Siemens/Alstom: merger control between a rock and a hard place?

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Disclaimer

- Rock and roll preparation
  - not conflicted = followed the case from a distance
  - the public version of the decision is not out
  - relying only public statements, mainly the speech of Johannes Laitenberger 15/2/2019

My understanding of the decision

- the parties overlap mainly on two broadly defined markets
  - signaling systems

    The merged entity would have become the undisputed market leader in several railway signaling markets in the EEA, in particular in the field of automatic train protection systems (ETCS), comprising both on-board systems and systems installed along the tracks, as well as in the area of stand-alone interlocking systems in several Member States
  - very high-speed trains

    [T]he proposed transaction would have reduced the number of suppliers by removing one of the two largest manufacturers of this type of trains in the EEA. The merged entity would hold very high market shares both within the EEA and on a wider market also comprising the rest of the world except South Korea, Japan and China (which are not open to competition)

My understanding of the decision

- competition of CRSC and CRRC insufficiently substantiated
  - signaling systems
    - Chinese producers have virtually no experience with comparable projects
    - CRSC has never tried to participate in a tender in Europe
  - very high-speed trains
    - CRRC has not sold a single very high-speed train outside of China
    - A company's track record is an essential criteria in tenders for high-speed trains
    - CRRC will lack such track record for many years

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My understanding of the decision

- the remedies offered did not address the theories of harm
  - signaling systems
    - complex mix of Siemens and Alstom assets, with some assets transferred in whole or part, and others licensed or copied
    - did not consist of a stand-alone and future proof business that a buyer could have used to effectively and independently compete against the merged company
  - very high-speed trains
    - the parties offered to divest a train currently not capable of running at very high speeds or, alternatively, a licence for Siemens' very high-speed technology
    - the licence was subject to multiple restrictive terms and carve-outs, which essentially would not have given the buyer the ability and incentive to develop a competing very high-speed train in the first place

My appreciation of the decision

- from what I read, as competition economist, as an indirect customer and as a tax payer: E X C E L L E N T
  - kudos to Commissioner Vestager, DG Comp and everyone involved
  - it was not a close-call, if I understand correctly
  - many people agree with this, including an impressive list of economists
  - even those who challenge the decision, recognise that it was "technically correct" but "wrong for Europe"
- so, why does the decision lead to such debates?
  - Siemens and Alstom's ability to lobby?
  - wider frustration of large businesses on competition enforcement?
  - questions on post-Brexit economic policy in Europe (eg, wider public interest, next to economic efficiency)?
  - threat of China in a multipolar world?
  - lack of understanding of the benefits of international trade? [btw, how confident are we about the benefits of trade?]

The wider debate on merger control

Under or over enforcement? Rising markups?

