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*In this number :
Mergers and acquisitions*

MERGERS AND ACQUISITIONS

Summary and main points

Each year, the European Commission's Directorate-General for Economic and Financial Affairs publishes information and analysis of mergers and acquisitions. The present issue of Supplement A is the third in the series dealing with the subject. Part A of this issue gives an overview of the evolution of mergers since 1986, with particular emphasis on 1995. Part B summarizes the largest deals carried out in 1995. Lastly, Part C reports on Commission control of mergers with a Community dimension. A box describes the sources of information and presents the conventions used. The statistical data required for this issue have been drawn from the AMDATA data base.

- 1. In 1995, the number of cross-border mergers and acquisitions targeting an enterprise of the European Union was close on 1 700, thus confirming the growth which began in 1994, but without reaching the historic peak of 1990. Taking the period from 1986 to 1995, the number of operations increased sharply up to and including 1989 and reached a peak in 1990 with more than 2 000. In 1991 the number fell sharply, then steadily until 1993 when it reached fewer than 1 500 operations, starting to rise again from 1994.*

2. ***In value terms, the growth which started in 1994 has also been confirmed. The total value of acquisitions in 1995 was close on ECU 57 billion, exceeding the previous peak of 1989. The trend in terms of value is comparable with that for the number of operations, but the peak was reached one year earlier in 1989. The year 1994 saw a recovery in merger and acquisition (M&A) activity which was stronger in terms of value than in terms of the number of operations. But this is a low estimate, as information on the bid value of each operation is not always available.***
3. ***In 1995 "Community" operations (involving only companies based in the European Union but from different Member States) maintained the growth in the number of operations. However, "international" operations (involving at least one non-European Union enterprise) helped to underpin growth over the period 1991-1994. International operations in which a European enterprise was targeted remained at a very high level after 1990, showing the European markets' continued attractiveness for non-Community enterprises. By contrast, the number of international deals where the bidder was a European enterprise remained stable.***
4. ***National operations doubled between 1987 and 1989 and diminished slightly thereafter. Even so, the number of such operations remained very high, at over 3 500, for the rest of the period.***
5. ***The size of the country is an important factor in explaining M&A activity. Small countries are the subject of operations more often than might be expected from their share in Community GDP. Activity in the large countries generally remains at around the average level. There is a North-South divide in mergers and acquisitions. Activity in the United Kingdom, Ireland and the Netherlands is well above the economic weight of those countries as a proportion of the European Union economy, and they are net purchasers. On the other hand, firms in Spain, Portugal, Italy and Greece are far less active than the relative size of their economies would suggest. Firms in these southern countries are targets more often than bidders.***
6. ***The United States were the most active third country over the period 1990-1995, as both purchaser and target. They were followed by Switzerland, Japan, Norway and Canada as purchaser countries and the East European countries, Switzerland, Norway and Canada as target countries.***
7. ***In 1995 the number of mergers in the service sector went on rising, and virtually equalled the number of mergers in industry. Cross-border mergers in industry had increased earlier and more strongly than in services. But after the fall in all operations from 1991, the upturn was earlier and more sustained in services.***
8. ***The largest number of operations took place in business services and wholesale distribution. Next came the industrial sectors mechanical engineering and chemicals.***
9. ***The highest-value operations mainly involved United States and European companies. Traditionally the amounts involved in United States operations are by far the highest. But in 1995 the values of European transactions approached those of United States transactions.***
10. ***The Merger Regulation came into force on 21 September 1990. Between that date and the end of 1995, 398 operations were notified. In 27 cases, the Commission considered that the operation raised serious doubts as to its compatibility with the common market and initiated the second, more thorough phase, of the examination. On completion of Phase 2, four mergers were prohibited and thirteen operations were authorized provided that undertakings aimed at resolving competition problems were respected.***
11. ***Because of the limited scope of the Regulation, the sectoral distribution of mergers examined by the Commission does not reflect that of merger activity in general. In some sectors, the ECU 5 billion threshold is not reached even when the largest enterprises merge. More than two thirds of cases concerned industry, in particular the chemicals, food and motor vehicle industries. In the service sector, insurance and other financial services came first and second.***

BOX 1 : SOURCES OF STATISTICAL INFORMATION AND CONVENTIONS

A variety of information sources are available to monitor mergers and acquisitions activity. The press plays a key role, together with other sources such as company reports, national institutes centralizing balance sheet data, official publications on the formation of companies, etc. Data base providers have established a network of experts in several countries and devote considerable effort to collecting and cross-referencing information. These providers include KPMG and AMDATA.

There are certain differences between bases. Clearly, each provider endeavours to collect and present information which is as full as possible, but the very nature of the information makes this somewhat arbitrary. Whereas major operations affecting publicly listed companies are often officially published and widely reported in the press, the large number of purchases of smaller or unlisted companies are more difficult to detect. In addition, subjective assessments are often inevitable, e.g. as regards the date and sectoral classification of a merger and acquisition operation. Providers must also make choices in defining the scope of their base: KPMG considers only cross-border operations but covers the three main types of operation: outright acquisition, minority participation and joint ventures, whereas AMDATA mainly considers acquisitions, but includes purely domestic operations. Minimum thresholds are set for covering an operation. This can be a limit on turnover, transaction value, or percentage of shares transferred.

Despite these differences, trends fortunately remain the same, and most of the commercial bases can be used to analyse merger and acquisition activities.

Nevertheless, choices had to be made when drafting this Supplement A. Conventions were also established: they are listed below in italics, and apply throughout this issue, chiefly for part A, unless otherwise indicated.

We use AMDATA.

This base is very comprehensive. The main domestic and cross-border transactions can be analysed

over a decade or so. But building up a mergers and acquisitions data base is a tricky task, particularly because of the confidentiality surrounding a good many negotiations. Confidentiality is lifted for operations which have been completed, at least as regards the fact of the operation itself.

We consider only operations resulting in the change of control of an enterprise.

A majority holding enables an enterprise to acquire majority voting rights in another enterprise. We include both mergers and acquisitions in this type of operation. Mergers are not considered as a separate category, although they consist of two equal partners getting together and make the distinction between purchaser and target enterprise devoid of meaning. We therefore equate acquisition of control of an enterprise with mergers and acquisitions (M&A). These are clearly identified in AMDATA.

We only consider completed M&A operations.

It is only at this moment that the change in market structure becomes definitive. The date associated with the operation is that of the completion of the transaction, even if the negotiations were carried out over several years.

Throughout this issue the expression "Community enterprises" means enterprises of the 15 present Member States for the whole period under consideration. For example, a transaction involving a Finnish company in 1992 would be included.

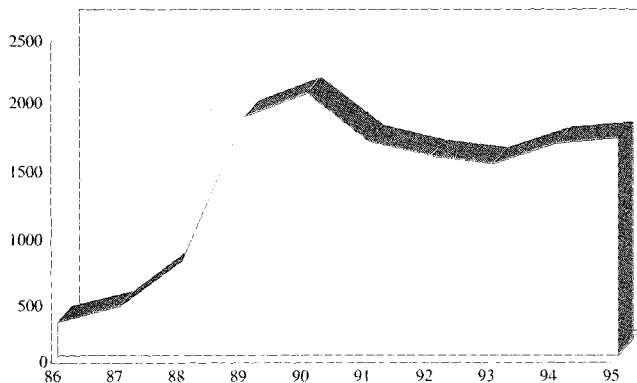
We consider the target's main activity.

Companies, and not only large conglomerates, are often too diversified to be classified in a single sector. We use the classification by main sector as proposed by the data base. In general, as the target is smaller than the bidder, its main activity is usually better defined, and that activity is probably the one which interests the bidder. That is therefore the sector in which the effects of an M&A will be the greatest.

1. Number of cross-border operations

Graph 1 shows the number of cross-border deals in which a Community enterprise is targeted. The increase in the number of operations, which began in 1994, was confirmed in 1995. There were 1 682 transactions in 1995, compared with 1 642 in 1994. The curve was underpinned in particular by intra-Community operations in which the target is a new Member State.

GRAPH 1 : Number of cross-border operations targeting a Community enterprise



Source : AMDATA.

Between 1986 and 1993 a wave of mergers and acquisitions swept across the European Union. After increasing appreciably in 1987 and 1988, the number of operations virtually trebled in 1989 and reached a peak in 1990 with more than 2 000 deals. The number of deals then fell by about 400 in 1991 and tended to stabilize in 1992 and 1993. After 1993 the curve starts to climb again in 1994, with the increase being confirmed in 1995.

