

## Economics of Competition and Antitrust - Spring 2005

### Assignment

According to the old EU Merger Regulation, the European Commission had the authority to intervene only in mergers that would either create dominant position or strengthen an already existing dominant position. The Commission has *blocked* only about 1 % of over 2 000 transactions that have been notified to it. The small figure does not represent unwillingness of the Commission to take measures against mergers that have the potential to harm competition. In fact, this figure shows the Commission's intention to try to *negotiate* with the merging parties the ways to *modify* the merger so that competition problems can be avoided. These modifications are termed as *remedies*.

In 2000, *Volvo* and *Scania*, numbers two and three of the European producers and sellers of trucks, buses, engines, etc. notified their intention to merge to the Commission. The Commission decided that the merger is *incompatible* with the common market. In other words, the Commission decided to block the merger.

Please download the Commission decision from the course website

<http://www.cea.fi/hkkm/material.htm>,

read the decision text, and proceed to answer the following questions. The questions below will only deal with the market for *heavy trucks*. All the other markets discussed in the decision are irrelevant for the questions.

1. a) What are the main business areas of the companies?  
b) According to Volvo, what was its rationale for the merger?
2. a) For trucks, the relevant product market that was found to be the most problematic for competition was that of *heavy trucks*. What were the primary reasons for the Commission to define the relevant product market in the way it did?  
b) It has been argued that in defining the markets, the Commission only pays attention to *demand* substitution and, loses important information about substitutability more generally. In Volvo/Scania, did the Commission also consider *supply* substitution? If yes, then how?
3. a) In the market for heavy trucks, there were seven competitors before the merger. In 1998, DaimlerChrysler was the market leader with 20,6 % of the sales in the European Economic Area (EEA), Scania is number two with 15,6 % of the sales and Volvo is number three with 15,2 % of the sales. The rest four players have between 10 and 13 % of the sales. Based on these figures alone, had the geographic relevant market been that of EEA, do you think the merger might have got a green light from the Commission? Clearly state the argument for your opinion.  
b) The Commission eventually defined the relevant geographic market to be much narrower than EEA. Volvo and the Commission agreed about what was the single most important indicator according to which to identify the relevant geographic market. What was this indicator? Is the SSNIP test applicable in this case? If yes, then how?  
c) In the end, it is the customers who are responsible for the outcome we see in the indicator. This customer behavior was the most important single factor for the Commission's decision to block the merger. What do you think, what is the rationale for

the customers to act in this way?

d) In the end, how did the Commission define the relevant geographic markets for heavy trucks?

4. a) In Commission's assessment of the merger, what made it worse for the parties was that Volvo and Scania were each other's closest competitors. How did the Commission argue for this?
  - b) Buyer power is usually among those factors, which are influential for the decision. The reason is that buyer power can act as a constraint on a company's market power. Did buyer power have a constraining effect on Volvo and Scania in the Nordic countries?
    - c) According to the Commission, would there be a prospect for potential entry to constrain the market power of the new entity? Why/why not?
5. a) Should you have been Volvo's economics consultant, how would you have tried to convince the Commission that the merger does not restrict competition too much?
  - b) What type of data and evidence would you have used?
6. Volvo offered remedies ("undertakings" in legal jargon) to decrease the harmful effect the merger would have on competition. Why did the Commission decline to accept Volvo's remedies?

### **Deadline**

You must return your answers by **last day of classes, 29.4.2005**.

You can mail your answer to Markku Stenborg, Ministry of Finance, PO Box 28, 00023 GOVERNMENT, send it by email to [markku.stenborg@vm.fi](mailto:markku.stenborg@vm.fi), or hand it in on the last day of classes. Do not be late as that will have serious consequences.

Please, type your answer.

### **Grade**

Your grade is based upon the quality of your answer. Brief, clear, well argued, and answers that go to the point are appreciated. Long stories are not substitutes for clear analysis.

*Remember you must get a passing grade in this assignment to receive the grade for the course.*

Good luck.