monopoly or quasi-monopoly are hardly ever justified by their efficiency.

(i) Improvements of Efficiency Specific to the Business Combination

The improvements of efficiency should be specific to the business combination. Therefore, such factors related to the expected efficiency as economy of scale, integration of production facilities, specialization of factories, reduction in transportation costs, efficiency in research and development like next-generation technology and environment-responsive capabilities cannot be achieved by other means that are less restrictive to the competition.

(ii) The Improvements of the Efficiency Should be Materialized

The improvements of efficiency should be materialized. In this regard, such are to be analyzed, for example, as documents concerning internal procedures leading to the decision of the business combination, explanatory materials for stockholders and to financial markets regarding the expected efficiency, the study created by external specialists concerning the improvement in efficiency, etc.

(iii) Improvements of the Efficiency Contributes to Enhance Users' Welfare

The outcome of improvements in efficiency by the business combination must be returned to users through price reduction in products and services, improved quality, supply of new products, efficiency in research and development such as next-generation technology and environment-responsive capabilities, etc. In this regard, in addition to the materials listed in (ii), such are to be analyzed, for example, as information related to improved capabilities that will bring the effect of price reduction and etc. and past records of realization of price reduction, quality improvement and supply of new products under the competitive pressure from demand and supply side.

(8) Financial Conditions of the Company Group

A. Poor Business Performance etc.

To evaluate the business ability of the company group, financial conditions such as whether business performance of a part of the company group or a business section concerned to the combination is poor or not are also taken into consideration.

Meanwhile, the possibility that the effect of the business combination may be substantially to restrain competition in a particular field of trade is usually thought to be small in such conditions as follows: a party to the combination is in such a situation as in excess of debt or unable to obtain loans for working capital and it is likely to go bankrupt and exit from the market in the near future; In addition, it is difficult to find any company that can relieve the party by a combination which gives less impact on competition than the other party to the combination.

B. Cases that the Possibility that the Business Combination May be Substantially to Restrain Competition is Usually Thought to be Small

Whether or not the effect of a business combination may be substantially to restrain competition is determined by the comprehensive considerations of all the relevant determining factors in each of the specific cases. However, in the following cases, the possibility that the

effect of a horizontal business combination may be substantially to restrain competition in a particular field of trade by unilateral conducts is usually thought to be small.

(a) A party to the combination is in excess of debt or unable to obtain loans for working capital and it is obvious that the party is highly likely to go bankrupt and exit from the market in the near future without the business combination. Furthermore, it is difficult to find any company that can relieve the party by a combination which gives less impact on competition than the other party to the combination.

(b) A business department of a party to the combination is in depression and it is obvious that the party is highly likely to exit from the market in the near future without the business combination. Furthermore, it is difficult to find any company that can relieve the business department by the combination which gives less impact on competition than the other party to the combination.

3. The Determining Factors to Decide the Substantial Restraint of Competition through the Coordinated Conduct

To decide whether the effect of horizontal business combinations may be substantially to restrain competition in a particular field of trade through the coordinated conduct, the following factors are considered comprehensively.

(1) The Position of the Company Group and the State of Competitors

A. Number of the Competitors

When there are few competitors in the particular field of trade or the market share is concentrated into a few leading companies, the behavior of the competitors can be expected with high probability.

Furthermore, when the companies sell homogeneous goods and have similar cost conditions, they tend to take coordinated conduct as they share common interests. In addition, it is easier to predict with high reliability whether competitors take coordinated conduct or not.

Therefore, if the business combination brings such situations mentioned above, there will be large impact on the competition.

B. Competition among the Parties in the Past, etc.

In such cases where the parties have been struggling for each other's market share or one of these parties has been aggressive in cutting prices, the fact that the parties have competed vigorously or their conduct in the market have activated competition may be deemed to contribute to the reduction of prices throughout the market, the improvement of qualities or the

variety of goods. If the combination eliminates such conditions as above-mentioned, it brings large impact on the competition even if the combined market share or the rank of the parties is not high.