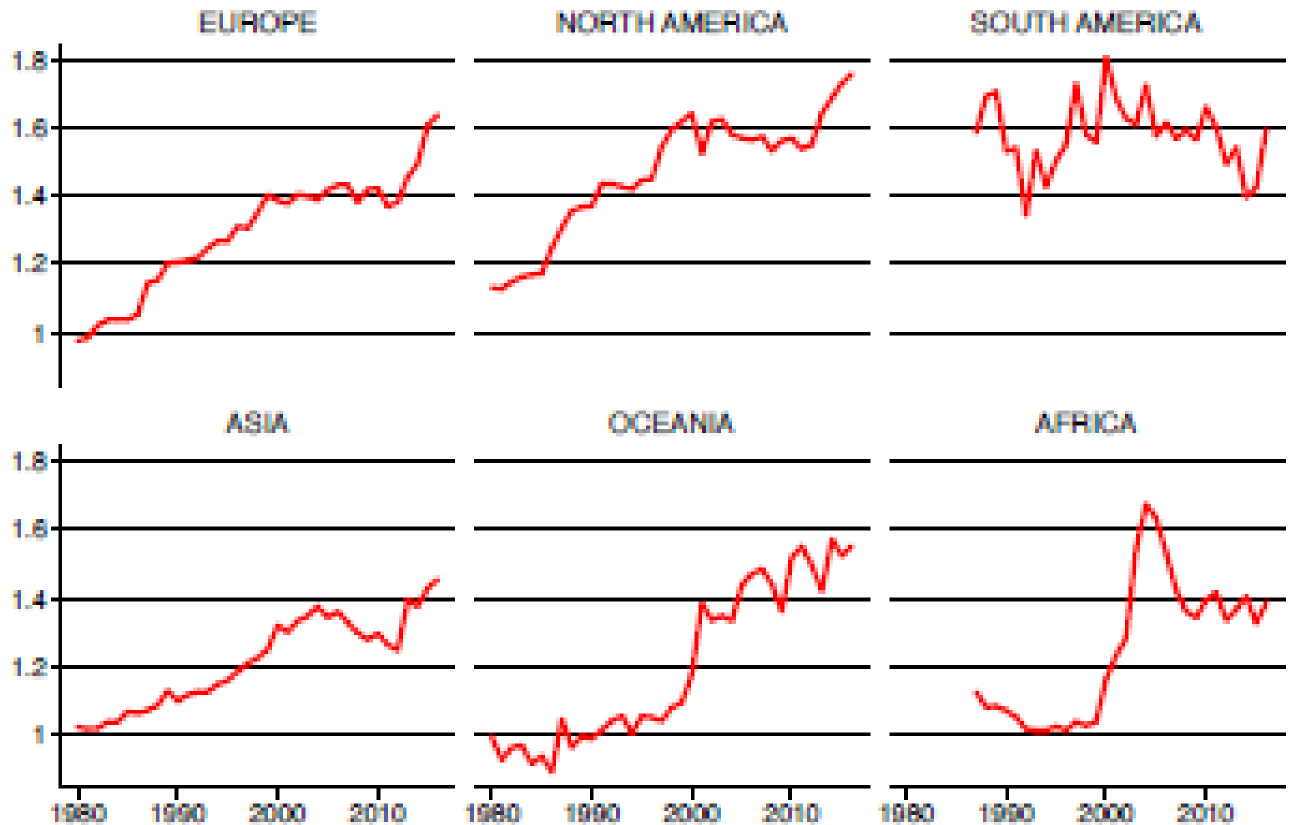
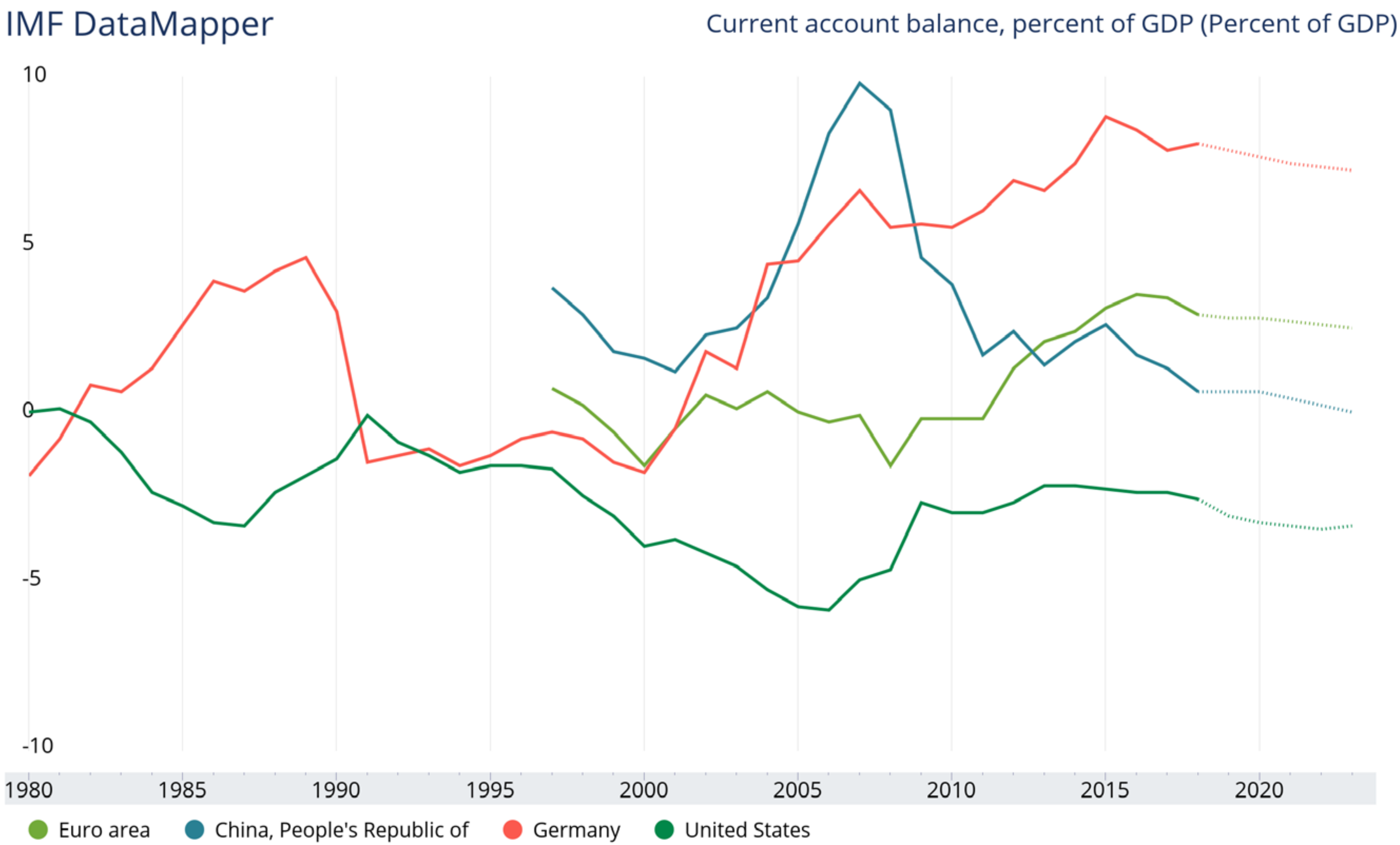