One of the reasons for the wave culminating in 1989 can be found in the Internal Market Programme: this has profoundly altered the economic environment in the European Union. In analysing the evolution of mergers and acquisitions at least two salient effects can be identified. First, Community enterprises have become more attractive to non-Community enterprises, which can now gain access to a much larger market than before by means of an M&A operation. Second, the elimination of barriers to trade has led Community enterprises to re-examine their M&A strategies. By looking at the target enterprises we can analyse these two effects of mergers and acquisitions. Economic growth is also an important factor in explaining the evolution of mergers and acquisitions. The increase which took place in 1994 may reflect the better financial health of enterprises, following the upturn in economic activity.

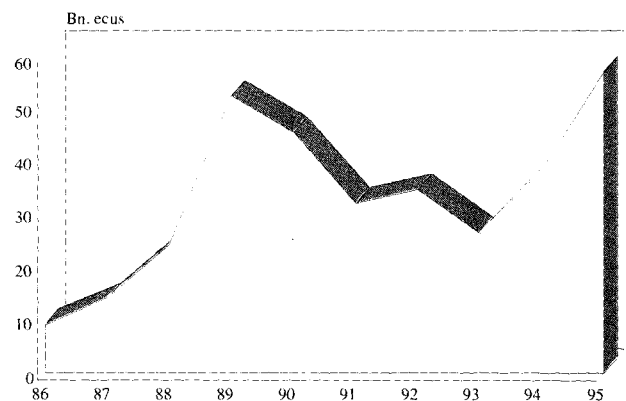
2. Value of cross-border operations

While the number of deals reflects the level of M&A activity, their aggregated value indicates the efforts which enterprises have put into their external growth. The estimate is a low one as for a good many transactions information on the bid value

is not disclosed. So, since 1989, the data base gives the value for approximately one third of the operations recorded. Nevertheless, the operations for which the value is not known are deemed to be the smaller ones. Unlike large operations, they have not been comprehensively reported in the press and they are therefore less transparent.

Graph 2 shows the changes in the aggregated values for cross-border operations where a Community enterprise is targeted. In 1995 the value of transactions reached a historic peak at almost ECU 57 billion. However, it is difficult to explain the causes for these fluctuations since this curve is very sensitive to a few large operations: in 1995 the deal between Pharmacia AB (Sweden) and Upjohn Company (United States) accounts by itself for almost ECU 5 billion. Next come the sales of Warburg and Fisons for ECU 2.3 billion and ECU 2.2 billion respectively.

GRAPH 2 : Value of cross-border M&A operations targeting a Community enterprise



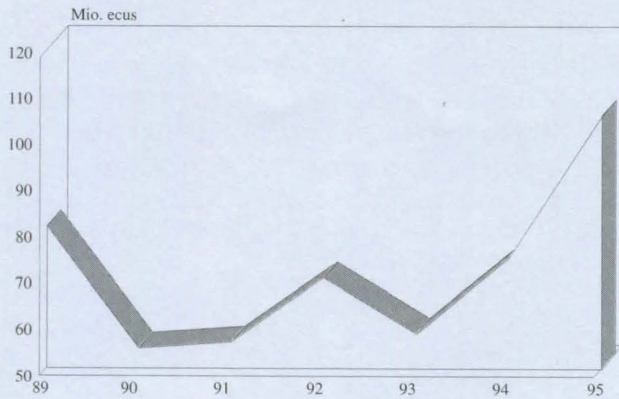
Source : AMDATA.

The values curve, just like the curve for the number of operations, rises strongly between 1986 and 1989, but reaches a peak in 1989, with over ECU 52 billion devoted to external growth that year. Many very large deals were completed that year, e.g. in the pharmaceutical products sector the acquisition of Beecham (UK) by SmithKline (US) for ECU 6.9 billion. In the motor vehicle sector, Jaguar (UK) was acquired by the Ford Motor Company (US) for ECU 2.2 billion. The largest deal in 1990, by contrast, was worth ECU 1.9 billion.

In 1990 and 1991 the curve for transaction values declines, the fall being sharper than that for the number of transactions. Thereafter the profile of the curve is less stable, always influenced by a few large deals. In 1992, for example, Reed International (UK) and Elsevier NV (Netherlands) concluded a merger worth ECU 3.8 billion. In the same year, Nestlé (Switzerland) bought Sources Perrier SA (France) for ECU 2.2 billion.

Then, in 1994, transaction values again start to climb, to ECU 35 billion. This rise is also greater than that in the number of deals. Again, this can be explained by a few large operations, notably BMW's purchase of Rover for over ECU 2 billion and Commercial Union's purchase of the Groupe Victoire's financial subsidiary for ECU 1.9 billion.

GRAPH 3 : Average value of M&A operations whose target was a Community enterprise and whose amount is known



Source : AMDATA.

Graph 3 shows the average value of operations for which the acquisition value is known. After a high value in 1989, the curve follows a trend similar to that for the absolute values: low value over the period from 1990 to 1993, with a jump in 1992, then a marked increase in 1994 and 1995. Again the message is clear. A few large operations are responsible for the curve of aggregated amounts.

3. Geographical spread

3.1. Breakdown of national, Community and international operations

In the case of mergers and acquisitions, the relative importance of strategies for cross-border expansion and for growth on the domestic market become clear from an analysis of the geographical coverage of the deals. Also, international deals are more sensitive to fluctuations in the economy than domestic ones. The convention is to make a distinction between national, Community and international operations.

National operations are those where the firms involved are from one and the same Member State. Although their main impact may be at domestic level, spill-over effects to other Member States are increasingly likely, especially in the context of Community integration. One important spill-over effect could be to bar foreign competition from access to domestic markets or to defer access ("national champion" strategies). This runs counter to the effects hoped for from the single market. But domestic concentration may also represent consolidation to prepare for the penetration of new, non-domestic markets.

Community operations are cross-border, but involve only companies based in the European Union. By definition, the effects of such operations go beyond the borders of a Member State, and are therefore particularly important from a Community perspective.

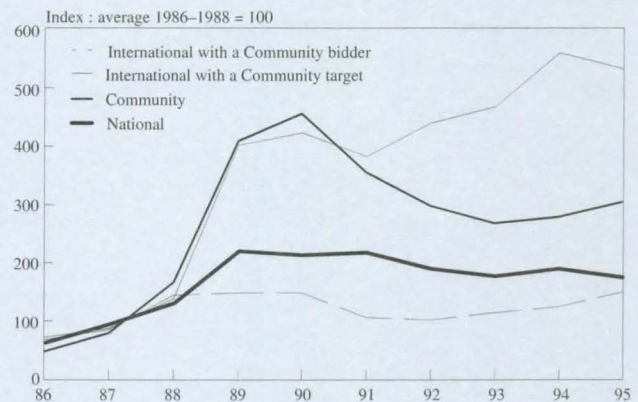
Lastly, international operations are those which involve at least one non-Community enterprise. If we consider this type of operation, where the target is a Community enterprise, in conjunction with Community and national transactions, we group together all the operations with a Commu-

ity enterprise as the target. These three categories do not overlap.

While Community and international operations have the most important effects on the European market, national operations are by far the most numerous. Over the period considered, from 1986 to 1995, the data base records that 72% of operations were national, 18% were Community, and only 10% were international operations.

In addition to these three types of operation, we show international operations in which the bidder is a European Union enterprise. Graph 4 tracks the evolution of the four types of operation. It is presented as an index, the base being the average from 1986 to 1988.

GRAPH 4 : Number of national, Community and international M&A operations



Source : AMDATA.

In 1995, 693 international operations were recorded, still a very high level after the peak of 729 operations reached in 1994. This shows that Europe remains particularly attractive for non-European investors. Although Community operations followed a lower trend, their growth was confirmed, increasing from 913 to 989. National operations remained at the same level. So it is cross-border operations which helped to keep the number of operations high in 1995.

The fact that the curve for cross-border operations was less stable than that for national operations is probably due to such operations being larger, and hence also involving greater financial risks. Furthermore, results are inevitably more uncertain because of the cross-border nature of the transactions, so that cross-border M&A activity naturally reacts more favourably to a general improvement in the economic situation in the target countries, to the stability of exchange rates and to similar factors.

Cross-border transactions are also the most active component of the wave of M&A where the target was a Community enterprise. The growth of Community and international transactions was very marked up to 1989, and the curve rises further in 1990, reaching a peak in that year. Thereafter, the number of Community transactions fell steadily until 1994. International transactions, on the other hand, after falling in 1991, increased again to return to their 1990 level. So it is the increase in international transactions which caused the rise observed in 1994 in the curve for the total number of operations.

National operations also increased relatively sharply from 1986 to 1990 – though less than other types of operation – then fell slowly but surely until 1994. They are therefore out of phase with cross-border operations. It is tempting to explain this phenomenon, once again, by the single market. It is quite possible that when firms seek to restructure they begin with their domestic markets before considering a cross-border expansion.