C. Excess Capacity of the Competitors

If a company does not have sufficient excess capacity, the opportunities to expand market shares by cutting prices or deprive competitors of their market shares are limited. As a result, the company can not earn large profit by such conducts, so that it is likely to commit to a coordinated conduct with the competitors.

On the other hand, if excess capacity of a company is large while that of competitors is small, when it reduces prices to gain sales, the sales to be deprived of back by competitors through a price reduction in the near future is limited. Therefore, the incentive to commit to a coordinated conduct with the competitors will be smaller since profits from expanded sales are expected through reducing prices.

D. Treatment of Joint Investment Company

If certain business departments of the investing companies are completely spun off by consolidation into the joint investment company, the connection between the business of the investing companies and that of the joint investment company would be considered to be weak.

Therefore, when all of the business such as the production, sale, research and development etc. for certain goods are spun off by the consolidation into the joint investment company, whether the joint investment company itself will be committed to a coordinated conduct with its competitors is examined.

On the other hand, if a part of certain business departments of the each investing companies is transferred to the joint investment company, whether the investing companies are committed to coordinated conducts with their competitors is examined as well.

To determine whether the coordinated conduct of investing companies with their competitors would emerge or not, the contents of the investing contract between the investing companies in terms of the joint investment, the actual conditions of the combination, and the transactions between the investing companies, if any, are considered.

For example, when only the production sections of the goods are integrated into the joint investment company while each of the investing companies continue to sell the said goods, even though measures are taken to prevent coordinated relationship between the investing companies through the operation of a joint investment company, the production cost will become common. As a result, there will be less room for price competition and they will have incentive to commit to coordinated conduct with their competitors including the other investing company. In such a

case, whether the investing companies are expected to take coordinated conduct with its competitors including the other investing company will be examined.

(2) Actual Situation of Trade, etc.

A. Conditions of Trade, etc.

When, for example, a trade association collects and provides such information as sales prices or production quantities of the member companies, and each company can easily know the competitors' terms of trade like price and quantity, it is possible for each company to expect the behavior of the competitors in high probability, and also easy to observe whether the competitors are taking coordinated conducts or not. Furthermore, under these circumstances, if a company cuts its price in order to increase the sales, its competitors are easily aware of it and they are likely to try to recover the sales taken by price cut of the company. As a result, the company has little incentive to take such an action.

On the other hand, when transactions are not in regular bases and the volume of orders are in a large unit, large profit are expected by cutting price and getting such transactions while such opportunities for the contracts are limited. Therefore, the party has little incentive to take coordinated conducts with the competitors and it is difficult to expect the competitors' behavior.

On the contrary, if the transactions are carried out regularly and the volume of orders is small, the coordinated conducts with the competitors are likely to occur.

B. Trend of Demand, Technological Innovation etc.

When the demands are changing significantly or the technological innovation is frequent and the life cycle of goods is short, it is more likely to get large profits by cutting price and increasing sales or depriving the sales of competitors. As a result, there will be less incentive to take coordinated conducts with competitors as well as it will be difficult to expect competitors' behavior, so that coordinated conducts with competitors are not likely to occur.

C. Past Competition Conditions

To determine whether the coordinated conducts will be taken or not, the changes of the market shares or prices in the past are considered as well.

For example, when these changes are large, the coordinated conducts with the competitors are not likely to occur because it is difficult to expect the competitors' behavior.

On the other hand, if these changes are small, it will be easier to expect the competitors' behavior and the possibility is higher that the coordinated conducts will occur. And, for example, when there were coordinated conducts regarding the revision of prices of goods, possibility is higher that the market conditions for trade are prone to coordinated conducts.

(3) Competitive Pressure from Import, Entry, Related Markets, etc.

When there is a significant import pressure, if the companies raise the domestic price, they will lose their sales because of the increase of the imports. Therefore there will be less possibility of the coordinated conducts.