Figure 3: GLOBAL REGIONS

- Jan De Loecker and Jan Eeckhoudt (2018)

The wider debate on merger control

European and especially German firms export well



The wider debate on merger control

European and especially German firms export well

- France is a net importer
  - current account balance of France is -0,7% of GDP (still excellent as compared to UK -3,2% and US -3,0%)
  - but France is also one of the main tourist destination, which counts for 9.7% of GDP and 10.9% of employment in the country (at least 30% international tourists)
  - France exports industrial as well as luxury goods (papers on wine exports, eg by Crozet, Head, and Mayer, 2012)
  - France is home to a number multinationals

The wider debate on merger control

But not home to large (especially tech) firms

Rank			Market Value ($B)	
2018	Company	Region	5/29/13	5/29/18
1)	Apple	USA	$418	$924
2)	Amazon	USA	121	783
3)	Microsoft	USA	291	753
4)	Google / Alphabet	USA	288	739
5)	Facebook	USA	56	538
6)	Alibaba	China	--	509
7)	Tencent	China	71	483
8)	Netflix	USA	13	152
9)	Ant Financial	China	--	150
10)	eBay + PayPal*	USA	71	133
11)	Booking Holdings	USA	41	100
12)	Salesforce.com	USA	25	94
13)	Baidu	China	34	84
14)	Xiaomi	China	--	75
15)	Uber	USA	--	72
16)	Didi Chuxing	China	--	56
17)	JD.com	China	--	52
18)	Airbnb	USA	--	31
19)	Meituan-Dianping	China	--	30
20)	Toutiao	China	--	30
		Total	$1,429	$5,788

Source: Mary Meeker's 2018 Internet Trends report

The wider debate on merger control

Is merger control the right instrument?

- European firms are excellent competitors, but do not grow as large as in other regions of the world
  - is this a problem?
  - would larger firms be better competitors?
  - assuming that Siemens/Alstom would have been approved without remedies
    - quite clear that the company would have had an incentive to raise prices
    - quite clear as well that the rise is margins would have increased profitability, dividends and shareholder value
    - unclear if incentive to invest in R&D would have been affected
- other available instruments
  - trade agreements, especially access to public in China and the US
  - many other policies, ranging from education (especially higher education), help to R&D, more effcient capital markets, incentives for start-ups

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The wider debate on merger control

The way forward

- continue to rely on evidence-based decisions
  - defending the decision would have been impossible if it was not evidence-based
  - work on guidance to further streamline policy enforcement, at EU level, but also across Europe
- explain, explain, explain
  - the benefits of competition [and international trade]
  - to businesses that less evidence-based and more political merger enforcement is less predictable, and will not necessarily work in their favour (especially in the medium to long term)
  - reach out to a wider public
    - the Commission does a great job, but more is probably needed
    - try also to reach a public that does not share the pro-competition, pro-trade views, to build wider support