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International aspects of merger policy: A survey[☆]

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ABSTRACT

This paper surveys the literature on merger policy in open economies. We first adopt a reduced-form approach to derive general insights on the scope for conflict between national antitrust authorities and on the gains from international merger policy coordination. Taking trade costs as given, we use standard oligopoly models to derive conditions on market structure, under which underenforcement or overenforcement of national merger policies can arise. We then study the interactions between merger policy and trade policy, and find that trade liberalization often leads to stricter national merger policies. We conclude by discussing empirical evidence on conflict between antitrust authorities.

1. Introduction

In a globalizing world, an increasing share of mergers involves firms selling in multiple countries. Due to international differences in market structure and consumer preferences,

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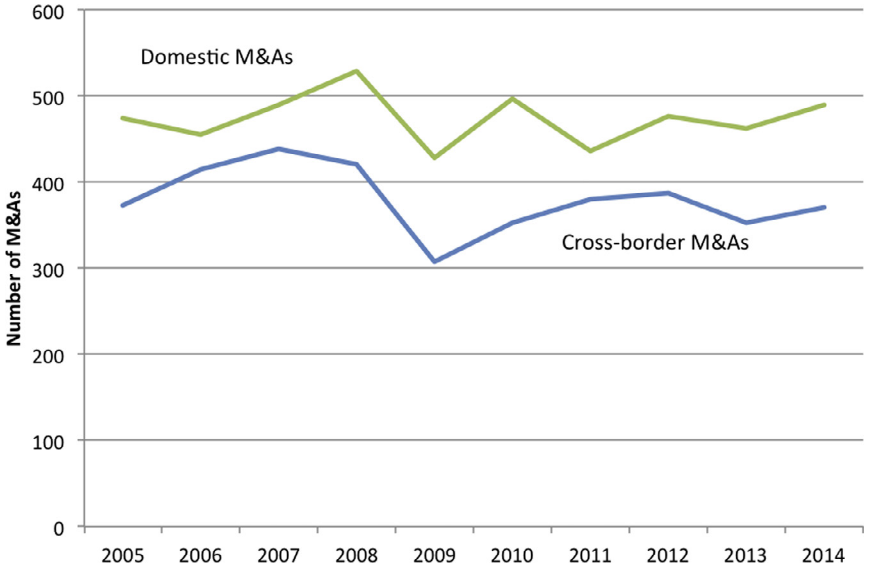

Fig. 1. Number of M&As between Manufacturing Firms with Combined Sales above USD 1 billion. *Source:* Bureau van Dijk Zephyr, authors' calculations. *Notes:* The figure shows the yearly worldwide numbers of mergers and acquisitions (M&As) between manufacturing firms with combined sales of more than USD one billion before the merger or takeover. Domestic M&As are transactions where the acquirer and the target are from the same country; cross-border M&As are transactions where the acquirer and target are from different countries.

but also due to the presence of trade costs and to the ownership structure of the merging and non-merging firms in the industry, any such merger can have different effects in different countries. In fact, it may well improve market performance in some countries, and worsen it in others. This may in turn lead national antitrust authorities to reach opposite conclusions on that merger.

Over the past twenty years, a number of merger cases have exemplified such conflict between national antitrust authorities. In 1997, the merger between aircraft manufacturers McDonnell Douglas and Boeing was cleared by the U.S. Federal Trade Commission (FTC). The EU antitrust authority expressed serious concerns and threatened to block the merger. A trade war was avoided at the last minute after the merging parties agreed to some remedies. In 2000, the attempted joint acquisition of BOC Group by industrial gas suppliers Air Liquide and Air Products received approval from the EU, Canada and Australia, but was subsequently challenged by the FTC. Other prominent examples include the General Electric/Honeywell merger, which was cleared by the U.S. Department of Justice and blocked by the EU Commission in 2001, and the Metlac/Akzo Nobel merger, which was cleared by several antitrust authorities including the German Bundeskartellamt, but blocked by the UK Competition Commission in 2012.

More generally, every year, many mergers involve firms that are active in multiple countries. Fig. 1 shows the number of mergers between manufacturing firms where the two parties had joint sales of at least USD one billion before the merger or takeover. We focus

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