If a significant amount of import is currently flowing into the particular field of trade and production costs, business strategies, etc. of overseas suppliers differ from those of domestic suppliers, it is difficult for them to share their common interests, and therefore, there will be less likelihood of the coordinated conducts. If prices of domestic products have been raised in such a situation, import will increase and it would be difficult for the company group and its competitors to control the price freely, to a certain extent, through coordinated conduct. However, in cases where the foreign company has already established a position in the domestic market, it may be possible that such foreign company would take coordinated action with its competitors including the company group.

In addition, even when the current amount of import is small, if domestic market participants raised the price of the domestic product in a coordinated manner and import increased easily as a result and deprive the sales of domestic products, the possibility of coordinated conduct will become less likely.

Regarding whether import pressure will work or not in case of a price increase by domestic companies, the degree of institutional barriers, the degree of import-related transportation costs and the existence of problems in distribution, the substitutability between imported products and domestic products, and the possibility of supply from overseas are examined from the same perspectives set forth in the previous section 2 (2) (i)–(iv), to determine whether a coordinated price increase would be prevented or not because users are easy to switch from domestic products to imported goods and consequently the import will increase during a certain period of time (Note 8) when the company group and other domestic companies try to raise price in a coordinated manner.

Entry pressures will have a similar influence on the possibility of coordinated conducts. In terms of the likelihood of entry, the degree of institutional entry barriers, the degree of entry barriers in practice, the degree of substitutability between entrants' products and the existing companies' products, and the degree of entry possibility are examined from the same perspectives set forth in the previous section 2 (3) (i)–(iv), to determine whether a coordinated price increase would be prevented or not because entries would occur during a certain period of time (Note 8) when the company group and other companies try to raise price in a coordinated manner.

The competitive pressures from related markets and from users may also be a factor which prevents the coordinated conducts from emerging or the company group and its competitors from controlling the price etc. freely to a certain extent by the coordinated conduct.

For example, in case where the bargaining power of the users in price negotiations is stronger with reflecting the demand and supply conditions, major users' means of procurement, degree of diversity of their suppliers and their ease of switching trading partners, it will often be difficult for the company group and its competitors to commit to coordinated conducts.

(4) Efficiency and the Financial Conditions of the Company Group

Efficiency and the financial conditions of the company group are evaluated based on Section 2 (7) and (8) above.

Part V. The Effect of Vertical and Conglomerate Business Combination May be Substantially to Restrain Competition

1. Basic Framework

As mentioned above, vertical and conglomerate business combinations do not reduce the number of the competitive units. Therefore, they have less impact on competition than horizontal ones, and the effect of them usually may not be substantially to restrain competition except for cases where substantial restraint of competition is caused by closures of or exclusion from markets, coordinated conducts, etc. Similar to horizontal business combinations, vertical and conglomerate ones are also reviewed from both view points of unilateral conducts and coordinated conducts.

(1) Substantial Restraint of Competition by Unilateral Conduct

The typical cases in which the effect of vertical and conglomerate business combinations may be substantially to restrain competition in a particular field of trade by means of unilateral conducts are as follows.

When a vertical combination is completed, it would be profitable for the parties to trade within the company group. As a result, there could be cases where other companies would in fact lose the opportunities to trade actually and the transactions within the company group may raise the problems of closure or exclusivity. Suppose, a manufacturer of finished goods has a large market share and purchases raw materials from many suppliers. When such a manufacturer merges with one of its suppliers and only uses the raw materials from it, the other suppliers are likely to lose their business opportunities with the manufacturer that is their large customer. On

the contrary, suppose a supplier of a raw material has a large market share and supply with many manufacturers of finished goods. When the supplier merges with one of the manufacturers and only supply the raw materials to it, the other manufacturers are likely to lose the business opportunities with their major supplier of raw materials. Similarly, when a strong manufacturer merges with a strong distributor, if it becomes difficult for the other manufacturers to enter unless they establish the distribution network by themselves, the merger will have a large impact on competition.