The changes in the number of international operations where the bidder is a Community enterprise are less marked. After increasing slightly until 1988, the number of transactions remained remarkably stable. This situation contrasts with the buoyancy of transactions where a Community enterprise is targeted and thus implicitly indicates again the importance of the single market as a factor.

Table 1 gives a breakdown of national, Community and international operations by country and for the whole of the Community over the period 1990–95.

Target	Operations			TOTAL
	National	Community	International	
B	60.2	31.9	7.9	100.0
DK	67.0	22.0	11.0	100.0
D	79.5	12.3	8.2	100.0
GR	73.1	19.2	7.7	100.0
E	80.9	11.5	7.6	100.0
F	66.0	24.5	9.5	100.0
IRL	36.9	49.0	14.1	100.0
I	77.8	14.9	7.3	100.0
L	2.0	86.1	11.9	100.0
NL	57.9	30.5	11.7	100.0
A	22.4	65.7	11.9	100.0
P	64.9	35.1	0.0	100.0
FIN	78.8	14.4	6.8	100.0
S	56.8	29.4	13.7	100.0
UK	73.8	12.9	13.3	100.0
EUR 15	70.8	18.7	10.5	100.0

Source : AMDATA.

Two findings immediately stand out. First, purely domestic operations are well in the majority at almost 71%. Next come Community operations, at 19%, then international operations at 11%. And second, if each member country is considered as a target the breakdown of operations is not symmetrical.

Six countries are heavily biased towards national operations. These account for some 75% of activity for Spain, Germany, Finland, Italy, the United Kingdom and Greece, but only 22% for Austria and 37% for Ireland.

Community operations represent a higher proportion for companies in Luxembourg, Austria, Ireland, Portugal, Belgium and the Netherlands, all of which are "small" countries. Their size and their openness to neighbouring markets probably explain this situation.

Conversely, three large countries – the United Kingdom, Germany and Spain – show the smallest proportion of Community acquisitions.

The countries most open to international acquisitions (in which the purchaser is outside the Community) are Ireland, Sweden and the United Kingdom.

3.2. Cross-border operations

Table 2 shows, for the period 1990–95, the breakdown of GDP by Member State, and compares this with the number of cross-border operations, broken down by country of target enterprises and by country of purchasers.

	Target	Bidder	GDP
B	5.0	2.9	2.9
DK	3.9	4.8	2.0
D	25.5	14.4	24.7
GR	0.4	0.1	1.2
E	8.1	1.5	7.3
F	13.8	18.5	17.7
IRL	0.9	2.9	0.7
I	6.9	4.3	16.2
L	0.6	1.0	0.2
NL	7.5	9.1	4.3
A	1.3	1.7	2.4
P	1.2	0.1	1.0
FIN	3.1	4.0	1.8
S	4.5	8.2	3.3
UK	17.5	26.5	14.3
EUR15	100.0	100.0	100.0

Source : AMDATA and DG II.

The smallest European countries are those most targeted. Over the period 1990–1995 the ratio of target to GDP is highest for Luxembourg, at 3.79. Next come Denmark, the Netherlands and Finland, all with a ratio of between 1.7 and 2. The ratios for these countries have remained relatively stable over the period considered. However, the ratio for Finland has increased steadily, from 1.08 in 1990 to 2.49 in 1995.

Most of the large countries, the United Kingdom, Spain, Germany and France, are targeted in a number of cross-border operations which corresponds to their GDP as a proportion of European Union GDP. The ratio for France has remained remarkably stable, at between 0.73 and 0.80. The relative number of operations which target a French enterprise has therefore been slightly lower than the share of France in Community GDP. The German ratio has also remained stable at around 1. For Spain, however, the ratio fell from 1.27 in 1990 to 0.80 in 1995. In the United Kingdom, the ratio has also remained stable, but indicates a higher level of activity, which has remained at around 1.2 since 1991. Sweden, Ireland and Portugal are also in this intermediate group.

Three countries have a target/GDP ratio of under 0.7 – Austria, Italy and Greece. Austrian enterprises were in greater demand at the end of the period than at the beginning. The ratio rose from 0.27 to 0.62 in 1995, peaking at 0.85 in 1993. The Italian ratio remained very low, at around 0.4 over the entire period. The same is true of Greece, where the ratio is even lower.

The ratio of purchasers to GDP varies much more sharply by country than the ratio of targets to GDP. The countries whose

enterprises make most cross-border acquisitions are Luxembourg (with a ratio of 6.57), Ireland (4.06), Sweden (2.50), Denmark (2.43), Finland (2.18), the Netherlands (2.10) and the United Kingdom (1.85). The very high ratio – constant since 1991 – for Luxembourg is easily explained by the size of the country, which is extremely open to international trade, and by the importance of its banking system. A good many of the operations are in the financial sector. Except for the Netherlands, the ratios of these heavily purchasing countries have remained stable over the period. The Dutch ratio increased overall, rising from 1.63 in 1990 to 2.48 in 1995.

France, Belgium and Austria form the intermediate group, whose relative level of activity matches their share of Community GDP. The French ratio fell steadily over the period, from 1.17 to 0.78. Until 1992 French enterprises were buying more abroad than the weight of France would have suggested, but the trend was reversed thereafter. The Belgian ratio remained stable over the period, at around 1, and the ratio for Austria has remained at around 0.80 since 1991.

Germany is again among the rare bidders. The reasons are well known (the large number of small family businesses and a preference for internal expansion). However, the situation is changing slightly, with the ratio of purchasers to GDP moving slowly but always in an upwards direction, from 0.45 to 0.67.

The Mediterranean countries also have a negative balance on cross-border mergers and acquisitions. In the case of Greece, Portugal and Spain, this can be explained by their firms' shortage of resources. Another reason lies in the high growth rates of these countries, particularly Spain. Their domestic markets have provided interesting opportunities for both internal growth and takeover activity. Italy is a slightly different case, since it has few large companies, and they are

often state-owned. Italian firms do not often bid for companies in other Member States.

The North-South divide is therefore extremely clear. Two reasons may be mentioned. First, the richest countries have companies with sufficient resources to attempt risky cross-border M&A operations. And second, the English-speaking countries have a very long tradition of buying and selling companies. M&A activity in Ireland, for example, is extremely impressive when compared with its economic weight. Part of the explanation could be that rates of company taxation in Ireland are relatively low, making it attractive to multinationals.

3.3. Community operations

Table 3 gives a breakdown by country of Community operations (cross-border M&As involving only European Union enterprises) over the period 1990–95. The target company countries are in columns and the bidder company countries are in rows. The table gives a breakdown of target countries for each bidder country (each line adding up to 100%).

Throughout the period, German companies were most often the target of Community operations; this was the case in almost 1400 operations. This high number is partly due to the structure of the industrial base, made up of a large number of small, very often family-owned, firms. But most importantly, this was the period of German unification during which a wealth of privatizations was carried out by the Treuhandanstalt. German companies were bought mainly by British companies (26%), French companies (24%) and Dutch enterprises (16%). Conversely, Table 3 shows that German companies were interested mainly in France (23% of cases) followed by the United Kingdom (16%), the Netherlands (14%) and Italy (11%).

TABLE 3 : Breakdown of target countries by bidder country 1990–1995

Bidders	Community operations															
	Targets															
	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR
B		0.5	23.3	0.5	5.0	36.1	0.5	2.7	5.9	16.4	0.5	0.5	0.0	0.9	7.3	100.0
DK	2.3		17.6	0.3	5.0	8.6	1.0	2.3	0.3	6.0	0.7	2.7	6.6	22.3	24.3	100.0
D	3.5	6.3		0.3	6.9	23.3	0.3	11.5	1.5	14.3	8.0	1.5	1.8	4.6	16.5	100.0
GR	0.0	0.0	0.0		20.0	20.0	0.0	40.0	0.0	0.0	0.0	0.0	0.0	0.0	20.0	100.0
E	4.8	1.2	9.6	0.0		25.3	0.0	10.8	0.0	1.2	0.0	28.9	2.4	1.2	14.5	100.0
F	10.7	1.7	26.0	0.6	17.2		0.8	13.9	1.1	5.6	0.8	2.0	1.4	1.6	16.7	100.0
IRL	3.3	0.5	6.7	0.0	5.2	4.8		1.9	0.0	8.6	0.5	0.0	0.0	0.5	68.1	100.0
I	4.0	1.5	17.6	1.8	21.0	34.9	0.0		1.1	4.4	1.5	1.1	1.1	1.1	8.8	100.0
L	10.5	0.0	20.9	0.0	7.0	23.3	2.3	17.4		5.8	0.0	1.2	2.3	1.2	8.1	100.0
NL	16.8	3.9	34.2	0.5	8.1	11.9	1.1	3.9	0.3		0.7	0.5	0.8	3.3	14.0	100.0
A	2.2	0.0	71.7	0.0	3.6	2.9	0.0	10.9	0.0	2.9		0.0	0.7	0.7	4.3	100.0
P	0.0	0.0	0.0	0.0	61.5	23.1	0.0	7.7	0.0	0.0	0.0		0.0	0.0	7.7	100.0
FIN	2.0	7.1	23.1	0.0	3.5	8.2	0.0	3.1	0.4	5.9	0.0	1.2		32.5	12.9	100.0
S	4.6	20.4	19.5	0.0	5.5	7.1	0.6	5.7	0.0	5.9	1.1	0.4	17.2		12.0	100.0
UK	5.6	2.9	28.7	0.6	8.6	23.9	2.7	6.0	0.5	13.8	0.5	0.9	1.6	3.6		100.0
EUR15	6.7	4.4	22.3	0.4	9.6	14.4	1.0	7.7	0.9	8.2	1.6	1.6	2.9	4.7	13.5	100.0

Source : AMDATA.

Over the period 1990-95, France comes second as target country, its companies being acquired in over 900 cases by enterprises of other Member States. The leading purchaser was the United Kingdom, represented in almost 33% of cases, followed, as one would expect, by the neighbouring countries: Germany (22%) and Italy (11%). France is also a very active bidder, with French enterprises carrying out almost 21% of Community operations. They focused on companies in Germany (in 26% of cases), Spain and the United Kingdom (17% each), Italy (14%) and Belgium (11%). The proximity factor is of considerable importance here too.

The third most targeted country is the United Kingdom, with over 800 operations. The operations were carried out by companies mainly from France (26%), Ireland (18%), Germany (16%) and the Netherlands (11%). But British companies are more active as purchasers in mergers and acquisitions. As we have seen, this is a general feature of English-speaking countries, which have a long tradition of M&A activities. The preferred target countries are Germany (29%), France (24%) and the Netherlands (14%).

In Benelux, M&A activity has been relatively high. The integration of these countries into a wider area of economic activity is developing rapidly. The enterprises of these countries, taken together, were the target in almost 16% of cases and bidder in over 15%, which is remarkable if compared with their GDP.

Proximity and traditional economic links are particularly important for mergers and acquisitions. For example, 33% of acquisitions targeting a Belgian enterprise were launched from France, and 26% from the Netherlands. Belgium, France and Germany together account for almost three quarters of the purchases made in Luxembourg. M&A flows are equally substantial between the United Kingdom and Ireland: 53% of acquisitions in Ireland were made by United Kingdom enterprises and 18% of deals in the United Kingdom were made by Irish enterprises. A large number of transactions also take place, for example, between French and Italian companies. In return (see Table 3), Belgium made 36% of its purchases in France, 23% in Germany and 16% in the Netherlands. Two other striking examples are Austria which makes 72% of its purchases in Germany, and Ireland which makes 68% of its purchases in the United Kingdom.

3.4. Relations with third countries

International acquisitions accounted for almost 11% of the operations where a Community enterprise was the target, and also underpinned the growth in the total number of operations. Table 4 gives the breakdown, by country of the Union, of the purchases of the major partners.

The United States have been the most active third-country purchaser since 1990, with almost 1750 operations. The number of American acquisitions in Europe has gone up from 210 in 1990 to 379 in 1995. British and German firms were the most frequent targets. The United Kingdom has always been attractive for the United States, owing to both the scale of stock exchange listings relative to GDP, and the transparency of ownership. The shared language and historic links are also factors. The more recent interest in German and French firms is confirmed. Italy and the Netherlands rank next as target countries in terms of the number of operations.

The EFTA countries maintained their position as favoured partners of the European Union. Switzerland remains in second place, with Swiss companies being present in over 650 operations as purchaser of Community enterprises. A substantial proportion of these operations (48%) targeted German firms. French enterprises, by contrast, were targeted in only 16% of cases. Norway was present in 175 operations.

Other non-Community countries have also been active, with Japan, Canada, Australia and Hong Kong again among the ten leading purchaser countries.

In general, the Union's main trading partners are well represented as both bidder and target in M&A operations. Table 5 shows the non-Community countries whose firms were most often targeted by those of the Union.

The United States are again in first place among third countries, with American firms being targeted in almost 1 500 operations over the period 1990-95. They were particularly attractive, as might be expected, for Irish and United Kingdom firms, but also for Belgium, Luxembourg and the Netherlands.

Next, companies in the Union are taking an increasing interest in enterprises of the CEEC.¹ Here proximity has been the major factor. Enterprises in the CEEC accounted for 23% of German acquisitions outside the Union. But at 56%, it is Austrian firms which have made the largest proportion of their acquisitions in those countries.

Two EFTA countries are in third and fourth place. First, Switzerland, which mainly attracted German and Austrian investors. And second, Norway, where by far the majority of firms have been bought by Danish and Swedish companies.

Canada, Australia, Brazil and Japan are once again among the most targeted overseas countries.

¹ Central and East European countries: Poland, the Czech Republic, Slovenia, Romania, Bulgaria and Hungary.

TABLE 4: Breakdown by target countries of international operations * 1990-1995

	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EUR
USA	1.5	2.7	31.1	0.5	4.9	12.9	0.7	5.9	0.2	5.6	0.5	0.2	2.7	3.1	27.5	100.0
Switzerland	2.6	2.2	47.8	0.2	4.5	15.7	0.3	8.0	0.0	4.5	1.1	0.8	3.4	2.5	6.6	100.0
Japan	3.7	1.1	26.0	0.0	6.3	11.9	0.4	4.5	0.0	8.2	0.4	0.4	3.7	4.1	29.4	100.0
Norway	1.1	19.4	5.1	0.0	3.4	3.4	1.1	0.6	0.0	3.4	1.1	0.6	12.6	30.9	17.1	100.0
Canada	2.3	3.1	23.1	0.8	3.8	12.3	2.3	6.2	0.0	3.8	1.5	0.8	1.5	0.8	37.7	100.0
Other	1.7	1.7	24.2	0.5	8.2	11.4	0.5	2.8	0.6	8.1	1.1	0.2	3.2	3.0	32.8	100.0
Total	1.9	3.2	31.0	0.4	5.4	12.6	0.6	5.4	0.2	5.8	0.8	0.4	3.4	4.3	24.7	100.0

* targeting a Community enterprise.

Source: AMDATA.

TABLE 5 : Breakdown by non-Community target countries of international operations* - 1990-1995

Bidders	Targets							Total
	USA	CEEC	Switzerl.	Norway	Canada	Australia	Other	
B	45.5	21.8	5.5	3.6	7.3	0.0	16.4	100.0
DK	35.1	8.6	2.0	26.5	2.6	7.3	17.9	100.0
D	25.5	23.5	19.3	2.0	3.8	2.9	22.8	100.0
GR	0.0	50.0	0.0	0.0	0.0	0.0	50.0	100.0
E	14.0	1.8	3.5	0.0	1.8	0.0	78.9	100.0
F	36.7	15.0	7.3	1.2	6.1	2.6	31.0	100.0
IRL	72.6	3.2	0.0	4.8	8.1	0.0	11.3	100.0
I	37.5	18.4	2.9	0.7	3.7	0.7	36.0	100.0
L	41.7	0.0	8.3	0.0	16.7	0.0	33.3	100.0
NL	41.8	11.3	5.0	5.4	4.2	4.2	28.0	100.0
A	0.0	56.0	24.0	0.0	0.0	0.0	20.0	100.0
P								
FIN	32.0	7.4	4.9	13.9	5.7	4.9	31.1	100.0
S	30.6	8.1	5.2	35.1	0.8	1.2	19.0	100.0
UK	57.1	3.0	2.0	2.2	5.5	6.5	23.7	100.0
EUR15	42.4	10.6	6.4	6.1	4.7	4.2	25.7	100.0

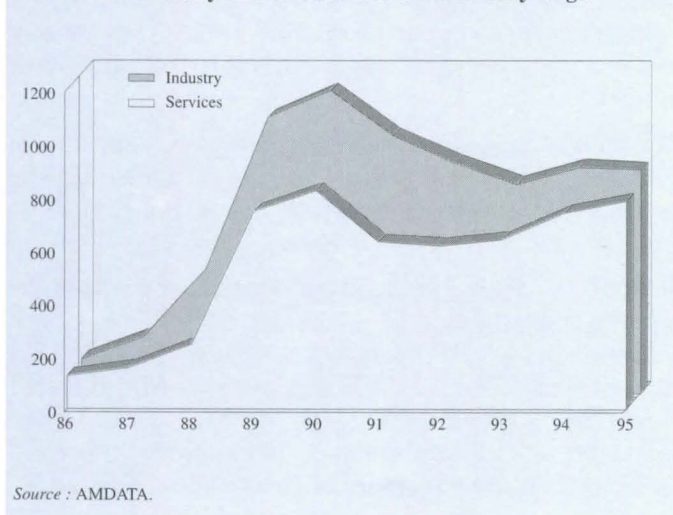
* targeting a non-Community enterprise.