In addition, even when the company group continues the business with its competitors after the vertical combination, if the competitors are in more disadvantageous position in their business with the group than before and effective competition between them is no longer be expected as a result, the impact on competition will be significant.

When the market share of the company group is large, a situation may easily emerge where the company group will be able to control the price etc. freely to a certain extent resulting from closure or exclusivity on the trade within the company group by the vertical business combination. In such cases, the effect of vertical business combination may be substantially to restrain competition.

A conglomerate business combination may raise the problem of closure or exclusivity when it increases the overall business capabilities of the company group. For example, if the combination increases the company group's business ability such as raw material procurement ability, technological capability, marketing capability, creditworthiness, brand popularity, and advertising capability etc, and its competitiveness is greatly enhanced, its competitors may have difficulty to take competitive actions and the problem of closure or exclusivity may arise.

(2) Substantial Restraint of Competition by Coordinated Conduct

The typical cases where the effect of vertical and conglomerate business combinations may be substantially to restrain competition in a particular field of trade by means of coordinated conducts are as follows.

For example, when a manufacturer and a distributor become combined vertically, manufacturer can obtain the competitors' information of prices and so on through the distributor with joint relationships. As a result, manufacturers which include that of the company group might be able to expect each other's behavior with high probability. In such cases, a situation is likely to emerge where the company group and its competitors will be able to control the price etc. freely to a certain extent; thus the effect of vertical business combination may be substantially to restrain competition.

The same may be true for conglomerate business combinations.

(3) The Effect May not be Substantially to Restrain Competition

It is decided in light of the factors described in Section 2 later whether the effect of each vertical or conglomerate business combination may be substantially to restrain competition in a particular field of trade or not. However, when the market share of the company group after the combination falls within the condition A or B below, the effect of the vertical or conglomerate business combination may not be substantially to restrain competition in a particular field of trade.

A. The market share of the company group after the combination is not more than 10% in all of the particular field of trade where the company group is involved

B. The HHI is not more than 2,500 and the market shares of the company group after the business combination is not more than 25% in all the particular fields of trade that the company group is involved.

Meanwhile, even when a vertical or conglomerate business combination does not meet the above-mentioned standards, it does not immediately indicate that the effect of it may be substantially to restrain competition and it is indeed decided whether or not depending on each case. In light of past cases, if the HHI is not more than 2,500 and the market share of the company group after the business combination is not more than 35%, the possibility that the effect of a business combination may be substantially to restrain competition is usually thought to be small.

2. The Determining Factors to Decide the Substantial Restraint of Competition through the Vertical and Conglomerate Business Combinations

(1) The Determining Factors to Decide the Substantial Restraint of Competition through the Unilateral Conduct

To decide whether the effect of vertical and conglomerate business combinations may be substantially to restrain competition in a particular field of trade through the unilateral conduct, the following factors are considered comprehensively.

A. The Position of the Company Group and the State of Competitors

After the combination, if the size of the market share of the company group is small and the rank of it is also in a low position, there is less possibility that the problems of closure or exclusivity arise.

Also when the difference of the market shares between the company group and the competitors is small or excess capacities of the competitors are large, it is relatively easy for buyers from or sellers to the company group to find the alternative trade partners. Therefore, the possibility is smaller that the problems of closure or exclusivity arise.

B. Import, Entry, Overall Business Capabilities, Efficiency etc.

These factors are evaluated in light of the same standard in Section 2 (2) to (8) in Part IV above.

C. Other Factors

It is also considered that the business combination will eliminate the possibility of potential new entries if a part of the parties are the potential competitors to the other part of the parties.

(2) The Factors to Decide the Substantial Restraint of Competition through the Coordinated Conducts

This is evaluated in light of the same standard in Section 3 (1) to (3), 2 (7) and (8) in Part IV above.