Source: AMDATA.

4. Sectoral aspects

As we saw above (see point 1: methodological considerations), the sectoral analysis of mergers and acquisitions is complicated by the arbitrary way in which companies are classified. The solution we have adopted is to take the main activity of enterprises and to apply a sectoral breakdown which is not too disaggregated. Graph 5 shows the pattern of cross-border M&A operations in industry (NACE sectors 2-4) and in services (NACE sectors 6-9).

GRAPH 5 : Number of cross-border M&A operations in industry and services with a Community target



In 1995 the number of transactions in industry seems to have stabilized at a little over 800 operations where the target is a Community enterprise. In the service sector, however, we again see a slight increase in the number of operations.

In both groups, the number of mergers increased sharply until 1989, and reached a peak in 1990. Nevertheless, the merger wave emerged in industry earlier and more strongly than in services. A fall in 1991 was shared by the two groups. But the upturn in mergers and acquisitions activity took place as early as 1992 in services, whereas it was necessary to wait until 1994 for industry.

This pattern reflects the fact that the liberalization of services in the internal market programme was confronted by particular difficulties. Most activities (banking, insurance, financial services, transport) required specific liberalization measures which had to be adopted sector by sector and some of which will only come into effect in the second half of the 1990s. Furthermore, some services are supplied by state monopolies, which may restrain the growth of cross-border mergers. However, as it became clear that the objective of liberalization would be effectively pursued also in these sectors, service sector mergers became increasingly numerous. European integration in the service sector is likely to proceed by means of mergers and acquisitions, since it is generally easier to buy a network in a foreign country than to build a new one.

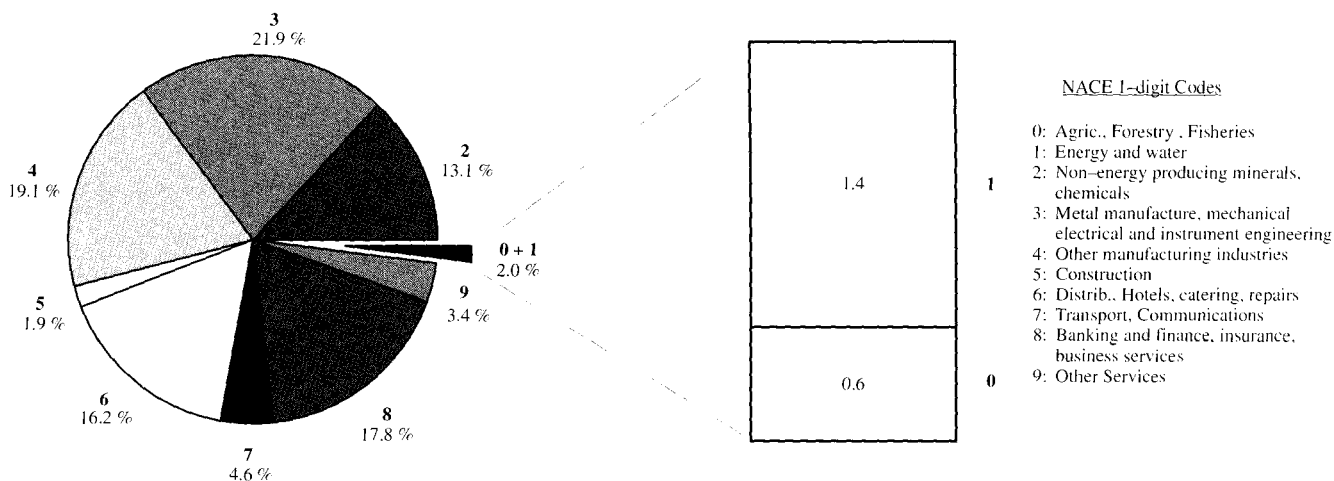
Graph 6 shows the relative importance of the number of operations in each sector defined according to the NACE one-digit classification. In industry, most takeovers have been in the metal manufacture, mechanical engineering and vehicles sector (NACE 3), which strengthened its position in 1994. In services, distribution, hotels and catering (NACE 6) were the most strongly targeted sector.

Since the level of sectoral disaggregation is fairly low, few changes over time are discernible, except perhaps in the sectors metal manufacture, mechanical engineering and vehicles (NACE 3) and other manufacturing industries (NACE 4), where operations have diminished. But the banking, insurance and business services sector (NACE 8) is again gaining in interest for investors. This is an indication that restructuring in the service sector is not yet over.

Table 6 gives a more detailed breakdown. This shows the twenty sectors - on the basis of the 2-digit NACE classification - most targeted over the period 1990-95.

Business services (NACE 83), the leading service sector in terms of number of transactions, showed a sharp increase in 1994 and then declined slightly in 1995. Wholesale distribution (NACE 61) also attracted a very large number of investors, but the increase there was smaller in 1993-94, and was then confirmed in 1995. Banking and finance (NACE 81)

GRAPH 6 : Sectoral breakdown of cross-border M&A operations with a Community target



Source : AMDATA.

are the third sector targeted by cross-border transactions. Here too, the number of operations has increased very substantially. The twenty leading sectors also include retail distribution (NACE 65), other transport services (NACE 77) hotels and catering (NACE 66) and insurance (NACE 82).

In industry, the leading sector is mechanical engineering (NACE 32), although the number of operations has fallen slightly, from 147 in 1990 to 113 in 1995. The same is true of electrical engineering and electronics (NACE 34). The number of operations targeting an enterprise in this sector fell from 128 in 1990 to 96 in 1995. Operations in the paper industry, on the other hand, showed a very marked rise in 1994, and then a slight fall. The sectors which come next, the manufacture of non-metallic mineral products (NACE 24), the food industry (NACE 41 and 42) and the processing of rubber and plastics (NACE 48) showed no particular fluctuations.

TABLE 6 : Sectors most targeted in cross-border M&A operations where the target is a Community enterprise - 1990-1995

Sector	NACE2	NUMBER
Business services	83	1069
Wholesale distribution	61	1028
Mechanical engineering	32	787
Chemical industry	25	694
Electrical engineering	34	635
Manufacture of paper and paper products	47	504
Banking and finance	81	351
Manufacture of non-metallic mineral products	24	336
Food industry	41	328
Sugar and sugar by-products	42	322
Processing of rubber and plastics	48	304
Manufacture of metal articles	31	239
Retail distribution	65	208
Construction	50	195
Other transport services	77	194
Hotels and catering	66	186
Manufacture of motor vehicles and parts	35	185
Insurance	82	185
Product. and preliminary processing of metals	22	181
Instrument engineering	37	166

Source : AMDATA.

PART B: Larger deals in 1995²

In the vast majority of cases, the highest-value operations involve American or European enterprises. The largest operation outside Europe and the United States was a disinvestment by the Indonesian Government in the field of telecommunications, which is ranked in 23rd position with a value of some ECU 2 billion. The first operation involving a Japanese enterprise ranks only 48th. This is the purchase by Softbank Corporation (Japan) of Ziff-Davis Publishing Company (US) for over ECU 1.5 billion. However, Japan was involved as a disinvestor in the ninth-ranking world operation, MCA/Seagram.

This year, the largest transaction in the world took place in Europe. This was the merger of Wellcome and Glaxo, which was valued at over ECU 11 billion (see below). For the other cases, although transaction values were always appreciably less than in the United States, the difference is smaller than in 1994.

Part B gives an account of the highest-value operations involving European or American enterprises. Table 7 lists, in decreasing order of value, the 20 largest transactions in terms of volume involving European Union enterprises.

Most of the larger European operations took place in the banking, financial and insurance sectors. In the United Kingdom, first of all, Lloyds Bank, one of the leading banking and financial services groups, merged with the TSB group, thus creating the third-largest bank in the United Kingdom, with the largest number of customers. The main reason cited is the possibility of cutting costs. Lloyds also embarked on another operation with the Cheltenham & Gloucester Building Society. Next, the purchase of Warburg's, the British merchant bank, by Schweizerischer Bankverein of Switzerland gave rise to more opposition from the shareholders and the Warburg management, because of the wide disparity in the two banks' commercial practices. But Warburg's results were poor and it required sound financial backing. Other operations in the United Kingdom were the merger between two financial institutions.

² Unlike the conventions used for Part A of this Supplement, all operations in AMDATA are considered here. Target and purchaser nationality are given equal weight and purely domestic operations are included: all types of transaction (acquisitions, minority holdings, etc.) are covered.

TABLE 7: Main operations in 1995 where a Community enterprise is target or bidder

NAME OF TARGET	NAME OF BIDDER	Amount millions of ecu	Shareholding acquired	Initial shareholding	Final shareholding
1. WELLCOME PLC (UK)	GLAXO PLC (UK)	11,572	100	0	100
2. TELECOM ITALIA MOBILE SPA (I)		7,737	100	0	100
3. TSB GROUP PLC (UK)	LLOYDS BANK PLC (UK)	7,022	100	0	100
4. MARION MERRELL DOW INC (US)	HOECHST AG (D)	5,620	100	0	100
5. PHARMACIA AB (SWE)	UPJOHN COMPANY (US)	4,963	100	0	100
6. ENI SPA (I)	MARKET PURCHASE (UK)	3,035	15	0	15
7. EASTERN GROUP PLC (UK)	HANSON PLC (UK)	2,888	100	0	100
8. BTR NYLEX LTD (AUSTRALIA)	BTR PLC (UK)	2,446	37	63	100
9. WARBURG GROUP PLC, S G (INVESTMENT BANKING DIVISION) (UK)	SCHWEIZERISCHER BANKVEREIN (SWITZERLAND)	2,361	100	0	100
10. CHELTENHAM & GLOUCESTER BUILDING SOCIETY (UK)	LLOYDS BANK PLC (UK)	2,344	100	0	100
11. FISON PLC (UK)	RHONE-POULENC SA (F)	2,206	100	0	100
12. NORWEB PLC (BID 1) (UK)	NORTH WEST WATER GROUP PLC (UK)	2,197	100	0	100
13. ITT COMMERCIAL FINANCE CORPORATION (US)	DEUTSCHE BANK AG (D)	2,155	100	0	100
14. PET INC (US)	GRAND METROPOLITAN PLC (UK)	2,138	100	0	100
15. VEREINTE VERSICHERUNG AG / MAGDEBURGER VERSICHERUNG AG (D)	ALLIANZ AG HOLDING (D)	2,082	100	0	100
16. DR PEPPER/SEVEN UP COMPANIES INC (US)	CADBURY SCHWEPES PLC (UK)	2,021	74	26	100
17. ROTHMANS INTERNATIONAL (UK)	FINANCIERE RICHEMONT AG, COMPAGNIE (SWITZERLAND)	1,945	39	61	100
18. CREDITO ROMAGNOLO SPA (I)	CREDITO ITALIANO SPA (I)	1,920	78	3	81
19. LEEDS PERMANENT BUILDING SOCIETY (UK)	HALIFAX BUILDING SOCIETY (UK)	1,628	100	0	100
20. BANCO PORTUGUES DO ATLANTICO SA (P)	BANCO COMERCIAL PORTUGUES (PORTUGAL) / MELLO GROUP (P)	1,571	100	0	100

Source : AMDATA.

the Leeds Permanent Building Society and the Halifax Building Society, and the holding company BTR PLC's purchase of the minority interests of BTR Nylex Ltd (Australia) (37%), which it did not yet own.

In Germany, Allianz AG Holding, the largest insurance group, purchased Vereinte Versicherung AG and Magdeburger Versicherung AG from the Swiss group Schweizerische Rueckversicherungs-Gesellschaft. The purchase of ITT Commercial Finance Corporation (USA) by Deutsche Bank AG was another cross-border operation.

In Italy, Credito Italiano made a hostile bid for Credito Romagnolo which succeeded after over three months' resistance. This is a fairly new phenomenon in Italy and confirms that hostile operations can also extend to the south of Europe. In Portugal, Banco Comercial Portugues and Imperio Companhia de Seguros, both belonging to the Mello group, purchased Banco Portugues do Atlantico, increasing BCP's share in all banking assets from 8% to 20%.

Five of the top 20 operations took place in the chemical industry, four of them in the pharmaceuticals sub-sector. The first of these operations is not only the year's largest in the world in terms of value, but is also the largest of all time in Europe. This was Glaxo's acquisition of Wellcome in the United Kingdom, the effect of which is to create the largest pharmaceuticals group in the world. It was sparked off by Wellcome Trust's wish to sell its 39% stake in Wellcome purely for financial reasons. The consequence was a radical restructuring of activities.

Two other operations involved American and European enterprises. First, Hoechst AG (Germany) offered over

ECU 5.6 billion for Marion Merrell Dow Inc (US), 71% of which belonged to Dow Chemical. Hoechst's main aim was to strengthen its presence on the largest pharmaceuticals market in the world. The German group already owned Hoechst Celanese in New Jersey. Second, Pharmacia of Sweden and Upjohn of the United States merged by exchange of shares, the purpose being to rationalize production by halving the locations where it takes place. The two companies were complementary - Pharmacia needed a partner in the United States, and Upjohn had concentrated too much on chemicals at the expense of biotechnology research.

Lastly, Rhône-Poulenc SA (France) mounted a hostile operation to take control, via its American subsidiary, of its competitor Fisons PLC (UK), after the latter had resisted for 50 days. Restructuring will probably take place mainly in regard to activities in the United States where the two companies have large sales forces.

The last operation in the chemical industry took place in Italy, where the government released 15% of the shares in ENI, as part of Prime Minister Lamberto Dini's privatization programme.

In the telecommunications sector, we must also mention the disinvestment of Telecom Italia, creating a new company, Telecom Italia Mobile SpA, whose main shareholder will however remain the Italian State.

In the United Kingdom a wave of transactions took place in the power generation and distribution sector, in which enterprises are positioning themselves for 1998, when 23 million households will be free to choose their electricity supplier. The wave was also boosted by the decision of President of

TABLE 8: Main operations in 1995 where a United States enterprise is target or bidder

NAME OF TARGET	NAME OF BIDDER	Amount millions of ecu	Shareholding acquired	Initial shareholding	Final shareholding
1. ALLSTATE CORPORATION (US)	MARKET PURCHASE	8.154	80	0	80
2. MARTIN MARIETTA CORPORATION (US)	LOCKHEED CORPORATION (US)	8.137	100	0	100
3. DU PONT DE NEMOURS & COMPANY. E I (US)	DU PONT DE NEMOURS & COMPANY. E I (US)	6.542	23	0	23
4. MARION MERRELL DOW INC (US)	HOECHST AG (D)	5.620	100	0	100
5. PHARMACIA AB (SWEDEN)	UPJOHN COMPANY (US)	4.963	100	0	100
6. MCA INC (US)	SEAGRAM COMPANY LTD (CANADA)	4.237	80	0	80
7. CBS INC (US)	WESTINGHOUSE ELECTRIC CORPORATION (US)	4.008	100	0	100
8. FIRST FIDELITY BANCORPORATION (US)	FIRST UNION CORPORATION (US)	3.905	100	0	100
9. HEALTHTRUST INC (US)	COLUMBIA/HCA HEALTHCARE CORPORATION (US)	3.777	100	0	100
10. SANTA FE PACIFIC CORPORATION (US)	BURLINGTON NORTHERN INC (US)	3.202	100	0	100

Source: AMDATA.

the Board of Trade Michael Heseltine to declare Trafalgar House's attempted purchase of Northern Electric compatible with the competition rules, even though the operation was unsuccessful. Seven operations took place in the sector in 1995, two of which are in the European top 20, and two others rank higher than 25th. These are Eastern Group PLC/Hanson PLC, Norweb PLC/North West Water Group PLC, Manweb PLC/ScottishPower PLC and South Western Electricity PLC/Southern Company (US).

In the United States, while refocussing on core activity was an important trend in 1995, another striking feature was the interest which American enterprises inspired in European enterprises, no doubt partly as a result of the decline in the dollar, making transatlantic investment cheaper. Thus five of the top 20 operations in which an American enterprise was the target involved European enterprises as purchasers.

This was the case for the two operations in the American top 10 which took place in the pharmaceuticals industry (see Table 8): the purchase of Marion Merrell Dow Inc (US) by Hoechst AG (Germany), and the merger by exchange of shares between Pharmacia (Sweden) and Upjohn (United States) (see above). In the healthcare sector, Columbia and HCA Healthcare Corporation (US) acquired Healthtrust Inc., which runs a chain of hospitals.

In the finance sector, First Union Corporation, based in North Carolina, launched a bid for First Fidelity Bancorporation, a bank holding company based in New Jersey, thus creating the seventh-largest American bank in terms of assets. But most importantly, this operation creates the densest banking network on the east coast of the United States. Also, Sears Roebuck & Company disposed of the shares it held in Allstate Corporation (US) (80.2%) to its shareholders. Du Pont de Nemours & Company, EI (US) purchased the 23% which Seagram Company Ltd (Canada) held in the company.

In the aerospace industry, Lockheed Corporation acquired Martin Marietta Corporation to form the new company Lockheed Martin. This is a consequence of the 50% reduction in defence expenditure in the United States.