Part VI. Measures to Remedy the Substantial Restraint of Competition

1. Basic Framework

Even though the effect of business combination may be substantially to restrain competition in a particular field of trade, such restraint may be remedied by certain appropriate measures taken by the company group. (Such measures referred to as “remedy(ies)” hereinafter).

It is considered on a case-by-case basis what kinds of measures are appropriate as the remedies. However, the remedies should, in principle, be structural measures like divestiture of business etc. and should basically be ones which recover the lost competition after the combination in order to prevent the company group from controlling the price etc. freely to a certain extent. However, in a market with a drastically-changing market structure through technological innovations, there may be cases where it is appropriate to take certain types of behavioral measures.

In addition, the remedies should be completed before the implementation of the combination in principle.

Even if the remedies are to be taken unavoidably after the implementation of the combination, the deadline for the remedies should be imposed appropriately and definitely. Moreover, to divest the whole or a part of the businesses as remedies for example, it is desirable to decide the counterpart who succeed the business in advance of the implementation of the combination. Otherwise, the parties are required to obtain the permissions from the JFTC in regard with the counterpart of the divestiture.

Furthermore, based on a request from the company group, when the necessity of continuation of the remedies are assessed reflecting the changes in the conditions for competition after the business combination, if it is determined that the effect of the business combination may not be substantially to restrain competition with a change or termination of the remedies, the company group is sometimes allowed to change or terminate them.

2. Types of the Remedies

Typical remedies are illustrated as follows. To make the remedies appropriate, those measures are taken independently or in combinations.

(1) Divestiture of Business etc.

The most effective measures to solve the problems of the substantial restraint of competition by the business combinations are to establish new independent competitors, or to strengthen the existing competitors to be able to have the effective competitive constraint.

Such measures include a divestiture of a part of or whole of the business of the company group or a dissolution of the business combination (such as the cancellation of the voting rights holding, reduction of the holding ratio of voting rights or cancellation of interlocking directorates and so on in another company) and a dissolution of business tie-ups with a third party.

When, as an exceptional example, it is difficult, because of the decrease of demand, to find a partner who takeover a part of or whole of the company group's business (e.g. section of production, sale or development), and research and development or services such as improvement of goods in response to users' requests are not very important because the goods are on a maturity stage, it may be considered as effective remedies to give the competitors a right of trading at the price equivalent to the production cost of it. (In other words, to make contracts of long term supply.)

(2) Others

A. Measures to Promote Import and Entry

When the divestitures of business could not be taken as remedies because demand is decreasing and it is expected that a company which takes over a part of or whole of the company group's business do not appear easily, promotions of import or entry are exceptionally considered as remedial measures to solve the problem of the substantial restraint of competition in a particular of field.

For example, when the company group holds the storage facilities or distribution service divisions needed to import, the problems of the substantial restraint of competition in the particular of field would be solved by the promotion of import by means of making such

facilities available to the importers, etc. Alternatively, the problems that the effect of a business combination may be substantially to restrain competition in a particular field of trade could be solved by granting the licenses of company group's patents on appropriate conditions to the competitors or new entrants on their requests.

B. Measures concerning Actions of the Company Group

In addition to the cases in Item (1) and (2) A above, the measures concerning the actions of the company group could be considered as the measures to solve the problem of the substantial restraint of competition in the particular of field.

For example, when in a business combination goods are produced by the joint investment company but they are sold by the respective investing companies, the problems of the substantial restraint of competition in a particular of field are solved by the measures which make it possible to block the exchange of information on each other's sales of the goods between the investing companies and between each investing company and the joint investment company and by the measures that secure independence between them through such as prohibition of joint procurement of materials. (However see 3 (1) D in Part IV.) The problems of closure or exclusivity in markets could be solved by prohibiting discriminatory treatment to non- affiliated companies with regard to uses of essential facilities for the business.

(Attachment 1) Prior Consultation

When the JFTC receives inquiries from companies into whether the effect of an actual plan of business combination may be substantially to restrain competition in a particular field of trade, it will review the plan based on these Guidelines and reply whether the effect of the business combination will substantially to restrain competition in light of Chapter IV of the Act.