The other transactions in the American top 10 took place in the film production industry where the alcoholic drinks, wine and soft drinks firm Seagram Company Ltd bought MCA Inc.; in radio/television with the vertical integration of CBS Inc. into Westinghouse Electric Corporation; and in transport, with the merger by exchange of shares between Santa Fe Pacific Corporation and Burlington Northern Inc.

PART C : COMMUNITY MERGER CONTROL

1. Overview

Between the entry into force of the Merger Regulation³ on 21 September 1990 and the end of 1995, 398 cases were notified to the Commission (see Table 9), of which 14 were subsequently withdrawn and 34 were found to fall outside the scope of the Regulation.

TABLE 9: Notifications under the Merger Regulation

	'90	'91	'92	'93	'94	'95	TOTAL
Cases notified	12	63	60	58	95	110	398
Notifications withdrawn	0	0	3	2	5	4	14
Cases on which a final decision was taken	6	60	59	57	88	109	379

Source: Annual Reports on Competition Policy.

In the first three full years of implementation, there were about 60 notifications per year but there was a sharp rise to 95 in 1994 and a further substantial increase (to 110) in 1995. In spite of these increases, the number of notifications still represents only a very small proportion of the total mergers and acquisitions affecting the European Union, because of the relatively narrow scope of the Merger Regulation.

The most common types of operations notified were joint ventures (49%), followed by acquisitions of majority holdings (39%).

³ Council Regulation (EEC) no. 4064/89 of 21 December 1989 (O.J. L395 of 30.12.1989).

Table 10 shows the outcome of the first phase of examination of the cases. In the first phase, the Commission determines whether the notified operation falls within the scope of the Regulation and whether it raises serious doubts as to its effect on the conditions of competition. 324 mergers – representing 81% of the notifications – were cleared in this first phase. It should be noted, however, that in twelve of these cases the Commission gave its approval only after the parties had offered to make changes to their original plans in order to eliminate potential competition problems.

TABLE 10 : Decisions taken in Phase 1 up to 31/12/1995

Type of decision	Number of cases
Article 6.1a (outside the scope of the Regulation) ¹	34
Article 6.1b (no serious doubts) <i>of which, mergers declared compatible after proposal of remedies</i>	324 (12)
Article 6.1c (opening of Phase 2)	27
Article 9 (cases referred to national authorities) ²	3
TOTAL	387

¹ Some of these notifications related to more than one operation, of which only one was found to fall outside the scope of the Regulation.
² Two of these referrals concerned only part of the notified operation.
Source : Annual Reports on Competition Policy and MTF.

27 cases were considered to merit the more detailed investigation of the Phase 2 procedure. In 20 cases the Commission authorised the merger at the conclusion of this phase (see table 11), but in 13 of these cases the approval was subject to conditions and obligations intended to resolve the competition problems. There were four prohibition decisions, relating to Aérospatiale/De Havilland (1991), MSG Media Service (1994), Nordic Satellite Distribution and RTL/Veronica/Endemol (both 1995). One notification was withdrawn during the second phase and two cases were still in Phase 2 at the end of 1995.

TABLE 11 : Decisions taken in Phase 2 up to 31/12/1995

Type of decision	Number of cases
Article 8.2 (compatible) with conditions and obligations	13
Article 8.2 (compatible) without conditions	7
Article 8.3 (prohibition)	4
TOTAL	24

Source : Annual Reports on Competition Policy.

2. Geographical aspects

As Table 12 shows, German companies were the most frequently involved in notified transactions (20% of the total number of companies concerned), followed by French and British firms (16% and 15% respectively). This ranking does not correspond to the overall levels of merger and acquisition activity by firms of different nationalities, because the Regulation only covers the largest operations involving firms with significant turnover in more than one country. Thus, for example, the relatively intense activity by smaller firms in the UK is not reflected in these figures. As one

would expect, the non-member country most heavily represented is the U.S.A. with 10%.

TABLE 12 : Nationality of the companies involved.

Companies based in:	Number of firms and %			
	Cases notified under the Regulation up to 31/12/1995		Mergers recorded in AMDATA 1991-1995 ¹	
Austria	5	1%	355	1%
Belgium	35	4%	1312	2%
Danemark	6	1%	2093	4%
Germany	191	20%	12499	21%
Greece	1	0%	75	0%
Spain	33	4%	1708	3%
France	154	16%	7688	13%
Ireland	3	0%	556	1%
Italy	75	8%	3132	5%
Luxembourg	3	0%	140	0%
Netherlands	45	5%	3134	5%
Portugal	4	0%	130	0%
Finland	6	1%	2752	5%
Sweden	47	5%	2461	4%
United Kingdom	144	15%	14985	25%
U.S.A.	94	10%	2664	4%
Japan	14	1%	258	0%
Switzerland	41	4%	707	1%
Norway	7	1%	289	0%
Others	28	3%	2460	4%
TOTAL	936	100%	59398	100%

¹ Mergers involving a firm of the European Union, either as bidder or as target.
Source : MTF and AMDATA.

Table 13 shows that nearly three-quarters of the notifications related to cross-border operations (i.e. involving firms based in different countries). In almost half of these cases (36% of the total) at least one of the parties was based outside the EU. Even where the parties are based in the same country, the Regulation ensures that only those cases are dealt with which have a potentially significant cross-border effect, since Article 1§2 excludes mergers between companies which each realise more than two-thirds of their turnover in the same Member State. Indeed, in the vast majority of the cases examined by the Commission it has been found either that there is no distinct national market for the product in question or that more than one national market is affected.

TABLE 13 : Breakdown of cases by national, Community and international operations (up to 31/12/1995)

	Number of cases ¹	Percent of total
Community operations (cross-border, involving only EU firms)	149	38%
International operations (involving non-EU firms)	142	36%
National operations	102	26%
TOTAL	393	100%

¹ Not including cases still under investigation at the end of the year.
Source : MTF.

3. Sectoral breakdown of cases

Most of the cases notified under the Regulation have concerned industrial activities: 257 cases (65%), compared to 168 in the service sector (42%). The percentages add up to more than 100 because some cases concerned both industry and services. The more detailed sectoral breakdown in Table 14 shows that the chemicals and financial services sectors (especially insurance) were most frequently concerned, followed by food and drinks and vehicle manufacturing.

TABLE 14: Sectoral breakdown of cases notified up to 31/12/1995 and comparison with the number of mergers recorded by AMDATA.

Industry	Number of cases notified ¹	Number of mergers recorded in AMDATA (1991-1995) ²
Industry	257	14483
<i>of which:</i>		
chemicals/artificial fibres	50	1278
food and drinks	27	1965
motor vehicles	22	431
machinery and equipment	19	212
basic metals	18	379
electrical machinery and apparatus	17	1496
Construction	4	792
Services	168	13675
<i>of which:</i>		
insurance	31	458
other financial services	29	1379
post and telecommunications	17	95
business services	17	3230
wholesale distribution	16	2746
retail distribution	10	1511

¹ Some notifications relate to more than one sector. The sum of industry and services is therefore greater than the number of notifications (398).

² Operations involving a firm based in the EU, either as bidder or as target.

Source: MTF and AMDATA.

A comparison with the AMDATA records in the second column of Table 14 reveals that the sectoral structure of notifications differs quite widely from that of the overall M&A activity of EU firms. For example, industrial sectors account for 60% of notifications but only half of the transactions recorded by AMDATA. These differences reflect both the relative sizes of firms in different sectors and their propensity to engage in activities outside their home markets. Thus, the chemicals and man-made fibres sectors are "overrepresented" amongst the notifications because of the importance of large multinationals in these sectors. On the other hand, many mergers in the services sectors do not meet the thresholds in the Regulation either because the firms concerned are too small or because their activities are limited to a single national or local market.

4. Some recent cases

European Economy N° 57 and Supplement A N° 3 of March 1995, discuss some of the important questions raised in the context of cases examined under the Merger Regulation up

to the end of 1994. In order to update this information, this section contains brief descriptions of the cases which were the subject of decisions in 1995 following Phase 2 proceedings.

The case of Mercedes-Benz/Kässbohrer posed a problem of definition of the relevant product market. The case concerned the acquisition by Mercedes-Benz of Kässbohrer's bus-manufacturing activities. Three product markets were examined: city buses, intercity buses and touring coaches.

The geographic market most affected was Germany, where the combined market share of the two firms for all types of buses and coaches was 57% in 1993. Although there were signs that the German bus and coach market is in the process of being integrated into a European market, the Commission considered that it still retained strongly national characteristics.

As far as the three product markets were concerned, the Commission observed that the acquisition would have little effect on the market for city buses, where Kässbohrer had only a marginal presence. In the German markets for intercity buses and touring coaches, however, the combined market shares were very high. However, the boundaries between the product markets are imprecise. On the demand side, there is, for example, quite a high degree of substitutability between intercity buses and touring coaches. On the supply side, production can be switched quite easily from one type of bus or coach to another without incurring heavy sunk costs. Taking account of these considerations, the presence of two strong German competitors and the progressive opening of the German market, the Commission concluded that there would be adequate constraints on Mercedes-Benz's freedom of action after the merger. In allowing the merger, the Commission also took into consideration two commitments made by Mercedes-Benz: to supply engines to bus manufacturers who lack their own engine production facilities and to permit Kässbohrer's sales and maintenance networks to undertake work for non-German manufacturers and their subsidiaries.

In the telecommunications equipment sector, the creation of a joint venture by the Italian subsidiary of Siemens and Italtel (the manufacturing subsidiary of STET) posed questions relating to vertical links between the joint venture and the telecommunications operator Telecom Italia, which is also part of the STET group. The Commission found that the joint venture would have a substantial share of the public switching and transmission equipment market in Italy. Furthermore, the joint venture would be partially owned by its main customer.

However, after consulting many equipment manufacturers and telecommunications operators, the Commission decided to allow the merger. The Commission took account of the fact that national markets for telecommunications equipment were being opened up as the result of rapid technological change, standardisation, public procurement legislation and the prospect of further liberalisation of telecommunications services. As far as the vertical link between the JV and STET was concerned, the Commission considered that this link would be weaker than the existing one between Italtel and STET, because any advantages which the JV might derive from favourable treatment accorded by STET would

have to be shared with Siemens. Furthermore, STET undertook not to interfere in the purchasing policy of Telecom Italia and to ensure a clear separation between the managements of the JV and Telecom Italia.

In the Nordic Satellite Distribution (NSD) case, the Commission found that the creation of a proposed joint venture would not be compatible with the common market. The NSD project envisaged the creation of a television transmission company by Norsk Telekom, TeleDanmark and Industriförvaltnings AB Kinnevik. Norsk Telekom and TeleDanmark are the largest cable television operators in Norway and Denmark respectively. Kinnevik is a Swedish conglomerate with interests inter alia in the production and distribution of television programmes and in telecommunications. The proposed JV was intended to transmit satellite television programmes to cable TV operators and directly to households. The resulting structure would have been highly vertically integrated, covering the production of programmes, transmission via satellites, the operation of cable networks and retail distribution services for pay-TV.

The Commission found that the JV would create or strengthen dominant positions in three markets: the provision of satellite television transponder capacity to the Nordic region, the Danish market for cable television networks and the direct distribution of pay-TV and other encrypted TV channels to households. Overall, the Commission considered that the JV could enable the parties to acquire such a strong position that they would be able to foreclose the Nordic market for satellite television. This case is therefore similar to the MSG Media Service case of 1994, where the Commission also adopted a negative decision (see Supplement A, N° 3 of March 1995).

In another case in the television sector, RTL/Veronica/Endemol, the Commission also declared the merger incompatible with the common market. This case, in which the turnover thresholds of the Merger Regulation were not met, was referred to the Commission by the Dutch government. The three parties were the Luxembourg broadcasting company RTL, the Dutch commercial television company Veronica and Endemol, the largest independent producer of television programmes in the Netherlands. They had formed a joint venture (HMG) to which RTL's two Dutch television channels and Veronica's television channel were transferred. The Commission considered that, in particular because of the strong advantage of being able to coordinate the programming of three channels, HMG would have a dominant position in the Dutch market for television advertising. Furthermore, the vertical link between HMG and Endemol would strengthen the latter's already dominant position in the

Dutch market for the production of television programmes by providing it with privileged access to the largest broadcasting company.

The Agreement on the European Economic Area requires the Commission to take account of the interests of the whole of the Area when applying the competition rules. Applying this principle, the Commission authorised the creation of a joint venture by subsidiaries of Orkla and Volvo in the drinks sector only after the parties undertook to sell the Norwegian brewery Hansa in order to reduce the JV's share of the Norwegian beer market. Without this sale, the Commission considered that the merger could have led to dominant positions in the markets for beer sold to retailers and to the hotel and catering sector.

The ABB/Daimler-Benz case concerned the establishment of a joint venture to combine all the activities of the two parties in the railway rolling stock sector, thus creating the world's largest company in this field. However, the sector comprises a number of different product and geographic markets and the two parties' activities overlapped significantly only in the German markets. In these markets, the combined market share of the parties was very high and the new JV would have been the only fully integrated manufacturer apart from Siemens. The other suppliers manufacture the mechanical parts of rail vehicles but need to obtain electrical equipment from other firms. In most of the product markets concerned, the Commission found that there was no threat of the creation or strengthening of a dominant position, because the main customer, Deutsche Bahn, was able to exert countervailing market power. However, the danger of creation or strengthening of a dominant duopoly was judged to exist in the markets for trams (including light railway vehicles) and metro rolling stock. In response to the Commission's concerns, the parties undertook to sell a subsidiary specialising in electrical equipment for these types of vehicle, so that competitors would have access to an important source of supply independent of both the parties and Siemens. The Commission considered that this divestiture would be sufficient to remove the danger to competition.

In the packaging sector, the acquisition by the U.S. firm Crown Cork and Seal of CarnaudMetal Box was authorised by the Commission only on condition that the parties sell five factories producing metal cans. In its original form, the merger would have given Crown Cork and Seal a very high share of the EEA market for tinsplate aerosol cans, greatly exceeding that of its nearest rival, while no other competitor would have had more than 5% of the market.

18 July 1996

Principal economic policy measures – May 1996

Community (EUR-15)

15.5 The Commission adopts its Recommendation for the Broad Guidelines of the Economic Policies of the Member States and the Community.

15.5 Commission services' Spring 1996 economic forecasts are published.

Belgium (B)

6.5 The government approves the budgetary review for 1996. The budget is adjusted in line with the new economic hypotheses: GDP growth, estimated at 1.6% in April, is revised downwards by 0.1% to 1.5%. In order to attain its target of a net borrowing requirement equivalent to 3% of GDP by the end of 1996, the government decides on budgetary consolidation measures amounting to BFR 25 billion, of which BFR 16 billion will come from a reorganization of social security (BFR 3 billion in the field of sickness insurance and BFR 1 billion in unemployment benefits). Ministerial departments will be required to make savings totalling BFR 6 billion. With interest rates lower than previously anticipated, debt-service payments are expected to fall by BFR 1.5 billion. The balance of BFR 1.5 billion will come notably from privatization receipts.

14.5 The central bank lowers its central rate from 3.30% to 3.20% and its rate on advances within the ceiling from 4.55% to 4.45%.

28.5 The government adopts three draft framework laws on the establishment of the budget for 1997, the modernization of social security and measures to strengthen business competitiveness. It will now be able to enact legislation in the budgetary sphere by way of royal decrees until 31 August 1997. It also enjoys special powers -- until 30 April 1997 -- to modernize the social security system. The third framework law authorizes the government to flesh out the "contract for the future of employment", as accepted by virtually all the employees' and employers' organizations involved.

Denmark (DK)

None.

Germany (D)

None.

Greece (GR)

None.

Spain (E)

7.5 The Bank of Spain cuts its money rate by 25 basis points to 7.50% at the regular ten-day repurchase tender for central bank certificates.

France (F)

None.

Ireland (IRL)

30.5 The Government launches new employment incentives designed to meet the special difficulties of the long-term unemployed in re-entering the labour market. A JOBSTART scheme will provide a weekly subsidy to employers of IRL 80 in respect of new recruits who have been unemployed for at least three years. The subsidy, which must not exceed 50% of gross weekly pay, is payable for one year and participants are entitled to retain secondary welfare benefits. The scheme will run until the end of the year and will provide up to 5 000 places at an estimated budgetary cost of IRL 20 million. A further 5 000 places are being made available under a WORKPLACE scheme which will enable unemployed persons to obtain five weeks' work experience with a company at no cost to the employer, while retaining normal social welfare status.

Italy (I)

None.

Luxembourg (L)

2.5 The Prime Minister announces reductions in corporate taxes aimed at safeguarding existing jobs and creating new ones. The associated tax shortfall is some LFR 12 billion (or ¼% of GDP), of which LFR 1.5 billion is accounted for by a reduction over three years in the nominal rate of corporation tax from 33% to 30% and LFR 7.8 billion by the abolition of the municipal tax on working capital.

Austria (A)

None.

Netherlands (NL)

6.5 The Nederlandsche Bank reduces its rate on special advances from 2.70% to 2.60%.

Portugal (P)

None.

Finland (SF)

None.

Sweden (S)

7.5 The Riksbanken lowers the repo rate by a further 20 basis points to 6.70%.

21.5 The Riksbanken lowers the repo rate by a further 20 basis points to 6.50%.

United Kingdom (UK)

None.

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