Concerning the prior consultations, the JFTC will handle them based on the guiding principle, “Policies dealing with prior consultation regarding enterprise combination plans”. (December 11, 2002)

(Attachment 2) Shortening of the Waiting Period

Section 15 (4) of the Act (including such cases where the said provisions are applied mutatis mutandis by Section 15-2 (6) and 16 (5)) prohibits any company from effecting a merger until the expiration of a thirty-day waiting period from the date of the acceptance of the notification of the intended merger (including joint establishment type demerger, absorption type demerger or acquisition of business etc.). However, the same Subsection authorizes the JFTC, when it finds it necessary to do so, to shorten the waiting period. The shortening of the waiting period will be granted, in principle, when the requirements of both A and B below are satisfied.

A It is evident that the effect may not be substantially to restrain competition in any particular field of trade.

This requirement will be satisfied in those cases where the responses of the JFTC to prior consultation indicate that the intended merger involves no problems under the Act and the notification is consistent with the consultation. Also, those cases which fall under the category of cases described in 1(3) in the Part IV and 1(3) in the Part V of these guidelines are very much likely to satisfy the requirement.

B There is a rational reason or reasons for the shortening of the waiting period.

This requirement will be satisfied in those cases where there is a probability that unless the merger is effected within a certain time limit, the business of one or more of the merging companies would be imposed to troubles (for instance, bankruptcy, desertion of employees, loss of customers etc.).

JFTC's Approach to Merger Assessment

Identification of Relevant Merger Situations

· Stockholdings, interlocking directorates, mergers, divestitures, acquisitions are considered.

- The stockholding ratio exceeds 50%.
- The officers or employees of one company comprise a majority of the total number of officers of another company, etc.

- The stockholding ratio is below 10% without interlocking directorates.
- Mergers between a parent firm and its subsidiary, etc.

No further investigation

Determination of Relevant Markets

· Product market is determined first, and next, is geographical market about all undertakings in merging parties.
 · Demand substitution is the key to determine the boundary of a relevant market, but as needed, supply substitution are considered.

Assessment of the Effects of a Merger on Competition

· Since horizontal, vertical, and conglomerate mergers differently affect market competition, they must be separately assessed.
 · One of horizontal, vertical, and conglomerate mergers, or some of them may be involved in a relevant merger situation.

Common Safe Harbor

【horizontal mergers】
 Post-merger HHI below 1,500 Post-merger HHI above 1,500 and below 2,500 with an increase in the HHI below 250 Post-merger HHI above 2,500 with an increase in the HHI below 150

【vertical and conglomerate mergers】
 A merging parties combined market share is 10% below the market share is 25% below with the HHI below 2,500

Not Pass (Both assessments are required)

Non-coordinated Effects Actions

· Analysis of various types of non-collusive oligopolies

Comprehensive Examination

- Merging parties' market shares, market share ranks
- Pre-merger rivalries among the merging parties.
- Non-merging firms' market shares, differences in market share from a merged firm.
- Excess capacity for supply, degree of product differentiation.
- Import
- Entry
- The presence of adjacent product and geographic markets.
- Competitiveness in vertically related markets.
- Efficiency.
- Viability of merging parties.

Coordinated Effects

· Analysis of collusive oligopolies

Comprehensive Examination

- The number of participants, similarity in product and cost structure.
- Pre-merger rivalries among the merging parties
- Excess capacity for supply.
- Transparency in business transactions, frequency and size of orders.
- Fluctuation in demand, the speed of technological development.
- Pre-merger competitiveness.
- Import.
- Entry.
- The presence of adjacent product or geographic markets.
- Competitiveness in vertically related markets.
- Efficiency.
- Viability of merging parties.

Not Pass

Pass

Pass

Not Pass

Substantially to Restrain Competition

Remedial Actions

Pass

Not Pass

Prohibition of the relevant merger

NOT Substantially to Restrain Competition